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

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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.

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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

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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

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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.

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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.

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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

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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

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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.

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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.

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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

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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

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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.

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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

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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.

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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

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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;

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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,

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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%

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(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.

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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.

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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.

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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.

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(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.

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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

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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

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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%

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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.

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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.

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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

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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

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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;

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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

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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

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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;

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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,				
	2004		2005		2006
	Shinhan Card	Chohung Bank(1)	Shinhan Card	Chohung Bank(1)	Shinhan Card(13)
	(In billions of Won, except percentages)				
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

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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.

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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.

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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.

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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,

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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.

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	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

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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

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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 (In billions of Won)**		**Percentage of Total Corporate Loan Balance (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

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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.

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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.

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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.

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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.

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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.

	Current		Past Due up to 3 Months		Past Due 3-6 Months		Past Due More than 6 Months		Total
As of December 31,	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**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-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	Total Loans	Non-Performing Loans	Ratio of Non-Performing Loans	
	(In billions of Won, except percentages)										
W 211	1.34%	W 35,617	W 739	2.07%	W 35,653	W 898	2.52%	W 35,728	W 868	2.43%	W
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	

V	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%	V

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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 (In billions of Won)	Allowance for Loan Losses
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

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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)	Ca Am	
	(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.

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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.

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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

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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			
	Certificates of Deposit	Other Time Deposits	Mutual Installment Deposits	Total
	(In billions of Won)			
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				
	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	Average Balance Outstanding
	(In billions of Won, except for percentages)									
	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
	5,238	3.30%	0.755.00%	994	2,930	5,648	3.24%	1.906.80%	1,686	3
	11,166	2.21%	0.0418.00%	9,306	10,464	11,945	2.23%	0.109.00%	8,136	9
	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

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(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.

Category	Approval Body	Approval Limit of Loan Amount 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

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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

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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.

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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

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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

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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

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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.

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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.

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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;

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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;

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(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

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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.

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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.

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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

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(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;

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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

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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;

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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

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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

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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.

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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.

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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,

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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;

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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 10th 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.

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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

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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

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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;

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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;

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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.

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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.

		Area (Square Meters)	
Type of Facility	**Location**	**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.

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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.

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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

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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

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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.

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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	
lities 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.

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(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

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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%

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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

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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.

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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

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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.

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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)			Total Revenues(2)		
	Year Ended December 31,					
	2004	2005	2006	2004	2005	2006
	(In billions of Won, except percentages)					
Shinhan Bank:						
Retail banking	W 787	W 1,085	W 1,149	W 2,796	W 2,735	W 2,860
Corporate banking	735	796	472	1,339	1,383	1,056
Treasury and international business	77	(93)	371	3,903	5,124	5,958
Other banking services	188	(177)	317	967	819	1,644
Good Morning Shinhan Securities	44	121	134	697	880	1,326
Shinhan Card	(314)	209	184	938	1,057	719
Shinhan Life Insurance		8	166		259	2,362
Other subsidiaries	10	30	9	355	361	256
Total(3)	W 1,527	W 1,979	W 2,802	W 10,995	W 12,618	W 16,181

Notes:

(1) Represents income per segment before income taxes.

(2) Represents net interest income plus noninterest income.

(3) Before elimination or adjustments.

Shinhan Bank s Retail Banking

Shinhan Bank s retail banking segment products include mortgage and home equity loans and other consumer loans, deposits and other savings products. The data below for periods preceding the merger between Shinhan Bank and Chohung Bank in April 2006 represent combined data for the two banks for such periods.

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	Year Ended December 31,			% Change	
	2004	2005	2006	2004/2005	2005/2006
	(In billions of Won)				
Income statement data					
Net interest income	W 1,951	W 2,040	W 2,232	4.6%	9.4%
Noninterest income	845	695	628	(17.8)	(9.6)
Total revenues	2,796	2,735	2,860	(2.2)	4.6
Provision for credit losses	(496)	(257)	(283)	(48.2)	10.1
Noninterest expense including depreciation and amortization	(1,513)	(1,393)	(1,428)	(7.9)	2.5
Segment results(1)	W 787	W 1,085	W 1,149	37.9%	5.9%

Note:

(1) Net income per segment before income taxes.

Comparison of 2006 to 2005

Our overall segment result increased by 5.9% from W1,085 billion in 2005 to W1,149 billion in 2006.

The 9.4% increase in net interest income from retail banking activities was due primarily to an increase in the average volume of loans to individuals and households (particularly, mortgage and home equity loans) and an increase in the average volume of time deposits having a term of one year or less due to an increase in short-term market interest rates, which was partially offset by a decrease in net interest margin.

Noninterest income decreased by 9.6% due primarily to a decrease in the transaction volume of derivatives and a decrease in trust fees, which was partly due to the growing popularity of indirect investment products.

Provision for credit losses on consumer loans increased by 10.1% due primarily to an increase in the total volume of loans to individuals and households (particularly, mortgage and home equity loans), which was partially offset by improved asset quality.

Noninterest expense including depreciation and amortization increased by 2.5% due primarily to an increase in general and administrative expenses and salaries, wages and employee benefits paid to employees, which was partially offset by a decrease in gross losses from derivatives transactions.

Comparison of 2005 to 2004

Our overall segment result increased by 37.9% from W787 billion in 2004 to W1,085 billion in 2005.

The 4.6% increase in net interest income from retail banking activities was due primarily to an increase in the average volume of loans to individuals and households (particularly, mortgage and home equity loans), which was partially offset by an increase in the average volume of deposits (particularly, certificates of deposits) and a decrease in net interest margin. The increase in mortgage and home equity loans is due primarily to the continued preference by

commercial banks, including us, to lend to individuals and households on a secured basis. The increase in the average volume of deposits, certificate of deposits in particular, is due primarily to continued growth in customer demand for short-term deposit products in Korean Won, which was partially offset by a decrease in the average volume of time deposit products that utilize Korean Won and Japanese Yen swaps after such deposits were found to be subject to taxation. We are currently in administrative proceedings with the Korean National Tax Service in respect of these time deposit products as described in Overview Certain Income Tax Expenses and Provision for Other Losses.

Noninterest income decreased by 17.8% due primarily to a decrease in the transaction volume of derivatives resulting from a decrease in the average volume of time deposit products that utilize Korean Won and Japanese Yen swaps as described above, which was partially offset by an increase in agency fees and commissions income from

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an increase in cross-selling of bancassurance, investment trust funds and asset management products, which we attribute to our customers response to the generally low interest rate environment.

Provision for credit losses on consumer loans decreased by 48.2% due primarily to improved asset quality despite the increase in average lending volume.

Noninterest expense including depreciation and amortization decreased by 7.9% due primarily to a decrease in costs attributable to time deposit products that utilize Korean Won and Japanese Yen swaps, which we ceased to offer during 2005 following the adverse tax rulings, which was partially offset by an increase in salaries, wages, employee welfare and benefits paid to Shinhan Bank s employees and payments of consulting fees in connection with branch network reconfiguration in anticipation of merger between Shinhan Bank and Chohung Bank in 2006.

Shinhan Bank s Corporate Banking

Shinhan Bank s large corporate banking segment handles its transactions with all of its corporate customers, including small- and medium-sized enterprises, *chaebols* and public enterprises. Activities within the segment include loans, overdrafts and other credit facilities and gathering deposits. In 2005, investment banking activities (namely that provided by Shinhan Bank prior to the merger) were part of this segment. However, as a result of the merger-related restructuring, the investment banking activities were reclassified as part of the other banking segment beginning in 2006. The data below for periods preceding the merger between Shinhan Bank and Chohung Bank in April 2006 represent combined data for the two banks for such periods.

	Year Ended December 31,			% Change	
	2004	2005	2006	2004/2005	2005/2006
	(In billions of Won)				
Income statement data					
Net interest income	W 788	W 873	W 843	10.8%	(3.4)%
Noninterest income	551	510	213	(7.4)	(58.2)
Total revenues	1,339	1,383	1,056	3.3	(23.6)
Provision for credit losses	(54)	(123)	(136)	127.8	10.6
Noninterest expense including depreciation and amortization	(550)	(464)	(448)	(15.6)	(3.4)
Segment results(1)	W 735	W 796	W 472	8.3%	(40.7)%

Note:

(1) Net income per segment before income taxes.

Comparison of 2006 to 2005

Our overall segment result decreased by 40.7% from W796 billion in 2005 to W472 billion in 2006, due primarily to a 58.2% decrease in non-interest income.

The 3.4% decrease in net interest income was due primarily to an increase in funding costs as a result of a decrease in the total volume of deposits by our corporate customers and an increase in the total volume of loans to small-and medium-sized enterprises.

The 58.2% decrease in noninterest income was due primarily to (i) a decrease in fees and commissions from investment banking activities including asset-backed securitization, as a result of the reclassification discussed above and (ii) a decrease in gross gains from derivatives transactions resulting from a decrease in the volume of derivatives transactions.

Provision for credit losses on corporate loans increased by 10.6% due primarily to an increase in the total volume of loans to our corporate customers, which was partially offset by improved asset quality.

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Noninterest expense including depreciation and amortization decreased by 3.4% due primarily to a decrease in gross losses from derivatives transactions, resulting from a decrease in the volume of derivatives transactions, which more than offset an increase in salaries, wages and employee benefits paid to employees.

Comparison of 2005 to 2004

Our overall segment result increased by 8.3% from W735 billion in 2004 to W796 billion in 2005.

Net interest income increased by 10.8% due primarily to an increase in the average volume of loans to small- and medium-sized enterprises, which resulted primarily from the continued growth in the small-and medium-sized lending market and Shinhan Bank s continued marketing focus on this customer sector, which was partially offset by an increase in funding costs resulting from a net increase in loans by Shinhan Bank s corporate banking division from its treasury division.

Noninterest income decreased by 7.4% due primarily to a decrease in gross gains from derivatives transactions resulting from a decrease in the average volume of derivatives transactions, which more than offset an increase in fees and commissions from investment banking activities (including asset-backed securitization), gains on investment securities (including gains from sale of investment securities), dividends and valuation gains using the equity method of accounting and an increase in fees and commissions from export and import-related trade financing.

Provision for credit losses on corporate loans increased by 127.8% due primarily to the new regulation introduced by the Financial Supervisory Service which required Shinhan Bank to establish allowance for losses on unconfirmed guarantees and acceptances and commitments, which was partially offset by the improvement in asset quality.

Noninterest expense including depreciation and amortization decreased by 15.6% due primarily to a decrease in gross losses from derivatives transactions resulting from a decrease in the average volume of derivatives transactions, which more than offset an increase in salaries, wages, employee welfare and benefits paid to Shinhan Bank s employees.

Shinhan Bank s Treasury and International Business

Shinhan Bank s treasury and international business segment primarily handles the trading of and investment in debt securities and, to a lesser extent, in equity securities for its own accounts, handling its treasury activities such as correspondence banking, and entering into derivatives transactions. The data below for periods preceding the merger between Shinhan Bank and Chohung Bank in April 2006 represent combined data for the two banks for such periods.

	Year Ended December 31,			% Change	
	2004	2005	2006	2004/2005	2005/2006
	(In billions of Won)				
Income statement data					
Net interest income (expense)	W 3	W (227)	W (179)	N/M	(21.1)%
Noninterest income	3,900	5,351	6,137	37.2%	14.7
Total revenues	3,903	5,124	5,958	31.3	16.3
Provision for credit losses	5	40	13	N/M	(67.5)
Noninterest expense including depreciation and amortization	(3,831)	(5,257)	(5,600)	37.2	6.5

Segment results(1)	W	77	W	(93)	W	371	N/M	N/M

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N/M = not meaningful

Note:

(1) Net income per segment before income taxes.

Comparison of 2006 to 2005

Our overall segment result recorded a gain of W371 billion in 2006 as compared to a loss of W93 billion in 2005.

The 21.1% decrease in net interest expense was due primarily to an increase in interest and dividend income from securities resulting from an increase in the volume of the investment securities, which was partially offset by an increase in borrowings, such as financial debentures.

Noninterest income increased by 14.7% due primarily to an increase in fees from an increase in the volume of derivatives transactions, principally foreign exchange hedging and advisory services, as well as an increase in gains from foreign currency transactions resulting from the appreciation of the Korean Won against foreign currencies, which was partially offset by a decrease in gains from sale of available-for-sale securities.

The 67.5% decrease in reversal of provision for credit losses was due primarily to the improvement in our asset quality, in particular the quality of our foreign currency-denominated loans.

The 6.5% increase in noninterest expense including depreciation and amortization was due primarily to an increase in derivative liabilities resulting from an increase in the volume of back-to-back transactions to cover risk exposures arising in connection with Shinhan Bank s transactions with customers.

Comparison of 2005 to 2004

Our overall segment result recorded a loss of W93 billion in 2005 as compared to a gain of W77 billion in 2004.

We recorded net interest expense of W227 billion in 2005 as compared to net interest income of W3 billion in 2004, due primarily to a decrease in interest and dividend income from securities resulting from the low average market interest rates and a decrease in interest income from foreign currency-denominated loans following the appreciation of the Korean Won against foreign currencies and a decrease in interest expenses on Won-denominated borrowings resulting from a decrease in the average balance of such borrowings.

Noninterest income increased by 37.2% from 2004 to 2005 due primarily to an increase in gains from increased volume of derivatives transactions, principally foreign exchange hedging and advisory services, as well as an increase in gains from foreign currency transactions resulting from the appreciation of the Korean Won against foreign currencies and gains from sale of available-for-sale securities.

Our reversal of provision for credit losses significantly increased from W5 billion in 2004 to W40 billion in 2005 due primarily to the improvement in our asset quality, in particular the quality of our foreign currency-denominated loans.

Noninterest expense including depreciation and amortization increased by 37.2% from 2004 to 2005 due primarily to an increase in derivative liabilities resulting from an increase in volume of back-to-back transactions to cover risk exposures that arose in connection with Shinhan Bank s transactions with customers and an increase in losses from foreign currency transactions with customers and losses recorded on sales of trading securities by Chohung Bank in

2005.

Shinhan Bank s Other Banking Services

The revenue-generating activities in this segment consist primarily of Shinhan Bank s trust account management services, merchant banking business and non-performing loan collection services. This segment also reflects the expenses and provision for credit losses of Shinhan Bank that are not, as a matter of management policy, allocated to either retail banking or corporate banking. In 2005, investment banking activities (namely that provided by Shinhan Bank prior to the merger) were part of the corporate banking segment. However, as a result of the merger-related restructuring, the investment banking activities were reclassified as part of the other banking

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segment beginning in 2006. The data below for periods preceding the merger between Shinhan Bank and Chohung Bank in April 2006 represent combined data for the two banks for such periods.

	Year Ended December 31,			% Change	
	2004	2005	2006	2004/2005	2005/2006
	(In billions of Won)				
Income statement data					
Net interest income	W 320	W 204	W 609	(36.3)%	198.5%
Noninterest income	647	615	1,035	(4.9)	68.3
Total revenues	967	819	1,644	(15.3)	100.7
Provision for credit losses	(15)	(77)	37	413.3	N/M
Noninterest expense including depreciation and amortization	(764)	(919)	(1,364)	20.3	48.4
Segment results(1)	W 188	W (177)	W 317	N/M	N/M

N/M = Not meaningful

Note:

(1) Net income per segment before income taxes.

For management reporting purposes, each of the retail banking and corporate banking segments computes and reflects provision for credit losses that are discounted based on average balances of loans to show a meaningful comparison of performance within and *vis-à-vis* other activities. This has the effect of understating the provision for credit losses that are reflected in our segment reporting as compared to the bank-wide provision for credit losses reflected in Shinhan Bank s financial statements. The excess provision for credit losses arising from the difference in computations is not allocated to retail banking or corporate banking but are reflected in this segment. As a result, segment results will generally be in the negative. In 2004 and 2005, we recorded reversal of provision for credit losses that were not allocated to either retail banking or corporate banking of W15 billion and W77 billion, respectively, and in 2006, we recorded excess provision for credit losses that were not allocated to either retail banking or corporate banking of W37 billion.

In addition, Shinhan Bank frequently issues subordinated debt securities, which carry interest rates that are higher than market interest rates. As subordinated debt securities have the overall effect of improving Shinhan Bank s capital adequacy and benefit Shinhan Bank in its entirety, the management believes it is inappropriate to allocate the higher costs associated with issuing subordinated debt to a particular business segment. Accordingly, we allocate and reflect the difference between the higher costs associated with subordinated debt and market interest rates in this segment as interest expenses.

Comparison of 2006 to 2005

Our overall segment result recorded a gain of W317 billion in 2006 as compared to a loss of W177 billion in 2005.

Net interest income increased significantly due primarily to a significant increase in the average volume of asset-backed commercial papers in merchant banking accounts and an increase in recoveries of interest on non-performing loans.

Noninterest income increased by 68.3% due primarily to the gains from the sale of investment securities in Daewoo Construction which exited the workout in 2006 and the reversal of impairment losses related to the subordinated debt purchased by us in connection with the securitization of non-performing loans.

We recorded provision for credit losses in 2005 compared to reversal of provision of credit losses in 2006, due primarily to improved asset quality resulting from the collection of non-performing loans.

Noninterest expense including depreciation and amortization increased by 48.4% due primarily to an increase in salaries and wages to employees and increase in severance benefits for a special program for voluntary

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retirements and the marketing expenses related to the increase in cross-selling of bancassurance, credit cards and investment products.

Comparison of 2005 to 2004

Our overall segment result recorded a loss of W177 billion in 2005 as compared to a gain of W188 billion in 2004.

Net interest income decreased by 36.3% from 2004 to 2005 due primarily to a decrease in recoveries of interest on non-performing loans, which in turn resulted from a decrease in the average volume of non-performing loans following improvement in the overall asset quality of the loan portfolio and a decrease in the average interest rates and the average volume of loans to large corporate customers for merchant banking accounts.

Noninterest income decreased by 5.0% from 2004 to 2005 due primarily to the sale by Shinhan Bank of common shares of the holding company in March 2004, resulting in a gain of W228 billion in the prior period, and the effect of eliminating certain double-counting between segments of investment banking and derivatives transactions, which was partially offset by an increase in Chohung Bank s upfront fees for arranging loans as a result of the increased number of loan transactions of such loans and increased fees and commissions from trust-related products.

Provision for credit losses increased by 413.3% from 2004 to 2005 due to additional provisioning on mortgage and home equity loans required by the Financial Supervisory Service in 2005, despite the improvement in asset quality of the overall loan portfolio.

Noninterest expense including depreciation and amortization increased by 20.3% due primarily to an increase in salaries and wages to employees and increase in general and administrative expenses principally related to severance benefits for a special program for voluntary retirements of Chohung Bank.

Credit Card Services of Shinhan Card

Credit Card Services segment handles credit card activities primarily managed by Shinhan Card, our wholly-owned subsidiary. The data below for periods preceding the split merger in April 2006 between Shinhan Card and the credit card services division of Chohung Bank represent their combined data for such periods.

	Year Ended December 31,			% Change	
	2004	2005	2006	2004/2005	2005/2006
	(In billions of Won)				
Income statement data					
Net interest income	W 936	W 955	W 718	2.0%	(24.8)%
Noninterest income	2	102	1	N/M	N/M
Total revenues	938	1,057	719	12.7	(32.0)
Provision for loan losses	(849)	(478)	(92)	(43.7)	(80.8)
Noninterest expense including depreciation and amortization	(403)	(370)	(443)	(8.2)	19.7
Segment results(1)	W (314)	W 209	W 184	(116.6)%	(12.0)%

N/M = Not meaningful

Note:

(1) Net income per segment before income taxes.

Comparison of 2006 to 2005

Our overall segment result decreased by 12.0% from W209 billion in 2005 to W184 billion in 2006.

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Net interest income decreased by 24.8% due primarily to a decrease in the average volume of cash advances and card loans, both of which carry relatively high interest rates, which more than offset an increase in the fees received from credit card transactions.

Noninterest income significantly decreased from W102 billion in 2005 to W1 billion in 2006 due primarily to gains from sales of written-off credit card receivables in 2005 amounting to W93 billion in Chohung Bank credit card business.

Provision for credit losses decreased by 80.8% from W478 billion in 2005 to W92 billion in 2006 due primarily to improvements in the quality of credit card assets.

Noninterest expense including depreciation and amortization increased by 19.7% from W370 billion in 2005 to W443 billion in 2006 due primarily to an increase in fees paid on credit card transactions and fees paid to Shinhan Bank for handling miscellaneous credit card services and an increase in general and administrative expenses from lump sum incentives paid to employees transferring to Shinhan Card.

Comparison of 2005 to 2004

Our overall segment result improved from a loss of W314 billion in 2004 to a gain of W209 billion in 2005.

Net interest income increased by 1.9% due primarily to a decreased level of delinquencies on Chohung Bank s credit card assets and an increase in fees received on credit card transactions for Shinhan Card.

Noninterest income significantly increased from W2 billion in 2004 to W102 billion in 2005 due primarily to gains from sales of written-off credit card receivables in 2005 amounting to W93 billion in Chohung Bank credit card business.

Provision for credit losses decreased by 43.7% from W849 billion in 2004 to W478 billion in 2005 due primarily to improvements in the quality of credit card assets.

Noninterest expense including depreciation and amortization decreased by 8.2% from W403 billion in 2004 to W370 billion in 2005 due primarily to a decrease in losses from sales of credit card loans resulting from a decrease in the sales volume relating to such loans in respect of Chohung Bank s credit card loans, which was partially offset by an increase in general and administrative expenses of Shinhan Card.

Securities Brokerage Services of Good Morning Shinhan Securities

Securities brokerage services segment primarily reflects securities brokerage and dealing services on behalf of customers, which is conducted by Good Morning Shinhan Securities, our principal securities brokerage subsidiary.

	Year Ended December 31,			% Change	
	2004	2005	2006	2004/2005	2005/2006
	(In billions of Won)				
Income statement data					
Net interest income	W 54	W 63	W 67	16.7%	6.3%
Noninterest income	643	817	1,259	27.1	54.1

Total revenues	697	880	1,326	26.3	50.7
Provision for loan losses	5	4	(3)	(20.0)	N/M
Noninterest expense including depreciation and amortization	(658)	(763)	(1,189)	16.0	55.8
Segment results(1)	W 44	W 121	W 134	175.0%	10.7%

N/M = Not meaningful

Note:

(1) Net income per segment before income taxes.

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Comparison of 2006 to 2005

Our overall segment result decreased by 10.7% from W121 billion in 2005 to W134 billion in 2006.

The 6.3% increase in net interest income was due primarily to an increase in the balance of interest-accruing accounts receivables arising from trading of securities and margin lending.

The 54.1% increase in noninterest income was due primarily to gains from an increase in sales of marketable securities underlying investment trust company products and short-term marketable securities and an increase in gains from trading of derivatives.

The 55.8% increase in noninterest expense including depreciation and amortization was due primarily to an increase from losses from dispositions of marketable securities.

Comparison of 2005 to 2004

Our overall segment result increased by 175.0% from a gain of W44 billion in 2004 to a gain of W121 billion in 2005.

The 16.7% increase in net interest income was due primarily to a significant increase in the balance of interest-accruing accounts receivables arising from trading of securities.

The 27.1% increase in noninterest income was due primarily to an increase in brokerage fees resulting from increased sales of equity-linked securities and short-term marketable securities and brokerage of marketable securities underlying investment trust company products.

Noninterest expense including depreciation and amortization increased 16.1%, due primarily to an increase in losses on derivatives transactions.

Life Insurance Services of Shinhan Life Insurance

	Year Ended December 31,			% Change	
	2004	2005	2006	2004/2005	2005/2006
	(In billions of Won)				
Income statement data					
Net interest income	N/A	W 14	W 228	N/A	N/M
Noninterest income	N/A	245	2,134	N/A	N/M
Total revenues		259	2,362		N/M
Provision for loan losses	N/A	(1)	(2)	N/A	100.0%
Noninterest expense including depreciation and amortization	N/A	(250)	(2,194)	N/A	N/M
Segment results(1)	N/A	W 8	W 166	N/A	N/M

N/A = Not applicable

N/M = Not meaningful

Comparison of 2006 to 2005

Since we acquired Shinhan Life Insurance in November 2005, the segment results for 2005 are available only for one month while the segment results for 2006 are available for the full year. Accordingly, further comparison of the two periods is neither meaningful nor available.

Comparison of 2005 to 2004

Since we acquired Shinhan Life Insurance in November 2005, the segment results for 2005 exist only for one month while the segment results for 2004 do not exist. Accordingly, further comparison of the two periods is neither meaningful nor available.

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Other

Other segment primarily reflects all other activities of our subsidiaries, including the results of operations of Jeju Bank, Shinhan Capital, SH&C Life Insurance, Shinhan Credit Information, Shinhan BNP Paribas Investment Trust, Shinhan Macquarie Financial Advisory, Shinhan Private Equity and back-office functions maintained at the holding company as well as the addition of Shinhan Life Insurance in 2005. In 2006, due to an adoption of Statements of Korea Accounting Standards No. 18, Interests in Joint Ventures , effective starting in 2006, SH&C Life Insurance, Shinhan BNP Paribas Investment Trust and Shinhan Macquarie Financial Advisory are not longer included in our consolidated financial statements and are instead subject to equity method accounting.

	Year Ended December 31,			% Change	
	2004	2005	2006	2004/2005	2005/2006
	(In billions of Won)				
Income statement data					
Net interest income	W 155	W 160	W 104	3.2%	(35.0)%
Noninterest income	200	201	152	0.5	(24.4)
Total revenues	355	361	256	1.7	(29.1)
Provision for credit losses	(33)	(21)	(15)	(36.4)	(28.6)
Noninterest expense including depreciation and amortization	(312)	(310)	(232)	(0.6)	(25.2)
Segment results(1)	W 10	W 30	W 9	200.0%	(70.0)%

Note:

(1) Net income per segment before income taxes.

Comparison of 2006 to 2005

Our overall segment result decreased by 70.0% in 2006, due primarily to a decrease in net income before income taxes of our holding company.

Net interest income decreased by 35.0%, due primarily to an increased level of borrowings by our holding company from third parties in order to fund the operating capital of our non-bank subsidiaries, partial redemption of the redeemable preferred shares and advance funding for the LG Card acquisition and a decrease in net interest income of Shinhan Capital. SH&C Life Insurance, Shinhan BNP Paribas Investment Trust and Shinhan Macquarie Financial Advisory did not have material net interest income in 2005.

Noninterest income decreased by 24.4%, due primarily to the exclusion of noninterest income of SH&C Life Insurance, Shinhan BNP Paribas Investment Trust and Shinhan Macquarie Financial Advisory from the consolidated results of operation due to the change in the accounting principle discussed above, which more than offset an increase in noninterest income resulting from valuation gains from the equity method of accounting in respect of such subsidiaries.

Provision for credit losses decreased by 28.6% due primarily to improvements in asset quality experienced at Jeju Bank.

Noninterest expense including depreciation and amortization decreased by 25.2% due primarily to the exclusion of noninterest expense of SH SH&C Life Insurance, Shinhan BNP Paribas Investment Trust and Shinhan Macquarie Financial Advisory from the consolidated results of operation.

Comparison of 2005 to 2004

Our overall segment result increased significantly from W10 billion in 2004 to W30 billion in 2005, due primarily to an increase by W19 billion in net income before taxes of Shinhan Capital.

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Net interest income increased by 3.2% in 2005, due primarily to an increase in interest income from factoring of receivables by Shinhan Capital, which was partially offset by a decrease in interest income resulting from a reduced level of lending by our holding company to our non-bank subsidiaries such as Shinhan Card and Shinhan Capital.

Noninterest income increased by 0.5% in 2005, due primarily to an increase in noninterest income from insurance premiums received from customers at SH&C Life Insurance, which was partially offset by a decrease in gains from foreign currency transactions of our holding company and Shinhan Capital.

Provision for credit losses decreased by 36.4% from W33 billion in 2004 to W21 billion in 2005 due primarily to improvement in asset qualities of Jeju Bank and Shinhan Capital.

Noninterest expense including depreciation and amortization decreased by 0.6% due primarily to a decrease in losses from foreign currency transactions of our holding company and Shinhan Capital, which more than offset an increase in fees paid by SH&C Life Insurance to Shinhan Bank for sales of bancassurance products.

Financial Condition

Assets

The following table sets forth, as of the dates indicated, the principal components of our assets.

	As of December 31,			% Change	
	2004	2005	2006	2004/2005	2005/2006
	(In billions of Won, except percentages)				
Cash and cash equivalents	W 2,444	W 2,434	W 1,691	(0.4)%	(30.5)%
Restricted cash	3,301	3,644	6,758	10.4	85.4
Interest-bearing deposits	220	627	725	185.0	15.6
Call loans and securities purchased under resale agreements	1,591	1,499	1,243	(5.8)	(17.1)
Trading assets:					
Trading securities	4,639	3,573	3,474	(23.0)	(2.8)
Derivative assets	1,678	934	1,363	(44.3)	45.93
Securities:					
Available-for-sale securities	18,108	22,480	17,458	24.1	(22.34)
Held-to-maturity securities	3,099	2,963	7,581	(4.4)	155.9
Loans:					
Corporate	54,622	57,891	67,967	6.0	17.4
Consumer	42,458	47,957	54,479	12.9	13.6
Total loans, gross	97,080	105,848	122,446	9.0	(15.7)
Deferred origination costs	99	110	118	11.1	(7.3)
Less allowance for loan losses	2,311	1,511	1,575	(34.6)	(4.2)
Total loans, net	94,868	104,447	120,989	10.1	(15.8)
Customers liability on acceptances	2,012	1,879	1,417	(6.6)	(24.6)
Premises and equipment, net	1,848	1,876	2,097	1.5	11.8

Goodwill and intangible assets	1,660	2,957	2,584	78.1	12.6
Security deposits	968	1,078	1,108	11.4	2.8
Other assets	7,072	4,724	6,844	(33.2)	44.9
Total assets	W 143,508	W 155,115	W 175,332	8.1%	13.0%

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2006 Compared to 2005

Our assets increased by 13% from W155,115 billion as of December 31, 2005 to W175,332 billion as of December 31, 2006 principally due to increase in loans. Our loans increased 15.8%, on a net basis, from W104,447 billion as of December 31, 2005 to W120,989 billion as of December 31, 2006. This increase was due largely to an increase in Mortgage and home equity loans and other commercial loans. Mortgage and home equity loans increased by 16.47% from W25,840 billion as of December 31, 2005 to W30,097 billion as of December 31, 2006, mainly due to increased demand for such loans. Other commercial loans increased 27.6% from W21,409 billion as of December 31, 2005 to W27,319 billion as of December 31, 2006, mainly due to corporate customer s increased demand for Working Capital Loans.

2005 Compared to 2004

Our assets increased by 8.1% from W143,508 billion as of December 31, 2004 to W155,115 billion as of December 31, 2005 principally due to increases in loans and available-for-sale securities. Our loans increased 10.1%, on a net basis, from W94,868 billion as of December 31, 2004 to W104,447 billion as of December 31, 2005. This increase was due largely to an increase in mortgage and home equity loans and other consumer loans. Mortgage and home equity loans increased by 16.5% from W22,180 billion as of December 31, 2004 to W25,840 billion as of December 31, 2005, mainly due to increased demand for such loans. Other consumer loans increased 15.0% from W15,546 billion as of December 31, 2004 to W17,875 billion as of December 31, 2005, mainly due to the inclusion of consumer loans in connection with our acquisition of Shinhan Life Insurance in 2005 and an increase in unsecured loans related to housing construction.

For further information on our assets, see Item 4. Information on the Company Description of Assets and Liabilities .

Liabilities and Stockholders Equity

The following table sets forth, as of the dates indicated, the principal components of our liabilities.

	As of December 31,			% Change	
	2004	2005	2006	2004/2005	2005/2006
	(In billions of Won, except percentages)				
Deposits:					
Interest bearing	W 79,934	W 83,278	W 91,578	4.2%	10.0%
Noninterest bearing	2,746	3,143	3,918	14.5	24.7
Trading liabilities	1,758	1,048	1,611	(40.4)	53.7
Acceptances outstanding	2,012	1,879	1,417	(6.7)	(24.6)
Short-term borrowings	10,954	11,968	10,995	9.3	(8.1)
Secured borrowings	6,308	7,502	8,103	18.9	8.0
Long-term debt	23,617	26,172	32,574	10.8	24.5
Future policy benefit		4,778	5,683	N/M	18.9
Accrued expenses and other liabilities	9,713	7,089	9,311	(27.0)	31.3
Total liabilities	137,042	146,857	165,190	7.2	12.5
Minority interest	66	80	162	21.2	102.5
Redeemable convertible preferred stock	736	368		(50.0)	(100.0)

Stockholders equity	5,664	7,810	9,980	37.9	27.8
Total liabilities, minority interest and stockholders equity	W 143,508	W 155,115	W 175,332	8.1%	13.0%

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N/M = not meaningful.

2006 Compared to 2005

Our total liabilities increased by 12.5% from W146,857 billion as of December 31, 2005 to W165,190 billion as of December 31, 2006. This increase reflects an increase in interest-bearing deposits and long-term debt.

Our interest-bearing deposits increased by 10.0% from W83,278 billion as of December 31, 2005 to W91,578 billion as of December 31, 2006 due primarily to an increased volume of demand deposits and certificate of deposits.

Our long-term debt increased by 24.5% from W26,172 billion as of December 31, 2005 to W32,574 billion as of December 31, 2006 due primarily to increased funding through issuance of financial debentures.

Our stockholders equity increased 27.8% from W7,810 billion as of December 31, 2005 to W9,980 billion as of December 31, 2006.

2005 Compared to 2004

Our total liabilities increased by 7.2% from W137,042 billion as of December 31, 2004 to W146,857 billion as of December 31, 2005. This increase reflects an increase in interest-bearing deposits and long-term debt.

Our interest-bearing deposits increased by 4.2% from W79,934 billion as of December 31, 2004 to W83,278 billion as of December 31, 2005 due primarily to an increased volume of certificates of deposit and court deposit.

Our long-term debt increased by 10.8% from W23,617 billion as of December 31, 2004 to W26,172 billion as of December 31, 2005 due primarily to increased funding through issuance of financial debentures.

Our stockholders equity increased 37.9% from W5,664 billion as of December 31, 2004 to W7,810 billion as of December 31, 2005.

Liquidity and Capital Resources

We are exposed to liquidity risk arising from the funding of our lending, trading and investment activities and in the management of trading positions. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all of our liability repayments on time and fund all investment opportunities. For an explanation of how we manage our liquidity risk, see Item 4. Information on the Company Description of Assets and Liabilities Risk Management Market Risk Management of Shinhan Bank Liquidity Risk Management .

The following table sets forth our capital resources as of December 31, 2006.

	As of December 31, 2006 (In billions of Won)
Deposits	W 95,496
Long-term debt(1)	32,574
Call money	1,686
Borrowings from the Bank of Korea	1,173

Other short-term borrowings		8,136
Asset securitizations		8,102
Redeemable convertible preferred stock		
Stockholders equity		9,980
Total	W	157,147

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Note:

(1) Long-term debt includes Redeemable Preferred Stock.

Due to our history as a traditional commercial bank, our primary source of funding has historically been and continues to be customer deposits. Deposits amounted to W86,421 billion and W95,496 billion as of December 31, 2005 and 2006, respectively, which represented approximately 61.6% and 60.1%, respectively, of our total funding as of such dates.

As we offer competitive interest rates on our deposits, we do not anticipate any material losses in deposit customers to other banks and financial institutions. As of December 31, 2006, approximately 89.9% of our total deposits had current maturities of one year or less or were payable on demand. However, 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, 32.64% of our total deposits outstanding as of December 31, 2006 with remaining maturities of four months or less were rolled over or otherwise maintained with us, respectively.

We may use secondary and other funding sources to complement, or, if necessary, replace funding through customer deposits. As Shinhan Bank maintains the highest debt rating in the fixed-income market in Korea, we believe that Shinhan Bank will be able to obtain replacement funding through the issuance of long-term debt securities. Shinhan Bank s interest rates on long-term debt securities are in general 20 to 30 basis points higher than the interest rates offered on their deposits. However, since long-term debt are not subject to premiums paid for deposit insurance and the Bank of Korea reserves, we estimate that our funding costs on long-term debt securities are on a par with our funding costs on deposits.

We depend on long-term debt as a significant source of funding, principally in the form of corporate debt securities. Since 1999, we have actively issued and continue to issue long-term debt securities with maturities of over one year in the Korean fixed-income market. Shinhan Bank has maintained the highest credit rating in the domestic fixed-income market since 1999 and our holding company has also maintained the highest credit rating since its inception in 2001. In addition, Shinhan Bank may also issue long-term debt securities denominated in foreign currency in the overseas market. As of May 31, 2007, the credit ratings by S&P and Moody s assigned to Shinhan Bank were as follows:

	As of May 31, 2007	
	S&P	**Moody s**
Shinhan Bank	A–	A1

The cost and availability of unsecured financing are influenced by credit ratings. We expect our domestic credit ratings to remain at the highest level and, accordingly, do not anticipate any material increase in funding cost. Shinhan Bank s overseas credit ratings have continued to improve since the financial crisis of late 1997 until 2002. During 2003, S&P lowered the debt ratings of Shinhan Bank one notch to BBB following the announcement of our acquisition of Chohung Bank. Chohung Bank s credit rating, on the other hand, was upgraded to match that of Shinhan Bank to BBB from BBB- in April 2004. In September 2005, S&P upgraded the credit ratings of Shinhan Bank and Chohung Bank to A-. Following the merger between the two banks, Moody s upgraded Shinhan Bank s credit rating to A3 in August 2006 and further upgraded the rating to A1 in May 2007. Our holding company did not receive ratings by either of these credit rating agencies since it has not obtained funding from overseas sources to date.

As of December 31, 2004, 2005 and 2006, our long-term debt amounted to W23,617 billion, W26,172 billion and W32,574 billion, respectively.

Secondary funding sources include call money, borrowings from The Bank of Korea and other short-term borrowings which amounted to W10,954 billion, W11,968 billion and W10,995 billion, as of December 31, 2004, 2005 and 2006, each representing 8.4%, 8.5% and 7.0%, respectively, of our total funding as of such dates.

Additional funding flexibility is provided by our ability to access the repurchase and asset securitization markets. These alternatives are evaluated on an ongoing basis to achieve the appropriate balance of secured and

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unsecured funding. The ability to securitize loans, and the associated gains on those securitizations, are principally dependent on the credit quality and yields on the assets securitized and are generally not dependent on the ratings of the issuing entity. Transactions between us and our securitization structures are reflected in our consolidated financial statements. See Note 14 in the notes to our consolidated financial statements included in this annual report.

In limited situations, we may also issue redeemable preferred shares and redeemable convertible preferred shares which are convertible into our common shares. In August 2003, in order to partly fund our acquisition of Chohung Bank, we issued to the 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, with an aggregate redemption price of W808,816,825,858, which were convertible into our common shares.

In addition, in order to partly fund our acquisition of Chohung Bank, 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. We are required to redeem these shares 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 .

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 7% for the first five years and increases according to a preset formula. The dividend ratio on the redeemable convertible preferred shares is 3.25%. These preferred shares have terms that are different from the preferred shares issued previously. See Item 10. Additional Information Description of Capital Stock Description of Redeemable Preferred Stock Series 10 Redeemable Preferred Stock and Description of Redeemable Convertible Preferred Stock Series 11 Redeemable Preferred Stock .

Our policy is to encourage our subsidiaries to secure their own funding and liquidity source. With respect to Shinhan Capital and Shinhan Card, we have, in certain cases, provided funding through our holding company to take advantage of lower cost of funding within regulatory limitations. Under the Monopoly Regulation and Fair Trade Act of Korea, however, a financial holding company is prohibited from borrowing funds in excess of 100% 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.

We generally may not acquire our own shares except in certain limited circumstances including, without limitation, a reduction in capital. However, pursuant to the Securities and Exchange Act and regulations under the Financial Holding Companies Act, we may purchase our own shares on the Stock Market Division of the Korea Exchange or through a tender offer, or retrieve our own shares from a trust company upon termination of a trust agreement subject to the restrictions that (1) the aggregate purchase price of such shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year less the amounts of dividends and reserves for such fiscal year, subtracted by the sum of (a) the purchase price of treasury stock acquired if any treasury stock has been purchased after the end of the preceding fiscal year pursuant to the Commercial Act or the Securities and Exchange Act, (b) the amount subject to a trust contract, and (c) the amount of dividends approved at the ordinary general shareholders meeting after the end of the preceding fiscal year and the amount of retained earnings reserve required

under the Commercial Act; plus if any treasury stock has been disposed of after the end of the preceding fiscal year, the acquisition cost of such treasury stock, and (2) the purchase of such shares shall meet the requisite ratio under the Financial Holding Companies Act and regulations thereunder. We may purchase our own shares for the purpose of cancellation with profits through the Stock Market Division of the Korea Exchange, or through a tender offer acquire interests in our own shares

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through agreements with trust companies, subject to the same restrictions on the purchase price as described in this paragraph. In addition, pursuant to the Securities and Exchange Act of Korea, in certain limited circumstances, dissenting holders of shares have the right to require us to purchase their shares.

We do not use derivatives contracts to hedge the risk relating to these repurchases.

In December 2004, we issued 10,235,121 common shares issued in exchange for the minority equity interest, consisting of both common and preferred shares, of Good Morning Shinhan Securities through a cash tender offer and a small-scale share swap pursuant to Korean laws, of which 1,444 shares of our common stock was issued to Good Morning Shinhan Securities in exchange for its treasury shares. Good Morning Shinhan Securities acquired these treasury shares from its shareholders who dissented to the share swap at Good Morning Shinhan Securities shareholders meeting pursuant to the exercise by those dissenting shareholders the right to request Good Morning Shinhan Securities to purchase their shares in accordance with Korean law. Good Morning Shinhan Securities sold in the market the 1,444 shares of our common stock that it held in March 2005.

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 of our newly issued common shares 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. See Overview Financial Impact of Acquisitions Acquisition of Shinhan Life Insurance .

As of December 31, 2006, 7,129,967 of our common shares were held in treasury by Shinhan Bank, all of which have been sold in the market as of June 21, 2007.

Contractual Obligations, Commitments and Guarantees

In the ordinary course of our business, we have certain contractual cash obligations and commitments which extend for several years. As we are able to obtain liquidity and funding through various sources as described in Liquidity and Capital Resources above, we do not believe that these contractual cash obligations and commitments will have a material effect on our liquidity or capital resources.

Contractual Cash Obligations

The following table sets forth our contractual cash obligations as of December 31, 2006.

	December 31, 2006 Payments Due by Period				
	Up to 1 Year	Between 1 and 3 Years	Between 3 and 5 Years	Beyond 5 Years	Total
	(In billions of Won)				
Long-term debt(1)	W 7,597	W 13,797	W 2,858	W 8,322	W 32,574
Lease obligations					
Secured borrowings	6,310	1,276	201	316	8,103
Provisions for accrued severance indemnities(2)	39	36	45	216	336

Deposits(3)	45,508	7,545	1,601	487	55,141
Total	W 59,454	W 22,654	W 4,705	W 9,341	W 96,154

Notes:

(1) Long-term debt includes senior debt, subordinated debt and Redeemable Preferred Stock.

(2) In accordance with our policy and the Korean Labor Standard Law, employees with one year or more of service are entitled, upon termination of employment, to receive a lump sum severance payment based upon the length of their service and the average of the last three months wages. We make provisions for accrued severance indemnities based upon the assumption that all employees terminate their employment with us at the same time.

(3) Deposits include certificate of deposits, other time deposits and mutual installment deposits.

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Commitments and Guarantees

The following table sets forth our commitments and guarantees as of December 31, 2006. These commitments, apart from certain guarantees and acceptances, are not included within our consolidated balance sheet. Guarantees issued after December 31, 2002 are recorded at their fair value at inception, which is amortized over the life of guarantees.

	As of December 31, 2006 Commitment Expiration by Period			
	Up to 1 Year	Between 1 and 5 Years	Beyond 5 Years	Total
	(In billions of Won)			
Commitments to extend credit:				
Corporate	W 47,340	W 6,531	W 1,709	W 55,580
Credit card lines(1)	932	12,875	131	13,938
Consumer(2)	6,054	72	1	6,127
Commercial letters of credit(3)	2,963			2,963
Financial Standby letters of credit	221	14		235
Other Financial guarantees	303	9		312
Performance letters of credit and guarantees	2,136			2,136
Liquidity facilities to SPEs	460	2,121	89	2,670
Acceptances	1,417			1,417
Loans sold with recourse			6	6
Guarantee on trust accounts	489	478	2,356	3,323
Total	W 62,315	W 22,100	W 4,292	W 88,707

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) Excludes credit cards.

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

Commitments to extend credit represent unfunded portions of authorizations to extend credit in the form of loans. The 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. Commitments to extend credit, including credit lines, are in general subject to provisions that allow us to withdraw such commitments in the event there are material adverse changes affecting an obligor.

Financial 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 guarantees are used in various transactions to enhance the credit standing of our customers. They represent irrevocable assurance, subject to satisfaction of certain conditions, that we will make payment in the event that our customers fail to fulfill their obligations to third parties. Such financial obligations include a return of security deposits and the payment of service fees.

Performance letters of credit and guarantees are issued to guarantee customers tender bids on construction or similar projects or to guarantee completion of such projects in accordance with contractual terms. They are also issued to support a customer s obligation to supply products, commodities, maintenance or other services to third parties.

Liquidity facilities to SPEs represent irrevocable commitments to provide contingent credit lines including commercial paper purchase agreements to SPEs for which we serve as the administrator.

Loans sold with recourse represent certain non-performing loans we sold to Korea Asset Management Corporation prior to 1999. The sales agreements contain a recourse obligation under which Korea Asset Management Corporation can obligate us to repurchase the related loans. The recourse obligation has no expiration date.

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Guarantees on trust funds represent guarantee of principal issued to trust fund investors.

Acceptances are a guarantee by us to pay a bill of exchange drawn on a customer. We expect most acceptances to be presented, but reimbursement by the customer is normally immediate.

Details of our credit commitments and obligations under guarantees are provided in Note 31 in the notes to our consolidated financial statements included in this annual report.

Off-Balance Sheet Arrangements

We have several types of off-balance sheet arrangements, including guarantees for loans, debentures, trade financing arrangements, guarantees for other financings, credit lines, letters of credit and credit commitments. In the normal course of our banking activities, we make various commitments and guarantees to meet the financing 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. See Item 4. Information on the Company History and Development of Shinhan Financial Group Description of Assets and Liabilities Credit-Related Commitments and Guarantees .

Details of our off-balance sheet arrangements are provided in Note 31 in the notes to our consolidated financial statements included in this annual report.

Selected Financial Information under Korean GAAP

The selected consolidated financial and other data shown below have been derived from our consolidated financial statements, prepared in accordance with Korean GAAP not presented herein.

Under Korean GAAP, consolidated financial statements include the accounts of fully or majority owned subsidiaries and substantially controlled affiliates that have assets in the amount equal to or more than 7 billion as of the end of the previous fiscal year. Substantial control is deemed to exist when the investor is the largest shareholder and owns more than 30% of the investee s voting shares. Korean GAAP does not require the consolidation of subsidiaries, or substantially controlled affiliates, where activities are dissimilar from ours.

Under Korean GAAP effective since 1994, financial statements of our trust accounts, on which we guarantee a fixed rate of return and/or the repayment of principal, are consolidated, whereby assets and liabilities of third parties held by such trusts are reflected as assets and liabilities, and revenues and expenses generated from such third party assets are reflected in the statement of operations. Activities between trust accounts and us are eliminated.

Beginning January 1, 1999, the Korean GAAP financial statements are prepared in accordance with financial accounting standards generally accepted for banking institutions issued by the Korean Securities and Futures Commission.

Capital adequacy ratios have been calculated from the financial statements prepared in accordance with Korean GAAP and using the guidelines issued by the Financial Supervisory Commission.

We have included narrative disclosure in the footnotes to the Korean GAAP financial statements more clearly identify where significant accounting policy changes have taken place, which line items would be affected and how the balances would be affected. The areas where such significant changes have occurred are as follows:

Allowance for loan losses;

Allowance for unused loan commitments;

Allowance for guarantees and acceptances; and

Deferred taxation.

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Consolidated Income Statement Data

	Year Ended December 31,					
	2002	2003	2004	2005	2006	2006(1)
	(In billions of Won and millions of US$, except per share data)					
Interest income	W 3,646	W 4,996	W 7,016	W 7,881	W 9,263	$ 9,960
Interest expense	2,352	2,997	3,986	3,843	4,782	5,142
Net interest income	1,294	1,999	3,030	4,038	4,481	4,818
Provision for credit losses	193	1,150	1,317	667	576	620
Net interest income after provision for credit losses	1,101	849	1,713	3,371	3,905	4,199
Noninterest revenue(2)	2,284	3,076	7,327	7,586	10,549	11,344
Noninterest expenses(3)	2,446	3,139	7,570	9,198	12,424	13,359
Operating income	939	786	1,470	1,759	2,030	2,183
Non-operating income (loss), net	(86)	(155)	(136)	65	484	520
Net income before income tax Expense	853	631	1,334	1,824	2,514	2,703
Income tax expenses	255	254	213	257	671	722
Net income before consolidation Adjustment	598	377	1,121	1,567	1,843	1,971
Minority interest in loss (earnings) of consolidated subsidiaries	4	(14)	(71)	(6)	(10)	(11)
Net income	W 602	W 363	W 1,050	W 1,561	W 1,833	$ 1,970
Per common share data (in currency unit):						
Earnings per share-basic	W 2,294	W 1,022	W 3,197	W 4,360	W 4,776	$ 5.14
Earnings per share-diluted		1,063	2,820	4,109	4,776	5.14
Cash dividends per common share	600	600	750	800	900	0.97

Notes:

(1) Won amounts are expressed in U.S. dollars at the rate of W930.00 per US$1.00, the noon buying rate in effect on December 31, 2006 as quoted by the Federal Reserve Bank of New York in the United States.

(2) Noninterest revenue includes fees and commissions income, dividends on securities, gains on security valuations and disposals, gains on foreign currency transaction and gains from derivative transactions.

(3) Noninterest expense is composed of fees & commissions paid or payable, general and administrative expenses, losses on securities valuations and disposals, losses on foreign currency transactions and losses from derivative

transactions.

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Consolidated Balance Sheet Data

	Year Ended December 31,					
	2002	2003	2004	2005	2006	2006(1)
	(In billions of Won and millions of US$)					
Cash and due from banks	W 2,817	W 6,418	W 6,713	W 8,429	W 11,274	$ 12,122
Loans(2)	46,030	97,757	99,116	108,390	124,183	133,530
Less allowance for doubtful accounts(3)	(786)	(2,836)	(1,917)	(1,741)	(1,881)	(2,022)
Trading securities	2,076	4,877	7,065	5,496	5,517	5,932
Investment securities	13,408	23,127	20,785	24,729	25,768	27,707
Premises and equipments(4)	1,101	2,854	2,922	3,487	3,685	3,962
Other assets(5)	2,122	7,024	12,147	11,428	9,181	9,872
Total assets	66,768	139,221	146,831	160,218	177,727	191,103
Deposits	38,722	87,593	87,528	91,538	99,760	107,268
Borrowings(6)	11,352	17,209	14,895	15,916	16,892	18,164
Debentures	8,395	17,748	20,114	22,840	29,485	31,704
Other liabilities(7)	4,337	10,552	16,459	19,713	20,077	21,588
Total liabilities	62,806	133,102	138,996	150,007	166,214	178,724
Minority interests in consolidated subsidiaries	321	596	88	74	151	162
Stockholders equity	3,641	5,523	7,747	10,137	11,362	12,217
Total liabilities, minority interest and stockholders Equity	W 66,768	W 139,221	W 146,831	W 160,218	W 177,727	$ 191,103

Notes:

(1) Won amounts are expressed in U.S. dollars at the rate of W930.00 per US$1.00, noon buying rate in effect on December 31, 2006 as quoted by the Federal Reserve Bank of New York in the United States.

(2) Loans represent the gross amount of loans, before adjustment for the allowance for loan losses. Accrued interest income is included within other assets. The amount of credit card loans was W2,796 billion, W4,931 billion, W4,248 billion, W3,861 billion and W3,518 billion in 2002, 2003, 2004, 2005 and 2006 respectively. The amount of payment in guarantees was W90 billion, W108 billion, W31 billion, W25 billion and W21 billion in 2002, 2003, 2004, 2005 and 2006, respectively. The amount of bonds purchased under the resale agreement was W0 billion, W470 billion, W160 billion, W140 billion and W785 billion in 2002, 2003, 2004, 2005 and 2006, respectively.

(3) The allowance for loan losses is recorded at the higher of (i) the amount determined using the expected loss method, which estimates the potential exposure at default, or EAD, based on the probability of default, or PD, and loss given default, or LGD, and (ii) the amount determined using the guidelines promulgated by the Financial Supervisory Commission, which estimates the allowance by multiplying a certain percentage as determined by the Financial Supervisory Commission to loan balances in each classification.

(4) Accumulated depreciation is recorded as a deduction from premises and equipment.

(5) Other assets include leasehold deposits, accounts receivables, accrued interest income, prepaid expenses and unsettled debit of domestic exchange (which represents outstanding balances due from other banks generated in the process of fund settlements of domestic exchange, such as checks, bills, drafts, remittance exchange, ATM use and credit card network).

(6) Borrowings consist mainly of borrowings from Bank of Korea, the Korean government and banking institutions.

(7) Under Korean GAAP, contingent losses with respect to guarantees and acceptances are recognized by applying the same classification methods and provision percentages used in determining the allowance for loan losses. Previously, provisions were only applied to acceptances and guarantees classified as substandard, doubtful and estimated loss. Effective in 2005, provisions are applied to all acceptances and guarantees, including those classified as normal and precautionary as well as those classified as substandard or below. The amounts of provisions as of December 31, 2002, 2003, 2004, 2005 and 2006 were W4 billion, W57 billion, W37 billion, W60 billion and W52 billion, respectively. These amounts are included in other liabilities.

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Profitability Ratios

	Year Ended December 31,				
	2002	**2003**	**2004**	**2005**	**2006**
			(Percentages)		
Net income as a percentage of:					
Average total assets(1)	0.91%	0.37%	0.72%	0.93%	1.09%
Average stockholders equity(1):					
Common shares only	17.12	9.97	14.52	18.11	15.93
Including redeemable preferred shares(2)	N/A	8.42	14.08	17.96	15.88
Dividend payout ratio(3)	26.15	66.34	22.16	17.82	18.39
Net interest spread(4)	1.63	2.25	2.09	2.60	2.75
Net interest margin(5)	2.08	2.30	2.28	2.74	3.02
Efficiency ratio(6)	68.36	61.85	73.09	79.13	82.66
Cost-to average assets ratio(7)	3.67	3.19	5.18	5.50	7.36
Equity to average asset ratio(8):	5.27	4.38	5.10	5.20	6.83
Common shares only	5.27	3.70	4.95	5.15	6.81
Including redeemable preferred shares(2)	N/A	4.38	5.10	5.20	6.83

N/A = Not applicable

Notes:

(1) Average balances are based on (a) daily balances for Shinhan Bank, Chohung Bank and Jeju Bank and (b) quarterly balances for other subsidiaries.

(2) 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 .

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

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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 7% for the first five years and increases according to a preset formula. The dividend ratio on the redeemable convertible preferred shares is 3.25%. 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 .

(3) The dividend payout ratio represents the ratio of total dividends paid on common stock as a percentage of net income attributable to common stock.

(4) Net interest spread represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.

(5) Net interest margin represents the ratio of net interest income to average interest earning assets.

(6) Efficiency ratio 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 statement 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 2,446	W 3,139	W 7,570	W 9,198	W 12,424
Divided by					
The sum of net interest income and noninterest income(B)	3,578	5,075	10,357	11,624	15,029
Net interest income	1,294	1,999	3,030	4,038	4,470
Noninterest revenue	2,284	3,076	7,327	7,586	10,549
Efficiency ratio ((A) as a percentage of (B))	68.36%	61.85%	73.09%	79.13%	82.66%

(7) Cost-to-average-assets ratio, a measure of cost of funding used by banks and financial institutions, represents the ratio of noninterest expense to average total assets.

(8) Equity to average asset ratio represents the ratio of average stockholders equity to average total assets

Capital Ratios

	As of or for the Year Ended December 31,				
	2002	2003	2004	2005	2006(4)
	(Percentages)				
Requisite capital ratio(1)	130.93%	118.41%	129.41%	132.81%	139.28%
	10.92	10.49	11.94	12.23	12.01

Total capital adequacy (BIS) ratio of Shinhan Bank(2)					
Tier I(2)	6.81	6.34	7.45	8.16	7.81
Tier II(2)	4.11	4.15	4.49	4.07	4.20
Total capital adequacy (BIS) ratio of Chohung Bank(2)	8.66	8.87	9.40	10.94	N/A
Tier I(2)	4.61	4.47	4.99	6.52	N/A
Tier II(2)	4.05	4.40	4.41	4.42	N/A
Adjusted equity capital ratio of Shinhan Card(3)	10.86	13.78	16.48	17.68	17.47
Solvency ratio of Shinhan Life Insurance	238.87	224.69	265.69	232.12	232.60

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N/A = Not applicable

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. This computation is based on our consolidated financial statement in accordance with Korean GAAP. See Item 4. Information on the Company Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy .

(2) Shinhan Bank comprised 47.83% of our total assets and Chohung Bank comprised 41.53% of our total assets as of December 31, 2005. The capital adequacy ratios of Shinhan Bank and Chohung Bank are computed in accordance with the guidelines issued by the Financial Supervisory Commission, which was revised as of December 31, 2002 to take into account market risk as well as credit risk. For Shinhan Bank, the capital ratios as of December 31, 2001 were recalculated using these revised guidelines. For Chohung Bank, the capital ratios as of December 31, 2002 were calculated using these revised guidelines but the capital ratios as of December 31, 2001 do not reflect the revised guidelines. Under the guidelines of the Financial Supervisory Commission, each of Shinhan Bank and Chohung Bank is required to maintain a minimum capital adequacy ratio of 8%. This computation is based on consolidated financial statements prepared in accordance with Korean GAAP of Shinhan Bank and Chohung Bank, as the case may be. See Item 4. Information on the Company Supervision and Regulation Principal Regulations Applicable to Banks Capital Adequacy.

(3) Represents the ratio of total adjusted stockholders equity to total adjusted assets and is computed in accordance with the guidelines issued by the Financial Supervisory Service for credit card companies. Under these guidelines, Shinhan Card 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) The capital ratio information for Shinhan Bank in 2006 is presented on a combined basis to reflect the merger of Shinhan Bank and Chohung Bank in April 2006.

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Asset Quality Ratios

	As of December 31,				
	2002(1)	**2003(2)**	**2004(2)**	**2005(2)**	**2006(2)**
	(In billions of Won, except percentages)				
Substandard and below loans(3)	W 843	W 3,207	W 1,660	W 1,195	W 1,064
Substandard and below loans as a percentage of total loans	1.83%	3.37%	1.70%	1.09%	0.87%
Substandard and below loans as a percentage of total assets	1.26	2.30	1.13	0.74	0.60
Precautionary loans as a percentage of total loans(4)	1.72	3.55	3.18	2.75	1.29
Precautionary and below loans as a percentage of total loans(4)	3.55	6.92	4.88	3.84	2.16
Precautionary and below loans as a percentage of total assets(4)	2.45	4.73	3.25	2.61	1.49
Allowance for loan losses as a percentage of substandard and below loans	35.25	85.85	112.63	143.43	172.99
Allowance for loan losses as a percentage of precautionary and below loans(4)	25.38	41.80	39.21	40.75	69.52
Allowance for loan losses as a percentage of total loans	1.71	2.89	1.91	1.57	1.50
Substandard and below credits as a percentage of total credits(5)	1.00	3.57	1.66	1.07	0.84
Loans in Korean Won as a percentage of deposits in Korean Won(6)	96.35	99.37	99.30	107.79	115.05

Notes:

(1) Represents the asset quality ratios of Shinhan Bank as of the dates indicated.

(2) Represents the asset quality ratios of Shinhan Financial Group as of the dates indicated.

(3) Substandard and below loans are defined in accordance with regulatory guidance in Korea, except excludes loans provided from Shinhan Bank s trust accounts and confirmed guarantees and acceptances (including bills purchased and privately placed debentures). In 1999, as well as classifying credit quality into five categories, which are normal, precautionary, substandard, doubtful and estimated loss, in accordance with standards defined by the Financial Supervisory Commission, we also took into account the repayment capability of borrowers. See Item 4. Information on the Company Supervision and Regulation Principal Regulations Applicable to Banks .

(4) As defined by the Financial Supervisory Commission.

(5)

Credits include loans provided from our trust accounts (including bills purchased and privately placed debentures) and confirmed guarantees and acceptances, as well as the total loan portfolio of the banking accounts.

(6) Under Korean GAAP, loans in Korean Won do not include bills bought in Won, advances for customers, credit card accounts, bonds purchased under resale agreements, call loans, private placement corporate bonds and loans in restructurings that have been swapped for equity in the restructured borrower.

Recently Adopted Accounting Pronouncements and New Accounting Pronouncements (US GAAP)

Please refer to Note 2 in the footnotes to our financial statements.

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Reconciliation with Korean Generally Accepted Accounting Principles

Our consolidated financial statements and related footnotes appearing in Item 18. Financial Statements , which are prepared in accordance with U.S. GAAP, and other financial data appearing in Items 3, 4 and 5 are presented on a consolidated basis under U.S. GAAP, unless otherwise specifically mentioned. Our consolidated financial statements prepared in accordance with U.S. GAAP, differ in certain significant respects from Korean GAAP, the basis on which the consolidated financial data appearing in Selected Financial Information under Korean GAAP are presented. Differences between Korean GAAP and U.S. GAAP, which have significant effects on the consolidated net income and stockholders equity of Shinhan Financial Group, are summarized as follows:

		2006 (In millions of Won)
U.S. GAAP net income	W	1,470,301
1. Provision for credit losses		(70,030)
2. Sale of loans to the Korea Asset Management Corporation		2,234
3. Deferred loan fees and costs		(51,293)
4. Securities and derivatives for hedging purposes		
a. Impairment loss and reclassification of securities		466,111
b. Reversal of hedge accounting treatment for derivatives		54,664
c. Changes in foreign exchange rates on available-for-sale securities		(35,560)
5. Stock based compensation		9,915
6. Formation of Shinhan Financial Group		
7. Derecognition and amortization and impairment of goodwill		(20,871)
8. Sale of Shinhan Securities		
9. Amortization of intangible assets		244,642
10. Recognition of minority interest		8,065
11. Reversal of asset revaluation		(3,343)
12. Adjustments for redeemable (convertible) preferred shares		112,014
13. Sale-leaseback		(7,356)
14. Fair valuation of long-term debt and bonds		(37,066)
15. Consolidation Scope		(61,654)
16. Measurement of common stock issued for acquisition of subsidiaries		
17. Others		(75,905)
Total adjustments		534,567
Tax effect of adjustments		(172,150)
Korean GAAP net income	W	1,832,718

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		2006 (In millions of Won)
U.S. GAAP stockholders equity	W	9,979,338
1. Provision for credit losses		(1,045,145)
2. Sale of loans to the Korea Asset Management Corporation		(36,596)
3. Deferred loan fees and costs		(94,850)
4. Securities and derivatives for hedging purposes		
a. Impairment loss and reclassification of securities		1,252,756
b. Reversal of hedge accounting treatment for derivatives		172,951
c. Changes in foreign exchange rates on available-for-sale securities		
5. Stock based compensation		56,687
6. Formation of Shinhan Financial Group		(43,053)
7. Derecognition and amortization and impairment of goodwill		(134,544)
8. Sale of Shinhan Securities		(10,642)
9. Amortization of intangible assets		722,451
10. Minority interest		161,935
11. Reversal of asset revaluation		73,271
12. Adjustments for Redeemable (Convertible) Preferred Stock		537,264
13. Sale-leaseback		
14. Fair valuation of long-term debt and bonds		(138,329)
15. Consolidation Scope		(532,432)
16. Measurement of common stock issued for acquisition of subsidiaries		137,738
17. Others		(28,857)
Total of adjustments		1,050,605
Tax effect of adjustments		482,162
Korean GAAP stockholders equity	W	11,512,105

The following is a summary of the significant adjustments made to consolidated net income and stockholders equity to reconcile the U.S. GAAP results with Korean GAAP. The numbered paragraphs below refer to the corresponding item numbers set forth above.

1. Under U.S. GAAP, the allowance for loan losses for specifically identified impaired loans is based on (i) the present value of expected future cash flows discounted at the loan s effective interest rate or as a practical expedient, (ii) the loans observable market price or (iii) the fair value of the collateral if the loan is collateral dependent.

For homogeneous pools of corporate and consumer loans, allowances are based on historical losses using a risk rating migration model adjusted for qualitative factors, while a delinquency roll-rate model adjusted for qualitative factors is used for homogeneous pools of credit cards.

Under Korean GAAP, the allowance for loan losses is recorded at the higher of (i) the amount determined using the expected loss method, which estimates the potential exposure at default, or EAD, based on the probability of default, or PD, and loss given default, or LGD, and (ii) the amount determined using the guidelines promulgated by the Financial Supervisory Commission, which estimates the allowance by multiplying a certain percentage as determined by the Financial Supervisory Commission to loan balances in each classification.

Our reserve is established based on the following percentages as of December 31, 2006.

	Shinhan Bank	
	Corporate	**Consumer**
	(Percentage)	
Normal	0.7	1.0
Precautionary	7.0	10.0
Substandard	20.0	20.0
Doubtful	50.0	59.0
Estimated Loss	100.0	100.0

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This adjustment reflects the differences in the methodologies used to determine the allowance for loan losses under U.S. GAAP and Korean GAAP. It also includes the offsetting effects of (i) the consolidation of our trust accounts, which include loans and related reserves under Korean GAAP and (ii) the deconsolidation of certain securitized loans and related reserves, which it recorded as sales under Korean GAAP.

2. We sold a number of non-performing loans to the Korea Asset Management Corporation. For those loans sold to the Korea Asset Management Corporation prior to fiscal year 2001, based on the sales agreement, there was a recourse liability for the obligation to repurchase such loans. The Korea Asset Management Corporation can return certain loans to us when the performance requirements of such loans are not met. We recognize a recourse liability for the obligation to repurchase such loans. The adjustment reflects the differences in classification of loans and methodologies used to determine the loan losses as discussed above.

3. Under U.S. GAAP loan origination fees and the related costs are deferred and amortized over the life of the loan as an adjustment to the yield of the loan. Under Korean GAAP, origination costs related to wages and salaries were recognized as expense when paid and did not provide for the deferred costs.

4a. Under U.S. GAAP, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary are recorded in earnings. Various quantitative and qualitative factors are assessed to determine whether impairment is other-than-temporary such as the duration and extent of the decline, the current operating and future expected performance, market values of comparable companies, changes in industry and market prospects, and the intent and ability of the holder to hold the security for a sufficient period of time for subsequent expected recovery in market value. Under Korean GAAP, declines in the fair value that are deemed to be permanent are recorded in earnings. The determination of whether a decline in the fair value of a security is permanent is generally based on whether the issuer is in bankruptcy or liquidation. This item reflects the recognition of additional losses, adjustment of the proper cost basis for the disposal gains or losses and reclassification of securities that are not within the scope of SFAS No. 115 into proper categories under U.S. GAAP.

4b. Under U.S. GAAP, for a derivative to qualify for hedge accounting, it must be highly effective at reducing the risk associated with the exposure being hedged. The hedging relationship must be designated and formally documented at inception along with the particular risk management objective and strategy for the hedge, identification of the derivative used as the hedging instrument, the hedged item and the risk exposure being hedged, and the method of assessing hedge effectiveness. As the criteria for documenting the designation of hedging relationships and hedge effectiveness are more rigorous under U.S. GAAP, the majority of the derivatives accounted for as hedges under Korean GAAP do not qualify for hedge accounting under U.S. GAAP. This item reflects the reversal of the hedge accounting treatment applied under Korean GAAP.

4c. Under U.S. GAAP, effects of changes in foreign exchange rates of foreign available-for-sale securities are reflected as a component of other comprehensive income. Under Korean GAAP, effects of such changes in foreign exchange rates are reflected in earnings. This item reflects the adjustment of such effects from earnings to other comprehensive income.

5. Under K GAAP, We recognize the compensation costs using intrinsic value remeasured each reporting period. Under U.S. GAAP, we recognize the compensation costs using fair value remeasured each reporting period by option pricing model according to FAS 123R. The income statement adjustment represents the difference in valuation method of share options.

Under Korean GAAP, in case of tandem awards the choie of which is up to the employer s, they are equity classified awards unless the entity has detailed plans to settle in cash and settlement is most likely probable. Under U.S. GAAP, in case of tandem awards the choie of which is up to the employer s, if the entity normally settles in cash rather than by

issuing equity shares, such awards would be classified as liabilities. The stockholders equity adjustment reflects the difference in classification of share options.

6. Under Korean GAAP, the formation of a holding company results in changes in Shinhan Bank s original investment cost basis in its investees, whereas under U.S. GAAP, the transaction is accounted for under the purchase method with Shinhan Bank being the accounting acquirer, resulting in no change to Shinhan Bank s original investment costs in Shinhan Capital, Shinhan Securities and Shinhan Investment Trust Management Company. In addition, under Korean GAAP, the value of consideration was measured based on the stock price on the

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consummation date of the acquisition, whereas under U.S. GAAP, the value of consideration was measured based on our average closing price on the Korea Exchange two days before and after the date the formation was agreed to and announced. Furthermore, costs that were directly related to the formation were expensed under Korean GAAP, whereas such costs were included in the cost of the formation under the U.S. GAAP. This adjustment reflects differences in the accounting related to the formation of the holding company under U.S. GAAP.

7. Under Korean GAAP, goodwill is amortized over its useful life during which future economic benefits are expected to flow to the enterprise, not exceeding twenty years. We amortize goodwill over ten years. Under U.S. GAAP, goodwill is not amortized, but rather it is tested for impairment at least annually. The income statement adjustment reflects goodwill impairment charge recorded under U.S. GAAP, net of the goodwill amortization that was recorded under Korean GAAP. Under Korean GAAP, acquisition of the remaining interest in its consolidated subsidiary is accounted for under the book basis with no goodwill recognized, rather, any excess amount paid results in a reduction of capital surplus. Furthermore, consolidation is required when the investor owns more than 30% of the investee s voting shares and is also the largest shareholder. Under U.S. GAAP, acquisition of the remaining interest in its equity investee is accounted for under the purchase method with the excess cost over the fair value of the net assets acquired recognized as goodwill. The stockholders equity adjustment reflects the additional amount of goodwill recognized under U.S. GAAP.

8. Under Korean GAAP, the merger of Shinhan Securities and Good Morning Shinhan Securities is accounted for as a common control merger with no gain or loss recognized on this transaction. Under U.S. GAAP, the merger was accounted for in accordance with EITF 90-13 which accounts for the transaction as a sale of portion of the Shinhan Financial Group s interest in Shinhan Securities to the minority interest holders of the Good Morning Shinhan Securities and acquisition of additional interest in Good Morning Shinhan Securities. A gain is recognized to the extent that Good Morning Shinhan Securities was sold.

9. Under U.S. GAAP, finite-lived intangible assets which meet certain criteria are recognized in a business combination transaction and amortized over their useful lives. Under Korean GAAP, because the criteria that must be met in order to recognize intangible assets is not clearly specified, in practice, they are included as part of goodwill. We did not recognize any intangible assets in connection with the formation of the Shinhan Financial Group and the acquisitions of Chohung Bank, Jeju Bank and Good Morning Shinhan Securities under Korean GAAP. However, finite-lived and indefinite-lived intangible assets were recognized under U.S. GAAP in connection with the above transactions. The income statement adjustment represents the amortization of the finite-lived intangible assets under U.S. GAAP.

10. The operating results of each of our subsidiaries have been affected by the conversion to U.S. GAAP from Korean GAAP. Consequently, the minority interest holders share of the difference in the results of the respective subsidiaries operations under U.S. GAAP and Korean GAAP affect our consolidated net income and stockholders equity.

Under Korean GAAP, minority interest is treated as a component of stockholders equity. Under U.S. GAAP, minority interest is not considered part of stockholders equity and is disclosed in the consolidated balance sheet between the liability section and the stockholders equity section.

11. Under Korean GAAP, certain fixed assets were revalued upward in 1998. As a result, the revaluation gain is included in stockholders equity, and depreciation expense related to revalued fixed assets is determined based on the new cost basis. Under U.S. GAAP, upward revaluation of fixed assets is not permitted, and depreciation expense is based on the historical cost basis adjusted for any impairment loss. This adjustment is to reverse the revaluation effects on the fixed assets under Korean GAAP, and to adjust the gain or loss relating to subsequent disposals of those fixed assets under the different cost basis.

12. Under Korean GAAP, the Redeemable Preferred Stocks and Redeemable Convertible Preferred Stocks were recorded in stockholders equity. Under U.S. GAAP, certain financial instruments previously classified as mezzanine equity, are classified as liabilities on the balance sheet pursuant to SFAS No. 150. Accordingly, the Redeemable Preferred Stocks are classified as liabilities and Redeemable Convertible Preferred Stocks are classified as mezzanine equity. Dividends paid to holders of Redeemable Preferred Stocks are recognized as interest expense rather than reduction from the retained earnings.

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13. Under U.S. GAAP, a seller-lessee in a sale-leaseback transaction of assets, such as equipment, accounts for the lease meeting certain criteria as a capital lease, otherwise, as an operating lease. Any profit or loss on the sale of the asset is generally deferred and amortized in proportion to the amortization of the leased asset, if capital lease, or in proportion to the related gross rental charged to expense over the lease term, if operating lease. Under Korean GAAP, if sale-leaseback transaction of used assets meets certain criteria as an operating lease, which differs in certain respects from U.S. GAAP, any profit or loss on the sale of the asset is recognized immediately in the income statement.

14. With respect our acquisition of the remaining interest in a consolidated subsidiary, under U.S. GAAP, assets and liabilities of such subsidiary are to be assigned with the difference between acquisition cost and underlying equity in net assets based on their fair value and any unassigned difference will be designated as goodwill, whereas under Korean GAAP, the difference is recognized as changes in shareholders equity and no fair valuation of assets and liabilities are recorded. The item reflects the difference between the fair values and book values of long-term debt and bonds from additional acquisition of a consolidated subsidiary and the difference is recognized as interest expense in earnings for the remaining life of long-term debt and bonds.

15. Under Korean GAAP, a special purpose company and a company undergoing liquidation are not within the scope of consolidation. Under U.S. GAAP, such companies could be within the scope of consolidation in accordance with either FIN No. 46R or SFAS No. 94.

16. Under Korean GAAP, the value of consideration paid for Chohung Bank, Good Morning Shinhan Securities and Shinhan Life Insurance was measured based on our stock price on the consummation date of the merger, whereas under U.S. GAAP, the value of consideration was measured based on our average closing stock price on the Stock Market Division of the Korea Exchange two days before and after the date the merger was agreed to and announced.

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ITEM 6. *DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES*

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Our executive directors are as follows.

Name	Age	Position	Director Since	Date Term Ends(1)
Eung Chan Ra	68	Chairman of the Board of Directors and Head of Board Steering Committee	September 1, 2001	March 2010
In Ho Lee	63	President and Chief Executive Officer and a member of the Board Steering Committee	September 1, 2001	March 2009

Note:

(1) The date on which each term will end will be the date of the general stockholders meeting in the relevant year.

Eung Chan Ra is the Chairman of our board of directors. Prior to being elected to his current position in 2001, he was the Vice-Chairman of Shinhan Bank and also served as President and Chief Executive Officer of Shinhan Bank. Mr. Ra also currently serves as Vice-Chairman of Korea-Japan Economy Association and the chief of committee in the Economy and Science Division of the Advisory Council on Democratic and Peaceful Unification. Mr. Ra was a director of Cheil Investment Finance from 1977 until 1982, when he first jointed us as an executive vice president of Shinhan Bank. Mr. Ra graduated from Seonrin Commercial High School.

In Ho Lee is our President and Chief Executive Officer. Prior to being elected to his current position on May 17, 2005, he has served as a non-executive director of Shinhan Financial Group since the date of our inception. Mr. Lee previously served as President and Chief Executive Officer of Shinhan Bank. Mr. Lee first joined us as one of Shinhan Bank s incorporators in 1982. Mr. Lee received a B.A. in economics from Yonsei University.

Non-Executive Directors

Non-executive directors are directors who are not our employees and do not hold executive officer positions in us. Outside directors are non-executive directors who also satisfy the requirements set forth under the Securities and Exchange Act to be independent of our major shareholders, affiliates and the management. Our non-executive directors are selected based on the candidates talents and skills in diverse areas, such as law, finance, economy, management and accounting. Currently, 13 non-executive directors are in office, all of whom were nominated by our board of directors.

Our non-executive directors are as follows.

Name	Age	Position	Director Since	Date TermEnds(1)

Sang Hoon Shin	58	Non-Executive Director	March 20, 2007	March 2008
Yong Woong Yang	58	Outside Director	March 25, 2007	March 2008
Sang Yoon Lee	64	Outside Director	March 25, 2004	March 2008
Yoon Soo Yoon	61	Outside Director	March 25, 2004	March 2008
Shee Yul Ryoo	68	Outside Director	March 30, 2005	March 2008
Byung Hun Park	78	Outside Director	September 1, 2001	March 2008
Young Hoon Choi	78	Outside Director	March 30, 2005	March 2008
Si Jong Kim	70	Outside Director	March 30, 2005	March 2008
Philippe Reynieix	58	Outside Director	March 25, 2004	March 2008
Haeng Nam Chung	66	Outside Director	March 21, 2006	March 2008
Sung Bin Chun	54	Outside Director	March 20, 2007	March 2008
Pyung Joo Kim	68	Outside Director	March 20, 2007	March 2008
Young Woo Kim	55	Outside Director	March 20, 2007	March 2008

Note:

(1) The date on which each term will end will be the date of the general stockholders meeting in the relevant year.

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Sang Hoon Shin has been a non-executive director since March 20, 2007. Mr. Shin has worked at Shinhan Bank since 1982 and has previously served as our Senior Executive Vice President and a director of Shinhan Bank. Mr. Shin received a B.A. in business administration from Sungkyunkwan University and a M.B.A from Yonsei University.

Yong Woong Yang has been an outside director as of March 20, 2007. Mr. Yang was a non-executive director from March 2004 to March 2007. Mr. Yang is currently the President of Doen. Mr. Yang previously served as an outside director of Shinhan Bank and Shinhan Financial Group. He received a B.A. from Chosun University.

Sang Yoon Lee has been an outside director since March 25, 2004. Mr. Lee is currently the Representative Director and President of Nongshim Ltd., and serves as the Non-statutory Vice-Chairman of Korea Food Industry Association. He received a B.A. in Commerce from Seoul National University.

Yoon Soo Yoon has been an outside director since March 25, 2004. Mr. Yoon is currently the Chairman/CEO of Fila Korea Ltd. He received a B.A. in Political Science & Diplomacy from Hankuk University of Foreign Studies.

Shee Yul Ryoo has been an outside director since March 30, 2005. Mr. Ryoo currently serves as an advisor of Shin & Kim, a Korean law firm. Mr. Ryoo previously served as President of Korea First Bank and as chairman of the Korea Federation of Banks. Mr. Ryoo received a bachelor of arts degree in law from Seoul National University.

Byung Hun Park has been an outside director since the date of our inception. Mr. Park currently serves as the chairman of Daeseong Electric Industries Co., Ltd. Mr. Park previously served as the chairman of the Korean Residents Union in Japan. Mr. Park received a B.A. in economics and an LL.B. from Meiji University of Japan. Mr. Park also received an honorary Ph.D. in political science from Chung Ang University.

Young Hoon Choi has been an outside director since March 30, 2005. Mr. Choi currently serves as chairman of Eishin Group. Mr. Choi previously served as a non-executive director of Shinhan Bank. Mr. Choi received a bachelor of arts degree in law from Ritsumeikan University of Japan.

Si Jong Kim has been an outside director since March 30, 2005. Mr. Kim currently serves as a standing advisor to Kanagawa Prefecture branch of Korean Residents Union in Japan and as chairman of Star Limited Corporation.

Philippe Reynieix has been an outside director since March 25, 2004. Mr. Reynieix was nominated by BNP Paribas and elected to our board of directors pursuant to the alliance agreement, dated December 2001, which we entered into with BNP Paribas. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions. He is currently CEO and General Manager of BNP Paribas Korea. Mr. Reynieix received a Master of Business Law from Paris II University.

Haeng Nam Chung has been an outside director since March 21, 2006. Mr. Chung served as a director of Asuka Credit Union and as an advisor of the Korean Chamber of Commerce and Industry in Japan.

Sung Bin Chun has been an outside director since March 20, 2007. Ms. Chun is currently a professor of business administration at Sogang University. Ms. Chun received a B.A. in English literature from Sogang University and a Ph.D. in accounting from University of California at Berkeley. Ms. Chun was formerly the director and vice president of the Korean Accounting Association.

Pyung Joo Kim has been an outside director since March 20, 2007. Mr. Kim is currently a professor of public policy and management at Korea Development Institute and chief executive officer of the Korean Investor Education Foundation. Mr. Kim received a Ph.D. in economics from Princeton University.

Young Woo Kim has been an outside director since March 20, 2007. Mr. Kim is currently the chief executive officer of Hanil Electronic and New Hanil Electronic. Mr. Kim received a B.A. in political economy from Waseda University.

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Executive Officers

In addition to the executive directors who are also our executive officers, we currently have the following executive officers.

Name	Age	Position
Jae Woo Lee	55	Deputy President; Business Management Team, General Affairs Team, Credit Card Business Support Team
Jae Woon Yoon	54	Deputy President; Synergy Management Team, Information & Technology Planning Team, Audit & Compliance Team, Risk Management Team
Buhmsoo Choi	50	Deputy President, Chief Financial Officer; Finance Management Team, Investor Relations Team, Strategic Planning Team, Public Relations Team

None of the executive officers have any significant activities outside Shinhan Financial Group.

Jae Woo Lee has been our Deputy President since December 22, 2004. Mr. Lee currently serves as an outside director of Shinhan Bank, Shinhan Card, Shinhan BNP Paribas ITMC and Jeju Bank and as a non-executive director of Shinhan Life Insurance. He previously served as Deputy President of Shinhan Bank. Mr. Lee graduated from Kunsan Commercial High School and studied business administration in Graduate School of Business Administration, Dongguk University.

Jae Woon Yoon has been Deputy President since August 26, 2005. Mr. Yoon currently serves as an outside director of Good Morning Shinhan Securities and Shinhan Card and as a non-executive director of Shinhan Capital and Shinhan Credit Information. Mr. Yoon received a B.A. in education from Seoul National University.

Buhmsoo Choi has been our Deputy President, Chief Financial Officer since May 28, 2007. Mr. Choi previously served as vice president of Korea Credit Bureau. Mr. Choi received a B.A. in economics from Seoul National University and a Ph.D in economics from Yale University.

Any director wishing to enter into a transaction with Shinhan Financial Group including the subsidiaries in his or her personal capacity is required to obtain the prior approval of the Board of Directors. The director having an interest in the transaction may not vote at the meeting of the Board of Directors to approve the transaction.

COMPENSATION

The aggregate remuneration paid and benefits-in-kind paid by us to our president and chief executive officer, our other executive directors, our non-executive directors and our executive officers for the year ended December 31, 2006 was W5.5 billion, consisting of W3.6 billion in salaries and wages and W1.9 billion in bonus payments.

We do not have service contracts with any of our directors or officers providing for benefits upon termination of their employment with us.

We have granted stock options to our chairman, our president and chief executive officer and other directors and executive officers as described below in Share Ownership Stock Options . For our options granted prior to March 30, 2005, we are required to pay in cash the difference between the exercise and the market price at the date of exercise.

For those options issued on or after March 30, 2005, we may either issue common stock or pay in cash the difference between the exercise and the market price at the date of exercise. These options are subject to a vesting period of two years from the grant date and require continued employment for a specified period. Upon vesting, options may be exercised during a period of two to seven years from the grant date. In 2006, we recognized W60,280 million as compensation expense for the stock options granted under our incentive stock option plan (including an increase of W14,047 million as a result of a change in accounting policy).

Beginning on March 20, 2007, we grant performance units in addition to stock options to executive officers of select group companies. The performance units represent cash payments to be made per each unit on the third

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anniversary of the grant date based on the performance of the relevant group company during the three years. The number of performance units to be granted at the third anniversary of the grant date is equal to the number of performance units initially granted multiplied by a percentage which equals (i) 0% if the company at which the grantee fails to meet 80% of the performance target, (ii) 80% to 120% corresponding to the percentage of the performance target met by such company, and (iii) a maximum of 120% even if such company outperforms its original performance target by more than 120%. The performance target consists of, in equal measures, net income and return on equity over the three years. The total number of performance units to be granted per year is 224,933. In 2007, the executive officers (including the chairman, president and deputy presidents) of the holding company, Shinhan Bank, Good Morning Shinhan Securities, Shinhan Life Insurance, Shinhan Capital and Shinhan Credit Information will be eligible for performance units with an initial value of W54,560 per unit. We believe that the performance units will provide our executive officers with long-term incentives to improve their work performance while enabling us to have definitive projections as to the maximum amount payable on our performance-based compensation.

Beginning on April 1, 1999, as a result of an amendment of the Korean National Pension Law, we contribute an amount equal to 4.5% of employee wages and contribute 4.5% of employees wages which are deducted from such wages to the National Pension Management Corporation. In accordance with our policy and the Korean Labor Standard Law, employees with one year or more of service are entitled, upon termination of employment, to receive a lump sum severance payment based upon the length of their service and the average of the last three months wages. We make provisions for accrued severance indemnities based upon the assumption that all employees terminate their employment with us at the same time. As of December 31, 2006, the provisions for accrued severance benefits were W336 billion (US$362 million), which represents 100.6% of the amount required under the Korean Labor Standard Law. Under Korean law, we may not terminate full time employees except under certain circumstances.

CORPORATE GOVERNANCE

We are committed to high standards of corporate governance. We complied throughout the year with the corporate governance provisions of the Korean Commercial Code, the Financial Holding Companies Act of Korea, the Securities and Exchange Act and the Listing Rules of the Korea Exchange. We, like all other companies in Korea, must comply with the corporate governance provisions of the Korean Commercial Code. In addition, as a listed company, we are subject to the Securities and Exchange Act, and as a holding company, we are also subject to the Financial Holding Companies Act. In addition, each financial institution that is our subsidiary must comply with the corporate governance provisions of the relevant laws under which it was established.

Differences in Korean/New York Stock Exchange Corporate Governance Practices

In November 2003, the U.S. Securities and Exchange Commission approved new corporate governance rules of the New York Stock Exchange (NYSE) for listed companies. Under these new rules, as a NYSE-listed foreign private issuer, we must disclose any significant ways in which its corporate governance practices differ from those followed by U.S. companies under NYSE listing standards. We believe the following to be the significant differences between our corporate governance practices and NYSE corporate governance rules applicable to U.S. companies.

U.S. companies listed on the NYSE are required to adopt and disclose corporate governance guidelines. The listing rules of the Korea Exchange require each company, at the time of its initial listing, to disclose information related to its corporate governance, such as its board of directors, internal audit, shareholder voting, and remuneration of officers and directors. The Korea Exchange, among other things, will review the corporate governance practices of the company in determining whether to approve such company for listing, Under the Korea Exchange listing rules and in accordance with the requirements prescribed under the Securities and Exchange Act, at least one-fourth of a listed company s directors must be outside directors provided that there must be at least three outside directors. In the case of

Large Listed Company , which is defined as a company that has total assets as of the end of the most recent fiscal year of W2 trillion or more, at least one-half of its directors must be outside directors and, pursuant to an amendment to the Securities and Exchange Act, more than one-half of a Large Listed

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Company s directors must be outside directors effective from July 1, 2004. A Large Listed Company must also establish an audit committee of which at least two-thirds of its members must be outside directors and whose chairman must be an outside director. In addition, effective from December 31, 2003, at least one member of the audit committee who is an outside director must also be an accounting or financial expert, *provided* that companies have until the first occasion when its existing audit committee member is replaced for any reason or a new member is appointed to implement this change. A company that has failed to satisfy any of the foregoing requirements continuously for the past two years are prescribed by the Securities and Exchange Act to be delisted from the Korea Exchange. We qualify as a Large Listed Company under the Securities and Exchange Act and have complied with these corporate governance requirements since 2003.

Majority of Independent Directors on the Board

Under the NYSE listing standards, independent directors must comprise a majority of the board of directors of a U.S. company listed on the NYSE . As a foreign private issuer, we are exempt from this requirement. The NYSE rules include detailed tests for determining director independence while the Financial Holding Companies Act of Korea, which we follow, prescribes a different standard for determining outside directors. An outside director for purposes of the Financial Holding Companies Act and the Securities and Exchange Act means a director who does not engage in the regular affairs of the financial holding company, and who is elected at a shareholders meeting, after having been nominated by the outside director nominating committee. None of the largest shareholder, those persons specially related to the largest shareholder of such company, persons who during the past two years have served as an officer or employee of such company, the spouses and immediate family members of an officer of such company, and certain other persons specified by law may qualify as an outside director of such company. Currently, our board of directors consists of fifteen directors, including 12 outside directors. Of our fifteen directors, 12 directors satisfy the requirements of independence as set forth in Rule 10A-3 under the Exchange Act.

Executive Sessions

Pursuant to the NYSE listing standards, non-management directors of U.S. companies listed on the NYSE must meet on a regular basis without management present and independent directors must meet separately at least once per year. While no such requirement currently exists under applicable Korean law or listing standards, pursuant to our board of directors regulations, outside directors are required to hold two exclusive sessions each year in order to promote the exchange of diverse opinions by outsider directors.

Nominating and Corporate Governance Committee

Under the NYSE listing standards, U.S. companies listed on the NYSE are required to have a nominating/corporate governance committee, composed entirely of independent directors. In addition to identifying individuals qualified to become board members, this committee must develop and recommend to the board a set of corporate governance principles. Under the Securities and Exchange Act, large listed companies, financial holding companies, commercial banks, and certain other financial institutions are required to have an outside director nominating committee of which at least one-half of its members must be outside directors. However, there is no requirement to establish a corporate governance committee under applicable Korean law. We currently have an outside director recommendation committee and a board steering committee which manage corporate governance practices applicable to us. The outside director recommendation committee consists of five directors, including four outside directors. The chairman of the committee must be an outside director pursuant to our outside director recommendation committee regulations. The board steering committee consists of five directors, including three outside directors.

Compensation Committee

Under the NYSE listing standards, U.S. companies listed on the NYSE are required to have a compensation committee, composed entirely of independent directors. While no such requirement currently exists under applicable Korean law or listing standards, we have a compensation committee composed of five outside directors.

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Each member of the compensation committee satisfies the independent director requirements as set forth in Rule 10A-3 under the Exchange Act.

Establish Corporate Governance Guidelines and Adopt Code of Business Conduct and Ethics

The NYSE listing standards require U.S. companies listed on the NYSE to establish corporate governance guidelines and to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. As a foreign private issuer, we are exempt from this requirement. While we have not adopted official corporate governance guidelines, our board of directors, outside director recommendation committee and the board steering committee review and determine corporate policies as needed to ensure efficient and transparent corporate governance practices. Pursuant to the requirements of the Sarbanes-Oxley Act, in July 2005, we adopted a Code of Ethics applicable to our Chairman & Chief Executive Officer and all other directors and executive officers including the Chief Financial Officer and the Chief Accounting Officer. In May 2005, our board of directors approved a code of ethics for such officers and we began implementing the code as of July 1, 2005, together with an insider reporting system in compliance with Section 301 of the Sarbanes-Oxley Act. The code of ethics is available on our website www.shinhangroup.com. Several of our subsidiaries, including Shinhan Bank, Good Morning Shinhan Securities and Shinhan Life Insurance, currently also have their own codes of business conduct and ethics, and we are currently evaluating the merit of adopting a group-wide code of business conduct and ethics that applies to all of our employees.

Shareholder Approval of Equity Compensation Plans

The NYSE listing standards require the shareholders of U.S. companies listed on the NYSE to approve all equity compensation plans. We currently have two equity compensation plans, consisting of a stock option plan for directors and key employees and the Employee Stock Ownership Plan for all employees. Stock options may be granted up to 20% of the total number of outstanding shares in accordance with the relevant rules set forth in our Articles of Incorporation. Under applicable Korean laws, granting of stock options requires a shareholder resolution at the extraordinary shareholders meeting, which requires the approval of the holders of the shares representing at least two-thirds of those shares present or represented at such meeting and also representing at least one-third of the total issued and outstanding shares. Under applicable Korean laws and our Articles of Incorporation, stock options may be granted up to 1% of the total number of outstanding shares by a board of director, subject to the approval at the next shareholders meeting. Shares under the Employee Stock Ownership Plan may be granted up to the lower of 1% of the total number of issued and outstanding shares and W300 million in aggregate purchase price of such shares, and without a shareholder resolution pursuant to applicable Korean laws.

Effective October 2005, the amended Framework Act on Workers Welfare and the Enforcement Decree thereunder allow a company to issue stock options up to 20% of its issued and outstanding shares by a resolution at the shareholders meeting with an individual limit of W6 million per each member of the employee stock ownership association, if otherwise permitted by the Articles of Incorporation. In addition, if a company is issuing stock options by a 10% of its issued and outstanding shares, only a board of director resolution is required for such issuance if otherwise permitted by the Articles of Incorporation. However, we have not adopted such provision in our Articles of Incorporation.

Annual Certification of Compliance

Lastly, a chief executive officer of a U.S. company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards. In accordance with NYSE listing rules applicable to foreign private issuers, we are not required to provide the NYSE with this annual compliance certification. However, in accordance with rules applicable to both U.S. companies and foreign private issuers, we are

required to promptly notify the NYSE in writing after any executive officer becomes aware of any material noncompliance with the NYSE corporate governance standards applicable to us. Beginning in 2005, foreign private issuers, including us, are required to submit to the NYSE an annual written affirmation relating to compliance with Sections 303A.06 and 303A.11 of the NYSE listed company manual, which are the NYSE corporate governance standards applicable to foreign private issuers. All written affirmations must be executed in the form provided by the NYSE, without modification. We plan to submit the annual written affirmation to the NYSE within 30 days of filing with the SEC our annual report on Form 20-F for the fiscal year ended December 31, 2006.

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BOARD PRACTICES

Board of Directors

Our board of directors, which currently consists of two executive directors, one non-executive director and 12 outside directors, has the ultimate responsibility for the management of our affairs.

Our Articles of Incorporation provide for no less than three but no more than 15 directors and the number of executive directors must be less than 50% of the total number of directors. All directors are elected for a term not exceeding three years as determined by the board of directors, except that outside directors who have been elected as outside experts at a general meeting of shareholders will serve for a term of one year.

Terms are renewable and are subject to the Korean Commercial Code, the Financial Holding Companies Act and related regulations.

Our board of directors meets on a regular basis to discuss and resolve material corporate matters. Additional extraordinary meetings may also be convened at the request of the president and chief executive officer or a director designated by the board.

Committees of the Board of Directors

We currently have five management committees that serve under the board:

- the Board Steering Committee;
- the Risk Management Committee;
- the Audit Committee
- the Outside Director Recommendation Committee; and
- the Compensation Committee.

Each committee member is appointed by the board of directors, except for members of the Audit Committee, who are elected at the general meeting of stockholders.

Board Steering Committee

The Board Steering Committee currently consists of three directors, namely Shee Yul Ryoo, Pyung Joo Kim and Byung Hun Park, together with the chairman of our Board of Directors and the president and chief executive officer. The committee is responsible for ensuring the efficient operations of the board and the facilitation of the board s functions. The committee s responsibilities also include reviewing and assessing the board s structure and the effectiveness of that structure in fulfilling the board s fiduciary responsibilities. The committee holds regular meetings every quarter.

Risk Management Committee

The Risk Management Committee currently consists of three outside directors, namely Shee Yul Ryoo, Pyung Joo Kim and Philippe Reynieix. The committee oversees and makes determinations on all issues relating to our comprehensive risk management function. In order to ensure our stable financial condition and to maximize our profits, the committee monitors our overall risk exposure and reviews our compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions, reviews risk-based capital allocations, and reviews the plans and evaluation of internal control. The committee holds regular meetings every quarter.

Audit Committee

The Audit Committee currently consists of four non-executive directors, namely Young Woo Kim, Yoon Soo Yoon, Sung Bin Chun, and Sang Yoon Lee. The committee oversees our financial reporting and approves the appointment of and interaction with our independent auditors and our internal audit-related officers. The committee

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also reviews our financial information, audit examinations, key financial statement issues and the administration of our financial affairs by the board of directors. In connection with the general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors for each general meeting of stockholders. The committee holds regular meetings every quarter.

Outside Director Recommendation Committee

From February 2, 2007 to March 20, 2007, the Outside Director Recommendation Committee consisted of Byung Hun Park, Eung Chan Ra, Shee Yul Ryoo, Sang Yoon Lee and Yoon Soo Yoon. Members of this committee will be appointed by our board of directors if and when necessary. This committee is responsible for recommending and nominating candidates for our outside director positions and related matters. The committee meetings are called by the chairman of this committee, who must be an outside director.

Compensation Committee

The Compensation Committee currently consists of five independent directors, at least one-half of whom must also be outside directors. This committee currently consists of Yoon Soo Yoon, Pyung Joo Kim, Sang Yoon Lee, Shee Yul Ryoo and Sung Bin Chun. This committee is responsible for reviewing and approving the management s evaluation and compensation programs. The committee meetings are called by the chairman of this committee, who must be an outside director.

EMPLOYEES

As of December 31, 2006, at the holding company level, we had approximately 96 regular employees employed, almost all of whom are employed within Korea. As of December 31, 2006, our subsidiaries had approximately 13,967 regular employees, almost all of whom are employed within Korea. In addition, as of December 31, 2006, we had two non-regular employees at the holding company level and approximately 3,094 non-regular employees at the subsidiary level. Of the total number of regular and non-regular employees at both the holding company and subsidiaries, 52.0% were managerial or executive employees. Approximately 7,958 employees at Shinhan Bank and 268 employees at Jeju Bank were members of Korea Financial Industry Union and 1,173 employees at Good Morning Shinhan Securities were members of Korea Securities Trade Union as of December 31, 2006. As of December 31, 2006, 4,066 employees of Shinhan Bank were members of the labor union of Shinhan Bank while 3,892 other employees of Shinhan Bank who were employees of Chohung Bank at the time of the merger were members of the labor union of the former Chohung Bank. The two unions are currently in discussion to merge them together. See Item 4. Information on the Company The Merger of Shinhan Bank and Chohung Bank . Except for the foregoing, we have not experienced any general employee work stoppages and consider our employee relations to be good.

SHARE OWNERSHIP

As of December 31, 2006, the persons who are currently our directors or executive officers, as a group, held an aggregate of 5,186,234 shares of our common stock representing approximately 1.36% of our outstanding common stock as of such date. None of these persons individually held more than 1% of our outstanding common stock as of such date.

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Stock Options

We have granted stock options to certain of the directors and officers of the holding company and its subsidiaries. For options granted prior to March 30, 2005, we are required to pay in cash the difference between the exercise and the market price at the date of exercise. For options issued on or after March 30, 2005, we may either issue common stock or pay in cash the difference between the exercise and the market price at the date of exercise. The following table is the breakdown of stock options with respect to our common stock that we have granted to our directors and officers, describing the grant dates, positions held by such directors and officers, exercise period, price and the number of options as of June 13, 2007.

	Grant Date	Exercise Period From	To	Exercise Price (In Won)	Number of Granted Options	Percentage of Shares Outstanding (Percentage)	Number of Exercised Options
Shinhan Financial Group							
Eung Chan Ra	5/22/2002	5/23/2004	5/22/2008	18,910	94,416	0.02%	94,416
(Chairman of the	5/15/2003	5/16/2005	5/15/2009	11,800	95,390	0.02%	95,390
Board of Directors)							
	3/25/2004	3/25/2006	3/25/2009	21,595	100,000	0.03%	100,000
	3/30/2005	3/30/2008	3/29/2012	28,006	99,447	0.03%	0
	3/21/2006	3/21/2009	3/20/2013	38,829	120,000	0.03%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	60,000	0.02%	0
In Ho Lee	5/22/2002	5/23/2004	5/22/2008	18,910	32,162	0.01%	0
(President and Chief	3/21/2006	3/21/2009	3/20/2013	38,829	186,500	0.05%	0
Executive Officer)							
	3/20/2007	3/20/2010	3/19/2014	54,560	54,000	0.01%	0
Jae Woo Lee	5/22/2002	5/23/2004	5/22/2008	18,910	18,873	0.00%	0
(Deputy President)	5/15/2003	5/16/2005	5/15/2009	11,800	19,290	0.01%	0
	3/25/2004	3/25/2006	3/25/2009	21,595	20,000	0.01%	0
	3/30/2005	3/30/2008	3/29/2012	28,006	19,889	0.01%	0
	3/21/2006	3/21/2009	3/20/2013	38,829	24,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	11,000	0.00%	0
Jae Woon Yoon	3/30/2005	3/30/2008	3/29/2012	28,006	1,800	0.00%	0
(Deputy President)	3/21/2006	3/21/2009	3/20/2013	38,829	22,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	11,000	0.00%	0
Pyung Joo Kim	3/30/2005	3/30/2008	3/29/2012	28,006	8,770	0.00%	0
(Outside Director)	3/20/2007	3/20/2010	3/19/2014	54,560	10,000	0.00%	0
Shee Yul Ryoo	3/30/2005	3/30/2008	3/29/2012	28,006	9,944	0.00%	0
(Outside Director)	3/21/2006	3/21/2009	3/20/2013	38,829	10,000	0.00%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	10,000	0.00%	0
Yoon Soo Yoon	3/30/2005	3/30/2008	3/29/2012	28,006	9,944	0.00%	0
(Outside Director)	3/21/2006	3/21/2009	3/20/2013	38,829	10,000	0.00%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	10,000	0.00%	0
Sang Yoon Lee	3/30/2005	3/30/2008	3/29/2012	28,006	9,944	0.00%	0

(Outside Director)	3/21/2006	3/21/2009	3/20/2013	38,829	10,000	0.00%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	10,000	0.00%	0
Sung Bin Chun	3/20/2007	3/20/2010	3/19/2014	54,560	10,000	0.00%	0
(Outside Director)							
Shinhan Bank							
Sang Hoon Shin	5/22/2002	5/23/2004	5/22/2008	18,910	28,325	0.01%	28,325
(President & CEO)	5/15/2003	5/16/2005	5/15/2009	11,800	77,160	0.02%	77,160
	3/25/2004	3/25/2006	3/25/2009	21,595	80,000	0.02%	80,000
	3/30/2005	3/30/2008	3/29/2012	28,006	80,000	0.02%	0
	3/21/2006	3/21/2009	3/20/2013	38,829	88,000	0.02%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	48,000	0.01%	0

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	Grant Date	Exercise Period From	To	Exercise Price (In Won)	Number of Granted Options	Percentage of Shares Outstanding (Percentage)	Number of Exercised Options
Jae Ho Cho	3/25/2004	3/25/2006	3/25/2009	21,595	20,000	0.01%	0
(Standing Auditor)	3/30/2005	3/30/2008	3/29/2012	28,006	20,000	0.01%	0
	3/21/2006	3/21/2009	3/20/2013	38,829	22,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	11,000	0.00%	0
Hong Hee Chae	3/30/2005	3/30/2008	3/29/2012	28,006	20,000	0.01%	0
(Deputy President)	3/21/2006	3/21/2009	3/20/2013	38,829	22,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	11,000	0.00%	0
Baek Soon Lee	5/22/2002	5/23/2004	5/22/2008	18,910	1,500	0.00%	1,500
(Deputy President)	5/15/2003	5/16/2005	5/15/2009	11,800	2,200	0.00%	0
	3/25/2004	3/25/2006	3/25/2009	21,595	20,000	0.01%	0
	3/30/2005	3/30/2008	3/29/2012	28,006	19,889	0.01%	0
	3/21/2006	3/21/2009	3/20/2013	38,829	24,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	11,000	0.00%	0
Sang Young Oh	5/22/2002	5/23/2004	5/22/2008	18,910	2,500	0.00%	2,500
(Deputy President)	5/15/2003	5/16/2005	5/15/2009	11,800	2,200	0.00%	0
	3/25/2004	3/25/2006	3/25/2009	21,595	15,000	0.00%	0
	3/30/2005	3/30/2008	3/29/2012	28,006	20,000	0.01%	0
	3/21/2006	3/21/2009	3/20/2013	38,829	22,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	11,000	0.00%	0
Chang Seong Moon	3/30/2005	3/30/2008	3/29/2012	28,006	20,000	0.01%	0
(Deputy President)	3/21/2006	3/21/2009	3/20/2013	38,829	22,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	11,000	0.00%	0
Hyu Won Lee	5/22/2002	5/23/2004	5/22/2008	18,910	2,500	0.00%	0
(Deputy President)	5/15/2003	5/16/2005	5/15/2009	11,800	2,200	0.00%	0
	3/25/2004	3/25/2006	3/25/2009	21,595	1,800	0.00%	0
	3/30/2005	3/30/2008	3/29/2012	28,006	20,000	0.01%	0
	3/21/2006	3/21/2009	3/20/2013	38,829	22,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	11,000	0.00%	0
Sang Woon Choi	5/22/2002	5/23/2004	5/22/2008	18,910	2,500	0.00%	0
(Deputy President)	5/15/2003	5/16/2005	5/15/2009	11,800	2,200	0.00%	0
	3/25/2004	3/25/2006	3/25/2009	21,595	1,800	0.00%	0
	3/30/2005	3/30/2008	3/29/2012	28,006	20,000	0.01%	0
	3/21/2006	3/21/2009	3/20/2013	38,829	22,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	11,000	0.00%	0
Eun Sik Kim	5/22/2002	5/23/2004	5/22/2008	18,910	1,000	0.00%	0
(Deputy President)	5/15/2003	5/16/2005	5/15/2009	11,800	1,700	0.00%	0
	3/25/2004	3/25/2006	3/25/2009	21,595	1,800	0.00%	0
	3/30/2005	3/30/2008	3/29/2012	28,006	20,000	0.01%	0
	3/21/2006	3/21/2009	3/20/2013	38,829	22,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	11,000	0.00%	0
Won Suck Choi	3/30/2005	3/30/2008	3/29/2012	28,006	5,000	0.00%	0

(Deputy President)	3/21/2006	3/21/2009	3/20/2013	38,829	22,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	11,000	0.00%	0
Shin Seong Kang	3/30/2005	3/30/2008	3/29/2012	28,006	1,800	0.00%	0
(Deputy President)	3/21/2006	3/21/2009	3/20/2013	38,829	22,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	11,000	0.00%	0
Yun Seok Kong	3/30/2005	3/30/2008	3/29/2012	28,006	2,500	0.00%	0
(Deputy President)	3/21/2006	3/21/2009	3/20/2013	38,829	22,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	11,000	0.00%	0
Nam Lee	3/30/2005	3/30/2008	3/29/2012	28,006	2,000	0.00%	0
(Deputy President)	3/21/2006	3/21/2009	3/20/2013	38,829	22,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	11,000	0.00%	0

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	Grant Date	Exercise Period From	To	Exercise Price (In Won)	Number of Granted Options	Percentage of Shares Outstanding (Percentage)	Number of Exercised Options
Chang Kee Hur	5/22/2002	5/23/2004	5/22/2008	18,910	2,500	0.00%	0
(Deputy President)	5/15/2003	5/16/2005	5/15/2009	11,800	1,700	0.00%	0
	3/25/2004	3/25/2006	3/25/2009	21,595	1,800	0.00%	0
	3/30/2005	3/30/2008	3/29/2012	28,006	1,800	0.00%	0
	3/21/2006	3/21/2009	3/20/2013	38,829	22,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	11,000	0.00%	0
Jeum Joo Gweon	5/22/2002	5/23/2004	5/22/2008	18,910	1,500	0.00%	1,500
(Deputy President)	5/15/2003	5/16/2005	5/15/2009	11,800	1,700	0.00%	1,700
	3/25/2004	3/25/2006	3/25/2009	21,595	1,800	0.00%	1,800
	3/30/2005	3/30/2008	3/29/2012	28,006	2,500	0.00%	0
	3/21/2006	3/21/2009	3/20/2013	38,829	7,000	0.00%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	7,500	0.00%	0
Good Morning Shinhan Securities							
Dong Girl Lee	5/22/2002	5/23/2004	5/22/2008	18,910	26,953	0.01%	0
(President & CEO)	5/15/2003	5/16/2005	5/15/2009	11,800	30,000	0.01%	0
	3/25/2004	3/25/2006	3/25/2009	21,595	30,000	0.01%	0
	3/30/2005	3/30/2008	3/29/2012	28,006	40,000	0.01%	0
	3/21/2006	3/21/2009	3/20/2013	38,829	48,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	20,000	0.01%	0
Ki Seung Jung	3/20/2007	3/20/2010	3/19/2014	54,560	7,500	0.00%	0
(Statutory Auditor)							
Seok Joong Kim	3/30/2005	3/30/2008	3/29/2012	28,006	14,080	0.00%	0
(Senior Exec. Vice	3/20/2007	3/20/2010	3/19/2014	54,560	7,500	0.00%	0
President)							
Jin Kook Lee	3/30/2005	3/30/2008	3/29/2012	28,006	14,080	0.00%	0
(Senior Exec. Vice	3/21/2006	3/21/2009	3/20/2013	38,829	15,000	0.00%	0
President)							
	3/20/2007	3/20/2010	3/19/2014	54,560	7,500	0.00%	0
Yoo Shin Jung	3/30/2005	3/30/2008	3/29/2012	28,006	14,080	0.00%	0
(Senior Exec. Vice	3/20/2007	3/20/2010	3/19/2014	54,560	7,500	0.00%	0
President)							
Seung Hee Hyun	3/30/2005	3/30/2008	3/29/2012	28,006	1,600	0.00%	0
(Senior Exec. Vice	3/21/2006	3/21/2009	3/20/2013	38,829	5,000	0.00%	0
President)							
	3/20/2007	3/20/2010	3/19/2014	54,560	7,500	0.00%	0
Shinhan Life Insurance							
Jin Won Suh	5/22/2002	5/23/2004	5/22/2008	18,910	2,500	0.00%	0
(CEO)	5/15/2003	5/16/2005	5/15/2009	11,800	2,200	0.00%	0
	3/25/2004	3/25/2006	3/25/2009	21,595	20,000	0.01%	0
	3/30/2005	3/30/2008	3/29/2012	28,006	20,000	0.01%	0

	3/21/2006	3/21/2009	3/20/2013	38,829	22,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	11,000	0.00%	0
Seung Choo Kang	3/21/2006	3/21/2009	3/20/2013	38,829	16,500	0.00%	0
(Statutory Auditor)	3/20/2007	3/20/2010	3/19/2014	54,560	8,250	0.00%	0
Byung Chan Lee	3/21/2006	3/21/2009	3/20/2013	38,829	15,000	0.00%	0
(Deputy President)	3/20/2007	3/20/2010	3/19/2014	54,560	8,250	0.00%	0
Keun Jong Lee	3/21/2006	3/21/2009	3/20/2013	38,829	15,000	0.00%	0
(Deputy President)	3/20/2007	3/20/2010	3/19/2014	54,560	8,250	0.00%	0
Young Chul Bae	5/22/2002	5/23/2004	5/22/2008	18,910	2,500	0.00%	0
(Deputy President)	5/15/2003	5/16/2005	5/15/2009	11,800	633	0.00%	0
	3/25/2004	3/25/2006	3/25/2009	21,595	1,800	0.00%	0
	3/21/2006	3/21/2009	3/20/2013	38,829	15,000	0.00%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	8,250	0.00%	0
Sam Suck Rho	3/21/2006	3/21/2009	3/20/2013	38,829	12,000	0.00%	0
(Deputy President)	3/20/2007	3/20/2010	3/19/2014	54,560	8,250	0.00%	0
Ki Won Kim	3/21/2006	3/21/2009	3/20/2013	38,829	12,000	0.00%	0
(Deputy President)	3/20/2007	3/20/2010	3/19/2014	54,560	6,000	0.00%	0

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	Grant Date	Exercise Period From	To	Exercise Price (In Won)	Number of Granted Options	Percentage of Shares Outstanding (Percentage)	Number of Exercised Options
Shinhan Card							
Sung Kyun Hong	5/15/2003	5/16/2005	5/15/2009	11,800	4,984	0.00%	4,984
(President & CEO)	3/25/2004	3/25/2006	3/25/2009	21,595	27,484	0.01%	27,484
	3/30/2005	3/30/2008	3/29/2012	28,006	40,000	0.01%	0
	3/21/2006	3/21/2009	3/20/2013	38,829	44,000	0.01%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	22,000	0.01%	0
In Sup Kim	3/20/2007	3/20/2010	3/19/2014	54,560	8,250	0.00%	0
(Statutory Auditor)							
Seong Won Kim	5/22/2002	5/23/2004	5/22/2008	18,910	2,500	0.00%	2,500
(Executive Deputy	5/15/2003	5/16/2005	5/15/2009	11,800	1,661	0.00%	1,661
President)							
	3/25/2004	3/25/2006	3/25/2009	21,595	9,161	0.00%	9,161
	3/30/2005	3/30/2008	3/29/2012	28,006	15,000	0.00%	0
	3/21/2006	3/21/2009	3/20/2013	38,829	15,000	0.00%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	8,250	0.00%	0
Doo Hwan Jun	3/30/2005	3/30/2008	3/29/2012	28,006	2,000	0.00%	0
(Executive Deputy	3/21/2006	3/21/2009	3/20/2013	38,829	15,000	0.00%	0
President)							
	3/20/2007	3/20/2010	3/19/2014	54,560	8,250	0.00%	0
Hee Geon Kim	3/21/2006	3/21/2009	3/20/2013	38,829	15,000	0.00%	0
(Executive Deputy	3/20/2007	3/20/2010	3/19/2014	54,560	8,250	0.00%	0
President)							
Chun Kuk Lee	3/25/2004	3/25/2006	3/25/2009	21,595	1,000	0.00%	0
(Executive Deputy	3/30/2005	3/30/2008	3/29/2012	28,006	1,200	0.00%	0
President)							
	3/21/2006	3/21/2009	3/20/2013	38,829	1,400	0.00%	0
	3/20/2007	3/20/2010	3/19/2014	54,560	7,500	0.00%	0
Total					2,991,309	0.82%	530,081

In addition, members of the employee stock ownership association have certain pre-emptive rights in relation to our shares that are publicly offered under the Securities and Exchange Act. As of June 13, 2007, our employee stock ownership association owned 5,121,506 shares of our common stock (including 1,608,402 shares, which were paid for and currently held by us for the benefit of eligible employees subject to certain conditions for grant).

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ITEM 7. *MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS*

MAJOR SHAREHOLDERS

The following table sets forth certain information relating to the beneficial ownership of our common shares as of December 31, 2006.

Name of Shareholder	Number of Common Shares Held	Percentage of Total Common Shares
BNP Paribas Group(1)	34,582,732	9.06%
Korea Deposit Insurance Corporation(2)	22,360,301	5.86
Euro-Pacific Growth Fund	12,200,900	3.20
Korea National Pension Fund	12,112,386	3.17
Capital World Growth and Income Fund	10,211,500	2.68
Citibank, N.A. (ADR Department)	7,637,392	2.00
Shinhan Bank(3)	7,129,967	1.87
Daekyo	5,348,117	1.40
Shinhan Financial Group Employee Stock Ownership Association	4,726,935	1.24
SSB-ARTISAN	4,288,700	1.12
NTC-GOV SPORE	4,261,770	1.12
Fidelity Investment Trust	3,845,010	1.01
Others(4)	252,861,904	66.27
Total	381,567,614	100.00%

Notes:

(1) Includes 20,124,272 common shares held by BNP Paribas S.A., 13,557,832 common shares held by BNP Paribas Luxembourg, 900,628 common shares held by BNP Paribas Arbitrage SNC. BNP Paribas S.A. acquired 20,124,272 common shares from Korea Deposit Insurance Corporation, or KDIC, in April 13, 2006.

(2) In November 2005, KDIC, converted 22,360,302 of our redeemable convertible preferred shares held by it into the same number of our common shares. KDIC sold 20,124,272 of such common shares to BNP Paribas S.A. in April 2006, and sold the remaining common shares to certain institutional investors in Korea and abroad through block sales in the market in April 2006. In August 2006, KDIC converted the remaining 22,360,301 of our redeemable convertible preferred shares held by it into the same number of our common shares. In February 2007, KDIC sold 19,446,312 of such common shares to institutional investors in Korea and abroad through block sales in the market.

(3) In June 2004, we acquired the remaining 108,438,628 common shares of Chohung Bank through a cash tender offer and a small-scale share swap pursuant to Korean laws. In connection with the share swap transaction, we issued 14,682,590 new shares of our common stock to the existing shareholders of Chohung Bank in exchange for the shares of Chohung Bank s common stock, of which 8,985,567 shares of our common stock were issued to

Chohung Bank in exchange for its treasury shares. Chohung Bank acquired these treasury shares from its shareholders who dissented to the share swap at Chohung Bank s shareholders meeting pursuant to the exercise by those dissenting shareholders the right to request Chohung Bank to purchase their shares in accordance with Korean law. Following the merger of Chohung Bank and Shinhan Bank in March 2006, Shinhan Bank held the 8,985,567 shares of our common stock in treasury, all of which were sold in the market as of June 21, 2007.

(4) Includes 10,235,121 shares of our common stock issued in exchange for the equity shares of Good Morning Shinhan Securities in connection with our obtaining the then minority interest in Good Morning Shinhan Securities in December 2004, of which 1,444 shares of our common stock was issued to Good Morning Shinhan Securities in exchange for its treasury shares. Good Morning Shinhan Securities acquired these treasury shares from its shareholders who dissented to the share swap at Good Morning Shinhan Securities shareholders meeting pursuant to the exercise by those dissenting shareholders the right to request Good Morning Shinhan Securities to purchase their shares in accordance with Korean law. Good Morning Shinhan Securities sold the

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1,444 shares of our common stock that it held in March 2005. The newly issued 10,235,121 shares of our common stock were listed on the Stock Market Division of the Korea Exchange in January 2005.

In December 2005, in a series of related transactions, we acquired 100% of Shinhan Life Insurance through small-scale share swap pursuant to Korean laws, through which we newly issued 17,528,000 common shares to the shareholders of Shinhan Life Insurance in exchange for all outstanding common stock of Shinhan Life Insurance. 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 of our common shares and Good Morning Shinhan Securities exchanged 464,800 common shares of Shinhan Life Insurance previously held by it into 203,675 of our common shares, all of which were sold in the market in June 2006. In addition, as part of this transaction, Shinhan Life Insurance also exchanged 9,000 of its common shares, which Shinhan Life Insurance acquired as a result of the exercise of appraisal rights by dissenting shareholders of Shinhan Life Insurance, into 3,943 of our common shares. Shinhan Life Insurance sold all of our common shares held by it in the market on December 29, 2005.

As of December 31, 2006, 7,129,967 of our common shares were held in treasury by Shinhan Bank, all of which have been sold in the market as of June 21, 2007.

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The following table sets forth certain information relating to the beneficial ownership of our redeemable preferred shares as of January 25, 2007, the date on which we issued Series 10 redeemable preferred shares and Series 11 redeemable convertible preferred shares to fund a portion of our acquisition of LG Card.

Name of Shareholder	Number of Series 2, 3, 4 and 5 Redeemable Preferred Shares	Number of Series 7 and 8 Redeemable Preferred Shares	Number of Series 10 Redeemable Preferred Shares	Number of Series 11 Redeemable Convertible Preferred Shares	Total Number of Preferred Shares	Percentage of Total Preferred Shares
Korea Deposit Insurance Corporation	37,267,169				37,267,169	44.64%
Strider Securitization Specialty Co., Ltd.		2,500,000			2,500,000	2.99
Private Investment Trust managed by Seoul Asset Management			10,400,000	4,497,800	14,897,800	17.85
Ministry of Information and Communication						
Korea Post			2,400,000	1,037,900	3,437,900	4.12
Korean Federation of Community Credit Cooperative			2,520,000	1,089,800	3,609,800	4.32
Daegu Bank			700,000	518,900	1,218,900	1.46
Korea Local Administrative Officials Mutual Fund			2,520,000	1,868,300	4,388,300	5.26
Government Employees Pension Corporation			700,000	518,900	1,218,900	1.46
Korea Investment & Securities			2,160,000	934,100	3,094,100	3.71
Shin Young Securities			2,040,000	882,200	2,922,200	3.50
Tong Yang Investment Bank			2,100,000	1,556,900	3,656,900	4.38
Tong Yang Insurance			1,050,000	778,400	1,828,400	2.19
HungKuk Life Insurance			2,000,000	864,900	2,864,900	3.43
HungKuk Ssangyong Fire & Marine Insurance			400,000	172,900	572,900	0.69
Total	37,267,169	2,500,000	28,990,000	14,721,000	83,478,169	100.00%

Other than those listed above, no other shareholders own more than 1% of our issued and outstanding shares. None of our shareholders have different voting rights.

As of the date hereof, our total authorized share capital is 1,000,000,000 shares, par value W5,000 per share. As of January 25, 2007, 381,567,164 common shares and 83,478,169 preferred shares were issued and outstanding, and 7,129,967 common shares were held in treasury. All of the treasury shares have been sold in the market as of June 21, 2007.

As of December 31, 2006, the latest date available on which we closed our shareholders registry, 438 shareholders of record were in the United States, holding in the aggregate 25.5% of our then total outstanding shares (including Citibank, as the depositary for our global depositary shares, each representing two shares of our common stock).

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RELATED PARTY TRANSACTIONS

None of our directors or officers have or had any interest in any transactions effected by us that are or were unusual in their nature or conditions or significant to our business which were effected during the current or immediately preceding year or were effected during an earlier year and remain in any respect outstanding or unperformed.

In December 2001, BNP Paribas acquired 4.00% of our common stock in return for an investment of approximately W155 billion in cash pursuant to an alliance agreement. Under the terms of the alliance agreement, for so long as BNP Paribas does not sell or otherwise transfer (except to any of its wholly-owned subsidiaries) any portion of its ownership interest in our common stock and maintains, after any issuances of new shares by us from time to time, its shareholding percentage of not less than 3.5% of our issued common stock, we are required to call a meeting of our shareholders to recommend that one nominee of BNP Paribas be elected to our board of directors. In addition, under the alliance agreement, BNP Paribas has the right to subscribe for new issuances of our common shares in the event that such new issuances would result in the dilution of the shareholding percentage of BNP Paribas below 3.5%. As of December 31, 2006, BNP Paribas Group owned 34,582,732 shares, or 9.06%, of our total common stock. The alliance agreement further sets forth the parties intention to enter into a number joint ventures, in particular in the business areas relating to investment trust management and bancassurance, pursuant to which we have formed Shinhan BNP Paribas Investment Trust Management and SH&C Life Insurance.

As of December 31, 2006, the outstanding balance of beneficiary certificates invested into Shinhan BNP Paribas Investment Trust were W2,054 billion.

In April 2006, Korea Deposit Insurance Corporation sold 22,360,302 common shares, representing 6.22% of our then total issued common stock held by it to third parties through an after-trading-hours block sale. Of such shares, 20,124,272 shares or 5.60% of total outstanding common shares were sold to the BNP Paribas group. In August 2006, Korea Deposit Insurance Corporation converted into our common shares 22,360,301 of our redeemable preferred shares held by it at a one-to-one conversion rate. In February 2007, Korea Deposit Insurance sold 19,446,312 of such converted shares to investors in Korea and overseas through an after-trading-hours block sale.

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 common shares of Shinhan Life Insurance previously held by it into 2,420,955 of our common shares and Good Morning Shinhan Securities exchanged 464,800 common shares of Shinhan Life Insurance previously held by it into 203,675 of our common shares, all of which were sold in the market in June 2006. Similarly, as part of this transaction, Shinhan Life Insurance also exchanged 9,000 of its common shares, 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, 2004 2005 and 2006 and May 16, 2007, we had principal loans outstanding to our directors, executive officers and their affiliates in the principal amount of W213 billion, W181 billion, W172 billion and W156 billion, which were made in the ordinary course of business on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectibility or present other unfavorable features.

In April 2006, the newly merged Shinhan Bank granted to its employees 1,708,050 out of 2,420,955 treasury shares of our common stock held by it in accordance with the Financial Holding Company Act of Korea, which requires that the treasury shares must be disposed of within six months of acquisition. The remaining 712,905 ungranted treasury shares of our common stock held by Shinhan Bank were sold in the market in June 2006.

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In June 2006, Mr. Shee Yul Ryoo, one of our outside directors, was appointed as an outside director of Hankook Computer, a computer company in Korea. Since the date of Mr. Ryoo s such appointment at Hankook Computer, we have purchased card processing equipment in the amount of W74.5 million in 2006 and W514.8 million in the first half of 2007.

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ITEM 8. *FINANCIAL INFORMATION*

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Consolidated Financial Statements

Our consolidated financial statements are set forth under Item 18. Financial Statements .

Dividend Policy

See Item 10. Additional Information Articles of Incorporation Description of Capital Stock Dividends . For a description of tax consequences of dividends paid to our shareholders, see Item 10. Additional Information Taxation Korean Taxation Dividends on Shares of Common Stock or American Depositary Shares and Item 10. Additional Information Taxation United States Taxation Distributions on Shares or American Depositary Receipts .

Legal Proceedings

In October 2001, the trustees of the TRA Rights Trust (as sole successor in interest to Seagate) instituted litigation against several defendants, including Shinhan Bank. The plaintiff argued that Shinhan Bank is jointly and severally liable for damages as it had actively participated in certain financing activities that contributed to the fraudulent inflation of the revenues, income and assets as reflected in the financial statements of L&H Korea, a principal subsidiary of Lernout & Hauspie (L&H). The plaintiff sought damages for the impact of the fraud on the price of L&H shares and, in particular, treble damages in the amount of approximately US$167 million under Racketeer Influenced and Corrupt Organizations, one of its alleged causes of claim (Filler Case). In addition, in November 2001, Stonington Partners Inc., Stonington Capital Appreciation 1994 Fund L.P. and Stonington Holdings, L.L.C., the former shareholders of L&H, instituted litigation against several defendants, including Shinhan Bank, alleging the same causes of action against Shinhan Bank under the same operative facts as the above-described litigation. (Stonington Case) These plaintiffs sought compensatory damages for the impact of the fraud on the price of L&H shares, and punitive damages to be determined at trial. Alleging the same cause of action, Janet Baker, James Baker, JKBaker LLC and JMBaker LLC also instituted litigation against several defendants, including Shinhan Bank, in March 2002 (Baker Case). All of these cases have been decided by courts of relevant jurisdiction in favor of the defendant, and, as the relevant statutes of limitations have passed without further appeal by the plaintiffs, we believe that these lawsuits have been concluded. In August 2005, Scott L. Baena, as the trustee of L&H, also instituted litigation (the Baena Case) in the Southern District of New York against several defendants, including Shinhan Bank and Chohung Bank, alleging substantially the same causes of action against Shinhan Bank and Chohung Bank under the same operative facts as the Baker Case, the Filler Case and the Stonington Case for a damage claim of US$50 million. No assurances can be given the court will rule in favor of the defendants in the Baena Case. While we are unable to predict the ultimate disposition of the foregoing claims, its ultimate disposition will not, in the opinion of management, have a material adverse effect on us. We believe that the transactions with L&H Korea were conducted in the ordinary course of our banking practices, where the transaction involved a customary secured lending without any financing for receivables. We intend to vigorously defend against any additional claims or appeals.

Other than as discussed above, neither we nor any of our subsidiaries is involved in any material litigation, arbitration or administrative proceedings relating to claims which may have a significant effect on our financial condition or results of operations, including the financial condition or results of operations of Shinhan Bank or our other consolidated subsidiaries, and we are not aware of any such litigation, arbitration or administrative proceeding that is pending or threatened.

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ITEM 9. ***THE OFFER AND LISTING***

MARKET PRICE INFORMATION AND TRADING MARKET

Market Prices of Common Stock and ADSs

Shares of our common stock were listed on the Korea Exchange on September 10, 2001. The Korea Exchange is the principal trading market for our shares of common stock. As of December 31, 2006, there were 381,567,614 shares of common stock issued (including 7,129,967 shares of common stock held in the form of treasury shares, all of which have since been sold in the market as of June 21, 2007). Our American depositary shares have been listed on the New York Stock Exchange since September 16, 2003 and are identified by the symbol SHG . The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Korea Exchange for our common stock since September 10, 2001, and their high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our American depositary shares since September 16, 2003.

	Korea Exchange			New York Stock Exchange		
	Closing Price per Common Stock			Closing Price per ADS		
	High	Low	Average Daily Trading Volume (Shares)	High	Low	Average Daily Trading Volume (ADSs)
2002	20,600	11,450	1,639,306			
2003	19,700	9,500	1,408,358			
2004	23,400	15,200	1,372,443	45.65	26.50	6,039
2005	43,100	24,100	1,210,054	74.31	51.78	14,419
First Quarter	29,750	26,944	1,348,839	53.53	52.72	13,916
Second Quarter	27,650	24,100	1,054,949	52.54	51.78	10,238
Third Quarter	37,200	31,574	1,184,651	62.33	61.50	11,994
Fourth Quarter	43,100	38,187	1,256,327	74.31	73.38	21,617
2006	49,500	36,800	1,385,417	106.08	74.05	26,422
First Quarter	43,500	36,800	1,466,513	88.10	74.05	35,619
Second Quarter	49,500	40,400	1,685,916	106.08	81.15	29,752
Third Quarter	47,100	42,100	1,155,628	100.98	88.95	20,819
Fourth Quarter	48,500	41,450	1,236,040	106.00	86.56	19,644
2007 (through June 19)	58,200	45,450	1,531,499	125.98	96.75	29,838
January	49,900	45,450	1,055,873	106.73	96.75	28,755
February	57,800	51,500	2,537,050	123.65	110.25	47,168
March	57,100	51,800	1,162,455	122.39	106.99	31,582
April	56,600	52,100	1,288,336	122.75	112.16	25,575
May	57,300	50,600	1,628,688	123.06	110.08	21,686
June (through June 19)	58,200	54,600	1,937,226	125.98	119.49	23,058

Source: Korea Exchange; New York Stock Exchange

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The Korean Securities Market

The Korea Exchange

Pursuant to the Korea Stock and Futures Exchange Act, as of January 27, 2005, Korea Exchange unified the Korea Stock Exchange, which began its operations in 1956, the Korea Securities Dealers Automated Quotation (KOSDAQ), which began its operation in July 1, 1996 by the Korea Securities Dealers Association, and the Korea Futures Exchange (as an exchange operating futures market and options market), which began its operation in February 1, 1999.

The Korea Exchange was established in a form of a limited liability stock company in accordance with the Korean Commercial Code with the minimum paid-in capital of W100 billion in accordance with the Korea Stock and Futures Exchange Act. The Korea Exchange is presently the only exchange in Korea that serves as a spot market and a futures market. It operates and supervises three market divisions, the Stock Market Division, the KOSDAQ Market Division, and the Futures Market Division. It has its principal office in Pusan.

The Korea Exchange has been introduced to support the national economy by (i) making the capital market more effective, (ii) reducing transaction fees to investors or users and (iii) integrating computer networks used for transaction.

Even though the Korea Stock and Futures Exchange Act prescribed that the Korea Exchange be established in a form of a limited liability stock company, the Korea Exchange is expected to play a public role as a public organization. In order to safeguard against a possible conflict, the Korea Stock and Futures Exchange Act placed restrictions on the ownership and operation of the Korea Exchange as follows:

Any person s ownership of shares in the Korea Exchange is limited to 5% or less except for an investment trust company or investment company established under the Indirect Investment Asset Management Business Acts, or the Korean government. However, upon prior approval from the Financial Supervisory Commission, more than 5% ownership in Korea Exchange is permitted if necessary for forming strategic alliance with a foreign stock or futures exchange;

The number of outside directors on the board of directors of the Korea Exchange shall be more than half of the total number of directors;

Any amendment to the Articles of Incorporation, transfer or consolidation of business, spin off, stock swap in its entirety or transfer of shares in its entirety of the Korea Exchange will receive prior approval from the Minister of the Ministry of Finance and Economy; and

In the event the Minister of the Ministry of Finance and Economy determines that the chief executive officer of the Korea Exchange is not appropriate for the position, the Minister of the Ministry of Finance and Economy can request the Korea Exchange upon reasonable cause, within one month from the chief executive officer s election, to dismiss the chief executive officer. Subsequently, the chief executive officer will be suspended from performing his duties and the Korea Exchange will elect a new chief executive officer within two months from the request.

As of June 19, 2007, the aggregate market value of equity securities listed on the Stock Market Division of the Korea Exchange was approximately W888.6 trillion. The average daily trading volume of equity securities for 2006 was approximately 279 million shares with an average transaction value of W3.4 trillion.

The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semiannually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community which can have the intention or effect of depressing or boosting the market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

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The Korea Exchange publishes the Korea Composite Stock Price Index (KOSPI) every two seconds, which is an index of all equity securities listed on the Korea Exchange. On January 4, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Historical movements in KOSPI are set out in the following.

	Opening	High	Low	Closing
1980	100.00	119.36	100.00	106.87
1981	97.95	165.95	93.14	131.37
1982	123.60	134.49	106.00	127.31
1983	122.52	134.46	115.59	121.21
1984	116.73	142.46	114.37	142.46
1985	139.53	163.37	131.40	163.37
1986	161.40	279.67	153.85	272.61
1987	264.82	525.11	264.82	525.11
1988	532.04	922.56	527.89	907.20
1989	919.61	1,007.77	844.75	909.72
1990	908.59	928.82	566.27	696.11
1991	679.75	763.10	586.51	610.92
1992	624.23	691.48	459.07	678.44
1993	697.41	874.10	605.93	866.18
1994	879.32	1,138.75	855.37	1,027.37
1995	1,013.57	1,016.77	847.09	882.94
1996	888.85	986.84	651.22	651.22
1997	653.79	792.29	350.68	376.31
1998	385.49	579.86	280.00	562.46
1999	587.57	1,028.07	498.42	1,028.07
2000	1,059.04	1,059.04	500.60	504.62
2001	520.95	704.50	468.76	693.70
2002	724.95	937.61	584.04	627.55
2003	635.17	822.16	515.24	810.71
2004	821.26	936.06	719.59	895.92
2005	893.71	1,379.37	870.84	1,379.37
2006	1,382.32	1,464.70	1,203.86	1,434.46
2007 (through June 19)	1,438.89	1,807.85	1,355.79	1,807.85

Source: The Korea Exchange

Shares are quoted ex-dividend on the first trading day of the relevant company s accounting period. Ex-dividend refers to a share no longer carrying the right to receive the following dividend payment because the settlement date occurs after the record date for determining which shareholders are entitled to receive dividends. Ex-rights refers to shares no longer carrying the right to participate in the following rights offering or bonus issuance because the settlement date occurs after the record date for determining which shareholders are entitled to new shares. The calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing

level at the end of one calendar year and its opening level at the beginning of the following calendar year.

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With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights , permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 15% of the previous day s closing price of the shares, rounded down as set out below:

Previous Day s Closing Price	Rounded Down to Won
Less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the securities companies. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares on the Korea Exchange. A special agricultural and fishery tax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10. Additional Information Taxation Korean Taxation .

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The number of companies listed on the Korea Exchange, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table.

Year	Number of Listed Companies	Total Market Capitalization (Millions of Won)	Total Market Capitalization (Thousands of Dollars)(1)	Average Daily Trading Volume, Thousands of Shares	Average Daily Trading Volume, Value (Millions of Won)	Average Daily Trading Volume, Value (Thousands of Dollars)(1)
1980	352	W 2,526,553	$ 3,828,691	5,654	W 3,897	$ 5,905
1981	343	2,959,057	4,224,207	10,565	8,708	12,433
1982	334	3,000,494	4,407,711	9,704	6,667	8,904
1983	328	3,489,654	4,386,743	9,325	5,941	7,468
1984	336	5,148,460	6,222,456	14,847	10,642	12,862
1985	342	6,570,404	7,380,818	18,925	12,315	13,834
1986	355	11,994,233	13,924,115	31,755	32,870	38,159
1987	389	26,172,174	33,033,162	20,353	70,185	88,584
1988	502	64,543,685	94,348,318	10,367	198,364	289,963
1989	626	95,476,774	140,489,660	11,757	280,967	414,431
1990	669	79,019,676	110,301,055	10,866	183,692	256,500
1991	686	73,117,833	96,182,364	14,022	214,263	281,850
1992	688	84,711,982	107,502,515	24,028	308,246	391,175
1993	693	112,665,260	139,419,948	35,130	574,048	676,954
1994	699	151,217,231	191,729,721	36,862	776,257	984,223
1995	721	141,151,399	182,201,367	26,130	487,762	629,614
1996	760	117,369,988	139,031,021	26,571	486,834	575,733
1997	776	70,988,897	50,161,742	41,525	555,759	392,707
1998	748	137,798,451	114,090,455	97,716	660,429	471,432
1999	725	349,503,966	305,137,040	278,551	3,481,620	3,039,654
2000	704	188,041,490	148,393,204	306,154	2,602,159	2,053,796
2001	589	255,850,070	192,934,221	473,241	1,947,420	1,506,236
2002	683	258,680,756	215,445,465	857,245	3,041,598	2,533,820
2003	684	355,362,626	298,121,331	542,010	2,216,636	1,859,594
2004	683	412,588,139	398,597,371	372,895	2,232,109	2,156,419
2005	702	655,074,514	648,588,628	467,629	3,157,662	3,126,398
2006	731	704,587,508	757,620,976	279,096	3,435,180	3,693,742
2007 (through June 19)	733	888,550,312	957,902,449	324,145	4,142,356	4,465,671

Source: The Korea Exchange

Note:

(1) Converted at the Market Average Exchange Rate at the end of the periods indicated.

The Korean securities markets are principally regulated by the Financial Supervisory Commission and the Securities and Exchange Act. The Securities and Exchange Act was amended fundamentally numerous times in recent years to

broaden the scope and improve the effectiveness of official supervision of the securities markets. As amended, the law imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests.

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Further Opening of the Korean Securities Market

A stock index futures market was opened on May 3, 1996, and a stock index option market was opened on July 7, 1997, in each case at the Korea Exchange. Remittance and repatriation of funds in connection with investment in stock index futures and options are subject to regulations similar to those that govern remittance and repatriation in the context of foreign portfolio investment in Korean stocks.

In addition, the Korea Exchange opened new option markets for seven individual stocks (Samsung Electronics, SK Telecom, KT, KEPCO, POSCO, Kookmin Bank and Hyundai Motor Company) in January 2002. Non-Koreans are permitted to invest in such options for individual stocks subject to certain procedural requirements.

Starting from May 1, 1996, foreign investors were permitted to invest in warrants representing the right to subscribe for shares of a company listed on the Stock Market Division or the KOSDAQ Market Division of the Korea Exchange, subject to certain investment limitations. A foreign investor may not acquire warrants with respect to the class of shares of a company for which the ceiling on aggregate investment by foreigners has been reached or exceeded.

As of December 30, 1997, foreign investors were permitted to invest in all types of corporate bonds, bonds issued by national or local governments and bonds issued in accordance with certain special laws without being subject to any aggregate or individual investment ceiling. The Financial Supervisory Commission sets forth procedural requirements for such investments. The Government announced on February 8, 1998, its plans for the liberalization of the money market with respect to investment in money market instruments by foreigners in 1998. According to the plan, foreigners have been permitted to invest in money market instruments issued by corporations, including commercial paper, starting February 16, 1998, with no restrictions as to the amount. Starting May 25, 1998, foreigners have been permitted to invest in certificates of deposit and repurchase agreements.

Currently, foreigners are permitted to invest in securities including shares of all Korean companies which are not listed on the Stock Market Division or the KOSDAQ Market Division of the Korea Exchange and in bonds which are not listed.

Protection of Customer s Interest in Case of Insolvency of Securities Companies

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. In addition, the Securities and Exchange Act recognizes the ownership of a customer in securities held by a securities company in such customer s account.

When a customer places a sell order with a securities company which is not a member of the Korea Exchange and this securities company places a sell order with another securities company which is a member of the Korea Exchange, the customer is still entitled to the proceeds of the securities sold received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Likewise, when a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so

far as the customer and the non-member company s creditors are concerned.

In addition, under the Securities and Exchange Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a securities company which is a member of the Korea Exchange breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

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

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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 the Korea Deposit Insurance Corporation will, upon the request of the investors, pay each investor 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. The premiums related to this insurance are paid by securities companies. Pursuant to the Securities and Exchange Act, as amended, 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.

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ITEM 10. *ADDITIONAL INFORMATION*

ARTICLES OF INCORPORATION

Description of Capital Stock

This section provides information relating to our capital stock, including brief summaries of material provisions of our Articles of Incorporation, the Korean Commercial Code, the Securities and Exchange Act, the Financial Holding Companies Act and certain related laws of Korea, all as currently in effect. The following summaries are intended to provide only summaries and are subject to the full text of the Articles of Incorporation and the applicable provisions of the Securities and Exchange Act, the Korean Commercial Code, and certain other related laws of Korea.

General

As of December 31, 2006 and as of the date hereof, our authorized share capital is 1,000,000,000 shares. Our Articles of Incorporation provide that we are authorized to issue shares of preferred stock up to one-half of all of the issued and outstanding shares of common stock. Furthermore, through an amendment of the Articles of Incorporation, we have created new classes of shares, in addition to the common shares and the preferred shares. See Description of Redeemable Preferred Stock and Description of Redeemable Convertible Preferred Stock . As of December 31, 2006, the date on which our shareholders registry was last closed and the latest practicable date on which the common shareholding information is available, the number of our issued common shares was 381,567,614, of which 7,129,967 were held as treasury shares. All of the treasury shares have been sold in the market as of June 22, 2007.

As of December 31, 2006, the number of issued and outstanding redeemable preferred shares issued August 2003 as part of our funding for the acquisition of Chohung Bank was 39,767,169. On January 25, 2007, we issued 28,990,000 redeemable preferred shares and 14,721,000 redeemable convertible preferred shares as part of our funding for the acquisition of LG Card. The terms of the preferred shares issued in connection with the acquisition of Chohung Bank are different from those of the preferred shares issued in connection with the acquisition of LG Card. See Description of Redeemable Preferred Stock and Description of Redeemable Convertible Preferred Stock . Other than these preferred shares, there are no other preferred shares authorized, issued or outstanding as of the date hereof.

All of the issued and outstanding shares are fully-paid and non-assessable, and are in registered form. As of the date hereof, our authorized but unissued share capital consists of 534,954,217 shares. We may issue the unissued shares without further shareholder approval but subject to a board resolution as provided in the Articles of Incorporation. See Preemptive Rights and Issuance of Additional Shares and Distribution of Free Shares . Share certificates are issued in denominations of one, five, ten, 50, 100, 500, 1,000 and 10,000 shares.

Dividends

Dividends are distributed to shareholders in proportion to the number of shares of the relevant class of capital stock owned by each shareholder following approval by the shareholders at an annual general meeting of shareholders. We pay full annual dividends on newly issued shares (such as the shares representing the American depositary shares) for the year in which the new shares are issued. We declare our dividend annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. The annual dividend must be paid to the shareholders of record as of the end of the preceding fiscal year within one month after the annual general meeting. Annual dividends may be distributed either in cash or in shares provided that shares must be distributed at par value and, if the market price of the shares is less than their par value, dividends in shares may not exceed one-half

of the annual dividend. Under the Korean Commercial Code we do not have an obligation to pay any annual dividend unclaimed for five years from the scheduled payment date.

In addition, the Korean Commercial Code and our Articles of Incorporation provide that we may pay interim dividends once during each fiscal year (in addition to the annual dividends). Unlike annual dividends, interim dividends may be paid upon the resolution of the board of directors and are not subject to shareholder approval. The

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interim dividends, if any, will be paid to the shareholders of record at 12:00 a.m. midnight, July 1 of the relevant fiscal year in cash.

Under the Korean Commercial Code, an interim dividend shall not be more than the net assets on the balance sheet of the immediately preceding fiscal period, after deducting (i) the capital of the immediately preceding fiscal period, (ii) the sum of the capital reserve and legal reserve accumulated up to the immediately preceding fiscal period, (iii) the amount of earnings for dividend payment approved at the general shareholders meeting of the immediately preceding fiscal period, (iv) other special reserves accumulated up to the immediately preceding fiscal period, either pursuant to the provisions of our Articles of Incorporation or to the resolution of the general meeting of shareholders, and (v) amount of legal reserve that should be set aside for the current fiscal period following the interim dividend payment.

The Financial Holding Companies Act and the regulations thereunder provide that a financial holding company shall not pay an annual dividend unless it has set aside as its legal reserve an amount equal to at least one-tenth of its net income after tax and shall set aside such amount as its legal reserve until its legal reserve reaches at least the aggregate amount of its stated capital.

For information regarding Korean taxes on dividends, see Taxation Korean Taxation .

Distribution of Free Shares

In addition to permitting dividends in the form of shares to be paid out of retained or current earnings, the Korean Commercial Code permits a company to distribute to its shareholders, in the form of free shares, an amount transferred from the capital surplus or legal reserve to stated capital. These free shares must be distributed to all of the shareholders pro rata. Our Articles of Incorporation require the same types of preferred shares to be distributed to the holders of preferred shares in case of distribution of free shares. For information regarding the treatment under Korean tax laws of free share distributions, see Taxation Korean Taxation Dividends on Shares of Common Stock or American Depositary Shares . Holders of American depositary receipts will be able to participate in distributions of free shares to the extent described in Item 12. Description of Securities other than Equity Securities Description of the American Depositary Receipts American Depositary Shares Dividends and Distributions .

Preemptive Rights and Issuance of Additional Shares

Unless otherwise provided in the Korean Commercial Code, a company may issue authorized but unissued shares at such times and upon such terms as the board of directors of the company may determine. The company must offer the new shares on uniform terms to all shareholders who have preemptive rights and who are listed on the shareholders register as of the record date. Our shareholders are entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. However, as provided in the Articles of Incorporation, we may issue new shares by resolution of board of directors to persons other than existing shareholders if those shares are (1) publicly offered pursuant to relevant provisions of the Securities and Exchange Act (where the number of such shares so offered may not exceed 50% of our total number of issued and outstanding shares); (2) preferentially allocated to the members of our employee stock ownership association pursuant to relevant provisions of the Securities and Exchange Act; (3) issued for the purpose of issuing depositary receipts pursuant to relevant provisions of the Securities and Exchange Act (where the number of such shares so issued may not exceed 50% of our total number of issued and outstanding shares); (4) issued to directors or employees as a result of exercise of stock options we granted to them pursuant to the Securities and Exchange Act; (5) issued to a securities investment company authorized to exclusively engage in the financial business pursuant to the Financial Holding Companies Act; or (6) issued to any specified foreign investors, foreign or domestic financial institutions or alliance companies for operational needs such as introduction of advanced financial technology, improvement of its or subsidiaries financial structure and funding or strategic alliance (where

such number of shares so issued may not exceed 50% of our total number of issued and outstanding shares). Under the Korean Commercial Code, a company may vary, without stockholders approval, the terms of such preemptive rights for different classes of shares. Public notice of the preemptive rights to new shares and the transferability thereof must be given not less than two weeks (excluding the period during which the shareholders register is closed) prior to the record date. We will notify the shareholders

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who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to the deadline. If a shareholder fails to subscribe on or before such deadline, the shareholder s preemptive rights will lapse. Our board of directors may determine how to distribute shares in respect of which preemptive rights have not been exercised or where fractions of shares occur.

Under the Securities and Exchange Act, members of a company s employee stock ownership association, whether or not they are shareholders, have a preemptive right, subject to certain exceptions, to subscribe for up to 20% of the shares publicly offered pursuant to the Securities and Exchange Act. However, this right is exercisable only to the extent that the total number of shares so acquired and held by such members does not exceed 20% of the total number of shares to be newly issued and shares then outstanding. As of June 13, 2007, our employee stock ownership association owned 5,121,506 shares of our common stock (including 1,608,402 shares, which were paid for and currently held by us for the benefit of eligible employees subject to certain conditions for grant).

General Meeting of Shareholders

There are two types of general meetings of shareholders: annual general meetings and extraordinary general meetings. We are required to convene our annual general meeting within three months after the end of each fiscal year. Subject to a board resolution or court approval, an extraordinary general meeting of shareholders may be held when necessary or at the request of the holders of an aggregate of 3% or more of our outstanding common shares or at the request of our audit committee. In addition, under the Securities and Exchange Act of Korea, an extraordinary general meeting of shareholders may be held at the request of the shareholders holding shares for at least 6 months of an aggregate of 3% (1.5% in case of a listed company whose capital at the end of the latest operating year is W100 billion or more) or more of the outstanding shares with voting rights of the company, subject to a board resolution or court approval. Notwithstanding the regulation, the Korean Supreme Court has ruled that the 6 months holding period is not necessary for the shareholders to exercise its right to call the extraordinary general meeting of the shareholders. Furthermore, under the Financial Holding Companies Act of Korea, an extraordinary general meeting of shareholders may be held at the request of the shareholders holding shares for at least 6 months of an aggregate of 1.5% (0.75% in the case of a financial holding company (i) whose total assets at the end of the latest fiscal year is W5 trillion or more and (ii) who is in control of two or more subsidiaries, each with total assets of W2 trillion or more) or more of the outstanding shares of the company, subject to a board resolution or court approval. Holders of non-voting shares may be entitled to request a general meeting of shareholders only to the extent the non-voting shares have become enfranchised as described under Voting Rights below (hereinafter referred to as enfranchised non-voting shares). Meeting agendas are determined by the board of directors or proposed by holders of an aggregate of 3% or more of the outstanding shares with voting rights by way of a written proposal to the board of directors at least six weeks prior to the meeting. In addition, under the Securities and Exchange Act, the meeting agenda may be proposed by the shareholders holding shares for at least 6 months of an aggregate of 1% (0.5% in the case of a listed company whose capital at the end of the latest operating year is W100 billion or more) or more of the outstanding shares of the company. Furthermore, under the Financial Holding Companies Act, the meeting agenda may be proposed by the shareholders holding shares for at least 6 months of an aggregate of 0.5% (0.25% in the case of a financial holding company (i) whose total assets at the end of the latest fiscal year is W5 trillion or more and (ii) who is in control of two or more subsidiaries, each with total assets of W2 trillion or more) or more of the outstanding shares of the company. Written notices stating the date, place and agenda of the meeting must be given to the shareholders at least two weeks prior to the date of the general meeting of shareholders; provided, that, notice may be given to holders of 1% or less of the total number of issued and outstanding shares which are entitled to vote, by placing at least two public notices at least two weeks in advance of the meeting in at least two daily newspapers. Currently, we use *The Korea Economic Daily* and *Maeil Business Newspaper* for the publication of such notices. Shareholders who are not on the shareholders register as of the record date are not entitled to receive notice of the general meeting of shareholders, and they are not entitled to attend or vote at such meeting. Holders of enfranchised non-voting shares who are on the shareholders register as of the record date are entitled to receive notice of the general meeting of shareholders and they are entitled to attend an d

vote at such meeting. Otherwise, holders of non-voting shares are not entitled to receive notice of or vote at general meetings of shareholders.

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The general meeting of shareholders is held at our executive office (which is our registered executive office) or, if necessary, may be held anywhere in the vicinity of our executive office.

Voting Rights

Holders of common shares are entitled to one vote for each share. However, voting rights with respect to common shares that we hold and common shares that are held by a corporate shareholder, more than one-tenth of the outstanding capital stock of which is directly or indirectly owned by us, may not be exercised. Unless stated otherwise in a company s Articles of Incorporation, the Korean Commercial Code permits holders of an aggregate of 3% (1% under the Securities and Exchange Act, in case of a company whose total capital as at the end of the latest fiscal year is W2 trillion or more) or more of the outstanding shares with voting rights to request cumulative voting when electing two or more directors. Our Articles of Incorporation currently do not prohibit cumulative voting. The Korean Commercial Code and our Articles of Incorporation provide that an ordinary resolution may be adopted if approval is obtained from the holders of at least a majority of those common shares present or represented at such meeting and such majority also represents at least one-fourth of the total of our issued and outstanding common shares. Holders of non-voting shares (other than enfranchised non-voting shares) are not entitled to vote on any resolution or to receive notice of any general meeting of shareholders unless the agenda of the meeting includes consideration of a resolution on which such holders are entitled to vote. If our general shareholders meeting resolves not to pay to holders of preferred shares the annual dividend as determined by the board of directors at the time of issuance of such shares, the holders of preferred shares will be entitled to exercise voting rights from the general shareholders meeting immediately following the meeting adopting such resolution until the end of the meeting to declare to pay such dividend with respect to the preferred shares. Holders of such enfranchised preferred shares have the same rights as holders of common shares to request, receive notice of, attend and vote at a general meeting of shareholders.

The Korean Commercial Code provides that to amend the Articles of Incorporation (which is also required for any change to the authorized share capital of the company) and in certain other instances, including removal of a director of a company, dissolution, merger or consolidation of a company, transfer of the whole or a significant part of the business of a company, acquisition of all of the business of any other company or issuance of new shares at a price lower than their par value, a special resolution must be adopted by the approval of the holders of at least two-thirds of those shares present or represented at such meeting and such special majority must also represent at least one-third of the total issued and outstanding shares with voting rights of the company.

In addition, in the case of amendments to the Articles of Incorporation or any merger or consolidation of a company or in certain other cases which affect the rights or interest of the shareholders of the preferred shares, a resolution must be adopted by a separate meeting of shareholders of the preferred shares. Such a resolution may be adopted if the approval is obtained from shareholders of at least two-thirds of the preferred shares present or represented at such meeting and such preferred shares also represent at least one-third of the total issued and outstanding preferred shares of the company.

A shareholder may exercise his voting rights by proxy given to another shareholder. If a particular shareholder intends to obtain proxy from another shareholder, a reference document specified by the Financial Supervisory Service must be sent to the shareholder giving proxy, with a copy furnished to the company s executive office or the branch office, transfer agent and the Financial Supervisory Commission. The proxy must present the power of attorney prior to the start of the general meeting of shareholders.

Rights of Dissenting Shareholders

Pursuant to the Securities and Exchange Act, in certain limited circumstances (including, without limitation, if we transfer all or any significant part of our business or if we merge or consolidate with another company), dissenting

holders of shares have the right to require us to purchase their shares. Pursuant to the Financial Holding Companies Act, the Securities and Exchange Act and the Korean Commercial Code, if a financial holding company acquires a new direct or indirect subsidiary through the exchange or transfer of shares, the dissenting holders of such shares have the right to require us to purchase their shares. To exercise such a right, shareholders must submit to us a written notice of their intention to dissent prior to the general meeting of shareholders. Within 20 days (or

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10 days under certain circumstances according to the Financial Holding Companies Act) after the date on which the relevant resolution is passed at such meeting, such dissenting shareholders must request in writing that we purchase their shares. We are obligated to purchase the shares of dissenting shareholders within one month after the end of such request period at a price to be determined by negotiation between the shareholder and us. If we cannot agree on a price with the shareholder through such negotiations, the purchase price will be the arithmetic mean of (1) the weighted average of the daily closing share prices on the Stock Market Division of the Korea Exchange for two months prior to the date of the adoption of the relevant board of directors resolution, (2) the weighted average of the daily closing share prices on the Stock Market Division of the Korea Exchange for one month prior to the date of the adoption of the relevant board of directors resolution and (3) the weighted average of the daily closing share prices on the Stock Market Division of the Korea Exchange for one week prior to the date of the adoption of the relevant board of directors resolution. However, the Financial Supervisory Commission may adjust such price if we or at least 30% of the dissenting shareholders who requested purchase of their shares do not accept such purchase price.

Register of Shareholders and Record Dates

We maintain the register of our shareholders at our transfer agent s in Seoul, Korea. Korea Securities Depository as our transfer agent, registers transfers of shares on the register of shareholders upon presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, the register of shareholders may be closed for the period from January 1 of each year up to January 15 of such year. Further, the Korean Commercial Code and the Articles of Incorporation permit us upon at least two weeks public notice to set a record date and/or close the register of shareholders for not more than three months for the purpose of determining the shareholders entitled to certain rights pertaining to the shares. The trading of shares and the delivery of certificates in respect thereof may continue while the register of shareholders is closed.

Description of Redeemable Preferred Stock

Series 1/2/3/4/5 Redeemable Preferred Stock

On July 9, 2003, as part of obtaining funds for the acquisition of Chohung Bank, our board of directors authorized the issuance of 46,583,961 non-voting redeemable preferred shares, consisting of 9,316,792 Series 1 redeemable preferred shares, 9,316,792 Series 2 redeemable preferred shares, 9,316,792 Series 3 redeemable preferred shares, 9,316,792 Series 4 redeemable preferred shares and 9,316,793 Series 5 redeemable preferred shares. All of these shares were issued on August 19, 2003 in registered form and were initially subscribed by Korea Deposit Insurance Corporation.

The dividends payable on these shares are an amount equal to 4.04% of the subscription price per share. The dividend right held by holders of such shares rank senior to the dividend right held by holders of our common shares. If in any fiscal year we do not pay any dividend as provided above, the holders of these shares are entitled to receive such accumulated unpaid dividend prior to the holders of our common shares from the dividends payable in respect of the next fiscal year. If dividends are not paid to the holders of these shares, voting rights attach to such shares. See Voting Rights .

The redemption period for these shares is (i) for the Series 1 shares, from the first anniversary of the issuance date until the third anniversary of the issuance date; (ii) for the Series 2 shares, from the second anniversary of the issuance date until the fourth anniversary of the issuance date; (iii) for the Series 3 shares Stock, from the third anniversary of the issuance date until the fifth anniversary of the issuance date; (iv) for the Series 4 shares, from the fourth anniversary of the issuance date until the sixth anniversary of the issuance date; and (v) for the Series 5 shares, from the fifth anniversary of the issuance date until the seventh anniversary of the issuance date; provided that, if such shares are not redeemed in full within the redemption period or the dividends to such shares are not paid in full, the

redemption period will be extended until all such shares are redeemed in full. We are obligated to redeem all of the redeemable preferred shares that are outstanding at the end of the relevant redemption period to the extent that distributable profits are available for such redemption. Furthermore, we may, at our option, elect to redeem all or

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part of any outstanding such shares at any time during the redemption period to the extent that distributable profits are available for such redemption.

The Series 1 redeemable preferred shares were redeemed in entirety on August 21, 2006. Our board of directors have approved a resolution to redeem the Series 2 redeemable preferred shares in entirety in August 2007.

Series 6/7/8 Redeemable Preferred Stock

On July 29, 2003, as part of obtaining funds for our acquisition of Chohung Bank, our board of directors authorized an additional issuance of 6,000,000 non-voting redeemable preferred shares, consisting of 3,500,000 Series 6 redeemable preferred shares, 2,433,334 Series 7 redeemable preferred shares and 66,666 Series 8 redeemable preferred shares. All of these shares were issued on August 19, 2003 in a public offering.

The dividends payable on these shares are (i) for the Series 6 shares, an amount equal to 7.00% of the subscription price per share, (ii) for the Series 7 shares, an amount equal to 7.46% of the subscription price per share and (iii) for the Series 8 shares, an amount equal to 7.86% of the subscription price per share. The dividend right held by holders of such shares rank senior to the dividend right held by holders of our common shares. If in any fiscal year we do not pay any dividend as provided above, the holders of these shares are entitled to receive such accumulated unpaid dividend prior to the holders of our common shares from the dividends payable in respect of the next fiscal year. If dividends are not paid to the holders of these shares, voting rights attach to such shares. See Voting Rights .

The redemption period for these shares is (i) for the Series 6 shares, from one (1) month immediately preceding the third anniversary date of the issuance date until the third anniversary date of the issuance date; (ii) for the Series 7 shares, from one month immediately preceding the fifth anniversary date of the issuance date until the fifth anniversary date of the issuance date; and (iii) for the Series 8 shares, from one month immediately preceding the seventh anniversary date of the issuance date until the seventh anniversary date of the issuance date; provided that, if such shares are not redeemed in full within the redemption period or the dividends on such shares are not paid in full, the redemption period will be extended until all such shares are redeemed in full. We are obligated to redeem all of the redeemable preferred shares that are outstanding at the end of the relevant redemption period to the extent that distributable profits are available for such redemption. Furthermore, we may, at our option, elect to redeem all or part of any outstanding such shares at any time during the redemption period to the extent that distributable profits are available for such redemption.

The Series 6 redeemable preferred shares were redeemed in entirety on August 21, 2006.

Series 10 Redeemable Preferred Stock

On December 18, 2006, as part of obtaining funds for our acquisition of LG Card, our board of directors authorized the issuance of 28,990,000 Series 10 redeemable preferred shares of non-voting stock. All these shares were issued on January 25, 2007 in registered form and were subscribed by 12 government entities and institutional investors in Korea.

The dividend rate for these shares are as follows: (i) for the fiscal year 2007, an amount equal to 7.00% of the subscription price per share multiplied by the number of days elapsed from January 25, 2007, the date of issuance, to December 31, 2007 and divided by 365; (ii) for each of the fiscal years 2008 through 2011, an amount equal to 7.00% of the subscription price per share; (iii) for fiscal year 2012, an amount equal to (x) 7.00% of the subscription price per share multiplied by the number of days elapsed from January 1, 2102 to January 25, 2012 and divided by 365, plus (y) R % of the subscription price multiplied by the number of days from January 26, 2012 through December 31, 2012 and divided by 365, where R% means the sum of (A) the five-year treasury rate effective on January 25, 2011,

(B) 100 basis points and (C) a spread equal to 7.00% less the five-year treasury rate effective on January 25, 2007; and (iv) for each of the fiscal years 2013 and thereafter, an amount equal to R% of the subscription price.

The dividend right held by holders of these shares rank senior to the dividend right held by holders of our common shares. If in any fiscal year we do not pay any dividend as provided above, the holders of these shares are entitled to receive such accumulated unpaid dividend prior to the holders of our common shares from the dividends

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payable in respect of the next fiscal year. If dividends are not paid to the holders of these shares, voting rights attach to such shares. See Voting Rights .

The redemption period for these shares is from the fifth anniversary of the issuance date until the 20th anniversary of the issuance date; provided that, we may, at our option, elect to redeem all or part of any outstanding such shares at any time during the redemption period to the extent that distributable profits are available for such redemption. None of these shares may be redeemed except during the redemption period. There is no maturity date for these shares.

Description of Redeemable Convertible Preferred Stock

Series 9 Redeemable Convertible Preferred Stock

On July 9, 2003, as part of obtaining funds for our acquisition of Chohung Bank, our board of directors authorized the issuance of 44,720,603 Series 9 non-voting redeemable convertible preferred shares. All of these shares were issued on August 19, 2003 in registered form and were subscribed initially by the Korea Deposit Insurance Corporation.

The dividends payable on these shares are (i) for the fiscal year 2007, an amount equal to 2.02% of the subscription price per share multiplied by the number of days elapsed from the date of issuance to December 31, 2007 and divided by 365 and (ii) thereafter, an amount equal to 2.02% of the subscription price per share. The dividend right held by holders of such shares rank senior to the dividend right held by holders of our common shares. If in any fiscal year we do not pay any dividend as provided above, the holders of these shares are entitled to receive such accumulated unpaid dividend prior to the holders of our common shares from the dividends payable in respect of the next fiscal year. If dividends are not paid to the holders of these shares, voting rights attach to such shares. See Voting Rights .

The redemption period for these shares is from the third anniversary of the issuance date until the fifth anniversary of the issuance date; provided that, if these shares are not redeemed in full within the redemption period or the dividends on such shares are not paid in full, the redemption period will be extended until all such shares are redeemed in full. We are obligated to redeem all of these shares outstanding at the end of the redemption period to the extent that distributable profits are available for such redemption. Furthermore, we may, at our option, elect to redeem all or part of any outstanding such shares at any time during the redemption period to the extent that distributable profits are available for such redemption.

The holders of these shares may, at their option, convert all or part of any outstanding such shares into our common shares at any time from the first anniversary of the issuance date until the fourth anniversary of the issuance date, at a conversion rate of one-to-one.

All of the Series 9 redeemable convertible preferred shares were converted into our common shares through a series of conversions in November 2005 and August 2006.

Series 11 Redeemable Convertible Preferred Stock

On December 18, 2006, as part of obtaining funds for our acquisition of LG Card, our board of directors authorized the issuance of 14,721,000 Series 11 non-voting redeemable convertible preferred shares. All of these shares were issued in registered form and subscribed by institutional investors and government agencies in Korea.

The dividend rate for these shares are as follows: (i) for the fiscal year 2007, an amount equal to 7.00% of the subscription price per share multiplied by the number of days elapsed from January 25, 2007, the date of issuance, to December 31, 2007 and divided by 365; (ii) for each of the fiscal years 2008 through 2011, an amount equal to 3.25% of the subscription price per share; (iii) for fiscal year 2012, an amount equal to (x) 3.25% of the subscription price per

share multiplied by the number of days elapsed from January 1, 2102 to January 25, 2012 and divided by 365, plus (y) R % of the subscription price multiplied by the number of days from January 26, 2012 through December 31, 2012 and divided by 365, where R% means the sum of (A) the five-year treasury rate effective on January 25, 2011, (B) 100 basis points and (C) a spread equal to 7.00% less the five-year treasury rate effective on

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January 25, 2007; and (iv) for each of the fiscal years 2013 and thereafter, an amount equal to R% of the subscription price.

If in any fiscal year we do not pay any dividend as provided above, the holders of these shares are entitled to receive such accumulated unpaid dividend prior to the holders of our common shares from the dividends payable in respect of the next fiscal year. If dividends are not paid to the holders of these shares, voting rights attach to such shares. See Voting Rights .

The redemption period for these shares is from the fifth anniversary of the issuance date until the 20th anniversary of the issuance date; provided that, we may, at our option, elect to redeem all or part of any outstanding such shares at any time during the redemption period to the extent that distributable profits are available for such redemption. None of these shares may be redeemed except during the redemption period. There is no maturity date for these shares.

The holders of these shares may, at their option, convert all or part of any outstanding such shares into our common shares at any time from the day after the first anniversary of the issuance date until the fifth anniversary of the issuance date, at a conversion rate of one-to-one. None of these shares may be converted except during the conversion period.

Annual Report

At least one week before the annual general meeting of shareholders, we must make our annual report written in the Korean language and audited nonconsolidated financial statements prepared under Korean GAAP available for inspection at our principal office and at all of our branch offices. Copies of annual reports, the audited nonconsolidated financial statements and any resolutions adopted at the general meeting of shareholders will be made available to our shareholders.

Under the Securities and Exchange Act, we must file with the Financial Supervisory Commission and the Korea Exchange an annual report within 90 days after the end of our fiscal year, a semiannual report within 45 days after the end of the first six months of our fiscal year and quarterly reports within 45 days after the end of the first three months and nine months of our fiscal year, respectively. Copies of such reports are available for public inspection at the Financial Supervisory Commission and the Korea Exchange.

Transfer of Shares

Under the Korean Commercial Code, the transfer of shares is effected by the delivery of share certificates. In order to exercise shareholders rights, the transferee must have his name and address registered on the register of shareholders. For this purpose, shareholders are required to file with us their name, address and seal. Nonresident shareholders must notify us of the name of their proxy in Korea to which our notice can be sent. Under the Financial Supervisory Commission regulations, nonresident shareholders may appoint a standing proxy and may not allow any person other than the standing proxy to exercise rights regarding the acquired share or perform any task related thereto on his behalf, subject to certain exceptions. Under current Korean regulations, certain qualified securities companies and banks in Korea (including licensed branches of non-Korean securities companies and banks) and the Korea Securities Depository are authorized to act as standing proxy and provide related services. Certain foreign exchange controls and securities regulations apply to the transfer of shares by nonresidents or non-Koreans. See Exchange Controls . As to the ceiling on the aggregate shareholdings of a single shareholder and persons who have a special relationship with such shareholder, please see Item 4. Information on the Company Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restriction on Financial Holding Company Ownership .

Acquisition of Treasury Shares

We generally may not acquire our own shares except in certain limited circumstances, including, without limitation, a reduction in capital.

Notwithstanding the foregoing restrictions, pursuant to the Securities and Exchange Act and regulations under the Financial Holding Companies Act, we may purchase our own shares on the Stock Market Division of the Korea

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Exchange, through a tender offer, or through a trust agreement with a trust company, or retrieve our own shares from a trust company upon termination of a trust agreement, subject to the restrictions that (1) the aggregate purchase price of such shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year less the amounts of dividends and reserves for such fiscal year, subtracted by the sum of (a) the purchase price of treasury stock acquired if any treasury stock has been purchased after the end of the preceding fiscal year pursuant to the Commercial Act or the Securities and Exchange Act, (b) the amount subject to trust agreements, and (c) the amount of dividends approved at the ordinary general shareholders meeting after the end of the preceding fiscal year and the amount of retained earnings reserve required under the Commercial Act; plus if any treasury stock has been disposed of after the end of the preceding fiscal year, the acquisition cost of such treasury stock and (2) the purchase of such shares shall meet the requisite capital ratio under the Financial Holding Companies Act and the guidelines issued by the Financial Supervisory Commission.

In general, under the Financial Holding Companies Act, our subsidiaries are not permitted to acquire our shares.

Liquidation Rights

In the event we are liquidated, the assets remaining after the payment of all debts, liquidation expenses and taxes will be distributed to shareholders in proportion to the number of shares held by such shareholders. Holders of preferred shares may have preferences over holders of common shares in liquidation.

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EXCHANGE CONTROLS

General

The Foreign Exchange Transaction Act of Korea the related Presidential Decree and the regulations under such Act and Decree (collectively the Foreign Exchange Transaction Laws) herein, regulate investment in Korean securities by nonresidents and issuance of securities by Korean companies outside Korea. Under the Foreign Exchange Transaction Laws, nonresidents may invest in Korean securities only to the extent specifically allowed by these laws or otherwise permitted by the Ministry of Finance and Economy of Korea. The Financial Supervisory Commission has also adopted, pursuant to its authority under the Securities and Exchange Act, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities by Korean companies outside Korea.

Under the Foreign Exchange Transaction Laws, (1) if the Korean government determines that it is inevitable due to the outbreak of natural calamities, wars, conflict of arms or grave and sudden changes in domestic or foreign economic circumstances or other situations equivalent thereto, the Ministry of Finance and Economy may temporarily suspend payment, receipt or the whole or part of transactions to which the Foreign Exchange Transaction Laws apply, or impose an obligation to safekeep, deposit or sell means of payment in or to certain Korean governmental agencies or financial institutions; and (2) if the Korean government determines that international balance of payments and international finance face or are likely to face serious difficulty or the movement of capital between Korea and abroad will cause or is likely to cause serious obstacles in carrying out its currency policies, exchange rate policies and other macroeconomic policies, the Ministry of Finance and Economy may take measures to require any person who intends to perform capital transactions to obtain permission or to require any person who performs capital transactions to deposit part of the payments received in such transactions at certain Korean governmental agencies or financial institutions, in each case subject to certain limitations.

Reporting Requirements for Holders of Substantial Interests

Under the Securities and Exchange Act, any person whose direct or beneficial ownership of our common stock with voting rights, whether in the form of shares of common stock or American depositary shares, certificates representing the rights to subscribe for shares and equity-related debt securities including convertible bonds and bonds with warrants (which we refer to collectively as Equity Securities), together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of the total outstanding shares (including Equity Securities of us held by such persons) is required to report the status of the holdings and the purpose of the holdings (for example, whether the intent is to seek management control) to the Financial Supervisory Commission and the Korea Exchange within five business days after reaching the 5% ownership level. In addition, any change in the ownership interest subsequent to the report that equals or exceeds 1% of the total outstanding Equity Securities or change in the purpose of the holdings is required to be reported to the Financial Supervisory Commission and the Korea Exchange within five business days from the date of the change (within ten days of the end of the month in which the change occurred, in the case of an institutional investor with no intent to seek management control). Furthermore, the above reporting requirement applies to a person who has already reported the ownership of the stock accounting for 5% or more of the total outstanding shares (plus equity securities of us held by such persons) but has changed its intent to seek management control.

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and/or a loss of voting rights with respect to the portion of ownership of Equity Securities exceeding 5% of the total outstanding shares. In addition, the Financial Supervisory Commission may order the disposal of the unreported Equity Securities. Any persons who reports management control as the purpose for its holdings is prohibited from

acquiring additional shares of the issuer or from exercising voting rights during the following five days following the reporting date.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our stock accounts for 10% or more of the total issued and outstanding shares (which we refer to as a major stockholder) must report the status of his/her shareholding to the Korea Securities Futures Commission and the Korea Exchange within ten days after he/she becomes a major stockholder. In addition, any change in the ownership

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interest subsequent to the report must be reported to the Korea Securities Futures Commission and the Korea Exchange by the 10th day of the month following the month in which the change occurred. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment. Any single stockholder or persons who have a special relationship with such stockholder that jointly acquire more than 10% (4% in case of non-financial business group companies) of the voting stock of a Korean financial holding company who controls national banks will be subject to reporting or approval requirements pursuant to the Financial Holding Company Act. See Item 4. Information on the Company Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restriction on Financial Holding Company Ownership.

Restrictions Applicable to Shares

As a result of amendments to the Foreign Exchange Transaction Laws and Financial Supervisory Commission regulations (which we refer to collectively as the Investment Rules) adopted in connection with the stock market opening, from January 1992 and thereafter, foreigners may invest, with limited exceptions and subject to procedural requirements, in any shares of any Korean companies, whether listed on the Stock Market Division or the KOSDAQ Market Division of the Korea Exchange, unless prohibited by specific laws. Foreign investors may trade shares listed on the Stock Market Division or the KOSDAQ Market Division of the Korea Exchange only through the Korea Exchange, except in limited circumstances, including:

- odd-lot trading of shares;
- acquisition of shares by foreign companies as a result of a merger;
- acquisition of shares (which we refer to as Converted Shares) by exercise of warrants, conversion rights, exchange rights or options under bonds with warrants, convertible bonds, exchangeable bonds, stock options or withdrawal rights under depositary receipts issued by a Korean company outside of Korea;
- acquisition of shares by exercise of rights as a shareholder;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of stockholders rights, including preemptive rights or rights to participate in free distributions and receive dividends;
- sale or purchase of securities through a public bidding among large number of bidders;
- acquisition of shares by exercising rights granted under a covered warrant;
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded subject to certain exceptions; and
- acquisition or disposition of shares in connection with a tender offer.

For over-the-counter transactions of shares between foreigners outside the Stock Market Division or the KOSDAQ Market Division of the Korea Exchange for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a securities company licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the Stock Market Division or the KOSDAQ Market Division of the Korea Exchange must involve a licensed securities company in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions involving borrowed securities with respect to which shares are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the Stock Market Division or the KOSDAQ Market Division of the Korea Exchange (including Converted Shares and shares being issued for initial listing on the Stock Market Division or the KOSDAQ Market Division of the Korea Exchange) to register its identity with the Financial Supervisory Service prior to making any such investment; however, the registration requirement does not apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition of the Converted Shares. Upon registration, the Financial Supervisory Service will issue to the foreign investor an investment registration card, which must be presented each time the foreign investor opens a brokerage account with a securities company. Foreigners eligible to obtain an investment registration card include foreign nationals who have not resided in Korea for a consecutive

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period of six months or more, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree of the Ministry of Finance and Economy under the Securities and Exchange Act. All Korean branch offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea for the purpose of investment registration. However, a foreign corporation or depository issuing depositary receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor s purchase of shares through the Stock Market Division or the KOSDAQ Market Division of the Korea Exchange, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor s acquisition or sale of shares outside the Stock Market Division or the KOSDAQ Market Division of the Korea Exchange (as discussed above) must be reported by the foreign investor or his standing proxy to the governor of the Financial Supervisory Service at the time of each such acquisition or sale; provided, however, that a foreign investor must ensure that any acquisition or sale by it of shares outside the Stock Market Division or the KOSDAQ Market Division of the Korea Exchange in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the governor of the Financial Supervisory Service by the securities company engaged to facilitate such transaction. A foreign investor may appoint a standing proxy from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), asset management companies, futures trading companies and internationally recognized custodians which will act as a standing proxy to exercise stockholders rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. Generally, a foreign investor may not permit any person, other than its standing proxy, to exercise rights relating to his shares or perform any tasks related thereto on his behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the governor of the Financial Supervisory Service in such cases as determined to be inevitable by reason of conflict between laws of Korea and those of the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), the Korea Securities Depository, asset management companies, futures trading companies and internationally recognized custodians are eligible to act as a custodian of shares for a nonresident or foreign investor. A foreign investor must ensure that his custodian deposits his shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. One exception to such rules is investment in designated public corporations, which is subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. With certain exceptions, companies designated by the Korean government as a public corporation may set a ceiling on the acquisition of shares by a single person within 3% of the total number of shares. A foreigner who has acquired shares in excess of any ceiling may not exercise his voting rights with respect to the shares exceeding the limit, and the Financial Supervisory Commission may take necessary corrective action against such foreigner pursuant to the Securities and Exchange Act. Currently, Korea Electric Power Corporation is the only designated public corporation which has set such a ceiling. Furthermore, an investment by a foreign investor in 10% or more of the outstanding shares with voting rights of a Korean company is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to the Minister of the Ministry of

Commerce, Industry and Energy of Korea, which delegates its authority to receive such reports to foreign exchange banks or the Korea Trade Investment Promotion Agency under relevant regulations. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign or other shareholding restrictions in the event that any restrictions are prescribed in a specific law that regulates the business

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of the subject Korean company. For a description of such restrictions applicable to Korean banks, see Item 4. Information on the Company Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Bank Ownership.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to make a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a securities company. Funds in the foreign currency account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Won. No Korean governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a nonresident of Korea must be deposited either in a Won account with the investor s securities company or in his Won account. Funds in the investor s Won account may be transferred to his foreign currency account or withdrawn for local living expenses, provided that any withdrawal of local living expenses by any one person exceeding US$10,000 per day needs to be reported to the commissioner of the National Tax Service and the governor of the Financial Supervisory Service by the foreign exchange bank at which the Won account is maintained. Funds in the Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Securities companies and asset management companies are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors stock investments in Korea. Through these accounts, securities companies and asset management companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

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TAXATION

The following summary is based upon tax laws of the United States and the Republic of Korea as in effect on the date of this Annual Report on Form 20-F, and is subject to any change in United States or Korean law that may come into effect after such date. Investors in shares of common stock or American depositary shares are advised to consult their own tax advisers as to the United States, Korean or other tax consequences of the purchase, ownership and disposition of such securities, including the effect of any national, state or local tax laws.

Korean Taxation

The following summary of Korean tax considerations applies to you so long as you are not:

a resident of Korea;

a corporation organized under Korean law; or

engaged in a trade or business in Korea through a permanent establishment or a fixed base.

Dividends on Shares of Common Stock or American Depositary Shares

We will generally deduct Korean withholding tax from dividends paid to you at a rate of 27.5%. However, if you are a resident of a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. For example, if you are a qualified resident of the United States for purposes of the income tax treaty currently in effect between Korea and the United States and you are the beneficial owner of a dividend, a reduced withholding tax rate of 16.5% will generally apply.

In order to obtain the benefits of a reduced withholding tax rate under a tax treaty, you must submit to us, prior to the dividend payment date, such certificate of residence for the purpose of the tax treaty as may be required by the Korean tax authorities. Certificate of residence may be submitted to us through the depositary bank. In addition, effective July 1, 2002, to obtain the benefit of a non-taxation or tax exemption available under applicable tax treaties, you must submit an application for non-taxation or tax exemption prior to the time of the first dividend payment, together with a certificate of your tax residence issued by a competent authority of your tax residence country. Excess taxes withheld may not be recoverable even if you subsequently produce evidence that you were entitled to have tax withheld at a lower rate.

If we distribute to you free shares representing a transfer of certain capital reserves or certain asset revaluation reserves into paid-in-capital, such distribution may be deemed a dividend which is subject to Korean tax.

Taxation of Capital Gains

You may be exempt from Korean taxation on capital gains recognized from the sale of our shares effected through the Korea Exchange, if you have owned, together with certain related parties, less than 25% of our total issued and outstanding shares during the year of sale and the five calendar years before the year of sale. According to a ruling issued by the Korean taxation authorities, capital gains earned by a nonresident or foreign corporation without any Korean permanent establishment from the transfer of American depositary shares to other nonresidents or foreign corporations which have no permanent establishment in Korea are not subject to Korean taxation. In addition, capital gains earned by a nonresident or foreign corporations from the transfer of American depositary shares outside of

Korea are exempt from Korean taxation provided that the issuance of American depositary shares is deemed to be an overseas issuance under the Tax Incentives Limitation Law.

If you are subject to tax on capital gains with respect to a sale of American depositary shares, or of shares of common stock which you acquired as a result of a withdrawal, your gain will be calculated based on your cost of acquiring the American depositary shares although there are no specific Korean tax provisions or rulings on this issue. In the absence of the application of a tax treaty which exempts capital gains taxes, the amount of Korean tax imposed on your capital gains will be the lesser of 11.0% of the gross realization proceeds or, subject to the production of satisfactory evidence of the acquisition cost of the American depositary shares, 27.5% of the net capital gain.

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If you sell your shares of common stock or American depositary shares, the purchaser or, in the case of the sale of shares of common stock through a licensed securities company in Korea, the licensed securities company is required to withhold Korean tax from the sales price in an amount equal to 11.0% of the gross realization proceeds and to make payment of this amount to the Korean tax authorities, unless you establish your entitlement to an exemption under an applicable tax treaty or produce satisfactory evidence of your acquisition cost for the shares of common stock or the American depositary shares. To obtain the benefit of an exemption pursuant to a tax treaty, you must submit to the purchaser or the securities company, or through the depositary bank, as the case may be, prior to the time of payment, such certificate of your tax residence as the Korean tax authorities may require in support of your claim for treaty protection. Effective July 1, 2002, in order to qualify for the exemption under a tax treaty, a nonresident seller must submit an application for non-taxation or tax exemption together with a certificate of residence issued by a competent tax authority of the seller s country of tax residence prior to the time of payment of the gross realization proceeds . Excess taxes withheld may not be recoverable even if you subsequently produce evidence that you were entitled not to have any taxes withheld.

Inheritance Tax and Gift Tax

If you die while holding an American depositary share or donate an American depositary share, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the shares of common stock underlying the American depositary shares. If you are treated as the owner of the shares of common stock, your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10.0% to 50.0%, provided that the value of the American depositary shares is greater than a specified amount.

If you die while holding a share of common stock or donate a share of common stock, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

Securities Transaction Tax

If you transfer shares of common stock, you will be subject to a securities transaction tax at the rate of 0.15% and an agriculture and fishery special tax at the rate of 0.15% of the sale price of the shares of common stock when traded on the Stock Market Division of the Korea Exchange. In addition, if your transfer is not made on the Stock Market Division of the Korea Exchange, subject to certain exceptions, you will be subject to a securities transaction tax at the rate of 0.5%.

To date, the imposition of the securities transaction tax has not been enforced on transfers of American depositary shares however, the Ministry of Finance and Economy issued a ruling on February 25, 2004 to the Korean National Tax Service, in which it held that depositary receipts fall under the meaning of share certificates that are subject to the same securities transaction tax. In this ruling, the Ministry of Finance and Economy treats transfers of depositary receipts equally with the transfer of the underlying Korean shares. In light of this ruling, the securities transaction tax that would be due on transfers of American depositary shares will be 0.5% of the sales price of the American depositary shares, unless the American depositary shares are listed or registered on the New York Stock Exchange, NASDAQ National Market, Tokyo Stock Exchange, London Stock Exchange, Deutsche Stock Exchange or other such stock exchange utilizing trading by standardized procedure and method pursuant to the Presidential Decree of the Securities and Exchange Act and regulations thereunder.

According to the tax rulings issued by the Korean tax authorities in 2000, foreign stockholders are not subject to securities transaction tax upon the deposit of underlying stock and receipt of depositary shares or upon the surrender of depositary shares and withdrawal of the originally deposited underlying stock. However, there were uncertainties as to whether holders of American depositary shares other than initial holders would not be subject to securities

transaction tax when they withdraw underlying shares upon surrendering the American depositary shares. Pursuant to the 2004 tax ruling that seems to view the American depositary shares as underlying shares subject to securities transaction tax, the securities transaction tax would not apply to deposits of common shares in exchange for American depositary shares regardless of whether the holder is the initial holder because the transfer of

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American depositary shares by the initial holder to a subsequent holder would have already been subject to securities transaction tax under such tax ruling.

The securities transaction tax, if applicable, must be paid in principle by the transferor of the shares on the rights to subscribe to such shares. When the transfer is effected through a securities settlement company or a securities company, such settlement company or securities company is generally required to withhold and pay the tax to the Korean tax authority. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities company, the transferee is required to withhold the securities transaction tax and pay it to the Korean tax authority. The failure to file the securities transaction tax return will result in a penalty of 10% of the tax due and the failure to pay the securities transaction tax will result in a penalty of 10.95% per annum of the tax due for the days outstanding. The penalty is imposed on the party responsible for paying the securities transaction tax or, if the securities transaction tax is to be paid via withholding, the penalty is imposed on the party that has the withholding obligation.

United States Taxation

The following summary describes the material United States federal income tax considerations for beneficial owners of our shares or American depositary receipts that hold the shares or American depositary receipts as capital assets and are U.S. holders . You are a U.S. holder if you are for U.S. federal income tax purposes:

(i) an individual citizen or resident of the United States;

(ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or District of Columbia;

(iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source;

(iv) a trust that is subject to the primary supervision of a court within the United States and one or more U.S. persons has authority to control all substantial decisions of the trust; or

(v) a trust that has a valid election in effect under applicable U.S. Treasury Department regulations to be treated as a U.S. person.

In addition, this summary only applies to you if you are a U.S. holder that is a resident of the United States for purposes of the current tax treaty between the United States and Korea, your shares or American depositary receipts are not, for purposes of the treaty, effectively connected with a permanent establishment in Korea and you otherwise qualify for the full benefits of the treaty.

This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code) and regulations, rulings and judicial decisions thereunder as of the date hereof, which are subject to change, perhaps retroactively. It is for general purposes only and you should not consider it to be tax advice. In addition, it is based in part on representations by the depositary bank and assumes that each obligation under the deposit agreement will be performed in accordance with its terms. This summary does not represent a detailed description of all the federal tax consequences to you in light of your particular circumstances. In addition, it does not represent a detailed description of the U.S. federal tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws including if you are:

- a bank;

a dealer in securities or currencies;

a financial institution or an insurance company

a regulated investment company;

a real estate investment trust;

a tax-exempt entity;

a trader in securities that has elected to use a mark-to-market method of accounting for your securities holdings;

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a person holding shares or American depositary receipts as part of a hedging, conversion, constructive sale or integrated transaction or a straddle;

a person liable for the alternative minimum tax;

a partnership or other investor in a pass-through entity for U.S. federal income tax purposes;

a person who owns 10% or more of our voting stock; or

a person whose functional currency is not the U.S. dollar.

We cannot assure you that a later change in law will not alter significantly the tax considerations that we describe in this summary.

You should consult your own tax advisor concerning the particular U.S. federal tax consequences to you of the ownership and disposition of shares or American depositary receipts as well as any consequences arising under the laws of any other taxing jurisdiction.

If a partnership holds our shares or American depositary receipts, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our shares or American depositary receipts, you are urged to consult you tax advisor.

American Depositary Receipts

In general for U.S. federal income tax purposes, a holder of American depositary receipts will be treated as the owner of the underlying shares that are represented by such American depositary receipts. Deposits or withdrawal of shares for American depositary receipts generally will not be subject to U.S. federal income tax.

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an American depositary receipt and the issuer of the security underlying the American depositary receipt may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of American depositary receipts. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the analysis of the creditability of Korean taxes and the availability of the reduced tax rate for dividends received by certain non-corporate holders, each described below, could be affected by actions taken by intermediaries in the chain of ownership between the holder of an American depositary receipt and our company.

Distributions on Shares or American Depositary Receipts

Subject to the discussion under Passive Foreign Investment Company Rules , the gross amount of distributions on our shares or American depositary receipts (including amounts withheld to reflect Korean withholding tax) will be taxable as dividends to the extent paid out of our current and accumulated earnings and profits (as determined under U.S. federal income tax principles). Such income (including withheld taxes) will be includable in your gross income as ordinary income on the day you actively or constructively receive it, in the case of our shares, or the day actively or constructively received by the depositary bank, in the case of American depositary receipts. Such dividends will not be eligible for the dividends-received deduction allowed to corporations under the Code.

With respect to non-corporate U.S. holders, certain dividends received before January 1, 2011 from a qualified foreign corporation may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States which the U.S. Treasury Department determines to be satisfactory for these purposes and which includes an exchange of information provision. The U.S. Treasury Department has determined that the current income tax treaty between the United States and Korea meets these requirements, and we believe we are eligible for the benefits of that treaty. However, a foreign corporation is also treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or American depositary receipts backed by such shares) that are readily tradable on an established securities market in the United States. Our shares will generally not be considered readily tradable for these purposes. U.S. Treasury Department guidance indicates that our American depositary receipts, which are listed on the New York Stock Exchange, are readily tradable on an established securities market in the United States. There can be no assurance that our American depositary receipts will be considered readily tradable on an

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established securities market in later years. Non-corporate U.S. holders that do not meet a minimum holding period requirement during which they are not protected from a risk of loss or that elect to treat the dividend income as investment income pursuant to section 163(d)(4) of the Internal Revenue Code of 1986, as amended (the Code) will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. If you are a non-corporate U.S. holder, you should consult your own tax advisor regarding the application of these rules given your particular circumstances.

The amount of any dividend paid in Korean Won will equal the U.S. dollar value of the Korean Won received calculated by reference to the exchange rate in effect on the date you receive the dividend, in the case of our shares, or the date received by the depositary, in the case of American depositary receipts, regardless of whether the Korean Won are converted into U.S. dollars. If the Korean Won received are not converted into U.S. dollars on the day of receipt, you will have a basis in the Korean Won equal to their U.S. dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the Korean Won will be treated as U.S. source ordinary income or loss.

Subject to certain significant conditions and limitations, Korean taxes withheld from dividends (at the rate provided in the treaty) may be treated as foreign income tax eligible for credit against your U.S. federal income tax liability. See Korean Taxation Dividends on Shares of Common Stock or American Depositary Shares for discussion of the treaty rate. Korean taxes withheld in excess of the rate provided in the treaty will not be eligible for credit against your federal income tax until you exhaust all effective and practical remedies to recover such excess withholding, including the seeking of competent authority assistance from the U.S. Internal Revenue Service. For purposes of the foreign tax credit, dividends paid on our shares or American depositary receipts will be treated as income from sources without the United States and will generally constitute passive income.

Further, in certain circumstances, if you have held our shares or American depositary shares for less than a specified minimum period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on our shares or American depositary receipts. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under U.S. federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of our shares or the American depositary shares (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of our shares or American depositary shares), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange. Consequently, such distributions in excess of our current and accumulated earnings and profits would generally not give rise to foreign source income and you would generally not be able to use the foreign tax credit arising from any Korean withholding tax imposed on such distributions unless such credit can be applied (subject to applicable limitations) against U.S. federal income tax due on other foreign source income in the appropriate category for foreign tax credit purposes. However, we do not expect to keep earnings and profits in accordance with U.S. federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend (as discussed above).

Distributions of our shares or rights to subscribe for our shares that are received as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax. Consequently such distributions will not give rise to foreign source income and you will not be able to use the foreign tax credit arising from any Korean withholding tax unless such credit can be applied (subject to applicable limitations) against U.S. tax due on other

income derived from foreign sources. The basis of the new common stock or rights so received will be determined by allocating your basis in our old shares between our old shares and our new shares or rights received, based on their relative fair market value on the date of distribution. However, the basis of the rights will be zero if (i) the fair market of the rights is less than 15 percent of the fair market value of our old shares at the time of distribution, unless the taxpayer elects to determine the basis of our old shares and of the rights by allocating

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between the old shares and the rights the adjusted basis of our old shares or (ii) the rights are not exercised and thus expire.

Disposition of Shares or American Depositary Receipts

Subject to the discussion under Passive Foreign Investment Company Rules , upon the sale, exchange or other disposition of our shares or American depositary receipts, you generally will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and your adjusted tax basis in our shares or American depositary receipts as the case may be. The capital gain or loss will be long-term capital gain or loss if at the time of sale, exchange or other disposition our shares or American depositary receipts have been held for more than one year. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss you recognize on the sale, exchange or other disposition of our shares or American depositary receipts will generally be treated as U.S. source gain or loss. Consequently, you may not be able to use the foreign tax credit arising from any Korean tax imposed on the disposition of a share or American depositary receipt unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

You should note that any Korean securities transaction tax generally will not be treated as a creditable foreign tax for U.S. federal income tax purposes, although you may be entitled to deduct such taxes, subject to applicable limitations under the Code.

Passive Foreign Investment Company Rules

Based on the projected composition of our income and valuation of our assets, including goodwill, we do not believe that we will be a passive foreign investment company for the current taxable year and do not expect to become one in the future, although there can be no assurance in this regard. However, passive foreign investment company status is a factual determination that is made annually. Accordingly, it is possible that we may become a passive foreign investment company in the current or any future taxable year due to changes in valuation or composition of our income or assets.

In general, we will be considered a passive foreign investment company for any taxable year if either:

- at least 75% of our gross income is passive income, or
- at least 50% of the value of our assets is attributable to assets that produce or are held for the production of passive income.

The 50% of value test is based on the average of the value of our assets for each quarter during the taxable year. For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). If we own at least 25% by value of another company s stock, we will be treated, for purposes of the passive foreign investment rules, as owning our proportionate share of the assets and receiving our proportionate share of the income of that company.

If we are a passive foreign investment company for any taxable year during which you hold our shares or American depositary receipts, you will be subject to special tax rules with respect to any excess distribution that you receive and any gain you realize from the sale or other disposition (including a pledge) of our shares or American depositary receipts. These special tax rules generally will apply even if we cease to be a passive foreign investment company in future years. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for our shares or American

depositary receipts will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for our shares or American depositary shares,

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the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we are a passive foreign investment company, will be treated as ordinary income, and

the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year, and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In certain circumstances, you could make a mark-to-market election, under which in lieu of being subject to the excess distribution rules discussed above, you will include gain on our shares or American depositary receipts as ordinary income, provided that our shares or American depositary receipts are regularly traded on a qualified exchange or other market. Our shares are listed on the Korea Exchange, which must meet certain trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable U.S. Treasury regulations for purposes of the mark-to-market election, and no assurance can be given that the shares are or will continue to be regularly traded for purposes of the mark-to-market election. Our American depositary receipts are currently listed on the New York Stock Exchange, which constitutes a qualified market, although there can be no assurance that the American depositary receipts are or will be regularly traded . If you made a valid mark-to-market election, you will include in each year as ordinary income the excess of the fair market value of your passive foreign investment company shares or American depositary receipts at the end of the year over your adjusted tax basis in the shares or American depositary receipts. You will be entitled to deduct as an ordinary loss each year the excess of your adjusted tax basis in the shares or American depositary receipts over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

A U.S. holder s adjusted tax basis in passive foreign investment company shares or American depositary receipts will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If a U.S. Holder makes a mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the shares or American depositary receipts are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You should consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable with respect to your particular circumstances.

In addition, a holder of shares in a passive foreign investment company can sometimes avoid the rules described above by electing to treat the company as a qualified electing fund under section 1295 of the Code. This option is not available to you because we do not intend to comply with the requirements necessary to permit holders to make this election.

If you hold our shares or American depositary receipts in any year in which we are classified as a passive foreign investment company, you would be required to file Internal Revenue Service Form 8621.

Non-corporate U.S. holders will not be eligible for reduced rates of taxation on any dividends received from us prior to January 1, 2011, if we are a passive foreign investment company in the taxable year in which such dividends are paid or in the preceding taxable year. You should consult your tax advisor concerning the determination of our passive foreign investment company status and the U.S. federal income tax consequences of holding our shares or American depositary receipts if we are considered a passive foreign investment company in any taxable year.

Estate and Gift Taxation

Korea may impose an inheritance tax on your heir who receives our shares (and possibly American depositary receipts), even if the decedent was not a citizen or resident of Korea. See Korean Taxation Inheritance Tax and Gift

Tax . The amount of any inheritance tax paid to Korea may be eligible for credit against the amount of U.S. federal estate tax imposed on the estate (or heirs) of a U.S. holder. Korea may also impose a gift tax. The Korean gift tax generally will not be treated as a creditable foreign tax for U.S. tax purposes. You should consult your tax advisor regarding the consequences of the imposition of the Korean inheritance or gift tax.

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Information Reporting and Backup Withholding

In general, information reporting requirements will apply to certain distributions on our shares or American depositary receipts and to the proceeds of the sale, exchange or redemption of our shares or American depositary receipts paid to you within the United States (and in certain cases, outside the United States) unless you are an exempt recipient (such as a corporation). A backup withholding tax may apply to such payments if you fail to provide a correct taxpayer identification number or certification of foreign or other exempt status or fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided you furnish the required information to the Internal Revenue Service.

DOCUMENTS ON DISPLAY

We are subject to the information requirements of the U.S. Securities Exchange Act of 1934, as amended, and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. You may inspect and copy these materials, including this annual report on Form 20-F and the exhibits thereto, at the SEC s Public Reference Room at 100 Fifth Street, N.E., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. Any filings we make electronically will be available to the public over the Internet at the Commission s web site at *http://www.sec.gov*.

ITEM 11. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

See Item 4. Information on the Company Description of Assets and Liabilities Risk Management for quantitative and qualitative disclosures about market risk.

ITEM 12. *DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES*

DESCRIPTION OF AMERICAN DEPOSITARY RECEIPTS

American Depositary Shares

Citibank, N.A. has agreed to act as the depositary bank for the American Depositary Shares. Citibank s depositary offices are located at 388 Greenwich Street, New York, New York 10013. American Depositary Shares are frequently referred to as ADSs and represent ownership interests in securities that are on deposit with the depositary bank. ADSs are normally represented by certificates that are commonly known as American Depositary Receipts or ADRs. The depositary bank typically appoints a custodian to safekeep the securities on deposit. In this case, the custodian is Korea Securities Depository, located at 33, Yoido-dong, Youngdeungpo-gu, Seoul, Korea.

We appoint Citibank as depositary bank pursuant to a deposit agreement. A copy of the deposit agreement is on file with the SEC under cover of a Registration Statement on Form F-6. You may obtain a copy of the deposit agreement from the SEC s Public Reference Room at 100 Fifth Street, N.E., Washington, D.C. 20549.

We are providing you with a summary description of the material terms of the ADSs and of your material rights as an owner of ADSs. Please remember that summaries by their nature lack the precision of the information summarized and that a holder s rights and obligations as an owner of ADSs will be determined by reference to the terms of the deposit agreement and not by this summary. We urge you to review the deposit agreement in its entirety.

Each ADS represents the right to receive two (2) shares of common stock, par value 5,000 won per share, on deposit with the custodian. An ADS will also represent the right to receive any other property received by the depositary bank or the custodian on behalf of the owner of the ADS but that has not been distributed to the owners of ADSs because of legal restrictions or practical considerations.

If you become an owner of ADSs, you will become a party to the deposit agreement and therefore will be bound to its terms and to the terms of the ADR that represents your ADSs. The deposit agreement and the ADR specify our rights and obligations as well as your rights and obligations as owner of ADSs and those of the

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depositary bank. As an ADS holder you appoint the depositary bank to act on your behalf in certain circumstances. The deposit agreement and the ADRs are governed by New York law. However, our obligations to the holders of Shares will continue to be governed by the laws of The Republic of Korea, which may be different from the laws in the United States.

As an owner of ADSs, you may hold your ADSs either by means of an ADR registered in your name or through a brokerage or safekeeping account. If you decide to hold your ADSs through your brokerage or safekeeping account, you must rely on the procedures of your broker or bank to assert your rights as ADS owner. Please consult with your broker or bank to determine what those procedures are. This summary description assumes you have opted to own the ADSs directly by means of an ADR registered in your name and, as such, we will refer to you as the holder. When we refer to you, we assume the reader owns ADSs and will own ADSs at the relevant time.

Dividends and Distributions

As a holder, you generally have the right to receive the distributions we make on the securities deposited with the custodian bank. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the deposit agreement in proportion to the number of ADSs held as of a specified record date.

Distributions of Cash

Whenever we make a cash distribution for the securities on deposit with the custodian, we will notify the depositary bank and deposit the funds with the Custodian. Upon receipt of such notice and of confirmation of the deposit of the requisite funds, the depositary bank will arrange for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, subject to Korean laws and regulations.

The conversion into U.S. dollars will take place only if practicable and if the U.S. dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. The depositary will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the custodian in respect of securities on deposit.

The distribution of cash will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement.

Distributions of Shares

Whenever we make a free distribution of Shares for the securities on deposit with the custodian, we will notify the depositary bank and deposit the applicable number of Shares with the custodian. Upon receipt of notice of such deposit, the depositary bank will either distribute to holders new ADSs representing the Shares deposited or modify the ADS-to-Shares ratio, in which case each ADS you hold will represent rights and interests in the additional Shares so deposited. Only whole new ADSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new ADSs or the modification of the ADS-to-Shares ratio upon a distribution of Shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such taxes or governmental charges, the depositary bank may sell all or a portion of the new Shares so distributed.

No such distribution of new ADSs will be made if it would violate a law (*i.e.*, the U.S. securities laws) or if it is not operationally practicable. If the depositary bank does not distribute new ADSs as described above, it may sell the Shares received upon the terms described in the deposit agreement and will distribute the proceeds of the sale as in the case of a distribution of cash.

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Distributions of Rights

Whenever we intend to distribute rights to purchase additional Shares, we will give prior notice to the depositary bank and we will assist the depositary bank in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional ADSs to holders.

The depositary bank will establish procedures to distribute rights to purchase additional ADSs to holders and to enable such holders to exercise such rights if it is lawful and reasonably practicable to make the rights available to holders of ADSs, and if we provide all of the documentation contemplated in the deposit agreement (such as opinions to address the lawfulness of the transaction). You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new ADSs upon the exercise of your rights. The depositary bank is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new Shares other than in the form of ADSs.

The depositary bank will *not* distribute the rights to you if:

We do not timely request that the rights be distributed to you or we request that the rights not be distributed to you; or

We fail to deliver satisfactory documents to the depositary bank; or

It is not reasonably practicable to distribute the rights.

The depositary bank will sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the depositary bank is unable to sell the rights, it will allow the rights to lapse.

Elective Distributions

Whenever we intend to distribute a dividend payable at the election of shareholders either in cash or in additional shares, we will give prior notice thereof to the depositary bank and will indicate whether we wish the elective distribution to be made available to you. In such case, we will assist the depositary bank in determining whether such distribution is lawful and reasonably practicable.

The depositary bank will make the election available to you only if it is reasonably practical and if we have provided all of the documentation contemplated in the deposit agreement. In such case, the depositary bank will establish procedures to enable you to elect to receive either cash or additional ADSs, in each case as described in the deposit agreement.

If the election is not made available to you, you will receive either cash or additional ADSs, depending on what a shareholder in Korea would receive upon failing to make an election, as more fully described in the deposit agreement.

Other Distributions

Whenever we intend to distribute property other than cash, Shares or rights to purchase additional Shares, we will notify the depositary bank in advance and will indicate whether we wish such distribution to be made to you. If so, we will assist the depositary bank in determining whether such distribution to holders is lawful and reasonably practicable.

If it is reasonably practicable to distribute such property to you and if we provide all of the documentation contemplated in the deposit agreement, the depositary bank will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such taxes and governmental charges, the depositary bank may sell all or a portion of the property received.

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The depositary bank will *not* distribute the property to you and will sell the property if:

We do not request that the property be distributed to you or if we ask that the property not be distributed to you; or

We do not deliver satisfactory documents to the depositary bank; or

The depositary bank determines that all or a portion of the distribution to you is not reasonably practicable.

The proceeds of such a sale will be distributed to holders as in the case of a cash distribution.

Changes Affecting Shares

The Shares held on deposit for your ADSs may change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such Shares or a recapitalization, reorganization, merger, consolidation or sale of assets.

If any such change were to occur, your ADSs would, to the extent permitted by law, represent the right to receive the property received or exchanged in respect of the Shares held on deposit. The depositary bank may in such circumstances deliver new ADSs to you or call for the exchange of your existing ADSs for new ADSs. If the depositary bank may not lawfully distribute such property to you, the depositary bank may sell such property and distribute the net proceeds to you as in the case of a cash distribution.

Issuance of ADSs upon Deposit of Shares

The depositary bank may create ADSs on your behalf if you or your broker deposits Shares with the custodian. The depositary bank will deliver these ADSs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the Shares to the custodian. Your ability to deposit Shares and receive ADSs may be limited by U.S. and Korean legal considerations applicable at the time of deposit.

To the extent the laws or regulations of Korea require the Company to give its consent for subsequent deposits of Shares under the deposit agreement, the depositary bank will not accept Shares for deposit without receiving the consent of the Company. The Company and the Depositary have agreed that consent will be deemed given as long as the number of Shares proposed for deposit does not exceed the difference between the aggregate number of Shares deposited with the custodian with the consent of the Company (including any Shares deposited by the Company as a distribution of stock dividends or any exercise of rights) and the number of Shares on deposit with the custodian at the time of the proposed deposit.

The issuance of ADSs may be delayed until the depositary bank or the custodian receives confirmation that all required approvals have been given and that the Shares have been duly transferred to the custodian. The depositary bank will only issue ADSs in whole numbers.

When you make a deposit of Shares, you will be responsible for transferring good and valid title to the depositary bank. As such, you will be deemed to represent and warrant that:

The Shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained.

All preemptive (and similar) rights, if any, with respect to such Shares have been validly waived or exercised.

You are duly authorized to deposit the Shares.

The Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, and are not, and the ADSs issuable upon such deposit will not be, restricted securities (as defined in the deposit agreement).

The Shares presented for deposit have not been stripped of any rights or entitlements.

If any of the representations or warranties are incorrect in any way, we and the depositary bank may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

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Transfer, Combination and Split Up of ADRs

As an ADR holder, you will be entitled to transfer, combine or split up your ADRs and the ADSs evidenced thereby. For transfers of ADRs, you will have to surrender the ADRs to be transferred to the depositary bank and also must:

ensure that the surrendered ADR certificate is properly endorsed or otherwise in proper form for transfer;

provide such proof of identity and genuineness of signatures as the depositary bank deems appropriate;

provide any transfer stamps required by the State of New York or the United States; and

pay all applicable fees, charges, expenses, taxes and other government charges payable by ADR holders pursuant to the terms of the deposit agreement, upon the transfer of ADRs.

To have your ADRs either combined or split up, you must surrender the ADRs in question to the depositary bank with your request to have them combined or split up, and you must pay all applicable fees, charges and expenses payable by ADR holders, pursuant to the terms of the deposit agreement, upon a combination or split up of ADRs.

Withdrawal of Shares Upon Cancellation of ADSs

As a holder, you will be entitled to present your ADSs to the depositary bank for cancellation and then receive the corresponding number of underlying Shares at the custodian s offices. Your ability to withdraw the Shares may be limited by U.S. and Korea legal considerations applicable at the time of withdrawal. In order to withdraw the Shares represented by your ADSs, you will be required to pay to the depositary the fees for cancellation of ADSs and any charges and taxes payable upon the transfer of the Shares being withdrawn. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the ADSs will not have any rights under the deposit agreement.

If you hold an ADR registered in your name, the depositary bank may ask you to provide proof of identity and genuineness of any signature and such other documents as the depositary bank may deem appropriate before it will cancel your ADSs. The withdrawal of the Shares represented by your ADSs may be delayed until the depositary bank receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the depositary bank will only accept ADSs for cancellation that represent a whole number of securities on deposit.

You will have the right to withdraw the securities represented by your ADSs at any time except for:

Temporary delays that may arise because (i) the transfer books for the Shares or ADSs are closed, or (ii) Shares are immobilized on account of a shareholders meeting or a payment of dividends.

Obligations to pay fees, taxes and similar charges.

Restrictions imposed because of laws or Principal Regulations Applicable to ADSs or the withdrawal of securities on deposit.

The deposit agreement may not be modified to impair your right to withdraw the securities represented by your ADSs except to comply with mandatory provisions of law.

Voting Rights

As a holder, you generally have the right under the deposit agreement to instruct the depositary bank to exercise the voting rights for the Shares represented by your ADSs. The voting rights of holders of Shares are described in Item 10. Additional Information Articles of Incorporation Description of Capital Stock Voting Rights .

At our request, the depositary bank will distribute to you any notice of shareholders meeting received from us together with information explaining how to instruct the depositary bank to exercise the voting rights of the securities represented by ADSs.

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If the depositary bank timely receives voting instructions from a holder of ADSs, it will endeavor to vote the securities represented by the holder s ADSs in accordance with such voting instructions.

Please note that the ability of the depositary bank to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the depositary bank in a timely manner. Securities for which no voting instructions have been received will not be voted.

Fees and Charges

As an ADS holder, you will be required to pay the following service fees to the depositary bank:

Service	**Fees**
Issuance of ADSs	Up to US$0.05 per ADS issued
Cancellation of ADSs	Up to US$0.05 per ADS canceled
Exercise of rights to purchase additional ADSs	Up to US$0.02 per ADS held
Distribution of cash dividends	Up to US$0.02 per ADS held
Distribution of ADSs pursuant to stock dividend or other free stock distributions	Up to US$0.02 per ADS held
Distributions of cash proceeds (*i.e.*, upon sale of rights or other entitlements)	Up to US$0.02 per ADS held
Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to US$0.05 per share (or share equivalent) distributed
Annual Depositary Services Fee	Annually up to US$0.02 per ADS held at the end of each calendar year, except to the extent of any cash dividend fee(s) charged during such calendar year

As an ADS holder you will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges such as:

Fees for the transfer and registration of Shares charged by the registrar and transfer agent for the Shares in Korea (*i.e.*, upon deposit and withdrawal of Shares).

Expenses incurred for converting foreign currency into U.S. dollars.

Expenses for cable, telex and fax transmissions and for delivery of securities.

Taxes and duties upon the transfer of securities (*i.e.*, when Shares are deposited or withdrawn from deposit).

Fees and expenses incurred in connection with the delivery or servicing of Shares on deposit.

We have agreed to pay certain other charges and expenses of the depositary bank. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary bank. You will receive prior notice of such changes.

We have agreed to pay certain other charges and expenses of the depositary bank. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary bank. You will receive

prior notice of such changes.

Amendments and Termination

We may agree with the depositary bank to modify the deposit agreement at any time without your consent. We undertake to give holders 30 days prior notice of any modifications that would materially prejudice any of their substantial rights under the deposit agreement. We will not consider to be materially prejudicial to your substantial rights any modifications or supplements that are reasonably necessary for the ADSs to be registered under the Securities Act or to be eligible for book-entry settlement, in each case without imposing or increasing the fees and

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charges you are required to pay. In addition, we may not be able to provide you with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the deposit agreement if you continue to hold your ADSs after the modifications to the deposit agreement become effective. The deposit agreement cannot be amended to prevent you from withdrawing the Shares represented by your ADSs (except as permitted by law).

We have the right to direct the depositary bank to terminate the deposit agreement. Similarly, the depositary bank may in certain circumstances on its own initiative terminate the deposit agreement. In either case, the depositary bank must give notice to the holders at least 30 days before termination.

Upon termination, the following will occur under the deposit agreement:

for a period of six months after termination, you will be able to request the cancellation of your ADSs and the withdrawal of the Shares represented by your ADSs and the delivery of all other property held by the depositary bank in respect of those Shares on the same terms as prior to the termination. During such six months period the depositary bank will continue to collect all distributions received on the Shares on deposit (*i.e.*, dividends) but will not distribute any such property to you until you request the cancellation of your ADSs.

After the expiration of such six months period, the depositary bank may sell the securities held on deposit. The depositary bank will hold the proceeds from such sale and any other funds then held for the holders of ADSs in a non-interest bearing account. At that point, the depositary bank will have no further obligations to holders other than to account for the funds then held for the holders of ADSs still outstanding.

Books of Depositary

The depositary bank will maintain ADS holder records at its depositary office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the ADSs and the deposit agreement.

The depositary bank will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of ADRs. These facilities may be closed from time to time, to the extent not prohibited by law.

Limitations on Obligations and Liabilities

The deposit agreement limits our obligations and the depositary bank s obligations to you. Please note the following:

We and the depositary bank are obligated only to take the actions specifically stated in the deposit agreement without negligence or bad faith.

The depositary bank disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the deposit agreement.

The depositary bank disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document forwarded to you on our behalf or for the accuracy of any translation of such a document, for the investment risks associated with investing in Shares, for the validity or worth of the Shares, for any tax consequences that result from the ownership of ADSs, for the credit-worthiness of any third

party, for allowing any rights to lapse under the terms of the deposit agreement, for the timeliness of any of our notices or for our failure to give notice.

We and the depositary bank will not be obligated to perform any act that is inconsistent with the terms of the deposit agreement.

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We and the depositary bank disclaim any liability if we are prevented or forbidden from acting on account of any law or regulation, any provision of our Articles of Incorporation, any provision of any securities on deposit or by reason of any act of God or war or other circumstances beyond our control.

We and the depositary bank disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for the deposit agreement or in our Articles of Incorporation or in any provisions of securities on deposit.

We and the depositary bank further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting Shares for deposit, any holder of ADSs or authorized representatives thereof, or any other person believed by either of us in good faith to be competent to give such advice or information.

We and the depositary bank also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of Shares but is not, under the terms of the deposit agreement, made available to you.

We and the depositary bank may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.

We and the depositary bank also disclaim liability for any consequential or punitive damages for any breach of the terms of the deposit agreement.

Pre-Release Transactions

The depositary bank may, in certain circumstances, issue ADSs before receiving a deposit of Shares or release Shares before receiving ADSs for cancellation. These transactions are commonly referred to as pre-release transactions. The deposit agreement limits the aggregate size of pre-release transactions and imposes a number of conditions on such transactions (*i.e.*, the need to receive collateral, the type of collateral required, the representations required from brokers, etc.). The depositary bank may retain the compensation received from the pre-release transactions.

Taxes

You will be responsible for the taxes and other governmental charges payable on the ADSs and the securities represented by the ADSs. We, the depositary bank and the custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The depositary bank may refuse to issue ADSs, to deliver, transfer, split and combine ADRs or to release securities on deposit until all taxes and charges are paid by the applicable holder. The depositary bank and the custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the depositary bank and to the custodian proof of taxpayer status and residence and such other information as the depositary bank and the custodian may require to fulfill legal obligations. You are required to indemnify us, the depositary bank and the custodian for any claims with respect to taxes based on any tax benefit obtained for you.

Foreign Currency Conversion

The depositary bank will arrange for the conversion of all foreign currency received into U.S. dollars if such conversion is practical, and it will distribute the U.S. dollars in accordance with the terms of the deposit agreement. You may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

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If the conversion of foreign currency is not practical or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the depositary bank may take the following actions in its discretion:

Convert the foreign currency to the extent practical and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practical.

Distribute the foreign currency to holders for whom the distribution is lawful and practical.

Hold the foreign currency (without liability for interest) for the applicable holders.

ITEM 13. *DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES*

Not applicable.

ITEM 14. *MATERIAL MODIFICATION TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS*

Not applicable.

ITEM 15. *CONTROLS AND PROCEDURES*

Disclosure Control

An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, or the Exchange Act) as of December 31, 2006.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. As such, disclosure controls and procedures or systems for internal control over financial reporting may not prevent all errors and all fraud. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Based upon the evaluation referred to above, our Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures as of December 31, 2006 were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required.

Management s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company s assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit

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preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company s receipts and expenditures are being made only in accordance with authorizations of a company s management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, management assessed the effectiveness of the our internal control over financial reporting as of December 31, 2006. The assessment was made using criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, our management concluded that the our internal control over financial reporting was effective as of December 31, 2006 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our management s assessment, as well as the effectiveness of internal control over financial reporting has been audited by KPMG Samjong, an independent registered public accounting firm, who has also audited our consolidated financial statements for the year ended December 31, 2006. KPMG Samjong has issued an attestation report on management s assessment of the effectiveness of our internal control over financial reporting under Auditing Standard No. 2 of the Public Company Accounting Oversight Board.

Attestation Report of the Independent Registered Public Accounting Firm

KPMG Samjong s attestation report on management s assessment of, and the effectiveness of, internal control over financial reporting can be found on page F-3 of this annual report.

Changes in Internal Controls

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. ***AUDIT COMMITTEE FINANCIAL EXPERT***

Our board of directors has determined that Ms. Sung Bin Chun, our outside director and the chairman of our Audit Committee, is an audit committee financial expert , as such term is defined by the regulations of the Securities and Exchange Commission issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Ms. Chun is an independent director as such term is defined under Section 301 of the Sarbanes-Oxley Act of 2002.

ITEM 16B. ***CODE OF ETHICS***

Section 406 of the Sarbanes-Oxley Act of 2002 requires us either to adopt a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar

functions or, if no such code of ethics has been adopted, to disclose the reason for not adopting such a code. In May 2005, our board of directors approved a code of ethics for such officers and we have implemented the code as of July 1, 2005, together with an insider reporting system in compliance with Section 301 of the Sarbanes-Oxley Act. The code of ethics is available on our website www.shinhangroup.com.

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ITEM 16C. ***PRINCIPAL ACCOUNTANT FEES AND SERVICES***

The following table sets forth the aggregate fees billed for professional services rendered by KPMG Samjong Accounting Corp. for the years ended December 31, 2004, 2005 and 2006, our principal accountants for the respective period, depending on the various types of services and a brief description of the nature of such services.

Type of Services	Aggregate Fees Billed During the Year Ended December 31, 2004	2005	2006	Nature of Services
	(In millions of Won)			
Audit fees	W 4,451	W 4,624	W 6,035	Audit service for Shinhan Financial Group and its subsidiaries.
Audit-related fees	28		8	Accounting advisory service.
Tax fees	209	146	280	Tax return and consulting advisory service.
All other fees				All other services which do not meet the three categories above.
Total	W 4,688	W 4,770	W 6,323	

United States law and regulations in effect since May 6, 2003, and our own policies, generally require all engagements of our principal accountants be pre-approved by our Audit Committee or pursuant to policies and procedures adopted by it. Our Audit Committee has adopted the following policies and procedures for consideration and approval of requests to engage our principal accountants to perform audit and non-audit services. Engagement requests must in the first instance be submitted as follows: (i) in the case of audit and non-audit services for our holding company, to our Planning & Financial Management subject to reporting to our Chief Financial Officer; and (ii) in the case of audit and non-audit services for our subsidiaries, to our Audit and Compliance Team subject to reporting to the Senior Executive Vice President of Audit & Compliance Team. If the request relates to services that would impair the independence of our principal accountants, the request must be rejected. If the engagement request relates to audit and permitted non-audit services, it must be forwarded to the Audit Committee for consideration. To facilitate the consideration of engagement requests between its meetings, the Audit Committee has delegated approval authority of the following: (i) permitted non-audit services to our holding company, (ii) audit services to our subsidiaries and (iii) permitted non-audit services to our subsidiaries, to one of its members who is independent as defined by the Securities and Exchange Commission and the New York Stock Exchange. Such member in our case is Ms. Sung Bin Chun, the chairman of our Audit Committee, and she is required to report any approvals made by them to the Audit Committee at its next meeting. Our Audit Committee meets regularly once every quarter.

Additionally, United States law and regulations in effect since May 6, 2003 permit the pre-approval requirement to be waived with respect to engagements for non-audit services aggregating no more than five percent of the total amount of revenues we paid to our principal accountants, if such engagements were not recognized by us at the time of engagement and were promptly brought to the attention of our Audit Committee or a designated member thereof and approved prior to the completion of the audit. In 2003, the percentage of the total amount of revenue we paid to our principal accountants represented by non-audit services in each category that were subject to such a waiver was less

than 5%.

ITEM 16D. ***EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES***

Not applicable.

ITEM 16E. ***PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS***

Not applicable.

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ITEM 17. ***FINANCIAL STATEMENTS***

We have responded to Item 18 in lieu of responding to this item.

ITEM 18. ***FINANCIAL STATEMENTS***

Reference is made to Item 19(a) for a list of all financial statements filed as part of this annual report.

ITEM 19. ***EXHIBITS***

(a) Financial Statements filed as part of this Annual Report:

See Index to Financial Statements on page F-1 of this annual report.

(b) Exhibits filed as part of this Annual Report:

See Exhibit Index beginning on page E-1 of this annual report.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Shinhan Financial Group Co, Ltd.

By: /s/ In Ho Lee

Name: In Ho Lee

Title: President & Chief Executive Officer

Date: June 29, 2007

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Shinhan Financial Group Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Shinhan Financial Group Co., Ltd. and its subsidiaries (the Group) as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Group s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shinhan Financial Group Co., Ltd. and its subsidiaries as of December 31, 2006 and 2005, the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements as of and for the year ended December 31, 2006 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Korean Won have been translated into dollars on the basis set forth in note 2 of the notes to the consolidated financial statements.

We have also audited, in accordance with the standards of Public Company Accounting Oversight Board (United States), the effectiveness of Shinhan Financial Group, Co., Ltd. and its subsidiaries internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 13, 2007 expressed an unqualified opinion on management s assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea
June 18, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders
Shinhan Financial Group Co., Ltd.:

We have audited management s assessment, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting in Item 15 of the accompanying Part I of Form 20-F that Shinhan Financial Group Co., Ltd. and its subsidiaries (the Group) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Group s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Group s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that Shinhan Financial Group, Co., Ltd. and its subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also, in our opinion, Shinhan Financial Group, Co., Ltd. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Shinhan Financial Group, Co., Ltd. and its subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated June 18, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea
June 18, 2007

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Balance Sheets
December 31, 2005 and 2006

	2005	2006	2006 (See Note 1)
	(In millions of Korean Won, except share data)		(In thousands of US$, except share data)
Assets			
Cash and cash equivalents	W 2,434,382	W 1,691,303	$ 1,818,605
Restricted cash (Note 4)	3,643,767	6,758,043	7,266,713
Interest-bearing deposits	626,771	725,191	779,775
Call loans and securities purchased under resale agreements (Note 5)	1,499,438	1,243,059	1,336,623
Trading assets (Note 6)	4,507,043	4,836,892	5,200,959
Securities:			
Available-for-sale securities (Note 7)	22,479,721	17,458,399	18,772,472
Held-to-maturity securities (Note 7)	2,963,074	7,581,093	8,151,713
Loans (net of allowance for loan losses of W1,511,503 in 2005 and W1,575,013 in 2006) (Note 8)	104,446,954	120,989,101	130,095,808
Customers liability on acceptances	1,878,866	1,417,385	1,524,070
Premises and equipment, net (Note 9)	1,876,496	2,097,106	2,254,953
Intangible assets (Note 10)	1,834,881	1,590,239	1,709,934
Goodwill (Note 10)	1,122,605	993,320	1,068,086
Security deposits	1,077,658	1,107,603	1,190,971
Other assets (Notes 11, 25)	4,723,657	6,842,830	7,357,881
Total Assets	W 155,115,313	W 175,331,564	$ 188,528,563
Liabilities and Stockholders equity			
Liabilities			
Deposits:			
Interest-bearing (Note 12)	W 83,278,197	W 91,578,301	$ 98,471,291
Non-interest-bearing (Note 12)	3,143,170	3,918,153	4,213,068
Trading liabilities (Note 6)	1,048,157	1,610,840	1,732,086
Acceptances outstanding	1,878,866	1,417,385	1,524,070
Short-term borrowings (Note 13)	11,968,300	10,995,026	11,822,609
Secured borrowings (Note 14)	7,501,707	8,102,714	8,712,596
Long-term debt (Notes 15 and 22)	26,171,822	32,574,138	35,025,955
Future policy benefits (Note 16)	4,777,568	5,682,834	6,110,575
Accrued expenses and other liabilities (Notes 17, 25)	7,089,112	9,310,900	10,011,719

Total Liabilities	W	146,856,899	W	165,190,291	$	177,623,969
Commitments and contingencies (Note 31)						
Minority interest		79,758		161,935		174,124
Redeemable convertible preferred stock, W5,000 par value; 44,720,603 shares authorized; 22,360,301 shares issued and outstanding in 2005; 0 shares issued and outstanding in 2006 (Note 22)		367,872				
Stockholders equity						
Common stock, W5,000 par value; 1 billion shares authorized; 359,207,313 shares issued and 347,597,116 shares outstanding in 2005; 381,567,614 shares issued and 374,437,647 shares outstanding in 2006 (Note 21)	W	1,796,037	W	1,907,838	$	2,051,439
Additional paid-in capital		2,406,665		2,710,093		2,914,079
Retained earnings (Note 23)		3,953,742		5,145,966		5,533,297
Accumulated other comprehensive income (loss), net of taxes (Note 37)		(100,202)		376,952		405,324
Less: treasury stock, at cost, 11,610,197 shares in 2005 and 7,129,967 shares in 2006 (Note 21)		(245,458)		(161,511)		(173,669)
Total stockholders equity	W	7,810,784	W	9,979,338	$	10,730,470
Total liabilities, minority interest, redeemable convertible preferred stock and stockholders equity	W	155,115,313	W	175,331,564	$	188,528,563

See accompanying notes to consolidated financial statements.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2004, 2005 and 2006

	2004	2005	2006	2006 (See Note 1)
	(In millions of Korean Won, except per share data)			(In thousands of US$, except per share data)
Interest and dividend income				
Interest and fees on loans	W 6,142,356	W 6,295,473	W 7,380,474	$ 7,935,993
Interest and dividends on securities (Note 7)	1,264,839	932,395	1,199,137	1,289,394
Interest and dividends on trading assets	168,152	111,070	146,747	157,792
Other interest income	136,558	148,603	166,281	178,797
Total interest income	7,711,905	7,487,541	8,892,639	9,561,976
Interest expense				
Interest on deposits	2,369,936	2,234,689	2,648,257	2,847,588
Interest on short-term borrowings (Note 13)	340,733	339,855	524,776	564,275
Interest on secured borrowings	299,173	239,663	333,516	358,620
Interest on long-term debt	1,099,175	1,182,132	1,393,701	1,498,603
Other interest expense	28,976	17,564	11,591	12,463
Total interest expense	4,137,993	4,013,903	4,911,841	5,281,549
Net interest income	3,573,912	3,473,638	3,980,798	4,280,427
Provision (reversal) for credit losses (Note 8)	135,414	(183,488)	225,846	242,845
Net interest income after provision (reversal) for credit losses	3,438,498	3,657,126	3,754,952	4,037,582
Non-interest income				
Commissions and fees (Note 18)	1,178,814	1,505,703	1,511,384	1,625,144
Net trust management fees	84,496	100,216	105,605	113,554
Net trading profits (Note 6)	138,025	116,279	141,046	151,663
Net gains (losses) on securities (Note 7)	(77,115)	96,227	30,548	32,847
Gain on other investment	53,356	283,619	206,963	222,541
Net gain on foreign exchange	352,696	93,771	229,448	246,718
Insurance income		188,722	1,365,533	1,468,315
Other (Note 19)	366,332	333,897	335,247	360,481
Total non-interest income	2,096,604	2,718,434	3,925,774	4,221,263

Non-interest expense				
Employee compensation and other benefits (Note 27)	1,216,625	1,480,293	1,788,758	1,923,395
Depreciation and amortization	428,835	377,350	470,807	506,244
General and administrative expenses	542,821	515,882	666,439	716,601
Credit card fees	147,190	134,489	204,594	219,994
Provision (reversal) for other losses	16,037	112,944	(16,217)	(17,438)
Insurance fees on deposits	123,358	124,826	127,518	137,116
Other fees and commission expense	240,560	291,819	357,882	384,819
Taxes (except income taxes)	92,096	109,918	95,868	103,084
Insurance operating expense		199,968	1,404,065	1,509,747
Minority interest	153,428	16,079	17,860	19,205
Other (Note 19)	347,290	330,838	465,172	500,185
Total non-interest expense	3,308,240	3,694,406	5,582,746	6,002,952

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Statements of Income (Continued)
Years Ended December 31, 2004, 2005 and 2006

	2004	2005	2006	2006 (See Note 1)
	(In millions of Korean Won, except per share data)			(In thousands of US$, except per share data)
Income before income tax expense, extraordinary item and cumulative effect of change in accounting principle	2,226,862	2,681,154	2,097,980	2,255,893
Income tax expense (Note 25)	764,451	942,386	617,495	663,973
Income before extraordinary item and cumulative effect of change in accounting principle	1,462,411	1,738,768	1,480,485	1,591,920
Extraordinary item (Note 20)	27,508			
Cumulative effect of change in accounting principle, net of taxes (Notes 2, 10 and 28)	(23,049)		(10,184)	(10,951)
Net income	W 1,466,870	W 1,738,768	W 1,470,301	$ 1,580,969
Net income per share of common stock (Note 26)				
Basic				
Income before extraordinary item and cumulative effect of change in accounting principle	W 4,860	W 5,190	W 3,978	$ 4.28
Extraordinary item	94			
Cumulative effect of change in accounting principle, net of taxes	(79)		(27)	(0.03)
Net income per share	W 4,875	W 5,190	W 3,951	$ 4.25
Diluted				
Income before extraordinary item and cumulative effect of change in accounting principle	W 4,333	W 4,882	W 3,978	$ 4.28
Extraordinary item	82			
Cumulative effect of change in accounting principle, net of taxes	(68)		(27)	(0.03)

Net income per share	W	4,347	W	4,882	W	3,951	$	4.25
Average common shares issued and outstanding		292,464,924		333,424,397		372,172,814		
Average diluted common shares issued and outstanding		337,479,411		356,140,320		372,172,814		

See accompanying notes to consolidated financial statements.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity
Years Ended December 31, 2004, 2005 and 2006

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income (loss), Net of	Treasury	Total Stockhold
	Shares	Amount	Capital	Earnings	Taxes	Stock	Equity
	(In millions of Korean Won and in thousands of US $, except share and per share data)						
ce at January 1,	294,401,300	W 1,472,007	W 1,073,307	W 1,188,688	W 58,096	W (396,700)	W 3,395,
rehensive income:							
come				1,466,870			1,466,
gn currency ation adjustments					(18,462)		(18,
nrealized gains s) on ble-for-sale securities					118,239		118,
comprehensive me				1,466,870	99,777		1,566,
nce of common stock	24,917,711	124,588	427,305				551,
dividends declared 0 per share)				(158,717)			(158,
ends and accretion of unt on redeemable rtible preferred stock				(40,948)			(40,
isition of treasury						(203,827)	(203,
f treasury stock			158,361			396,696	555,
-based compensation			7,839				7,
ssification to accrued se			(8,623)				(8,
ce at December 31,	319,319,011	W 1,596,595	W 1,658,189	W 2,455,893	W 157,873	W (203,831)	W 5,664,
ce at January 1,	319,319,011	W 1,596,595	W 1,658,189	W 2,455,893	W 157,873	W (203,831)	W 5,664,
rehensive income:							
come				1,738,768			1,738,
					(12,024)		(12,

gn currency														
ation adjustments														
nrealized gains														
s) on														
ble-for-sale securities										(246,051)				(246,
comprehensive														
ne							1,738,768			(258,075)				1,480,
nce of common stock	17,528,000		87,640		485,775									573,
ersion of redeemable														
rtible preferred stock														
ommon stock	22,360,302		111,802		256,070									367,
dividends declared														
0 per share)							(232,749)							(232,
ends on redeemable														
rtible preferred stock							(8,170)							(8,
isition of treasury														
												(42,392)		(42,
f treasury stock					80							765		
-based compensation					19,791									19,
ssification to accrued														
se					(13,240)									(13,
nce at December 31,														
	359,207,313	W	1,796,037	W	2,406,665	W	3,953,742	W	(100,202)	W	(245,458)	W	7,810,

See accompanying notes to consolidated financial statements

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity (Continued)
Years Ended December 31, 2004, 2005 and 2006

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income (loss), Net of	Treasury	Total Stockholde
	Shares	Amount	Capital	Earnings	Taxes	Stock	Equity
	(In millions of Korean Won and in thousands of US $, except share and per share data)						
nce at January 1,	359,207,313	W 1,796,037	W 2,406,665	W 3,953,742	W (100,202)	W (245,458)	W 7,810,
prehensive income:							
ncome				1,470,301			1,470,
gn currency lation adjustments					(13,315)		(13,
nrealized gains on able-for-sale ities					490,469		490,
comprehensive me				1,470,301	477,154		1,947,
ersion of emable convertible rred stock into mon stock	22,360,301	111,801	256,040				367,
dividends declared 00 per share)				(278,077)			(278,
of treasury stock			82,773			83,947	166,
assification to ed expense			(35,385)				(35,
nce at mber 31, 2006	381,567,614	W 1,907,838	W 2,710,093	W 5,145,966	W 376,952	W (161,511)	W 9,979,
nce at January 1,	359,207,313	$ 1,931,223	$ 2,587,812	$ 4,251,335	$ (107,744)	$ (263,933)	$ 8,398,
prehensive income:							
ncome				1,580,969			1,580,
gn currency lation adjustments					(14,317)		(14,
nrealized gains es) on able-for-sale					527,385		527,

ities							
comprehensive me				1,580,969	513,068		2,094,(
ersion of emable convertible rred stock into mon stock	22,360,301	120,216	275,312				395,3
dividends declared 6 per share)				(299,007)			(299,(
of treasury stock			89,004			90,264	179,3
ssification to ed expense			(38,049)				(38,(
nce at mber 31, 2006	381,567,614	$ 2,051,439	$ 2,914,079	$ 5,533,297	$ 405,324	$ (173,669)	$ 10,730,4

See accompanying notes to consolidated financial statements.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2004, 2005 and 2006

	2004	2005	2006	2006 (See Note 1)
	(In millions of Korean Won)			(In thousands of US$)
Cash flows from operating activities				
Net income	W 1,466,870	W 1,738,768	W 1,470,301	$ 1,580,969
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Provision (reversal) for credit losses	135,414	(183,488)	225,846	242,845
Provision for future policy benefit		58,284	457,761	492,216
Depreciation and amortization	428,835	377,350	470,807	506,244
Accretion of discounts on long-term debt	324,866	181,038	100,719	108,300
Amortization on deferred loan fees and origination costs	92,399	47,071	36,332	39,067
Amortization on investment debt securities	16,482	30,863	33,680	36,215
Net (gain) on equity investments	(16,004)	(66,526)	(76,317)	(82,061)
Net trading profits	(138,025)	(116,278)	(141,046)	(151,662)
Net (gain) on sale of available-for-sale securities	(73,786)	(101,553)	(106,904)	(114,951)
Impairment loss on investment securities	150,901	5,326	76,357	82,104
Net (gain) loss on sale of premises and equipment	(15,275)	(20,318)	2,331	2,506
Provision (reversal) for other losses	16,037	112,944	(16,217)	(17,438)
Net (gain) on sales of other assets	(35,252)	(176,925)	(85,273)	(91,691)
Net unrealized foreign exchange (gain) loss	(151,351)	55,868	(4,977)	(5,352)
Minority interest in net income of subsidiaries	153,428	16,079	17,860	19,204
Expense on stock option	(1,604)	45,459	46,233	49,713
Impairment loss on intangible assets	1,893			
Impairment loss on goodwill			129,285	139,016
Impairment loss on other investments	15,521	20,958	31,351	33,711
Cumulative effect of change in accounting principle	23,049		10,184	10,951
Extraordinary gain	(27,508)			
Net (gain) loss on sale of loans	(1,032)	(94,411)	5,018	5,396
Net gain on retirement of bonds	(10,922)			
Net changes in:				
Restricted cash	361,287	(338,795)	(3,114,207)	(3,348,610)
Trading assets	(2,797,086)	2,229,181	(202,813)	(218,078)

Other assets (excluding assets for pending LG Card acquisition)	(2,466,414)	3,035,963	(2,061,943)	(2,217,143)
Trading liabilities	1,244,516	(713,088)	569,311	612,162
Accrued expenses and other liabilities	3,030,857	(3,147,189)	2,712,357	2,916,513
Net cash provided by (used in) operating activities	1,728,096	2,996,581	586,036	630,146

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2004, 2005 and 2006

	2004	2005	2006	2006 (See Note 1) (In thousands of US$)
	(In millions of Korean Won)			
Cash flows from investing activities				
Net change in interest-bearing deposit assets	W 189,962	W (13,563)	W (98,420)	$ (105,828)
Net change in call loans and securities purchased under resale agreements	295,274	66,636	239,270	257,280
Proceeds from sales of available-for-sale securities	12,071,514	13,295,391	16,691,300	17,947,634
Purchases of available-for-sale securities	(11,845,324)	(16,156,100)	(10,514,671)	(11,306,097)
Proceeds from maturities, prepayments and calls of held-to-maturity securities	2,142,497	1,307,473	2,588,671	2,783,517
Purchases of held-to-maturity securities	(1,596,763)	(1,178,122)	(7,216,116)	(7,759,265)
Loan originations and principal collections, net	(3,773,137)	(8,318,374)	(17,547,650)	(18,868,441)
Payments for repurchase of loans from KAMCO	(24,031)			
Proceeds from sales of premises and equipment	29,546	95,971	145,324	156,262
Purchases of premises and equipment	(222,825)	(282,909)	(594,429)	(639,171)
Net change in security deposits	1,757	(57,195)	(29,945)	(32,199)
Cash acquired from acquisitions of subsidiaries, net of cash paid	1,553	27,225		
Sale of equity interest in subsidiaries		73,489	609,039	654,881
Acquisition of equity interest in subsidiaries	(99,293)	(42,568)	(154,940)	(166,602)
Increase in other assets (relating to pending LG Card acquisition)			(519,318)	(558,406)
Net change in other investments	14,580	(201,062)	(93)	(100)
Net cash used in investing activities	(2,814,690)	(11,383,708)	(16,401,978)	(17,636,535)
Cash flows from financing activities				
Net increase (decrease) in interest-bearing deposits	(2,103,071)	3,447,855	8,535,560	9,178,022
Net increase in non-interest-bearing deposits	1,417,722	397,246	774,983	833,315

Net increase (decrease) in short-term borrowings	(230,353)	1,059,981	(938,879)	(1,009,547)
Proceeds from issuance of secured borrowings	1,422,914	1,864,737	1,237,050	1,330,161
Repayment of secured borrowings	(1,431,081)	(671,123)	(1,213,438)	(1,304,772)
Proceeds from issuance of long-term debt	9,385,571	26,507,592	44,616,738	47,974,987
Repayment of long-term debt	(7,059,193)	(23,942,920)	(37,877,713)	(40,728,724)
Purchases of treasury stock	(204,150)	(479)	(315)	(339)
Reissuance of treasury stock	622,190	845	198,430	213,366

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2004, 2005 and 2006

	2004	2005	2006	2006 (See Note 1) (In thousands of US$)
	(In millions of Korean Won)			
Cash dividends paid	W (166,670)	W (260,775)	W (282,851)	$ (304,141)
Increase (decrease) of minority interest	(1,750)		68,371	73,517
Net cash provided by financing activities	1,652,129	8,402,959	15,117,936	16,255,845
Effect of exchange rate changes on cash	(18,432)	(25,350)	(45,073)	(48,466)
Net increase (decrease) in cash and cash equivalents	547,103	(9,518)	(743,079)	(799,010)
Cash and cash equivalents				
Beginning of year	1,896,797	2,443,900	2,434,382	2,617,615
End of year	W 2,443,900	W 2,434,382	W 1,691,303	$ 1,818,605
Supplemental disclosure of cash flow information				
Cash paid for interest	W 4,088,833	W 3,880,792	W 4,746,165	$ 5,103,403
Cash paid for income taxes	431,537	455,480	563,980	606,430
Supplemental disclosure of non-cash investing and financing activities				
Acquisitions:				
Fair value of net assets acquired	1,062,640	243,067		
Goodwill	(411,456)	289,800		
Cash paid	99,293	1,405		
Consideration other than cash	551,893	531,462		
Conversion of redeemable convertible preferred stock into common stock:				
Common stock		111,802	111,801	120,216
Additional paid-in-capital		256,070	256,070	275,344
Securities and other investments received in connection with loan restructuring	214,758	27,328	32,384	34,822
Preferred stocks acquired from Hanmaum Financial Company in exchange for non-performing loans	3,618			
Decrease in cumulative translation adjustments, net of taxes	(18,461)	(12,024)	(13,315)	(14,317)

Increase (decrease) in unrealized gains (losses) on available-for-sale securities, net of taxes	118,240	(246,051)	492,734	529,821
Account payable for contingent consideration	166,516	20,461		

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2004, 2005, and 2006

1. General Information and Summary of Significant Accounting Policies

Business

Shinhan Financial Group Co., Ltd. is a financial holding company incorporated in the Republic of Korea (Korea) under the Financial Holding Company Act of Korea. Shinhan Financial Group Co., Ltd. and its subsidiaries (collectively the Group) engage in banking and a variety of related businesses to provide a wide range of financial services to corporations, governments, institutions and individuals.

The principal subsidiaries of the Group at December 31 are as follows:

	Country of Incorporation	Percentage of Ownership(1)		
		2004	2005	2006
Shinhan Bank(2)	Korea	100%	100%	100%
Chohung Bank(2)	Korea	100%	100%	0%
Good Morning Shinhan Securities Co., Ltd.	Korea	100%	100%	100%
Shinhan Card Co., Ltd.(2)	Korea	100%	100%	100%
Shinhan Capital Co., Ltd.	Korea	100%	100%	100%
Jeju Bank	Korea	62.42%	62.42%	62.42%
Shinhan Credit Information Co., Ltd.	Korea	100%	100%	100%
Shinhan Private Equity Inc.	Korea	100%	100%	100%
Shinhan Life Insurance Co., Ltd.	Korea	12.90%	100%	100%

Notes:

(1) Direct and indirect ownership are combined.

(2) On April 3, 2006, Shinhan Bank was merged into Chohung Bank with Chohung Bank being the surviving legal entity and Chohung bank changed its name to Shinhan Bank. In addition, Chohung Bank s credit card business was spun off and merged into Shinhan Card.

(3) All holdings are in common stock of the respective subsidiaries.

The Group is subject to the provisions of the Financial Holding Company Act of Korea. Shinhan Bank, and Jeju Bank conduct operations in accordance with the provisions of the Bank Act of Korea, including their activities in the commercial banking business. Shinhan Bank and Jeju Bank also engage in the trust business subject to the Korean Trust Business Act and other relevant laws.

Principles of Consolidation

The consolidated financial statements include the accounts of Shinhan Financial Group Co., Ltd. and its majority-owned subsidiaries. The Group consolidates subsidiaries in which it holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. All significant intercompany transactions and balances have been eliminated in consolidation. Operating results of companies purchased are included from the dates of the acquisition. Assets held in an agency or trust management capacities are not included in the consolidated financial statements. The Group accounts for investments in companies in which it owns voting or economic interest of 20% to 50% and for which it has significant influence over operating and financing decisions using the equity method of accounting, and the pro rata share of their income (loss) is included in other noninterest income (expense). Investments in joint ventures, where the Group does not have unilateral control, are also accounted for using the equity method of accounting. Investments in companies where the Group owns less than 20% and does not have the ability to exercise significant influence over operating and financing decisions are accounted for using the cost method of accounting. Income from these investments is recognized when dividends are received. As discussed

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

below, the Group consolidates entities deemed to be variable interest entities (VIEs) when the Group is determined to be the primary beneficiary of the VIEs.

Variable Interest Entities

An entity is referred to as a variable interest entity (VIE) if it meets the criteria outlined in FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* (revised December 2003) (FIN 46R), which are: (1) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors that cannot make significant decisions about the entity s operations or that do not absorb the expected losses or receive the expected residual returns of the entity.

In addition, as specified in FIN 46R, a VIE must be consolidated by the Group if it is deemed to be the primary beneficiary of the VIE, which is the party involved with the VIE that has a majority of the expected losses or a majority of the expected residual returns or both.

Along with the VIEs that are consolidated in accordance with these guidelines, the Group has significant variable interests in other VIEs that are not consolidated because the Group is not the primary beneficiary. These include Special Purpose Entities (SPEs) where the Group provides credit enhancement or liquidity guarantees, and various investment trust funds. All other entities not deemed to be VIEs, with which the Group has involvement, are evaluated for consolidation under ARB No. 51, *Consolidated Financial Statements*, and SFAS No. 94, *Consolidation of All Majority-Owned Subsidiaries* (SFAS 94).

Foreign Currency Translation

Assets, liabilities and operations of foreign branches and subsidiaries are recorded based on the functional currency of each entity. For certain foreign operations, the functional currency is the local currency, in which case assets and liabilities are translated, for consolidation purposes, at current exchange rates from the local currency to the reporting currency, the Korean Won. Income and expenses are translated at the weighted-average exchange rate for the period. The resulting translation adjustments are reported as a component of accumulated other comprehensive income within stockholders equity on an after-tax basis.

Foreign currency transactions executed by domestic Korean entities are accounted for at the exchange rates prevailing on the related transaction dates. Assets and liabilities denominated in foreign currencies are translated to the Korean Won using period-end exchange rates. Gains and losses resulting from the settlement of foreign currency transactions and from the translation of assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of income except for gains and losses arising from the translation of available-for-sale securities which are recorded as a component of accumulated other comprehensive income within stockholders equity on an after-tax basis.

Use of Estimates

The preparation of the consolidated financial statements requires management of the Group to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount

of securities, intangibles and goodwill, valuation allowances for loans losses and unfunded lending commitments, deferred income tax assets, future policy benefits, deferred acquisition cost, valuation of business acquired and valuation of derivative instruments. Actual results could differ from those estimates.

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, cash items in the process of collection and amounts due from banks, other financial institutions and the Bank of Korea (BOK), all of which have original maturities within 90 days.

Securities Purchased under Resale Agreements and Securities Sold under Repurchase Agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are treated as collateralized financing transactions and are carried in the consolidated balance sheets at the amount at which the securities will be subsequently resold or repurchased, including accrued interest, as specified in the respective agreements. Interest earned on resale agreements and interests incurred on repurchase agreements are reported as interest income and interest expense, respectively. The Group s policy is to take possession of securities purchased under agreements to resell. The market value of securities to be repurchased and resold is monitored, and additional collateral is obtained where appropriate to protect the Group against credit exposure.

Trading Assets and Liabilities, including Derivatives

Trading assets include securities that are bought and held principally for the purpose of selling them in the near term. Trading positions are carried at fair value and recorded on a trade date basis. The Group recognizes changes in the fair value of trading positions as they occur in net trading profits. Interest and dividends are included in interest and dividends on trading assets.

Trading assets and liabilities also include derivatives used for trading purposes and for non-trading purposes that do not qualify for hedge accounting and foreign exchange contracts which are recognized on the consolidated financial statements at fair value. Trading and non-trading derivatives include interest rate and foreign currency swaps, equity conversion options, credit indexed contracts, puts and calls, caps and floors, warrants, futures and forwards. The Group recognizes changes in the fair value of trading and non-trading derivatives that do not qualify for hedge accounting and foreign exchange contracts as they occur in net trading profits.

The fair value of trading securities, derivative financial instruments and foreign exchange contracts is determined using quoted market prices, including quotes from dealers trading those securities or instruments, when available. If quoted market prices are not available, the fair value is determined based on pricing models, quoted prices of instruments with similar characteristics, discounted cash flows or the net asset value of the investee, counterparty quotes or external valuations performed by qualified independent evaluators.

Derivatives and Hedging Activities

As part of its asset and liability management process, the Group uses various derivative instruments including interest rate and foreign currency swaps to manage various interest rate and foreign exchange exposures or modify interest rate characteristics of various balance sheet accounts. Certain derivative contracts such as interest rate swaps and cross currency swaps are entered into for non-trading purposes and intended to serve as economic hedges of risk but do not qualify for hedge accounting.

The Group accounts for derivative and hedging activities in accordance with the FASB Statement No. 133 (SFAS 133), amended by SFAS 138 and SFAS 149, *Accounting for Derivative Instruments and Hedging Activities*, which requires that all derivative instruments be recorded on the balance sheet at their respective fair value.

On the date a non-trading derivative contract is entered into, the Group designates the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), a foreign-currency fair-value or cash-flow hedge (foreign currency hedge), or a hedge of a net investment in a foreign operation. For all hedging relationships the Group formally documents the hedging

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument s effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as fair-value, cash-flow, or foreign-currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Group also formally assesses, both at the hedge s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. Changes in the fair value of derivatives that are highly effective as hedges and that are designated and qualify as foreign-currency hedges are recorded in either earnings or other comprehensive income, depending on whether the hedge transaction is a fair-value hedge or a cash-flow hedge. However, if a derivative is used as a hedge of a net investment in a foreign operation, its changes in fair value, to the extent effective as a hedge, are recorded in the cumulative translation adjustments account within other comprehensive income. The ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash-flow hedge is reported in earnings. Changes in the fair value of derivative trading instruments are reported in current period earnings.

The Group discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is dedesignated as a hedging instrument because it is unlikely that a forecasted transaction will occur, a hedged firm commitment no longer meets the definition of a firm commitment, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

In all situations in which hedge accounting is discontinued and the derivative is retained, the Group continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in earnings. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, the Group no longer adjusts the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Group removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the balance sheet, and recognizes any gain or loss in earnings. When it is probable that a forecasted transaction will not occur, the Group discontinues hedge accounting if not already done and recognizes immediately in earnings gains and losses that were accumulated in other comprehensive income.

The short-cut method of hedge accounting assumes no ineffectiveness in a hedging relationship involving an interest rate swap and an interest-bearing asset or liability. The changes in the fair value or cash flows that are attributable to the risk being hedged will be completely offset at the hedge s inception and on an on-going basis. Under the short-cut method, among other requirements, the critical terms of the derivative instrument and the hedged item should be initially the same and subsequently stay the same throughout the hedge s life to support the ongoing application of hedge accounting.

Investment Securities

Investments securities primarily consist of Korean Treasury, financial institutions mortgage-backed, corporate debt, and equity securities with readily determinable fair values. The Group classifies its debt securities in one of

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Shinhan Financial Group Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

three categories: trading, available-for-sale, or held-to-maturity and its equity securities into trading or available-for-sale. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity debt securities are those securities in which the Group has the positive intent and ability to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Available-for-sale securities are recorded at fair value. Held-to-maturity debt securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined using the moving average method for equity securities or specific identification method for debt securities.

A decline in the market value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Group considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, and forecasted performance of the investee.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

Non-marketable or Restricted Equity Securities

The Group holds certain equity securities that do not have readily determinable fair values or have sales restrictions exceeding one year, which are not within the scope of SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*. Those investments are recorded as other investments under other assets in the consolidated balance sheets and are accounted for at cost, with dividend income earned on these securities recorded as non-interest income and any other-than-temporary impairment recorded as non-interest expenses.

Loans

Loans are reported at their outstanding principal balances net of any unearned income, charge-offs, unamortized deferred fees and costs on originated loans, and premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are deferred and recognized as adjustments to income over the lives of the related loans. Unearned income, discounts and premiums are amortized using methods that approximate the interest method.

The Group generally ceases the accrual of interest when principal or interest payments become one day past due. Any unpaid interest previously accrued on such loans is reversed from income, and thereafter interest is recognized only to the extent payments are received. In applying payments on delinquent loans, payments are applied first to delinquent interest, normal interest, and then to the loan balance until it is paid in full. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current. Interest accruals are continued for past-due loans collateralized by customer deposits.

Securities received by the Group involving loans that are restructured or settled are recorded at the fair value of the security at the date of restructuring or settlement. Any difference between the security s fair value and the net carrying amount of the loan is recorded as a charge-off or recovery, as appropriate, on the loan through the allowance for loan losses.

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Notes to Consolidated Financial Statements (Continued)

Transfers of loans to third parties are accounted for as sales when control is surrendered to the transferee. The Group derecognizes the loans from the balance sheet including any related allowance, and recognizes all assets obtained, and liabilities incurred, including any recourse obligations to the transferee, at fair value. Any resulting gain or loss on the sales is recognized in earnings. Conversely, the Group only recognizes loans transferred from third parties on the balance sheet when the Group obtains control of the loans.

The Group provides equipment financing to its customers through a variety of lease arrangements. Direct financing leases are carried at the aggregate of lease payments receivable plus estimated residual value of the leased property, less unearned income. Unearned income is recognized using the effective interest method.

Allowance for Loan Losses

The Group s allowance for loan losses is based upon management s continuing review and evaluation of the loan portfolio and is management s best estimate of probable losses that have been incurred as of the balance sheet date. The determination of the allowance for loan losses hinges upon various judgments and assumptions, including but not limited to, management s assessment of probable losses on individual loans, domestic and international economic conditions, loan portfolio composition, transfer risks and prior loan loss experience. The allowance for loan losses is increased by the provision for loan losses, which is charged against current period operating results and decreased by the amount of charge-offs, net of recoveries.

The Group s allowance for loan losses consists of (a) specific allowances for specifically identified impaired borrowers, and (b) general allowances for homogeneous pools of commercial and consumer loans, and other loans which are not specifically identified as impaired.

A commercial loan is considered impaired when, after consideration of current information and events, it is probable that the Group will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. The Group considers the following types of loans to be impaired:

Loans classified as substandard or below according to asset classification guidelines of the Financial Supervisory Commission (FSC) of the Republic of Korea.

Loans that are 90 days or more past due; and

Loans which are troubled debt restructurings under U.S. generally accepted accounting principles (US GAAP)

Once a loan has been identified as individually impaired, impairment is measured in accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan*, as amended by SFAS 118. The Group s measurement of the impairment of a loan, with the exception of large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, is based on the present value of expected future cash flows discounted at the loan s effective interest rate or, as a practical expedient, on the loan s observable market price or on the fair value of the collateral if the loan is collateral dependent. If the resulting value is less than the book value of the loan, a specific allowance is established for an amount equal to the difference. Any amounts deemed uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses. Impairment criteria are applied to the entire loan portfolio, exclusive of leases and smaller-balance homogeneous

loans such as residential mortgage, consumer loans and credit cards, which are evaluated collectively for impairment. Smaller-balance commercial loans, managed on a portfolio basis, are also evaluated collectively for impairment.

The allowance for non-impaired corporate loans, consumer loans and credit card loans is determined using several modeling tools, including a delinquency roll-rate model for credit cards, as well as a risk rating migration model for homogeneous pools of consumer and commercial loans. The loss factors developed through the use of such models are based on the Group s historical loss experiences and may be adjusted for significant factors that, in management s judgment, affect the collectibility of the portfolio as of the evaluation date.

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The Group charges off unsecured consumer and credit card loan amounts past due greater than 180 days and the amount deemed uncollectible on financing leases is charged off when past due greater than one year.

With regard to loans sold with recourse obligations, the allowance for loan losses was re-established if loans sold with recourse obligations were reacquired, at an amount measured as of the date of reacquisition prior to January 1, 2005. Loans acquired on January 1, 2005 or after are recorded at fair value at the reacquisition date and the Group does not reestablish the allowance for loan losses for such loans. Any movement in the allowance in relation to these loans after reacquisition is included within the overall provision for loan losses during the relevant year. The related specific allowance for loan losses is transferred as cost of the net book value of the loan as of the date of sale when non-performing loans are sold and derecognized from the consolidated balance sheet.

Allowance for Off-balance Sheet Credit Instruments

The Group maintains an allowance for credit losses on off-balance sheet credit instruments, such as commitments to extend credit, guarantees, acceptances, standby and commercial letters of credit and other financial instruments to absorb estimated probable losses related to these unfunded credit facilities. The allowance is estimated based on the assessment of the probability of commitment usage and credit risk factors for loans outstanding to these same customers. The allowance for credit losses for off-balance sheet credit instruments is included in other liabilities.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosures are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, the assets are carried at the lower of their carrying amounts or fair values, less cost to sell, based on periodic valuation reviews performed by management. Revenues and expenses from operations and changes in the valuation allowance are included in other non-interest expenses.

Securitizations

The Group primarily securitizes corporate loans, credit card receivables, mortgages and student loans.

There are two key accounting determinations that must be made relating to securitizations. First, in the case where the Group originated or owned the financial assets transferred to the securitization entity, a decision must be made as to whether that transfer is considered a sale under generally accepted accounting principles. If it is a sale, the transferred assets are removed from the Group s consolidated balance sheet with a gain or loss recognized. Alternatively, when the transfer is not considered as a sale but rather a financing, the assets will remain on the Group s consolidated balance sheet with an offsetting liability recognized in the amount of proceeds received.

Second, determination must be made as to whether the securitization entity is sufficiently independent. If so, the entity would not be included in the Group s consolidated financial statements. For each securitization entity with which it is involved, the Group makes a determination of whether the entity should be considered a subsidiary of the Group and be included in its consolidated financial statements or whether the entity is sufficiently independent that it does not need to be consolidated. If the securitization entity s activities are sufficiently restricted to meet accounting requirements to be a Qualifying Special Purpose Entities (QSPE), the securitization entity is not consolidated by the seller of transferred assets. If the securitization entity is determined to be a VIE, the Group consolidates the VIE if it is

the primary beneficiary.

For all other securitization entities determined not to be VIEs in which the Group participates, a consolidation decision is made by evaluating several factors, including how much of the entity s ownership is in the hands of third-party investors, who controls the securitization entity, and who reaps the rewards and bears the risks of the entity. Only securitization entities controlled by the Group are consolidated.

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Interest in the securitized and sold loans may be retained in the form of subordinated debts. Retained interests are primarily recorded as available-for-sale investments. Gains or losses on securitization and sale depend in part on the previous carrying amount of the loans involved in the transfer and proceeds are allocated between the loans sold and the retained interests based on their relative fair values at the date of sale. Gains are recognized at the time of securitization and are reported in non-interest income or expense.

The Group values its securitized retained interest at fair value using either financial models, quoted market prices, or sales of similar assets. Where quoted market prices are not available, the Group estimates the fair value of these retained interests by determining the present value of expected future cash flows using modeling techniques that incorporate management s best estimates of key assumptions, including prepayment speeds, credit losses, and discount rates.

Transfers of Financial Assets

For a transfer of financial assets to be considered a sale, the assets must have been isolated from the Group, even in bankruptcy or other receivership; the purchaser must have the right to sell or pledge the assets transferred, or the purchaser must be a QSPE and the Group does not maintain effective control. If these sale requirements are met, the assets are removed from the Group s consolidated balance sheet. If the conditions for sale are not met, the transfer is considered to be a secured borrowing, and the assets remain on the consolidated balance sheet. The sale proceeds are recognized as the Group s liability. A legal opinion on a sale is generally obtained for complex transactions or where the Group has continuing involvement with assets transferred or with the securitization entity. Those opinions must state that the asset transfer is considered a sale and that the assets transferred would not be consolidated with other assets in the event of the Group s insolvency.

Premises and Equipment

Buildings, equipment and furniture, leasehold improvements and operation lease assets are stated at cost less accumulated depreciation and amortization. Equipment under capital leases are stated at the present value of minimum lease payments. Depreciation of buildings and operating lease assets is calculated on the straight-line method over the estimated useful lives of the assets. Depreciation of equipment and furniture is calculated on a declining balance method over the useful lives of the assets. Equipment under capital leases and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset. Gains or losses on sale of premises and equipment are determined by reference to their carrying amounts. Maintenance and repairs are charged to expense as incurred.

The Group capitalizes certain direct costs related to developing software for internal use, and amortizes such costs on a straight-line basis once the software is available for use in accordance with the Statements of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*.

The estimated useful lives of premises and equipment are as follows:

Buildings	40 years
Equipment and furniture	4-5 years

Leasehold improvements	5 years
Operating lease assets	3-5 years
Capitalized software costs	4-5 years

Goodwill and Other Intangible Assets

Goodwill represents the cost of an acquired business in excess of the fair value of the net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights, or because the asset is capable of being sold or exchanged

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either on its own or in connection with a related contract, asset, or liability. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142, *Goodwill and Other Intangible Assets*. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 144, *Accounting for Impairment or Disposal of Long-Lived Assets*.

The Group s finite-lived intangible assets are comprised of core deposit, credit card relationship, brokerage customer relationship and Korea Securities Finance Corporation (KSFC) deposit, valuation of business acquired (VOBA) intangibles. Core deposit intangibles represent the value of the funding provided by a base of acquired demand and savings accounts, which the Group can expect to maintain for an extended period of time because of generally stable customer relationships. Credit card relationship and brokerage customer relationship intangibles reflect the value of revenues to be derived from a base of acquired customer credit card and brokerage accounts activities, which the Group can expect to maintain for an extended period of time. KSFC deposit intangibles represent the positive spread realized on the differences between the interest rate paid to the customers and the interest rate earned on the deposit with KSFC, which the Group can expect to maintain for an extended period of time. VOBA intangible represents the present value of future profits embedded in the acquired business, which is determined by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. The Group has established VOBA primarily for its acquired traditional, interest-sensitive and variable businesses. Each of the traditional and interest-sensitive businesses is composed of life insurance and annuity contacts.

The finite-lived intangibles except VOBA are amortized using sum-of-the-years -digit method over their estimated useful lives, which range from 1 to 18 years. The estimated weighted-average life of brokerage customer relationship intangibles, KSFC deposit intangibles and Shinhan Bank s core deposit intangibles and credit card relationship intangibles are approximately 3, 3, 10 and 5 years, respectively, reflecting the run-off of economic value. VOBA is amortized over the effective lives of the acquired contracts. For acquired traditional business, VOBA is amortized in proportion to gross premiums of insurance in force, as applicable. For acquired interest-sensitive and variable businesses, VOBA is amortized in proportion to gross profits arising from the contracts and anticipated future experience, which is evaluated regularly.

During 2004, the Group decided to change its method of calculating amortization on other intangible assets from the straight-line method to the sum-of-the-years -digit (SYD) method. The Group changed its amortization method for intangible assets because it is believed that the SYD method better reflects the pattern in which the economic benefits of other intangible assets are consumed or otherwise used up. The new method has been applied retrospectively to the acquisitions of other intangible assets of prior years. The adjustment of W(23,049) million (net of W8,743 million in income taxes) included in 2004 income is the cumulative effect of applying the new method retroactively. The pro forma amounts shown below have been adjusted for the effect of the retrospective application of the new amortization method and the related income taxes.

	Actual	Pro Forma
	(In millions of Won, except per share data)	

2004		
Income before extraordinary gain	1,462,411	1,462,411
Basic net income per share of common stock	4,860	4,860
Diluted net income per share of common stock	4,333	4,333
Net income	1,466,870	1,489,919
Basic net income per share of common stock	4,875	4,954
Diluted net income per share of common stock	4,347	4,415

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The Group s indefinite-lived intangible assets are composed of court deposits of Chohung Bank and KSFC borrowings. Court deposit intangible asset represent the value of the funding provided by a base of acquired court deposit accounts which the Group can expect to maintain for an indefinite period because that court deposit will be maintained indefinitely once appointed by courts. KSFC borrowing represents the value of the low cost funding from KSFC compared to the next available funding source in the market, and the Group expects to benefit from the borrowing agreement indefinitely because that borrowing agreement lasts indefinitely in accordance with the Securities and Exchange Law in Korea.

Deferred Policy Acquisition Costs (DAC)

Deferred Policy Acquisition Costs (DAC), included in other assets, represent the costs of acquiring new business, principally commissions, certain underwriting and agency expenses, and the cost of issuing policies.

For traditional business, DAC is amortized over the premium-paying periods of the related policies, in proportion to the ratio of the annual premium revenue to the total anticipated premium revenue in accordance with SFAS No. 60, *Accounting and Reporting by Insurance Enterprises* (SFAS 60). Assumptions as to the anticipated premiums are made at the date of policy issuance or acquisition and are consistently applied over the life of the policy.

For Interest-sensitive and variable businesses, DAC is amortized at a constant rate based upon the present value of estimated gross profits expected to be realized in accordance with SFAS No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from Sale of Investments* (SFAS 97). The effect of changes in estimated gross profits on unamortized deferred acquisition costs is reflected in the period such estimated gross profits are revised.

Deferred policy acquisition costs are reviewed to determine if they are recoverable from future income, including investment income, and, if not recoverable, are charged to expense. All other acquisition expenses are charged to operations as incurred.

Future Policy Benefits

The group s liability for future policy benefits is primarily comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of future net premiums. Major assumptions used for future policy benefits are mortality and interest rate assumption. Expected mortality is generally based on the Group s historical experience and Standard industry table including a provision for the risk of adverse deviation. Interest rate assumptions are based on factors such as market conditions and expected investment returns. Although mortality and interest rate assumptions are locked-in upon the issuance of new insurance or annuity business with fixed and guaranteed terms, significant changes in experience or assumptions may require the Group to provide for expected future losses on a product by establishing premium deficiency reserves. Premium deficiency reserves, if required, are determined based on assumptions at the time the premium deficiency reserve is established and do not include a provision for the risk of adverse deviation.

The group s liability for future policy benefits also includes a liability for unpaid claims and claim adjustment expenses. The Group does not establish loss reserves until a loss has occurred. However, unpaid claims and claim adjustment expenses includes estimates of claims that the Group believes have been incurred but have not yet been

reported as of the balance sheet date. The Group s liability for future policy benefits also includes liabilities for guarantee benefits related to certain nontraditional long-duration life and annuity contracts and unearned revenues.

Separate Account Assets and Liabilities.

Separate account assets and liabilities are reported at fair value and represent segregated funds that are invested for certain policyholders. The assets consist of equity securities, fixed maturities, policy loans and cash equivalents.

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The assets of each account are legally segregated and are generally not subject to claims that arise out of any other business of the Group. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Group with respect to certain accounts. The investment income and gains or losses for separate accounts generally accrue to the policyholders and are not included in the consolidated statements of income. Separate account assets and liabilities amounts are included in Other assets and Accrued expenses and other liabilities, respectively and amount of each account is W282,995 million.

Insurance premium

Insurance Premiums from long-duration contracts, other than interest-sensitive life contracts, are earned when due as determined by the respective contract and estimates for premiums due but not yet collected are accrued. Premium collected for interest-sensitive contracts are not reported as revenue in the consolidated statements of income. Premiums from short-duration insurance contracts, principally accident and health policies, are earned over the related contract period.

Impairment

In accordance with SFAS 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows or quoted market prices in active markets if available, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Goodwill and intangible assets that have indefinite useful lives are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. For goodwill, the impairment determination is made at the reporting unit level and consists of two steps. First, the Group determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS 141, *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

Share-Based Compensation

The Group uses a fair value method of accounting for share-based compensation provided to its employees and key executives. The Group values stock options issued based upon an option-pricing model and recognizes this value as an expense, adjusted for forfeitures, over the period in which the options vest. On January 1, 2006, the Company adopted SFAS No. 123(revised 2004), *Share-Based Payment* , which replaced the existing SFAS 123, which allowed using the intrinsic value method under APB 25. See Note 2 Accounting Changes and Future Application of Accounting

Standards for further information.

Commissions and Fees

Commissions and fees primarily consist of brokerage fees and commissions, credit card fees, fees on guarantees and import/export letters of credit, and commissions received on remittance, cash dispenser service,

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cash management services and others. These fees are recognized over the period during which the related services are rendered.

Net Trust Management Fees

The Group manages funds on behalf of its customers through operations of various trust accounts. The Group receives fees for managing those funds which are recognized when earned. The Group is also entitled to receive performance-based fees for certain trust accounts. These fees, if earned, are recognized at the end of the performance period. In addition, the Group is liable to compensate trust account holders for losses incurred in certain trust accounts, subject to minimum return and principal guarantees. Such losses arising from the trusts underperforming the guaranteed level are accrued at the end of each applicable year when they are considered probable and reasonably estimable, and are included in net trust management fees.

Co-branding Credit Card Arrangements

The Group has co-brand arrangements with certain vendors that entitle a cardholder to receive benefits, such as airline frequent-flyer points, based on purchases made with the card. These arrangements have remaining terms not exceeding five years. The Group makes monthly payments to the certain co-brand partners based on the volume of cardholders purchases and on the number of points awarded to cardholders, and to the other co-brand partners, based on the numbers of points used when cardholders use the points awarded. The probable amount of payments to the co-brand partners is estimated considering historical payment experience and is recorded in other liability.

Dormant Accounts

Customers deposit with a positive balance but no earnings for an extended period of time is considered as dormant accounts. Pursuant to the Korean Commercial Code, the Group is legally discharged of these dormant accounts if customers do not redeem deposits within five years after their contractual maturities. However, the Group is obligated to return these deposits with interest upon customers requests consistent with Korean Banking Practices. With respect to the dormant accounts after the legal discharge, the Group estimates a redemption ratio based on past experience and recognizes gain on dormant accounts excluding expected redemption amounts as other non-interest income.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred tax assets, including the tax effect on the carryforward tax losses, are recognized to the extent it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. To the extent the deferred tax assets are not realizable, a valuation allowance is recognized.

Earnings Per Share

Earnings per share is computed after recognition of preferred stock dividend requirements. Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of

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common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised. It is computed after giving consideration to the weighted average dilutive effect of the Group s stock option, bonds with stock purchase warrants and redeemable convertible preferred stock. Dilutive potential common shares are calculated using the treasury stock method and if-converted method.

Comprehensive Income

The Group records unrealized gains and losses on available-for-sale securities and foreign currency translation adjustments in accumulated other comprehensive income (AOCI), net of taxes. Unrealized gains and losses on available-for-sale securities are reclassified to net income as the gains or losses are realized upon sale of the securities. Other-than-temporary impairment charges are reclassified to net income at the time of the charge. Translation gains or losses on foreign currency translation adjustments are reclassified to net income upon sale or liquidation of investments in foreign operations.

Convenience Translation

The Group operates primarily in Korea and its official accounting records are maintained in Korean Won. The US dollar amounts are provided herein as supplementary information solely for the convenience of the reader. Korean Won amounts are expressed in US dollars at the rate of W930.00 : US$1, the United States Federal Reserve Bank of New York noon buying exchange rate in effect on December 31, 2006. Such convenience into US dollar should not be construed as representations that the Korean Won amounts have been, could have been, or could in the future be converted into US dollars at this or any other rate of exchange.

Reclassification

Certain reclassifications have been made in the prior years consolidated financial statements to conform to the current year presentation for comparative purposes.

2. Accounting Changes and Future Application of Accounting Standards

Accounting for Loan Commitments Accounted for as Derivatives

In March 2004, the Securities Exchange Commission (SEC) issued Staff Accounting Bulletin No. 105, *Application of Accounting Principles to Loan Commitments* (SAB 105) which summarizes the views of the SEC staff regarding the application of US GAAP to loan commitments accounted for as derivative commitments. SAB 105 specifies that servicing assets embedded in commitments for loans to be held for sale should be recognized only when the servicing asset has been contractually separated from the associated loans by sale or securitization. This Bulletin is effective for loan commitments entered into after March 31, 2004 which did not have a material impact on the Group s consolidated financial statements.

Accounting for Certain Loans or Debt Securities Acquired in a Transfer

On January 1, 2005, Statement of Position (SOP) No. 03-3. *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3), was adopted for loan acquisitions. SOP 03-3 requires acquired loans to be recorded at fair value and prohibits carrying over valuation allowances in the initial accounting for acquired impaired loans. Loans carried at fair value, mortgage loans held for sale, and loans to borrowers in good standing under revolving credit agreements are excluded from the scope of SOP 03-3.

SOP 03-3 limits the yield that may be accreted to the excess of the undiscounted expected cash flows over the investor s initial investment in the loan. The excess of the contractual cash flows over expected cash flows may not be recognized as an adjustment of yield. Subsequent increases in cash flows expected to be collected are recognized

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Notes to Consolidated Financial Statements (Continued)

prospectively through an adjustment of the loan s yield over its remaining life. Decreases in expected cash flows are recognized as impairments.

The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments

On September 30, 2004, the FASB voted unanimously to delay the effective date of certain provisions of EITF 03-1, *The Meaning of Other-Than-Temporary Impairment and its Applications to Certain Investments*. The delay applies to both debt and equity securities and specifically applies to impairments caused by interest rate and sector spreads. In addition, the provisions of EITF 03-1 that were delayed relate to the requirements that a company declare its intent to hold the security to recovery and designate a recovery period in order to avoid recognizing an other-than-temporary impairment charge through earnings. On November 3, 2005, the FASB issued FASB Staff Position FAS 115-1, *The Meaning of Other-Than-Temporary Impairment and its Applications to Certain Investments*, revising the guidance in EITF 03-1, which did not have a material impact on the Group s consolidated financial statements. The disclosures required by EITF 03-1 are included in Note 7 to the consolidated financial statements.

Accounting for Conditional Asset Retirement Obligations

On December 31, 2005, the Group adopted FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47) as used in SFAS 143. Conditional asset retirement obligations are legal obligations to perform an asset retirement activity in which the timing and / or method of settlement are conditional based upon a future event that may or may not be within the control of the Group. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. FIN 47 clarifies that entities are required to recognize a liability for the fair value of the conditional asset retirement obligation if the fair value of the liability can be reasonably estimated and provides guidance for determining when entities would have sufficient information to reasonably estimate the fair value of the obligation. The implementation did not have a material impact on its consolidated financial statements.

Share-Based Compensation

On January 1, 2006, the Group adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which replaced the existing SFAS 123 which allowed using the intrinsic value method under APB 25, *Accounting for Stock Issued to Employees*. SFAS 123(R) requires companies to measure compensation expense for stock options and other share-based payments based on the instruments grant date fair value, and to record expense based on that fair value reduced by expected forfeitures. The Group adopted this standard by using the modified prospective approach. Beginning January 1, 2006, the Group recorded incremental expense for stock options granted prior to January 1, 2006 (the date the Group adopted SFAS 123R) which equals the remaining unvested portion of the grant date fair value of those stock options, reduced by estimated forfeitures. The Group recorded incremental compensation expense of W10,184 million, net of tax of W3,863 million, during the year. Until 2005, the Group used a fair value method of accounting under SFAS 123 and used the Black-Scholes model as its option valuation method. During 2006, the Company added a Monte Carlo simulation model to reflect the market condition of certain stock options.

Accounting for Exchange of Nonmonetary Assets

On January 1, 2006, the Group adopted SFAS No. 153, *Accounting for Exchange of Nonmonetary Assets* (SFAS 153), which eliminates the APB Opinion No. 29 exception for nonmonetary exchanges of similar productive assets and

replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of SFAS 153 did not have a material impact to the Group s consolidated financial statements.

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Accounting Changes and Error Corrections

On January 1, 2006, the Group adopted SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS 154). SFAS 154 requires retrospective application, unless impracticable, to prior-period financial statements for voluntary changes in accounting principles and changes required by an accounting pronouncement in the usual circumstances in which the pronouncement does not include specific transition provisions. This statement also requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for as a change in estimate effected by a change in accounting principle. The guidance for reporting the correction of an error in previously issued financial statements and a change in accounting estimate, and requiring justification of a change in accounting principle on the basis of preferability does not change from APB Opinion No. 20, *Accounting Changes.* The adoption of SFAS 154 did not have a material impact on the Group s financial statements.

Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination

In June 2005, the FASB ratified the Emerging Issues Task Force s Issue No. 05-06 *Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination* (EITF 05-06). EITF 05-06 provides that the amortization period used for leasehold improvements acquired in a business combination or purchased after the inception of a lease be the shorter of (a) the useful life of the assets or (b) a term that includes required lease periods and renewals that are reasonably assured upon the acquisition or the purchase. The provisions of EITF 05-06 are effective on a prospective basis for leasehold improvements purchased or acquired beginning in the second quarter of fiscal 2006. Adoption of Issue No. 05-06 did not have a material effect on the Group s consolidated financial statements.

Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements* (SAB 108). SAB 108 requires analysis of misstatements using both an income statement and a balance sheet approach in assessing materiality and provides for a one-time cumulative effect transition adjustment to beginning retained earnings for material prior year misstatements. SAB 108 is effective for second interim period of fiscal years beginning after November 15, 2006. The adoption of SAB 108 as of December 31, 2006, did not have a material impact on the Group s consolidated financial statements.

Employers Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued SFAS No. 158*, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans,* which amends SFAS No. 87*,* 88*,* 106, 132R (SFAS 158), which requires the recognition of a plan s overfunded or underfunded status as an asset or liability with offsetting adjustments to accumulated other comprehensive income. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position and recognize actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income The recognition of an asset and liability related to the funded status provision is effective for fiscal year ending after December 15, 2006 and the change in measurement date provisions is effective for fiscal years ending after December 15, 2008. The adoption of SFAS 158 as of December 31, 2006, did not have a material impact on the Group s consolidated financial statements.

Accounting for Certain Hybrid Financial Instruments

On February 16, 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* (SFAS 155), an amendment of SFAS 140 and SFAS 133. SFAS 155 permits the Group to elect to measure any hybrid financial instrument at fair value (with changes in fair value recognized in earnings) if the hybrid instrument

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contains an embedded derivative that would otherwise be required to be bifurcated and accounted for separately under SFAS 133. The election to measure the hybrid instrument at fair value is made on an instrument-by-instrument basis and is irreversible. The Statement will be effective for all instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of the Group s fiscal year that begins after September 15, 2006, with earlier adoption permitted as of the beginning of the Group s 2006 fiscal year, provided that financial statements for any interim period of that fiscal year have not been issued. The Group decided not to early adopt SFAS 155 effective January 1, 2006, and is currently evaluating the effect of SFAS 155.

Accounting for Servicing of Financial Assets

On March, 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets* which amends SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in any of the following situations, a) a transfer of the servicer s financial assets that meets the requirements for sale accounting, b) a transfer of the servicer s financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities in accordance with SFAS 115 and c) an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. SFAS No. 156 also requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable and permits an entity to choose either the amortization method or fair value measurement method for each class of separately recognized servicing assets and servicing liabilities. The statement is effective as of the beginning of the Group s first fiscal year that begins after September 15, 2006. The requirements for recognition and initial measurement of servicing assets and servicing liabilities should be applied prospectively to all transactions after adoption. The adoption of SFAS 156 as of January 1, 2007, did not have a material impact on the Group s consolidated financial statements.

Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 addresses the accounting for uncertainly in income tax positions by prescribing a consistent recognition threshold and measurement attribute for income tax positions taken or expected to be taken in an income tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 requires a two-step process in evaluating income tax positions. In the first step, an enterprise determines whether it is more likely than not that an income tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Income tax positions meeting the more-likely-than-not recognition threshold are then measured to determine the amount of benefit eligible for recognition in the financial statements. Each income tax position is measured at the largest amount of benefit that is more likely than not to be realized upon ultimate settlement. The Group is currently evaluating the effect of FIN 48.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value

measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of adopting SFAS 157 on the Group s consolidated financial statements.

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The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). This statement permits companies and not-for-profit organizations to make a one-time election to carry eligible types of financial assets and liabilities at fair value, even if fair value measurement is not required under U.S. GAAP. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Group is currently assessing the impact of adopting SFAS 159 on its consolidated financial statements.

3. Business Changes and Developments

Acquisition of minority interest of Good Morning Securities Co., Ltd.

On September 17, 2004, the Group decided to incorporate Good Morning Shinhan Securities as a wholly-owned subsidiary of the Group through a tender offer and share exchange, at the board of directors meeting. Pursuant to the resolution, the Group provided a tender offer for 11.99% of preferred shares in Good Morning Shinhan Securities at W2,500 per share from September 24, 2004 to October 13, 2004, and the Group purchased 8.95% of preferred shares in the market and through over-the-counter trading during the period. Additionally, on October 21, 2004, the Group purchased 27.26% of preferred shares in Good Morning Shinhan Securities at W2,495 per share in cash, which had been held by Good Morning Shinhan Securities, and with respect to the remaining shares, one share of common and preferred stock of Good Morning Shinhan Securities were exchanged for 0.1633 share and 0.0977 share in the Group, respectively, as of December 23, 2004. As a result, as of December 23, 2004, the Group s percentage of ownership increased to 100% and Good Morning Shinhan Securities became a wholly-owned subsidiary of the Group. The aggregate fair value of net assets acquired amounted to W358,828 million. In connection with additional acquisition, the Group recorded negative goodwill of W149,791 million. The negative goodwill was allocated to non-current assets acquired. Pursuant to SFAS 141, the Group recognized W27,508 million of extraordinary gain for the year ended December 31, 2004, which is the excess negative goodwill after allocation to premises and equipment, brokerage customer relationship and other intangible assets. See Note 20 for further information related to the extraordinary gain.

Agreement with KDIC and acquisition of minority interest of Chohung Bank

In relation to the acquisition of 80.04% of Chohung Bank with Korea Deposit Insurance Corporation (KDIC), the Group has an obligation to pay contingent consideration (Profit Earn-Out).

Profit Earn-out

A profit earn-out will be paid in an amount equal to 20% of Chohung Bank s consolidated net income for the years ended 2004, 2005, and 2006 in the aggregate, determined under Korean GAAP, in excess of W1.8 trillion. In the event that Chohung Bank s operation is merged into that of Shinhan Bank s, the net incomes of the Chohung Bank and Shinhan Bank of the two fiscal years prior to such merger shall be used as the basis for the calculation of net income for the fiscal year during the merger occurs.

Pursuant to the terms of the Agreements, the Group is required to obtain the consent of KDIC, to the extent permitted under applicable law, to declare and pay dividends on the Group s common stock in excess of W750 per share,

representing 15% of par value (W5,000), if the Group s net income as determined under Korean GAAP is below W800 billion in a given fiscal year and any of the RPS and the RCPS are outstanding.

The Group acquired 18.85% of minority shares in Chohung Bank through tender offer and share exchange in 2004. The Group provided a tender offer for 3.77% of shares in Chohung Bank at W3,500 per share from April 26, 2004 to May 17, 2004. With respect to share exchange for 15.08% of shares in Chohung Bank, the shareholders, who were against the share exchange, were entitled to sell their shares at W3,067 per share from May 25, 2004 to June 3, 2004, with a resolution of an shareholders meeting of Chohung Bank held on May 24, 2004, and the

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remaining shares were subject to share exchange, at the exchange ratio of 0.1354 share in the Group to each Chohung Bank share, on June 22, 2004.

As a result, the Group s percentage of ownership increased to 100% and Chohung Bank became a wholly-owned subsidiary of the Group. Upon the acquisition of 66,363,126 shares in Chohung Bank from shareholders, who were against the share exchange, Chohung Bank became the shareholder of the Group with 8,985,567 shares of common stock in the Group. The assets acquired and liabilities assumed of Chohung Bank were recorded at fair value. The acquisition resulted in negative goodwill, which was allocated to the identifiable intangible assets, premise and equipment on a pro rata basis.

		(In millions of Korean Won)
Cash	W	94,884
Stock exchange		331,263
Direct acquisition cost		565
Total purchase price	W	426,712
Allocation of purchase price:		
Fair value of net assets of Chohung Bank	W	403,111
Core deposit intangible asset		133,151
Court deposit intangible asset		115,364
Credit card relationship intangible asset		35,264
Negative goodwill		(260,178)
Total purchase price	W	426,712

The negative goodwill was allocated to non-current assets acquired as follows:

Premises and equipment	W	169,040
Core deposit intangible asset		89,067
Court deposit intangible asset		77,170
Credit card relationship intangible asset		23,589
Deferred tax		(98,688)
Total allocation	W	260,178

Acquisition of Shinhan Credit Information Co., Ltd.

On May 21, 2004, the Group decided to acquire 49% of total outstanding shares in Shinhan Credit Information Co., Ltd. (Shinhan Credit Information) from LSH Holdings LLC. As a result, the Group s ownership increased to 100% and Shinhan Credit Information became a wholly-owned subsidiary of the Group.

Incorporation of Shinhan Private Equity Inc.

On December 8, 2004, the Group incorporated Shinhan Private Equity Inc. (Shinhan Private Equity) as a wholly-owned subsidiary.

Acquisition of Shinhan Life Insurance Co., Ltd.

Shinhan Life Insurance Co., Ltd.(Shinhan Life Insurance) was incorporated in January 1990 under the laws of the Republic of Korea to engage in life insurance and related businesses. On December 13, 2005, the Group acquired the remaining 34,010,428 shares or 85.03% of the issued and outstanding common stock of Shinhan Life

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Insurance where the Group had owned 14.97% interest in exchange of cash and shares of common stock of the Group. As a result, the Group s ownership increased to 100% and Shinhan Life Insurance became a wholly-owned subsidiary of the Group. 5,989,572 shares or 14.97% of common stock of Shinhan Life Insurance acquired before December 13, 2005 and owned by Shinhan Bank and Good Morning Shinhan Securities were also exchanged to common stock of the Group. The Group issued 17,528,000 shares at the exchange ratio 0.4382 share of the Group for each Shinhan Life Insurance share.

The acquisition was accounted for using the purchase method, with the Group being the accounting acquirer. The assets and liabilities of Shinhan Life Insurance were recorded at fair value, with the excess of the purchase consideration over the fair value of the net assets acquired, after allocating to identifiable intangible assets, recorded as goodwill. The consolidated financial statements of the Group for the year ended December 31, 2005 include the operations of Shinhan Life Insurance from December 1, 2005.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

		(In millions of Korean Won)
Cash and cash equivalents	W	5,108
Deposits		389,627
Trading securities		268,980
Available-for-sale securities		1,529,922
Loans, net of allowance for loan losses		1,155,413
Premises and equipment, net		12,446
Other assets		409,067
Total assets	W	3,770,563
Future policy benefit	W	4,012,622
Borrowings		39,962
Other liabilities		453,444
Total liabilities	W	4,506,028
Fair value of net liabilities of Shinhan Life Insurance	W	(735,465)

The allocation of the purchase consideration is as follows:

	(In millions of Korean Won)

Cash	W	138
Stock exchange		531,394
Direct acquisition costs		1,335
Total purchase price	W	532,867
Allocation of purchase price:		
Fair value of net liabilities of Shinhan Life Insurance	W	(735,465)
Value of business acquired		978,532
Goodwill		289,800
Total purchase price	W	532,867

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Value of business acquired intangible asset(VOBA) represents the present value of future profits embedded in acquired business, which is determined by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. VOBA is amortized over the effective lives of the acquired contracts.

The Merger of Shinhan Bank and Chohung Bank

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 .

Concurrently, there was a split-merger in which 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 SFG 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.

Acquisition of LG Card

On March 19, 2007, the Group acquired 98,517,316 shares or 78.6% of the issued and outstanding common stock of LG Card, currently Korea s largest credit card company, from the creditors committee of LG Card, to achieve greater economies of scale in the Group s card operations, as well as to enhance its position as a balanced provider of banking and non-banking services with diversified revenue sources and enhanced synergy opportunities, including cross-selling. LG Card provides several services such as credit card services, factoring, installment financing and leasing, under the Act for Financial Companies Specializing in Loan Business. LG Card was listed on the Korea Stock Exchange on April 22, 2002.

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The acquisition will be 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 the fair value calculations are finalized and more information becomes available.

		(Unaudited) (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		548,825
Total assets	W	9,626,928
Borrowings and debentures	W	5,818,374
Other liabilities		1,077,130
Total liabilities	W	6,895,504
Fair value of net assets of LG Card	W	2,731,424

The allocation of the purchase consideration is as follows:

		(Unaudited) (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
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

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 6 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.

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4. Restricted Cash

The following table summarizes the details of restricted cash at December 31:

	2005	2006
	(In millions of Won)	
Reserve deposits with the Bank of Korea	W 2,711,000	W 5,992,231
Cash restricted for investment activities	890,465	723,150
Other	42,302	42,662
	W 3,643,767	W 6,758,043

Reserve deposits with BOK represent the amounts required under the Bank of Korea Act for payment of certificate of deposits, other time deposits and mutual installment deposits. Cash restricted for investment activities represents the amounts that the Group is contractually restricted for lending purposes and is reserved solely for purposes of performing investment activities for its customers.

5. Call Loans and Securities Purchased under Resale Agreements

The following table summarizes call loans and securities purchased under resale agreements, at their respective carrying values, at December 31:

	2005	2006
	(In millions of Won)	
Call loans	W 1,359,738	W 455,559
Securities purchased under resale agreements	139,700	787,500
	W 1,499,438	W 1,243,059

Call loans are short-term lending among banks and financial institutions, with maturities of 30 days or less. Typically, call loans have maturities of one day.

Interest income from call loans and securities purchased under resale agreements, as included in other interest income, amounted to W93,091 million, W84,572 million and W72,833 million during the years ended December 31, 2004, 2005 and 2006, respectively.

The fair value of collateral received in connection with resale agreements that may be sold or repledged by the Group is W111,190 million and W787,273 million at December 31, 2005 and 2006, respectively.

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6. Trading Activities

The following table summarizes the details of trading assets, at fair value, at December 31:

	2005	2006
	(In millions of Won)	
Debt securities:		
Korean treasury and governmental agencies	W 492,776	W 493,918
Corporations	1,307,131	1,314,681
Mortgage-backed and asset-backed securities	140,052	73,984
Financial institutions	1,145,210	1,022,738
Equity securities	464,596	507,053
Derivative instruments:		
Foreign exchange derivatives	681,441	858,970
Interest rate derivatives	173,130	288,268
Equity derivatives	68,117	214,963
Credit derivatives	100	250
Commodity derivatives	11,167	86
Other trading assets commodity indexed deposits	23,323	61,981
	W 4,507,043	W 4,836,892

The following tables summarizes the details of trading liabilities, at fair value, at December 31:

	2005	2006
	(In millions of Won)	
Derivative instruments:		
Foreign exchange derivatives	W 692,923	W 837,402
Interest rate derivatives	237,853	461,031
Equity derivatives	71,884	239,334
Credit derivatives	371	342
Commodity derivatives	11,120	86
Other trading liabilities commodity indexed deposits	34,006	72,645
	W 1,048,157	W 1,610,840

The following table presents trading profits (losses) for the years ended December 31:

		2004	2005	2006
			(In millions of Won)	
Debt securities		W 97,844	W 66,716	W 1,550
Equity securities		14,703	116,353	(11,961)
Derivative instruments		24,735	(66,852)	151,314
Other trading activities	commodity indexed deposits	743	62	143
Net trading profits		W 138,025	W 116,279	W 141,046

For the years ended December 31, 2004, 2005 and 2006, net unrealized gains (losses) on trading securities of W(27,887) million, W98,922 million and W(7,228) million, respectively, were included in net trading profits.

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7. Securities

The following table summarizes the details of the Group s available-for-sale and held-to-maturity securities at December 31:

	2005				2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	F Va
	(In millions of Won)							
e-for-sale								
rities:								
easury and ntal	W 8,442,283	W 13,176	W 156,942	W 8,298,517	W 4,436,291	W 4,269	W 43,234	W 4,
ons	1,971,273	6,878	25,871	1,952,280	1,751,347	20,076	11,536	1,
institutions	9,322,309	2,767	70,542	9,254,534	7,260,212	3,522	20,556	7,
overnments	51,615	39	1,956	49,698	30,047	8	955	
-backed and ked	946,843	1,892	2,479	946,256	2,270,423	2,136	3,883	2,
le equity	1,818,040	173,951	13,555	1,978,436	1,104,637	660,414	4,819	1,
	W 22,552,363	W 198,703	W 271,345	W 22,479,721	W 16,852,957	W 690,425	W 84,983	W 17,
maturity								
rities:								
easury and ntal	W 1,686,368	W 28,218	W 8,349	W 1,706,237	W 2,504,536	W 53,100	W 2,158	W 2,
ons	65,818	649	147	66,320	63,947	440	329	
institutions	1,210,888	1,809	5,085	1,207,612	4,959,314	65,279	6,584	5,
overnments					937		15	
-backed and ked					52,359	174	319	
	W 2,963,074	W 30,676	W 13,581	W 2,980,169	W 7,581,093	W 118,993	W 9,405	W 7,

The Bank of Korea (BOK) is the central bank that establishes monetary policies in Korea. Korea Development Bank (KDB) is owned and controlled by the Korean government. Of the total amounts listed above in the financial institutions category at December 31, 2005 and 2006, the fair value of available-for-sale debt securities included W5,453,090 million and W4,273,809 million, respectively, that were issued by BOK and KDB. Of the total amounts listed above in the financial institutions category at December 31, 2005 and 2006, the amortized cost of held-to-maturity debt securities included W901,154 million and W2,665,769 million, respectively, that were related to BOK and KDB.

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The Group has recognized impairment losses on available-for-sale as a charge to net gains (losses) on securities, where decreases in value were deemed to be other-than-temporary during the years ended December 31, as follows:

	2004	2005	2006
	(In millions of Won)		
Available-for-sale securities			
Debt Securities	W 122,316	W 494	W 68,175
Equity Securities	28,585	4,832	8,182
Total other-than-temporary impairment losses	W 150,901	W 5,326	W 76,357

The following table sets forth the current fair value and the associated unrealized losses on investments in available-for-sale debt securities, marketable equity securities and held-to-maturity debt securities with unrealized losses at December 31, 2006, by length of time that individual securities in each category had been in a continuous loss position:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In millions of Won)					
Available-for-sale securities						
Debt securities:						
Korean treasury and governmental agencies	W 1,090,276	W (3,210)	W 2,329,628	W (40,024)	W 3,419,904	W (43,234)
Corporations	363,505	(7,390)	403,103	(4,146)	766,608	(11,536)
Financial institutions	3,222,616	(8,805)	2,159,172	(11,751)	5,381,788	(20,556)
Foreign governments	13,405	(349)	3,762	(606)	17,167	(955)
Mortgage-backed and asset-backed securities	207,100	(1,503)	230,082	(2,380)	437,182	(3,883)
Marketable equity securities	82,737	(4,743)	1,421	(76)	84,158	(4,819)
	4,979,639	(26,000)	5,127,168	(58,983)	10,106,807	(84,983)

Held-to-maturity securities												
Debt securities:												
Korean treasury and governmental agencies	W	61,170	W	(124)	W	78,662	W	(2,034)	W	139,832	W	(2,158)
Corporations						14,601		(329)		14,601		(329)
Financial institutions		454,898		(5,277)		51,951		(1,307)		506,849		(6,584)
Foreign governments						922		(15)		922		(15)
Mortgage-backed and asset-backed securities		21,326		(157)		10,721		(162)		32,047		(319)
		537,394		(5,558)		156,857		(3,847)		694,251		(9,405)
Total temporarily impaired securities	W	5,517,033	W	(31,558)	W	5,284,025	W	(62,830)	W	10,801,058	W	(94,388)

Included in W84,983 million of gross unrealized losses on available-for-sale securities at December 31, 2006 was W58,983 million of unrealized losses that have existed for a period greater than 12 months. These securities primarily include Korean treasury and government agencies and financial institutions debt securities. The unrealized losses for these securities is due primarily to the current interest rate and foreign exchange rate environment. The unrealized loss is unrelated to the credit quality of the securities.

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Management has determined that the unrealized losses on the Group s investments in equity and debt securities at December 31, 2006 are temporary in nature. The Group conducts a periodic review to identify and evaluate investments that have indications of possible impairment. An investment in a debt or equity security is impaired if its fair value falls below its cost and the decline is considered other-than-temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost; the financial condition and near-term prospects of the issuer; and the Group s ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. The Group s review for impairment generally entails:

Identification and evaluation of investments that have indications of possible impairment

Analysis of individual investments that have fair values less than 80% of amortized cost, including consideration of the length of time the investment has been in an unrealized loss position

Discussion of evidential matter, including an evaluation of factors or triggers that would or could cause individual investments to qualify as having other-than-temporary impairments and those that would not support other-than-temporary impairment

Documentation of the results of these analyses as required under business policies

Any deterioration in Korean economic conditions or specific situations of the issuers of the securities could adversely affect the fair value of securities held by the Group.

The following table sets forth interest and dividends on securities for the years ended December 31:

	2004	2005	2006
	(In millions of Won)		
Interest income	W 1,200,356	W 911,417	W 1,142,329
Dividends	64,483	20,978	56,808
	W 1,264,839	W 932,395	W 1,199,137

For the years ended December 31, 2004, 2005 and 2006, proceeds from sales of available-for-sale securities amounted to W12,071,514 million, W13,295,391 million and W16,691,300 million, respectively. Gross realized gains amounted to W146,002 million, W158,210 million and W187,108 million for the years ended December 31, 2004, 2005 and 2006, respectively. Gross realized losses amounted to W72,216 million, W56,657 million and W80,203 million for the years ended December 31, 2004, 2005 and 2006, respectively.

The following table sets forth the amortized cost and estimated fair value of the Group s available-for-sale and held-to-maturity debt securities at December 31, 2006 by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	Available-for-Sale Debt Securities		Held-to-Maturity Debt Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In millions of Won)			
Within 1 year	W 8,346,309	W 8,354,737	W 1,963,262	W 1,992,226
Over 1 year through 5 years	5,940,640	5,901,821	5,148,237	5,231,251
Over 5 years through 10 years	656,362	644,809	246,774	246,872
Over 10 years	92,206	91,017	222,820	220,332
Not due at a single maturity date	712,803	705,783		
	W 15,748,320	W 15,698,167	W 7,581,093	W 7,690,681

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8. Loans

The following table summarizes the details of the loan portfolio at December 31:

	2005	2006
	(In millions of Won)	
Commercial:		
Commercial and industrial	W 35,728,132	W 40,062,760
Other commercial	21,408,703	27,319,293
Lease financing	754,473	584,641
Consumer:		
Mortgage and home equity	25,840,334	30,097,346
Credit cards	4,241,562	3,924,304
Other consumer	17,874,852	20,457,918
Total loans, gross	105,848,056	122,446,262
Deferred loan origination costs	110,401	117,852
	105,958,457	122,564,114
Less: Allowance for loan losses	1,511,503	1,575,013
Total loans, net	W 104,446,954	W 120,989,101

During 2005 and 2006, the Group received equity securities with a fair market value of W27,328 million and W2,365 million, respectively, through the restructuring of 12 loans in 2005 and 4 loans in 2006, with an aggregate book value of W39,668 million in 2005 and W3,640 million in 2006. The Group recognized aggregate charge-offs of W12,340 million and W1,275 million related to these transactions during the years ended December 31, 2005 and 2006, respectively.

Impaired loans are those on which the Group believes it is probable that it will not be able to collect all amounts due according to the contractual terms of the loan. The following table sets forth information about the Group s impaired loans at December 31:

	2004	2005	2006
		(In millions of Won)	
Impaired loans with an allowance	W 2,268,924	W 1,794,283	W 1,219,816
Impaired loans without an allowance	376,606	490,913	155,093
	W 2,645,530	W 2,285,196	W 1,374,909

Allowance for impaired loans	W 885,332	W 703,529	W 864,802
Average balance of impaired loans during the year	2,057,663	2,039,445	1,402,510
Interest income recognized on impaired loans	90,548	70,116	56,106

Included in the above table were smaller balance commercial loans managed on a portfolio basis which were collectively identified as impaired amounting to W738,846, W784,945 million and W511,723 million at December 31, 2004, 2005 and 2006, respectively.

Loans that are 14 days or less past due in case of commercial loans and 30 days or less past due in case of consumer loans are regarded as nonaccrual loans in a repayment grace period and the Group does not generally request borrowers with such past due loans to make immediate repayment of the outstanding principal balances and related accrued interest. At December 31, 2004, 2005 and 2006, nonaccrual loans, excluding the past due loans within the repayment grace period, totaled W2,453,038, W2,052,473 million and W1,654,365 million, respectively.

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Nonaccrual loans including the past due loans within the repayment grace period at December 31, 2006, totaled 2,099,305 million.

The following table presents, loans and debt securities whose terms have been modified in troubled debt restructuring at December 31:

	2004	2005	2006
	(In millions of Won)		
Loans	W 1,203,535	W 989,998	W 343,086
Debt Securities	120,838	44,248	47,361
	W 1,324,373	W 1,034,246	W 390,447

The following table sets forth the movements in the allowance for credit losses for the years ended December 31:

	Allowance for Loan Losses			Allowance for Off-Balance Sheet Credit Instrument(1)		
	2004	2005	2006	2004	2005	2006
	(In millions of Won)					
Balance at beginning of the year	W 3,630,728	W 2,310,555	W 1,511,503	W 176,653	W 115,616	W 187,274
Provision (reversal) for loan losses	195,446	(255,146)	252,346			
Provision (reversal) for off-balance sheet credit commitment				(60,032)	71,658	(26,500)
Allowance relating to:						
Acquisition of Shinhan Life Insurance		2,792				
Loans reacquired from KAMCO subject to recourse	1,900					

Other				(1,005)		
	1,900	2,792		(1,005)		
Charge-offs	(1,824,897)	(946,022)	(512,625)			
Recoveries	307,378	399,324	323,789			
Balance at end of the year	W 2,310,555	W 1,511,503	W 1,575,013	W 115,616	W 187,274	W 160,774

Note:

(1) The allowance for off-balance sheet credit instruments is included in other liabilities.

The Group originates direct financing leases on certain machinery, computers and various other equipment, automobiles and ships for customers in a variety of industries. Income attributable to these leases is initially recorded as unearned income and subsequently recognized as interest income, using the effective interest method, over the term of the leases. The terms of the leases are generally from 3 to 10 years. The following table sets forth the details of the net investment in direct financing leases at December 31, as included in the respective loan balances:

	2005	**2006**
	(In millions of Won)	
Gross lease payments receivable	W 807,291	W 632,397
Estimated unguaranteed residual values	24,030	19,583
Unearned income	(76,848)	(67,339)
	W 754,473	W 584,641

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The following table sets forth the scheduled maturities of net lease payments receivable at December 31, 2006:

Years Ending	(In millions of Won)
2007	W 232,300
2008	133,778
2009	89,527
2010	56,042
2011	33,815
Thereafter	39,179
	W 584,641

9. Premises and Equipment

The following table summarizes the details of premises and equipment at December 31:

	2005	2006
	(In millions of Won)	
Land	W 937,711	W 990,029
Buildings	730,675	776,108
Equipment and furniture	631,264	701,168
Capitalized software costs	195,063	312,938
Leasehold improvements	134,368	122,801
Construction in progress	10,164	19,667
Operating lease assets	116,859	76,614
Total premises and equipment, gross	2,756,104	2,999,325
Less: Accumulated depreciation and amortization	(879,608)	(902,219)
Total premises and equipment, net	W 1,876,496	W 2,097,106

Depreciation expense on buildings, equipment and furniture, leasehold improvements and operating lease assets amounted to W214,994 million, W187,748 million and W192,340 million, and amortization expense on capitalized software costs amounted to W26,273 million, W2,196 million and W33,824 million for the years ended December 31, 2004, 2005 and 2006, respectively. Accumulated depreciation on operating lease assets at December 31, 2005 and 2006 were W58,049 million and W48,876 million, respectively.

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10. Goodwill and Intangible Assets

The following table sets forth the movements in goodwill:

	Shinhan Bank (formerly Chohung Bank)	Good Morning Shinhan Securities	Shinhan Capital	Shinhan Card	Shinhan Life Insurance	Total
			(In millions of Won)			
Balance at January 1, 2005	W 468,935	W 145,364	W 1,616	W	W	W 615,915
Acquisition					289,800	289,800
Disposition						
Impairment loss						
Other(1)	216,890					216,890
Balance at December 31, 2005	W 685,825	W 145,364	W 1,616		W 289,800	W 1,122,605
Acquisition						
Disposition						
Impairment loss		(129,285)				(129,285)
Other(2)	(99,378)			99,378		
Balance at December 31, 2006	W 586,447	W 16,079	W 1,616	W 99,378	W 289,800	W 993,320

Note:

(1) Relates to contingent consideration (Asset Indemnity), settled by the additional payment of W220,714 million, which, as a result, was recognized as an additional goodwill, offset by adjustments to goodwill of W3,824 million relating to tax benefits from the valuation allowance recognized for operating loss carryforwards of Chohung Bank.

(2) Relates to allocated goodwill to credit card business of Chohung Bank. On April 3, 2006, Chohung Bank s credit Card business was spun-off and merged into Shinhan Card.

The Group recorded goodwill and intangible assets of W289,800 million and W978,532 million, respectively, in connection with the acquisition of Shinhan Life Insurance in 2005.

The following table sets forth the movements in goodwill by reporting unit:

	Retail Banking	Institutional Banking	Private Banking	Corporate Banking	Treasury & International Business	Credit Card	Other Banking Services	Securities Brokerage Services	Other	
05	W 294,495	W	W	W 33,417	W 27,034	W 67,950	W 7,176	W 129,285	W 56,558	W
									289,800	
ss	136,209			15,456	12,503	31,428	3,319		17,975	
	W 430,704			W 48,873	W 39,537	W 99,378	W 10,495	W 129,285	W 364,333	W
ss								(129,285)		
	(95,726)	81,716	14,010							
	W 334,978	W 81,716	W 14,010	W 48,873	W 39,537	W 99,378	W 10,495	W	W 364,333	W

Note:

(1) Relates to goodwill relating to acquisition of Shinhan Life Insurance.

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(2) Relates to contingent consideration (Asset Indemnity) paid to KDIC

(3) In accordance with SFAS 142, the former retail banking reporting unit has been reorganized.

Goodwill arises when the net book value of a reporting unit exceeds its estimated fair value. The Group s reporting units are generally consistent with the Group s business segment level, or one level below. The group performs impairment tests annually.

In 2006, a goodwill impairment loss of W129,285 million was recorded in the brokerage unit of Good Morning Shinhan Securities. The impairment loss was mainly triggered by the decrease of the trading volume affected by the increase of indirect investments. The fair value of the brokerage unit used for impairment test was determined based on the income approach.

The following table summarizes the details of intangible assets at December 31:

	2005			2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(In millions of Won)					
Brokerage customer relationship	68,266	(66,207)	2,059	68,266	(67,378)	888
KSFC deposit	10,941	(10,649)	292	10,941	(10,815)	126
Core deposit of Shinhan Bank	825,476	(284,041)	541,435	825,476	(397,555)	427,921
Credit card relationship of Shinhan Card	198,320	(106,688)	91,632	198,320	(147,025)	51,295
VOBA	978,532	(5,822)	972,710	978,532	(95,276)	883,256
Total intangible assets subject to amortization	2,081,535	(473,407)	1,608,128	2,081,535	(718,049)	1,363,486
KSFC borrowing	400		400	400		400
Court deposit of Shinhan Bank	226,353		226,353	226,353		226,353
Total intangible assets subject to	226,753		226,753	226,753		226,753

amortization

W 2,308,288	W (473,407)	W 1,834,881	W 2,308,288	W (718,049)	W 1,590,239

Amortization expense on intangible assets was W187,568 million, W187,406 million and W244,642 million for the years ended December 31, 2004, 2005 and 2006, respectively.

On January 1, 2004, the Group changed its amortization method of intangible assets from the straight-line method to the sum-of-the-years digits method to better reflect the run-off of the economic value of intangibles. The cumulative effect of accounting change was W23,049 million, net of taxes of W8,743 million. The following table sets forth the estimated aggregate amortization expenses on intangible assets subject to amortization at December 31, 2006:

Years Ending	**(In millions of Won)**
2007	W 254,955
2008	210,278
2009	166,694
2010	133,035
2011	107,342
Thereafter	491,182
	W 1,363,486

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In 2006 and 2005, no impairment losses were recorded relating to other intangible assets. In 2004, an impairment loss of W1,893 million related to KSFC borrowing intangible asset was recorded. The impairment loss was determined based on the discount cash flow method.

11. Other Assets

The following tables summarizes the details of other assets at December 31:

	2005	2006
	(In millions of Won)	
Accrued interest and dividends receivable	W 555,193	W 672,928
Receivables for foreign exchange spot contracts	512,457	1,985,106
Accounts receivable	1,512,779	1,396,564
Accrued income	83,916	173,305
Deferred tax assets	183,604	258,615
Other investments(1)	1,419,128	1,054,994
Prepaid expenses	82,009	93,926
Separate account assets	124,249	282,995
Contract deposits for LG card acquisition		517,778
Advances to suppliers	23,653	27,502
Deferred acquisition costs	176,117	336,028
Hedging derivatives assets	1,391	5,391
Other	49,161	37,698
	W 4,723,657	W 6,842,830

Note:

(1) Other investments include unlisted equity securities, securities with sales restriction and investments accounted for by the equity method.

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12. Deposits

The following table summarizes the details of deposits at December 31:

	2005		2006	
	Balance	Weighted-Average Interest Rate	Balance	Weighted-Average Interest Rate
	(In millions of Won, except percentages)			
Interest-bearing deposits				
Demand deposits	W 6,997,857	1.90%	W 7,379,300	1.83%
Savings deposits	27,142,438	0.96%	29,057,275	2.12%
Certificate of deposits	10,649,687	3.81%	13,198,346	4.67%
Other time deposits	36,901,099	3.69%	41,100,714	3.57%
Mutual installment deposits	1,587,116	4.16%	842,666	3.88%
	83,278,197	2.71%	91,578,301	3.08%
Non-interest-bearing deposits Demand deposits	3,143,170		3,918,153	
	W 86,421,367	2.63%	W 95,496,454	3.00%

Interest-bearing demand deposits on December 31, 2006 primarily represented court related deposits held at Shinhan Bank. Other time deposits include premium accounts for loyal customers, tax savings accounts for high net worth customers, savings accounts for household financing and foreign currency deposits. Mutual installment deposits enable customers to become eligible for mortgage and other consumer loans as well as corporate loans while maintaining an account with the Group.

The aggregate amount of time deposit accounts (including CDs) in denominations of W100 million or more at December 31, 2005 and 2006 were W31,464,799 million and W37,070,424 million, respectively.

The following table sets forth the contractual maturities of certificate of deposits, other time deposits and mutual installment deposits at December 31, 2006:

Years Ending	(In millions of Won)
2007	45,508,341
2008	4,447,753

2009		3,097,138
2010		1,243,139
2011		357,994
Thereafter		487,361
	W	55,141,726

The KDIC provides deposit insurance up to a total of W50 million per depositor in each bank pursuant to the Depositor Protection Act for deposits due after January 1, 2001, regardless of the deposit date.

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13. Short-Term Borrowings

The following table summarizes the details of short-term borrowings at December 31:

	2005		2006	
	Balance	Weighted-Average Interest Rate	Balance	Weighted-Average Interest Rate
	(In millions of Won, except percentages)			
Borrowings from BOK	W 1,668,335	1.85%	W 1,173,254	2.21%
Borrowings in foreign currencies	4,473,370	1.57%	3,211,017	2.79%
Borrowings from trust accounts	877,858	3.15%	1,122,533	4.09%
Call money	994,121	3.24%	1,686,036	4.77%
Other borrowings(1)	3,954,616	3.48%	3,802,186	3.87%
	W 11,968,300		W 10,995,026	

Note:

(1) The majority of other borrowings relate to borrowings from other financial institutions.

Short term borrowings consist of borrowed funds with original maturities of less than one year. Total interest expense on short-term borrowings amounted to W340,733 million, W339,855 million and W524,776 million, of which W115,780 million, W94,921 million and W146,308 million, respectively, were related to call money, during 2004, 2005 and 2006, respectively.

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14. Secured Borrowings

The following table sets forth the details of the secured borrowings and relevant collateral at carrying values at December 31:

		2005			2006		
		Secured	Collateral		Secured	Collateral	
	Maturity	Borrowings	Loans(1)	Securities	Borrowings	Loans(1)	Securities
				(In millions of Won)			
Shinhan 2nd Securitization Specialty L.L.C. 10.00%-25.00% collateralized bond obligation	2008-2011	W	W	W	W 502	W 7,047	W 8,191
Shinhan 4th Securitization Specialty L.L.C. 20.00% collateralized bond obligation	2011				250	4,443	2,683
Sprout I ABS Specialty Co., Ltd. 1M Libor+0.60% collateralized bond obligation	2013	385,859	731,038		231,685	572,778	
Goldwing Co., Ltd. 4.30%-5.47% Asset-Backed Commercial Papers	2022	328,000	39,256	346,681	84,273	294,005	252,314
Shinhan Card 2003-1 Securitization Specialty L.L.C. 4.65% Type 1 beneficiary certificate	2009	406,086	701,366		406,086	707,915	
Shinhan 5th Securitization	2007	44,999	65,490				

Specialty L.L.C. 3.75%-3.86% collateralized bond obligation							
CHB NPL 2004-1 ABS Specialty Co., Ltd. 3.91%-4.49% collateralized bond obligation	2007	79,904	98,897	1,474	39,981	81,827	
CHB NPL 2004-2 ABS Specialty Co., Ltd. 3.54%-3.85% collateralized bond obligation	2007	84,865	141,239	2,541	39,969	96,932	2,515
KTF 3rd ABS Specialty Co., Ltd. 5.67% collateralized bond obligation	2007	199,853		200,000			
Dogong 1st ABS Specialty Co., Ltd. 3.94%-7.00% ABCP and collateralized bond obligation	2006	143,500		152,500			
Enclean 3rd ABS Specialty Co., Ltd. 4.05%-30% ABCP and collateralized bond obligation	2007	150,500		200,233	150,500		100,017
Miraedon Co., Ltd. 4.22%-4.68% Asset-Backed Commercial Papers	2007	407,200		616,761	561,249		645,945
Work and Joy 2004-1 ABS Specialty Co., Ltd. 3.75% collateralized bond obligation	2007	149,765		150,000	149,945		150,000
Shinhan 6th Securitization	2007	124,668	144,677		70,085	52,314	

Specialty L.L.C. 3.94%-6.40% collateralized bond obligation						
HiBrand ABCP Ltd. 3.95%-7.00% ABCP and collateralized bond obligation	2008	48,050	47,191	41,050	42,879	
SamsungShinhan 4th ABS Specialty Co. Ltd 4.13%-7.00% ABCP and collateralized bond obligation	2009	250,346	250,500	250,499		250,500
Dongbu Steel 2nd ABS Specialty Co. Ltd 4.07% collateralized bond obligation	2008	74,649	85,000	74,804		85,000
Auto 2nd ABS Specialty Co., Ltd 4.22%-7.00% ABCP and collateralized bond obligation	2008	196,050	195,000			
Blooming 2nd ABS Specialty Co., Ltd 4.13% Asset-Backed Commercial Papers	2006	20,000	38,000			

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		2005			2006		
		Secured	Collateral		Secured	Collateral	
	Maturity	Borrowings	Loans(1)	Securities	Borrowings	Loans(1)	Securities
				(In millions of Won)			
CHB NPL 2005-1 ABS Specialty Co., Ltd 4.19%-4.52% collateralized bond obligation	2007	55,829	124,146	63	40,962	49,731	63
CHB NPL 2005-2ABS Specialty Co., Ltd 5.13%-5.78% collateralized bond obligation	2007	40,805	102,392		30,939	50,935	55
Cheongge ABS Specialty Co., Ltd 4.36% Asset-Backed Commercial Papers	2008	96,712		97,307	97,600		97,486
Humax 1st ABS Specialty Co., Ltd 4.36% Asset-Backed Commercial Papers	2006	40,000		62,328			
Shinhan 7th Securitization Specialty L.L.C. 4.85%-5.18% collateralized bond obligation	2009				94,716	198,538	
Frontier 9th ABS Specialty Co., Ltd 4.31%-7.00% collateralized bond obligation	2010				200,500		200,500
Ne DWC ABS Specialty Co., Ltd 5.21%-7.00% collateralized	2009				402,050		402,000

bond obligation							
Han-il U&I ABS Specialty Co., Ltd 5.03%-8.00% collateralized bond obligation	2009				47,525		47,900
Other secured borrowings 5.85%-25% collateralized bond obligation	2008	12,861	3,840	2,745	19,323		
Securities sold under repurchase agreements 2.50%-15.6%	2007	4,161,206		7,257,244	5,068,221		4,703,629
		W 7,501,707	W 2,199,532	W 9,658,377	W 8,102,714	W 2,159,344	W 6,948,798

Note:

(1) Represents the carrying amounts, exclusive of the related specific allowance for loan losses.

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15. Long-Term Debt

The following table summarizes the details of long-term debt at December 31:

	Interest Rates (%)	Maturity	2005	2006
			(In millions of Won)	
Senior				
Won-denominated				
Notes payable to the Small Business Corporation	2.00-4.90	2007-2017	W 492,543	W 564,842
Notes payable to the Industrial Bank of Korea	3.20-4.25	2007-2014	190,558	48,003
Notes payable to the Institute of Information Technology Assessment	1.60-3 .30	2007-2011	150,821	70,670
Notes payable to the Korea Energy Management Corporation	1.00-4.50	2007-2021	265,740	298,389
Notes payable to other Korean Government Funds	1.00-5.50	2007-2021	255,685	274,951
Fixed and floating rate debentures(1)(2)	3.80-11.95	2007-2021	15,281,503	20,473,431
Other notes payable	2.00-5.10	2007-2020	1,684,662	1,679,100
Subtotal			18,321,512	23,409,386
Foreign currency-denominated				
Floating rate debentures(1)	0.12-6.83	2007-2021	714,384	1,433,290
Other floating rate notes payable	0.01-5.76	2007-2020	701,598	848,832
Subtotal			1,415,982	2,282,122
Total senior debt			19,737,494	25,691,508
Subordinated				
Won-denominated				
Hybrid bonds(3)	7.80	2033-2034	495,033	550,293
Other fixed rate notes payable(4)	5.82-14.45	2007-2016	3,640,192	3,978,909
Subtotal			4,135,225	4,529,202
Foreign currency-denominated				
Floating rate debentures(1)	1.89-5.13	2009-2014	50,650	139,704
Other fixed rate notes payable	4.50-6.25	2013-2015	607,800	1,254,960
Subtotal			658,450	1,394,664

Total subordinated debt			4,793,675	5,923,866
Redeemable preferred stock(5)				
Series 1 Redeemable preferred stock	4.04	2006	168,503	
Series 2 Redeemable preferred stock	4.04	2007	168,503	168,504
Series 3 Redeemable preferred stock	4.04	2008	168,504	168,504
Series 4 Redeemable preferred stock	4.04	2009	168,504	168,504
Series 5 Redeemable preferred stock	4.04	2010	168,504	168,504
Series 6 Redeemable preferred stock	7.00	2006	525,000	
Series 7 Redeemable preferred stock	7.46	2008	365,000	365,000
Series 8 Redeemable preferred stock	7.86	2010	10,000	10,000
Total redeemable preferred stock			1,742,518	1,049,016
Long-term debt, gross			26,273,687	32,664,390
Less: Unamortized discounts			(101,865)	(90,252)
Long-term debt, net			W 26,171,822	W 32,574,138

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Notes:

(1) Interest rates on floating rate debt were those rates in effect at December 31, 2006

(2) Majority of these debentures related to miscellaneous bank borrowings from individual lenders.

(3) Shinhan Bank has a call option that can be exercised five years after the issuance date, or earlier with the approval of the Financial Supervisory Service. The call options mature in 30 years from the issuance date, but may be extended by Shinhan Bank at any time.

(4) Majority of these debentures related to miscellaneous bank borrowings from corporate lenders and Korean governmental entities.

(5) See Note 22 for the terms of the RPS.

Long-term debt is denominated predominately in Korean Won, US dollars, or Japanese Yen with both fixed and floating interest rates. Floating rates are generally determined periodically by formulas based on certain money market rates tied to the six-month London Interbank Offered Rate (LIBOR) or the monthly Public Fund Prime Rate published by the Korean government, and are reset on a monthly, quarterly or semi-annual basis. The weighted-average interest rate for long-term debt was 5.32% and 4.83% at December 31, 2005 and 2006, respectively. Certain long-term debt agreements contain cross-default provisions and accelerating clauses for early termination in the event of default.

The following table sets forth the aggregate amount of long-term debt by contractual maturities at December 31:

Years Ending	**(In millions of Won)**	
2007	W	7,597,394
2008		9,843,272
2009		4,043,781
2010		1,036,907
2011		1,821,395
Thereafter		8,321,641
Long-term debt, gross		32,664,390
Less: Unamortized discount		(90,252)
Long-term debt, net	W	32,574,138

16. Future Policy Benefits

The following table summarizes future policy benefits at December 31:

	2005	2006
		(In millions of Won)
Life insurance	W 2,590,044	W 3,100,462
Annuity contracts	1,388,679	1,656,293
Other contracts	603,333	709,812
Unpaid claims and claim adjustment expenses	195,512	216,267
	W 4,777,568	W 5,682,834

Life insurance liabilities include reserves for death and endowment policy benefits, and certain health benefits. Annuity contract liabilities include reserves for individual life contingent immediate annuities. Other contract liabilities include unearned revenue and certain other reserves for group and individual life and health products.

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Future policy benefits are calculated using net level premium method based upon mortality, morbidity, persistency, and interest rate assumptions including provision for adverse deviation. Assumptions as to morality, morbidity and persistency are based on the Company s experience, or in certain instances, industry experience, when the basis of the reserve is established. For post-purchase, the best-estimated net investment rate used as the interest rate assumptions has been set equal to 6.0%, which is based on Shinhan Life Insurance s 2007 planned asset allocation and investment return. For pre-purchase, the best-estimated net investment rate is 5.5% in lock-in method.

17. Accrued Expenses and Other Liabilities

The following table summarizes accrued expenses and other liabilities at December 31:

	2005	2006
	(In millions of Won)	
Accrued interest and dividend payables	W 1,901,498	W 2,141,053
Payables for foreign exchange spot contracts	750,144	2,195,795
Accrued severance benefits	181,767	244,218
Accrued expenses	157,453	352,099
Accounts payable	1,096,240	1,261,545
Unearned income	147,502	196,737
Income tax payable	221,993	362,414
Withholding value-added tax and other taxes	88,221	109,921
Deferred tax liabilities	302,339	475,858
Security deposits received	299,814	257,368
Due to agencies	1,118,606	802,094
Allowance for losses on off-balance sheet credit instruments	187,274	160,774
Utility bill payments received on behalf of government	59,112	94,089
Separate account liabilities	124,249	282,995
Hedging derivative liabilities	13,132	6,628
Other	439,768	367,312
	W 7,089,112	W 9,310,900

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18. Commissions and Fees

The following table sets forth the details of commissions and fees from non-trust management activities for the years ended December 31:

	2004	2005	2006
	(In millions of Won)		
Brokerage fees and commissions	W 231,520	W 345,265	W 479,327
Other fees and commissions:			
Credit card fees	360,624	421,249	455,980
Commissions received on remittance	78,657	72,626	71,437
Commissions received on import and export letters of credit	80,528	70,625	57,411
Financial guarantee fees	24,916	21,358	21,745
Commissions received in foreign exchange activities	68,391	70,325	64,110
Commission received as agency	49,132	71,032	28,302
Commission received as electronic charge receipt	74,232	69,962	65,301
Prepayment penalty fees	33,958	35,245	40,772
Other fees	176,856	328,016	226,999
Total other fees and commissions	947,294	1,160,438	1,032,057
	W 1,178,814	W 1,505,703	W 1,511,384

19. Other Non-interest Income and Other Non-interest Expenses

The following table sets forth the details of other non-interest income for the years ended December 31:

	2004	2005	2006
	(In millions of Won)		
Gain on sale of premises and equipment	W 30,408	W 74,868	W 8,757
Income from operating leases	52,787	42,227	32,085
Rental income	15,199	15,870	16,718
Extinguished escheatment of deposits	13,353	1,383	28,513
Other	254,585	199,549	249,174
	W 366,332	W 333,897	W 335,247

The following table sets forth the details of other non-interest expenses for the years ended December 31:

	2004	2005	2006
	(In millions of Won)		
Impairment loss on intangible assets	W 1,893	W	W
Impairment loss on goodwill			129,285
Impairment loss on other investments	15,521	20,958	31,351
Loss on sale of premises and equipment	15,134	54,550	11,089
Loss on sale of other real estate	1,448	6,758	303
Other	313,294	248,572	293,144
	W 347,290	W 330,838	W 465,172

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20. Extraordinary Gain

As discussed in Note 3, on December 23, 2004, the Group acquired all the remaining 39.53% of the outstanding common shares of Good Morning Shinhan Securities that it did not already own. The exchange ratio was 6.1237 share of Good Morning Shinhan Securities common stock for one share of the Group s common stock as determined based on the relative stock prices of the Group s common stock to those of the common stock of Good Morning Shinhan Securities on certain agreed periods and dates. The acquisition was accounted for using the purchase method.

Prior to the share swap, certain dissenting minority shareholders exercised their right to have Good Morning Shinhan Securities repurchase their shares at W3,330 per share. Accordingly, Good Morning Shinhan Securities purchased 2,992 common shares as treasury stock at an aggregate price of W10 million. Of the 10,041,638 common shares of the Group issued, 489 shares were issued in exchange for the treasury shares of Good Morning Shinhan Securities.

The purchase price for the outstanding shares of Good Morning Shinhan Securities was approximately W209,037 million based on the fair value of the common stock issued by the Group. The fair value of 39.53% of net assets acquired was W358,828 million. The excess of the fair value of the net assets acquired over the purchase consideration resulted in a negative goodwill of W149,791 million.

		(In millions of Won)
Fair value of net assets of Good Morning Shinhan Securities	W	301,334
KSFC deposit intangible asset		6,276
Brokerage customer relationship intangible asset		50,956
KSFC borrowing intangible asset		262
Negative goodwill		(149,791)
Total purchase price	W	209,037

The negative goodwill was allocated to non-current assets acquired as follows:

		(In millions of Won)
Premises and equipment	W	111,172
KSFC deposit intangible asset		6,276
Brokerage customer relationship intangible asset		50,956
KSFC borrowing intangible asset		262
Deferred tax asset		(46,383)
Extraordinary gain		27,508
Total allocation	W	149,791

Pursuant to SFAS 141, the Group first allocated the negative goodwill to the identifiable intangible assets, premises and equipment acquired on a pro rata basis. After the value of the identifiable intangible assets, premises and equipment was reduced to zero, the Group recognized an extraordinary gain of W27,508 million for the year ended December 31, 2004, which related to the unallocated negative goodwill.

21. Common Stock

Issuances of common stock

As of December 31, 2006, the Group had 381,567,614 shares of common stock issued and 374,437,647 shares of common stock outstanding. On September 16, 2003, the Group listed its shares on the New York Stock Exchange

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(NYSE) and transferred its global depository shares listed on the Luxembourg Stock Exchange to NYSE as American depository shares.

Treasury stock

The Korean Commercial Law requires companies involved in business combination transactions to obtain the approval of the acquiring company s stockholders and to provide an opportunity for dissenting stockholders to exercise appraisal rights. Upon exercise of the appraisal rights, these companies would be required to purchase stocks from those stockholders at a predetermined price.

The treasury stocks held by Shinhan Bank were 29,986,159 shares as of December 31, 2003. Shinhan Bank sold 29,873,295 shares of treasury stock in the Korean stock market at W21,000 per share through after-hour block trading on March 3, 2004, and 112,864 shares of treasury stock in the Korean stock market at various prices.

In 2004, Chohung Bank and Good Morning Shinhan Securities purchased their respective common stocks from dissenting stockholders. Those shares were subsequently exchanged to common stock of Shinhan Financial Group and became the treasury stock of the Group. The treasury stock held by Chohung Bank, Shinhan Bank and Good Morning Shinhan Securities were 8,985,567, 11,006 and 1,444 shares, respectively, as of December 31, 2004.

In 2005, as discussed in Note 3, shares of Shinhan Life Insurance held by Shinhan Bank and Good Morning Shinhan Securities were subsequently exchanged to common stock of Shinhan Financial Group and became the treasury stocks of the Group. The treasury stocks held by Chohung Bank, Shinhan Bank and Good Morning Shinhan Securities were 8,985,567, 2,420,955 and 203,675 shares, respectively, as of December 31, 2005.

In 2006, Shinhan Bank and Good Morning Shinhan Securities sold 4,480,230 shares of treasury stock in the Korean stock market at various prices. The treasury stock held by Shinhan Bank was 7,129,967 shares as of December 31. 2006.

22. Redeemable Preferred Stock and Redeemable Convertible Preferred Stock

In August 2003, in connection with the acquisition of Chohung Bank, the Group issued 46,583,961 shares of RPS, par value of W5,000 per share, with an aggregate estimated fair value of W710,258 million and 44,720,603 shares of RCPS, par value of W5,000 per share, with an aggregate estimated fair value of W714,780 million to KDIC, as well as 6,000,000 shares of RPS, par value of W5,000 per share, with an aggregate estimated fair value of W900,000 million to Strider ABS Specialty Co., Ltd. (Strider), a SPE established by the Group.

The RPS was issued in five series (Series 1 to 5) to KDIC and in three series (Series 6 to 8) to Strider on August 19, 2003, redeemable over seven years after the issue date. If there is any RPS outstanding on the last day of the redemption period (RPS Final Redemption Date), the Group will be obligated to redeem all outstanding RPS to the extent that distributable profits are available for such purchase. In the event that the Group does not have sufficient distributable profits to redeem all outstanding RPS on the RPS Final Redemption Date, the RPS will remain outstanding until sufficient distributable profits are available. The Group may, at its option, elect to redeem all or part of the outstanding RPS at any time during the redemption period. The holder of RPS will not have any voting rights, unless dividends on the RPS are not distributed in any given year, in which case each share of RPS will be given one

voting right. The Group may redeem the RPS from KDIC and Strider at W18,086 and W150,000 per share, respectively.

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The dividends on the RPS are cumulative and non-participating on dividends on the common stock of the Group, and the stated dividend rates are as follows:

RPS issued to KDIC (Series 1 to 5)	4.04%
RPS issued to Strider:	
Series 6	7.00%
Series 7	7.46%
Series 8	7.86%

The RPS was initially measured at fair value as determined by the present value of its future cash dividend payments and repayment provisions, and discounts are amortized over the period from the date of issuance to the redemption date using the effective interest method. The RPS is classified as long-term debt on the Group s consolidated balance sheet as of December 31, 2006. In 2006, 12,816,792 shares amounting to W697,864 million were redeemed.

The Series 9 RCPS were issued to KDIC on August 19, 2003, redeemable at any time after the third anniversary date of the issue date and from time to time until the fifth anniversary date of the issue date. If there is any RCPS outstanding on the last day of the redemption period (RCPS Final Redemption Date), the Group is obligated to redeem the outstanding RCPS to the extent that distributable profits are available for the purchase. In the event that the Group does not have sufficient distributable profits to redeem all outstanding RCPS on the RCPS Final Redemption Date, the RCPS will remain outstanding until sufficient distributable profits are available.

The Group may, at its option, elect to redeem all or part of the outstanding RCPS at any time during the redemption period. KDIC may convert the RCPS into newly issued common stock of the Group at a conversion ratio of 1:1, based on a conversion schedule after the first anniversary date of the issue date until the fourth anniversary of the issue date. The holder of RCPS will not have any voting rights, unless dividends on the RCPS are not distributed in any given year, in which case each RCPS will be given one voting right. The dividends on the RCPS are cumulative and non-participating on dividends on the common stock of the Group, and the stated dividend rate is 2.02%. The RCPS were initially recorded at fair value as determined by the present value of its future cash dividend payments, repayment provisions and associated conversion features. The option to convert the RCPS to the Group s common stock was valued using a continuous binomial option-pricing model. The RCPS were classified outside stockholders equity as of December 31, 2005.

The discount on the RCPS has been amortized over the period from the date of issuance to the redemption date using the effective interest method through 2004. However, the Group did not amortize the discount on RCPS in 2005 because the Group believes it was not probable that the RCPS would become redeemable as the Group expects the RCPS to be converted into common stock prior to the redemption date. During 2005, 22,360,302 shares out of 44,720,603 shares were converted to common stock and during 2006, all remaining shares were converted to common stock.

23. Retained Earnings

The following table summarizes the details of retained earnings at December 31:

	2005	2006
	(In millions of Won)	
Appropriated retained earnings for legal reserves under Korean GAAP	W 223,722	W 396,928
Unappropriated retained earnings under US GAAP	3,730,020	4,749,038
	W 3,953,742	W 5,145,966

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The Financial Holding Company Act requires the Group to appropriate as a legal reserve under accounting principles generally accepted in Korea (Korean GAAP), an amount equal to a minimum of 10% of annual net income of Shinhan Financial Group until such reserve equals 100% of its paid-in capital. This reserve is not available for payment of cash dividends, but may be transferred to capital stock or used to reduce an accumulated deficit, if any, by an appropriate resolution of the Group s board of directors.

24. Regulatory Requirements

The Group and its subsidiaries, including Shinhan Bank, and Jeju Bank are subject to various regulatory capital requirements administered by the Financial Supervisory Commission (FSC), which are based on the Basel Committee on Banking Regulations and Supervisory Practices. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Group s consolidated financial statements.

In conformity with the FSC regulations on financial holding companies, the Group applied the net equity to requisite capital ratio calculated under the FSC guidelines to evaluate its capital adequacy. All Korean financial holding companies must meet the minimum requisite capital ratio of 100%, as regulated by the FSC. Requisite capital, as required and defined by FSC, represents the sum of (a) the minimum equity capital amount necessary to meet the FSC guidelines for Shinhan Bank, and Jeju Bank, (b) 8% of its total assets on its balance sheet (including off-balance assets, if any) for other subsidiaries, and (c) 8% of its total assets on its balance sheet (including off-balance assets, if any, but excluding the book value of investments in and financial supports to its direct and indirect subsidiaries) for the Group.

The FSC regulations also require that the computation be based on the Group s consolidated financial statements under Korean GAAP and regulatory guidelines, which vary in certain significant respects from US GAAP.

The following table sets forth the Group s requisite capital adequacy ratio mandated by the FSC at December 31:

	2005	2006
	(In millions of Won, except capital ratio)	
Equity Capital	W 11,434,001	W 14,184,052
Requisite Capital	8,609,121	10,183,478
Requisite Capital Ratio (%)	132.81%	139.28%

In conformity with the FSC regulations, Shinhan Bank, and Jeju Bank apply the FSC s risk-adjusted capital ratios to evaluate their capital adequacies. Korean banking organizations engaged in international banking are required to maintain a minimum 8% total risk-based capital ratio calculated by dividing total risk-adjusted capital by total risk-weighted assets, including a Tier 1 capital ratio of at least 4%. All Korean banking organizations subject to the FSC regulations on minimum capital adequacy ratio are also subject to periodic inspection by the Financial Supervisory Service (FSS). In the event that Shinhan Bank, or Jeju Bank does not maintain a consolidated capital ratio of 8%, it is subject to corrective actions to be imposed by the FSS, as recommended by the FSC based on the actual

financial position and capital ratio of the respective banking subsidiaries.

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As required by the FSC regulations, the following table sets forth the details of capital ratios calculated based on the consolidated financial statements of Shinhan Bank under Korean GAAP and regulatory guidelines which vary in certain significant respects from US GAAP at December 31:

	2005		2006
	Shinhan Bank	Chohung Bank	Shinhan Bank
	(In millions of Won, except capital ratio)		
Tier 1 capital	W 4,381,101	W 2,968,489	W 8,869,555
Tier 2 capital	2,287,736	2,172,639	4,893,017
Less: Investment in nonconsolidated Equity investees	(100,712)	(157,383)	(122,884)
Total risk-adjusted capital	W 6,568,125	W 4,983,745	W 13,639,688
Risk-weighted assets			
On-balance sheet assets	W 49,216,505	W 43,258,274	W 102,568,923
Off-balance sheet assets	4,305,776	2,292,389	9,511,817
Total risk-weighted assets	W 53,522,281	W 45,550,663	W 112,080,740
Capital adequacy ratio (%)	12.27%	10.94%	12.17%
Tier 1 capital ratio (%)	8.19%	6.52%	7.91%
Tier 2 capital ratio (%)	4.27%	4.77%	4.37%

Effective January 1, 2002, in addition to the existing capital ratio calculations, all banks in Korea are required to report to the FSC an alternative set of capital ratios, as follows, with components based on credit and market risks.

Shinhan Bank is subject to the same existing requirements to maintain minimum adequacy ratios at December 31:

	2005		2006
	Shinhan Bank	Chohung Bank	Shinhan Bank
	(In millions of Won, except capital ratio)		
Tier 1 capital	W 4,381,101	W 2,968,489	W 8,869,555
Tier 2 capital	2,187,024	2,015,256	4,770,133
Total risk-adjusted capital	W 6,568,125	W 4,983,745	W 13,639,688
Total risk-weighted assets	W 53,708,592	W 45,546,697	W 113,557,486
Capital adequacy ratio (%)	12.23%	10.94%	12.01%

Tier 1 capital ratio (%)	8.16%	6.52%	7.81%
Tier 2 capital ratio (%)	4.07%	4.42%	4.20%

The Group s other subsidiaries, including Jeju Bank, Shinhan Card, Shinhan Life Insurance, Shinhan Capital and Good Morning Shinhan Securities are also subject to the capital ratio pursuant to other regulatory capital requirements of the FSC. At December 31, 2005 and 2006, the Group s other subsidiaries met the regulatory capital requirements of the FSC.

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25. Income Taxes

All but an insignificant portion of income before income tax expense and income tax expense is from Korean sources. The following table sets forth allocation of national and local income taxes between current and deferred portions for the years ended December 31:

	2004	2005	2006
	(In millions of Won)		
Current tax expense			
National	W 392,306	W 414,073	W 640,365
Local	39,231	41,408	64,036
Total current tax expense	431,537	455,481	704,401
Deferred tax expense			
National	302,649	442,641	(79,005)
Local	30,265	44,264	(7,901)
Total deferred tax expense	332,914	486,905	(86,906)
Total tax expense	W 764,451	W 942,386	W 617,495

The preceding table does not reflect the tax effects of unrealized gains and losses on available-for-sale securities. The tax effects of these items are recorded directly as other comprehensive income within stockholders equity. See Note 37 for further information.

The following table sets forth a reconciliation of income tax expense at the Korean statutory income tax rate to actual income tax expense for the years ended December 31:

	2004	2005	2006
	(In millions of Won, except tax rates)		
Statutory tax rate	29.7%	27.5%	27.5%
Income before income tax expense, minority interest, extraordinary item and cumulative effect of a change in accounting principle	W 2,380,290	W 2,697,233	W 2,115,840
Income tax calculated at the statutory tax rate	706,946	741,739	581,856
Income not assessable for tax purposes	(75,926)	(25,519)	(223,044)
Expenses not deductible for tax purposes	171,556	205,402	329,395
Foreign tax rate differentials	(205)	(429)	(1,010)
	13,502	(7,670)	(16,387)

Adjustment of deferred tax liability on investment in subsidiaries and associates			
Change in statutory tax rate(1)	(33,688)		
Change in valuation allowance	(18,125)	27,374	(54,222)
Other	391	1,489	907
Income tax expense	W 764,451	W 942,386	W 617,495

Note:

(1) In December 2003, the Korean government reduced the corporate income tax rate from 29.7% to 27.5%, effective from January 1, 2005.

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The components of net deferred income tax assets and liabilities included in other assets and accrued expenses and other liabilities, respectively, at December 31, are as follows:

	2005	2006
	(In millions of Won)	
Deferred income tax assets		
Allowance for loan losses	W 14,078	W 216,895
Other allowances	172,768	104,606
Valuation of trading assets	12,588	7,662
Premises and equipment	40,349	107,218
Available-for-sale securities	323,181	428,742
Other assets	118,976	104,384
Future policy benefits	144,833	158,872
Long-term debt	35,763	38,216
Other temporary differences	5,704	21,497
Net operating loss carry forwards	32,520	20,817
	900,760	1,208,909
Less: Valuation allowance	(79,173)	(24,951)
Deferred income tax assets	821,587	1,183,958
Deferred income tax liabilities		
Valuation of trading assets	(8,006)	(4,257)
Foreign exchange contracts and derivative instruments	(22,956)	(4,316)
Allowance for loan losses	(191,901)	(490,117)
Accrued interest and dividend receivable	(52,393)	(90,216)
Other assets	(660,365)	(767,920)
Long-term debt	(294)	
Other temporary differences	(4,407)	(44,375)
Deferred income tax liabilities	(940,322)	(1,401,201)
Net deferred income tax liabilities	W (118,735)	W (217,243)

Deferred income taxes at December 31, 2005 and 2006 are reflected in the consolidated balance sheets under the following captions:

	2005	2006

	(In millions of Won)	
Other assets	W 183,604	W 258,615
Accrued Expenses and other liabilities	(302,339)	(475,858)
Total net deferred tax liabilities	W (118,735)	W (217,243)

In assessing the realizability of deferred tax assets, management considered whether it was more likely than not that some portion or all of the deferred tax assets would not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences became deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets were

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deductible, management believed it was more likely than not that the Group would realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2006. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period were reduced.

The valuation allowance was W135,322 million as of January 1, 2004. During the years ended December 31, 2004, 2005 and 2006, the valuation allowance increased / (decreased) by W(79,698), W23,549 and W(54,222) million, respectively. The valuation allowance for deferred tax assets in the amount of W3,824 million was credited to goodwill during the year ended December 31, 2005. At December 31, 2006, the Group had tax net operating losses totaling W75,698 million. The following table sets forth these net operating losses expiring in periods ranging from 2008 to 2011:

Years Ending	**(In millions of Won)**
2007	W
2008	1,118
2009	
2010	18,667
2011	55,913
	W 75,698

26. Earnings Per Share

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computation for the years ended December 31:

The following table sets forth the details of the calculation of earnings per share (EPS) for the years ended December 31:

	2004	**2005**	**2006**
	(In millions of Won, except per share data)		
Basic EPS			
Net income before extraordinary gain and cumulative effect of a change in accounting principle	W 1,462,411	W 1,738,768	W 1,480,485
Extraordinary gain, net of taxes	27,508		
Cumulative effect of a change in accounting principle, net of taxes	(23,049)		(10,184)
Accretion and dividends on redeemable convertible preferred stock	(40,948)	(8,169)	

Net income attributable to common stock shareholders	W	1,425,922		1,730,599		1,470,301
Weighted-average number of common stocks outstanding (in thousands)		292,465		333,424		372,173
Net earnings per share						
Net income before extraordinary gain and cumulative effect of a change in accounting principle	W	4,860	W	5,190	W	3,978
Extraordinary gain		94				
Cumulative effect of a change in accounting principle		(79)				(27)
Basic net income per share	W	4,875	W	5,190	W	3,951

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	2004	2005	2006
	(In millions of Won, except per share data)		
Diluted EPS			
Net income before extraordinary gain and cumulative effect of a change in accounting principle for purposes of computing diluted net income per share	W 1,462,411	W 1,738,768	W 1,480,485
Extraordinary gain, net of taxes	27,508		
Cumulative effect of a change in accounting principle, net of taxes	(23,049)		(10,184)
Net income attributable to common stock shareholders	W 1,466,870	W 1,738,768	W 1,470,301
Weighted-average number of common stocks outstanding (in thousands)	292,465	333,424	372,173
Diluted effect of redeemable convertible preferred stock (in thousands)	44,721	22,360	
Diluted effect of stock options (in thousands)	294	356	
Weighted-average number of common stock outstanding, Assuming dilution (in thousands)	337,480	356,140	372,173
Net earnings per share			
Net income before extraordinary gain and cumulative effect of a change in accounting principle	W 4,333	W 4,882	W 3,978
Extraordinary gain	82		
Cumulative effect of a change in accounting principle	(68)		(27)
Diluted net income per share	W 4,347	W 4,882	W 3,951

27. Employee Severance Plans

Employees with one or more years of service are entitled to receive a lump-sum payment upon termination of their employment with the Group, based on their length of service and rates of pay at the time of termination (the severance plan). Under the Korean National Pension Fund Law, the Group was required to pay a certain percentage of employee severance benefits to the National Pension Fund prior to April 1999. Additionally, the Group contributes voluntarily a certain percentage of employee severance benefits to a severance insurance deposit account (Severance Insurance Deposit) maintained for the benefit of employees at an insurance company. The Group has no additional liability once the amount has been contributed, thus the Group deducts contributions made to the National Pension Fund and the Severance Insurance Deposit from its accrued employee severance plan obligations. The compensation cost of employees severance benefit is recognized based on the vested benefits to which the employees are entitled if they separate immediately.

Under limited circumstances, employees can withdraw their accumulated unpaid severance amounts before their termination of employment (interim severance payment). Such withdrawals were included in the amount of plan

payments for the years ended December 31, 2005 and 2006. Total interim severance payments made by the Group in 2005 and 2006 were W10,296 million and W14,817 million, respectively. The Group paid severance benefits of W95,234 million and W166,863 million for the years ended December 31, 2005 and 2006, respectively.

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Notes to Consolidated Financial Statements (Continued)

The following table sets forth the movements of accrued employee severance plan obligations included in accrued expenses and other liabilities at December 31:

	2005	2006
	(In millions of Won)	
Balance at beginning of the year	W 175,861	W 254,718
Severance benefits	181,603	263,348
Balance from the acquisition of subsidiaries	2,784	
Plan payments	(105,530)	(181,680)
	254,718	336,386
Less: Balance of payments remaining with National Pension Fund and severance insurance deposit	(72,951)	(92,168)
Balance at end of the year	W 181,767	W 244,218

The Group expects to pay the following future benefits to its employees upon their normal retirement age:

Years Ending	**(In millions of Won)**
2007	W 27,730
2008	14,404
2009	10,957
2010	12,971
2011	18,871
2012-2016	153,292
	W 238,225

The above amounts were determined based on the employees current salary rates and the number of service years that will be accumulated upon their retirement date. These amounts do not include amounts that might be paid to employees that will cease working with the Group before their normal retirement age.

28. Employee Share-based Compensation and Other Benefits

The Group has various share-based compensation plans to reward its employees and key executives of the Group, and measures share-based compensation expense using the fair value based method of accounting.

Share-based compensation expense was W3,715 million, W45,459 million and W60,280 million (including the incremental compensation expense of W14,047 million, pretax) in 2004, 2005 and 2006, respectively. The per share weighted fair value of the stock options granted to key employees, executives and directors of the Group was W7,351 for 2004 and W11,201 for 2005 and W5,797 for 2006. These amounts were estimated on the date of the grant using the Black-Scholes option-pricing model or Monte Carlo simulation model.

The following table illustrates the significant assumptions used to estimate the fair value of share options at the grant date:

	Shinhan Financial Group		
	2004	**2005**	**2006**
Risk-free interest rate	4.39%	4.07%	5.02%
Expected lives	3.50 years	5.00 years	5.00 years
Expected volatility	42.26%	42.31%	11.19%
Expected dividend rate	2.82%	2.79%	3.26%

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Notes to Consolidated Financial Statements (Continued)

Shinhan Financial Group Plan

Shinhan Financial Group has authorized 65,122,736 shares of options to be granted to purchase its common stock. Shinhan Financial Group granted to its key employees, managements and directors of the Group 1,004,200 options, 1,156,300 options, 1,301,600 options and 2,695,200 options and 3,296,200 options at an exercise price of W18,910, W11,800, W21,595, and W28,006 and W38,829 per share with a vesting period of two years from the grant date in 2002, 2003, 2004, 2005 and 2006, respectively. Upon vesting, options may be exercised between two to seven years from the grant date. Options granted to managements and directors are performance based and linked to average market price of the Group s three main domestic competitors shares. For the options granted except options issued on May 22, 2002, May 15, 2003 and March 25, 2004, Shinhan Financial Group may issue common stock or pay in cash the difference between the exercise and market price at the date of exercise. With regard to options granted on May 22, 2002, May 15, 2003 and March 25, 2004, Shinhan Financial Group decided to pay the difference between the exercise price and market price in cash at the date of exercise on May 21, 2004, May 17, 2005 and March 25, 2006, respectively.

Shinhan Bank and Good Morning Shinhan Securities Plan

Shinhan Bank and Good Morning Shinhan Securities granted share options to certain executives with a vesting period of two years from the grant date in 1999, 2000, 2001, 2002, 2003, and 2004, respectively. On March 4, 2004 and March 30, 2005 for Shinhan Bank, and on July 1, 2005 for Good Morning Shinhan Securities, both companies decided to settle all outstanding stock options for cash based on price calculated in reference to the market price of the common stock of Shinhan Financial Group, multiplied by exchange ratio.

A summary of the status of the Group s unvested options as of December 31, 2006, and changes during the twelve months ended December 31, 2006, is presented below:

	Shinhan Financial Group		Shinhan Bank		Good Morning Shinhan Securities	
	Number of Options	Weighted-Average Grant Date Fair Value Per Option (In Won)	Number of Options	Weighted-Average Grant Date Fair Value Per Option (In Won)	Number of Options	Weighted-Average Grant Date Fair Value Per Option (In Won)
Unvested at January 1, 2006	3,820,566	9,943	302,350	952	569,266	1,097
Granted	3,296,200	5,797				
Vested	(1,243,723)	7,351	(22,350)	952	(345,477)	1,097
Forfeited	(393,884)	8,435	(280,000)	952	(223,789)	1,097

Unvested at December 31, 2006	5,479,159	8,145

As of December 31, 2006, there was W23,503 million of total unrecognized compensation cost related to unvested stock awards net of the forfeiture provision. That cost is expected to be recognized over a weighted-average period of 0.8 years.

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Notes to Consolidated Financial Statements (Continued)

The following table presents the share option activities during the period indicated:

	Shinhan Financial Group			Shinhan Bank		
	Number of Options	Weighted-Average Exercise Price Per Option (In Won)	Aggregate Intrinsic Value (In million Won)	Number of Options	Weighted-Average Exercise Price Per Option (In Won)	Aggregate Intrinsic Value (In million Won)
Outstanding at January 1, 2004	2,046,545	W 15,028		1,041,249	W 8,568	
Granted	1,301,600	21,595		340,000	5,000	
Exercised	(3,500)	18,910		(469,043)	12,693	
Forfeited	(247,703)	16,219		(5,316)	5,000	
Outstanding at December 31, 2004	3,096,942	17,698		906,890	5,118	
Granted	2,695,200	28,006				
Exercised	(363,665)	15,054		(1,750)	11,700	
Forfeited	(101,684)	26,360		(19,739)	5,000	
Outstanding at December 31, 2005	5,326,793	22,848		885,401	5,106	
Granted	3,296,200	38,829				
Exercised	(277,849)	17,647		(216,379)	5,054	
Forfeited	(393,884)	33,371		(280,000)	5,000	
Outstanding at December 31, 2006	7,951,260	W 29,133	W 140,233	389,022	W 5,395	W 365
Exercisable at December 31, 2006	2,472,101	W 18,069	W 70,953	389,022	W 5,395	W 365

	Good Morning Shinhan Securities		
	Number of Options	Weighted-Average Exercise Price Per Option	Aggregate Intrinsic Value

			(In Won)		(In million Won)
Outstanding at January 1, 2004	9,320,837	W	6,839		
Granted	633,000		5,000		
Exercised					
Forfeited	(115,812)		5,000		
Outstanding at December 31, 2004	9,838,025		6,743		
Granted					
Exercised					
Forfeited	(63,734)		5,000		
Outstanding at December 31, 2005	9,774,291		6,754		
Granted					
Exercised	(445,777)		5,076		
Forfeited	(223,789)		5,000		
Outstanding at December 31, 2006	9,104,725	W	6,879	W	12,744
Exercisable at December 31, 2006	9,104,725	W	6,879	W	12,744

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The total intrinsic value of options exercised during the year ended December 31, 2004, 2005, and 2006 was W9,594 million. W5,613 million, and W7,977 million, respectively.

The following table sets for the details of share options outstanding at December 31, 2006:

Shinhan Financial Group

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life(1)	Weighted-Average Exercise Price (In Won)	Number Exercisable	Weighted-Average Exercise Price (In Won)
W18,910	607,065	1.39	18,910	607,065	18,910
11,800	723,613	2.37	11,800	723,613	11,800
21,595	1,141,423	2.23	21,595	1,141,423	21,595
28,006	2,381,090	5.25	28,006		
38,829	3,098,069	6.22	38,829		
	7,951,260	4.64	29,133	2,472,101	18,069

Shinhan Bank

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life(1)	Weighted-Average Exercise Price (In Won)	Number Exercisable	Weighted-Average Exercise Price (In Won)
W5,260	99,054	1.24	5,260	99,054	5,260
5,000	84,672	1.33	5,000	84,672	5,000
5,600	187,200	0.24	5,600	187,200	5,600
5,860	18,096	0.24	5,860	18,096	5,860
	389,022	0.73	5,395	389,022	5,395

Good Morning Shinhan Securities

	Options Outstanding			Options Exercisable	
Exercise Prices	**Number Outstanding**	**Weighted-Average Remaining Contractual Life(1)**	**Weighted-Average Exercise Price (In Won)**	**Number Exercisable**	**Weighted-Average Exercise Price (In Won)**
W7,640	2,588,355	2.10	7,640	2,588,355	7,640
7,085	1,434,510	2.10	7,085	1,434,510	7,085
7,590	1,980,000	0.96	7,590	1,980,000	7,590
5,850	1,220,000	2.40	5,850	1,220,000	5,850
6,040	90,000	3.08	6,040	90,000	6,040
6,370	540,000	5.40	6,370	540,000	6,370
5,837	343,383	5.40	5,837	343,383	5,837
5,000	908,477	1.96	5,000	908,477	5,000
	9,104,725	2.21	6,879	9,104,725	6,879

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Notes to Consolidated Financial Statements (Continued)

Note:

(1) Contractual life indicates the sum of service (vesting) period and exercisable period.

Employee Stock Ownership Association

In 2002, the Group and Shinhan Bank established an employee stock ownership association (the ESOA) covering most of their employees. The Group makes discretionary cash contributions to the ESOA on a periodic basis as determined by the Group s Board of Directors. Shinhan Bank makes cash contributions to the ESOA on a periodic basis based on Shinhan Bank s actual performance relative to pre-specified net income. The Group and Shinhan Bank contributions are used to purchase shares of the common stock of the Group on the Korean Stock Exchange. All shares acquired by the ESOA are unallocated, and are restricted for a period of four years pursuant to the plan agreements and regulations governing the ESOA. In addition, under the Securities and Exchange Act of Korea, employees participating in the ESOA have a right of first refusal, subject to certain exceptions, to subscribe for up to 20% of the shares publicly offered by the Group pursuant to the Securities and Exchange Act of Korea.

Furthermore, this right is exercisable only to the extent that the total number of shares so acquired and held by such employees does not exceed 20% of the Group s total number of shares then outstanding. For the years ended December 31, 2004, 2005 and 2006, the Group recorded in aggregate W20,852 million, W7,744 million and W32,328 million in expenses related to the ESOA contributions, respectively.

29. Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced sale or liquidation. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the Group s various financial instruments. In cases where quoted market prices are not available, the fair values are estimated using present value or other valuation techniques.

Those techniques are significantly affected by the assumptions used, which include expected future cash flows and discount rates. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments. Certain financial instruments and all nonfinancial instruments are excluded from the scope of SFAS 107, *Disclosure about Fair Value of Financial Instruments*. Accordingly, the aggregate fair value amount of the items presented under SFAS 107 may not necessarily represent the total underlying fair value of the Group since the fair value of the excluded items are not obtained.

The following methods and assumptions are used by the Group in estimating fair value disclosures for its financial instruments:

Assets and liabilities for which fair value approximates carrying value: The carrying values of certain financial assets and liabilities are reported at cost, including cash and cash equivalents, restricted cash, call loans, accrued interest and dividends receivable, customers liability on acceptances, accrued interest payable, security deposits, other assets except for nonmarketable equity investments, acceptances outstanding and other liabilities. The carrying values of these financial assets and liabilities are considered to approximate their fair values due to their short-term nature and

negligible losses due to credit risks.

Interest-bearing deposits in banks: The carrying amounts of short-term interest-bearing deposits approximate their fair value because they are short-term in nature or carry variable interest rates. Fair value of other interest-bearing deposits is estimated using discounted cash flow analysis on current rates for similar types of deposits.

Trading assets and liabilities: Fair values for trading assets, including derivative financial instruments so classified are based on quoted market prices, where available. If quoted market prices are not available, fair values

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Notes to Consolidated Financial Statements (Continued)

are based on quoted market prices of comparable instruments except for certain options and swaps for which pricing models are used.

Securities: Fair values for available-for-sale and held-to-maturity securities are based on quoted market prices, or quoted market prices of comparable instruments if the quoted market prices are not available.

Nonmarketable equity investments: Nonmarketable equity investments, which are recorded in other assets, consist primarily of private equity investments. The fair values of these investments are based on the latest obtainable net asset value of the investees and adjusted for other-than-temporary impairment losses.

Loans: Loans and advances are net of allowance for loan losses. The fair value of fixed rate loans is estimated by discounting contractual cash flows based on current rates at which similar loans would be made to borrowers for the same maturities. The fair values of variable rate loans that re-price frequently with no significant changes in credit risk are considered to approximate their carrying values in the consolidated balance sheets.

Deposits: The carrying amounts of variable-rate interest and non-interest-bearing deposits approximate their fair values at the balance sheet date. Fair values for fixed rate interest-bearing deposits are estimated using discounted cash flow analysis using interest rates currently offered for deposits with similar maturities.

Short-term borrowings: The carrying amounts of call money, securities sold under repurchase agreements and short-term borrowings approximate their fair values due to their short-term nature and negligible losses due to credit risks.

Long-term debt: The fair values of the Group s long-term borrowings are estimated based on quoted market prices, where available. For those notes where quoted market prices are not obtainable, a discounted cash flow analysis is used based on the Group s current incremental borrowing rates for similar types of borrowing arrangements.

Secured borrowings: The fair values for securities sold under agreements to repurchase are estimated using discounted cash flow calculation that applies interests currently being offered for securities sold under agreements to repurchase with similar maturities. The fair values for beneficial interests issued by the SPEs estimated using quoted market price.

Derivative financial instruments: All derivatives are recognized on the consolidated balance sheets at fair value based on quoted market prices, dealer or counterparty quotes, where available. If quoted market prices are not available, pricing or valuation models are applied to current market information to estimate fair value.

Redeemable convertible preferred stock: The fair value of redeemable convertible preferred stock are estimated based on the market price of common stock of Shinhan Financial Group.

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The following table sets forth the estimated fair values, and related carrying or notional amounts of the Group s financial instruments at December 31:

	2005		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions of Won)			
Financial assets:				
Financial assets for which carrying value approximates fair value	W 11,089,305	W 11,089,305	W 12,890,321	W 12,890,321
Interest-bearing deposits in banks	626,771	626,771	725,191	725,191
Trading assets	4,507,043	4,507,043	4,836,892	4,836,892
Securities	25,442,795	25,459,890	25,039,492	25,149,080
Loans	104,446,954	104,569,756	120,989,101	121,328,781
Non-marketable equity investments included in other assets	1,419,127	2,603,441	1,054,994	2,584,126
Financial liabilities:				
Financial liabilities for which carrying value approximates fair value	3,780,364	3,780,364	3,476,941	3,476,941
Deposits	86,421,367	87,043,877	95,496,454	96,416,101
Trading liabilities	1,048,157	1,048,157	1,610,840	1,610,840
Short-term borrowings	11,968,300	11,968,300	10,995,026	10,995,026
Secured borrowings	7,501,707	7,547,573	8,102,714	8,111,843
Long-term debt	26,171,822	25,423,632	32,574,138	31,926,214
Redeemable convertible preferred stock	W 367,871	W 917,890	W	W

The differences between the carrying amounts and the fair values of guarantees, commercial letters of credit, standby letters of credit, and other lending commitments are immaterial to the consolidated financial statements.

30. Derivative Instruments and Hedging Activities

The Group enters into derivative and foreign exchange futures, forwards, options and swaps, to enable customers to transfer, modify or reduce their interest rate, foreign exchange and other market risks; it also trades these products for its own account. In addition, the Group uses derivatives as an end-user in connection with its risk management activities. Derivatives are used to manage interest rate risk relating to specific groups of on-balance sheet assets and liabilities, including investments, loans, and long-term debt. In addition, foreign exchange contracts are used to hedge the foreign currency denominated debt, net capital exposures and foreign exchange transactions.

For the years ended December 31, 2004, 2005 and 2006, the Group applied fair value hedge accounting exclusively to interest rate swap transactions with the hedged items of fixed rate debts that qualified for the short-cut method. Since the Group assumed no ineffectiveness for those transactions, no ineffective portion was recognized in the consolidated

statements of income for the years presented.

The Group enters into various types of derivative transactions in the course of its trading and non-trading activities. Futures and forward contracts are commitments to buy or sell at a future date a financial instrument, commodity or currency at a contracted price and may be settled in cash or through delivery. Swap contracts are commitments to settle in cash at a future date or dates which may range from a few days to a number of years, based on differentials between specified financial indices, as applied to a notional principal amount. Option contracts give

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Notes to Consolidated Financial Statements (Continued)

the purchaser, for a fee, the right, but not the obligation, to buy or sell within a limited time, a financial instrument or currency at a contracted price that may also be settled in cash, based on differentials between specified indices.

Derivatives may expose the Group to market risk, credit risk or liquidity risk in excess of the amounts recorded on the Consolidated Balance Sheet. Market risk on a derivative or foreign exchange product is the exposure created by potential fluctuations in interest rates, foreign exchange rates and other values, and is a function of the type of product, the volume of transactions, the tenor and terms of the agreement, and the underlying volatility. Credit risk is the exposure to loss in the event of nonperformance by the other party to the transaction where the value of any collateral held is not adequate to cover such losses. The recognition in earnings of unrealized gains on these transactions is subject to management s assessment as to collectibility. Liquidity risk is the potential exposure that arises when the size of the derivative position may not be able to be rapidly adjusted in periods of high volatility and financial stress at a reasonable cost.

31. Commitments and Contingencies

Legal and Tax Contingencies

In the ordinary course of business, the Group is involved in tax and legal proceedings, claims and litigation. As of December 31, 2006, the Group has 258 pending lawsuits as a defendant (total amount: W252,761 million). In the opinion of management, based on current knowledge and after consultation with external counsel, the outcome of such matters will not have a material adverse effect on the Group s consolidated financial statements.

Lease Commitments

At December 31, 2006, the Group is obliged under a number of non-cancelable operating leases for premises and equipment used primarily for banking purposes. Total rent expense for the years ended December 31, 2004, 2005 and 2006 was W105,280 million, W115,920 million and W151,808 million, respectively. Pursuant to the terms of non-cancelable lease agreements pertaining to premises and equipment in effect at December 31, 2006, future minimum rental commitments under various non-cancelable operating leases are as follows:

Years Ending	**(In millions of Won)**	
2007	W	59,605
2008		31,389
2009		18,985
2010		13,241
2011		6,871
Thereafter		4,909
	W	135,000

In lieu of rent, certain lease agreements require the Group to advance a non-interest-bearing refundable security deposit to the landlord for the Group s use during the lease term. The amount of the advance is determined by the prevailing market rate. The Group has recorded rent expense and interest income related to these leases of W28,743 million, W28,822 million and W33,872 million on deposit balances of W924,093 million, W1,019,030 million and W1,053,346 million for the years ended December 31, 2004, 2005 and 2006, respectively. Such amounts were calculated based on the fixed interest rate for time deposits with similar maturities.

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Credit Commitments and Guarantees

The following table summarizes the contractual amounts relating to unused credit commitments at December 31:

	2005	2006
	(In millions of Won)	
Commitments to extend credit:		
Corporate	W 46,335,824	W 55,580,067
Credit card lines	16,080,414	13,938,452
Consumer(1)	5,862,898	6,127,061
Commercial letters of credit	2,960,190	2,963,341
	W 71,239,326	W 78,608,921

Note:

(1) excluding credit card

Commitments to extend credit represent unfunded portions of authorizations to extend credit in the form of loans. The commitments expire on fixed dates and a customer has to comply with predetermined conditions to draw funds under the commitments. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. The majority of the Group s unfunded commitments are not guarantees under FIN 45.

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

The Group provides a variety of guarantees to its customers to enhance their credit standing and enable them to complete a variety of business transactions. The maximum potential amount of future payments represents the notional amounts that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged. Certain guarantees issued or modified after December 31, 2002 that are not derivative contracts have been recorded on the Group s consolidated balance sheet at their fair value at inception. The Group has recorded this amount in other liabilities with an offsetting entry in Other assets. As cash is received under such arrangements and applied to Other assets, the liability recorded at inception is amortized into income as commissions and fees over the life of the contract. The majority of these guarantees expire without being drawn upon. As a result, total contractual amounts are not representative of the Group s actual credit exposure.

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The table below summarizes all of the Group s guarantees under FIN 45 at December 31, 2006:

	Expire Within One Year	Expire After One Year	Total Notional Amount Outstanding	Current Carrying Liability Amount(1)	Amount of Recourse or Collateral Held	Maximum Potential Amount of Future Payments
			(In millions of Won)			
Financial stand-by letters of credit	W 221,484	W 13,173	W 234,657	W 978	W 70,180	W 234,657
Other financial guarantees	303,298	9,184	312,482	2,966	89,207	312,482
Performance letters of credit and guarantees	2,136,069		2,136,069	18,895	457,164	2,136,069
Liquidity facilities to SPEs	460,104	2,209,977	2,670,081	8,542		2,670,081
Loans sold with recourse		5,514	5,514	1,676	6,746	5,514
Guarantees on trust accounts	488,602	2,834,049	3,322,651			3,322,651
Credit derivatives	668,835	143,400	812,235	343		812,235
	W 4,278,392	W 5,215,297	W 9,493,689	W 33,400	W 623,297	W 9,493,689

Note:

(1) Includes allowance for guarantees and acceptances, allowance for unfunded loan commitment and liabilities recorded under FIN. 45.

Financial stand-by letters of credit represent irrevocable obligations to pay third party beneficiaries when its customers fail to repay loans or debt instruments, which are generally in foreign currencies.

Other financial guarantees are used in various transactions to enhance the credit standing of the Group s customers. They represent irrevocable assurance, subject to satisfaction of certain conditions, that the Group will make payment in the event that the customers fail to fulfill their obligations to third parties. Such financial obligations include a return of security deposits and the payment of service fees.

Performance letters of credit and guarantees are issued to guarantee customers tender bids on construction or similar projects or to guarantee completion of such projects in accordance with contractual terms. They are also issued to support a customer s obligation to supply specified products, commodities, maintenance or other services to third parties.

Liquidity facilities to SPEs represent irrevocable commitments to provide contingent liquidity credit lines including commercial paper purchase commitments to SPEs for which the Group serves as the administrator. The SPEs are established by clients to obtain funding from the commercial paper market or the corporate debt market by transferring assets to the SPEs. The Group has commitments to provide liquidity to the SPEs in amounts up to W2,670,081 million at December 31, 2006. Although the Group does not sell assets to these SPEs, it would be required to provide funding under the liquidity facilities in the event that the SPEs do not hold enough funds to make scheduled payments on their outstanding senior debt securities. Under the commercial paper purchase commitments, the Group is required to purchase commercial paper issued by the SPEs when enough funding is not available in the commercial paper market. The Group has limited credit exposure to these SPEs because the risk of first loss is borne by the clients or other third parties, or the SPEs are over-collateralized with the assets sold to them.

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Loans sold with recourse represent certain nonperforming loans the Group sold to Korea Asset Management Corporation (KAMCO) prior to 1999. These are accounted for as sales and derecognized from the consolidated balance sheets since control over these loans has been surrendered. The sales agreements contain a recourse liability under which KAMCO can obligate the Group to repurchase certain of these related loans if the related debtors fail to perform in accordance with specific restructuring plans. The recourse liability has no expiration date. Outstanding loans for which the Group has a recourse obligation amounted to W21,953 million and W13,769 million at December 31, 2005 and 2006, respectively. At December 31, 2005 and 2006, the Group has recorded in accrued expenses and other liabilities, W4,069 million and W1,676 million, respectively, representing its estimated obligation to repurchase the loans with recourse.

Guarantees on trust accounts represent guarantee on the Guaranteed Principal Money Trusts which require the Group to guarantee the return of the principal amount invested at the termination of a fixed term deposit. The Group manages and administers trust assets in the capacity as a fiduciary on agent behalf of its customers. Trust assets and liabilities are excluded from the consolidated financial statements of the Group, and are recorded in separate accounts from those of the Group s business. The guarantees on trusts funds qualify as derivatives under SFAS 133, and are included in trading liabilities at fair value on the Group s consolidated balance sheets with corresponding changes included in earnings. See Note 35 and 36 for further discussion related to trust accounts.

The Group enters into certain guarantee contracts that meet the characteristics of a derivative under SFAS No. 133. Such derivatives effectively guarantee the return on counterparty s referenced portfolio of assets. These credit derivatives will expire on various dates up to March 20, 2011 and have an aggregate notional amount of W812,235 million, which represents the maximum potential amount of future payments on the contracts. At December 31, 2006, these derivatives were recorded on the consolidated balance sheet at fair value of W250 million and W343 million in trading assets and liabilities, respectively.

Pledged Assets

The following table sets forth the primary components of assets pledged as collateral for borrowings and other purposes at December 31:

	2005	2006
	(In millions of Won)	
Short-term and long-term deposits	W 64	W 55
Trading securities	663,229	193,688
Available-for-sale securities	11,473,807	3,776,585
Held-to-maturity securities	1,546,167	4,983,153
Loans	2,430,559	2,372,809
Real estate	31,361	27,480
Other assets	29,910	4,672
	W 16,175,097	W 11,358,442

32. Concentrations of Geographic and Credit Risks

Geographic Risk

Loans to borrowers based in Korea represented approximately 98% of the Group s loan portfolio at December 31, 2005 and 2006. Investments in debt and equity securities of Korean entities represented approximately 99% and 98% of the Group s investment portfolio at December 31, 2005 and 2006, respectively.

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Credit Risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic conditions. Note 6 and Note 7 discuss the types of securities in which the Group invests. Note 8 discusses the type of loans in which the Group engages.

The Group regularly monitors various segments of its credit risk portfolio to assess potential concentration of risks and to obtain collateral when deemed necessary. Except for securities issued by KDIC, BOK and other governmental entities, no entity was responsible for 10% or more of the Group s total loans outstanding, trading assets and liabilities, available-for-sale securities, held-to-maturity debt securities or total interest and dividend income at December 31, 2005 and 2006 and for each of the three years ended on December 31, 2006.

The following table presents major products including both on-balance sheet (100% loans) and off-balance sheet (principally commitments to extend credit) exposures at December 31:

	2005			2006		
	Credit Exposure	On-Balance Sheet	Off-Balance Sheet	Credit Exposure	On-Balance Sheet	Off-Balance Sheet
	(In millions of Won)					
Commercial and industrial	W 66,211,349	W 35,728,132	W 30,483,217	W 80,162,745	W 40,062,760	W 40,099,985
Other commercial	44,825,210	21,408,703	23,416,507	51,116,005	27,319,293	23,796,712
Lease financing	754,473	754,473		584,641	584,641	
Mortgage and home equity	26,142,838	25,840,334	302,504	30,525,917	30,097,346	428,571
Credit cards	33,955,266	17,874,852	16,080,414	17,862,756	3,924,304	13,938,452
Other consumer	9,801,956	4,241,562	5,560,394	26,156,408	20,457,918	5,698,490
	W 181,691,092	W 105,848,056	W 75,843,036	W 206,408,472	W 122,446,262	W 83,962,210

33. Related Party Transactions

A number of banking transactions are entered into with related parties in the normal course of business. These include trust accounts managed by the Group, and loans to executives, directors and affiliated parties.

Trust Accounts

Under the Korean Trust Law and the Korean Trust Business Act, the Group serves as trustee to the trust accounts in a trust management capacity in the normal course of business. See Note 35 for more information on trust accounts.

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Notes to Consolidated Financial Statements (Continued)

Loans to Executives, Directors and Affiliated Parties

The following table summarizes the movements in the amount of loans to executive officers, directors, director nominees, their immediate families and companies affiliated with the directors at December 31:

	2005	2006
	(In millions of Won)	
Loans at beginning of the year	W 213,270	W 180,697
New loans	26,660	53,473
Repayments	(59,233)	(62,407)
Loans at end of the year	W 180,697	W 171,763

The following table sets forth the outstanding balances at December 31, and the related income and expenses for the years ended December 31 for related party transactions:

	2004		2005		2006	
	Trust Accounts	Executives, Directors and Affiliated Parties	Trust Accounts	Executives, Directors and Affiliated Parties	Trust Accounts	Executives, Directors and Affiliated Parties
	(In millions of Won)					
Loans	W	W 213,270	W	W 180,697	W	W 171,763
Accrued expenses and other assets	91,624		7,098		8,846	
Short-term borrowings	600,924		660,385		957,812	
Other liabilities	669		354		602	
Other interest income	768					
Net trust management fees	115,711		73,995		70,093	
Interest expense on short-term borrowings	16,985		17,052		28,267	
Interest on loans		6,828		3,538		3,863

It is the Group s policy to make loans available to employees and officers on terms equivalent to those at which it extends credit to unrelated parties. The Group does not customarily track or aggregate the total earnings on such loans as outstanding amounts are not material.

34. Segment Reporting

For management reporting purposes, the Group s business segment results are reported to management under Korean GAAP. The Group is organized into seven major business segments: retail banking, corporate banking, treasury and international business, other banking services, securities brokerage services, credit card and life Insurance. The Group s reportable segments are based on the nature of the products and services provided, the type or class of customers, and the Group s management organization, and provide the basis on which the Group reports its primary segment information:

Retail banking Activities within this segment include savings and demand deposits, consumer loans and mortgages of individual customers and sole proprietors with lending limits of W1,000 million or less.

Corporate banking Activities within this segment include loans, overdrafts, other credit facilities, deposits in foreign currencies and other foreign currency activities. The corporate banking segment s

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Notes to Consolidated Financial Statements (Continued)

assets and liabilities are mainly from transactions with customers including small and medium sized private companies, publicly traded enterprises and sole proprietors with lending limits greater than W1 billion.

Treasury and international business Activities within this segment include Shinhan Bank s internal asset and liability management, proprietary trading in securities and derivatives, proprietary investment in security portfolios using Shinhan Bank s capital, and operation of Shinhan Bank s overseas branches.

Other banking services Activities within this segment include Shinhan Bank s impaired loan management, administration of Shinhan Bank and Chohung Bank operations, and operation of Shinhan Bank s overseas branches.

Securities brokerage services Activities within this segment include a full range of brokerage services, investment advice and financial planning to retail customers, and various investment banking services to corporate customers conducted through Good Morning Shinhan Securities.

Credit card Activities within this segment include processing domestic as well as overseas credit and debit card operations conducted through Shinhan.Card. The credit card segment s assets and liabilities are mainly from transactions with individual or corporate cardholders and card merchants.

Life Insurance Activities within this segment include Shinhan Life Insurance s providing life-insurance products and financial consulting services, by various sales distributions such as FC, TM, CM and Bancasurance (bank alliances including Shinhan Bank), which meet the needs of individual and group customers who want health insurance, whole life insurance and pension plan, etc.

Other banking services of the Group are comprised of activities of the holding company and other subsidiaries such as Jeju Bank and Shinhan Capital, none of which constitutes a separately reportable segment.

Operating revenues and expenses and interest income and expense, related to both third party and intersegment transactions, are included in determining the operating earnings of each respective segment. The provision for income tax is comprised of corporate income tax and resident tax surcharges. Income tax expenses are allocated to the respective segment based upon performance.

Transactions between the business segments are reflected on terms established by management.

The Group continuously assesses its assumptions, methodologies and reporting classifications to better reflect the nature and activities of the Group s business segments. The Group s business segments for the year ended December 31, 2006 have been changed reflecting the merger between Shinhan Bank and Chohung Bank, spit-merger of Chohung Bank s credit card business with Shinhan card, and life insurance being reportable segment in 2006. The corresponding information for 2004 and 2005 has been restated.

Geographic segment disclosures have been excluded as assets and revenues attributable to external customers in foreign countries are not significant.

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Notes to Consolidated Financial Statements (Continued)

The following table sets forth information about reporting segments at and for the years ended December 31:

	2004							
	Shinhan Bank							
	Corporate Banking	Treasury & International Business	Other Banking Services	Securities Brokerage Services(1)	Credit Card(2)	Other	Subtotal before Elimination	U GA Adjust
W	787,620	W 2,944	W 319,760	W 54,043	W 935,518	W (2,607)	W 4,048,956	W (5
	550,533	3,900,510	647,295	643,209	2,350	1,710,856	8,299,561	(5,9
	1,338,153	3,903,454	967,055	697,252	937,868	1,708,249	12,348,517	(6,5
	53,767	(4,811)	14,133	(4,696)	848,650	23,977	1,426,297	(1,2
	545,677	3,829,181	688,794	642,572	396,563	508,387	8,039,826	(4,9
	4,321	1,400	75,108	15,560	6,611	46,458	233,654	1
	734,388	77,684	189,020	43,816	(313,956)	1,129,427	2,648,740	(5
	164,983	24,427	(22,243)	240	(2,984)	32,202	392,765	3
	569,405	53,257	211,263	43,576	(310,972)	1,097,225	2,255,975	(8
	583,383	(126,890)	(183,499)	15,784	234,796	(1,251,948)	(831,793)	
	(35,559)	(4,493)	(2,353)	9,849	110,378	(28,056)	42,688	
W	1,117,229	W (78,126)	W 25,411	W 69,209	W 34,202	W (182,779)	W 1,466,870	
W	33,542,889	W 31,318,925	W 14,725,637	W 2,956,183	W 2,639,195	W 18,816,473	W 158,757,600	W (4,9

Notes:

(1) Securities brokerage business is conducted through Good Morning Shinhan Securities.

(2) Credit card business is conducted through Shinhan Card.

(3) Includes eliminations for consolidation, intersegment transactions and certain differences in classification under management reporting system.

(4) Includes extraordinary gain of W27,507 million.

(5) Includes cumulative effect of change in accounting principle of W23,049 million.

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Notes to Consolidated Financial Statements (Continued)

2005

Shinhan Bank								
rate ng	Treasury & International Business	Other Banking Services	Securities Brokerage Services(1)	Credit Card(2)	Life Insurance	Other	Subtotal before Elimination
				(In millions of Won)			
72,620	W (226,809)	W 204,052	W 63,580	W 953,909	W 13,813	W 258,069	W 4,178,610
0,988	5,351,148	615,273	816,703	102,030	244,939	1,890,659	10,226,974
33,608	5,124,339	819,325	880,283	1,055,939	258,752	2,148,728	14,405,584
23,617	(40,352)	76,509	(3,550)	478,324	582	23,132	915,718
58,555	5,255,279	847,805	747,699	362,895	249,049	94,727	9,324,466
5,976	1,500	71,052	15,082	6,551	534	40,335	224,771
95,460	(92,088)	(176,041)	121,052	208,169	8,587	1,990,534	3,940,629
35,729	(33,602)	(105,182)	33,812	(5,224)	2,540	27,405	299,045
99,731	(58,486)	(70,859)	87,240	213,393	6,047	1,963,129	3,641,584
(5,793)	(202,405)	(89,089)	(11,575)	276,554	(5,428)	(1,810,298)	(1,876,199)
(6,341)	(24,479)	(17,345)	6,572	81,678	2,121	(14,240)	(26,617)
97,597	W (285,370)	W (177,293)	W 82,237	W 571,625	W 2,740	W 138,591	W 1,738,768
56,820	W 30,689,729	W 14,898,400	W 3,882,713	W 3,688,479	W 5,129,302	W 22,152,606	W 174,948,406

Notes:

(1) Securities brokerage business is conducted through Good Morning Shinhan Securities.

(2) Credit card business is conducted through Shinhan Card and the credit card segment in Chohung Bank.

(3) Includes eliminations for consolidation, intersegment transactions and certain differences in classification under management reporting system.

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2006

Shinhan Bank							
rate ing	Treasury & International Business	Other Banking Services	Securities Brokerage Services(1)	Credit Card(2)	Life Insurance	Other	Subtotal before Elimination
				(In millions of Won)			
42,971	W (179,077)	W 608,577	W 66,779	W 717,696	W 227,637	W 58,664	W 4,575,019
13,138	6,136,650	1,035,394	1,258,781	1,296	2,134,346	2,436,079	13,843,933
56,109	5,957,573	1,643,971	1,325,560	718,992	2,361,983	2,494,743	18,418,952
35,887	(13,099)	(36,830)	2,578	92,021	2,314	49,291	515,376
41,850	5,596,254	1,274,417	1,173,243	430,395	2,187,251	418,108	12,844,596
5,671	3,638	89,217	15,637	12,318	6,619	28,560	266,128
72,701	370,780	317,167	134,102	184,258	165,799	1,998,784	4,792,852
33,151	104,442	89,340	37,912	(47,834)	44,265	29,230	714,232
39,550	266,338	227,827	96,190	232,092	121,534	1,969,554	4,078,620
24,388)	(634,614)	23,600	4,698	25,761	(25,608)	(2,032,033)	(2,527,540)
21,975)	(165,196)	(4,516)	9,848	120,492	16,645	13,012	(45,226)
06,813)	W (533,472)	W 246,911	W 110,736	W 378,345	W 112,571	W (49,467)	W 1,505,854
62,110	W 26,653,700	W 23,557,387	W 4,126,940	W 3,558,415	W 6,225,865	W 25,583,922	W 193,702,202

Notes:

(1) Securities brokerage business is conducted through Good Morning Shinhan Securities.

(2) Credit card business is conducted through Shinhan Card and the credit card segment in Chohung Bank.

(3) Includes eliminations for consolidation, intersegment transactions and certain differences in classification under management reporting system.

(4) Includes cumulative effect of change in accounting principle of W10,184 million.

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Notes to Consolidated Financial Statements (Continued)

35. Trust Accounts

The Group offers a variety of asset management and administrative services under trust arrangements in accordance with the Korean Trust Law and the Korean Trust Business Act. In a trust management capacity, the Group is required to exercise due care in managing and preserving the trust assets. The trust accounts managed by the Group are classified into performance based trusts and guaranteed trusts in terms of the nature of the trusts, and the guaranteed trusts consist of Guaranteed Principal Money Trusts and Guaranteed Fixed Rate Money Trusts.

The Guaranteed Principal Money Trusts require the Group to guarantee the return of the principal amount invested at the termination of a fixed term deposit. Additionally, the Group guarantees a specified rate of return on the principal amount invested in Guaranteed Fixed Rate Money Trusts. Based on the Group s analysis of potential risk and reward generated from the guaranteed trusts, the Guaranteed Fixed Rate Money Trusts were consolidated in the Group s consolidated financial statements in accordance with FIN 46R. See Note 36 for further discussion on the consolidation scope of the trust accounts.

With respect to managing of the trust accounts, the Group charges investment management fees on the Guaranteed Principal Money Trusts and other performance based trusts, and receives commission income, including penalty charges for early withdrawal of fixed term deposits.

36. Securitizations and Variable Interest Entities

The Group primarily securitizes, sells and services corporate loans, credit card receivables, mortgage and student loans. In certain situations, the Group also provides liquidity guarantees to investors in the form of beneficial interests and standby letters of credit as discussed in Note 31.

The Group recognized net gain(loss) of W1,023 million, W94,411 million, and W(5,018) million in 2004, 2005, and 2006, respectively, related to securitizations and sale of loans in which the Group has surrendered control.

The Group may, in the normal course of its business, provide various products and services to various entities which may be deemed to be variable interest entities such as asset-backed securitization of performing and/or non-performing loans, various investment funds, guaranteed trusts and SPEs created for structured financing. The Group may provide liquidity facilities, may be a party to derivative contracts with VIEs, may provide loss enhancement in the form of credit and other guarantees to the VIEs, may be the investment manager and may also have an ownership interest or other investment in certain VIEs. In general, the investors in the obligations of consolidated VIEs have recourse only to the assets of those VIEs and do not have recourse to the Group, except where the Group has provided a guarantee to the investors or is the counterparty to a derivative transaction involving the VIE.

The following table presents the carrying amounts and classification of consolidated assets that are pledged as collateral for VIE obligations, including VIEs where the Group is the primary beneficiary:

	2005	2006
	(In millions of Won)	

Loans	W 2,008,800	W 1,922,217
Securities	4,710,614	4,715,195
Other assets	529,467	470,747
	W 7,248,881	W 7,108,159

Of the W7,248,881 million and W7,108,159 million of total assets of VIEs consolidated by the Group at December 31, 2005 and 2006, respectively, W4,810,734 million and W4,499,357 million represent structured transactions where the Group packages and securitizes assets or the Group provides credit enhancement or liquidity guarantees; W2,406,142 million and W2,550,573 million represent investment trusts that holds investments on

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Notes to Consolidated Financial Statements (Continued)

behalf of the Group; W32,005 million and W58,229 million represent the Guaranteed Fixed Rate Money Trusts constructed by the Group.

The Group consolidated its Guaranteed Fixed Rate Money Trusts because the Group was deemed to be the primary beneficiary. These trusts were constructed by the Group and the Group would absorb the majority of the expected losses of the trusts by providing a guarantee of the principal and a fixed rate of return on the principal amount in trust. The Group did not consolidate its Guaranteed Principal Money Trusts or performance based trusts because the Group was not the primary beneficiary.

In addition to the VIEs that are consolidated in accordance with FIN 46R, the Group has significant variable interests in certain other VIEs that are not consolidated because the Group is not the primary beneficiary. These VIEs are structured by other third parties. In all cases, the Group does not absorb the majority of the VIEs expected losses nor does it receive a majority of the VIEs expected residual returns, or both. These VIEs facilitate client transactions, and the Group provides the VIEs with administration services and liquidity. The transactions with these VIEs are conducted at an arm s length, and individual credit decisions are based upon the analysis of the specific VIE, taking into consideration the quality of the underlying assets. The Group records and reports these transactions with the VIEs similar to any other third party transactions.

The following table presents the aggregated total assets of significant variable interest entities where the Group holds a significant variable interest, but does not consolidate, and the Group s maximum exposure to loss as a result of its involvement with these entities at December 31:

	2005		2006	
	Total Assets	Maximum Exposure	Total Assets	Maximum Exposure
	(In millions of Won)			
SPEs created for structured financing	W 4,302,822	W 2,743,489	W 26,810,740	W 8,784,815
Credit enhancement provided to SPEs	13,554,109	3,055,887	12,959,520	4,402,508
Collateralized loan obligation	13,342		1,837	
Guaranteed principal money trusts	3,160,917	3,060,652	2,603,772	2,505,600
Total	W 21,031,190	W 8,860,028	W 42,375,869	W 15,692,923

As most of these liquidity facilities expire without being drawn, the total variable interest in these VIEs is not, in the Group s view, representative of the Group s actual future funding requirement.

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37. Other Comprehensive Income

The following table sets forth the movements of other comprehensive income, net of tax:

	Foreign Currency Translation Adjustments	Net Unrealized Gain on Available-for-Sale Securities(1)	Accumulated Other Comprehensive Income
		(In millions of Won)	
Balance at January 1, 2004	W 6,039	W 52,057	W 58,096
Foreign currency translation adjustment, net of tax effect of W7,003	(18,462)		(18,462)
Unrealized net gain on available-for-sale securities, net of tax effect of W47,851		128,195	128,195
Less: Reclassification adjustment for net realized gain included in income, net of tax effect W3,776		9,956	9,956
Balance at December 31, 2004	(12,423)	170,296	157,873
Foreign currency translation adjustment, net of tax effect of W4,561	(12,024)		(12,024)
Unrealized net loss on available-for-sale securities, net of tax effect of W81,975		(220,975)	(220,975)
Less: Reclassification adjustment for net realized gain included in income, net of tax effect W9,512		25,076	25,076
Balance at December 31, 2005	(24,447)	(75,755)	(100,202)
Foreign currency translation adjustment, net of tax effect of W5,050	(13,315)		(13,315)
Unrealized net gain on available-for-sale securities, net of tax effect of W121,742		323,165	323,165
Less: Reclassification adjustment for net realized gain included in income, net of tax effect W63,460		(167,304)	(167,304)
Balance at December 31, 2006	W (37,762)	W 414,714	W 376,952

Notes:

(1) Equity method investments included.

38. Subsequent Events

On March 19, 2007, the Group acquired 98,517,316 shares or 78.6% of the issued and outstanding common stock of LG Card, currently Korea s largest credit card company, from the creditors committee of LG Card, led by Korea Development Bank. See Note 3.

39. Shinhan Financial Group Co., Ltd.

Shinhan Financial Group Co., Ltd. (the Parent Company) was incorporated on September 1, 2001 as the holding company for Shinhan Bank and other subsidiaries. The Parent Company coordinates the activities of its various subsidiaries to offer a comprehensive line of financial services to its customers, and serves as the primary source of funding for its non-banking subsidiaries including Good Morning Shinhan Securities, Shinhan Capital and Shinhan Card.

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Distributions of retained earnings of Shinhan Bank and Jeju Bank are restricted in order to meet the minimum capital ratio requirements under the FSC regulations. Also, retained earnings of Shinhan Bank and other subsidiaries of the Parent Company are restricted in accordance with the Bank Act of Korea, the Korean Commercial Law and other laws.

In certain instances, the Parent Company provided guarantees to other financial institutions that provided funding to its subsidiaries. Guarantees to such other financial institutions are W50,000 million, W57,000 million and W3,500 million at December 31, 2004, 2005 and 2006, respectively.

The following table presents the cash dividends paid to the Parent Company by its subsidiaries and affiliates for the three years ended December 31:

	2004	2005	2006
	(In millions of Won)		
Cash dividends paid by:			
Consolidated subsidiaries	W 252,807	W 379,210	W 465,525
Equity method investees	3,730	4,846	5,616
	W 256,537	W 384,056	W 471,141

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The Parent Company s condensed balance sheets as of December 31, 2005 and 2006, and the related condensed statements of income and cash flows for each of three-year period ended December 31, 2004, 2005 and 2006 are as follows:

CONDENSED BALANCE SHEETS

	2005	2006
	(In millions of Korean Won)	
Assets		
Deposits with banking subsidiary	W 64,374	W 468,561
Advances to, and receivables from, subsidiaries:		
Banking subsidiaries	93,140	
Non-banking subsidiaries	1,390,910	1,185,072
Investment (at equity) in subsidiaries:		
Banking subsidiaries	8,729,742	10,034,672
Non-banking subsidiaries	1,848,179	2,294,576
Premises and equipment	2,290	1,688
Other assets	159,698	684,865
Total assets	W 12,288,333	W 14,669,434
Liabilities and stockholders equity		
Short-term debt	W 85,188	W 120,000
Long-term debt	3,860,573	4,483,724
Accrued expenses and other liabilities	163,916	86,372
Total liabilities	4,109,677	4,690,096
Redeemable convertible preferred stock	367,872	
Stockholders equity	7,810,784	9,979,338
Total liabilities, redeemable convertible preferred stock and stockholders equity	W 12,288,333	W 14,669,434

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Notes to Consolidated Financial Statements (Continued)

CONDENSED STATEMENTS OF INCOME

	2004	2005	2006
	(In millions of Korean Won)		
Income			
Dividends from banking subsidiaries	W 244,807	W 367,210	W 428,412
Dividends from non banking subsidiaries	11,730	16,846	42,729
Interest income from banking subsidiaries	6,111	7,189	3,977
Interest income from non banking subsidiaries	108,153	88,622	75,173
Other income	19,253	4,749	19,188
Total income	390,054	484,616	569,479
Expenses			
Interest expense	247,711	240,609	239,115
Salaries and employee benefits	15,328	23,163	15,641
Other expense	32,490	14,400	36,154
Total expenses	295,529	278,172	290,910
Income before income tax expense (benefit) and undistributed net income of subsidiaries	94,525	206,444	278,569
Income tax expense (benefits)	46,480	(2,879)	(12,610)
Income before undistributed net income of subsidiaries	48,045	209,323	291,179
Equity in undistributed net income of subsidiaries:			
Banking subsidiaries	1,259,134	1,320,723	840,456
Non-banking subsidiaries	159,691	208,722	338,666
Net income	W 1,466,870	W 1,738,768	W 1,470,301

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Notes to Consolidated Financial Statements (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	2004	2005	2006
	(In millions of Korean Won)		
Cash flows from operating activities			
Net income	W 1,466,870	W 1,738,768	W 1,470,301
Less: Net income of subsidiaries	(1,675,362)	(1,913,501)	(1,650,263)
Parent Company net income (loss)	(208,492)	(174,733)	(179,962)
Depreciation on premises and equipment	763	767	857
Grant of stock options	1,988	7,087	(1,872)
Cash dividends from subsidiaries	256,537	384,056	471,141
Interest expense	42,919	29,487	28,675
Unrealized foreign exchange gain	(18,141)	(2,156)	(5,838)
Unrealized foreign exchange loss	18,132	2,156	5,838
Other assets, net (excluding assets for LG Card acquisition)	53,937	(34,905)	(6,463)
Accrued expenses and other liabilities, net	94,656	(24,422)	(38,498)
Net cash provided by operating activities	242,299	(187,337)	273,878
Cash flows from investing activities			
Repayments from subsidiaries	168,024	272,543	293,140
Purchases of at equity in subsidiaries	(111,894)	(368,104)	
Disposition of investment in subsidiaries		2,912	
Net change in premises and equipment	(1,706)		(87)
Increase in other assets (relating to LG Card acquisition)			(519,318)
Net cash provided by (used in) investing activities	54,424	(92,649)	(226,265)
Cash flows from financing activities			
Net change in short-term debt	(44,000)	35,188	34,812
Proceeds from issuance of long-term debt	246,036	780,000	2,300,000
Repayments of long-term debt	(230,921)	(635,600)	(1,700,131)
Net change in treasury stock	59	62	(29)
Cash dividends paid	(242,105)	(241,109)	(278,078)
Net cash provided by (used in) financing activities	(270,931)	(61,459)	356,574
Net increase in cash and due from banks	25,792	33,229	404,187
Cash and due from banks, beginning of the year	5,353	31,145	64,374
Cash and due from banks, end of the year	W 31,145	W 64,374	W 468,561

Cash paid for interest	W	204,791	W	211,122	W	210,441

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INDEX OF EXHIBITS

1.1	Articles of Incorporation (in English) ***
2.1	Form of Common Stock Certificate (in English) *
2.2	Form of Deposit Agreement to be entered into among Shinhan Financial Group, Citibank, N.A., as depositary, and all owners and holders from time to time of American depositary receipts issued thereunder, including the form of American depositary receipt*
2.3	Long-term debt instruments of Shinhan Financial Group, Shinhan Bank and other consolidated subsidiaries for which financial statements are required to be filed are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. Shinhan Financial Group agrees to furnish the Commission on request a copy of any instrument defining the rights of holders of its long-term debt and that of any subsidiary for which consolidated or unconsolidated financial statements are required to be filed.*
4.1	Stock Purchase Agreement by and between Korea Deposit Insurance Corporation and Shinhan Financial Group dated July 9, 2003**
4.2	Investment Agreement by and between Shinhan Financial Group and Korea Deposit Insurance Corporation dated July 9, 2003*
4.3	Agreed Terms, dated June 22, 2004, by and among the President of Korea Deposit Insurance Corporation, CEO of Shinhan Financial Group, CEO of Chohung Bank, Chairman of the National Financial Industry Labor Union of Korea and the Head of the Chohung Bank Chapter of the National Financial Industry Labor Union*
4.4	Merger Agreement between Shinhan Bank and Chohung Bank (in English) ***
4.5	Split-Merger Agreement between Shinhan Card and Chohung Bank (in English) ***
4.6	Form of Share Purchase Agreement, dated January 17, 2006, by and between Shinhan Financial Group and the holders of the redeemable preferred shares and the redeemable convertible shares issued by Shinhan Financial Group as part of the funding for the acquisition of LG Card Co., Ltd. (in English)
8.1	List of all subsidiaries of Shinhan Financial Group
12.1	Certifications of our Chief Executive Officer required by Rule 13a-14(a) of the Exchange Act
12.2	Certifications of our Chief Financial Officer required by Rule 13a-14(a) of the Exchange Act
13.1	Certifications of our Chief Executive Officer required by Rule 13a-14(b) and Section 1350 of Chapter 63 of the United States Code (18 U.S.C. 1350)
13.2	Certifications of our Chief Financial Officer required by Rule 13a-14(b) and Section 1350 of Chapter 63 of the United States Code (18 U.S.C. 1350)

A fair and accurate translation from Korean into English.

* Incorporated by reference to the registrant s previous filing on Form 20-F (No. 001-31798), filed on September 15, 2003.

** Incorporated by reference to the registrant s previous filing on Form 20-F (No. 001-31798), filed on September 15, 2003. Confidential treatment has been requested for certain portions of the Stock Purchase Agreement.

*** Incorporated by reference to the registrant s previous filing on Form 20-F (No. 001-31798), filed on June 30, 2006.

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