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 .

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Our Credit Card Business

LG Card s profitability may fluctuate significantly.

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

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

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

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

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

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

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

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

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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 businesses in order to allow investment bank type of financial organization to be established to comprehensively manage such businesses other than banking and insurance. If such regulation is enacted, competition may be fierce among existing banks, insurance companies, securities companies and other financial organizations, and may lead to significant changes in the current Korean financial market which can have an adverse effect on our business, financial conditions or results of operations.

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

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

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

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

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

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

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

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Risks Relating to Korea and the Global Economy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Our American Depositary Shares

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

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

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

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

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

Ownership of our shares is restricted under Korean law.

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

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

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

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

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

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

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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 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 1^{st}. Shinhan Private Equity owns 5.0% and other subsidiaries of Shinhan Financial Group own 31.7% of Shinhan NPS PEF 1^{st}.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

THE MERGER OF SHINHAN BANK AND CHOHUNG BANK

History of Our Acquisition of Chohung Bank

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

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

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

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

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

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

The Merger of Shinhan Bank and Chohung Bank

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

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

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

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

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

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

Relationship with the Labor Unions

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

Liquidity and Capital Resources

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

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

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

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

Note:

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

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

Capital Adequacy

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

ACQUISITION OF LG CARD

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

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

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

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

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

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

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

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

Note:

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

Banking Branch Network

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

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

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

Retail Banking Branches

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

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

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

Corporate Banking Branches

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

Self-Service Terminals

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

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

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

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

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N/A = Not applicable

Note:

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

Electronic Banking

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

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

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

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

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

N/A = Not applicable

Notes:

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

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

(3) Includes balance transfers.

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

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

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

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

Overseas Branch Network

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

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

Notes:

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

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

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

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

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

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

Credit Card Distribution Channels

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

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

Securities Brokerage Distribution Channels

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

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

Insurance Sales and Distribution Channels

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

Our Principal Activities

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

The comprehensive financial services that we provides are:

Commercial banking services, consisting of the following:

Retail banking services;

Corporate banking services, comprised of two divisions:

Small- and medium-sized enterprises banking; and

Large corporate banking;

Treasury and securities investment

Other banking services, such as trust account management services

Credit card services

Securities brokerage services

Insurance Services

Life insurance services

Bancassurance

Other insurance services

Reinsurance for life insurance and other insurance services

Asset management services, including brokerage and trading of various securities, related margin lending and deposit and trust services, and other asset management to the extent permitted by law

Other services, including leasing and equipment financing, investment trust management, regional banking, investment banking advisory and loan collection and credit reporting.

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

Deposit-Taking Activities

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

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

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

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

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

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

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

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

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

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

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

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

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

N/A = Not available

Notes:

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

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

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

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

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

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

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

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

Retail Banking Services

Overview

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

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

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

Consumer Lending Activities

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

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

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

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

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

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 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.

Since 2005, the industry-wide delinquency ratios for loans to small- and medium-sized enterprises have been falling. According to data compiled by the Financial Supervisory Service, the delinquency ratio (net of charge-offs, which has also increased significantly) for Won-denominated loans by Korean banks to small- and medium-sized enterprises decreased from 1.5% as of December 31, 2005 to 1.1% as of December 31, 2006. The delinquency ratio for loans to small- and medium-sized enterprise is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal payments are overdue by one day or more or interest payments are over due by 14 days or more (if prior interest payments on a loan were made late on more than three occasions, in which case the loan is considered delinquent if interest payments are overdue by one day or more) to (2) the aggregate outstanding balance of such loans. Shinhan Bank s delinquency ratio, calculated under Korean GAAP, for such loans decreased from 1.80% as of December 31, 2004 to 1.44% as of December 31, 2005 to 0.85% as of December 31, 2006. Prior to the merger, Chohung Bank s delinquency ratio, calculated under Korean GAAP, for such loans decreased from 2.21% as of December 31, 2004 to 1.70% as of December 31, 2005. Shinhan Bank s delinquency ratios, calculated under Korean GAAP, for Won-denominated loans to small- and medium-sized enterprises that do not prepare audited financial statements were 1.95% as of December 31, 2004, 1.95% as of December 31, 2005 and 0.90% as of December 31, 2006. Such delinquency ratios for Chohung Bank prior to the merger were 2.74% as of December 31, 2004 and 1.45% as of December 31, 2005. Shinhan Bank s delinquency ratios for loans to small unincorporated businesses and sole proprietorships were 2.07% as of December 31, 2004, 1.64% as of December 31, 2005 and 0.99% as of December 31, 2006. Such delinquency ratios for Chohung Bank prior to the merger were 2.00% as of December 31, 2004 and 1.64% as of December 31, 2005. While the current outlook for Korean economy is positive for 2007, we cannot assure that these delinquencies will continue to fall in 2007. The current focus of our small- and medium-sized enterprise lending business is to improve the asset quality and maintain the profitability of our loans to small- and medium-sized enterprises.

Large Corporate Banking

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

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

Corporate Lending Activities

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

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

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

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

Pricing

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

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

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

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

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

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

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

Electronic Corporate Banking

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

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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 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;

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.

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

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

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

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

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

(14) Presented on the Korean GAAP basis.

Supervisory Statistical Information prepared in accordance with Korean GAAP

Due to the rapid increase in consumer debt in Korea in recent years, the Korean government has adopted a series of regulations designed to restrain the rate of growth in, and delinquencies of, cash advances, credit card loans and credit card usage generally and to strengthen the reporting of, and compliance with, credit quality indexes. The Financial Supervisory Commission and the Financial Supervisory Service have announced a number of changes to the rules governing the reporting of credit card balances, as well as the procedures governing which persons may receive credit cards. In addition, the Korean government has also revised the calculation formula for capital adequacy ratios and delinquency ratios applicable to credit card companies, imposing sanctions against credit card companies with capital adequacy ratios of 8% or below and/or delinquency ratios of 10% or above. These computations are all based on financial information prepared in accordance with Korean GAAP, as required by regulatory guidelines, which differs significantly from U.S. GAAP. As of December 31, 2004, 2005 and 2006, under Korean GAAP, Shinhan Card s delinquent balances (defined as credit card accounts delinquent for over 30 days) were W121 billion, W57 billion and W92 billion, respectively, representing delinquency ratios (defined as the ratio of delinquent balances to outstanding balances) of 6.03%, 2.96% and 2.84%, respectively. As of December 31, 2004 and 2005, calculated on the same basis, Chohung Bank s delinquent credit card balances were W97 billion and W51 billion, respectively, representing delinquency ratios of 3.60% and 2.25%, respectively. In certain cases, credit card companies in Korea have been allowed to rewrite delinquent credit card balances for purchase and cash advance as credit card loans, thereby reducing the balance of delinquent accounts. As of December 31, 2004, 2005 and 2006, calculated on the same basis, LG Card s delinquent balances were W1,455 billion, W619 billion and W516 billion, respectively, representing delinquency ratios (defined as the ratio of delinquent balances to outstanding balances) of 13.50%,6.18% and 5.09%, respectively. Shinhan Card s delinquent credit card balances that were rewritten as loans as of December 31, 2004, 2005 and 2006, under Korean GAAP, were W10 billion, W4 billion and W99 billion, respectively. Chohung Bank s delinquent credit card balances that were rewritten as loans as of December 31, 2004 and 2005, under Korean GAAP, were W497 billion and W270 billion, respectively. LG Card s delinquent credit card balances that were rewritten as loans as of December 31, 2004, 2005 and 2006, under Korean GAAP, were W3,398 billion, W1,731 billion and W1,043 billion, respectively. Net charge-offs for Shinhan Card, under Korean GAAP, during 2004, 2005 and 2006 were W212 billion, W88 billion and W111 billion, respectively, representing net charge-off ratios (defined as the ratio of net charge-offs for the year to average balances for the year) of 9.70%, 5.07% and 3.31%, respectively. Net charge-offs for Chohung Bank, under Korean GAAP, during 2004 and 2005 were W625 billion and W180 billion, respectively, representing net charge-off ratios (defined as the ratio of net charge-offs for the year to average balance for the year) of 9.88% and 6.90%, respectively. As of December 31, 2006, Shinhan Card s adjusted equity capital ratio was 17.47%.

Recent Regulatory Changes

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

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

Personal Workout and Debt Forgiveness Program

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

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

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

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

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

Securities Brokerage Services

Overview

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

Recent Regulatory Changes

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

Products and Services

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

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

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

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

Other Services

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

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Leasing and Equipment Financing

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

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

Asset Management and Investment Trust Services

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

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

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

Regional Banking Services

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

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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.

Information Technology

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

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

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

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

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

Competition

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

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

See Item 3. Key Information Risk Factors Risks Relating to Competition Competition in the Korean banking industry, in particular in the small- and medium-sized enterprises banking, retail banking and credit card operations, is intense, and we may experience declining margins as a result .

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DESCRIPTION OF ASSETS AND LIABILITIES

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

Loans

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

Loan Types

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

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

Notes:

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

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

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

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

Loan Concentrations

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

Twenty Largest Exposures by Borrower

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

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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