SHINHAN FINANCIAL GROUP CO LTD
Form 20-F
June 30, 2006

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As filed with the Securities and Exchange Commission on June 30, 2006

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, 2005

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: 347,597,116 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. 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. However, since we did not merge or integrate the operations of Chohung Bank into Shinhan Bank as of and for the year ended on December 31, 2005, we have presented information about Chohung Bank separately from information about the rest of our group.

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 consolidat 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 otherw indicated, all translations from Won to Dollars were made at W1,010.00 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, 2005. On June 23, 2006, the Noon Buying Rate was W955.80 = 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 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*

DIRECTORS AND SENIOR MANAGEMENT

The names and positions of our directors and executive officers are set forth below. The business address of all of our directors and executive officers is our registered office at 120, 2-Ga Taepyung-Ro, Jung-Gu, Seoul 100-102, Korea.

Executive Directors

Name	Position
Eung Chan Ra	Chairman of the Board of Directors and Head of the Board Steering Committee
In Ho Lee	President and Chief Executive Officer and a member of the Board Steering Committee
Young Hwi Choi	Executive Director

Non-Executive Directors

Name	Position
Young Seok Choi	Non-Executive Director; Audit Committee member
Yong Woong Yang	Non-Executive Director
Il Sup Kim	Outside Director; Head of Audit Committee; Compensation Committee member
Sang Yoon Lee	Outside Director; Board Steering Committee member, Audit Committee member; Compensation Committee member
Yoon Soo Yoon	Outside Director; Risk Management Committee member; Compensation Committee member
Shee Yul Ryoo	Outside Director; Board Steering Committee member; Risk Management Committee member, Compensation Committee member
Byung Hun Park	Outside Director, Board Steering Committee member
Young Hoon Choi	Outside Director
Si Jong Kim	Outside Director; Audit Committee member
Philippe Reynieix	Outside Director; Risk Management Committee member
Haeng Nam Chung	Outside Director
Myoung Soo Choi	Outside Director

Non-executive directors are directors who are not our employees and do not hold executive officer positions in us. Outside directors are non-executive directors who also satisfy the requirements set forth under the Korea Securities and Exchange Act of 1976 to be independent of our major shareholders, affiliates and the management.

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Executive Officers

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

Name	Position
Jae Woo Lee	Chief Operating Officer; Managing Director of General Affairs Team, Public Relations Team and Human Resources Team
Byung Jae Cho	Chief Financial Officer; Managing Director of Finance Planning Team, Risk Management Team and Investor Relations Team
Jin Won Suh	Chief Strategy Officer; Managing Director of Strategic Planning Team, Information & Technology Planning Team and Future Strategy & Management Team
Jae Woon Yoon	Group Synergy Officer; Managing Director of Synergy Management Team, Joint Procurement Team and Audit & Compliance Team

ADVISERS

Certain legal matters in connection with the American depositary shares will be passed upon for us by Simpson Thacher & Bartlett LLP, our United States counsel, at 425 Lexington Avenue, New York, New York, and by Horizon Law Group, our Korean counsel, at The Korea Chamber of Commerce & Industry Building 11 F, 45 4-ga, Namdaemun-ro, Jung-gu, Seoul 100-743, Korea.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

Our independent auditors for the consolidated financial statements prepared under accounting principles generally accepted in the United States of America, or U.S. GAAP, were as follows.

Name	Period	Address	Membership in Professional Bodies
Samil PricewaterhouseCoopers	For the year ended December 31, 2003	Kukje Center Building 15th Floor 191 Hangangro 2ga, Yongsan-gu, Seoul, Korea	Korean Institute of Certified Public Accountants
KPMG Samjong Accounting Corp.	For the years ended December 31, 2004 and 2005	Star Tower 10th Floor 737 YeokSam-dong, KangNam-gu, Seoul 135-984 Korea	Korean Institute of Certified Public Accountants

ITEM 2. ***OFFER STATISTICS AND EXPECTED TIMETABLE***

Not applicable.

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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, 2001, 2002, 2003, 2004 and 2005 and as of December 31, 2001, 2002, 2003, 2004 and 2005 have been derived from our consolidated financial statements which have been prepared in accordance with U.S. GAAP.

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,					
	2001	2002	2003	2004	2005	2005
	(In billions of Won and millions of US$, except per common share data)					
Interest and dividend income	W 3,694	W 3,735	W 5,331	W 7,712	W 7,488	$ 7,413
Interest expense	2,439	2,305	2,998	4,138	4,014	3,974
Net interest income	1,255	1,430	2,333	3,574	3,474	3,439
Provision (reversal) for credit losses	405	246	965	135	(183)	(182)
Noninterest income	632	1,037	1,118	2,092	2,702	2,675
Noninterest expense	828	1,302	1,937	3,152	3,662	3,625
Income tax expense	223	320	248	764	942	933
Minority interest	(1)	10	26	153	16	16
Income before extraordinary item and effect of accounting change	432	589	275	1,462	1,739	1,722
Extraordinary gain	64			28		
Cumulative effect of a change in accounting principle, net of taxes				(23)		
Net income	W 496	W 589	W 275	W 1,467	W 1,739	$ 1,722
Net income per common share (in currency unit):						
Net income basic(1)	W 1,948	W 2,246	W 1,024	W 4,875	W 5,190	$ 5.14
Net income diluted(2)	1,663	2,243	984	4,347	4,882	4.83
Weighted average common shares outstanding-basic (in thousands of common shares)	254,680	262,480	262,987	292,465	333,424	
Weighted average common shares outstanding-diluted (in thousands of common shares)	299,215	262,812	279,745	337,479	356,140	

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) Diluted earnings per share are computed 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 on exercise of stock option and (ii) shares issuable on conversion of preferred shares.

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Consolidated Balance Sheet Data

	As of December 31,					
	2001	2002	2003	2004	2005	2005
	(In billions of Won and millions of US$, except per common share data)					
Assets						
Cash and cash equivalents	W 580	W 282	W 1,897	W 2,444	W 2,434	$ 2,410
Restricted cash	678	1,365	3,662	3,301	3,644	3,608
Interest-bearing deposits	255	125	409	220	627	621
Call loans and securities purchased under resale agreements	1,816	576	1,898	1,591	1,499	1,485
Trading assets:						
Trading securities and other	858	926	2,857	4,639	3,573	3,538
Derivatives assets	98	139	520	1,678	934	925
Securities:						
Available-for-sale securities	7,087	8,737	18,099	18,108	22,480	22,257
Held-to-maturity securities	6,038	4,408	3,605	3,099	2,963	2,934
Loans (net of allowance for loan losses of W720 billion in 2001, W996 billion in 2002, W3,631 billion in 2003, W2,311 billion in 2004 and W1,512 billion in 2005)	32,997	44,139	91,791	94,868	104,447	103,413
Customers liability on acceptances	1,566	928	2,365	2,012	1,879	1,860
Premises and equipment, net	530	828	2,003	1,848	1,876	1,858
Goodwill and intangible assets	4	219	1,676	1,660	2,957	2,928
Security deposits	390	466	966	968	1,078	1,067
Other assets	2,205	1,648	4,601	7,072	4,724	4,676
Total assets	W 55,102	W 64,786	W 136,349	W 143,508	W 155,115	$ 153,580
Liabilities and Stockholders Equity						
Liabilities:						
Deposits:						
Interest-bearing	W 31,036	W 35,886	W 82,161	W 79,934	W 83,278	$ 82,454
Non-interest-bearing	1,184	1,163	1,328	2,746	3,143	3,112
Trading liabilities	119	131	513	1,758	1,048	1,038
Acceptances outstanding	1,566	928	2,365	2,012	1,879	1,860
Short-term borrowings	5,759	6,994	11,204	10,954	11,968	11,850
Secured borrowings	4,088	4,706	6,316	6,308	7,502	7,427
Long-term debt	4,876	8,235	21,218	23,617	26,172	25,913
Future policy benefit					4,778	4,730
	3,562	3,193	6,555	9,713	7,089	7,019

Accrued expenses and other liabilities						
Total liabilities	52,190	61,236	131,660	137,042	146,857	145,403
Minority interest	2	288	583	66	80	79
Redeemable convertible preferred stock			711	736	368	364
Stockholders equity:						
Common stock	1,462	1,462	1,472	1,596	1,795	1,779
Additional paid-in capital	1,041	1,048	1,073	1,658	2,407	2,383
Retained earnings	638	1,077	1,189	2,456	3,953	3,914
Accumulated other comprehensive income, net of taxes	164	70	58	158	(100)	(99)
Less: treasury stock, at cost	(395)	(395)	(397)	(204)	(245)	(243)
Total stockholders equity	2,910	3,262	3,395	5,664	7,810	7,734
Total liabilities, minority interest, Redeemable Convertible Preferred Stock and stockholders equity	W 55,102	W 64,786	W 136,349	W 143,508	W 155,115	$ 153,580

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Dividends

	Year Ended December 31,				
	2001(1)	2002(2)	2003(2)	2004(2)	2005(2)
	(In Won and US$, except ratios)				
U.S. GAAP:					
Cash dividends per share of common stock:					
In Korean Won	W 750	W 600	W 600	W 600	W 750
In U.S. dollars	$ 0.63	$ 0.50	$ 0.50	$ 0.50	$ 0.74
Cash dividends per share of preferred stock					
In Korean Won	N/A	N/A	N/A	W 135.12	W 365.34
In U.S. dollars	N/A	N/A	N/A	$ 0.13	$ 0.36
Stock dividends per share of common stock					
Korean GAAP:					
Cash dividends per share of common stock:(3)					
In Korean Won	W 600	W 600	W 600	W 600	W 750
In U.S. dollars	$ 0.50	$ 0.50	$ 0.50	$ 0.50	$ 0.74
Dividend ratio(4)	12.00%	12.00%	12.00%	12.00%	15.00%
Cash dividends per share of preferred stock:					
In Korean Won	N/A	N/A	N/A	W 857	W 1,183
In U.S. dollars	N/A	N/A	N/A	$ 0.83	$ 1.17
Dividend ratio(4)	N/A	N/A	N/A	17.14%	23.66%
Stock dividends per share of common stock					

N/A = not available.

Notes:

(1) Represents, under U.S. GAAP, dividends declared on common stock of Shinhan Bank for the year ended December 31, 2000 and, under Korean GAAP, dividends accrued in the period to which such dividends relate for the year ended December 31, 2001.

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

(3) Represents, under Korean GAAP, for each year ended December 31, 2001 and 2002, dividends accrued on the common stock of Shinhan Financial Group for such year, and, for each year ended December 31, 2003, 2004 and 2005, dividends declared on common stock of Shinhan Financial Group in such year. In connection with our holding company restructuring in 2001, common stock of Shinhan Bank was exchanged for common stock of Shinhan Financial Group on a 1:1 ratio.

(4) 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,				
	2001	2002	2003	2004	2005
	(Percentages)				
Net income as a percentage of:					
Average total assets(1)	0.94%	0.94%	0.29%	1.01%	1.16%
Average stockholders equity(1)(2)	16.14	15.99	8.83	31.44	29.80
Including Redeemable Convertible Preferred Stock(3)	N/A	N/A	8.15	27.22	27.08
Including Redeemable Convertible Preferred Stock and Redeemable Preferred Stock(3)	N/A	N/A	8.24	22.73	19.98
Dividend payout ratio(4)	38.91	25.59	57.20	15.87	15.99
Net interest spread(5)	2.28	2.39	2.48	2.63	2.64
Net interest margin(6)	2.66	2.58	2.65	2.78	2.70
Efficiency ratio(7)	43.88	52.78	56.13	55.63	59.29
Cost-to-average assets ratio(8)	1.57	2.08	2.01	2.18	2.45
Equity to average asset ratio(9):	5.84	5.89	3.24	3.22	3.91
Including Redeemable Convertible Preferred Stock(3)	N/A	N/A	3.51	3.72	4.30
Including Redeemable Convertible Preferred Stock and Redeemable Preferred Stock(3)	N/A	N/A	4.04	4.83	5.39

N/A = Not applicable.

Notes:

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

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

(3) As consideration for our acquisition of Chohung Bank, in August 2003, we issued to the Korea Deposit Insurance Corporation (i) 46,583,961 shares of our Redeemable Preferred Stock, with an aggregate redemption price of W842,517,518,646 and (ii) 44,720,603 shares of our Redeemable Convertible Preferred Stock, with an aggregate redemption price of W808,816,825,858, which were convertible into shares of our common stock. In November 2005, Korea Deposit Insurance Corporation converted 22,360,302 shares of these shares of our Redeemable Convertible Preferred Stock 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 our common shares held by it. As of the date hereof, Korea Deposit Insurance Corporation does not hold any share of our common stock but still holds 22,360,301 shares of Redeemable Convertible Preferred Stock, representing 6.22% of the total issued shares (or 5.86% of the total issued shares on a fully diluted basis) of our common stock. Korea Deposit Insurance Corporation is entitled to convert such shares into our common stock beginning in August 2006. Pursuant to the terms of the Redeemable Preferred Stock 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. These Redeemable Preferred Stock are treated as debt under U.S. GAAP. Pursuant to the terms of our Redeemable Convertible Preferred Stock, 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 share of our Redeemable Convertible Preferred Stock is convertible into one share of our common stock. The dividend ratios on our Redeemable Preferred Stock

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and Redeemable Convertible Preferred Stock are 4.04% and 2.02%, respectively. In August 2003, we also raised W900 billion in cash through the issuance of 6,000,000 shares of Redeemable Preferred Stock, 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 .

(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,				
	2001	2002	2003	2004	2005
	(In billions of Won, except percentages)				
Non-interest expense(A)	W 828	W 1,302	W 1,937	W 3,152	W 3,662
Divided by					
The sum of net interest income and noninterest income(B)	1,887	2,467	3,451	5,666	6,176
Net interest income	1,255	1,430	2,333	3,574	3,474
Noninterest income	632	1,037	1,118	2,092	2,702
Efficiency ratio ((A) as a percentage of(B))	43.88%	52.78%	56.13%	55.63%	59.29%

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

(9) Represents the ratio of average stockholders equity (not including the Redeemable Preferred Stock or the Redeemable Convertible Preferred Stock) to average total assets.

Asset Quality Ratios

	As of December 31,				
	2001	2002	2003	2004	2005
	(In billions of Won, except percentages)				
Total loans	W 33,665	W 45,052	W 95,295	W 97,080	W 105,848
Total allowance for loan losses	720	996	3,631	2,311	1,512
Allowance for loan losses as a percentage of total loans	2.14%	2.21%	3.81%	2.38%	1.43%
Total non-performing loans(1)	W 530	W 518	W 1,844	W 1,750	W 1,594

Non-performing loans as a percentage of total loans	1.57%	1.15%	1.94%	1.80%	1.51%
Non-performing loans as a percentage of total assets	0.96%	0.80%	1.35%	1.22%	1.03%
Impaired loans(2)	W 1,492	W 1,263	W 3,488	W 2,646	W 2,285
Allowance for impaired loans	385	480	1,349	885	704
Impaired loans as a percentage of total loans	4.43%	2.80%	3.66%	2.73%	2.16%
Allowance for impaired loans as a percentage of impaired loans	25.80%	38.00%	38.68%	33.47%	30.81%

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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,				
	2001	**2002**	**2003**	**2004**	**2005**
	(Percentages)				
Requisite capital ratio(1)	134.43%	130.93%	118.41%	129.41%	132.81%
Total capital adequacy ratio for Shinhan Bank(2)	11.99	10.92	10.49	11.94	12.23
Tier I capital adequacy ratio(2)	8.24	6.81	6.34	7.45	8.16
Tier II capital adequacy ratio(2)	3.75	4.11	4.15	4.49	4.07
Total capital adequacy ratio for Chohung Bank(3)	10.43	8.66	8.87	9.40	10.94
Tier I capital adequacy ratio(3)	5.91	4.61	4.47	4.99	6.52
Tier II capital adequacy ratio(3)	4.52	4.05	4.40	4.41	4.42
Adjusted equity capital ratio of Shinhan Card(4)	N/A	10.86	13.78	16.48	17.68
Solvency ratio for Shinhan Life Insurance(5)	204.5	238.9	224.7	265.7	232.1

N/A = not applicable.

Notes:

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

(2) Shinhan Bank s capital adequacy ratios are computed in accordance with the regulations issued by the Financial Supervisory Commission, which was revised as of December 31, 2002 to take into account market risk as well as credit risk. The capital ratios as of December 31, 2002 were calculated using these revised guidelines. Under these guidelines, Shinhan Bank is required to maintain a minimum capital adequacy ratio of 8%. Applying the previous calculation, which only takes into account credit risks, Shinhan Bank s total capital adequacy ratio as of December 31, 2002, 2003, 2004 and 2005 were 10.91%, 10.59%, 11.96% and 12.27%, respectively. This computation is based on Shinhan Bank s consolidated financial statements prepared in accordance with Korean GAAP. See Item 4. Information on the Company Supervision and Regulation Principal Regulations Applicable to Banks Capital Adequacy.

(3) Chohung Bank s capital adequacy ratios are computed in accordance with the regulations issued by the Financial Supervisory Commission, which was revised as of December 31, 2002 to take into account market risk as well as

credit risk. The capital ratios as of December 31, 2002 were calculated using these revised guidelines. Under these regulations, Chohung Bank is required to maintain a minimum capital adequacy ratio of 8%. Applying the previous calculation, which only takes into account credit risks,

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Chohung Bank s total capital adequacy ratio as of December 31, 2002, 2003, 2004 and 2005 was 8.64%, 8.89%, 9.39% and 10.94%, respectively. This computation is based on the Chohung Bank s consolidated financial statements prepared in accordance with Korean GAAP. See Item 4. Information on the Company Supervision and Regulation Principal Regulations Applicable to Banks Capital Adequacy.

(4) 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.

(5) 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, 2006 was 230.8%.

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	1,267.00	1,130.90	1,267.00	1,105.50
2001	1,313.50	1,292.00	1,369.00	1,234.00
2002	1,186.30	1,250.31	1,332.00	1,160.60
2003	1,192.00	1,192.08	1,262.00	1,146.00
2004	1,035.10	1,139.30	1,195.10	1,035.10
2005	1,010.00	1,023.75	1,059.80	997.00
2006 (through June 23)	955.80	962.29	1,002.90	927.40
January	958.90	981.44	1,002.90	958.90
February	970.90	969.84	976.30	962.00
March	971.40	974.71	981.95	966.80
April	942.80	952.60	970.40	939.60
May	945.30	940.82	951.50	927.40
June (through June 23)	955.80	953.75	961.80	942.70

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, 2005, which was W1,010.00 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, in 2006, Kookmin Bank has entered into a definitive agreement to acquire Korea Exchange Bank from Lone Star pending regulatory approval. 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

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have recently recognized the same trends and are beginning to focus on increasing their fee income, in particular from bancassurance and investment trust.

Successful acquisition of these fee generating businesses by our competitors may result in increased competition in the area of investment trust business. Recently, Woori Securities has acquired LG Investment & Securities, Hana Bank has acquired Daehan Investment & Securities, and Dongwon Financial Holding has acquired Korea Investment & Securities.

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.

In addition, the impending sale of the controlling equity stake in LG Card, currently the largest credit card company in Korea in terms of asset size which has been in debt restructuring since November 2003, by its creditors committee may significantly change the competitive environment for providers of credit card services in Korea, including us. The sale will take the form of an auction to multiple bidders, and we are currently participating in this auction as one of the bidders. See Developments adversely affecting the business and liquidity of credit card companies in Korea, including LG Card, may result in losses in respect of our exposure to such companies . Failure by us to win the bid to acquire the controlling equity stake of LG Card and/or the acquisition of such stake of LG Card by one of our leading competitors in the banking business could adversely affect our competitive position in the credit card business as well as other related businesses and limit our future growth.

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, 2005, approximately 90.69% 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, 2005 with remaining maturities of four months or less, approximately 54.46% were rolled over or otherwise maintained with Shinhan Bank. Of Chohung Bank s total time deposits maturing during the four months ended December 31, 2005, approximately 57.01% were rolled over or otherwise maintained with Chohung Bank. No assurance can be given, however, that such stable source of funding will continue, including as a result of intense price competition. If a substantial number of depositors fail to roll over deposited funds upon maturity or withdraw such funds from us, our liquidity position could be materially adversely affected, and we may be required to seek more expensive sources of short-term and long-term funds to finance our operations.

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 W38,055 billion as of December 31, 2003 to W38,713 billion as of December 31, 2004 and to W39,943 billion as of December 31, 2005. These balances represent 40.0%, 39.9% and 37.7%, respectively, of our total loan portfolio as of December 31, 2003, 2004 and 2005. 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 W605 billion as of December 31, 2003, W1,005 billion as of

December 31, 2004 and W1,015 billion as of December 31, 2005, representing 1.59%, 2.60% and 2.54% of our total loans to small- and medium-sized enterprises as of December 31, 2003, 2004 and 2005.

Since 2002, the industry-wide delinquency ratios for loans to small- and medium-sized enterprises have been rising under Korean GAAP. According to data compiled by the Financial Supervisory Service, the delinquency ratio (net of charge-offs, which has also increased significantly) for loans by Korean banks to small- and medium-sized enterprises increased from 1.9% as of December 31, 2001 to 3.2% as of May 31, 2004, the record-high to date, and decreased to 1.5% as of December 31, 2005. 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. Under Korean GAAP, Shinhan Bank s delinquency ratio for such loans increased from 1.75% as of December 31, 2003 to 1.80% as of December 31, 2004 and decreased to 1.44% as of December 31, 2005 and Chohung Bank s delinquency ratio for such loans decreased from 3.49% as of December 31, 2003 to 2.21% as of December 31, 2004 and to 1.70% as of December 31, 2005. In 2003, 2004 and 2005, under Korean GAAP, Shinhan Bank charged off loans to small- and medium-sized enterprises of W36 billion, W101 billion and W82 billion, respectively, while Chohung Bank charged off loans to small- and medium-sized enterprises of W73 billion, W255 billion and W118 billion, respectively. In addition, Chohung Bank did not sell any of its loans to small- and medium-sized enterprises of in 2003, but sold W357 billion in 2004 and W175 billion in 2005 under Korean GAAP. Shinhan Bank did not sell any of its loans to small- and medium-sized enterprises in 2003, but sold W146 billion in 2004 and W126 billion in 2005 under Korean GAAP. Absent these charge-offs and loan sales, the delinquency ratios would have been higher.

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 W6,132 billion, or 11.34% of total corporate loans (Shinhan Bank and Chohung Bank combined), as of December 31, 2003, to W7,691 billion, or 14.08% of total corporate loans, as of December 31, 2004, and to W9,434 billion, or 16.30% of total corporate loans, as of December 31, 2005. In addition, our loans to the hotel and leisure industry (consisting principally of hotels, motels and restaurants) as of December 31, 2003, 2004 and 2005 aggregated W1,977 billion, W2,082 billion and W2,114 billion, respectively, or 3.66%, 3.81% and 3.65%, 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, 2005, under Korean GAAP, the delinquency ratios for loans to the real estate, leasing and service industry were 1.73% for Chohung Bank and 1.00% for Shinhan Bank, in each case net of charge-offs and loan sales. As of December 31, 2005, under Korean GAAP, the delinquency ratios for loans to the hotel and leisure industry were 3.30% for Chohung Bank and 1.88% for Shinhan Bank, in each case net of charge-offs and loan sales. A continued deterioration in asset quality of loans to these industry sectors may materially and adversely affect our financial condition and results of operations.

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

We may 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 W20,517 billion as of December 31, 2003 to W22,180 billion as of December 31, 2004 and to W25,840 billion as of December 31, 2005. Such increase represents 20.5% and 41.74% of the overall increase in our loan portfolio during 2004 and 2005, respectively. Of our total consumer loan portfolio, 49.8%, 52.24% and 53.88% was attributable to mortgage and home equity lending as of December 31, 2003, 2004 and 2005, 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%. In recent years, the Korean government has issued several policy-driven regulations to suppress the increasing real estate prices in certain zones of the Seoul Metropolitan area that are in high demand, including the further reduction of maximum loan-to-value ratio applicable to mortgage and home equity loans for real estate in those regulated zones, which may result in a general decline in the real estate prices in Korea. Due to the factors discussed above, there can be no assurance 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, 2005, we had W11,451 billion of such long-term mortgage and home equity loans outstanding, for which we established an allowance for loan losses of W5 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, no assurance can be given 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 house, other real estate and other securities secure substantial portions of our loans. As of December 31, 2005, the secured portion of Won-denominated loans of Shinhan Bank amounted to W29,578 billion, or 66.66% of such loans, and the secured portion of Won-denominated loans of Chohung Bank amounted to W18,231 billion, or 51.94% of such loans, under Korean GAAP. No assurance can be given that the collateral value may not materially decline in the future. Until recently, it was Shinhan Bank s general policy to lend up to 50%-70% of the appraised value of collateral, which appraisal value we believe was, in general, lower than the market value. Chohung Bank s policy is to lend up to the estimated recovery value of the collateral, which Chohung Bank calculates based on the value of collateral published by the courts as recovered through court-approved auctions and further adjusted to take into account the existence of any lien or other security interest that is prior to Chohung Bank s security interest. We believe that such estimated recovery value of the collateral is, in general, lower than the market value. However, downturns in the real estate market as well as decreases in the value of securities collateral in the past have resulted in a number of loans whose principal amount exceeds the value of the underlying collateral at times. Declines in the value of securities and/or real estate prices in Korea that result in shortfalls in collateral values compared to loan amounts would require us to increase loan loss provisions and may have a material adverse effect on us. For a description of our collateral valuation policy, see Item 4. Information on the Company Description of Assets and Liabilities Risk Management Credit Risk Management of Shinhan Bank Credit Evaluation and Approval Consumer Loans and Item 4. Information on the Company Business Overview Our Principal Activities Retail Banking Services Consumer Lending Activities .

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

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

Our total consumer portfolio is comprised of three principal product types, namely mortgage and home equity loans, credit cards and other consumer loans (which include principally unsecured consumer loans). In recent years, 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. This growth, however, led to industry-wide declines in overall credit quality, with increased delinquencies, provisions and charge-offs, as a result of, among other things, weak economic conditions as well as an increase in unemployment. The unemployment rate in Korea was 3.8% as of December 31, 2003 and 3.8% as of December 31, 2004, and decreased to 3.5% as of December 31, 2005.

In response to the events described above, including as part of our continued efforts to reduce or charge-off delinquent credit card loans, the amount of credit card loans has decreased from W6,112 billion as of December 31, 2003 to W4,732 billion as of December 31, 2004 and to W4,242 billion as of December 31, 2005. Our other consumer loans, on the other hand, have continued to increase from W14,580 billion as of December 31, 2003, to W15,546 billion as of December 31, 2004 and to W17,875 billion as of December 31, 2005. While our delinquency ratio for total consumer loans decreased from 3.95% in 2003 to 1.70% in 2005, 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 . We believe that the Korean government will 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.

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

Adverse developments in the credit card industry in recent years such as industry-wide increases in delinquencies and resulting increases in provisioning for loan losses have had a negative impact on investors perception of credit card companies in the Korean corporate debt market, thereby significantly limiting the ability of credit card companies to obtain financing through issuances of debt securities. As a result, Korean credit card companies recently experienced significant financial and liquidity difficulties. According to a press release issued by the Financial Supervisory Commission, the average industry-wide delinquency ratio (defined as ratio of credit card balances that are delinquent for more than 30 days over total outstanding balances, including delinquent balances rewritten as credit card loans) of credit card companies in Korea was approximately 10.05% as of December 31, 2005 and 8.77% as of March 31, 2006. Although such delinquency ratio was reported to have decreased from 28.28% as of December 31, 2003, the level of delinquencies experienced by the credit card industry in Korea still remains relatively high. As of December 31, 2005, we held debt and equity securities issued by credit card companies (including through asset-backed securitization) in the aggregate principal amounts of W787 billion and W195 billion, respectively, in our investment portfolio.

As of December 31, 2005, we had loans outstanding to credit card companies in the aggregate principal amount of W610 billion. These loans, excluding loans extended to LG Card, are considered performing in accordance with our internal credit rating methodology and therefore we have not recognized a specific loan loss allowance against these loans. See Item 4. Information on the Company Description of Assets and Liabilities Loans Loan Concentrations Exposures to the Credit Card Industry . To the extent that financial and liquidity difficulties experienced by credit card companies are not resolved on a timely basis, the asset quality of our exposure to credit card companies may become significantly impaired, resulting in losses that are materially adverse to our financial condition and results of operations and capital adequacy.

In particular, LG Card, currently Korea s largest credit card company, experienced significant liquidity and asset quality problems in 2003 and has been engaged in a workout since November 2003. As part of this workout program, the creditor banks of LG Card (including Shinhan Bank and Chohung Bank) have taken a number of steps, including providing a W2 trillion credit facility (with respect to W1 trillion of which facility, maturity has been extended until December 2006), engaging in several rounds of debt-to-equity swaps and agreeing to substantial capital write-downs. Recently, the creditors committee of LG Card, led by Korea Development Bank, has been attempting to sell a controlling equity stake in LG Card in the form of an auction to multiple bidders. We are currently participating in this auction as one of the bidders with a view to acquiring control in LG Card.

As of December 31, 2005, our total exposure to LG Card was W364 billion, including W136 billion of loans, W33 billion of debt securities and W195 billion of equity securities. We made an allowance for loan losses of W0.7 billion for the loans. As a result of the satisfactory progress on scheduled debt restructuring of LG Card, in 2005, we recorded reversal of loan loss provisions of W12 billion but also recognized securities impairment losses of W7 billion, resulting in a net gain of W5 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.

The value of underlying collateral, our pro rata entitlement thereto and the allowances we have established or will establish against our exposures to LG Card and other Korean credit card companies may not be sufficient to cover all future losses arising from these exposures. Following the debt-to-equity conversions in respect of our exposures to LG Card, we may experience further losses if the market value of the LG Card equity securities we own falls below their recorded book value.

In addition, in the case of credit card companies that are in or in the future enter into workout, restructuring, reorganization or liquidation proceedings, our recoveries from those companies may be limited.

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We may, therefore, experience future losses with respect to these exposures. Furthermore, to the extent that our investment portfolio include in the future beneficiary certificates representing interests in investment trusts whose assets include securities issued by troubled credit card companies and the value of securities issued by credit card companies declines as a result of their financial difficulties or otherwise, we may experience losses on our investment securities.

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, 2005, seven are companies that are members of the 29 largest chaebols in Korea. If the quality of the exposures extended by us to chaebols declines, we would require additional loan loss provisions in respect of loans and would record impairment losses in respect of securities, which would adversely affect our financial condition, results of operations and capital adequacy.

In particular, we have significant exposure to SK Networks, which experienced financial difficulties after disclosure of its accounting irregularities and is currently in a workout program. If this program is not satisfactorily resolved, it may have a material adverse effect on us. As of December 31, 2005, our total exposure outstanding to SK Networks (formerly, SK Global) alone was W670 billion, or 0.47% of our total exposure, consisting of W326 billion in loans, W7 billion in debt securities, W240 billion in equity securities and W97 billion in guarantees and acceptances. Of our total loans outstanding to SK Networks, W24 billion was secured. For the unsecured loans of W302 billion, we made allowance for loan losses of W20 billion. With respect to the guarantees and acceptances outstanding, we made allowances of W6 billion.

All of the indebtedness of SK Networks and its overseas subsidiaries held by Korean financial institution creditors was resolved either through an exchange for 43% of the principal amount in promissory notes and 5% of the principal amount in the form of bonds with warrants or in accordance with the Memorandum. Under the Memorandum, all of the indebtedness of SK Networks held by the Korean financial institution creditors was converted into shares of common stock, Redeemable Preferred Stock and mandatory convertible bonds of SK Networks. As a result of this corporate restructuring, we owned 9.54% of common shares of SK Networks (or 9.87% of total equity ownership in SK Networks including the Redeemable Preferred Stock) as of December 31, 2005.

We also have exposures to other companies belonging to the SK Group. As of December 31, 2005, our total exposure outstanding to SK Corporation, the controlling company of the SK Networks, was W398 billion, or 0.28% of our total exposure, consisting of W141 billion in loans, W43 billion in debt securities, W132 billion in equity securities, and W82 billion in guarantees and acceptances. We classify loans and guarantees and acceptances to other SK Group companies, including SK Corporation, as non-impaired in accordance with our internal credit rating methodology and therefore no specific allowance is made against these loans or guarantees and acceptances. Our management believes the general allowance of W0.9 billion against the non-impaired element of the corporate loan portfolio in total is sufficient to cover any incurred losses within this portfolio, including those loans to companies within the SK Group, including SK Corporation and excluding SK Networks. For a more detailed discussion of our exposure to the SK Group as of December 31, 2005, see Item 4. Information on the Company Description of Assets and Liabilities Loans Loan Concentrations Exposures to SK Group Companies .

In addition, we have significant exposures to former Ssangyong Group companies, a number of which have been experiencing financial difficulties. In 1998, Daewoo Motors acquired Ssangyong Motors from the former Ssangyong Group, on condition that certain of the then existing liabilities of Ssangyong Motors be retained by the former Ssangyong Group. In connection with this transaction, nine member companies of the Ssangyong Group assumed in the aggregate W1.8 trillion, which subsequently resulted in significant increases in interest expense for such companies, further aggravated by a sharp increase in interest rates during the financial crisis of the late 1990 s. Several of the Ssangyong Group companies, including Ssangyong

Corporation, Ssangyong Cement Industrial and Ssangyong Engineering & Construction, have experienced significant financial and liquidity difficulties as a result and were subsequently placed under workout programs by their respective creditors. In particular, Chohung Bank is the largest creditor to Ssangyong Corporation and, as such, is the lead creditor bank under the workout program applicable to Ssangyong Group companies. Ssangyong Cement exited the workout in November 2005, and the controlling equity interest in Ssangyong Corporation was sold to Morgan Stanley Private Equity Holdings AB in April 2006. As of December 31, 2005, our total exposure to Ssangyong Corporation and Ssangyong Cement Industrial amounted to W221 billion and W174 billion, respectively, for which we have raised allowances for loan losses of W1.3 billion, or 0.6%, and W0.2 billion, 0.1%, respectively. Of our total loans and guarantees and acceptances to the Ssangyong Group, W172 billion was classified as impaired. We cannot assure you that the allowances we have established against our exposures to the former Ssangyong Group companies will be sufficient to cover all future losses arising from these exposures. For a more detailed discussion of our exposure to the former Ssangyong Group as of December 31, 2005, see Item 4. Information on the Company Description of Assets and Liabilities Loans Loan Concentrations Exposures to Ssangyong Group Companies .

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, 2005, our loans to companies that were under troubled debt restructurings amounted to W990 billion, or 0.94% of our total loans, and our allowances for losses on these loans amounted to W179 billion, or 18.1% of such loans. As of the same date, our guarantees and acceptances to companies that were under troubled debt restructurings amounted to W247 billion, or 3.57% of our total guarantees and acceptances, and our allowance for such guarantees and acceptances amounted to W14 billion, or 5.7% of such guarantees and acceptances. These allowances may not be sufficient to cover all future losses arising from our exposure to these companies. Furthermore, pursuant to the Corporate Restructuring Promotion Act which was abolished as of December 31, 2005, in the event that any of our borrowers became subject to corporate restructuring procedures, we could be forced to restructure our credits pursuant to restructuring plans approved by other creditor financial institutions holding 75% or more of the total outstanding debt (and 75% or more of the total outstanding secured debt, if the restructuring plan 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 discussion as to reviving such law and accordingly, a law similar to the Corporate Restructuring Promotion Act may be adopted in the future and subject us to similar restraints.

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The recent announcement by the Korean National Tax Service relating to the tax treatment of certain deposit products may adversely affect our financial condition and results of operations.

Beginning in 2002, commercial banks in Korea, including Shinhan Bank and Chohung Bank, offered to their customers deposit products that utilize Korean Won and Japanese Yen swaps to maximize the return for such customers. According to the terms of these deposit products, deposits made by customers in Korean Won are converted into Japanese Yen and repaid in Japanese Yen at maturity. The repayment amount is then converted back into Korean Won. While these deposit products typically carry a low interest rate, ranging from 0.05% to 0.30% per annum, the actual return to the customers was higher as a result of foreign exchange gains. These deposit products are attractive to customers, in particular high net worth customers, since the gains from foreign exchange were deemed not to be interest subject to income tax. However, in 2005, the Korean National Tax Service announced that foreign currency deposits disguised as derivative products would be subject to tax and tax withholding and issued a recommendation that the banks should refile its tax returns to include the unwithheld amounts. Eight of the commercial banks in Korea, who are subject to this adverse tax treatment, have announced their intention to challenge the foregoing decision by the Korean National Tax Service while complying with the Tax Service s information requests.

The commercial banks had marketed these deposit products to their customers on the basis that such deposit products were exempt from income tax or tax withholding. We believe that few, if any, of these customers have reported the gains from such deposit products as interest income subject to taxation in their tax returns. According to the Korean National Tax Service, these deposit customers are also responsible for including the income received from these deposits in their final individual tax returns relating to comprehensive financial taxable income. However, depending on the amount of income received from these products, the individual customers may be subject to (i) a higher tax rate on all of his or her taxable income, (ii) a fine for failing to properly report the interest income in an amount equal to 20% of the unreported amount, and (iii) a fine for failing to pay tax on such interest income in an amount equal to interest applied at a rate of 10.95% per annum to such unpaid tax amount. No assurance can be given that aggrieved customers will not bring claims against these commercial banks, including Shinhan Bank and Chohung Bank, if their tax liabilities are increased as a result of the foregoing events.

Beginning in September 2005, we have been subject to a tax audit by the Korean National Tax Service. In May 2006, based upon its tax audit of us and other relevant banks, the Korean National Tax Service reached a decision to impose additional taxes (including interest thereon) of W36 billion on Shinhan Bank. This decision did not include a judgment on deposits utilizing the Korean Won and Japanese Yen swaps as described above, but such judgment is expected soon. In anticipation of an adverse tax ruling against these deposit products utilizing Korean Won and Japanese Yen swaps, we have determined, on a voluntary basis, to indemnify our customers for their increased tax liability to the extent resulting from their investment in these deposit products, including any additional tax liability that our customers may have against the Korean National Tax Service for gifts tax from the benefit of this indemnity. We currently estimate that we may be subject to maximum additional tax-related liability, including the liability from the indemnity to our customers, of W85 billion as of December 31, 2005. Accordingly, we recorded a total charge to our income of W78 billion in the year ended December 31, 2005, consisting of additional tax expenses of W29 billion and provision for other losses of W49 billion. In addition, we also recorded W7 billion as deferred tax assets on our balance sheet as of December 31, 2005.

The loss of deposit accounts maintained by Korean courts with Chohung Bank may adversely affect Chohung Bank s financial position and results of operations.

Chohung Bank believes that it holds the largest amount of deposits made by litigants and applicants in connection with legal proceedings in Korean courts or by persons involved in disputes. Although Chohung Bank has been involved in this business for more than forty years and has acquired certain competitive advantages and entry barriers in connection therewith, no assurance can be given that Chohung Bank will be able to maintain its competitiveness in this area. The Korean Supreme Court in 1994 opened to other banks the opportunity to establish new sub-branches or branches in newly opened court houses. The Supreme Court may open up competitive bidding to the entire network of sub-branches and branches taking court deposits. If

the Supreme Court decides to select a bank for court deposits at all courts through competitive bidding, there can be no assurance that Chohung Bank will be selected. Because court deposits are a low-cost source of funding and Chohung Bank had total court deposits of W4,205 billion, W4,329 billion and W5,002 billion as of December 31, 2003, 2004 and 2005, respectively, which accounted for 10.8%, 11.2% and 12.9% of total Won deposits of Chohung Bank as of the same periods, the loss of such business may adversely affect Chohung Bank s financial condition and results of operations.

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

In the normal course of our banking activities, we make various commitments and incur certain contingent liabilities in the form of guarantees and acceptances. 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 W5,079 billion, and acceptances of W1,879 billion as of December 31, 2005. We provide an allowance for losses with respect to guarantees and acceptances as of each balance sheet date. We provided allowances for losses of W36 billion in respect of the guarantees and W15 billion in respect of acceptances as of December 31, 2005. If we experience significant asset quality deterioration in our guarantees and acceptances exposures, no assurance can be given that such allowances will be sufficient to cover any actual losses resulting in respect of these liabilities ,or that the losses we incur on guarantees and acceptances will not be larger than those experienced on corporate loans.

Risks Relating to Our Strategy

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 Chohung Bank, our ability to pay dividends on our common shares will mainly depend on dividend payments from Shinhan Bank, Chohung Bank and 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 Bank Act, a bank also is required to credit at least 10% of its net profit to a legal reserve each time it pays dividends on distributable income until such time when this reserve equals the amount of its total paid-in capital; and

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

Shinhan Bank is considered well-capitalized under the Bank Act and the Financial Supervisory Commission requirements. As a result of its merger with Chohung Bank which had accumulated deficit, however, the distributable profits of Shinhan Bank (which represents retained earnings less certain reserves) decreased significantly in 2006. Accordingly, 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 merger of Shinhan Bank and Chohung Bank.

We aim to capitalize over time on the combined strengths of Shinhan Bank and Chohung Bank in terms of market share, product and service mix, customer base and cost efficiencies. Our ability to achieve these benefits, in particular following the merger of the two banks in April 2006, is subject to risks and uncertainties, some of which are beyond our control, including:

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

difficulties in harmonizing the two corporate cultures;

difficulties in integrating the currently separate labor unions of the former Chohung Bank and Shinhan Bank; and

difficulties in retaining and attracting customers that overlapped between Chohung Bank and Shinhan Bank prior to the merger.

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

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

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

Risks relating to our other businesses

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

We enter into and maintain large investment positions in the fixed income markets, primarily through our treasury and investment business. We describe these activities in Item 4. Information on the Company Business Overview Our Principal Activities Treasury and Securities Investment . We also maintain smaller trading positions, including securities and derivative financial instruments as part of our banking operations. In each of the product and business lines in which we enter into these kinds of positions, part of our business entails making assessments about financial market conditions and trends. The revenues and profits

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we derive from many of our positions and related transactions are dependent on market prices. When we own assets such as debt securities, market price declines, including as a result of fluctuating market interest rates, can expose us to losses. If prices move in a way we have not anticipated, we may experience losses. Also, when markets are volatile, characterized by rapid changes in price direction, the assessments we have made may prove to lead to lower revenues or profits, or losses, on the related transactions and positions.

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

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

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

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

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

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

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

We rely on our information technology systems for our daily operations including billing, effecting online and offline banking transactions and record keeping. In connection with the merger of Shinhan Bank and Chohung Bank, we are currently in the process of integrating the information technology systems of the two banks and to launch an upgraded and integrated information technology platform of the new bank by October 2006. 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.

In April 2005, the Financial Supervisory Service found that Chohung Bank s employees had embezzled approximately W40 billion of Chohung Bank s funds over a period of five months. Chohung Bank recovered approximately W4 billion of the embezzled fund. As a remedial measure, the Financial Supervisory Service issued a warning to Chohung Bank as well as its president and the statutory auditor for supervisory negligence and ordered Chohung Bank to sign a memorandum of understanding to improve its internal controls and took several remedial measures, including increasing staffing at our back office, strengthening periodic monitoring and improving internal control procedures related to fund transfer documentation.

In addition, during a periodic audit in November 2005, the Financial Supervisory Service discovered that one of Chohung Bank s employees, in collaboration with an employee of Kookmin Bank, issued counterfeit certificates of deposits in the course of embezzling over a period of seven months an aggregate of approximately W445 billion of customer funds deposited at the two banks, of which amount W20 billion was deposited with Chohung Bank. The Financial Supervisory Service suspended for three months the operation of the branches of the two banks directly involved with the incident and issued warnings against the presidents and statutory auditors of Chohung Bank and Kookmin Bank (including a disciplinary warning against the president of Chohung Bank) for negligent supervision. In response to this incident, Chohung Bank took several remedial measures to strengthen compliance procedures and improve the execution of the existing internal control systems.

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 Bank Act, the Insurance Business Act, the Securities Exchange Act, the Act on Business of Operating Indirect Investment and Asset and Futures Trading Act. However, the

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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.

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 and 2005 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 LG Card and other 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; and

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

Deterioration in the Korean economy can also occur as a result of deterioration in the global economic conditions. Recent developments in the Middle East, including the war in Iraq and its aftermath, 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.

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

Relations between Korea and North Korea have been tense over most of Korea s history. The level of tension between the two Koreas has fluctuated and may increase or change abruptly as a result of current and future events, including ongoing contacts at the highest levels of the governments of Korea and North Korea and increasing hostility between North Korea and the United States. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency, and has reportedly resumed activity at its Yongbyon power plant. In January 2003, North Korea announced its intention to withdraw from the Nuclear Non-Proliferation Treaty, demanding that the United States sign a non-aggression pact as a condition to North Korea dismantling its nuclear program. In August 2003, representatives of Korea, the United States, North Korea, China, Japan and Russia held multilateral talks in an effort to resolve issues relating to North Korea s nuclear weapons program. While the talks concluded without resolution, participants in the August meeting indicated that further negotiations may take place in the future and, in February 2004, six party talks resumed in China. In June 2004, the third round of the six-party talks resumed in China, which ended with an agreement by the parties to hold further talks by the end of September 2004, which failed to take place as planned. In February 2005, North Korea declared that it had developed and was in possession of nuclear weapons. It also announced its indefinite withdrawal from further six-party talks. However, in July 2005, fourth round of six-party talks resumed and concluded in September 2005 at which time a joint statement was released that reaffirmed the parties commitment to peace and stability in the Korean peninsula. Soon thereafter, a fifth round of six-party talks concluded in November 2005. However, prior to the next six-party talks, the U.S. accused North Korea of money laundering activities through Banco Delta Asia in Macau and producing and distributing counterfeit U.S. dollars. The U.S. pressured Banco Delta Asia to abandon its ties with North Korea. In May 2006, it was reported that the Korea Energy Development Organization (KEDO) project designed to replace North Korea s existing nuclear power facilities with a light water reactor would be terminated. These events led to another stalemate in the negotiations with North Korea, which is still continuing. Any further increase in tensions, resulting for example from a break-down in contacts or an outbreak in military hostilities, could hurt our business, results of operations and financial condition and could lead to a decline in the price of our common stock and our American depositary shares.

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

Effective January 1, 2005, a new law enacted on January 20, 2004 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. In March 2005, this law was amended to provide for a grace period for class action suits based on (i) of the above in order to afford the companies an opportunity to correct any prior false or inaccurate statements until the release of their audited financial statements for the fiscal year ended December 31, 2006. During this grace period, companies will be immune from any class action suits arising from (i) of the above. The new 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.

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

During 1998 and 1999, there were large-scale protests and labor strikes in Korea. In July 2000, the Korean Financial Industry Union, which represents the employees of over 30 financial institutions, urged its members to participate in a strike to express their opposition to mergers of the banks and the possibility of further layoffs, when the Korean government announced its plan to implement the second phase of restructuring the Republic s banks, including the promulgation of a law which allows the formation of financial holding companies. The strike subsequently was cancelled after the Korean government and the union leaders reached an agreement under which the Korean government would not require mandatory bank mergers. Any future labor unrest could adversely affect our operations, as well as the operations of many of our customers and their ability to repay their loans, and could affect the financial conditions of Korean companies in general, depressing the prices of securities on the Korea 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.

Our acquisition of Chohung Bank faced opposition from the labor union of Chohung Bank, which engaged in a strike in mid-June 2003, which interrupted Chohung Bank s operations for five days and caused temporary liquidity problems, until the union entered into an understanding with our management to cooperate. Following execution of the acquisition agreements, the labor union of Chohung Bank opposed the selection of Chohung Bank s new CEO, who was a former executive of Chohung Bank, and attempted to prevent the recommendation committee for the CEO of Chohung Bank from meeting to approve the appointment. Subsequently, the labor union withdrew their objection. Following 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 combined results of operations and the price of our common shares or American depositary shares.

Risks Relating to Our American Depositary Shares

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

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

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

Korea Deposit Insurance Corporation owns 22,360,301 shares of our Redeemable Convertible Preferred Stock representing 6.22% of the total issued shares (or 5.86% of the total issued shares on a fully diluted basis) of our common stock. Korea Deposit Insurance Corporation is entitled to convert such shares into our common stock beginning in August 2006. Following the conversion of the Redeemable Convertible Preferred Shares owned by Korea Deposit Insurance Corporation in April 2006, 90.0% of which was purchased by BNP Paribas and the remaining 10.0% was sold in the market, BNP Paribas currently owns approximately 9.38% of our total issued shares (or 8.83% of our total issued shares on a fully diluted basis after taking into account 22,360,301 shares of the Redeemable Convertible Preferred Shares currently owned by Korea Deposit Insurance Corporation). Currently, we do not know when, how, or what percentage of, our Redeemable Convertible Preferred Shares will be converted by Korea Deposit Insurance Corporation and when, how or what percentage of our shares Korea Deposit Insurance Corporation will dispose of upon conversion or BNP Paribas will dispose of our shares, or to whom such shares will be sold. As a result, we cannot currently predict the impact of such sales on us.

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

Pursuant to the terms of the Investment Agreement, we are required to obtain the consent of the Korea Deposit Insurance Corporation, to the extent permitted under applicable law, in order to declare and pay dividends on our common shares in excess of W750, representing 15% of par value (W5,000), if our net income under Korean GAAP is below W800 billion in a given fiscal year and any of the Redeemable Preferred Stock and Redeemable Convertible Preferred Stock are outstanding. Failure to obtain the consent of the Korea Deposit Insurance Corporation in such instances may lead to payment of dividends at a level that is lower than expected and may adversely affect the price of our common shares and our American depositary shares and further adversely affect the interest of our shareholders, including the holders of our American depositary shares.

Ownership of our shares is restricted under Korean law.

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

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

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

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

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

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

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

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

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

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

- sudden fluctuations in interest rates or exchange rates;

- extreme difficulty in stabilizing the balance of payments; and

- a substantial disturbance in the Korean financial and capital markets.

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

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

Under Korean tax law, a securities transaction tax (including an agricultural and fisheries special surtax) is imposed on transfers of shares listed on the Korea Exchange, including our common shares, at the rate of

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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 Chohung Bank, are not required to and do not prepare interim financial information on a U.S. GAAP basis. U.S. GAAP differs in significant respects from Korean GAAP, particularly with respect to the establishment of provisions and loan loss allowance 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, 2005 and 2006 may differ significantly from comparable figures under U.S. GAAP for these and future periods.

We are generally subject to Korean corporate governance and disclosure standards, which differ in significant respects from those in other countries.

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which differ in many respects from standards applicable in other countries, including the United States. As a reporting company registered with the Securities and Exchange Commission and listed on the New York Stock Exchange, we are, and in the future will be, subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002. However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the New York Stock Exchange. For significant differences, see Item 6. Directors, Senior Management and Employees Corporate Governance . There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in less than satisfactory corporate governance practices or disclosure to investors in certain countries.

You may not be able to enforce a judgment of a foreign court against us.

We are corporations with limited liability organized under the laws of Korea. Substantially all of our directors and officers and other persons named in this document reside in Korea, and all or a significant portion of the assets of our directors and officers and other persons named in this document and substantially all of our assets are located in Korea. As a result, it may not be possible for holders of the American depository shares to effect service of process within the United States, or to enforce against them or us in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

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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 on the basis 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 Chohung Bank and plan to merge its operations with those of Shinhan Bank after 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. As of December 31, 2005, based on asset size published by the Financial Supervisory Commission, Shinhan Bank was the fourth largest bank in Korea, with total assets of W75,642 billion (US$74,893 million) and Chohung Bank was the sixth largest bank in Korea, with total assets of W66,610 billion (US$65,950 million). Following the merger of Shinhan Bank and Chohung Bank, the newly merged Shinhan Bank currently is the second largest bank in Korea in terms of total assets. 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 December 31, 2005, prior to the split-merger of the credit card operations of Chohung Bank into Shinhan Card, Shinhan Card and Chohung Bank had credit card operations with approximately 3,467,000 and approximately 2,494,000 cardholders, respectively. 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 451 branches in the Seoul and its metropolitan area, 351 branches in Kyunggi Province and six major cities in Korea and 160 branches throughout the rest of the country. As of December 31, 2005, Shinhan Bank and Chohung Bank combined (not taking into account overlap in customers) had over 266,000 corporate deposit customers and over 15.5 million retail deposit customers with an aggregate average deposit of W86,421 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 Korea 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 currently our largest shareholder with ownership of 9.38% of our total issued common shares (or 8.83% of our total issued shares on a fully-diluted basis after taking into account 22,360,301 shares of the Redeemable Convertible Preferred Stock currently owned by Korea Deposit Insurance Corporation).

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, we own 100% of Chohung Bank as of the date hereof. 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. 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, 2005, we had 11,610,197 treasury shares of our common stock, which were held by Chohung Bank, Shinhan Bank and Good Morning Shinhan Securities. Of such treasury shares, 1,708,050 shares were granted to the employees of the newly merged Shinhan Bank in April 2006 and 916,580 shares were sold in the market in June 2006. As of the date hereof, 8,985,567 treasury shares of our common stock are held by Shinhan Bank which must be disposed of by June 2007 in accordance with the Financial Holding Company Act of Korea. Under the Financial Holding Company Act of Korea, the voting rights on our treasury shares are subject to certain restrictions and the treasury shares must be sold within six months of acquisition with certain exceptions.

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.

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, 2005, its capital stock amounted to W45 billion of which Chohung Bank owned 79.77 %.

Shinhan Asia Limited, formerly known as Chohung Finance Ltd., is engaged in various merchant banking activities in Hong Kong. As of December 31, 2005, its capital stock amounted to US$15 million, of which Shinhan Bank owns 99.99%.

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, 2005, CHB America Bank 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, 2005, its capital stock amounted to EUR 15,339 thousand.

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, 2005 was US$20 million, of which Shinhan Bank currently owns 50%.

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 Shinhan NPS PEF 1st as its subsidiary. Shinhan Private Equity owns 5% and Shinhan Financial Group owns 36.7% of Shinhan NPS PEF 1st.

On November 24, 2005, we liquidated e-Shinhan, which provides Internet-based financial services, in order to improve efficiency by focusing our resources on our growing non-banking operations.

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

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 London, 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.

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 32^{nd} Floor, 800 Third Avenue, New York, NY 10022, U.S.A. Our agent s telephone number is (212) 371-8000.

Our Strategy

Since our holding company establishment in 2001, we have actively realigned our market position in an ever-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.

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.

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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 securities brokerage services, we have sought to achieve economies of scale and enhance brand image through our acquisition of Good Morning Securities.

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. Following such split-merger, Shinhan Card is expected to have W4 trillion in assets, W25 trillion in total credit card use (excluding corporate cards) and 5.9 million customers. In terms of the amount of the total credit card use, Shinhan Card currently ranks fourth among credit card service providers (including banks) following the split-merger. In addition, as opportunity arises, we may pursue growth through acquisitions, including the acquisition of LG Card that we are currently targeting.

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;

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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.

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

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

Introducing a Performance-based Culture. In order to promote a customer oriented group culture, we intend to measure and reward employee performance in relation to the level of customer satisfaction reflected in customer response to our products and services, including products and services offered as part of our cross-selling efforts, and the quality of the assets and revenues generated.

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 in terms of assets. 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. As of December 31, 2005, we recorded liabilities of W20,461,370,553 on the consolidated balance sheet which increased goodwill by the same amount.

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. The earnout amount will be determined following the adjustment period for the fiscal year 2006.

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. Pursuant to the terms of the Investment Agreement, so long as Korea Deposit Insurance Corporation holds 4.0% or more of the outstanding shares of our common stock resulting from conversion of our Redeemable Convertible Preferred Stock, Korea Deposit Insurance Corporation has the right to nominate one outside director. In March 2006, Korea Deposit Insurance Corporation exercised this right and appointed Myoung Soo Choi as our outside director. In addition, we have the right to exercise all voting rights that Korea Deposit Insurance Corporation may have with respect to the enfranchised Redeemable Preferred Stock and our Redeemable Convertible Preferred Stock as well as our common shares issuable to Korea Deposit Insurance Corporation upon conversion of our Redeemable Convertible Preferred Stock provided that, so long as Korea Deposit Insurance Corporation owns more than 4.0% of our outstanding shares of common stock resulting from conversion of the shares of our Redeemable Convertible Preferred Stock, we are required to obtain the consent of Korea Deposit Insurance Corporation prior to voting on the following matters: (i) any matters which require a special resolution or unanimous resolution of the shareholders under the Korean Commercial Code; (ii) approval of any dividend payment on our common shares; and (iii) appointment or dismissal of any outside director nominated by Korea Deposit Insurance Corporation.

Pursuant to the terms of the Investment Agreement, we are required to obtain the consent of the Korea Deposit Insurance Corporation, to the extent permitted under applicable law, in order to declare dividends on our common shares in excess of W750, if our net income under Korean GAAP is below W800 billion in any given fiscal year while any share of our Redeemable Preferred Stock and Redeemable Convertible Preferred Stock is outstanding.

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.

The integration and merger of Shinhan Bank and Chohung Bank is subject to risks, uncertainties and difficulties. The newly merged Shinhan Bank may fail to consummate the integration of the two banks as currently contemplated or may not be able to achieve the intended benefits of the merger and integration at a level desired by us. See Risk Factors Risks Relating to our Acquisition and Integration of Chohung Bank .

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 experience any significant difficulties in our relationships

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with the respective labor unions of Shinhan Bank and Chohung Bank since our acquisition of Chohung Bank, including in connection with the Merger. We expect the newly merged Shinhan Bank to retain two labor unions for the foreseeable future.

Liquidity and Capital Resources

As consideration for our purchase of Chohung Bank shares, at closing, we (i) paid to Korea Deposit Insurance Corporation cash of W900 billion, (ii) issued to Korea Deposit Insurance Corporation 46,583,961 shares of our Redeemable Preferred Stock, with a redemption price of W842,517,518,646 and (iii) issued to Korea Deposit Insurance Corporation 44,720,603 shares of our Redeemable Convertible Preferred Stock convertible into our shares of common stock with a redemption price of W808,816,825,858. In August 2003, we raised W900 billion in cash through the issuance of 6,000,000 shares of Redeemable Preferred Stock, 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. We are required to redeem these preferred shares issued to the special purpose vehicle in three installments in 2006, 2008 and 2010.

Pursuant to the terms of our Redeemable Preferred Stock 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 our Redeemable Convertible Preferred Stock, 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 share of the Redeemable Convertible Preferred Stock is convertible into one share of our common stock. The dividend ratios on our Redeemable Preferred Stock and Redeemable Convertible Preferred Stock are 4.04% and 2.02%, respectively. See Item 10. Additional Information Articles of Incorporation Description of Capital Stock Description of Redeemable Preferred Stock .

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

	Due August					
	2006	2007	2008	2009	2010	Total
			(In millions of Won)			
Redeemable preferred stock issued to KDIC	W 168,503	W 168,503	W 168,504	W 168,504	W 168,504	W 842,518
Redeemable preferred stock issued in the market through a special purpose vehicle	525,000		365,000		10,000	900,000
Redeemable convertible preferred Stock(1)			404,408			404,408
Total	W 693,503	W 168,503	W 937,912	W 168,504	W 178,504	W 2,146,926

Note:

(1) In November 2005, Korea Deposit Insurance Corporation (KDIC) converted 22,360,302 shares of Redeemable Convertible Preferred Stock into 22,360,302 shares of our common stock, representing 6.22% of the total issued shares (or 5.86% of the total issued shares on a fully diluted basis) of our common stock. The figures herein assumes no further conversion of the Redeemable Convertible Preferred Stock into our common stock.

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 .

As consideration for our acquisition of Chohung Bank, in August 2003, we issued to the Korea Deposit Insurance Corporation (i) 46,583,961 shares of our Redeemable Preferred Stock, with an aggregate redemption price of W842,517,518,646 and (ii) 44,720,603 shares of our Redeemable Convertible Preferred Stock, with an aggregate redemption price of W808,816,825,858, which were convertible into shares of our common stock. In November 2005, Korea Deposit Insurance Corporation converted 22,360,302 shares of our Redeemable Convertible Preferred Stock into 22,360,302 shares of our common stock, representing 6.22% of our total issued shares (or 5.86% of our total issued common stock on a fully diluted basis). In April 2006, Korea Deposit Insurance Corporation sold to BNP Paribas S.A. and other institutional investors all of our common shares held by it. As of the date hereof, Korea Deposit Insurance Corporation does not hold any share of our common stock but still holds 22,360,301 shares of Redeemable Convertible Preferred Stock, representing 6.22% of the total issued shares (or 5.86% of the total issued shares on a fully diluted basis) of our common stock.

Capital Adequacy

As of March 31, 2006, the date 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.

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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, 2005.

	Shinhan Bank		Chohung Bank			Good Morning Shinhan	Shinhan	Shinhan Life	
	Retail	Corporate	Retail	Corporate	Jeju Bank	Securities	Card(1)	Insurance	Total
Seoul and metropolitan	162	48	189	44	1	35	5	48	532
Kyunggi Province	75	15	74	15		10	3	12	204
Six major cities:	48	16	78	15	1	18	5	27	208
Incheon	17	5	18	3		2	1	7	53
Busan	11	5	24	4	1	5	1	7	58
Kwangju	5	1	6	2		2	1	5	22
Taegu	6	3	13	3		4	1	3	33
Ulsan	4	1	7	1		2		1	16
Taejon	5	1	10	2		3	1	4	26
Sub-total	285	79	341	74	3	63	13	87	944
Others	28	10	107	15	29	14	3	30	236
Total	313	89	448	89	32	77	16	117	1,180

Note:

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

Banking Branch Network

As of December 31, 2005, Shinhan Bank had 402 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 402 total domestic branches, three branches specialize in serving large corporations, 86 branches concentrate on small-and medium-sized enterprises and 313 branches focus on retail customers.

As of December 31, 2005, Chohung Bank had an extensive nation-wide branch network with a total of 537 branches in Korea. With key branches located in high traffic locations such as airports, hospitals and other public facilities, we believe that the former branch network of Chohung Bank provided, and will provide following integration with Shinhan Bank, its former customers with convenience and efficiency that enabled 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 s 162 retail branches are principally located near Seoul and its metropolitan area to target and service high net worth individuals. Chohung Bank had an extensive nationwide network of 448 retail branches covering all regions of Korea, which also offered credit card-related services in addition to conventional consumer lending.

Chohung Bank traditionally focused on retail banking. To focus more on profitability, it developed and implemented what was referred to as deepening customer relationship branches or DCR branches, which had separate layouts from conventional branches and provided easier access and differentiated services to high net worth customers. As of December 31, 2005, Chohung Bank had 263 DCR branches located primarily in strategic locations in major Korean cities.

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, 2005, Shinhan Bank had 86 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 three corporate branches solely dedicated to large corporate customers, all of which are located in Seoul, Korea.

In August 2002, in order to service quality corporate customers, in particular from the small- and medium-sized enterprises sector, Chohung Bank spun off the corporate sections from its existing branches and created separate corporate banking branches. As of December 31, 2005, Chohung Bank had 89 corporate banking branches, consisting of six large corporate branches and 83 small- and medium-sized enterprises branches. These corporate banking branches operate independently from the retail banking branches and form a separate corporate banking branch network. Each corporate banking branch has its own general manager and is dedicated solely to large corporate customers.

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, 2005, Shinhan Bank had 866 cash dispensers and 1,585 ATMs, and Chohung Bank had 829 cash dispensers and 3,662 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 2005, automated banking machine transactions accounted for approximately 17.1% of total deposit and withdrawal transactions of Shinhan Bank and 28.1% of those of Chohung 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,		
	2003	2004	2005
Shinhan Bank:			
ATMs and cash dispensers	2,373	2,459	2,751
Number of transactions (millions)	107	105	111
Fee revenue (billions of Won)	W 20	W 20	W 20
Chohung Bank:			
ATMs and cash dispensers	4,655	4,397	4,395
Number of transactions (millions)	281	262	205
Fee revenue (billions of Won)	W 42	W 34	W 33

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 2005, internet banking transactions made up 17.0% of total banking transactions of Shinhan Bank. In the case of loans, in particular, an average of approximately 3,946 requests are made per month. Among the electronic banking service customers of Shinhan Bank in 2005, approximately 1,550,769 were retail customers and 105,427 were corporate customers.

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, 2005, Shinhan Bank had 40,377 M Banking subscribers who used the service for approximately 3.9 million transactions per year amounting to W900,399 million, and Chohung Bank had 55,542 M Banking subscribers who used the service for approximately 7.1 million transactions amounting to W785,140 million.

Chohung Bank launched its electronic banking services in May 1993, allowing customers to transfer funds, make account inquiries and receive account statements by telephone and facsimile. Chohung Bank provided a 24-hour phone banking service which facilitated money transfers and account inquiries as well as Chohung Bank s efforts to market its products and services through the phone. Chohung Bank s internet banking system, launched in July 1999, enabled customers to transfer funds more conveniently than under the existing phone banking system. In 2005, internet banking transactions made up 18.6% of total banking transactions of Chohung Bank. In the case of loans, in particular, an average of approximately 4,272 requests were made per month. Among the electronic banking service customers of Chohung Bank in 2005, approximately 1,301,125 were retail customers and 94,645 were corporate customers.

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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,					
	2003		2004		2005	
Shinhan Bank:						
Telephone banking(1):						
Number of users(2)		1,109,552		1,398,827		1,685,031
Number of transactions (in thousands)		39,670		36,646		41,608
Internet banking(1):						
Number of users(2)		1,023,195		1,339,571		1,656,196
Number of transactions (in thousands)(3)		306,667		359,160		403,869
Total fee revenue (millions of Won)	W	18,325	W	29,884	W	26,693
Chohung Bank:						
Telephone banking(1):						
Number of users(2)		2,670,658		720,492		976,606
Number of transactions (in thousands)(3)		120,931		108,745		82,349
Internet banking(1):						
Number of users		2,417,415		2,472,415		1,395,770(4)
Number of transactions (in thousands)(3)		141,196		166,937		298,452
Total fee revenue (millions of Won)	W	35,052	W	45,007	W	43,953

Notes:

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

(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).

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.

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Overseas Branch Network

The table below sets forth Shinhan Bank s overseas banking subsidiary and branches as of December 31, 2005.

Business Unit	Location	Year Established or Acquired
Subsidiaries		
Shinhan Finance Limited	Hong Kong SAR, China	1990
Branches		
Tokyo	Japan	1988
Osaka	Japan	1986
Fukuoka	Japan	1997
New York	U.S.A.	1989
London	United Kingdom	1991
Ho Chi Minh City	Vietnam	1995
Shanghai	China	2003
Qingdao	China	2005

The table below sets forth Chohung Bank s overseas banking subsidiaries and branches as of December 31, 2005.

Business Unit	Location	Year Established or Acquired
Subsidiaries		
Chohung Finance Ltd., Hong Kong(1)	Hong Kong SAR, China	1982
Chohung Bank (Deutschland) GmbH(2)	Germany	1994
CHB America Bank(3)	U.S.A.	2003
Chohung Vina Bank(4)	Vietnam	2000
Branches		
Tokyo	Japan	1981
Singapore	Singapore	1990
Tianjin	China	1994
Mumbai	India	1996

Notes:

(1) Renamed as Shinhan Asia Ltd. following the merger of Shinhan Bank and Chohung Bank on April 3, 2006.

(2) Renamed as Shinhan Bank Europe GmbH following 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. CHB America Bank has offices in New York City, New York and Los Angeles, California; renamed as Shinhan Bank America following the merger of Shinhan Bank and Chohung Bank on April 3, 2006.

(4) Renamed as Shinhan Vina Bank following 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 that of the former Chohung Bank), including automated transaction machines. In addition, as of December 31, 2005, Shinhan Card had 16 sales offices nationwide, which primarily focus on attracting new credit card customers.

Securities Brokerage Distribution Channels

Our securities brokerage services is conducted principally through Good Morning Shinhan Securities. As of December 31, 2005, Good Morning Shinhan Securities had 77 branches nationwide and two overseas subsidiaries based in New York and London to service our customers in this business.

Approximately 61.0% 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 and Chohung 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, 2005, Shinhan Life Insurance had 112 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;
  - Credit cards services;
  - Treasury and securities investment
- Other banking 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 10.1% of our total deposits as of December 31, 2004 and paid average interest of 1.33% in 2004, and approximately 8.1% of our total deposits as of December 31, 2005 and paid an average interest of 1.90% in 2005.

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 47.7% of our total deposits as of December 31, 2004 and paid average interest of 3.83% in 2004, and approximately 42.7% of our total deposits as of December 31, 2005 and paid average interest of 3.69% in 2005.

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 2.9% of our total deposits as of December 31, 2004 and paid average interest of 4.54% in 2004, and approximately 1.8% of our total deposits as December 31, 2005 and paid average interest of 4.16% in 2005.

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 3.05%. Saving deposits constituted approximately 29.5% of our total deposits as of December 31, 2004 and paid average interest of 1.24% in 2003, and approximately 31.4% of our total deposits as of December 31, 2005 and paid average interest of 0.96% in 2005.

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 and Chohung Bank offers such accounts in 20 foreign currencies. Deposits in foreign currency constituted approximately 5.81% of our total deposits as of December 31, 2004 and paid average interest of 0.60% in 2004, and approximately 4.41% of our total deposits as of December 31, 2005 and paid average interest of 1.77% in 2005.

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,		
	2003	**2004**	**2005**
	(In thousands, except branches)		
Shinhan Bank:			
Retail deposit customers(1)	5,551	5,934	6,436
Active retail deposit customers(2)	1,621	1,753	1,727
Corporate deposit customers	101	113	121
Domestic branches	354	372	402
Chohung Bank:			
Retail deposit customers(1)	9,239	10,361	9,063
Active retail deposit customers(3)	2,619	2,563	2,932
Corporate deposit customers	138	142	145
Domestic branches	557	533	537

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.

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 W4,205 billion, W4,329 billion and W5,002 billion as of December 31, 2003, 2004 and 2005, respectively.

The Monetary Policy Committee of the Bank of Korea imposes a reserve requirement on Won currency deposits of commercial banks which currently ranges from 1% to 5%, 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 prior to the merger of the two banks, through Shinhan Bank and Chohung Bank), and, to a significantly lesser extent, through Jeju Bank, a regional commercial bank. The consumer loans of Shinhan Bank amounted to W22,874 billion (not including credit cards) as of December 31, 2005, and those of Chohung Bank amounted to W18,204 billion (not including credit cards) as of December 31, 2005.

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. The retail segment places an emphasis on targeting high net worth individuals. As of December 31, 2005, Shinhan Bank had approximately 45,055 high net worth customers with deposits of W100 million or more.

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. As of December 31, 2005, Chohung Bank had approximately 35,720 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, 2005, mortgage and home-equity loans and other consumer loans accounted for 59.11% and 40.89%, 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 50%-70% 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). Chohung Bank s policy is to lend up to the estimated recovery value of the collateral, which Chohung Bank calculated based on the average value of collateral published by courts as recovered through court-approved auctions during the previous year and further adjusted to take into account the existence of any lien or other security interest that is prior to Chohung Bank s security interest. As of December 31, 2005, the loan-to-value ratios of mortgage and home equity loans, under Korean GAAP, of Shinhan Bank and Chohung Bank were approximately 48.52% and 53.05%, respectively.

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 2006, 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) (applying 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, 2005, 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, 2004 and 2005, we had approximately W824 billion and W1,340 billion, 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,		
	2003	**2004**	**2005**
	(In billions of Won, except percentages)		
Consumer loans(1)			
Mortgage and home-equity	W 20,517	W 22,180	W 25,840
Other consumer	14,580	15,546	17,874
Percentage of consumer loans to total gross loans	36.8%	38.9%	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 (and Chohung Bank prior to the merger) 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 1.5% 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, 2005, Shinhan Bank s three-month, six-month and twelve-month base rates were approximately 4.08%, 4.37% and 4.77%, respectively, and Chohung Bank s three-month, six-month and twelve-month base rates were approximately 4.08%,4.68% and 4.68%, respectively. As of December 31, 2005, 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

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one year ranged from 8.75% to 12.75%, depending on the consumer credit scores of its customers, while Chohung Bank s fixed rates for home equity loans with a maturity of one year, two years and three years were 7.00%, 7.36% and 7.54%, respectively, and Chohung Bank s fixed rates for other consumer loans with a maturity of one year ranged from 9.00% to 13.00%, depending on the consumer credit scores of its customers.

As of December 31, 2005, approximately 57.96% of our consumer loans were priced based on a floating rate and approximately 42.05% were priced based on a fixed rate. As of the same date, approximately 63.39% of our consumer loans with maturity of over one year were priced based on a floating rate and approximately 36.61% 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 both of which are located in 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 2006, we operate twelve 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 2005 with notable growth. The combined customer base grew to 1,830 people and assets under management increased 47% from W3.2 trillion in 2004 to W4.7 trillion in 2005.

Corporate Banking Services

Overview

We provide corporate banking services, primarily through Shinhan Bank (and also through Chohung Bank prior to the merger), 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,					
	2003		2004		2005	
	(In billions of Won, except percentages)					
Small- and medium-sized enterprises loans(1)	W 38,055	40.0%	W 38,713	39.9%	W 39,943	37.7%
Large corporate loans(2)	16,031	16.8	15,909	16.4	17,948	16.9
Total corporate loans	W 54,086	56.8%	W 54,622	56.3%	W 57,891	54.6%

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.

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Small- and Medium-sized Enterprises Banking

The small- and medium-sized enterprise loans of Shinhan Bank amounted to W21,669 billion as of December 31, 2005 and those of Chohung Bank amounted to W14,869 billion as of December 31, 2005. 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, 2005, we had approximately 97,346 small- and medium-sized enterprises loan customers, consisting of approximately 48,055 customers with Shinhan Bank and 49,291 customers with Chohung Bank (not taking into account any overlap between the two sets of 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 traditionally focused on large corporate and retail banking and, as a result, its small- and medium-sized enterprises lending portfolio increased during recent years with a focus on higher profit, higher risk customers who are comparatively smaller than Shinhan Bank s customers.

As of December 31, 2005, our corporate banking operation was the largest among Korean banks, with 16.2% of the market share, in terms of the total amount of Won-denominated loans to small- and medium-sized enterprises (other than affiliates of the thirty largest conglomerates in Korea) that are audited by certified public accountants. Of such loans, W11,073 billion were made by Shinhan Bank to 2,901 corporate customers, representing 19.13% of our total outstanding Won-denominated corporate loans, and W7,267 billion were made by Chohung Bank to 2,576 corporate customers, representing 12.55% of our total outstanding Won-denominated corporate loans.

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 better 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 89 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.

Chohung Bank in recent years identified 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

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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 2003, the industry-wide delinquency ratios for loans to small- and medium-sized enterprises have been rising. 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 increased from 1.5% as of December 31, 2003 to 2.19% as of December 31, 2005. 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 increased from 1.75% as of December 31, 2003 to 1.80% as of December 31, 2004 and decreased to 1.44% as of December 31, 2005 and to 1.42% as of March 31, 2006. Chohung Bank s delinquency ratio, calculated under Korean GAAP, for such loans decreased from 3.49% as of December 31, 2003 to 2.21% as of December 31, 2004 to 1.70% as of December 31, 2005 and to 2.06% as of March 31, 2006. In particular, 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 2.46% as of December 31, 2003, 1.95% as of December 31, 2004 and 1.95% as of December 31, 2005. Such delinquency ratios for Chohung Bank were 4.86% as of December 31, 2003, 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 1.56% as of December 31, 2003, 2.07% as of December 31, 2004, 1.64% as of December 31, 2005 and 1.62% as of March 31, 2006. Such delinquency ratios for Chohung Bank were 3.03% as of December 31, 2003, 2.00% as of December 31, 2004, 1.64% as of December 31, 2005 and 2.23% as of March 31, 2006. These delinquencies may rise further in 2006 compared to 2003, 2004 and 2005. 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 W9,113 billion as of December 31, 2005, and those of Chohung Bank amounted to W8,203 billion as of December 31, 2005. 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, Chohung Bank, the oldest commercial bank in Korea that we acquired in 2003, 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, 2005, working capital loans and facilities loans amounted to W33,474 billion and W4,682 billion, respectively, representing 87.73% and 12.27% of our total Won-denominated corporate loans under Korean GAAP. Working capital loans generally have a

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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, 2005, under Korean GAAP, secured loans and guaranteed loans (including loans secured by guaranty certificates issued by credit guarantee insurance funds) accounted for 52.19% and 10.34%, respectively, of Shinhan Bank s Won-denominated loans to small- and medium-sized enterprises. Among the secured loans, approximately 89.43% were secured by real estate. As of December 31, 2005, under Korean GAAP, secured loans and guaranteed loans (including loans secured by guaranty certificates issued by credit guarantee insurance funds) accounted for 41.61% and 12.64%, respectively, of Chohung Bank s Won-denominated loans to small- and medium-sized enterprises. Among the secured loans, approximately 79.20% 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, 2005, in terms of outstanding loan balance, 39.4% of our corporate loans were extended to borrowers in the manufacturing industry, 14.3% were to borrowers in the retail and wholesale industry, 16.3% were to the borrowers in the real estate, leasing and service industry, 5.5% were to borrowers in the construction industry, and 6.2% 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 1.73% for Chohung Bank and 1.00% for Shinhan Bank as of December 31, 2005, in each case net of charge-offs and loan sales. Under Korean GAAP, delinquency ratio for Won-denominate loans to the hotel and leisure industry was 3.30% for Chohung Bank and 1.88% for Shinhan Bank as of December 31, 2005, in each case 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 decreased from W557 billion as of December 31, 2003 to W289 billion as of December 31, 2005 and Chohung Bank s Won-denominated corporate loans classified as substandard or below were W233 billion as of December 31, 2005, as compared to W588 billion as of December 31, 2003, in each case net of charge-offs and loan sales.

Pricing

We establish the price for our corporate loan products of Shinhan Bank (and prior to the merger, also Chohung 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, 2005, 58.15% 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 and 16.65% of Chohung 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 Chohung Bank s market rate.

Shinhan Bank

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

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December 31, 2005, 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 4.08% for three months, 4.37% for six months, 4.77% for one year, 5.13% for two years, 5.31% for three years and 5.60% for five years. As of the same date, Shinhan Bank s reference rate was 8.60%.

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.

Chohung Bank

Chohung Bank generally determined pricing of its corporate loans as follows:

Interest rate	=	Funds transfer pricing *plus* operating cost (or transaction cost) *plus* loan policy margin *plus* a credit spread *plus* a periodic spread *plus* risk premium *plus* estimated margin *plus or minus* a discretionary adjustment rate.

Fund transfer pricing represents inter-segment lending rates published by Chohung Bank s Treasury & Investment Division and varies depending on the type of loans.

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

Loan policy margin is determined by loan policy to compensate for the opportunity cost of the capital and achieve competitiveness among peer banks in consideration of, among others, loan type, transaction risk and proper margin.

The credit spread is added to reflect the expected loss from the value of any collateral or payment guarantee.

The periodic spread is added to reflect the expected loss from the length of the maturity.

The risk premium is added, which is measured by the unexpected loss that exceeds the expected loss from the credit rating assigned to a particular borrower.

Estimated margin is added to reflect targeted profitability based on expected losses.

A discretionary adjustment rate is added or subtracted to reflect the borrower s current and/or future contribution to Chohung 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 Chohung Bank charged to compete more effectively with other banks.

Electronic Corporate Banking

Shinhan Bank launched its electronic corporate banking services connecting its corporate customers through dedicated subscriber lines in 1991. Shinhan Bank has since developed its electronic corporate banking services to offer to corporate customers a web-based total cash management service through Shinhan Bizbank . Shinhan Bizbank supports all types of banking transactions from basic transaction history inquiries and fund transfers to opening letters of credit and trade finance. Products and services related to cash management include payment management, collection management, sales settlement service, acquisition settlement service, B2B settlement service, sweeping and pooling. By offering such information technology-related products and services such as purchase cards, loans for purchasing goods, e-biz loans, and a B2B settlement service, Shinhan Bank is able to continue to reinforce its image as one of the leaders in electronic corporate banking. Through the enhancement of Shinhan Bizbank and its cash management service, we intend to improve the support service system related to customer cash management. Shinhan Bizbank s services were being used by approximately 105,427 corporations as of December 31, 2005 and, in 2005, its number of transactions and aggregate transaction amount were approximately 14,094,880 and W519,222 billion, respectively.

Chohung Bank launched its electronic corporate banking through e-FMS in January 2002. e-FMS offers not only cash management services, including payment management, but also B2B settlement service and enterprise resources planning service. Enterprise resource planning service includes accounting, human resources, salary payments, procurement, sales settlement service and production management and also offers cashflow management and tax management to its corporate customers. Chohung Bank s e-FMS users were approximately 94,645 corporations as of December 31, 2005 and, in 2005, its number of transactions and aggregate transaction amount were approximately 19,304,174 and W369,221 billion, respectively.

Credit Card Services

Overview

As of December 31, 2005, our total credit card balance outstanding was W4,242 billion, or 4.01% of our total loans outstanding as of the same date, which consists of W1,923 billion with Shinhan Card and W2,278 billion with credit card operations of Chohung Bank.

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 is expected to have W4 trillion in assets, W25 trillion in total credit card use (excluding corporate cards) and 5.9 million customers ranking fourth among credit card service providers (including banks) in terms of the total credit card use.

The use of credit cards in Korea has increased dramatically in recent years as the Korean economy and consumer spending recovered from the financial and economic difficulties of late 1990 s and also 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. However, as credit card delinquencies in Korea have begun to increase since mid-2002, concerns have been raised regarding the rapid growth in credit card usage and significant deterioration in asset quality of the Korean credit card industry. 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. See Item 3. Key Information Risk Factors Risks Relating to Our Banking Business Government regulation of our consumer and credit card operations has increased significantly which may materially and adversely affect our credit card and consumer operations, and Supervision and Regulation .

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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; 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 three 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% for Shinhan Card and 18.0% to 26.97% for Chohung Bank; 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 may be secured or unsecured, have initial maturities of one year and currently accrue interest at the effective annual rates of approximately 15.5% to 20.0% in the case of Chohung Bank and approximately 9.8% to 21.8% in the case of Shinhan Card.

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 2.34% for Shinhan Card and 2.44% for Chohung Bank in 2005.

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 (and Chohung Bank prior to the split-merger of its credit card division into Shinhan Card), have been allowed to rewrite delinquent credit card balances for purchase and cash advance as credit card loans. Each of Shinhan Card and Chohung Bank rewrites 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 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. If approved, Chohung Bank rewrote card balances including past due interest into card loans and amends the maturity and the repayment terms accordingly. In general, rewritten credit card loans are due at the end of one year. Shinhan Card segregates, and prior to the merger, Chohung Bank segregated, this portfolio for performance measurement and monitoring purposes due to the higher credit risk. The balance of rewritten loans of Shinhan Card were W27 billion, W9 billion and W4 billion as of December 31, 2003, 2004 and 2005 respectively, against which we recognized an allowance of W8 billion, W2 billion and W1 billion, respectively. The balance of rewritten loans of Chohung Bank were W680 billion, W495 billion and W269 billion as of December 31, 2003, 2004 and 2005, respectively, against which Chohung Bank made an allowance of W160 billion, W180 billion and W99 billion, respectively. See Financial and Statistical Information below. The balance of such rewritten loans has been decreasing since both Shinhan Card provides, and prior to the merger, Chohung Bank provided, 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,		
	2003	2004	2005
	(In thousands, except percentages)		
Shinhan Card:			
Number of credit card holders	2,773	3,002	3,467
Personal accounts	2,678	2,905	3,370
Corporate accounts	95	97	96
Active ratio(1)	56.6%	50.7%	63.8%
Number of merchants	2,112	2,513	2,934
Chohung Bank:			
Number of credit card holders	3,205	2,819	2,494
Personal accounts	3,138	2,756	2,434
Corporate accounts	66	63	60

Active ratio(1)	53.9%	50.9%	56.4%
Number of merchants(2)	2,091	2,165	2,225

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.

As of December 31, 2005, Shinhan Card had approximately 3,467,000 card customers, which represents an increase of approximately 465,000 customers from approximately 3,002,000 as of December 31, 2004. Of all the customers outstanding as of December 31, 2005, the number of platinum and gold card members, whose higher creditworthiness entitles them to certain benefits, was approximately 1,469,000. As of December 31, 2005, Chohung Bank had approximately 2,494,000 credit card customers, which represents a decrease of approximately 325,000 customers from approximately 2,819,000 as of December 31, 2004 primarily as a result of the reduction in the number of delinquent credit card customers.

The number of Shinhan Card s merchants also increased to approximately 2,934,000 as of December 31, 2005 from approximately 2,513,000 as of December 31, 2004 while the number of merchants that use the services of Chohung Card s credit card division also increased from approximately 2,165,000 as of December 31, 2004 to approximately 2,225,000 as of December 31, 2005.

Chohung Bank developed an independent card processing system that allowed Chohung Bank to process future billings for the existing BC Cards on its own, demonstrating Chohung Bank s focus on cutting costs.. Chohung Bank also participated in a nationwide debit card program with 30 other banks. In connection with this business, as of December 31, 2005**,** Chohung Bank charged service establishment commissions of 1.5% on average on amounts purchased using the debit card.

Financial and Statistical Information

The following table sets forth certain financial and statistical information relating to the credit card operations of Shinhan Card and Chohung Bank as of the dates or for the period indicated.

	As of or for the Year Ended December 31,					
	2003		2004		2005	
	Shinhan Card	Chohung Bank(1)	Shinhan Card	Chohung Bank(1)	Shinhan Card	Chohung Bank(1)
	(In billions of Won, except percentages)					
Interest income:						
Installments	W 42	W 133	W 40	W 84	W 49	W 64
Cash advances	164	354	30	212	111	181
Card loans(2)	35	93	34	97	30	60
Annual membership	5	6	2	5	9	4
Revolving(3)	7	113	6	71	6	49
Late payments	21	5	6	11	18	15
Total	W 274	W 704	W 118	W 480	W 223	W 373
Credit card fees:						
Merchant fees(4)	W 176	W 195	W 146	W 200	W 188	W 211
Other fees	4	23	8	2	10	5
Total	W 180	W 218	W 154	W 202	W 198	W 216

	As of or for the Year Ended December 31,					
	2003		2004		2005	
	Shinhan Card	Chohung Bank(1)	Shinhan Card	Chohung Bank(1)	Shinhan Card	Chohung Bank(1)
	(In billions of Won, except percentages)					
Charge volume:(5)						
General purchases	W 3,695	W 5,484	W 4,835	W 5,519	W 6,255	W 6,039
Installment purchases	1,143	2,505	1,247	2,099	1,650	2,003
Cash advances	6,805	12,585	4,355	6,875	3,488	5,564
Total	W 11,643	W 20,574	W 10,437	W 14,493	W 11,393	W 13,606
Outstanding balance (at year end):(6)						
General purchases	W 395	W 455	W 456	W 538	W 539	W 528
Installment purchases	455	786	292	563	333	497
Cash advances	725	1,025	474	653	423	575
Revolving purchases	39	484	158	200	89	199
Card loans	329	745	233	529	255	289
Others	489	185	376	213	284	190
Total	W 2,432	W 3,680	W 1,989	W 2,696	W 1,923	W 2,278
Average balance	W 2,212	W 4,957	W 2,186	W 3,288	W 1,916	W 2,618
Delinquent balances:(7)						
From 1 day to 1 month	W 173	W 376	W 67	W 109	W 49	W 92
Over 1 month:						
From 1 month to 3 months	W 80	W 150	W 35	W 71	W 17	W 31
From 3 months to 6 months	71	172	38	44	18	29
Over 6 months						
Sub-total	151	322	73	115	35	60
Total	W 324	W 698	W 140	W 224	W 84	W 152
Delinquency ratios:(8)						
From 1 day to 1 month	7.11%	10.22%	3.37%	4.04%	2.53%	4.04%
Over 1 month:						
From 1 month to 3 months	3.29%	4.08%	1.76%	2.63%	0.87%	1.34%
From 3 months to 6 months	2.92	4.67	1.91	1.63	0.95	1.30
Over 6 months(9)						

Sub-total		6.21		8.75		3.67		4.27		1.82		2.64
Total		13.32%		18.97%		7.04%		8.33%		4.36%		6.68%
Rewritten loans(10)	W	25	W	680	W	9	W	495	W	4	W	269
Gross charge-offs	W	290	W	1,304	W	223	W	649	W	94	W	227
Recoveries		32		58		20		35		25		47
Net charge-offs	W	258	W	1,246	W	203	W	614	W	69	W	180
Gross charge-off ratio(11)		13.11%		26.31%		10.20%		19.74%		4.92%		8.66%
Net charge-off ratio(12)		11.66%		25.14%		9.29%		18.67%		3.62%		6.87%

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.

(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.

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, 2003, 2004 and 2005, under Korean GAAP, Shinhan Card s delinquent balances (defined as credit card accounts delinquent for over 30 days) were W266 billion, W121 billion and W57 billion, respectively, representing delinquency ratios (defined as the ratio of delinquent balances to outstanding balances) of 11.01%, 6.03% and 2.96%, respectively. As of December 31, 2003, 2004 and

2005, calculated on the same basis, Chohung Bank s delinquent credit card balances, were W274 billion, W97 billion and W51 billion, respectively, representing delinquency ratios of 7.42%, 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. Delinquent credit card balances that were rewritten as loans as of December 31, 2003, 2004 and 2005, under Korean GAAP, were W27 billion, W10 billion and W4 billion, respectively, for Shinhan Card and W682 billion, W497 billion and W270 billion, respectively, for Chohung Bank. Net charge-offs for Shinhan Card, under Korean GAAP, during 2003, 2004 and 2005 were W260 billion, W212 billion and W88 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 10.10%, 9.70% and 5.07%, respectively. Net charge-offs for Chohung Bank, under

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Korean GAAP, during 2003, 2004 and 2005 were W1,266 billion, 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 10.07%, 9.88% and 6.90%, respectively. As of December 31, 2005, Shinhan Card s adjusted equity capital ratio was 17.68%. Credit card business of Chohung Bank is not subject to such adjusted equity capital ratio requirement.

Recent Regulatory Changes

Under the Specialized Credit Financial Business Act, as amended on June 16, 2004, and other related regulations, 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 28.28% as of December 31, 2003, 25.12% as of June 30, 2004, 18.25% as of December 31, 2004, 13.27% as of June 30, 2005, 10.05% as of December 31, 2005 and 8.77% as of March 31, 2006.

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, Chohung 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, approximately 185 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 Recovery 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 Credit Exposures to Companies in Workout, Court Receivership and Composition .

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 Act on Business of Operating Indirect Investment and Asset. 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 Act on Business of Operating Indirect Investment and Asset 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 Act on Business of Operating Indirect Investment and Asset 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 Act on Business of Operating Indirect Investment and Asset) 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 Act on Business of Operating Indirect Investment and Asset) under the Act on Business of Operating Indirect Investment and Asset. 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 Act on Business of Operating Indirect Investment and Asset 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 Act on Business of Operating Indirect Investment and Asset 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 Act on Business of Operating Indirect Investment and Asset), and the maximum limit by such companies to invest in notes issued by government-invested organization and in foreign loans has increased.

Treasury

At Shinhan Bank, the Treasury Department provides funds to all of its business operations and ensures the liquidity of Shinhan Bank s operation and, at Chohung Bank, the Treasury & International Group provided funds to all of its business operations and ensures the liquidity of its banking 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 (and prior to the merger, Chohung Bank made) 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 .

Prior to the merger, Chohung Bank focused on reducing risks in its securities investment portfolio. Chohung Bank had limited its investment in equity securities and discontinued its trading in equity securities in 2000 to contain its exposure to market risk.

Derivatives Trading

We provide and trade a range of derivatives products. The derivatives products that we offer, through Shinhan Bank (and prior to the merger, also through Chohung Bank), include:

Interest rate swaps 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;

Foreign currency forwards, swaps and options;

Credit derivatives; and

KOSPI 200 indexed equity options.

Shinhan Bank s trading volume in terms of notional amount was W90,696 billion, W102,226 billion and W179,762 billion in 2003, 2004 and 2005, respectively, and Chohung Bank s trading volume in terms of notional amount was W117,946 billion, W151,482 billion and W186,761 billion in 2003, 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 nontrading 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 (and prior to the merger, also of Chohung 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 (or, prior to the merger, Chohung 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 Act on Business of Operating Indirect Investment and Asset 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 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, 2003, 2004 and 2005, under Korean GAAP, Shinhan Bank had total trust assets of W14,472 billion, W14,099 billion and W15,386 billion, respectively, comprised principally of securities investments of W5,425 billion, W4,855 billion and W5,422 billion, respectively, and loans in the principal amount of W280 billion, W357 billion and W291 billion, respectively. Securities investments consisted of corporate bonds, government-related bonds and other securities, primarily commercial paper. As of December 31, 2003, 2004 and 2005 under Korean GAAP, equity securities constituted 5.9%, 6.0% and 4.3%, 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, 2003, 2004 and 2005, under Korean GAAP, approximately 84.6%, 65.1% and 68.5%, 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, 2003, 2004 and 2005, under Korean GAAP, Chohung Bank had total trust assets of W4,262 billion, W4,634 billion and W6,289 billion, respectively, comprised principally of securities investments of W3,746 billion, W3,361 billion and W3,455 billion, respectively, and loans in the principal amount of W150 billion, W59 billion and W86 billion, respectively. Securities investments consisted of corporate bonds, government-related bonds and other securities, primarily commercial papers. As of December 31, 2003, 2004 and 2005, under Korean GAAP, equity securities constituted 10.5%, 10.1% and 7.0%, 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, 2003, 2004 and 2005, under Korean GAAP, approximately 39.9%, 84.3% and 93.0%, 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 such product which sets forth, among other things, issuer, industry and security type limitations.

The balance of the money trusts managed by our trust account business was W9,837 billion as of December 31, 2005 under Korean GAAP, showing an increase of 4.3% compared to W9,412 billion as of December 31, 2004, consisting of W6,175 billion with Shinhan Bank and was W3,662 billion with Chohung Bank.

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 (and, prior to the merger, Chohung 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, 2003, 2004 and 2005, under Korean GAAP, Shinhan Bank s development money trusts amounted to W0.2 billion, W0.04 billion and W0.04 billion, respectively, and general unspecified money trusts amounted to an aggregate of W0.3 billion, W0.2 billion and W0.2 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 of our consolidated financial statements in Item 18. Financial Statements Notes to consolidated financial statements of Shinhan Financial Group .

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

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

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

Payments from Bank Accounts to Guaranteed Fixed Rate Trust Accounts. If income from a guaranteed fixed rate trust account is insufficient to pay the guaranteed amount, such deficiency must be satisfied from (i) first, special reserves maintained in such trust accounts, (ii) secondly, trust fees and (iii) lastly, funds transferred from the bank accounts of Shinhan Bank (or, prior to the merger, Chohung Bank), as the case may be. Chohung Bank recorded zero or a negligible amount of such obligations as of December 31, 2003, 2004 and 2005. Shinhan Bank made no such payments from its bank accounts to cover such deficiencies during 2003, 2004 and 2005, 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 Act on Business of Operating Indirect Investment and Asset, 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 must qualify as an asset management company by July 5, 2004 and will not be 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 Act on Business of Operating Indirect Investment and Asset, 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.

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, 2005, our market share was approximately 5.62% 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 Principle Regulation 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 Division, the Institutional & International Client and Research Division and Capital Markets Division.

Retail Business Division provides equity and bond brokerage, investment advisory and financial planning services to retail customers, with a focus on high net worth individuals. In 2005, revenues generated by the Retail Business Division represented approximately 58.8% of total revenues of our Securities Brokerage Services in 2005. 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.

Institutional & International Client and Research Division 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.

Capital Markets Division 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 a life insurance company to offer a diversified range of life insurance products in addition to bancassurance services. See Life Insurance below.

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, 2005, Shinhan Capital s total assets were W1,401 billion, showing a W80 billion increase from the previous year. In particular, our operating assets increased from W1,061 billion in 2003 to W1,091 billion in 2004 and to W1,287 billion in 2005. 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 W145 billion in 2003 to W221 billion in 2004 and W222 billion in 2005, and its net income increased from W16 billion in 2003 to W23 billion in 2004 and W37 billion in 2005.

Investment Trust Management Services

In addition to personalized asset management services provided by our private banking and securities brokerage services, we also provide our customers with investment trust services through Shinhan BNP Paribas Investment Trust Management, our 50:50 joint venture with BNP Paribas, and through SH Asset Management, previously known as Chohung Investment Trust Management Co., Ltd. These companies offer a broad range of asset management products and services such as beneficiary certificates, mutual funds, closed-end funds and separately managed accounts to domestic institutional, high net worth and retail clients. As a joint venture with BNP Paribas Asset Management, Shinhan BNP Paribas ITMC intends to focus on providing products using the skills of BNP Paribas while SH Asset Management will focus on local market products.

The asset management industry in Korea is under transformation since the enactment of the Act on Business of Operating Indirect Investment and Asset in 2004 which deregulated many restrictions on investment assets and improved investors rights in various ways. With improved corporate governance structure and transparency, more investors started to show interest on the asset management industry s products as an alternative form of investment. Such move, especially among retail customers, became possible as the interest rate continues to be low and the government adopted several measures to hold down real estate prices. Accordingly, Shinhan BNP Paribas Investment Trust Management s total assets under management grew from W6,071 billion as of the end of 2004 to W7,353 billion as of the end of 2005 and SH Asset Management, formerly known as Chohung Investment Trust Management Co., Ltd., from W6,427 billion as of the end of 2004 to W7,788 billion as of the end of 2005. Although competition among asset management companies in Korea has intensified, Shinhan BNP Paribas ITMC and SH Asset Management seek to maintain profitability by providing high quality services to local customers.

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, 2005, Jeju Bank had total assets, total liabilities and total stockholders equity of W2,051 billion, W1,932 billion and W119 billion, respectively.

Investment Banking and Advisory Services

In addition to the investment banking services provided by the Investment Banking Department of Shinhan Bank (and prior to the merger, also the Investment Banking Division of Chohung 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, 2005, we derived total revenues of W24.5 billion from advisory activities.

Bancassurance

Since the deregulation of the Korean bancassurance market in September 2003, SH&C Life Insurance, our 50:50 joint venture with Cardif S.A., an insurance arm of the BNP Paribas Group, has developed various bancassurance products for our customers. In 2003 and 2004, the volume of bancassurance market grew significantly as the banks took aggressive steps to establish market shares, but this growth slowed in 2005 due to substantial market penetration. As a result of such steps, the total sales volume of the banks in Korea from initial insurance premium increased from W399 billion in 2003 to W2,255 billion in 2004 and to W2,395 billion in 2005, which represented approximately 47.8% of the total new sales volume of life insurance in Korea during 2005. Regulatory restrictions on the bancassurance products may be further liberalized in the future, which may lead to further growth of the bancassurance market. In response, the traditional insurance companies with low penetrations in the bancassurance business have collectively lobbied for new regulatory restrictions on bancassurance business, which may significantly affect the growth of the banks revenue from the bancassurance business in 2006.

During the growth of the bancassurance industry in 2004, largely due to synergy effects from our group-wide marketing and sales channels, SH&C Life Insurance ranked fourth among companies in Korea offering bancassurance products in terms of the number of policies sold and recorded profit after two years of losses since its inception.

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, 2005, Shinhan Life Insurance s total assets were W5,129.3 billion, which increased from W4,056 billion as of December 31, 2004 and W3,205 billion as of December 31, 2003. Based on the insurance premium received during its fiscal year 2005, 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, 2005, our total revenues from this operation were W24 billion.

Internet Portal Financial Services

In 2001, we established e-Shinhan Inc., a joint venture with The Boston Consulting Group to offer high-quality internet financial services. Through its portal site, *www.emoden.com*, e-Shinhan offers an integrated account aggregation service that enables the user to see all of his or her accounts at a glance, an electronic accounting service that keeps track of all the user s financial transactions, an investment clinic service and a financial supermarket service that helps users to choose the financial products that best meet their needs. To offer high quality financial portal service, we concluded business ties with Yodle of the U.S., the world s leading account aggregation provider. At a shareholders meeting in August 2005, we resolved to liquidate e-Shinhan in light of the less-than-earlier volume in financial transactions attributable partly to the real-name regulatory requirements for online financial transactions, as well as the lower-than-expected brand recognition of e-Shinhan among the online customers in general. Following the liquidation of e-Shinhan in November 2005, we discontinued providing the following Internet-based electronic banking services: account consolidation, online bookkeeping, personalized financial management and corporate financial information portal management, among others. However, we do not believe the liquidation of e-Shinhan will have a material impact on the existing electronic banking services provided by our subsidiaries which are currently being provided at a competitive level. Furthermore, we believe our electronic banking services may be expanded by creating a financial network account that consolidates the different financial services provided by our subsidiaries and otherwise focuses on the potential synergy from linking the various services provided by our subsidiaries.

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 W560 billion in connection with updating and integrating our information technology system by the end of 2006.

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 currently expect to complete the integration and upgrade of information technology system for our merged bank by the end of 2006. We are currently in the planning stage for the implementation of improved systems for our other subsidiaries, including Shinhan Card 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 . We believe that, when the integration of the subsidiaries back-up systems is completed by the end of 2006 as currently planned, our information technology system at the group level will be 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. In addition, in 2006, Kookmin Bank has entered into a definitive agreement to acquire Korea Exchange Bank from Lone Star pending regulatory approval. 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.

As of December 31, 2005, Shinhan Bank and Chohung Bank were ranked fourth and sixth largest, respectively, in terms of total assets among Korean commercial banks based on information published by the Financial Supervisory Commission. Following the merger in April 2006, the newly merged Shinhan Bank is ranked second, after Kookmin Bank, in terms of total assets. 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, 2005, our total gross loan portfolio was W105,848 billion, which represented an increase of 9.0% from W97,080 billion at December 31, 2004. 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,				
	2001	2002	2003	2004	2005
	(In billions of Won)				
Corporate					
Commercial and industrial(1)	W 13,459	W 15,800	W 35,617	W 35,653	W 35,728
Other commercial(2)	6,748	9,352	17,378	17,988	21,409
Lease financing	598	636	1,091	981	754
Total Corporate	20,805	25,788	54,086	54,622	57,891
Consumer					
Mortgages and home equity	7,253	11,539	20,517	22,180	25,840
Other consumer(3)	3,537	4,962	14,580	15,546	17,875
Credit cards	2,070	2,763	6,112	4,732	4,242
Total Consumer	12,860	19,264	41,209	42,458	47,957
Total gross loans(4)	W 33,665	W 45,052	W 95,295	W 97,080	W 105,848

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, 2003, 2004 and 2005, approximately 71.9%, 89.4% and 90.6% 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). In addition, each of Shinhan Bank s and Chohung Bank s exposure, on a non-consolidated basis, to any single borrower and exposure, on a non-consolidated basis, to any single group of companies belonging to the same conglomerate is limited by law to 20% and 25%, respectively, of each bank s total Tier I and Tier II capital under Korean GAAP.

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Twenty Largest Exposures by Borrower

As of December 31, 2005, our twenty largest exposures, consisting of loans, securities and guarantees and acceptances, totaled W24,446 billion and accounted for 17.08% of our total exposures. The following table sets forth, as of December 31, 2005, our total exposures to these top twenty borrowers.

Company	Loans in Won Currency	Loans in Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposure	Amounts of Impaired Loans and Guarantees and Acceptances
	(In billions of Won)						
The Bank of Korea	W	W	W	W 6,100	W	W 6,100	W
Ministry of Finance and Economy				4,501		4,501	
Korea Deposit Insurance Corporation	33			3,805		3,838	
Korea Development Bank				1,137		1,137	
Kookmin Bank	46		13	732		791	
Samsung Electronics		584	180		22	786	
Military Mutual Aid Association	691					691	
SK Networks(1)	253	73	240	7	97	670	424
Industrial Bank of Korea			2	668		670	
Samsung Card	395	20		194	5	614	
Kia Motors	49	368	1	103	34	555	
Korea Highway Corporation				551		551	
Woori Bank	1	4	1	538		544	
Korea Asset Management Corporation			14	510		524	
Korea Exchange Bank			3	467		470	
Hana Bank		10		416		426	
Hyundai Motors	21	282	20		94	417	
SK Corporation	69	72	132	43	82	398	
National Agricultural Cooperative Federation			21	368		389	
LG Electronics		331	7	24	12	374	
Total	W 1,558	W 1,744	W 634	W 20,164	W 346	W 24,446	W 424

Note:

(1) Includes its remaining offshore subsidiaries, SK Networks Hong Kong and SK Networks Europe.

Exposure to Chaebols

As of December 31, 2005, 7.83% of our total exposure was to the twenty-nine largest chaebols. The following table shows, as of December 31, 2005, 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 506	W 970	W 357	W 218	W 191	W 2,242	W
Hyundai Motors	576	826	25	240	251	1,918	
SK	482	255	406	87	230	1,460	424
LG	229	696	52	55	120	1,152	
Lotte	195	43	1	217	117	573	
Doosan	159	47	3		202	411	
Hyundai Heavy Industries	1	24	1		340	366	
LS	39	52	2	5	263	361	
Hanhwa	132	40	9	20	78	279	
Hyosung	63	108		48	43	262	
Total	W 2,382	W 3,061	W 856	W 890	W 1,835	W 9,024	W 424

Exposure to LG Card

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

After the failure to auction LG Card to a buyer in December 2003, the principal creditors of LG Card tentatively agreed to a rescue plan in January 2004 under which the Korea Development Bank would acquire a 25% (subsequently adjusted to 26%) interest in LG Card and the other creditors would collectively acquire a 74% (subsequently adjusted to 73%) ownership interest following the completion of several debt-to-equity swaps contemplated for 2004. In addition, the creditors agreed to form a normalization steering committee for LG Card to oversee LG Card s business operations. An extraordinary shareholders meeting of LG Card was held in March 2004 and a new chief executive officer as well as directors nominated by the normalization steering committee were elected. In February 2004, the creditors exchanged indebtedness of W954 billion (including our portion of

W77.5 billion) for shares constituting 54.8% of the outstanding share capital of LG Card. LG Group also funded an additional W800 billion to LG Card (in addition to a W200 billion capital contribution made in December 2003). In March 2004, the LG Group and the Korea Development Bank provided additional liquidity of W375 billion and W125 billion, respectively. In May 2004, LG Card completed a capital write-down of 97.7% of its outstanding common stock, which included the W954 billion converted into equity by the creditors in February 2004 (including our portion of W77.5 billion). In July 2004, the creditors also converted an additional W954 billion of indebtedness into equity of LG Card (including our portion of W77.5 billion) and W1.59 trillion of new loans extended to LG Card (including our portion of W154.4 billion) into equity of LG Card. In January 2005, the LG Group and the creditor banks converted an additional W1 trillion in the aggregate (including W25.3 billion for Shinhan Bank and W23.0 billion for Chohung Bank for our aggregate portion of W48.3 billion) into equity. In addition, the creditor banks also reduced the interest rate on existing credit facility of LG Card in the aggregate amount of W1 trillion from 7.5% per annum to 5.5% per annum and further extended the maturity of the credit facility to December 2006, subject to four equal quarterly installment repayments in 2006. In addition, the terms of the collateral for this facility was amended. Prior to this amendment, the creditor financial institutions were entitled to receive the cash inflows from collection on such collateral. LG Card was not required to maintain a minimum collateral ratio or to enhance its credit support through the provision of additional collateral. Thus, there was no guarantee against losses to the extent that collection results in a shortfall of the principal amount of the credit extended. As a result of the amendment, however, LG Card is entitled to the cash received from collection on condition that LG Card maintains a minimum collateral ratio of 105%. In March 2005, LG Card also completed a capital write-down of 81.8% of its outstanding common stock, which included the W2,417 billion of equity held by the creditors (including our portion of W216 billion). In April 2006, we submitted a letter of intent indicating our wish to participate in the bidding for the controlling equity stake in LG Card. Subsequently, we were selected as one of the potential bidders and as of the date of this offering circular, we are currently conducting due diligence to evaluate our bid for LG Card.

As of December 31, 2005, our total exposure to LG Card was W364 billion, including W136 billion of loans, W33 billion of debt securities and W195 billion of equity securities. We made an allowance for loan losses of W0.7 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 W12 billion and recognized securities impairment losses of W7 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.

The value of underlying collateral, our pro rata entitlement thereto and the allowances we have established or will establish against our exposures to LG Card may not be sufficient to cover all future losses arising from these exposures. Following the debt-to-equity conversions in respect of our exposures to LG Card, we may experience further losses if the market value of the LG Card equity securities we own falls below their recorded book value.

As of the date hereof, the creditors of LG Card held in the aggregate 103,287,662 shares, representing 82.39% of total issued and outstanding shares of LG Card of 125,369,403 shares, including 8,960,005 shares of LG Card, representing 7.14% of total issued and outstanding shares. 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. The current plan is for the creditors to sell at least 51% to a successful bidder with a view to transferring control in LG Card to the purchaser. The proposed timetable for this auction is subject to change pending negotiations with multiple bidders. It is expected that a preliminary, preferred bidder(s) will be selected in the second half of 2006. We, together with our competitors in the Korean financial market, have participated in this auction to purchase control of LG Card.

Exposures to the Credit Card Industry

Recent adverse developments in the credit card industry 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 raise financing through issuances of debt securities. As a result, Korean credit card companies have been experiencing significant financial and liquidity difficulties.

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The following table shows, as of December 31, 2005, the breakdown of our total exposure to credit card companies.

Company	Debt Securities	Securities Issued Through Asset-Backed Securitization(1)	Equity Securities	Loans in Won Currency	Guarantees and Acceptances	Loans in Foreign Currency	Total
			(In billions of Won)				
Samsung Card(2)	W 194	W 281	W	W 395	W 5	W 20	W 895
LG Card	2	31	195	136			364
Hyundai Card		150		20			170
Lotte Card	129			19			148
KDB Capital(3)				20			20
Total	W 325	W 462	W 195	W 590	W 5	W 20	W 1,597

Notes:

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

(2) Samsung Card recorded net loss of W1,301 billion in 2005, despite a turnaround beginning in the second half of 2005. In the first quarter of 2006, Samsung Card recorded net income of W76 billion.

(3) KDB Capital is a subsidiary of Korea Development Bank, which is owned and controlled by the Korean government.

As of December 31, 2005, we had loans outstanding to credit card companies in the aggregate principal amount of W610 billion. Despite the recent financial difficulties of certain credit card companies, our loans to these credit card companies, except LG card, are considered performing in accordance with our internal credit rating methodology, and therefore we have not recognized a specific allowance for loan losses against these. In light of the improvement in the asset quality of the credit companies in general, we believe our general allowance of W1 billion against the performing element of the corporate loan portfolio in total is sufficient to cover any incurred losses within these specific loans.

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

In the case of credit card companies that are in or in the future enter into workout, restructuring, reorganization or liquidation proceedings, our recoveries from those companies may be limited. We may, therefore, experience future losses with respect to these exposures.

Exposures to SK Group Companies

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

the purchase by SK Networks of approximately US$540 million of the US$563 million of total indebtedness of its overseas subsidiaries held by non-Korean institutions in exchange for 43% of the

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principal amount in promissory notes and 5% of the principal amount in the form of bonds with warrants;

the purchase or inclusion in the restructuring plan of SK Networks of all of the approximately US$126 million of indebtedness of its overseas subsidiaries held by Korean financial institutions; and

the entering into a Memorandum of Understanding on the Corporate Restructuring Implementation, or Memorandum, in respect of the restructuring of the approximately US$2 billion of indebtedness to SK Networks.

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

As a result of this corporate restructuring, we owned 9.54% of common shares of SK Networks (or 9.87% of total equity ownership in SK Networks including the Redeemable Preferred Stock) as of December 31, 2005.

As of December 31, 2005, 1.02% of our total exposure was to the member companies of the SK Group. The following table shows, as of December 31, 2005, the breakdown of our total exposure by member companies of the SK Group.

Company	Loans in Won Currency	Loans in Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposure	Amounts of Impaired Loans and Guarantees and Acceptances
	(In billions of Won)						
SK Networks	W 253	W 73	W 240	W 7	W 97	W 670	W 424
SK Corporation	69	72	132	43	82	398	
K Power Co., Ltd.	59					59	
SK Telecom Co., Ltd.	1		33	20		54	
SK Chemical	10	18		3	21	52	
SK C&C Co., Ltd.	40				2	42	
SKC Co., Ltd.	5	11		15	2	33	
SK Gas Co., Ltd (Kim Se Kwang)	3	24				27	
SK Gas Co., Ltd.		27				27	
SK Shipping		19				19	
Walkerhill	6				8	14	
SK Construction					13	13	
Choongnam City Gas. Co., Ltd.	7					7	
Daehan City Gas Co., Ltd.	7					7	
Pohang City Gas	6					6	
Pusan City Gas	5					5	
Dong Shin Pharm, Co., Ltd.		3			1	4	
Global Shipbuilding SA		4				4	
Champion Shipbuilding SA		4				4	
SK Telesys		1			2	3	
Chonnam City Gas Co., Ltd.	3					3	
InnoAce Co., Ltd.	2					2	
In2gen	2					2	
SK Sitech					2	2	
Infosec Co., Ltd.	1					1	
Kangwon Gas	1					1	
Total	W 480	W 256	W 405	W 88	W 230	W 1,459	W 424

As of December 31, 2005, our total exposure outstanding to SK Networks alone was W670 billion, or 0.47% of our total exposure, consisting of W326 billion in loans, W7 billion in debt securities, W240 billion in equity securities and W97 billion in guarantees and acceptances. Of our total loans outstanding to SK Networks, W24 billion was secured. For the unsecured loans of W302 billion, we made allowance for loan losses of W20 billion. With respect to the guarantees and acceptances outstanding, we made allowances of W6 billion. As of December 31, 2005, we had no exposure outstanding to SG Wicus Corporation.

In addition, as of December 31, 2005, our total exposure outstanding to SK Corporation, the controlling company of the SK Group, was W398 billion, or 0.28% of our total exposure, consisting of W141 billion in loans, W132 billion in equity securities, W43 billion in debt securities and W82 billion in guarantees and acceptances. We classify loans and guarantees and acceptances to other SK Group companies, including SK Corporation, as performing in accordance with our internal credit rating methodology and therefore no specific allowance is made against these loans or guarantees and acceptances. Our management believes the general allowance of W0.9 billion against the performing element of the corporate loan portfolio in total is sufficient to cover any incurred losses within this portfolio, including those loans to companies within the SK Group, including SK Corporation and excluding SK Networks. See Item 3. Key Information Risk Factors Risks Relating to our banking business We have significant exposure to SK Networks which is experiencing financial difficulties that it concealed through accounting irregularities and which is in a workout program. If this program is not satisfactorily resolved, it may have a material adverse effect on us .

Exposures to Ssangyong Group Companies

In 1998, Daewoo Motors acquired Ssangyong Motors from the former Ssangyong Group, on condition that certain of the then existing liabilities of Ssangyong Motors be retained by the former Ssangyong Group. In connection with this transaction, nine member companies of the Ssangyong Group assumed in the aggregate liabilities of W1.8 trillion, which subsequently resulted in significant increases in interest expense for such companies, further aggravated by a sharp increase in interest rates during the financial crisis of the late 1990 s. Several of the Ssangyong Group companies, including Ssangyong Corporation, Ssangyong Cement Industrial and Ssangyong Engineering & Construction, have experienced significant financial and liquidity difficulties as a result and were subsequently placed under workout programs by their respective creditors.

As of December 31, 2005, 0.3% of our total exposure was to the member companies of the Ssangyong Group. The following table shows, as of December 31, 2005, the breakdown of our total exposure by member companies of the Ssangyong Group.

Company (1)	**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)			
Ssangyong Corporation	W 3	W 91	W 49	W	W 78	W 221	W 172
Ssangyong Cement Industrial	87		87			174	
Ssangyong Engineering & Construction		4	6	14	5	29	
Ssangyong Resources Development Co., Ltd.	2					2	
Total	W 92	W 95	W 142	W 14	W 83	W 426	W 172

Note:

(1) Includes domestic and overseas subsidiaries of each company.

In July 2003, the committee of creditors participating in the workout program of Ssangyong Cement Industrial approved a plan to (i) extend new credits of W150 billion to provide additional liquidity, of which Chohung Bank s portion was W50 billion, all of which are entitled to priority in repayment as agreed by the creditors committee, (ii) debt-to-equity swap of W573 billion, in which we did not participate, and (iii) extend the maturity for repayment of principal from December 2003 to December 2005. Ssangyong Cement exited the workout in November 2005. As of December 31, 2005, our total exposure to Ssangyong Cement Industrial amounted to W174 billion, of which W0 billion was classified as impaired. As of December 31, 2005, allowance for loan losses and guarantees and acceptances with respect to our loans and guarantees and acceptances to Ssangyong Cement Industrial was W0.2 billion.

In August 2003, the committee of creditors participating in the workout program of Ssangyong Corporation approved a plan to (i) conduct a 5-to-1 capital reduction of existing shares of Ssangyong Corporation (including minority share ownership and shares obtained through debt-to-equity swaps) and (ii) subsequently enter into an additional debt-to-equity swap of loans in the aggregate principal amount of approximately W121 billion, including W80 billion of our loans consisting of W80 billion from Chohung Bank

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and W0.4 billion from Shinhan Bank. As of December 31, 2005, our total exposure to Ssangyong Corporation (including its overseas offices in Hong Kong, Japan and Singapore) amounted to W221 billion. Of our total loans and guarantees and acceptances to Ssangyong Group, W172 billion was classified as impaired. As of December 31, 2005, allowance for loan losses and guarantees and acceptances with respect to our loans and guarantees and acceptances to Ssangyong Corporation and Ssangyong Cement Industrial was W2 billion and W0.2 billion, respectively.

In August 2005, eight members of the committee of creditors, including Shinhan Bank, selected Morgan Stanley Private Equity Holdings AB as the preferred bidder for the sale of 8,374,236 shares, or 75% of total issued and outstanding shares of Ssangyong Corporation, out of 9,887,150 such shares in the aggregate held by the creditors group. A memorandum of understanding was entered into in September 2005 and the definitive agreement for the sale was entered into in December 2005. The closing of this sale occurred in April 2006 at the aggregate sale price of W68 billion, of which W5 billion was placed in escrow to provide for an indemnity on certain representation and warranties provided by the selling creditors to the purchaser. Simultaneously with the closing, all of the credits previously extended in connection with Ssangyong Corporation s workout program, amounting to W357 billion, including W232 billion owing to Shinhan Bank, was repaid in full.

Except as described above, no material changes have occurred with respect to our exposures to the former Ssangyong Group companies since December 31, 2003. See Item 3. Key Information Risk Factors Risks Relating to our banking business We have significant exposure to the largest Korean commercial conglomerates, known as chaebols , and, as a result, recent and any future financial difficulties of chaebols may have an adverse effect on us .

Loan Concentration by Industry

The following table shows the aggregate balance of our corporate loans by industry concentration as of December 31, 2005 under US GAAP.

Industry		**Aggregate Loan Balance**	**Percentage of Total Corporate Loan Balance**
		(In billions of Won)	**(Percentages)**
Manufacturing	W	22,823	39.42%
Retail and wholesale		8,271	14.29
Real estate, leasing, and service		9,434	16.30
Construction		3,182	5.50
Hotel and leisure(1)		2,114	3.65
Finance and insurance		3,615	6.24
Transportation, storage and communication		2,511	4.34
Other service		5,854	10.11
Other		87	0.15
Total	W	57,891	100.00%

Note:

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

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Loan Concentration by Size of Loans

The following table shows the aggregate balances of our loans by outstanding loan amount as of December 31, 2005.

	Aggregate Loan Balance	Percentage of Total Loan Balance
	(In billions of Won)	(Percentages)
Commercial and industrial		
Up to W10 million	W 116	0.11%
Over W10 million to W50 million	1,756	1.66
Over W50 million to W100 million	2,220	2.10
Over W100 million to W500 million	10,045	9.48
Over W500 million to W1 billion	4,351	4.11
Over W1 billion to W5 billion	8,357	7.90
Over W5 billion to W10 billion	2,899	2.74
Over W10 billion to W50 billion	4,538	4.29
Over W50 billion to W100 billion	1,136	1.07
Over W100 billion	310	0.29
Sub-total	W 35,728	33.75%
Other commercial		
Up to W10 million	W 64	0.06%
Over W10 million to W50 million	481	0.45
Over W50 million to W100 million	546	0.52
Over W100 million to W500 million	3,077	2.91
Over W500 million to W1 billion	1,923	1.82
Over W1 billion to W5 billion	5,125	4.84
Over W5 billion to W10 billion	2,473	2.34
Over W10 billion to W50 billion	5,668	5.36
Over W50 billion to W100 billion	1,032	0.97
Over W100 billion	1,020	0.96
Sub-total	W 21,409	20.23%
Lease financing		
Up to W10 million	W 2	
Over W10 million to W50 million	15	0.01%
Over W50 million to W100 million	18	0.02
Over W100 million to W500 million	100	0.09
Over W500 million to W1 billion	50	0.05
Over W1 billion to W5 billion	214	0.20
Over W5 billion to W10 billion	125	0.12
Over W10 billion to W50 billion	230	0.22
Over W50 billion to W100 billion		
Over W100 billion		

Sub-total	W	754	0.71%

	Aggregate Loan Balance		Percentage of Total Loan Balance
	(In billions of Won)		(Percentages)
Mortgage and home equity			
Up to W10 million	W	391	0.37%
Over W10 million to W50 million		6,817	6.44
Over W50 million to W100 million		7,662	7.24
Over W100 million to W500 million		10,222	9.65
Over W500 million to W1 billion		633	0.60
Over W1 billion to W5 billion		115	0.11
Over W5 billion to W10 billion			
Over W10 billion to W50 billion			
Over W50 billion to W100 billion			
Over W100 billion			
Sub-total	W	25,840	24.41%
Other consumer			
Up to W10 million	W	3,507	3.31%
Over W10 million to W50 million		5,088	4.81
5.00		2,598	2.45
Over W100 million to W500 million		5,109	4.84
Over W500 million to W1 billion		841	0.79
Over W1 billion to W5 billion		686	0.65
Over W5 billion to W10 billion		46	0.04
Over W10 billion to W50 billion		0	0.00
Over W50 billion		0	0.00
Over W100 billion		0	0.00
Sub-total	W	17,875	16.89%
Credit cards			
Up to W10 million	W	2,998	2.84%
Over W10 million to W50 million		995	0.94
Over W50 million to W100 million		89	0.08
Over W100 million to W500 million		120	0.11
Over W500 million to W1 billion		27	0.03
Over W1 billion to W5 billion		13	0.01
Over W5 billion to W10 billion		0	0.00
Over W10 billion to W50 billion		0	0.00
Over W50 billion to W100 billion		0	0.00
Over W100 billion		0	0.00
Sub-total	W	4,242	4.01%
Total	W	105,848	100.00%

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Maturity Analysis

The following table sets out the scheduled maturities (time remaining until maturity) of our loan portfolio as of December 31, 2005. The amounts disclosed are before deduction of attributable loan loss reserves.

	As of December 31, 2005			
	1 Year or Less	**Over 1 Year but Not More Than 5 Years**	**Over 5 Years**	**Total**
	(In billions of Won)			
Corporate:				
Commercial and industrial	W 30,361	W 4,666	W 701	W 35,728
Other commercial	14,280	6,099	1,030	21,409
Lease financing	422	325	7	754
Total corporate	W 45,063	W 11,090	W 1,738	W 57,891
Consumer:				
Mortgage and home equity	W 9,885	W 4,648	W 11,307	W 25,840
Other consumer	12,959	3,830	1,086	17,875
Credit cards	4,068	162	12	4,242
Total consumer	W 26,912	W 8,640	W 12,405	W 47,957
Total gross loans	W 71,975	W 19,730	W 14,143	W 105,848

We may roll over our working capital loans and consumer loans (which are not payable in installments) after we conduct our normal loan review in accordance with our loan review procedures. Working capital loans of Shinhan Bank may be extended on an annual basis for an aggregate term of three years for unsecured loans and five years for secured loans and consumer loans may be extended for additional terms of up to 12 months for an aggregate term of five years for unsecured loans and ten years for secured loans. Working capital loans of Chohung Bank may be extended on an annual basis for an aggregate term of five years and consumer loans are commonly extended for additional terms of up to 12 months for an aggregate term of ten years, regardless of whether such loans are secured or unsecured. Such loans have been classified as loans with maturity of one year or less in the tables above.

Interest Rate Sensitivity

The following table shows our loans by interest rate sensitivity as of December 31, 2005.

	As of December 31, 2005		
	Due Within 1 Year	**Due After 1 Year**	**Total**
	(In billions of Won)		
Fixed rate loans(1)	W 34,605	W 15,892	W 50,497
Variable rate loans(2)	37,370	17,981	55,351
Total gross loans	W 71,975	W 33,873	W 105,848

Notes:

(1) Fixed rate loans are loans for which the interest rate is fixed for the entire term. Includes W18,693 billion of loans due within one year and W11,088 billion of loans due after one year, which are priced based on one or more reference rates which may vary at our discretion. However, it is not our practice to change such reference rates during the life of a loan.

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

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

Nonaccrual Loans and Past Due Accruing Loans

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

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

Interest foregone is the interest due on nonaccrual loans that has not been accrued in our books of account. For the year ended December 31, 2005 we would have recorded gross interest income of W186 billion, compared to W184 billion for the year ended December 31, 2004 and W110 billion for the year ended December 31, 2003 on loans accounted for on a nonaccrual basis throughout the year, or since origination for loans held for part of the year, had the loans been current with respect to their original contractual terms. The amount of interest income on those loans that was included in our net income for the years ended December 31, 2003, 2004 and 2005 were W48 billion, W142 billion and W117 billion, respectively.

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

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

	As of December 31,				
	2001	**2002**	**2003**	**2004**	**2005**
	(In billions of Won)				
Loans accounted for on a nonaccrual basis					
Corporate	W 834	W 741	W 1,536	W 1,681	W 1,475
Consumer	78	111	580	479	367
Credit cards	234	358	1,016	294	210
Sub-total	1,146	1,210	3,132	2,454	2,052
Accruing loans which are contractually past due one day or more as to principal or interest					
Corporate(1)	29	32	196	55	32
Consumer(2)	32	38	27	17	32
Credit cards				76	3
Sub-total	61	70	223	148	67
Total	W 1,207	W 1,280	W 3,355	W 2,602	W 2,119

Notes:

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

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

Troubled Debt Restructurings

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

	As of December 31,				
	2001	**2002**	**2003**	**2004**	**2005**
	(In billions of Won)				
Loans not included in nonaccrual and past due loans which are classified as troubled debt restructurings	W 360	W 145	W 1,179	W 916	W 735

For the year ended December 31, 2005, interest income that would have been recorded under the original contract terms of restructured loans amounted to W26 billion, out of which W22 billion was reflected as our interest income during 2005.

Credit Exposures to Companies in Workout, Court Receivership and Composition

Shinhan Bank s exposures in restructuring are managed and collected by our Corporate Restructuring Team. Chohung Bank s exposures in restructuring are managed and collected by Chohung Bank s Loan Recovery Division and, following the merger of the two banks, by Shinhan Bank s Corporate Credit Collection Department. As of December 31, 2005, 1.3% of our total exposure, or W1,875 billion, was under restructuring. The legal form of our restructurings is principally either workout, court receivership or composition.

Workout

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

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respect to any workout for which the lead creditor bank called for a meeting of the creditors committee while the Corporate Restructuring Promotion Act was still effective, the procedures applicable to such creditors committee and the related workout remain subject to the Corporate Restructuring Promotion Act until the suspension or conclusion of such workout.

The total amount currently undergoing workout as of December 31, 2005 was W1,612 billion, including W738 billion of loans and W874 billion of other exposures.

Court Receivership and Composition

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

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

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

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

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

The total amount currently subject to court receivership as of December 31, 2005 was W148 billion, including W143 billion of loans and W5 billion of other exposures.

The total amount currently subject to composition proceedings as of December 31, 2005 was W115 billion, including W109 billion of loans and W6 billion of other exposures.

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

The following table shows, as of December 31, 2005, our ten largest exposures that had been negotiated in workouts, composition or court receivership.

Company	Loans in Won Currency	Loans in Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposure(1)
			(In billions of Won)			
SK Networks	W 253	W 73	W 240	W 7	W 97	W 670
LG Card	136		195	2		333
Ssangyong Corporation(2)	3	91	49		78	221
Hyundai Engineering & Construction(3)		8	56	32	62	158
Inchon Oil Refinery	98		5			103
Daewoo Electronics Corporation	38		28			66
Saehan Industries, Inc.	27	5	9		5	46
Hankook Ilbo	43					43
Daewoo Electronics Co., Ltd.	33					33
Dongbang Textile & Mart Co., Ltd.	3	10			13	26
Total	W 634	W 187	W 582	W 41	W 255	W 1,699

Notes:

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

(2) The sale of 8,374,236 shares, or 75.00%, of Ssangyong Corporation by the eight members of the creditor group to Morgan Stanley Private Equity Holdings AB for W8,091.31 per share, or W68 billion in the aggregate, was consummated in April 2006. As a result, in April 2006, Ssangyong Corporation graduated from the workout program.

(3) In May 2006, Korea Exchange Bank, the lead creditor of Hyundai Engineering & Construction, announced Hyundai Engineering & Construction s graduation from its workout program. It is expected that the shares currently held by the creditors group will be up for sale in the second half of 2006.

Potential Problem Loans

As of December 31, 2005, we had W216 billion of loans which are current as to payment of principal and interest but carries serious doubt as to the ability of the borrower to comply with repayment terms in the near future. These loans are classified as impaired and therefore included in our calculation of loan loss allowance under U.S. GAAP.

We have certain other interest-earning assets which, if they were loans, would be required to be disclosed as part of the nonaccrual, past due or troubled debt restructuring or potential problem loan disclosures provided above. As of December 31, 2005, we had zero book value for our debt securities on which interest was past due.

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Provisioning Policy

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

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

Loan Classifications

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

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

Corporate Loans

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

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

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

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

Loans individually identified for review and considered impaired

Consistent with the internal credit risk monitoring policies, we evaluate larger-balance impaired loans (which are impaired loans in excess of W1 billion for all of our subsidiaries except Chohung Bank whose impaired loans are in excess of W2 billion) individually for impairment. Loan loss allowances for these loans are generally established by discounting the estimated future cash flows (both principal and interest) we expect to receive using the loan s effective interest rate. We consider the likelihood of all possible outcomes in determining our best estimate of expected future cash flows. Management consults closely with individual loan officers and reviews the cash flow assumptions used to ensure these estimates are valid.

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

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

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

Loans collectively evaluated for impairment

We also establish specific allowances for smaller-balance impaired corporate loans. These loans are managed on a portfolio basis and are therefore collectively evaluated for impairment since it is not practical to analyze or provide for our smaller loans on an individual, loan by loan basis.

The allowance is determined based on loss factors taking into consideration past performance of the portfolio, previous loan loss history and charge-off information.

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

- Prevailing economic and business conditions within Korea and foreign jurisdictions in which we operate;

- Industry concentrations;

- Changes in the size and composition of the relevant underlying portfolios; and

- Changes in lending policies and procedures, including underwriting standards and collection, charge-offs, and recovery practices.

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

	As of December 31,		
	2003	2004	2005
	(Percentages)		
Normal	2.35%	1.87%	2.42%
Precautionary	23.72	8.25	7.92
Substandard	33.01	27.79	22.41
Doubtful	68.63	83.15	47.60
Estimated loss	90.11	92.58	87.19

Loans not specifically identified as impaired

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

Leases

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

Consumer loans

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

Mortgages;

Home equity loans;

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

Credit cards.

Mortgages, home equity loans and other consumer loans

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

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

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

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

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

Credit Cards

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

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

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

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

- Delinquency levels of cardholders;
- Current government involvement within the credit card industry (such as the 2001 Government Amnesty Program);
- Key retail performance indicators (such as ratios of household debt to disposable income and household liabilities to financial assets).

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

Loan Aging Schedule

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

	Current		**Past Due up to 3 Months**		**Past Due 3-6 Months**		**Past Due More Than 6 Months**		**Total**
As of December 31,	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**
	(In billions of Won, except percentages)								
2001	W 32,648	96.98	W 487	1.45	W 144	0.43	W 386	1.14	W 33,665
2002	43,962	97.58	572	1.27	121	0.27	397	0.88	45,052
2003	91,940	96.48	1,511	1.59	714	0.75	1,130	1.18	95,295
2004	94,480	97.32	855	0.88	431	0.45	1,314	1.35	97,080
2005	103,601	97.87	652	0.62	243	0.23	1,352	1.28	105,848

Non-Performing Loans

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

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

	As of December 31,				
	2001	**2002**	**2003**	**2004**	**2005**
	(In billions of Won, except percentages)				
Total non-performing loans	W 530	W 518	W 1,844	W 1,750	W 1,594
As a percentage of total loans	1.57%	1.15%	1.94%	1.80%	1.51%

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Analysis of Non-Performing Loans

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

	As of December 31,													
	2001			2002			2003			2004			2005	
	Total Loans	Non-Performing Loans	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans	Ratio of Non-Performing Loans	Total Loans	Non Perfor Loa
	(In billions of Won, except percentages)													
l														
	W 13,459	W 342	2.54%	W 15,800	W 211	1.34%	W 35,617	W 739	2.07%	W 35,653	W 898	2.52%	W 35,728	W 8
	6,748	125	1.85	9,352	205	2.19	17,378	558	3.21	17,988	468	2.60	21,409	3
	598	3	0.50	636	1	0.16	1,091	8	0.73	981	19	1.94	754	
	20,805	470	2.26	25,788	417	1.62	54,086	1,305	2.41	54,622	1,385	2.54	57,891	1,2
	7,253	28	0.39	11,539	34	0.29	20,517	133	0.65	22,180	126	0.57	25,840	1
	3,537	16	0.45	4,962	19	0.38	14,580	232	1.59	15,546	155	1.00	17,875	1
	2,070	16	0.77	2,763	48	1.74	6,112	174	2.85	4,732	84	1.78	4,242	
	12,860	60	0.47	19,264	101	0.52	41,209	539	1.31	42,458	365	0.86	47,957	3
	W 33,665	W 518	1.57%	W 45,052	W 518	1.15%	W 95,295	W 1,844	1.94%	W 97,080	W 1,750	1.80%	W 105,848	W 1,5

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Top Twenty Non-Performing Loans

As of December 31, 2005, our twenty largest non-performing loans accounted for 22.0% of our total non-performing loan portfolio. The following table shows, at the date indicated, certain information regarding our twenty largest non-performing loans.

			As of December 31, 2005			
		Industry		**Gross Principal Outstanding**		**Allowance for Loan Losses**
			(In billions of Won)			
1	Borrower A	Manufacturing	W	65		
2	Borrower B	Manufacturing		54	W	54
3	Borrower C	Manufacturing		36		25
4	Borrower D	Manufacturing		32		33
5	Borrower E	Manufacturing		27		12
6	Borrower F	Real estate, leasing and service		16		
7	Borrower G	Manufacturing		12		
8	Borrower H	Finance and insurance		12		4
9	Borrower I	Hotel and leisure		12		7
10	Borrower J	Other service		11		
11	Borrower K	Construction		10		1
12	Borrower L	Real estate, leasing and service		10		
13	Borrower M	Real estate, leasing and service		9		7
14	Borrower N	Manufacturing		8		
15	Borrower O	Manufacturing		7		7
16	Borrower P	Transportation, storage and communication		6		1
17	Borrower Q	Manufacturing		6		6
18	Borrower R	Manufacturing		6		6
19	Borrower S	Retail and wholesale		6		
20	Borrower T	Manufacturing		6		
			W	351	W	163

Non-Performing Loan Strategy

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

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

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

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

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

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

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

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

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

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

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

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

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

Allocation of Allowance for Loan Losses

The following table presents the allocation of our loan loss allowance by loan type. The ratio represents the percentage of loan loss allowance of each loan type to total loan loss allowance.

	As of December 31,									
	2001		**2002**		**2003**		**2004**		**2005**	
	(In billions of Won, except percentages)									
Corporate										
Commercial and Industrial	W 323	44.86%	W 341	34.24%	W 1,383	38.09%	W 1,065	46.08%	W 753	49.80%
Other commercial	275	38.19	365	36.65	626	17.24	410	17.74	305	20.17
Lease financing	35	4.86	22	2.21	45	1.24	24	1.04	16	1.06
Total corporate	633	87.91	728	73.10	2,054	56.57	1,499	64.86	1,074	71.03

Consumer										
Mortgages and home equity	9	1.25	30	3.01	53	1.46	36	1.56	19	1.26
Other consumer	22	3.06	59	5.92	659	18.15	368	15.92	183	12.10
Credit cards	56	7.78	179	17.97	865	23.82	408	17.66	236	15.61
Total consumer	87	12.09	268	26.90	1,577	43.43	812	35.14	438	28.97
Total allowance for loan losses	W 720	100.00%	W 996	100.00%	W 3,631	100.00%	W 2,311	100.00%	W 1,512	100.00%

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Our total allowance for loan losses decreased by W799 billion, or 34.6%, to W1,512 billion as of December 31, 2005 from W2,311 billion as of December 31, 2004. During 2004, the allowance for loan losses decreased by W1,320 billion, or 36.4%, from W3,631 billion as of December 31, 2003 to W2,311 billion as of December 31, 2004, due primarily to an increase in charge-offs from 2003 to 2004 resulting from improving credit quality of corporate loans. During 2005, the allowance for loan losses decreased by W799 billion primarily as a result of continued improvement in the credit quality of our overall loan portfolios. The total loan balance increased by W8,768 billion in 2005, 41.7% of which, or W3,660 billion, was accounted for by the increase in mortgage and home equity loans which are considered to have a lower credit risk than other types of loans. On the other hand, our credit card portfolio which tends to have a higher credit risk decreased by W490 billion in 2005. In addition, the ratio of nonaccrual loans to total loans significantly decreased from 2.53% as of December 31, 2004 to 1.94% as of December 31, 2005. The ratio of non-performing loans to total loans also decreased to 1.51% as of December 31, 2005 from 1.80% as of December 31, 2004. Accordingly, this improvement in the credit quality of our loan portfolios resulted in a sizable decrease in the amount of loans charged off and a reversal of provision for credit losses in 2005.

The allowance for corporate loan losses decreased by W555 billion, or 27.0%, from W2,054 billion as of December 31, 2003 to W1,499 billion as of December 31, 2004. This decrease is primarily attributable to a reduction in impaired loans. The allowance for corporate loan losses decreased by W425 billion, or 28.4%, from W1,499 billion as of December 31, 2004 to W1,074 as of December 31, 2005, primarily due to the improved credit quality of our loans to large corporations and small- to medium enterprises.

In the consumer sector, our allowance for loan losses decreased by W765 billion, or 48.5%, from W1,577 billion as of December 31, 2003 to W812 billion as of December 31, 2004, primarily due to a reduction in marketing scoring system loans and credit card loans. The allowance for loan losses decreased by W374 billion, or 46.1%, from W812 billion as of December 31, 2004 to W438 as of December 31, 2005, primarily due to the reduction in Chohung Bank-originated credit card loans (including revolving loans) and favored customer loans and improved credit quality in unsecured loans to individuals.

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Analysis of the Allowance for Loan Losses

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

	2001	2002	2003	2004	2005
	(In billions of Won, except percentages)				
Balance at the beginning of the period	W 828	W 720	W 996	W 3,631	W 2,311
Amounts charged against income	411	236	1,011	195	(255)
Allowance relating to loans repurchased from the Korea Asset Management Corporation	45	65	32	2	
Gross charge-offs:					
Corporate:					
Commercial and industrial	379	105	255	465	297
Other commercial	345	22	223	26	18
Lease financing	5	10	6		
Consumer:					
Mortgage and home equity	2	2	12	18	19
Other consumer	9	17	135	441	296
Credit cards	39	60	765	872	316
Total gross charge-offs	(779)	(216)	(1,396)	(1,822)	(946)
Recoveries:					
Corporate:					
Commercial and industrial	60	53	82	105	69
Other commercial	58	21	73	121	217
Lease financing	1	2		2	4
Consumer:					
Mortgage and home equity			1	1	3
Other consumer	2	1	23	22	34
Credit cards	7	17	69	56	72
Total recoveries	128	94	248	307	399
Net charge-offs	(651)	(122)	(1,148)	(1,515)	(547)
Acquisition of Chohung Bank		20	2,740		
Acquisition of Jeju Bank		77	2,740		
Acquisition of Good Morning Securities	64		2,740		
Acquisition of Shinhan Securities	23		2,740		
Acquisition of Shinhan Life Insurance					3
Balance at the end of the period	W 720	W 996	W 3,631	W 2,311	W 1,512
Ratio of net charge-offs during the period to average loans outstanding during the period	2.07%	0.30%	1.74%	1.52%	0.53%

Loan Charge-Offs

Our level of gross charge-offs declined from W779 billion in 2001 to W216 billion in 2002 primarily due to a small number of large exposures within our corporate portfolio that we deemed to be uncollectible, based on events occurring, in 2001. The number of corporate loans charged off was similar in both years but the amounts charged off in 2001 were, on average, significantly higher. The five largest charge-offs in the aggregate were W419 billion and W49 billion in 2001 and 2002, respectively. The charge-offs in 2001 included W271 billion in respect of Hynix Semiconductor and W18 billion in respect of Inchon Oil Refinery. The

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exposures charged off in 2001 were individually identified as impaired and therefore included within our allowance as of December 31, 2000 at an amount consistent with the level of gross charge off. Similarly, charge-offs occurring in 2002 were recorded at a consistent amount within our allowance as of December 31, 2001. The decrease in gross charge offs was partly offset by increases in credit card and other consumer charge-offs from W48 billion in 2001 to W77 billion in 2002 reflecting increased delinquencies within these portfolios. Our level of gross charge-offs increased from W1,396 billion in 2003 to W1,822 billion in 2004 primarily due to an increase in charge-offs of marketing scoring system loans, which are loans offered to certain of our customers primarily based on the number of transactions such customers make with us rather than the credit rating of such customers. The charge-offs in 2003 included W128 billion in respect of SK Networks. Our level of gross charge-offs decreased from W1,822 billion in 2004 to W946 billion in 2005 primarily due to a decrease in credit card charge-offs in 2005 compared to 2004, when charge-offs were aggressively made.

Basic Principles

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

Loans To Be Charged-Off

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

loans for which collection is not foreseeable due to insolvency or bankruptcy, dissolution or the shutting down of the business of the debtor;

loans for which collection is not foreseeable due to the death or disappearance of debtors;

loans for which expenses of collection exceed the collectable amount;

loans on which collection is not possible through legal or any other means;

payments in arrears in respect of credit cards, which are overdue for more than six months;

payments outstanding on unsecured consumer loans, which have been overdue for more than six months;

payments in arrears in respect of leases, which have been overdue for more than twelve months; or

the portion of loans classified as estimated loss , net of any recovery from collateral, which is deemed to be uncollectible.

Procedure for Charge-off Approval

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

Treatment of Loans Charged-Off

Once loans are charged-off, they are derecognized from our balance sheet. Shinhan Bank still continues its collection efforts in respect of these loans through third-party collection agencies including the Korea Asset Management Corporation and Shinhan Credit Information. Chohung Bank also continues its collection efforts in respect of these loans internally using credit information produced by third parties or through third-party collection agencies including Solomon Credit Information.

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Treatment of Collateral

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

U.S. GAAP Financial Statement Presentation

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

Investment Portfolio

Investment Policy

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

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

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

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

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Principal Regulations Applicable to Financial Holding Companies Restrictions on Shareholdings in Other Companies .

Book Value and Market Value

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

	As of December 31, 2003		As of December 31, 2004		As of December 31, 2005	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
	(In billions of Won)					
Available-for-sale securities						
Marketable equity securities	W 435	W 435	W 507	W 507	W 1,978	W 1,978
Debt securities:						
Korean treasury and governmental agencies	8,982	8,982	8,835	8,835	8,299	8,299
Financial institutions	5,998	5,998	5,675	5,675	9,255	9,255
Corporations	1,552	1,552	1,292	1,292	1,952	1,952
Foreign government	13	13	57	57	50	50
Mortgage-backed and asset-backed securities	1,119	1,119	1,742	1,742	946	946
Total Available-for-sale	18,099	18,099	18,108	18,108	22,480	22,480
Held-to-maturity securities						
Debt securities:						
Korean treasury and governmental agencies	2,351	2,472	1,662	1,814	1,686	1,706
Financial institutions	553	574	1,219	1,268	1,211	1,208
Corporations	365	376	218	225	66	66
Mortgage-backed and asset-backed securities	336	339				
Total Held-to-maturity	3,605	3,761	3,099	3,307	2,963	2,980
Trading Securities						
Marketable equity securities	279	279	312	312	465	465
Debt securities:						
Korean treasury and governmental agencies	1,152	1,152	1,995	1,995	493	493
Financial institutions	1,013	1,013	1,322	1,322	1,145	1,145
Corporations	369	369	965	965	1,307	1,307
Mortgage-backed and asset-backed securities	40	40	20	20	140	140
Other trading assets(1)	4	4	25	25	23	23

Total Trading	2,857	2,857	4,639	4,639	3,573	3,573
Total securities	W 24,561	W 24,717	W 25,846	W 26,054	W 29,016	W 29,033

Note:

(1) Consists of commodity indexed deposits.

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Maturity Analysis

The following table categorizes our securities by maturity and weighted average yield as of December 31, 2005.

	1 Year or Less		Over 1 Year Through 5 Years		Over 5 Years Through 10 Years		Over 10 Years		Securities Not Due In a Single Maturity(1)		Total	
	Carrying Amount	Weighted-Average Yield(2)	Carrying Amount	Weighted-Average Yield(2)	Carrying Amount	Weighted-Average Yield(2)	Carrying Amount	Weighted-Average Yield(2)	Carrying Amount	Weighted-Average Yield(2)	Carrying Amount	Weighted-Average Yield(2)
	(In billions of Won, except percentages)											
Available-for-sale securities:												
Korean treasury and governmental agencies	W 1,822	4.60%	W 4,391	4.36%	W 326	4.16%	W		W 1,760	6.24%	W 8,299	4.80%
Financial institutions	5,563	4.06	3,329	4.44	227	6.46	60	6.17%	76	4.93	9,255	4.28
Corporations	552	4.93	1,277	5.29	96	3.92	27	5.94			1,952	5.13
Foreign government	18	2.70	23	5.14	4	6.38	5	4.94			50	4.35
Mortgage-backed and asset-backed securities	143	5.04	523	5.11	280	5.21					946	5.13
Total Available for sale	8,098	4.26%	9,543	4.55%	933	5.01%	92	6.04%	1,836	6.19%	20,502	4.61%
Held-to-maturity securities:												
Korean treasury and governmental agencies	338	6.72%	1,318	5.71%	30	4.01%					1,686	5.88%
Financial institutions	373	4.85	821	5.17	17	5.36					1,211	5.08
Corporations	11	6.07	55	5.56							66	5.64
Total Held-to-maturity	722	5.74%	2,194	5.51%	47	4.50%					2,963	5.55%

Trading securities:												
Korean treasury and governmental agencies	72	4.41%	362	4.15%	8	3.90%	1	4.79%	50	5.05%	493	4.27%
Financial institutions	950	4.13	195	4.61							1,145	4.21
Corporations	417	4.35	890	5.42							1,307	4.99
Mortgage-backed and asset-backed securities	140	4.09									140	4.09
Total Trading	1,579	4.16%	1,447	4.59%	8	3.80%	1	4.79%	50	5.05%	3,085	4.33%
Total Securities	W 10,399		W 13,184		W 988		W 93		W 1,886		W 26,550	

Note:

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

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

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Concentrations of Risk

As of December 31, 2005, we held the following securities of individual issuers where the aggregate book value of those securities exceeded 10.0% of our stockholders equity at such date.

	As of December 31, 2005			
	Book Value		Market Value	
	(In billions of Won)			
Name of issuer:				
Korean Government	W	4,682	W	4,684
Korea Deposit Insurance Corporation		3,805		3,815
Bank of Korea		6,100		6,100
Korea Development Bank		1,137		1,137
Total	W	15,724	W	15,736

Our stockholders equity as of December 31, 2005 was W7,811 billion.

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

Credit-Related Commitments and Guarantees

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

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

	As of December 31,		
	2003	2004	2005
	(In billions of Won)		
Commitments to extend credit:			
Corporate	W 32,922	W 39,323	W 46,336
Credit cards(1)	17,207	23,606	16,080
Consumer	3,752	5,961	5,863
Commercial letters of credit(2)	3,075	3,364	2,960
Standby letters of credit, other financial and performance guarantees and liquidity facilities to SPEs	4,686	3,407	4,604
Total	W 61,642	W 75,661	W 75,843

Notes:

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

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

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

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

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

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

Other financial and performance guarantees are irrevocable assurance that we make payments to beneficiaries in the event that our customers fail to fulfill their obligations or to perform under certain contracts. Liquidity facilities to SPEs represent irrevocable commitments to provide contingent liquidity credit lines to SPEs established by our customers in the event that a triggering event such as shortage of cash occurs. See Note 30 in Item 18. Financial Statements Notes to consolidated financial statements of Shinhan Financial Group for details.

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

Derivatives

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

The following shows, as of December 31, 2005, the gross notional or contractual amounts of derivatives and foreign exchange contracts held or issued for (i) trading and (ii) nontrading that qualify for hedge accounting.

	As of December 31, 2005		
	Underlying Notional Amount(1)	**Estimated Fair Value Assets**	**Estimated Fair Value Liabilities**
		(In billions of won)	
Trading:			
Foreign exchange contracts:			
Forward contracts	W 32,420	W 341	W 376
Futures	140		
Options purchased	4,067	19	26
Options written	2,810	12	23
Sub-total	39,437	372	425
Interest rate contracts:			
Swaps(2)	29,468	173	238
Futures	98		
Options purchased	10		
Options written			
Sub-total	29,576	173	238
Cross currency swaps	11,336	310	268

	As of December 31, 2005					
	Underlying Notional Amount(1)		Estimated Fair Value Assets		Estimated Fair Value Liabilities	
			(In billions of won)			
Equity contracts:						
Futures		312				
Option purchased		935		68		
Option written		1,005				72
Sub-total		2,252		68		72
Other derivatives:						
Option purchased		103		11		
Option written		103				11
Sub-total		206		11		11
Credit derivatives		66				
Total	W	82,873	W	934	W	1,014
Hedge accounting:						
Interest rate swaps		1,041		1		13
Sub-total		1,041		1		13
Nontrading that do not qualify for hedge accounting						
Interest rate swaps		5,587		13		100
Cross currency swaps		777		2		11
Total	W	6,364	W	15	W	111

Notes:

(1) Notional amounts in foreign currencies were converted into Won at prevailing exchange rates as of December 31, 2005.

(2) While we engage in derivatives trading activities to hedge the interest rate risk exposure that arise from our own assets and liabilities, as these nontrading derivative contracts do not qualify for hedge accounting under U.S. GAAP, they are accounted for as trading derivatives in the financial statements. As a result, includes interest rate swaps and cross-currency swaps held for nontrading that do not qualify for hedge accounting treatment in the underlying notional amount, estimated fair value of assets and estimated fair value of liabilities of W6,364 billion, W15 billion and W111 billion, respectively.

Funding

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

Our primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail deposits. Customer deposits accounted for 68.3% of our total funding as of December 31, 2003, 66.9% of our total funding as of December 31, 2004 and 65.4% of our total funding as of December 31, 2005. As of December 31, 2003, 2004 and 2005, W4,205 billion, W4,329 billion and W5,002 billion, or 10.8%, 11.2% and 12.6%, respectively, of Chohung Bank s total deposits in Korean Won were deposits made by litigants in connection with legal proceedings in Korean courts. Court deposits carry interest rates, which are generally lower than market rates.

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

Deposits

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

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

	2003		2004		2005	
	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid
	(In billions of Won, except percentages)					
Interest-bearing deposits:						
Interest-bearing demand deposits	W 2,653	1.39%	W 7,880	1.33%	W 6,594	1.90%
Savings deposits	15,922	1.46	21,987	1.24	26,100	0.96
Certificates of deposit	4,954	4.44	6,735	4.08	8,838	3.81
Other time deposits	27,776	4.19	41,863	3.83	39,031	3.69
Mutual installment deposits(2)	2,109	5.36	2,487	4.54	1,997	4.16
Total interest-bearing deposits(3)	W 53,414	3.31%	W 80,952	2.93%	W 82,560	2.71%

Notes:

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

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

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

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

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Certificates of Deposit and Other Time Deposits

The following table presents the balance and remaining maturities of our other time deposits, certificates of deposit and mutual installment deposits which had a fixed maturity in excess of W100 million or more as of December 31, 2005.

	As of December 31, 2005			
	Certificates of Deposit	Other Time Deposits	Mutual Installment Deposits	Total
	(In billions of Won)			
Maturing within three months	3,775	4,971	83	8,829
After three but within six months	2,247	2,526	62	4,835
After six but within 12 months	2,947	11,402	117	14,466
After 12 months	1,261	1,939	135	3,335
Total	10,230	20,838	397	31,465

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

Japanese Yen Deposits and Dispute with the Korean National Tax Service

Beginning in 2002, commercial banks in Korea, including Shinhan Bank and Chohung Bank, offered to their customers deposit products that utilize Korean Won and Japanese Yen swaps to maximize the return for such customers. According to the terms of these deposit products, deposits made by customers in Korean Won are converted into Japanese Yen and repaid in Japanese Yen at maturity. The repayment amount is then converted back into Korean Won. While these deposit products typically carry a low interest rate, ranging from 0.05% to 0.30% per annum, the actual return to the customers was higher as a result of foreign exchange gains. These deposit products are attractive to customers, in particular high net worth customers, since the gains from foreign exchange were deemed not to be interest subject to income tax. However, in 2005, the Korean National Tax Service announced that foreign currency deposits disguised as derivative products would be subject to tax and tax withholding and issued a recommendation that the banks should refile its tax returns to include the unwithheld amounts. Eight of the commercial banks in Korea, who are subject to this adverse tax treatment, have announced their intention to challenge the foregoing decision by the Korean National Tax Service while complying with the Tax Service s information requests.

The commercial banks had marketed these deposit products to their customers on the basis that such deposit products were exempt from income tax or tax withholding. We believe that few, if any, of these customers have reported the gains from such deposit products as interest income subject to taxation in their tax returns. According to the Korean National Tax Service, these deposit customers are also responsible for including the income received from these deposits in their final individual tax returns relating to comprehensive financial taxable income. However, depending on the amount of income received from these products, the individual customers may be subject to (i) a higher tax rate on all of his or her taxable income, (ii) a fine for failing to properly report the interest income in an amount equal to 20% of the unreported amount, and (iii) a fine for failing to pay tax on such interest income in an amount equal to interest applied at a rate of 10.95% per annum to such unpaid tax amount. No assurance can be given that aggrieved customers will not bring claims against these commercial banks, including Shinhan Bank and Chohung Bank, if their tax liabilities are increased as a result of the foregoing events.

Beginning in September 2005, we have been subject to a tax audit by the Korean National Tax Service. In May 2006, based upon its tax audit of us and other relevant banks, the Korean National Tax Service reached a decision to impose additional taxes (including interest thereon) of W36 billion on Shinhan Bank. This decision did not include a judgment on deposits utilizing the Korean Won and Japanese Yen swaps as described above, but such judgment is expected soon. In anticipation of an adverse tax ruling against these deposit products utilizing Korean Won and Japanese Yen swaps, we have determined, on a voluntary basis, to indemnify our customers for their increased tax liability to the extent resulting from their investment in these deposit products, including any additional tax liability that our customers may have against the Korean National Tax Service for gifts tax from the benefit of this indemnity. We currently estimate that we may be subject to maximum additional tax-related liability, including the liability from the indemnity to our customers, of W85 billion as of December 31, 2005. Accordingly, we recorded a total charge to our income of W78 billion in the year ended December 31, 2005, consisting of additional tax expenses of W29 billion and provision for other losses of W49 billion. In addition, we also recorded W7 billion as deferred tax assets on our balance sheet as of December 31, 2005.

See Item 3. Key Information Risk Factors Risks Relating to Our Banking Business Our current dispute with the Korean National Tax Service relating to certain deposit products, if adversely resolved, and together with potential claims from our customers, may materially and adversely affect our financial condition and results of operations.

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Short-term Borrowings

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

2003					2004					2005	
Average Balance tstanding(1)	Highest Balances at Any Month-End	Weighted Average Interest Rate(2)	Year-End Interest Rate	Balance Outstanding	Average Balance Outstanding(1)	Highest Balances at Any Month-End	Weighted Average Interest Rate(2)	Year-End Interest Rate	Balance Outstanding	Average Balance Outstanding(1)	Highe Balan at Any Mont End
(In billions of Won, except for percentages)											
W 1,122	W 2,669	2.41%	1.12- 2.50%	W 1,568	W 1,737	W 2,056	2.32%	2.00- 2.50%	W 1,668	W 1,581	W 1,7
1,803	3,742	3.55%	0.15- 3.65%	1,156	3,512	5,238	3.30%	0.75- 5.00%	994	2,930	5,6
8,475	11,300	2.04%	0.05- 10.15%	8,230	9,685	11,166	2.21%	0.04- 18.00%	9,306	10,464	11,9
W 11,400	W 17,711	2.82%		W 10,954	W 14,934	W 18,460	2.48%		W 11,968	W 14,975	W 19,3

Notes:

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

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

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

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

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

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Risk Management

Overview

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

Our risk management is guided by several principles, including:

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

Organization

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

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

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

Group Risk Management