



New **Value-Creation** through **Integration...**

- SHINHAN BANK
- SHINHAN SECURITIES
- SHINHAN CAPITAL
- SHINHAN ITM
- SHINHAN MACQUARIE FA
- e - SHINHAN

“SFG



www.shinhangroup.com

Korea's premier financial group leading the industry in *financial networking*"



SFG, a leader in banking, securities, trust management, insurance, short-term finance and other financial areas, is taking another giant step.

As Korea's first private-held financial group, SFG delivers a complete range of high-quality financial services via a single portal. This is a new financial world where the aim goes beyond tailoring services to each and every customer's individual needs.

With its one-portal business system, network products, and value-creating infrastructure, SFG is set to become Korea's foremost financial group leading Korean financial industry.



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Financial Highlights

	Korean Won in Billions		U.S. Dollars in millions ¹⁾	
	2001	2000	2001	2000
FOR THE YEAR ³⁾				
Operating Revenues	₩ 5,249	5,054	\$ 3,959	3,811
(July ~ December Only)	2,560	n.a	1,930	n.a
Net Income	499	393	376	296
(July ~ December Only)	221	n.a	166	n.a
AT YEAR END				
Total Assets ⁴⁾	65,569	57,040	49,445	43,014
Total Loans ⁴⁾	35,046	30,247	26,428	22,809
Total Deposits ⁴⁾	42,667	39,392	32,175	29,705
Total Securities ⁴⁾	19,285	18,727	14,542	14,121
Total Shareholders' Equity	3,599	3,360	2,714	2,533
FINANCIAL RATIOS				
Return on Average Shareholders' Equity ⁵⁾	13.67%	10.18%		
Return on Average Assets ⁵⁾	0.79%	0.72%		
Cost Income Ratio				
(Bank only)	36.21%	37.74%		
(Consolidated)	42.23%	39.64%		
Substandard & Below				
(Bank only)	2.42%	3.98%		
(Consolidated)	2.76%	4.28%		
NPL Ratio by FSS ⁶⁾	1.21%	2.00%		
Net Interest Margin	2.79%	2.71%		
(Korean Won)	2.86%	2.98%		
(Foreign Currency)	2.33%	1.34%		
Net Interest Spread in KRW	2.81%	2.56%		
BIS Capital Adequacy Ratio	12.02%	12.30%		
(Tier 1 Capital Ratio)	8.26%	9.24%		
(Tier 2 Capital Ratio)	3.76%	3.06%		
SHARE INFORMATION				
Earnings Per Share(KRW) ⁷⁾	755	n.a	0.6	n.a
Net Asset Value Per Share(KRW)	12,312	11,492	9.3	8.7
Dividends(KRW)	600	n.a	0.5	n.a
Market Value	5,131	n.a	3,869	n.a

Footnotes)

1. Translated into U.S. dollars at the rate of ₩1,326.10 per US\$1.00, the prevailing rate on December 31, 2001
2. 2000 figures are calculated based on pro forma financial statements
3. As the holding company was formed on Sept. 1, 2001, financial statement figures reflect business results from July to December. Annual figures are calculated based on pro forma income statements(Jan.-Jun.) and consolidated income statements(Jul.-Dec.)
4. Calculated based on the sum of all subsidiaries minus intra group transactions
5. Actual 6-month net income ₩221bn has been annualized for both ROA and ROE calculation.
6. NPL ratio as defined by Financial Supervisory Service, and the actual ratio of loans that are not generating any income. Substandard and below loans include interest-paying loans of borrowers with low credit ratings
7. Based on the holding company's 6-month net profit

Letter to Shareholders

*“Thanks to your continued **loyalty and enthusiastic** support for this group of great institutions, there will be a **story of great success** to tell this time next year.”*

The year 2001 was certainly a historic year for Shinhan Financial Group (SFG). We successfully achieved an industry first which scarcely conceivable just a few years ago, gained a world-class business partner and made a commitment that will soon change our shape and worth beyond recognition.

Having announced our intention to form a financial holding company in May 2000, we have since made an all-out effort to establish a firm foundation for our vision and this effort swiftly bore fruit. We signed an MOU with BNP Paribas Group for a strategic alliance and capital participation in June last year, held an inaugural general meeting in August, and launched Shinhan Financial Group on September 1st, Korea's first private sector financial holding company.

On September 10 the holding company was listed on the Korea Stock Exchange, with a market capitalization placing it eighth among listed companies. In December, we concluded an agreement to form joint ventures with our strategic partner, the BNP Paribas Group, which has taken a 4% stake in the new company. Alert to the growth potential of the Korean market, our partner will deliver its advanced financial products and services through these joint venture companies.



Eung-Chan Ra
Chairman & Chief Executive Officer

The operating environment in 2001, however, was a testing one. The Korean economy faced formidable internal and external challenges. The U.S. economy, already in a downturn phase after its longest-ever boom, contracted abruptly in September. The Japanese economy continued to deteriorate, showing few signs of a recovery. While recession in these two major trading partners was having knock-on effects throughout the world economy, the Korean economy was caught in a vicious downturn spiral: falling exports, slowing industrial production, rising unemployment, and faltering consumption.

These challenging conditions combined to take a costly toll on the business performance of a bold, new enterprise. In its first fiscal year, SFG's total assets grew 16%, while pre-provision income rose 15%. However, an allocation of ₩270 billion in provisions for the troubled Hynix Semiconductors caused total loan loss provisions to exceed those envisaged at the beginning of the year by ₩240 billion. As a result, net income came to ₩347 billion, ₩168 billion short of the goal.

Founding a new system and having it take root is no easy task, especially when the economic environment is unstable, and 2001 was a year of economic as well as social turmoil. But what we have achieved attests to a simple truth: Those who do their best will find their reward.

At the outset of the new millennium we launched a bold, new business system, and moving into another year we are preparing to implement it. But the business environment remains unforgiving, if not hostile. The world economy, already jolted by the events of September 11, and the Argentinean financial crisis, will continue unstable, threatening domino trend in financial markets worldwide.

Although the Korean economy is expected to fare a little better, due mainly to the upcoming World Cup and the introduction of a 5-day work system, the business climate will not improve: As corporate restructuring gains momentum, financial companies will increasingly adopt a holding company system, engage in merger and acquisition activity or enter strategic alliances, thus fueling the reform of the financial industry.

These market developments present formidable challenge to our fledging holding company system. But a crisis is an opportunity for those suitably prepared.

This year SFG will focus on preparing the foundation for its evolution into Korea's foremost financial group leading the industry in financial networking. To this end, the following four objectives have been drawn up: establishing a market-leading business structure, gearing up for a one-portal business system,

delivering network product services, and establishing a value-creating infrastructure.

○ **MARKET-LEADING BUSINESS STRUCTURE**

In order for a holding company to benefit from synergy effects, the balanced growth of its subsidiaries is a must. In this regard, SFG will carry out a growth strategy that steers not only Shinhan Bank, the flagship of SFG, but also other subsidiaries towards dominance in their respective fields. In particular, private banking will be fostered, and investment banking will be nurtured through business ties.

○ **ONE-PORTAL BUSINESS SYSTEM**

By forming a holding company, SFG aims to make available the products and services of its subsidiaries to all of their customers through a one portal system. Cross-selling is particularly effective when each subsidiary has an accurate knowledge of the financial needs of each and every customer of other subsidiaries and how to turn such needs into income opportunities. SFG will therefore focus on developing an integrated IT system that allows its subsidiaries to access each other's customer databases. In addition, training the subsidiaries in cross-selling know-how is another priority. By sharing Shinhan Bank's customer relationship management system and other systems, SFG will gain the advantage of the flag ship company's experience and expertise in heightening other subsidiaries' competitiveness.

○ **NETWORKING-FRIENDLY PRODUCTS AND SERVICES**

For a holding company with a one-portal business system, it is crucial to have financial products and services that complement each other. In this regard, SFG will concentrate on having its existing products and services upgraded to meet more diverse customer needs, while coordinating product development among the subsidiaries. If the existing product and service line does not meet some of the customer needs, SFG will actively explore the feasibility of venturing into the new areas in question.

○ **VALUE-CREATING INFRASTRUCTURE**

As the foremost goal of a corporation is to increase shareholder value, SFG will restructure its holding company governance system in such a way that every aspect of the system is shareholder value-focused. For higher efficiency and productivity, the branch network will be reorganized and any subsidiary functions found to overlap will be combined. For enhanced management transparency, SFG will expand and bolster the presence and role of industry experts in the boards of directors. Greater use will also be made of the committee system in the decision making process. In addition, SFG will adopt the GAAP

“Once these action plans are *translated into systems that run smoothly*, we plan to list SFG on the *New York Stock Exchange*”

system of the U.S. to augment the transparency and comparability of our financial statements for an international audience.

Once these action plans are translated into systems that run smoothly, we plan to list SFG on the New York Stock Exchange. What lies beyond in bright and exciting future, however, is an uncharted sea dotted with a number of barriers, some predictable but many unknown. We have been through many treacherous waters before and we emerged successfully. With your continued loyalty and enthusiastic support for this group of great institutions, there will be a story of great success to tell this time next year.

Thank you.

E Chan Ra

Eung-Chan Ra
Chairman & Chief Executive Officer



Profiles of Subsidiaries

Delivering greater-than-ever customer-satisfaction through a full array of financial services



SHINHAN
BANK



SHINHAN
SECURITIES



SHINHAN
CAPITAL



SHINHAN
INVESTMENT
TRUST MANAGEMENT

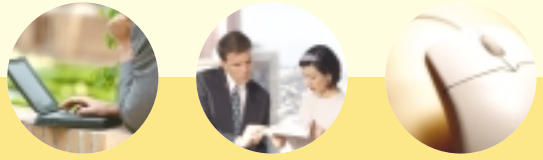


e-SHINHAN



SHINHAN
MACQUARIE





II SHINHAN BANK I

<http://www.shinhan.com>

The flag ship of the Shinhan Financial Group, Shinhan Bank is one of the most trusted and best-performing commercial banks in Korea. Established in 1982, the Bank has been steadfast in its commitment to maximizing customer satisfaction and shareholder value.

The Bank ranked second in stockholders' equity and third in total assets as of the end of 2001.

The Bank's strategy in retail banking is to provide fast and comprehensive service 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, and currently has approximately 40,000 high-net-worth customers with over KRW100MM in deposits. In addition, the retail business also includes a growing credit card business, which has over KRW2.0Tr in credit card billings outstanding and 2.2 million customers. Middle-market banking is another focus area of the Bank, which has long targeted companies with high credit ratings. A long tradition of lending only to financially sound SMEs has helped the Bank maintain strong asset quality despite deteriorating conditions in the Korean corporate sector. The Bank had a 15.4% lending market share in the SME sector as of October 2000, the highest in Korea.

The large corporate banking segment focuses on fee-based services such as structured finance and asset-backed finance for its large institutional customers.

Following Korea's financial crisis of late 1997, the Bank took over a local bank and underwent a bold and extensive restructuring, a move that bolstered customer confidence and industry respect. Thanks to its advanced risk management system and all-out efforts to cut bad assets, the Bank now enjoys the industry's highest asset quality and soundness. The Bank is also an industry leader in adopting new market changes: it introduced Korea's first Internet banking service. The Bank's solid market position, quality service, and growth potential have resulted in numerous coveted endorsements, including "Best Bank in Korea" from Euromoney. For four years in a row, Korea Management Association, a state-run authority in the field of corporate management, named it the best bank in terms of customer satisfaction, based on its annual customer survey results. In recognition of its continued contribution to the development of small- and

Total Asset (trillion won)	Number of Branches	Shareholders' Equity (trillion won)	Number of Employees	Paid-in Capital (trillion won)
62	343	3.2	4,355	1.4

Profiles of Subsidiaries

medium-sized businesses, the Bank received a coveted Presidential award. In 2002, the Bank plans to increase its assets by 18.6% by aggressively expanding household and SME loans. Along with asset expansion, the Bank has targeted a 109% increase in operating income and an 82% rise in net income by adjusting fees, expanding its trust business and developing new income sources. Shinhan Bank's vision is to become a world-class total information service bank creating customer and social value.

SHINHAN SECURITIES

<http://www.shcyber.com/>

Established in 1962, Shinhan Securities is a full-fledged trading firm with, as of the end of 2001, 32 branches and about 2% of the stock brokerage market.

The Company's main business operations range from stock and bond brokerage, and underwriting to sale of beneficiary certificates and other financial products. Since the currency crisis of 1997, the Company has shifted its business focus from stock brokerage to corporate business. In asset management, an area neglected by many Korean trading firms, the Company has been making progress in its pursuit of diversity in income structure and improvement in profitability through thorough-going risk management.

The Company is particularly competitive in bond trading, underwriting and corporate bond brokerage, while ranking in the top echelon in stock- and derivatives-based asset management.

Although the 14th largest trading house in assets, the Company ranks one of the top ten in profits. Its pre-tax earnings are expected to reach ₩50 billion by March 31, 2001. The target for this year is set at ₩61 billion in pre-tax profits. Now a member of Shinhan Financial Holding Company, the Company is expected to bolster its competitiveness. Aiming to make the industry's top five, the Company is undertaking various strategic moves in the retail and corporate financial areas.

The Company's strategical focus is on creating synergy effects within the holding company with regard to

Total Asset (billion won)	Number of Branches	Shareholders' Equity (billion won)	Number of Employees	Paid-in Capital (billion won)
631	33	244	737	119

both retail and corporate areas. Once the customer information of other subsidiaries becomes available, the Company plans to formulate a variety of marketing strategies.

|| SHINHAN CAPITAL |

<http://www.shinhancapital.co.kr/>

Established as a lease company in 1991 with ₩20 billion in capital, Shinhan Capital has grown into a total finance company active in leasing, financing, new technology financing and other related fields.

Following the currency crisis of 1997, a number of financial institutions were struggling under the growing burden of bad assets. A subsequent industry restructuring combined leasing, financing, credit card and new technology financing into the credit finance industry.

As for Shinhan Capital, due to a reduction in corporate facility investment and difficulty in funding, total assets shrank from ₩2,146.3 billion in March, 1998, to ₩855.5 billion in December, 2001. But during the year of 2001, assets decreased only ₩10 billion owing to growing leasing operations. In addition, new lease contracts grew from ₩99.3 billion in fiscal 1999 to ₩184.4 billion in fiscal 2000 to ₩234.2 billion in fiscal 2001, which represented 18.3% of the lease market, the largest in the industry.

The Company has a particularly strong presence in ship, printing machine, automobile, medical equipment and other specialty item leases, with its market share averaging 40%, an unrivaled position vis-a-vis its competitors.

Moreover, by moving into installment financing and new technology financing in 1998, the Company has diversified its income base. Although the Company reported a net loss of ₩26.8 billion in fiscal 2001 as a result of its joining of the Shinhan Financial Holding Company, its financial transparency and soundness have greatly improved.

Total Asset (billion won)	Number of Branches	Shareholders' Equity (billion won)	Number of Employees	Paid-in Capital (billion won)
856	2	77	52	80

SHINHAN INVESTMENT TRUST MANAGEMENT

<http://www.shinvest.co.kr/>

Shinhan Investment Trust Management was established jointly in August, 1996, by the Shinhan Group and the National Agricultural Cooperative Federation (NACF) and became a 100% subsidiary of the Shinhan Holding Company in September 2001. Putting management transparency and customers first, the Company is the 14th largest investment trust firm with assets under management ("AUM") of ₩2.8 trillion as of the end of 2001.

In asset management, the Company practices value investment based on a thorough analysis of the fundamentals and focuses on profitability rather than on asset value. In addition, for more systematic asset management, the Company operates various committees overseeing trust asset management, risk management and securities evaluation. In short, the Company's investment decision making process is rational and objective: the top decision-making body, the trust asset management committee, sets an "investment universe" and oversees all investment portfolios of the Company. As only those companies that are included in the investment universe can be selected for investment, the Company is able to reduce investment risk substantially. In stock investment, the trust asset management committee decides stock composition ratios by fund, and fund managers adjust the ratios within the given limit. The managers are required not only to select stocks that are in the investment universe, but also to set up a model portfolio consisting of 20 to 25 high-quality stocks based on their present value, future profitability, and growth potential, which should form 70% of the stock portion of the trust asset investment portfolio. As for bond and non-fixed asset investment, the committee sets duration by fund and allows fund managers to adjust duration within the limit. As with stocks, they are allowed to select bonds within the bond universe.

The Company has had its share of ups and downs. Due to a credit crisis caused by the Daewoo group, the Company saw its AUM fall from ₩12 trillion to ₩2 trillion in a matter of a few months. But all the employees and staff members at the Company made an all-out effort to upgrade and improve the management systems and work processes. As a result, the Company has been making steady progress in profitability and is now ahead of the competition in asset management. The Company will continue to grow and adopt to market changes. As the asset management arm of the Shinhan Financial Group, the Company plans to develop sophisticated financial products together with its sister companies.

Total Asset* (billion won)	Number of Branches	Shareholders' Equity (billion won)	Number of Employees	Paid-in Capital (billion won)
45	1	43	39	40

* not including AUM



|| e-SHINHAN |

<http://www.emoden.com/>

Established in 2001, e-Shinhan is a joint venture between Shinhan Bank and 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/her accounts at a glance, an electronic accounting service that keeps track of all the user's financial transactions, an investment clinic service, a financial supermarket service that helps users choose the financial products that best meet their needs, and much more. To offer the best financial portal service, the Company concluded business ties with Yodlee of the U.S., the world's leading account aggregation provider. Within a few months from opening, the portal site, emoden, was recording one of the highest number of hit of any financial and investment site in Korea. As of the end of 2001, the membership of the portal site exceeded 900,000.

Business Area	Shareholders' Equity (billion won)	Number of Employees	Established	Membership
On-line/Financial Portal	6.3	25	2001.2	900,000

|| SHINHAN MACQUARIE FINANCIAL ADVISORY |

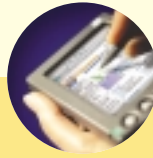
Shinhan MacQuarie Financial Advisory is a joint venture between Shinhan Bank and MacQuarie Bank of Australia. The Australia partner is a world-class investment bank that is ranked Australia's best and the world's runner-up in project financing. In addition, the joint venture aims to become the best consulting company in the fields of privatization, Overseas M&A and funding, cross border lease, and structured finance.

Business Area	Shareholders' Equity (billion won)	Number of Employees	Established
Consulting (Project Finance)	1.5	15	2001.8

Review of Operations

Shinhan Financial Group decided to promote establishment of a financial holding company as the best strategic option after examination of diverse growth strategies.





|| COMMERCIAL BANKING |

Retail Banking

The year 2001 was a very good year for SFG's retail banking business, despite challenging market conditions. A super bank emerged as a powerful rival from a merger involving two giants in retail banking. It followed a strategy of aggressively leveraging its nearly-doubled capital strength and branch network to attract customers. Market interest rates continued to decline, further shrinking net interest margins. Customers become more demanding, irritated by shrinking interest income on their investments and more aware of a wide selection of financial products and services that foreign players offer..

Such challenging conditions, however, failed to dampen SFG's retail banking performance. With its conversion to a holding company, SFG launched an intensive nationwide ad campaign to highlight its new capabilities as a one-stop financial enterprise. Initial response to this campaign was positive, as is demonstrated by increases in retail banking figures.

Total usable deposits went up ₩3,274 billion, or 8.3%, over the previous year to ₩42,666.8 billion. Total retail loans increased ₩5,072.2 billion, or 89%, to ₩10,772.9billion. Retail loans accounted for 44% of total loans. And despite such a large increase of loans, the delinquency ratio dropped, for the third straight year, ending 2001 at 0.80%, the lowest in the industry.

SFG's superior performance in averting defaults can be attributed to its credit scoring system, a first in the industry. By fine-tuning this advanced credit-assessing system, the Bank was able to reduce the gray zone, an area where it had been difficult to assign a rating for disqualification due to insufficient data on credit applicants. Another factor that contributed to the industry's best delinquency ratio was its mortgage-based asset growth policy.

2001 was a remarkable year for SFG's mortgage business. Within four years of the launch, SFG secured the second largest market share and posted the best growth performance in the banking industry. Over the year, mortgage loans soared 226.4% in growth to ₩6,940.2 billion. This figures accounted for 28.4% of total loans and 64% of household loans. Just the year before, mortgage loans accounted for only 11.1% of household loans. The success of the mortgage business can be credited to Shinhan Bank's all-effort to improve on and maintain its network of 5,000 and plus real estate agencies.

In addition, SFG, foreseeing the rapid growth of the mortgage market in Korea, developed and marketed innovative mortgage products. Armed with better rates and customer-based terms, SFG's mortgage products found their way to selected targets via various channels including the Internet and cross-selling. In 2002, the Bank plans to develop more diverse value-added services and form closer relationships with real estate agencies, as the market is expected to continue its healthy growth for many years to come.

Middle Market Banking

The middle market is one of the Bank's core areas and the Bank has a dominant position in this rapidly-growing, competitive market. As the economy continued to languish in 2001, an increasing number of small- and medium-sized enterprises faced financial difficulties. As a result of its conservative SME business strategy, Shinhan Bank's loans to SMEs grew a modest 6.5% (₩644.8bn) over the year to ₩10,618.9 bn, which accounted for 44% of total loans in won.

Shinhan Bank has continued its focus on expanding the customer base of sound small and medium-sized enterprises and achieved laudable results.

A "sound SME" is one whose balance sheets are audited by an independent outsider auditor. The definition is based on the Bank's long-term observation that only profitable businesses have enough confidence in their financial structure to hire an independent auditor.

As of the end of 2001, of 8,000 SMEs audited by a certified agency, 3,029 (38%) companies were the Bank's clients, including 1,700 companies, or 50% of 3,400 SMES considered sound and healthy. In fact, the Bank had the biggest market share when it comes to sound and professionally audited SMEs.

The title of No. 1 in middle market was a result of the Bank's differentiation of its marketing strategy by customer segment and its development of better products and services. This strategy of differentiation worked. By segmenting its business customers based on their credit rating and net worth, the Bank was able to channel more of its finite resources and energies into rewarding its preferred customers. In addition, the Bank's adoption of a relationship manager system played another major contributing role.

Meanwhile, to bolster its corporate banking basis for the future, the Bank aggressively developed new products and services based on electronic banking. They included purchase cards, loans for purchasing goods, e-biz loans, a B2B settlement service, and CMS2000. By offering such IT-related products and



services, the Bank was able to enhance its image as a leader in electronic corporate banking.

Our forecast for the middle market for 2002 is that it is expected to be an increasingly competitive place to do business. Though the Bank expects its leadership position to continue, it will nevertheless redouble its efforts to bolster its RM-based marketing ability and product development skills.

Large Corporate Banking

The year 2001 was a very productive year for SFG's corporate banking. The Group made substantial progress toward its management and business objectives. A cash-flow-based credit exposure system, adopted for more effective management of corporate credit risk, contributed to the overall improvement of the Bank's asset quality.

As of the year-end, total loans made to the nation's top 60 corporations stood at ₩2,937.5billion, which represents a 15.1% decrease from the year before. This figure accounted for 12% of total loans, 5% points less than the previous year.

Meanwhile, the corporate banking division will continue to maintain its risk management focus in 2001. Credit exposure to the four largest conglomerates will continue to be reduced, while the corporate credit evaluation system will be upgraded. Of its top 30 corporate clients, only the top three have outstanding loans exceeding ₩1 trillion each. The Bank plans to reduce these loans to 25% of its net worth, estimated at ₩1.1 trillion. Those clients ranking fifth and below have no more than ₩300.0 billion in loans each. Those individual firms ranking below the 14th have an aggregated amount of less than ₩100.0 billion. Thus the impact of their default in a worst case scenario would not be insurmountable.

II INVESTMENT BANKING I

Shinhan Macquarie Financial Advisory (SMFA) is a Seoul-based joint venture between Shinhan Bank and Macquarie Bank of Australia, a world-class investment bank ranked Australia's best and the world's second in project financing.

Macquarie's corporate finance division established an alliance with Shinhan Bank in 1996, and entered into a formal joint venture in 2001 with the Shinhan Financial Group focusing on activities including:

- Project & Infrastructure Finance
- Capital & Debt Raisings
- Mergers and Acquisitions
- Cross-Border Leasing
- Structured Finance
- Infrastructure & Specialized Fund Management Advisory
- Corporate Advisory

Since its establishment, SMFA has grown to nearly 20 permanent executives, making it one of the largest advisory teams dedicated to the infrastructure sector in Korea.

SMFA is in a unique position to advise domestic and foreign companies given its blend of domestic and global experience. It has developed strong relationships with central and regional government agencies, leading local institutions, and the Private Infrastructure Investment Center of Korea (PICCO).

The specialist team offers its clients the advantages of international and local experience, resources, independence, objectivity, and principal investment capability.

SMFA is currently advising on transactions with a total value in excess of US\$5 billion in the project and corporate finance market,

The innovativeness of SMFA's financial experts has been well recognized through several industry milestones and awards, including:

- Asia Pacific Bond Deal of the Year (2001)
- Asian Structured Finance Deal of the Year (1997)
- Asset Finance Deal of the Year (1997)



II ASSET MANAGEMENT I

2001 was a threshold year for Korea's trust investment industry, which had emerged from a prolonged recession triggered by the financial crisis of late 1997. As interest rates remained low and the economy stabilized, Korean people's financial needs became more diverse and sophisticated. In addition, as a recent stock market rally was seen as an indicator of an improving economy, the role of trust investment within the capital market gained increased respect.

As the asset management arm of the holding company, Shinhan Trust Investment plans to sharpen its skills to play a core role in the holding company's execution of a cross-sale strategy. For this it is exploring the possibility of being an equity partner of an asset management firm overseas. Through this partnership, the Company expects to gain management know-how and product development knowledge and marketing skills.

Since the financial crisis of 1997, the Company has been building its business base anew by writing off bad assets related to large corporations and instituting advanced asset management and risk management systems. Through an integrated asset management system called WIZARD, the Company provides its



Investment Banking

Asset Management

Review of Operations

managers with analysis of variables related to asset management, evaluates their performance and makes sure of their compliance with regulations and guidelines.

One of the principles of asset management at the Company is to manage assets based on the model portfolio defined by the Asset Management Committee. The model portfolio is a decision-making method that has been adopted by the Committee since 2000, and 60% to 70% of total assets under management consist of the items included in the model portfolio. This rate is to be raised to 80% in a year or so. Thus a system is in place to focus on the systematic management of market risk.

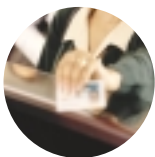
Once its equity partnership with the overseas asset management firm has been finalized, the Company plans to cultivate Shinhan Bank's high-net-worth customer base to cross-sell investment trust products. Also planned is the development of innovative off-shore investment trust products for corporate clients. With this strategy, the Company aims to rank among the top five in terms of market share.

II CREDIT CARD BUSINESS I

The year 2001 was another banner year for the credit card industry as a whole. The industry grew 97% over the year, thanks to the government's aggressive promotion campaigns and a recovering consumer economy. SFG's credit card business also benefited from the fast-expanding use of credit cards, recording a 64% increase in sales. Compared to the industry average, however, this figure represents modest growth. In cash advance service, in particular, SFG's growth rate of 58% is far below the industry average of 85%. This is because the Group took a conservative approach in 2002: This approach was a result of its view that cash advances-based business growth posed too big a possibility of default.

In 2001, the Group drew up a plan to spin off its credit card operations, and a new subsidiary is scheduled to go into credit card business in June this year. The Group believes that a spin-off is essential to survival and growth in a maturing market.

The credit card market, which has enjoyed impressive growth over the past few years, is expected to stabilize for the next three or four years. The current cash advances-driven growth trend will be replaced by a sales-based one, and the market will be dominated by four or five major players. Under such a market



arrangement, it is crucial to secure competitiveness through expansion of scale and advanced management.

An in-house credit card business, in contrast to a fully independent one, is limited in many aspects, particularly in execution of marketing strategy, recruitment of professionals, and risk management. This is why the Group has decided to spin off its credit card business. Through such a spin-off, the Group aims to achieve economies of scale, to establish the industry's best customer relationship management system and risk management system, to maximize the synergies of a holding company system, and to set up a value-oriented organization structure. The Group expects the company to grow into a market leader in the next three or four years.

|| e-BUSINESS |

The Shinhan Group leads the Korean financial industry in e-commerce through Shinhan Bank's Internet banking service and e-Shinhan, a one-stop financial portal service provider.

Internet Banking Service

Since launching the Korea-first Internet banking service in July, 1999, Shinhan Bank has been widely acknowledged as the Internet banking leader, always a step or two ahead of the competition with new services and reliable systems.

The Bank's Internet banking services are more comprehensive than those available at the counter: 24-hour account balance posting, real-time account transfer, overseas remittance, loan requests and much more. As of the end of 2001, internet banking accounted for 14.3% of total banking transactions at the Bank, remarkable growth compared with 1.54% just two years ago. This growth trend is expected to continue for many years to come.

In case of loans, in particular, an average of 20,000 requests are made per month, twice as many as the number made through the branch channel. Fully taking advantage of its reputation as the pioneer of cyber loans, the Bank sets the standards for the Korean Internet loan market.

Review of Operations

In addition, by introducing "Shinhan BizBank", Korea's first corporate-only Internet banking service, the Bank started to offer corporate clients a web-based total cash management service. Also, by leveraging the superior quality of its cyber banking service, the Bank has been expanding its e-biz-related businesses. The Shinhan Online Settlement System, which had 35,000 businesses on its customer list as of the year-end, has been a successful tool in expanding the Bank's position in online corporate settlement.

Numerous industry endorsements attest to the Bank's innovative services and reliable systems operation: "The best bank in Internet banking" - four times in 2001 alone - from the Internet banking evaluation firm, Stockpia; "the bank with the best banking web site", from the Choonang Daily; "the best bank in e-banking", from the Korea Economic Daily, and many more.

In 2002, the Bank plans to introduce an e-CRM system, which enables one-to-one marketing. What's more exciting is that, with the launch of the Shinhan Holding Company, the Bank expects to be able to offer a total financial service that covers securities, insurance, investment trust and other areas of the holding company's subsidiaries.

One-stop Financial Portal Service

www.emoden.com is the portal site of e-shinhan and is fast-emerging as a leading financial portal site in Korea. In nine months since its opening, it attracted 900,000 in membership.

This portal site pursues a cyber financial center where members can find out about their financial status and accordingly select the most suitable products quickly. For this vision, the portal site offers the following services:

Review of Operation

- 1) Web server-based account aggregation;
- 2) Online household bookkeeping, which enables customers to keep track of their deposit / withdrawal transactions as well as assets;
- 3) Online financial clinic, which examines customers' financial status and prescribes an appropriate investment strategy;
- 4) Financial supermarket, where customers can objectively compare and choose from various financial products;
- 5) "Market Watch", which offers the most up-to-date information on the stock market, mutual funds, interest rates, exchange rates and other related matters;
- 6) Non-financial contents, such as shopping, entertainment news and other related matters;
- 7) Financial planning, which enables users to plan for retirement and to calculate monthly payments for mortgage, auto and other financing.

e-Shinhan's vision is clear: to become a digital finance leader shaping the future. Toward this vision, the Company will continue to offer various financial products and consumer information based on its three core services of account aggregation, online household bookkeeping, and financial diagnosis.

II NEW BUSINESSES I

Consumer Finance

The Shinhan Financial Group is scheduled to establish a consumer finance subsidiary in joint venture with its strategic partner, BNP Paribas, this coming June, 2002. For its 50% stake in the joint venture company, the Paris-based bank will be responsible for management and product development, while Shinhan will be staffing its new subsidiary with marketing officers who will coordinate with the branches of Shinhan Bank for smooth cross-selling of the subsidiary's products. The main business of the subsidiary will involve revolving credit loans and sub-prime loans targeting middle- and lower-income customers.

Review of Operations

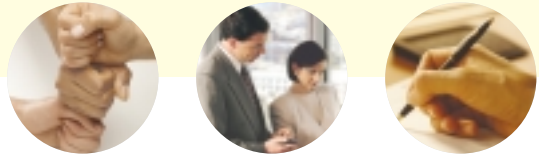
Bancassurance

In preparation for the green light from the government on bancassurance business, the Shinhan Group has been working together with BNP Paribas for sometime on forming a joint venture company. This joint venture subsidiary, scheduled to be launched this coming July, 2002, will carry out insurance-related business through direct mailing or telemarketing until authorization goes through in August 2003. As in the case of the consumer finance subsidiary, BNP Paribas will run the bancassurance subsidiary and develop products for its 50% stake, while the Group takes care of marketing and distribution. The new subsidiary will be offering products related to credit protection, savings and life insurance. Unlike those sold by insurance companies, these products are standardized and simple enough to be sold over the bank counter.

Investment Trust Management

Another area into which the two strategic partners will be venturing is investment trust. Slated for late July this year, this joint venture subsidiary will be identical to the other two mentioned above in the division of ownership and partnership roles. The subsidiary will offer mutual funds and beneficiary certificates to middle- and high-income consumer groups who generally have a strong interest in non-banking, high-yield products.

Bancassurance
Consumer Finance
Investment Trust



II RISK MANAGEMENT I

The Shinhan Financial Group manages various types of risk associated with its business operations, and is mainly concerned with credit risk, market risk and liquidity risk. These types of risk are identified, measured and reported in accordance with the basic guidelines on risk management set out by the Group.

Basis policy and strategy related to the Group's risk management are decided by the Risk Management Committee. The Group's risk management executives assist the Commission and discuss the risk-related policy and strategy of each subsidiary as well as the Group through the Group Risk Committee, which consists of the risk management executives of each subsidiary. Each subsidiary executes the Group's risk policy and strategy through its risk-related committee and sets detail risk policy and strategy.

To manage risk within appropriate limits, the Shinhan Financial Group adopts a hierarchical risk limit system: The Risk Management Commission sets limits by subsidiary, and each subsidiary in turn sets limits by department, desk, risk and product.

Credit Risk Management

Credit risk, the risk of loss from default by an obligor or counter party, is the biggest type of risk facing the Group and the bulk of it is associated with Shinhan Bank

The credit risk-related basic policy is formulated at the Credit Committee, which consists of the Chief Credit Officer, credit-related division and credit management chief. In addition to all credit-related decisions, the committee screens all large-sum credit applications.

Credit risk management takes place at both portfolio level and individual credit level. The basis principle of portfolio management is to monitor loan concentration. To prevent loan concentration in any particular industry, conglomerate or corporation, the Bank sets limits by industry, conglomerate, and corporation. Country limits are also set and monitored.

Credit risk management of borrowers starts with assigning them credit ratings. Credit ratings are formulated through a credit evaluation model which combines each corporation's financial and non-financial elements as well as the growth prospects of the industry to which it belongs. The Bank-assigned credit ratings are the basis of credit roll-over, credit limit control, loan provisioning and other credit risk-related decisions. As for small-sized businesses and SOHOs, the Bank has recently developed an

Review of Operations

evaluation model and assigning them credit ratings using the model. Credit ratings for individual borrowers are calculated based on an individual credit scoring system.

All corporate credit applications are evaluated objectively and fairly through a group decision making process. All regular credit applications are evaluated by the RM of the relevant branch and the credit evaluator of each business unit between whom a consensus is necessary for credit approval. Credit applications involving a certain level of loans or more are screened by the Evaluation Committee. In particular, credit applications exceeding the Senior Credit Committee's discretion are sent to the Credit Committee, the highest credit-related decision making body. Personal credit applications are processed through the Credit Scoring System based on statistical analysis as well as the Bank's basic credit policy.

The Bank operates an early warning system to constantly monitor all loan accounts. All corporate borrowers are automatically screened out every week for any signs of cash-flow trouble. Once a certain borrower is spotted on the screen, the respective relationship manager (RM) is required to conduct a loan review, and the credit management department, which is independent of the business division, reviews loan review results and readjusts the credit ratings of the borrower, if necessary. Through this procedure, the Bank breaks down possible loan defaulters into the "troubled", "observable", and "normal" categories. Once put into the first two categories, corporate borrowers are monitored for further signs of trouble according to special management guidelines.

With respect to supporting the functions of credit evaluation and management, the Industry Information Team gathers the latest information on key industries and their trends, while the Financial Analysis Support Team works closely with private credit ratings agencies.

Credit risk is calculated and managed in terms of expected loss and unexpected loss. Expected loss is calculated based on past default rates and recovery rates by credit rating. Expected loss thus calculated in turn becomes the basis of loan provisioning. Unexpected loss, which involves capital outlay in preparation for an event when credit-related loss exceeds the amount provisioned for loan loss, is assumed to be the maximum loss possible and so managed accordingly.

Market Risk Management

Market risk is the possibility of loss due to the fluctuation of interest rates, prices and exchange rates. The Group breaks down market risk into three categories: price fluctuation risk on tradable assets, interest rate

mismatch risk on liabilities, and foreign exchange risk on foreign exchange positions.

The basic principal of market risk management is to maintain and manage the maximum loss possible due to market risk within a certain level. For this, the Bank sets certain limits on VaR (Value-at-Risk), investment, position and trading and loss and stop-loss limits for each portfolio, desk and dealer. These limits are monitored by the risk management team, which is independent of the sales department and the risk manager of the sales department.

In addition, all business divisions' products or trading are screened by the Risk Management Team before they are introduced or executed.

A Value-at-Risk (VaR) methodology is used in measuring market risk, which captures the potential loss from adverse market movements. The Bank calculates VaR according to a historical simulation methodology with a 99% confidence level. Also used is a stress test, which is ideal for managing loss in the event of an extreme situation similar to the financial crisis of late 1997. Other methods often used are Duration, Basis Point Value, Delta, Vega as well as GAP for managing interest mismatch risks. Shinhan Securities measures market risk by using risk-weighted values computed by the respective supervisory authorities. As for stock index futures and options, the Company uses a VaR calculated using delta gamma.

Risk Management



Review of Operations

For efficient market risk management, stock and other securities trading activities that face price fluctuation risks are strictly confined to authorized departments. All interest rate mismatch risk and foreign exchange risk that occurs at the branch level is monitored and managed by the Treasury Division. Interest rate mismatch risk at the branch level and other operation departments, in particular, is referred to the Treasury Division according to an original branch system based on market interest rate ratios against maturity.

Since 2001 the Bank has been pursuing a special project to enhance its risk management system further. Once completed in 2002, this project will bolster risk calculation and management functions. The Bank plans to share the fruit of the project with its subsidiaries.

Liquidity Risk Management



Liquidity risk arises when payment obligations are not met, funds are raised at a cost higher than the market price, or assets are invested at an interest rate lower than the market rate.

In managing liquidity, each subsidiary closely follows liquidity-related guideline ratios set by the authorities and has contingency plans against any unexpected liquidity shortage due to abrupt changes in capital markets or monetary policy.



In addition, through a computerized system that monitors the maturity of both funds raised and funds in operation, each subsidiary keeps close tabs on the maturity of all types of funds and is ready to respond to any liquidity-related situation. Shinhan Bank sets liquidity gap limits and ensures their observance through the ALM Committee, which conducts monthly monitoring.



To keep liquidity to a minimum, the Bank spreads out the maturity range of products and constantly endeavors to maintain a stable deposit base.



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Management Discussion & Analysis

Overview

Fiscal 2001 was a significant turning point for Shinhan Financial Group.

To become a total financial group that is better able to cope with declining interest rates and fast-diversifying customer needs, Shinhan Group launched models of cross-selling. To gain advanced financial techniques, it entered into a strategic business alliance with BNP Paribas.

On September 1, 2001, the Group became Korea's first private financial holding company. As of the end of 2001, the Holding Company's total assets were ₩66 trillion and its market capitalization was ₩5.1 trillion, ranking eighth in Korea.

The Company consists of six subsidiaries: Shinhan Bank, Shinhan Securities, Shinhan Capital, Shinhan Investment Trust Management, e-shinhan and Shinhan Macquarie Financial Advisory. This list will be expanded to include subsidiaries in consumer finance, bancassurance, private banking and credit cards in the near future.

As it was established in the second half of the year, the Holding Company's consolidated balance sheet contains only the six-months' business performance, from July 1 to December 31. For this period the Company's net profit came to ₩220.8 billion, while ROA and ROE were 0.79% and 13.83%, respectively.

Profit/Loss Summary

• Shinhan Financial Group's profit / Loss Summary

1. Overview

Since the Shinhan Group's income¹⁾ accrued until the establishment of the holding company was reflected in the opening financial statements, the Group's year-end income statements contain income/loss for the six-month period ending at Dec. 31.

The six-month consolidated statements show that the Group's net profit was ₩220.8 billion. The table below lists net income and other figures by subsidiary:

	Net Income	Negative Goodwill ²⁾	Adjustment of LLR ³⁾	Operating Expenses	Total
SHB	86.9				86.9
SHS	13.8	127.9	(0.7)		141.0
SHC	(30.2)		30.1		(0.1)
SHITM	1.3				1.3
e-Shinhan	(0.2)	(3.4)			(3.6)
SMFA	0.3				0.3
SFG				(5.0)	(5.0)
Total	71.9	124.5	29.4	(5.0)	220.8

Footnotes)

1. Shinhan Bank (Jan. ~ June); other subsidiaries (April ~ June)

2. Negative Goodwill

- The difference between purchased value and net asset value
- SHS : Net asset value-purchased value=230.4-102.5 =127.9 billion won
- e-Shinhan : Net asset value-purchased value=5.0 - 8.4 =-3.4 billion won

3. Adjustment of Loan Loss Reserve

- SHS : As a result of evaluating Shinhan Securities' credits using the same credit classification standards applied to Shinhan Bank, an increase of 0.7 billion won in provisions against bad loans is required.
- SHC : When Shinhan Capital was absorbed by SFG on September 1, 2001, its credits were evaluated using the same criteria as those applied to Shinhan Bank. After setting aside FLC and reserves, the remaining assets were reflected in investment securities. But, since Shinhan Capital set aside additional provisions at the year-end, in line with the Bank's guideline, an equivalent amount of provisions which had already been reflected in the holding company's NAV was returned.

Management Discussion & Analysis

A 12-month net profit based on pro forma income statement, which includes the subsidiaries' first-half income would be as follows:

	Net Income	Negative Goodwill	Adjustment of LLR	Operating Expenses	Total
	(billion won)				
SHB	347.1				347.1
SHS	25.0	127.9	(0.7)		152.2
SHC	(26.1)		30.1		4.0
SHITM	3.4				3.4
e-Shinhan	(0.2)	(3.4)			(3.6)
SMFA	0.3				0.3
SFG				(5.0)	(5.0)
Total	349.5	124.5	29.4	(5.0)	498.4

Of the holding company's net profit of ₩498.4 billion, the aggregated net profit of the subsidiaries amounted to ₩349.5 billion, which represents a 3% increase from the previous year's figure. The marginal growth in net income despite a 22% increase in pre-provision income is due to a 55% (₩220.5 billion) increase in loan losses.

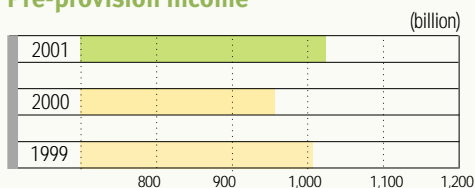
2. Pre-provision income and net income by subsidiary

Pre-provision income and net income of subsidiaries over the past three years are as follows:

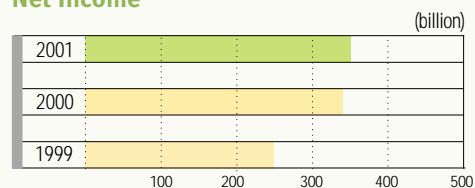
	FY1999	FY2000	FY2001	YoY
	(billion won)			
Pre-provision income				
SHB	853.3	948.9	1,093.0	15%
SHS	130.3	-7.1	42.9	n.a
SHC	24.5	33.6	28.4	-16%
SHITM	18.4	-17.6	4.1	n.a
Total	1,026.4	957.9	1,168.4	22%
Loan Loss Allowance				
SHB	651.0	359.3	551.6	54%
SHS	0.0	0.0	1.8	na
SHC	26.8	30.8	65.2	112%
SHITM	0.0	0.0	0.1	na
Total	677.8	390.1	618.7	59%
Net Income				
SHB	113.1	372.8	347.1	-7%
SHS	119.9	-17.6	25.0	na
SHC	-6.5	1.9	-26.1	na
SHITM	15.1	-17.8	3.4	na
Total	241.6	339.2	349.4	3%

Footnote) The fiscal year for affiliates other than Shinhan Bank is adjusted for this reporting period as follows:
(From April 1 to March 31 → From January 1 to December 31)

Pre-provision income



Net Income



Management Discussion & Analysis

3. Interest income and non-interest income

(billion won)

	FY1999	FY2000	FY2001	Increase	YoY
Interest Income					
SHB	818.9	889.9	1,033.3	143.5	16%
Others	6.6	20.7	35.5	14.7	71%
Total	825.5	910.6	1,068.8	158.2	17%
Non-interest Income					
SHB					
Fees & Commissions	273.0	353.0	387.7	34.7	10%
(Credit Card Income)	(188.9)	(248.4)	(301.1)	(52.7)	(21%)
Fees on Trust Accounts	-101.2	-3.1	129.8	132.9	na
Securities-related Income	116.3	96.3	7.7	-88.6	-92%
Gains on FX transactions	90.9	91.9	91.7	-0.2	0%
Other Income	40.0	-24.7	-39.8	-15.0	na
Total	419.0	513.4	577.3	63.9	12%
Other Subsidiaries					
Fees & Commissions	279.0	194.8	130.7	-64.1	-33%
Securities-related Income	89.4	-19.0	30.3	49.4	na
Gains on FX transactions	-57.0	-23.9	-9.5	14.4	na
Other Income	-71.1	-41.1	-6.1	35.1	na
Total	240.3	110.7	145.5	34.8	31%
Total					
Fees & Commissions	552.1	547.7	518.4	-29.3	-5%
(Credit Card Income)	(188.9)	(248.4)	(301.1)	(52.7)	(21%)
Fees on Trust Accounts	-101.2	-3.1	129.8	132.9	na
Securities-related Income	205.7	77.3	38.1	-39.2	-51%
Gains on FX transactions	33.8	68.1	82.3	14.2	21%
Other Income	-31.0	-65.9	-45.8	20.1	na
Total	659.3	624.2	722.8	98.6	16%

Footnote) The fiscal year for affiliates other than Shinhan Bank is adjusted for this reporting period as follows:
(From April 1 to March 31 → From January 1 to December 31)

For the bank, as of the end of 2001, the proportion of interest income accounted for 64% of total income, up 1% points compared to the previous year's figure. Non-interest income posted an increase of 12%, which was lower than interest income's growth rate of 16%, resulting in a higher portion in total income.

To review the Group's non-interest income performance, total non-interest income grew 16% over the year, thanks to contributions from the subsidiaries other than Shinhan Bank's. The Bank's non-interest income rose only 12%, as a ₩88.6bn decrease in securities-related income largely offset a ₩132.9bn increase in trust account income and a ₩52.7bn increase in credit card income.

A breakdown of total non-interest income by type is as follows:

(billion won)

	FY1999	FY2000	FY2001	YoY
Fees & Commissions	84%	88%	72%	-16%p
(Credit Card Income)	(29%)	(40%)	(42%)	(2%p)
Fees on Trust Accounts	-15%	0%	18%	18%p
Securities-related Income	31%	12%	5%	-7%p
Gains on FX transactions	5%	11%	11%	0%p
Other Income	-5%	-11%	-6%	4%p
Total	100%	100%	100%	

Management Discussion & Analysis

To review the composition of the Group's non-interest income, fees and commissions accounted for 72% of total non-interest income, followed by fees on trust accounts at 18%. Fees & commissions decreased 16 percentage points in proportion to total non-interest income over the year. Non-interest income decreased 28%(₩25.2bn) at Shinhan Securities and 41%(₩39.9bn) at Shinhan Capital.

• Shinhan Bank's Profit/Loss Summary

1. Overview

	FY1999	FY2000	FY2001	YoY
	(billion won)			
Operating Revenues	3,558.9	4,344.5	4,679.7	8%
Interest Income	2,925.4	3,377.7	3,438.9	2%
Commission Income	219.7	381.5	463.8	22%
Other Operating Income	413.8	585.3	776.9	33%
Operating Expenses	3,445.3	3,894.6	4,239.1	9%
Interest Expenses	2,047.3	2,487.9	2,405.6	-3%
Commission Expenses	30.0	28.5	76.1	167%
Other Operating Expenses	949.9	887.8	1,194.1	35%
Selling and Administrative Expenses	418.2	490.5	563.3	15%
Operating Income	113.6	449.9	440.5	-2%
Non-Operating Income	135.1	146.5	206.1	41%
Non-Operating Expenses	79.8	49.5	150.9	205%
Ordinary Income	169.0	547.0	495.7	-9%
Extraordinary Gains	-	6.5	-	-100%
Income Before Income Tax Expense	169.0	553.5	495.7	-10%
Income Tax expenses	55.9	180.8	148.6	-18%
Net Income for the Year	113.1	372.8	347.1	-7%

Shinhan Bank's net profit was ₩347.1 billion, which represents a 7% decrease from the previous year. Compared with the year before, operating revenues were up 8% (₩335.2 billion), while operating expenses rose 9%, thus bringing about a 2% decrease in operating income. In addition, while non-operating income increased 41% (₩59.6 billion), non-operating expenses soared 205%, and as a result, ordinary income was 9% (₩51.3 billion) less than the previous year.

The increase in operating expenses stemmed mostly from other operating expenses, particularly those from bad debt expenses (up 30%, or ₩152.1 billion) and from losses on derivatives trading (up 113%, or ₩204.6 billion). As loss on derivatives trading was almost offset by gain on derivatives trading (up 95%, or ₩186.4 billion), however, the decrease in operating income was mainly brought about by a sizable increase in provisions for bad assets.

Management Discussion & Analysis

Details of other operating expenses are as follows:

(billion won)

	FY1999	FY2000	FY2001	Chg in Amount	YoY
Loss on Disposition of Trading Sec.	62.0	72.6	95.1	22.5	31%
Loss on Valuation of Trading Sec.	12.2	1.2	5.4	4.2	356%
Loss on Foreign Currency Trading	0.4	89.2	88.0	-1.3	-1%
Contribution to Fund	28.6	35.8	40.5	4.7	13%
Bad Debt Expense	579.9	398.6	550.7	152.1	38%
Other Provisions	10.1	-	2.3	2.3	n.a
Subsidy for Trust Accounts	171.8	90.1	-	-90.1	-100%
Loss on Derivatives Trading	73.0	181.5	386.1	204.6	113%
Provision for A & G Losses	-	-	0.9	0.9	n.a
Other	11.9	18.7	25.1	6.4	34%
Total	949.9	887.8	1,194.1	306.4	35%

The increase in non-operating expense is mostly securities-related. The loss on sales of loans (₩26.9billion) was caused by an ABS issue (₩161.5 billion) in the second quarter. But thanks to a sizable gain on sales of loans (₩15.3billion), net loss came to ₩12.2 billion.

Details of non-operating expense items are as follows:

(billion won)

	FY1999	FY2000	FY2001	Increase	YoY
Loss on Disposal of Tangible Assets	0.1	0.1	0.1	0.0	39%
Loss on Disposal of Investment Sec.	5.3	1.2	51.5	50.3	4187%
Impaired Loss on Investment Securities	49.6	27.4	58.8	31.4	114%
Loss on Sale of Loans	12.5	0.7	27.5	26.9	3993%
Loss on Valuation of Stock Market Stabilization Fund	-	5.2	-	-5.2	-100%
Other	12.3	14.9	12.9	-2.0	-13%
Total	79.8	49.5	150.9	101.4	205%

2. Interest income & Net interest margin

(billion won)

	FY1999	FY2000	FY2001	Increase	YoY
Interest Income					
Interest on Due from Banks	97.3	112.9	64.1	-48.8	-43%
Interest on Trading Securities	39.4	57.6	55.9	-1.7	-3%
Interest on Investment Securities	982.4	1,108.6	985.7	-122.9	-11%
Interest on Loans	1,613.8	2,046.1	2,291.3	245.1	12%
Other	192.5	52.6	42.0	-10.6	-20%
Total	2,925.4	3,377.7	3,438.9	61.2	2%
Interest Expenses					
Interest on Deposits	1,216.7	1,513.5	1,558.3	44.7	3%
Interest on Borrowings	613.4	779.6	594.1	-185.5	-24%
Interest on Debentures	160.7	158.1	207.9	49.8	31%
Other	56.6	36.6	45.3	8.6	24%
Total	2,047.3	2,487.9	2,405.6	-82.3	-3%
Net Interest Income	878.1	889.9	1,033.3	143.5	16%

Interest income marked ₩1,033.3 billion, up 16% (₩143.5 billion) from the previous year, mainly due to asset growth and improved net interest spread. While interest on loans increased 12% over the year, interest on securities decreased by 11% (₩124.6 billion) as the average balance of investment in securities decreased by 7% and falling interest rates contributed to a decline in yield by 5 basis points.

Interest on loans rose just 12% while loan assets grew 24%. An environment characterized by lower interest rates and more intense market competition led to a reduction of 8 basis points in the average lending rate.

At the end of 2001, NIM stood at 2.79%, up 8 basis points from 2000, thanks mainly to a big increase in foreign currency margins. Over the year, local currency NIM decreased 12bp to 2.86% due mainly to a 61bp drop in the yield of securities, although net interest spread rose 25bp. Foreign currency NIM, however, soared 104bp to 2.33% on the strength of a large drop in foreign currency funding cost. This drop in turn can be attributed to steady improvement of the Bank's credit rating since the financial crisis of late 1997. S&P and Moody's upgraded the Bank's credit rating from B+ and Ba1 at the end of 1997 to BBB- and Baa3 at the end of 2001, respectively.

Reviewing an average lending rates by sector, corporate lending rates averaged 7.69%, down 68bp from 2000 and household lending rates averaged 8.78%, down 151bp. As mortgage loans soared 226% in 2001, the average household lending rate fell more than that of the corporate sector.

Management Discussion & Analysis

The following is a table showing average funding cost and yield rates by sector:

	(billion won)					
	Year 1999		Year 2000		Year 2001	
	Volume	Yield	Volume	Yield	Volume	Yield
Interest Earning Assets	32,440.9	9.32	40,232.5	8.92	45,364.6	8.12
IEA in KRW	24,938.4	10.19	33,642.3	9.20	39,037.9	8.44
Due from Banks	718.1	7.37	960.8	6.96	563.0	6.20
Securities	9,430.3	9.74	12,724.2	8.91	11,820.8	8.30
Loans	14,789.9	10.15	19,957.2	9.33	26,342.6	8.55
Loans in KRW	12,155.5	9.50	16,332.4	8.66	22,447.3	7.95
Corporates	8,630.6	9.40	10,871.9	8.37	13,297.1	7.69
Households	2,528.7	11.91	4,347.7	10.29	7,913.9	8.78
Credit Card Accounts	1,007.8	18.74	1,350.0	18.40	1,807.5	16.71
Others	2,142.6	10.62	2,732.4	8.53	2,382.9	8.10
Loan Loss Reserves (△)	515.9		457.5		295.1	
IEA in Foreign Currency	7,502.6	6.42	6,590.2	7.47	6,326.7	6.12
Due from Banks	931.5	4.77	777.3	5.93	682.6	4.28
Securities	795.8	5.62	553.6	5.94	567.9	7.82
Loans	5,775.3	6.80	5,259.3	7.85	5,076.3	6.17
Loans in FC	4,325.5	5.75	3,721.7	6.44	3,318.1	5.00
Bills Bought in FC	1,514.9	9.50	1,847.1	9.39	2,022.5	7.30
Loan Loss Reserves (△)	65.1	0.00	309.5	0.00	264.4	0.00
Interest Bearing Liabilities	29,317.3	6.99	36,927.4	6.77	43,030.8	5.62
IBL in KRW	22,029.4	7.48	30,456.0	6.88	36,960.4	5.90
Deposits	15,556.5	7.39	21,514.0	6.77	26,574.0	5.74
Borrowings	5,565.1	6.29	7,848.7	6.32	7,985.7	5.34
Finance Debentures	806.5	11.78	942.2	11.53	2,149.7	8.55
Others	101.3	52.94	151.1	22.43	251.1	17.07
IBL in Foreign Currency	7,287.9	5.51	6,471.4	6.23	6,070.3	3.95
Deposits	1,930.0	3.74	1,612.6	4.31	1,869.9	2.58
Borrowings	3,984.7	6.44	3,899.3	7.02	3,601.7	4.61
Finance Debentures	1,198.1	5.48	739.0	6.70	473.5	5.13
Others	175.1	4.33	220.6	4.81	125	1.19
Net Interest Spread in KRW		2.76		2.56		2.81
Net Interest Margin		3.00		2.71		2.79
(Won)		3.59		2.98		2.86
(Foreign Currency)		1.07		1.34		2.33

Net interest spread in KRW rose 25bp over the year to 2.81% because the average interest rate on deposits fell more than the average interest rate on loans.

Net Interest Margin excluding that of the credit card accounts stood at 2.21%, increasing by 5bp from the previous year's 2.16%.

3. Non-interest income (net)

	(billion won)				
	FY1999	FY2000	FY2001	Increase	YoY
Fees & Commissions	273.0	353.0	387.7	34.7	10%
(Credit Card Income)	(188.9)	(248.4)	(301.1)	(52.7)	(21%)
Fees on Trust Accounts	-101.2	-3.1	129.8	132.9	n.a
Securities-related Income	116.3	96.3	7.7	-88.6	-92%
Gains on FX transactions	90.9	91.9	91.7	-0.2	0%
Other Income	40.0	-24.7	-39.8	-15.0	61%
Total	419.0	513.4	577.3	63.9	12%

Credit card income increased 21%(₩52.7bn) over the year, but fees & commission income rose only 10%(₩34.7bn) due mainly to the waiver of mortgage settlement fees in relation to housing loans and commissions paid to real estate agencies. Excluding these factors, fee income would be ₩428.6bn, up 21%.

The credit card-related income of ₩301.1bn for 2001 does not reflect funding costs, and applying the Bank's average funding cost, credit card income is about ₩194.4bn.

Although credit card income has been growing at a steady rate, when compared with other banks, the growth rate has been somewhat restrained. This is based on an internal assessment that rapid growth of the credit card business could be potentially problematic for the Bank should the economy move into a downturn.

The trust business moved into profit in 2001 mainly for two reasons: first, most of the principal & interest guaranteed products, the main cause of sizable provision for special reserves until 2000, matured by the end of 2000; and second, the introduction of new trust products led to a healthy increase in trust deposits. Principal & interest guaranteed products decreased from ₩1,190.4bn at the end of 1999 to ₩103.4 bn a year later and to ₩3.9 bn at the end of 2001, and they are expected to disappear completely by the end of this year.

Securities-related income fell 92%(₩88.6bn) over the year, resulting in a marginal increase in non-interest income. The fall can be attributed to three factors: a ₩25 billion loss-cut made in the first quarter due to a fall in interest rates; a ₩18 billion write-off of investment securities as a result of the holding company conversion; and a ₩23 billion write-off of debt-to-equity-swapped investment securities.

The Bank was engaged in cross-trading to extend the duration of the portfolio in anticipation of a further fall in interest rate. Reflecting falling interest rates, the yield on 3-year corporate bonds, which began the year at 6.7%, dropped to 5.0% by the middle of February. As interest rates soared more than 1% within a week in February, the Bank triggered a loss-cut on ₩560 billion worth of securities, thus suffering a ₩25bn loss.

Meanwhile the Bank treated the difference between the evaluation value and the conversion price of Shinhan Securities shares in respect of its conversion into a holding company as impairment losses for an amount of ₩18 billion

4. Trust account income/loss

	(billion won)				
	FY1999	FY2000	FY2001	Increase	YoY
Fees and Commissions from T/A	57.9	87.1	129.9	42.8	49%
Subsidy for T/A	171.8	90.1	-	-90.1	-100%
Net Income from T/A	-113.9	-3.1	129.9	132.9	n.a

Management Discussion & Analysis

The Bank's trust business generated net income of ₩129.9bn, a sharp turn around from the previous year's net loss performance. A sizable decrease in the subsidy for trust accounts was the main contributing factor.

Fees & commissions from trust accounts rose 49% over the year, thanks mainly to the introduction of new trust products.

The growth of the trust account is as follows:

	(billion won)				
	FY1999	FY2000	FY2001	Increase	YoY
Deposits	7,865.1	5,589.2	6,524.0	934.8	17%
(New Products)	-	(504.6)	(1,697.8)	(1,193.2)	(236%)

Subsidy for trust accounts decreased, as principal & interest guaranteed products matured. Most of the products of this type, which was the main reason for the net loss on the trust business in 1999 and 2000, reached maturity by the end of 2000. Looking at the yearly volume trend, its balance stood at ₩1,190.4bn in 1999, ₩103.4bn, and ₩3.6bn in 2001. Within this year, its balance will shrink to nil.

5. Provisions

	(billion won)				
	FY1999	FY2000	FY2001	Increase	YoY
Bank Accounts					
LLR at the start of the period	574.4	956.3	605.8	-350.5	-37%
Provisions during period	651.0	398.5	551.6	153.1	38%
Write-offs	222.4	842.1	701.1	-141.0	-17%
Other adjustments	-46.7	93.1	124.1	31.0	33%
LLR at the end of period	956.3	605.8	580.4	-25.4	-4%
Trust Accounts					
LLR at the start of the period	134.9	260.7	78.8	-181.9	-70%
Provisions during period	218.8	74.7	0.3	-74.4	-100%
Write-offs	106.4	287.4	28.7	-258.7	-90%
Other adjustments	13.4	30.8	-7.6	-38.4	-125%
LLR at the end of period	260.7	78.8	42.8	-36.0	-46%
Total					
LLR at the start of the period	709.3	1,217.0	684.6	-532.4	-44%
Provisions during period	869.8	473.2	551.9	78.7	17%
Write-offs	328.8	1,129.5	729.8	-399.7	-35%
Other adjustments	-33.3	123.9	116.5	-7.4	-6%
LLR at the end of period	1,217.0	684.6	623.2	-61.4	-9%

As for provisions made during 2001, the Bank allocated ₩551.6bn for bank accounts and ₩0.3bn for trust accounts. Compared with the previous year, provisions for bank accounts increased 38% (₩153.1bn), due mainly to Hynix, the troubled semiconductor maker.

Of the total Hynix loans of ₩395.9bn, ₩270.6bn was written off and the Bank provided an additional ₩272.2bn in 2001 alone.

The total provisions outstanding at the year-end were ₩623.2bn (₩580.4bn for the bank account and ₩42.8bn for the trust account), 9% less than the year before, mainly due to write-offs of loans.

The Bank wrote off ₩1,129.5bn in 2000 and ₩729.8bn in 2001, thereby lowering the NPL ratio from 6.94% in 1999 to 2.42% at the end of 2001, while raising the NPL coverage ratio from 60% to 72%.

Management Discussion & Analysis

6. General & administrative expenses

	(billion won)				
	FY1999	FY2000	FY2001	Increase	YoY
Salaries	140.4	159.1	184.7	25.6	16%
Retirement Allowance	33.9	36.1	45.7	9.6	27%
Other Employee Benefits	75.2	108.6	106.1	-2.5	-2%
Rent	17.1	16.9	20.5	3.6	21%
Entertainment	7.0	6.3	6.4	0.0	0%
Depreciation	40.7	53.0	63.8	10.9	21%
Amortization of Intangible Assets	5.2	0.1	0.1	-0.0	-39%
Taxes and Dues	23.5	25.4	25.4	0.0	0%
Advertising	7.6	11.7	25.4	13.7	117%
Other Expenses	67.6	73.4	85.2	11.8	16%
Total G&A Expenses	418.2	490.5	563.3	72.8	15%

General & administrative expenses increased 15%(₩72.8bn) over the year. Increases in salaries (16%, ₩25.6bn) and advertising expenses (117%, ₩1.7bn) were two main factors. Salaries rose as staff and employees increased. Advertising expenses more than doubled, as the Bank carried out an intensive ad campaign to inform the public of Shinhan's conversion to a holding company.

• Shinhan Securities' Profit/Loss Summary

	(billion won)				
	FY1999 ('99.4-'00.3)	FY2000 ('00.4-'01.3)	FY2001 ('01.4-'01.12)	Increase	YoY ¹⁾
Operating revenue	335.7	208.8	183.8	-25.0	18%
Fee income	170.6	90.6	59.9	-30.7	-12%
Interest income	23.7	28.4	16.0	-12.4	-25%
Dividend income	0.7	1.2	0.3	-0.9	-67%
Distribution income	0.5	3.6	0.2	-3.4	-93%
Gain on sale of securities	93.8	59.6	30.0	-29.6	-33%
Gain on valuation of trading securities	1.6	0.8	1.1	0.3	84%
Gain on valuation of securities sold	0.0	0.4	0.0	-0.4	-100%
Gain on trading derivatives	44.9	23.3	75.1	51.8	331%
Other income	0.0	0.9	1.3	0.4	93%
Operating expenses	243.1	183.9	155.2	-28.7	13%
Commission expense	28.9	15.3	13.0	-2.3	14%
Interest expense	13.7	15.7	8.5	-7.2	-28%
Loss on sale of securities	61.7	46.2	11.5	-34.7	-67%
Loss on valuation of securities	6.0	3.7	1.5	-2.2	-46%
Loss on valuation of securities sold	0.0	0.0	3.6	3.6	
Loss on trading of derivatives	42.5	19.4	63.2	43.8	336%
General & administrative expense	90.2	83.7	57.5	-26.2	-8%
Operating income	92.7	24.9	28.6	3.7	54%
Non-operating income	5.7	3.3	9.7	6.4	293%
Non-operating expense	5.5	8.1	1.4	-6.7	-77%
Ordinary income	92.9	20.2	37.0	16.8	145%
Net income before corporate tax	92.9	20.2	36.9	16.7	144%
Corporate tax	6.8	8.1	11.5	3.4	90%
Net Income (loss)	86.1	12.0	25.3	13.3	182%

1) FY2001 figures are annualized for comparison

Management Discussion & Analysis

Operating revenues for FY2001 were 17.4% more than those for FY2000, while operating expenses were 12.5% more, resulting in operating income rising 53.2%. Gain on trading of derivatives contributed to the increase, netting ₩8.0 billion more.

Non-operating income rose 293%(₩6.4bn), while non-operating expenses fell 77%(₩6.7bn), resulting in a 145% increase in ordinary income. The valuation gains of ₩5.1bn on the Securities Market Stabilization Fund, which were attributable to the recovery of the stock market, were the main factor of the increase in non-operating income

As both operating income and non-operating income rose, net income for the nine month period came to ₩25.3 billion, 180.5% more than the previous year.

• Shinhan Capital's Profit/Loss Summary

(billion won)

	FY1999 (99.4-00.3)	FY2000 (00.4-01.3)	FY2001 (01.4-01.12)	YoY*
Operating Revenues	302.2	266.3	116.5	-42%
Lease Income	204.7	153.6	84.1	-27%
Interest Income	16.0	16.1	12.9	7%
Gains on FC	69.9	82.9	8.9	-86%
Other Income	11.6	13.7	10.6	3%
Operating Expenses	293.0	257.6	150.8	-22%
Depreciation of Equipment on Lease	85.4	51.5	21.7	-44%
Bad Debt Expenses	28.1	27.9	63.2	203%
Interest Expenses	73.6	63.2	37.2	-21%
Losses on FC	91.9	101.0	16.1	-79%
General and Administration Expenses	4.6	5.3	4.1	3%
Other Expenses	9.4	8.7	8.5	31%
Operating Income	9.2	8.7	-34.3	n.a
Non-Operating Income	0.5	0.7	0.1	-80%
Non-Operating Expenses	0.0	2.5	3.7	98%
Ordinary Income	9.7	6.9	-37.9	n.a
Extraordinary Gains/Losses	0.0	0.0	0.0	n.a
Income before Income Taxes Expense	9.7	6.9	-37.9	n.a
Income tax Expenses	1.7	1.2	-11.1	n.a
Net income	8.0	5.7	-26.8	n.a

* FY2001 figures are annualized for comparison

Operating revenues decreased 42% over the year 2001, due mainly to a 27% decrease in lease income and a 86% decrease in gains on foreign currency. Lease income decreased because of a reduction in leased assets and in interest rates. Gains on foreign currency decreased as exchange rates stabilized. Net loss on foreign currency decreased because of strengthened risk management as well as the more stable trend of exchange rates.

Management Discussion & Analysis

The Net gains on foreign currency are as follows:

	(billion won)		
	FY1999 (99.4-00.3)	FY2000 (00.4-01.3)	FY2001 (01.4-01.12)
Gains on FC	69.9	82.9	8.9
Losses on FC	91.9	101.0	16.1
Gains on FC(Net)	-22.0	-18.1	-7.2

Operating income decreased because bad debt expenses increased 203%, which ultimately led to a net loss.

Shinhan Capital's net loss during the 9 months ending December, 2001 amounted to ₩26.8 billion. The main contributing factor was loan loss provision. In 2001, the Company provisioned against bad assets according to the strict provisioning guideline practiced by Shinhan Bank. The amount additionally set aside under by this guideline came to about ₩43.9 billion. Excluding this special circumstance, operating income would be ₩9.6 billion, about 48% more than the previous year.

• Shinhan Investment Trust Management's Profit/Loss Summary

Shinhan Investment Trust Management's brief income statement is as follows:

	(million won)			
	FY1999 (99.4.1 ~ 00.3.31)	FY2000 (00.4.1 ~ 01.3.31)	FY2001 (01.4.1 ~ 01.12.31)	YoY
Operating Revenue	19.5	10.1	8.4	11%
Fees on Brokerage	16.5	7.7	6.8	18%
Interest Income	2.1	2.3	1.4	-19%
Gains on Sale of Trading Securities	0.8	0.1	0.2	70%
Operating Expenses	24.1	8.4	3.7	-41%
Complementary expenses	20.5	3.4	0.0	-100%
Losses on Sale of Trading Securities	0.0	0.0	0.3	n.a
Losses on Valuation of Trading Securities	0.0	1.2	0.0	-96%
General and Administrative Expenses	3.6	3.9	3.4	19%
Operating Income	-4.7	1.6	4.6	281%
Non-Operating Income	0.0	0.0	0.0	-100%
Ordinary Income	-4.7	1.6	4.6	278%
Extraordinary Gain	0.0	0.5	0.0	-100%
Extraordinary Loss	0.0	1.0	0.5	-36%
Net Income Before Income Tax	-4.7	1.1	4.2	402%
Income Tax Expenses	0.0	-1.1	1.3	n.a
Net Income For The Year	-4.7	2.2	2.8	72%

During the nine months from April to December, 2001, operating revenue rose 11%, while operating expenses decreased 41%, thus resulting in a 281% increase in operating income compared with the previous fiscal year. Of operating revenue, fees on brokerage and gains on sale of trading securities rose, while interest income decreased, a result of declining interest rates. Operating expenses dropped substantially in fiscal 2001 as well as fiscal 2000, due mainly to the write-off of Daewoo loans, which amounted to ₩20.5 billion in 1999 and ₩3.4 billion in 2000. The extraordinary gain of ₩0.5 billion in fiscal 2000 represents the difference between the actual amount of loss from trust account in 1999 and the ₩20.5 billion entered in the book. The extraordinary loss of ₩1.0 billion in fiscal 2000 represents court expenses on a trust-related suit which the Company lost, and that of ₩0.5 billion in fiscal 2001 represents interest income on the unpaid court expenses. Net income as of September, 2001, was more than 72% of the previous fiscal year.

Management Discussion & Analysis

Assets & Liabilities

• Shinhan Group's assets & liabilities

<Total assets>

(billion won)

	FY1999	FY2000	FY2001	Increase	YoY
SHB	48,022.9	53,186.7	62,017.5	8,830.8	17%
B/A	39,530.2	47,511.5	53,356.0	5,844.5	12%
T/A	8,815.4	6,147.7	9,422.8	3,275.1	53%
SHS	764.8	423.3	631.4	208.1	49%
SHC	975.6	878.1	855.5	-22.6	-3%
SHITM	49.6	39.3	45.2	5.9	15%
(AUM)	6,023.6	2,513.0	2,784.9	271.9	11%
(-) Intra Transaction	184.7	226.9	765.8	538.9	238%
Total	55,651.8	56,813.5	65,568.7	8,755.2	15%

Footnote) The figures of FY1999, FY2000 are based on pro forma financial statements

Total assets as of the end of 2001 amounted to ₩65.6tr, which represents a 15%(₩8.8tr) increase over the year. Loans played the major contributing role. Breaking down the increase by each subsidiary, Shinhan Bank contributed most at 17% (₩8.8tr). Of the Bank's total assets, trust assets rose 53% (₩3.3bn) over the year due mainly to a ₩2.5tr increase in Money Receivables. Bank account assets also rose on the back of a 23% increase in local currency loans.

Shinhan Securities' assets rose 49% (₩208.1bn) over the year, due mainly to a substantial increase in customer deposits.

In contrast, Shinhan Capital saw its assets decrease a little, as it was required to follow the Bank's stricter provisioning standard.

Shinhan Investment Trust Management's assets under management rose 11%(₩271.9bn) over the year to ₩2.8tr. Of total assets of the financial holding company, the Bank's assets accounted for 95%, while the remaining 5% was made up of those of the other subsidiaries.

<Total loans>

(billion won)

	FY1999	FY2000	FY2001	Increase	YoY
SHB	23,963.7	29,694.5	34,409.9	4,715.4	16%
B/A	21,975.4	28,666.6	33,881.2	5,214.6	18%
T/A	1,988.3	1,027.9	528.7	-499.2	-49%
SHS	117.7	50.8	74.9	24.1	47%
SHC	521.2	592.5	649.7	57.2	10%
SHITM	0.2	0.5	0.4	-0.1	-14%
(-) Intra Transaction	132.4	169.0	89.3	-79.7	-47%
Total	24,470.4	30,169.3	35,045.6	4,876.3	16%

Footnote) The figures of FY1999, FY2000 are based on pro forma financial statements

Shinhan Group's total loans outstanding at the year-end were ₩35tr, up 16% (₩4.9tr) from the year before. A 23% increase in the Bank's local currency loans underlay the loan growth. Of total loans, the Bank contributed 98%, while the remaining 2% belonged to other subsidiaries.

Management Discussion & Analysis

<Securities>

	(billion won)				
	FY1999	FY2000	FY2001	Increase	YoY
SHB	18,293.4	18,472.8	19,568.7	1,095.9	6%
B/A	12,168.7	13,651.0	14,020.2	369.2	3%
T/A	6,124.7	4,821.8	5,548.5	726.7	15%
SHS	239.4	182.5	272.4	89.9	49%
SHC	108.3	96.4	68.5	-27.9	-29%
SHITM	3.8	5.4	13.4	8.0	149%
(-) Intra Transaction	32.7	30.6	638.2	607.6	1986%
Total	18,612.2	18,726.5	19,284.8	558.3	3%

Footnote) The figures of FY1999, FY2000 are based on pro forma financial statements

While loans grew 16%, securities saw only a 3% increase, a result of the Group's loans-based asset portfolio strategy. Another reason was that the Bank's holding of Shinhan Financial Group shares (about 10% of the total issued) was subtracted as an intra transaction.

<Total deposits>

	(billion won)				
	FY1999	FY2000	FY2001	Increase	YoY
SHB	32,902.4	39,315.6	42,494.0	3,178.4	8%
B/A	25,013.8	33,726.4	35,970.0	2,243.6	7%
T/A	7,888.6	5,589.2	6,524.0	934.8	17%
SHS	260.9	103.6	191.1	87.5	84%
SHC	0.0	0.0	6.7	6.7	n.a
SHITM	74.3	0.1	0.0	-0.1	-77%
(-) Intra Transaction	19.6	27.3	24.9	-2.4	-9%
Total	33,218.0	39,392.0	42,666.8	3,274.8	8%

Footnote) The figures of FY1999, FY2000 are based on pro forma financial statements

Total deposits outstanding at the year-end were ₩42.7tr, up 8%(₩3.3tr). Of these, 99% represented those with the Bank. The growth rate of deposits was less than that of assets because the Bank, taking advantage of low interest rates, increased funding through debenture issues. Total funds raised through debentures in the year reached ₩1.6tr, and they carry an average interest rate of 5.5%.

Management Discussion & Analysis

• The Bank's assets & liabilities

<Loans>

(billion won)

	FY1999	FY2000	FY2001	Increase	YTD
Loans in Won					
Retail	3,665.5	5,700.7	10,772.9	5,072.2	89%
Mortgage	1,041.7	2,126.1	6,940.2	4,814.1	226%
Others	2,623.8	3,574.6	3,832.7	258.1	7%
SMEs	8,526.4	9,974.1	10,618.9	644.8	6%
Large Corp.	2,872.3	3,461.8	2,937.5	-524.3	-15%
Public & Others	312.3	744.9	93.0	-651.9	-88%
Total	15,376.5	19,881.5	24,422.3	4,540.8	23%
Loans in FC	3,496.1	2,137.9	2,887.7	749.7	35%
Credit Card Accounts	1,143.2	1,585.8	2,093.4	507.6	32%
Bills Bought in FC	1,894.4	3,204.8	1,872.2	-1,332.7	-42%
Call Loans, RPs	271.8	1,592.9	1,826.4	233.5	15%
Others	790.0	898.6	1,362.2	463.6	52%
(Loan Loss Allowance)	(905.0)	(593.8)	(567.3)	-26.4	-4%
(Present Value Discount)	(91.6)	(41.3)	(15.5)	-25.8	-62%
Total	21,975.4	28,666.6	33,881.2	5,214.6	18%

Footnote) Bank account only

Loans from the bank accounts were ₩33.9tr, up 18%(₩5.2tr) from the year before. Loans in won rose 23%(₩4.5tr), contributing most to the increase in total loans. Loans in foreign currencies rose 35%(₩719.7bn) and credit card loans expanded 32%(₩507.6bn). Call loans and RP together inched up only ₩0.2tr over the previous year.

The increase in loans in won can be attributed to a 89%(₩5.1tr) increase in consumer loans in general and to a 226%(₩4.8tr) jump in mortgage in particular.

Mortgage, which were only ₩1tr in 1999, grew to ₩6.9tr at the end of 2001, a result of the Bank's continued effort to nurture the business.

Growth in mortgage loans has the following effects:

1. Growth of mortgage loans can directly translate into an increase of new customers. Of customers who received mortgage loans for the first time from the Bank, about 60% are new customers. On getting mortgage loans, they start banking with Shinhan, and, as they make monthly payments, they tend to take care all of their banking needs by transferring their accounts from other banks to Shinhan Bank.
2. These new mortgage loan customers make excellent targets for cross-selling, as being relatively affluent they are interested in other banking products. As the Bank's loan to value ratio is 32%, the difference between the property's market value and the loans can be seen as their minimum net worth in terms of buying power.
3. The growth of mortgage loans contributes to the growth of long-term assets. As mortgage loans made in the past few years have maturities ranging from three to thirty years and have locked-in spreads, they are a stable source of income.

In contrast to the big increase in consumer loans, SME loans inched up 6% (₩644.8 billion), while large corporate loans decreased 15% (₩524.3 billion). This disappointing performance of business loans can be attributed to the slowing growth rate of the economy, which in turn led to a substantial reduction in corporate investment and gave rise to a conservative credit policy at financial institutions. Public sector and other loans also decreased substantially. Of total credit in 2001, household loans, SME loans and large corporate loans accounted for 44%, 44% and 12%, respectively.

While loans rose 23% deposits increased only by 7%, the loan to deposit ratio marked 82%, up 6bp from the year before.

Management Discussion & Analysis

< Total Deposits >

	(billion won)				
	FY1999	FY2000	FY2001	Increase	YoY
Low Cost Deposits	7,262.1	8,932.9	10,014.1	1,081.2	12%
Demand	1,602.6	1,655.6	1,544.8	(110.8)	-7%
Low Cost Saving*	5,659.5	7,277.2	8,469.3	1,192.0	16%
Time Deposits	10,041.4	15,247.1	15,751.6	504.5	3%
Installment Deposits	1,147.3	1,329.8	1,496.1	166.3	13%
CDs	1,130.2	842.2	2,866.8	2,024.6	240%
RPs, Bills Sold	4,087.4	5,406.7	4,077.1	(1,329.6)	-25%
Deposits in Won	23,668.4	31,758.7	34,205.7	2,447.0	8%
Deposits in FC	1,345.4	1,967.8	1,764.3	(203.4)	-10%
Total	25,013.8	33,726.4	35,970.0	2,243.5	7%

► Bank account only

* Savings Deposits + Corporate Free Saving Deposits

Total bank account deposits rose 7% over the year. While deposits in won rose 8%(₩2.4tr), those in foreign currencies decreased by 10%(₩203.4bn). Low-cost deposits and CDs led the increase.

Low-cost deposits rose 12%(₩1.1tr) over the year, contributing to the improvement of the Bank's deposit portfolio. A ₩0.2tr increase in CDs was due to the Bank's matching of funds in response to rising mortgage loans.

Ratios of deposits by category are as follows:

	(billion won)			
	FY1999	FY2000	FY2001	YoY
Low Cost Deposits	29%	26%	28%	1%p
Demand	6%	5%	4%	-1%p
Low Cost Saving	23%	22%	24%	2%p
Time Deposits	40%	45%	44%	-1%p
Installment Deposits	5%	4%	4%	0%p
CDs	5%	2%	8%	5%p
RPs, Bills Sold	16%	16%	11%	-5%p
Deposits in Won	95%	94%	95%	1%p
Loan in FC	5%	6%	5%	-1%p
Total	100%	100%	100%	

Ratios of deposits by category

	(%)						
2001	28	44	4	8	11	5	
2000	26	45	4	2	16	6	
1999	29	40	5	5	16	5	

- Low Cost Deposits
- Time Deposits
- Installment Deposits
- CDs
- RPs, Bills Sold
- Loan in FC

Management Discussion & Analysis

<Securities>

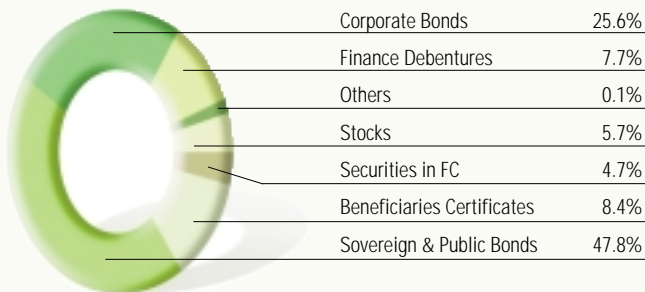
	(billion won)				
	FY1999	FY2000	FY2001	Increase	YoY
Stocks	351.4	196.3	804.0	607.6	310%
Sovereign & Public Bonds	2,119.4	2,419.1	2,053.7	-365.4	-15%
Bonds guaranteed by Governm't	3,188.1	2,789.9	3,225.6	435.7	16%
Corporate Bonds	2,695.5	4,070.4	3,593.4	-477.0	-12%
Finance Debentures	1,984.3	2,894.8	2,489.8	-405.0	-14%
(Monetary Stabilization Bonds)	(1,301.1)	(1,513.9)	(1,417.1)	(-96.8)	(-6%)
Beneficiary Certificates	532.0	631.2	1,171.5	540.3	86%
Other Domestic Securities	712.9	12.0	18.1	6.1	51%
Foreign Securities	585.2	637.4	664.2	26.8	4%
Total	12,168.7	13,651.0	14,020.2	369.2	3%

▶ Bank account only

Securities outstanding at the end of 2001 were valued at ₩14tr, up 3% from the previous year. The biggest increase came from stocks, which increased by 310%(₩607.6bn) over the year. The growth is attributed to the conversion of the Bank's treasury stock into holding company stock. As of the end of 2001, the Bank holds about 30 million shares of the Holding Company.

Composition of securities by type is as follows:

	FY1999	FY2000	FY2001	Change
Stocks	3%	1%	6%	4%p
Sovereign & Public Bonds	17%	18%	15%	-3%p
Bonds guaranteed by Governm't	26%	20%	23%	3%p
Corporate Bonds	22%	30%	26%	-4%p
Finance Debentures	16%	21%	18%	-3%p
(Monetary Stabilization Bonds)	11%	11%	10%	-1%p
Beneficiaries' Certificates	4%	5%	8%	4%p
Others	6%	0%	0%	0%p
Foreign Securities	5%	5%	5%	0%p
Total	100%	100%	100%	



* Sovereign & Public Bonds includes "Bonds guaranteed by Government" and "Monetary Stabilization Bonds"

Management Discussion & Analysis

<Credit card>

	(billion won)				
	FY1999	FY2000	FY2001	Increase	YTD
No. of Customers(thousand)	1,377.0	1,680.0	2,181.0	501.0	30%
No. of Merchants(thousand)	148.0	338.0	590.0	252.0	75%
Sales	3,101.8	6,204.4	10,192.5	3,988.1	64%
General	1,213.0	2,361.1	4,647.9	2,286.8	97%
Installment	271.2	453.7	537.4	83.7	18%
Cash Advance	1,617.6	3,389.6	5,007.3	1,617.7	48%
Balance Sheet Outstandings	1,143.2	1,585.8	2,093.4	507.6	32%
Credit Sales	313.8	593.6	864.2	270.6	46%
Cash Advances	279.0	471.9	745.7	273.8	58%
Card Loans	546.7	513.5	478.5	-35.0	-7%
Others	3.8	6.8	5.1	-1.8	-26%
Operating Income	190.0	247.5	301.0	53.5	22%
Credit Card	102.1	177.8	241.1	63.3	36%
Card Loans	87.9	69.7	59.9	-9.8	-14%
Asset Quality					
Normal	1,088.5	1,530.3	2,012.2	481.9	31%
Precautionary	22.0	27.3	35.5	8.2	30%
Substandard	0.8	0.4	1.0	0.6	140%
Doubtful	9.0	9.4	17.0	7.6	81%
Estimated Loss	22.8	18.5	27.7	9.2	50%
Total	1,143.2	1,585.8	2,093.4	507.6	32%
Substandard & below ratio	2.85%	1.79%	2.19%	0.40%p	
Precautionary & below ratio	4.78%	3.51%	3.88%	0.38%p	
Delinquency Ratio	3.46%	2.84%	3.17%	0.33%p	

The Bank's credit card membership at the end of 2001 was 2.2 million, up 30%(501,000) from the year before. The number of merchants was 590,000, up 75%(252,000). Total billings soared 64%(₩4.0tr) over the year. Of total billings, general sales grew most prominently, at 97%(₩2.3tr).

Balance sheet outstanding at the year-end amounted to ₩2.1tr, up 32%(₩507.6bn). Spurred by robust sales, operating income came to ₩301.0bn, up 22%(₩53.5bn).

For sales and outstanding balance, the ratio of each category is as follows:

	(billion won)			
	FY1999	FY2000	FY2001	Increase
Sales				
General	39%	38%	46%	8%p
Installment	9%	7%	5%	-2%p
Cash Advance	52%	55%	49%	-6%p
Balance Sheet Outstandings				
Credit Sales	27%	37%	41%	4%p
Installment	24%	30%	36%	6%p
Cash Advance	48%	32%	23%	-10%p

From a sales point of view, lump sum rose 8 percentage points, while, installment and cash advances decreased 2 percentage points and 6 percentage points, respectively. From an outstanding balance point of view, credit sales and cash advances decreased 4 percentage points and 6 percentage points, respectively.

Management Discussion & Analysis

The ratio of loans in the substandard and below categories to total loans and of the precautionary and below categories to total loans were 2.19% and 3.88%, respectively. Both ratios represent a slight increase from the previous year, but are considered very sound in comparison with other banks' figures.

• Shinhan Securities' Asset & Liabilities Summary

1. Assets & Liabilities

(billion won)

	FY1999 (Mar. 2000)	FY2000 (Mar. 2001)	FY2001 (Dec. 2001)	Increase	YTD
Current assets	367.0	268.9	511.7	242.8	90%
Quick assets	217.0	160.8	281.0	120.3	75%
Inventory assets	149.9	108.1	230.7	122.6	113%
Non-current assets	155.3	132.3	119.7	-12.6	-10%
Investment assets	105.9	83.3	69.2	-14.1	-17%
Tangible assets	49.4	49.0	50.5	1.5	3%
Total assets	522.3	401.2	631.4	230.2	57%
Current liabilities	281.1	172.6	386.2	213.6	124%
Long-term liabilities	23.9	9.6	0.8	-8.8	-91%
Total liabilities	305.0	182.2	387.0	204.8	112%
Capital Stock	108.4	119.2	119.2	0.0	0%
Capital surplus	41.3	41.2	41.2	0.0	0%
Retained Earnings	56.7	58.6	83.9	25.3	43%
Capital adjustment	11.0	-0.1	0.0	0.1	-79%
Total Shareholders' equity	217.3	218.9	244.4	25.5	12%
Total Liabilities & shareholders' equity	522.3	401.2	631.4	230.2	57%

Shinhan Securities' total assets as of the end of 2001 stood at ₩631 billion, which represents a 57%(₩230 billion) increase compared with the figure for March, 2001. The increase can be attributed to a recovering stock market.

Most of the increase stemmed from current assets which grew 90%(₩243 billion). Of current assets, quick assets and inventory assets rose 75%(₩120 billion) and 113%(₩123 billion), respectively, thereby contributing to the increase. Of quick assets, deposits and loans expanded by ₩66.9 billion and ₩51.3 billion, respectively.

Of inventory assets, trading securities rose by ₩24.3 billion, reflecting the robust market, while unsold beneficiary certificates decreased by ₩21.4 billion.

Of investment assets, other non-current assets decreased by ₩10.3 billion, due to the recall of loans such as advance for payment on bonds guarantee.

Liabilities rose 112%(₩204.8 billion) over the past 9 months, due mainly to a 124%(₩213.6 billion) increase in current liabilities. Of current liabilities, call money rose 772%(₩85.0 billion), short-term borrowings increased by ₩10.5 billion, and securities sold expanded 530%(₩10.5 billion).

2. Stock and Futures Contracts

(billion won)

	FY1999 ('99.4-'00.3)		FY2000 ('00.4-'01.3)		FY2001 ('01.4-'01.12)		% Change In M/S
	contracts	M/S	contracts	M/S	contracts	M/S	
Stock	44,950	1.70%	38,826	1.91%	23,941	1.83%	-0.08%p
Futures	30,285	1.73%	18,964	1.03%	42,603	2.32%	+1.29%p

Management Discussion & Analysis

Shinhan Securities' share of the stock market decreased by 0.08% points over the past nine months, but its share of the futures market rose 1.29% points, reflecting the Company's emphasis on the futures trading business as the trading volume in derivatives expands in the market.

• Shinhan Capital's Assets & Liabilities Summary

(billion won)

	FY1999 (2000.3)	FY2000 (2001.3)	FY2001 (2001.12)	Increase	YTD
Assets					
Cash and cash equivalents	31.1	52.7	26.3	-26.4	-50.1%
Securities	71.0	81.1	68.5	-12.6	-15.5%
Accrued income receivable	24.8	18.4	10.6	-7.8	-42.4%
Receivables	74.4	34.0	88.6	54.6	160.6%
(Provision for losses on receivable)	(23.8)	(14.9)	(73.8)	(58.9)	395.3%
Factoring receivables	0.7	3.9	5.8	1.9	48.7%
Loans for operating	56.3	55.1	77.8	22.7	41.2%
Installment contracts receivables	2.7	9.1	15.4	6.3	69.2%
Financing leases	481.1	531.9	547.6	15.7	3.0%
Operating leases	139.4	63.4	41.8	-21.6	-34.1%
Advance payments on leases	16.0	10.8	24.4	13.6	125.9%
(Provision for losses on leases and loans)	-16.1	-17.7	-15.6	2.1	n.a
Net tangible assets	0.3	0.3	0.3	0.0	0.0%
Membership	1.1	3.6	3.6	0.0	0.0%
Other assets	70.5	34.5	34.2	-0.3	-0.9%
Total Assets	929.5	866.2	855.5	-10.7	-1.2%
Liabilities					
Short-term loans	65.5	16.4	50.2	33.8	206.1%
Current portion of long-term liabilities	271.3	284.6	252.6	-32.0	-11.2%
Accrued expenses	10.2	6.3	4.4	-1.9	-30.2%
Revenues received in advance	3.3	1.4	1.8	0.4	28.6%
Corporate bonds	51.7	216.4	162.7	-53.7	-24.8%
Local currency LT borrowings	0.0	13.1	151.3	138.2	1055.0%
Foreign currency LT borrowings	327.5	147.7	79.7	-68.0	-46.0%
Sub-leases in payable foreign currency	52.7	37.3	19.7	-17.6	-47.2%
Other liabilities	49.3	46.5	56.3	9.8	21.1%
Total Liabilities	831.5	769.7	778.7	9.0	1.2%
Total Shareholders' Equity	98.0	96.5	76.8	-19.7	-25.7%
Total Liabilities and Shareholders' Equity	929.5	866.2	855.5	-10.7	-1.2%

Shinhan Capital's total assets as of the end of 2001 stood at ₩855.5 billion, down 1.2% compared with the figure as of the end of March, 2001. In 2001, total assets shrank for the second consecutive year, but at a decreasing rate. The increase in loan loss provisions was enough to offset the growth of lease contracts, installment financing and loans.

Of total assets, lease assets accounted for 70%, securities 8%, loans and factoring 7.6%, cash 4% and other assets 10.4% (three year average). Shinhan Capital's borrowings as of the year-end were ₩716.2 billion, ₩0.7 billion more than nine months ago.

Of total borrowings, foreign currency borrowings fell 46% over the nine months, while local currency borrowings soared 1055%. This is because borrowings in foreign currency have become difficult for Korean financial institutions since the financial crisis three years ago.

Management Discussion & Analysis

Moreover, Shinhan Capital paid off most of its foreign currency borrowings with low-cost local currency funds raised taking advantage of the holding company's high credit rating (AAA). Paying off high-cost foreign currency borrowings with low-cost local currency funds is expected to translate into about ₩7.0 billion in savings per year.

• Shinhan ITM's Assets under Management Summary

(billion won)

	FY 1999 (99.4 ~ 00.3)		FY 2000 (00.4 ~ 01.3)		FY 2001 (01.4 ~ 01.12)	
	Average Balance	Closing Balance	Average Balance	Closing Balance	Average Balance	Closing Balance
MMF	1,712.4	1,138.1	703.9	942.1	725.0	479.3
Bond-type	6,464.9	2,056.0	1,612.0	1,696.1	1,747.7	1,696.0
Hybrid-type	495.7	576.9	505.7	343.9	566.1	532.1
Equity-type	0.0	0.0	25.0	25.0	54.1	77.5
Total	8,673.0	3,771.0	2,846.6	3,007.1	3,092.9	2,784.9

Assets under management("AUM") at the end of 1999 stood at ₩3.8 trillion, a drastic reduction compared with ₩12 trillion in July 1998. The reduction was caused by the Daewoo crisis, which dealt a blow to the Company's trust asset portfolio. AUM began to stabilize in 2000 and expand in 2001, reaching ₩3.7 trillion in October 2001. But due to a rapid fall in interest rates on short-term bonds, AUM began to shrink, ending the year at ₩2.8 trillion, 7% less than the year before.

To review trust deposits as of the end of 2001, the bond-type accounted for 61% of total trust deposits, followed by the hybrid-type at 19%, the MMF type at 17%, and the equity-type at 3%.

Asset Quality

• The Group's asset quality

(billion won)

	FY1999	FY2000	FY2001	Increase	YoY
Normal	24,848.0	30,768.2	34,662.6	3,894.4	13%
Precautionary	3,109.8	1,665.4	1,113.4	-552.0	-33%
Substandard	1,468.4	1,140.5	721.1	-419.4	-37%
Doubtful	128.0	212.7	122.6	-90.1	-42%
Estimated Loss	573.3	95.4	172.3	76.9	81%
Total	30,127.6	33,882.1	36,791.9	2,909.8	9%
Bad Loan ratio	2.33%	0.91%	0.80%	-0.11%p	
Substandard & below ratio	7.20%	4.28%	2.76%	-1.51%p	
Precautionary & below ratio	17.52%	9.19%	5.79%	-3.40%p	
Provisions	1,269.2	750.7	727.6	-23.1	-3%
Coverage Ratio against					
Bad Loans	181.0%	243.7%	246.8%	3.07%p	
Substandard & below	58.5%	51.8%	71.6%	19.79%p	
Precautionary & below	24.0%	24.1%	34.2%	10.06%p	

* Bad loans are defined as doubtful plus estimated loss

Shinhan Group's total loans at the end of 2001 were ₩36.8tr, up 9%(₩2.9tr), of which loans in the substandard and below categories and

Management Discussion & Analysis

those in the precautionary and below categories accounted for 2.76% and 5.79%, respectively.

These two asset quality indicators are slightly higher than Shinhan Bank's comparable figures of 2.42% and 5.40%. But considering that all subsidiaries classified and provisioned for their loans according to the same guidelines as the Bank's, the two ratios represent a very sound asset quality level. The coverage ratio was 71.6% on loans in the substandard and below categories and 34.2% on loans in the precautionary and below categories. The coverage ratio on bad loans was 247%, representing reserves almost about 2.5 times higher than bad loans. This is attributable to the fact that bad loans accounted for less than 30% of substandard and below loans.

Loan classification and provisioning ratios by subsidiary are as follows:

(billion won)

	FY1999	FY2000	FY2001	Increase	YoY
SHB					
Normal	24,192.1	30,126.6	33,981.1	3,854.5	13%
Precautionary	3,014.5	1,632.1	1,071.6	-560.5	-34%
Substandard	1,365.0	1,062.1	667.0	-395.1	-37%
Doubtful	105.3	184.8	106.6	-78.2	-42%
Estimated Loss	557.1	69.4	94.5	25.1	36%
Total	29,234.1	33,074.9	35,920.8	2,845.9	9%
Bad Loan ratio	2.27%	0.77%	0.56%	-0.2%p	
Substandard & below ratio	6.94%	3.98%	2.42%	-1.6%p	
Precautionary & below ratio	17.25%	8.91%	5.40%	-3.5%p	
Provisions	1,217.1	684.7	623.2	-61.5	-9%
Coverage Ratio against					
Bad Loan	184%	269%	310%	40%p	
Substandard & below	60%	52%	72%	20%p	
Precautionary & below		24%	23%	32%	9%p
SHS					
Normal	37.1	17.1	46.3	29.2	171%
Precautionary	22.3	10.1	0.0	-10.1	-100%
Substandard	15.0	6.7	3.3	-3.4	-50%
Doubtful	2.9	22.6	3.5	-19.0	-84%
Estimated Loss	12.7	8.8	11.4	2.6	29%
Total	89.9	65.3	64.6	-0.7	-1%
Substandard & below ratio	33.96%	58.42%	28.31%	-30.1%p	
Precautionary & below ratio	58.74%	73.85%	28.31%	-45.5%p	
Provisions	12.1	19.3	15.0	-4.3	-22%
Coverage Ratio against					
Substandard & below	40%	51%	82%	31%p	
Precautionary & below	23%	40%	82%	42%p	
SHC					
Normal	615.3	620.1	630.2	10.2	2%
Precautionary	73.0	23.3	41.8	18.5	79%
Substandard	88.5	71.6	50.7	-20.9	-29%
Doubtful	19.8	5.3	12.5	7.1	133%
Estimated Loss	3.4	17.2	66.4	49.2	286%
Total	800.1	737.5	801.6	64.1	9%
Substandard & below ratio	13.96%	12.76%	16.16%	3.4%p	
Precautionary & below ratio	23.09%	15.92%	21.37%	5.5%p	
Provisions	40.0	46.7	89.4	42.7	92%
Coverage Ratio against					
Substandard & below	35.80%	49.62%	69.03%	19.4%p	
Precautionary & below	21.65%	39.78%	52.20%	12.4%p	
SHITM					
Normal	3.5	4.5	5.0	0.5	11%
Total	3.5	4.5	5.0	0.5	11%
Provisions	0.0	0.0	0.0	0.0	11%

Management Discussion & Analysis

Shinhan Bank's substandard and below loans at the end of 2001 were ₩868.1bn, down 34%(₩448.2bn) from the previous year. This reduction was a result of the Bank's energetic collection and write-off of bad loans. The ratios of substandard and below loans and of precautionary and below loans were 2.42% and 5.40%, respectively.

During the fourth quarter of 2001, Shinhan Capital classified and provisioned against its loans using the same guidelines as the Bank. As a result, its two asset quality indicators rose 3.4 percentage points and 5.5 percentage points more than the year before, and provisions made during the year increased 92%(₩42.7bn).

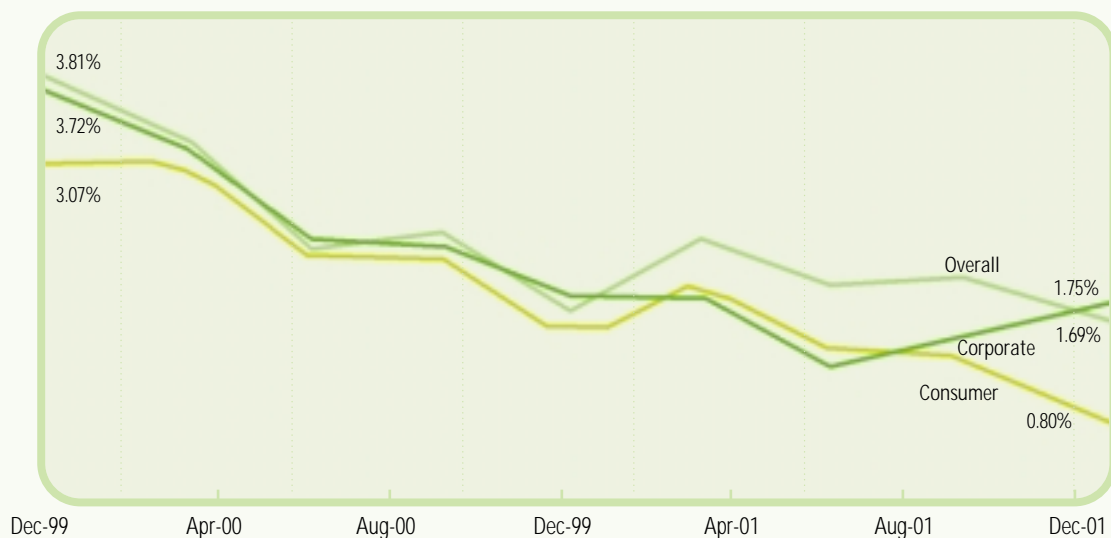
Shinhan Capital is subject to the guidelines set for non-bank financing companies in loan classification and provisioning. These guidelines, however, are not as rigid as banks' guidelines. To bring uniformity and objectivity to its balance sheet, Shinhan Group applies the Bank's rigid guidelines to the other subsidiaries in loan classification and provisioning.

• Shinhan Bank's loan overdue ratio

(billion won)

	Dec-1999			Dec-2000			Dec-2001		
	Total	Overdue	Ratio	Total	Overdue	Ratio	Total	Overdue	Ratio
Overall	26,250.4	1,001.2	3.81%	29,893.3	526.5	1.76%	33,469.7	565.6	1.69%
Corporate	12,076.5	449.4	3.72%	13,675.8	262.6	1.92%	13,730.5	240.6	1.75%
Consumer	4,959.9	152.2	3.07%	6,458.5	102.1	1.58%	11,140.4	89.0	0.80%

As of the end of 2001, Shinhan Bank's loan overdue ratio averaged 1.69%, down 7bp over the year. The overdue ratio of corporate loans and household loans stood at 1.75% and 0.80%, respectively, both figures lower than the year before.



Capital Adequacy Ratio

(1) Shinhan Financial Group

Capital Adequacy Ratio = Net Capital / Required Capital
 4,317.8 / 2,980.8 bn = 144.9%

▶ Minimum Ratio by FSS : 100%

(2) Shinhan Bank : BIS Capital Adequacy Ratio

(billion won)

	YE1999	YE2000	YE2001	Chg in Amount	YoY
Total Shareholders' Capital	3,797.3	4,024.9	4,299.4	274.5	7%
Tier 1 Capital	2,856.5	3,024.3	2,955.9	-68.4	-2%
Tier 2 Capital	940.8	1,000.6	1,343.5	342.9	34%
Risk-weighted Assets	27,413.3	32,727.9	35,772.0	3,044.1	9%
Balance Sheet Assets	23,249.5	28,562.2	31,974.8	3,412.6	12%
Off-balance Sheet Assets	4,163.8	4,165.7	3,797.2	-368.4	-9%
BIS Capital Adequacy Ratio	13.85%	12.30%	12.02%	-0.28%p	
Tier 1 Ratio	10.42%	9.24%	8.26%	-0.98%p	
Tier 2 Ratio	3.43%	3.06%	3.76%	0.70%p	

As of the end of 2001, the Bank's BIS ratio was 12.02%, down 28bp over the year. The Tier 1 ratio decreased 0.98percentage points because of the cancellation of the Government-owned preferred stocks(₩292.5bn) in the third quarter and the exclusion of Shinhan Capital from consolidation. On the other hand, the Tier 2 ratio rose 0.70 of a percentage point because of a ₩500 billion subordinated bond issue and a valuation gain on investment securities.

Risk-weighted assets rose 9% over the year to ₩35.8tr on the back of continued asset growth.

As of the year-end, Shinhan Bank's BIS ratio was the highest in the Korean banking industry.

(3) Shinhan Securities

Capital Adequacy Ratio = Operational Net Capital / Total Risk
 = 159.0 / 33.1 bn = 480.9%

▶ Minimum Ratio by FSS : 150%

(4) Shinhan Capital

Capital Adequacy Ratio = Adjusted Capital / Adjusted Total Assets
 = 64.6 / 813.4 bn = 7.9%

(5) Shinhan Investment Trust Management Co.

Capital Adequacy Ratio = Net Capital / Total Risk
 = 41,8 / 5.3 bn = 838.2%

▶ Minimum Ratio by FSS : 150%

INDEPENDENT AUDITORS' REPORT

Period from September 1, 2001 (date of inception) to December 31, 2001 (the "Period")

Ahn Kwon & Co. 

**Deloitte
Touche
Tohmatsu**

Ahn Kwon & Co.

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To the Stockholders and Board of Directors of Shinhan Financial Group Co., Ltd.

We have audited the accompanying non-consolidated balance sheet of Shinhan Financial Group Co., Ltd. (the "Company"), and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the period from September 1, 2001 (date of inception) to December 31, 2001 (the "Period"). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such non-consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2001, and the results of its operations, the appropriations of its retained earnings and its cash flows for the Period in conformity with financial accounting standards generally accepted in the Republic of Korea ("Korean GAAP").

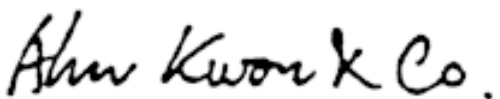
Without qualifying our opinion, we draw attention to the following:

Our audit also comprehended the translation of Korean won amounts into U.S. dollar amounts and in our opinion, such translation has been made in conformity with the basis stated in Note 2 to the accompanying non-consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside of Korea.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

As described in Note 18 of the accompanying non-consolidated financial statements, the Company amended its financial statements due to the resolution of the stockholders' meeting, held on March 20, 2002, concerning the dividend, which differed from the Company's original proposal. Accordingly, we reissue our audit report on the date herein which supersedes our audit report issued on January 25, 2002.

As discussed in Note 21 of the accompanying non-consolidated financial statements, the operations of the Company have been affected, and may continue to be affected for the foreseeable future, by the general unstable economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these uncertainties on the financial position of the Company as of the balance sheet date cannot presently be determined at present.



March 20, 2002

Non-consolidated Balance Sheet

December 31, 2001

(In millions of Korean won and thousands of U.S. dollars)

	Korean Won	U.S. Dollars (Note 2)
ASSETS		
Cash and bank deposits (Notes 3 and 7)	₩ 712	\$ 537
Investment securities (Notes 2 and 4)	3,801,572	2,866,731
Loans (Notes 2, 5 and 7)	147,200	111,002
(Allowance for loan losses) (Note 14)	(1,472)	(1,110)
Fixed Assets (Note 2)		
Premises and equipment	1,568	1,182
(Accumulated depreciation)	(168)	(127)
	1,400	1,056
Intangible assets	70	53
Other assets (Note 7)	6,499	4,901
Total assets	₩ 3,955,981	\$ 2,983,169
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Borrowings (Notes 6 and 8)	₩ 20,000	\$ 15,082
Debentures (Notes 2 and 6)	150,000	113,114
(Discounts on debentures)	(3,042)	(2,294)
	146,958	110,820
Other liabilities	189,779	143,110
Total liabilities	356,737	269,012
Stockholders' Equity:		
Common stock (Note 9)	1,461,721	1,102,271
Capital surplus		
Additional paid in capital	1,976,650	1,490,574
Retained earnings		
Legal reserve (Note 10)	22,076	16,647
Unappropriated retained earnings	9,331	7,036
Capital adjustments		
Gain on valuation of investment securities (Notes 2 and 4)	129,466	97,629
Total stockholders' equity	3,599,244	2,714,157
Total liabilities and stockholders' equity	₩ 3,955,981	\$ 2,983,169

See accompanying notes to non-consolidated financial statements.

Non-consolidated Statement of Income

Period from September 1, 2001 (date of inception) to December 31, 2001

(In millions of Korean won and thousands of U.S. dollars, except for income per share data)

	Korean Won	U.S. Dollars (Note 2)
OPERATING REVENUE		
Gain on valuation of investment securities accounted for using the equity method of accounting (Note 4)	₩ 225,795	\$ 170,270
Interest income (Note 7)	747	563
	226,542	170,833
OPERATING EXPENSE		
Interest expense	1,089	821
Commissions and fees	57	43
General and administrative expenses (Note 16)	4,633	3,494
	5,779	4,358
OPERATING INCOME	220,763	166,475
NON-OPERATING INCOME (EXPENSE)	-	-
ORDINARY INCOME	220,763	166,475
EXTRAORDINARY GAIN (LOSS) - NET	-	-
INCOME BEFORE PROVISION FOR INCOME TAXES	220,763	166,475
PROVISION FOR INCOME TAXES (Note 15)	-	-
NET INCOME	₩ 220,763	\$ 166,475
INCOME PER SHARE (in Korean won and U.S. Dollars) (Note 17)	₩ 755	\$ 0.57

See accompanying notes to non-consolidated financial statements.

Non-consolidated Statement of Appropriations of Retained Earnings

Period from September 1, 2001 (date of inception) to December 31, 2001

(In millions of Korean won and thousands of U.S. dollars)

	Korean Won	U.S. Dollars (Note 2)
RETAINED EARNINGS BEFORE APPROPRIATIONS		
Unappropriated retained earnings at inception	₩ -	\$ -
Changes in retained earnings of subsidiaries	(841)	(634)
Net income for the period	220,763	166,475
Total	219,922	165,841
APPROPRIATIONS OF RETAINED EARNINGS		
Legal reserve	22,076	16,647
Dividends (Note 18)	15,812	113,726
Total	(172,888)	(130,373)
UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED OVER TO SUBSEQUENT YEAR		
	₩ 47,034	\$ 35,468

See accompanying notes to non-consolidated financial statements.

Non-consolidated Statement of Cash Flows

Period from September 1, 2001 (date of inception) to December 31, 2001

(In millions of Korean won and thousands of U.S. dollars)

	Korean Won	U.S. Dollars (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	₩ 220,763	\$ 166,475
Addition of Expenses Not Involving Cash Outflows:		
Interest expense	92	69
Depreciation and amortization expense	173	131
Bad debt expense	1,472	1,110
	1,737	1,310
Deduction of Revenue Not Involving Cash Inflows:		
Gain on valuation of investment securities accounted for the equity method of accounting (Note 4)	(225,795)	(170,270)
Changes in Assets and Liabilities Resulting from Operations:		
Increase in other assets	(755)	(569)
Increase in other liabilities	1,264	953
	509	384
Net Cash Used In Operating Activities	(2,786)	(2,101)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(8,780)	(6,621)
Increase in loans	(147,200)	(111,002)
Purchase of premises and equipment	(1,568)	(1,182)
Increase in intangible assets	(75)	(57)
Increase in other assets	(5,745)	(4,332)
Net Cash Used In Investing Activities	(163,368)	(123,194)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in borrowings	20,000	15,082
Issuance of debentures	147,535	111,255
Bonds issuance costs paid	(669)	(505)
Net Cash Provided By Financing Activities	166,866	125,832
NET INCREASE IN CASH AND BANK DEPOSITS	712	537
CASH AND BANK DEPOSITS AT BEGINNING OF THE PERIOD	-	-
CASH AND BANK DEPOSITS AT END OF THE PERIOD	₩ 712	\$ 537

See accompanying notes to non-consolidated financial statements.

Notes to Non-consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001 (the "Period")

1. General

Shinhan Financial Group Co., Ltd. (the "Company") was incorporated on September 1, 2001 with all shares of stock owned by shareholders of Shinhan Bank, Shinhan Securities Co., Ltd., Shinhan Capital Co., Ltd. and Shinhan Investment Trust Management Co., Ltd. being transferred to the Company. The Company was formed for the purpose of providing management services and financing to affiliated companies. As of December 31, 2001, the Company has six subsidiaries including e-Shinhan Inc. and Shinhan Macquarie Financial Advisory Co., Ltd. and capital of ₩1,461,721 million. The Company's shares have been listed on the Korea Stock Exchange since September 10, 2001.

The Company's subsidiaries are as follows:

(1) Shinhan Bank

Shinhan Bank (the "Bank") was incorporated on September 15, 1981 under the then General Banking Act of Korea to engage in the commercial banking and trust business. As of December 31, 2001, the Bank's capital was ₩1,375,915 million, and the Bank has 335 branch offices and 168 automated teller machine locations.

(2) Shinhan Securities Co., Ltd.

Shinhan Securities Co., Ltd. ("Shinhan Securities") was founded as Dong-Hwa Securities Co., Ltd. for underwriting, dealing and brokerage services on January 31, 1962 and changed its name to Shinhan Securities on August 2, 1985. As of December 31, 2001, Shinhan Securities' capital was ₩119,237 million, and Shinhan Securities had 32 branch offices in Korea.

(3) Shinhan Capital Co., Ltd.

Shinhan Capital Co., Ltd. ("Shinhan Capital") was incorporated on April 19, 1991 as a specialized leasing company under the laws of the Republic of Korea and is engaged in the leasing business under the Leasing Promotion Law. Shinhan Capital changed its name on May 27, 1999 from Shinhan Leasing Co., Ltd. to Shinhan Capital and its capital was ₩80,000 million as of December 31, 2001.

(4) Shinhan Investment Trust Management Co., Ltd.

On August 1, 1996, Shinhan Investment Trust Management Co., Ltd. ("Shinhan ITC") was established and obtained a license to engage in the business of investment and trust of securities and advisory services under the Investment and Trust of Securities Law. The total amount of assets under management was ₩2,815,362 million and Shinhan ITC's capital was ₩40,000 million as of December 31, 2001.

(5) e-Shinhan Inc.

e-Shinhan Inc. was incorporated on February 21, 2001 to engage in the business of internet brokerage service and comprehensive management services on customer accounts. On September 1, 2001, e-Shinhan became one of the subsidiaries of the Company through a stock purchase, and its capital was ₩2,820 million as of December 31, 2001.

(6) Shinhan Macquarie Financial Advisory Co., Ltd.

Shinhan Macquarie Financial Advisory Co., Ltd. ("Shinhan Macquarie") was incorporated on August 1, 2001 to engage in the business of financial advisory services and cross border leasing. On September 1, 2001, Shinhan Macquarie became one of the subsidiaries of the Company through a stock purchase, and its capital was ₩1,000 million as of December 31, 2001.

Notes to Non-consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001 (the "Period")

As of December 31, 2001, the ownerships between the Company and its subsidiaries are as follows:

Investor	Investee	Number of shares	Percentage of ownership
Shinhan Financial Group Co., Ltd.	Shinhan Bank	275,182,926	100.0
"	Shinhan Securities	23,847,457	100.0
"	Shinhan Capital	16,000,000	100.0
"	Shinhan ITC	8,000,000	100.0
"	e-Shinhan	415,495	73.7
"	Shinhan Macquarie	102,000	51.0
Shinhan Bank	Shinhan Financial Group Co., Ltd.	29,873,295	10.2

2. Summary of Significant Accounting Policies

(1) Basis of presentation of financial statements

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been restructured and translated into English from the Korean language financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

(2) Translation of financial statements

The financial statements are stated in Korean won, the currency of the country in which the Company is incorporated and operates. The translations of Korean won amounts into U. S. dollar amounts are included solely for the convenience of readers outside of Korea and have been made at the rate of ₩1,326.10 to US\$1, the Base Rate announced by the Korean government as of December 31, 2001. Such translations should not be construed as a representation that the Korean won amounts could be converted into U. S. dollars at that or any other rate.

(3) Allowance for loan losses

The Company provides an allowance for loan losses to cover estimated losses on loans, based on collection experience and analysis of the collectibility of individual outstanding loans.

For equity method investees, the Company applies the same criteria in providing allowances for loan losses. Accordingly, an additional allowance of ₩709 million for Shinhan Securities and ₩13,019 million for Shinhan Capital are provided, respectively, as of December 31, 2001, as compared to the financial statements provided by those companies.

(4) Investment securities

Investment securities are composed entirely of equity securities in subsidiaries which the Company controls. Investments in equity

Notes to Non-consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001 (the "Period")

securities of the subsidiaries are reported using the equity method of accounting. Unrealized profits arising from transactions by the Company with equity-method investees are fully eliminated. The Company's proportionate unrealized profit arising from transactions with equity-method investees by the Company or transactions between equity-method investees is also eliminated. Under the equity method of accounting, the Company records changes in its proportionate equity of the book value of the investee as current operations, capital adjustments or adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee.

Acquisition costs of the Company's investment securities are determined as follows: for Shinhan Bank and Shinhan Capital, net asset value (consolidated net asset value for Shinhan Capital), and for Shinhan Securities and Shinhan ITC, fair value using the trading date closest to the acquisition date.

(5) Fixed assets

a. Premises and equipment

Premises and equipment are stated at acquisition cost. Depreciation is computed using the straight-line method for vehicles and furniture and using the declining balance method for leasehold improvements over 5 years. Major renewals and betterments are capitalized if there is an increase in the useful life or value of the asset, and maintenance and repairs are charged to expense as incurred

b. Intangible assets

Intangible assets, primarily composed of organization costs, are stated at acquisition cost less amortization computed using the straight-line method over 5 years.

(6) Discounts on debentures

Discounts on debentures are presented as a contra account to the related debentures and amortized using the effective interest rate method over the redemption period as interest expense.

3. Restricted Deposits

As of December 31, 2001, ₩ 301 million of bank deposits are restricted in use.

4. Investment Securities

Changes in investment securities by applying the equity method of accounting for the Period are as follows:

(in millions of Korean won)

	Acquisition cost	Increase (decrease)			Total	Book value as of December 31, 2001
		Current operations	Retained earnings	Capital adjustments		
Shinhan Bank	₩ 3,240,495	₩ 86,902	₩ (840)	₩ 119,555	₩ 205,617	₩ 3,446,112
Shinhan Securities	102,544	141,015	-	114	141,129	243,673
Shinhan Capital	54,091	(107)	-	9,797	9,690	63,781
Shinhan ITC	41,241	1,316	-	-	1,316	42,557
e-Shinhan	8,270	(3,597)	-	-	(3,597)	4,673
Shinhan Macquarie	510	266	-	-	266	776
	₩ 3,447,151	₩ 225,795	₩ (840)	₩ 129,466	₩ 354,421	₩ 3,801,572

Notes to Non-consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001 (the "Period")

5. Loans

As of December 31, 2001, loans consist of the following:

Borrower	Maturity	Interest rate	(in millions of Korean won and in thousands of U.S. Dollars)	
			Korean won	U.S. Dollars (Note 2)
Shinhan Capital	04. 10. 29	6.72 %	₩ 29,000	\$ 21,869
"	04. 12. 10	7.49 %	68,200	51,429
Shinhan Bank	08. 03. 21	7.42 %	50,000	37,704
			147,200	111,002
	Allowance for loan losses		(1,472)	(1,110)
			₩ 145,728	\$ 109,892

6. Borrowings and Debentures

As of December 31, 2001, borrowings and debentures are as follows:

(a) Borrowings

Maturity date	Interest rate (%)	Korean won	(in millions of Korean won and thousands of U.S. Dollars)		Lender
			U.S. Dollars (Note 2)		
02. 9. 01	CD + 1.10	₩ 7,000	\$ 5,279		Koram Bank
02. 9. 01	CD + 1.10	10,000	7,541		"
02. 9. 01	CD + 1.35	1,500	1,131		"
02. 9. 01	CD + 1.35	1,000	754		"
02. 9. 01	CD + 1.35	500	377		"
		₩ 20,000	\$ 15,082		

(b) Debentures

Descriptions	Maturity date	Interest rate	(in millions of Korean won and thousands of U.S. Dollars)		Lender
			Korean won	U.S. Dollars (Note 2)	
1st non-guaranteed	04. 10. 29	5.0 %	₩ 30,000	\$ 22,623	Koram Bank
2nd non-guaranteed	04. 12. 10	6.0 %	70,000	52,786	"
3rd non-guaranteed	06. 12. 21	7.1 %	50,000	37,704	"
			150,000	113,113	"
	Discounts on debentures		(3,042)	(2,294)	"
			₩ 146,958	\$ 110,819	

(c) Repayment schedule

The repayment schedule on borrowings and debentures is as follows:

Description	Balance	(in millions of Korean won)		
		Repayment schedule		
		2002	2004	2006
Borrowings	₩ 20,000	₩ 20,000	₩ -	₩ -
Debentures	150,000	-	100,000	50,000
	₩ 170,000	₩ 20,000	₩ 100,000	₩ 50,000

Notes to Non-consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001 (the "Period")

7. Related Party Transactions

Details of significant transactions and balances with its affiliated companies as of and for the period ended December 31, 2001 consist of the following:

(a) Details of transactions

(in millions of Korean won and thousands of U.S. Dollars)

Transaction party		Account		
Revenue earned	Expense incurred		Korean Won	U.S. Dollars (Note 2)
Shinhan Financial Group Co., Ltd.	Shinhan Bank	Interest income	₩ 113	\$ 85
"	Shinhan Capital	Interest income	634	478
Shinhan Bank	Shinhan Securities	Interest income	359	271
"	Shinhan Capital	Interest income	6,820	5,143
"	Shinhan Capital	Commission income	1	-
"	Shinhan Macquarie	Commission income	46	35
Shinhan Securities	Shinhan Bank	Interest on deposit	191	144
Shinhan Capital	Shinhan Bank	Interest income	64	48
Shinhan ITC	Shinhan Bank	Interest income	373	281
e-Shinhan	Shinhan Bank	Interest income	38	29

(b) Account balances

(in millions of Korean won and thousands of U.S. Dollars)

Creditor	Debtor	Account	Korean Won	U.S. Dollars (Note 2)
Shinhan Financial Group Co., Ltd.	Shinhan Bank	Bank deposits	₩ 712	\$ 537
"	" L	Other assets (Key money deposits)	5,331	4,020
"	"	Loans (Privately placed bonds)	50,000	37,705
"	"	Other assets (Accrued income)	103	78
"	Shinhan Capital	Loans	97,200	73,298
"	"	Other assets (Accrued income)	634	478
Shinhan Bank	Shinhan Securities	Credit card loans	137	103
"	Shinhan Capital	Receivables in Korean won	29,249	22,056
"	"	Receivables in Foreign currency	59,910	45,178
"	"	Marketable securities	100,000	75,409
"	"	Credit card loans	19	14
"	Shinhan ITC	"	11	8
"	e-Shinhan	"	6	5
Shinhan Securities	Shinhan Bank	Cash and bank deposit	4,696	3,541
Shinhan Capital	"	Marketable securities	19,448	14,666
"	"	Cash and cash equivalents	7,451	5,619
"	"	Long-term financial instruments	3	2
Shinhan ITC	"	Bank deposits	11,858	8,942
"	"	Accrued income	87	66
"	Shinhan Securities	Key money deposits	850	641
e-Shinhan	Shinhan Bank	Cash and cash equivalents	4,223	3,185
"	"	Accrued income	27	20
Shinhan Macquarie	"	Key money deposits	71	54
"	"	Cash and cash equivalents	1,529	1,153

Notes to Non-consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001 (the "Period")

(c) Guarantees and acceptances

(in millions of Korean won and thousands of U.S. Dollars)

Guarantor	Guarantee	Guarantees and acceptances Provided on	Korean Won	U.S. Dollars (Note 2)
Shinhan Bank	Shinhan Capital	Borrowings in foreign currency	₩ 594	\$ 448
"	"	Letter of credit	7,655	5,773
"	"	"	9,655	7,281
			₩ 17,904	\$ 13,502

8. Contingent Liability

As of December 31, 2001, the Company provided three blank notes to Koram Bank, as collateral related to borrowings.

9. Capital Stock

As of December 31, 2001, the Company's common stock is as follows:

Authorized shares : 1,000,000,000 shares

Par value : ₩5,000

Issued and outstanding shares : 292,344,192 shares

10. Restricted Retained Earnings

The Korean Financial Holding Company Act requires the Company to appropriate a minimum of 10% of annual net income as a legal reserve whenever dividends are paid until such reserve equals its paid-in capital. This reserve is not available for payment of cash dividends. However, subject to stockholders' approval, it may be transferred to common stock in connection with stock dividends or used to reduce any accumulated deficit.

11. Condensed Financial Statements of Subsidiaries

As of and for the period ended December 31, 2001, condensed financial statements of subsidiaries are as follows:

(1) Balance sheets

(in millions of Korean won)

Company	Total assets	Total liabilities	Total stockholders' equity
Shinhan Bank	₩ 53,356,042	₩ 50,185,114	₩ 3,170,928
Shinhan Securities (*)	630,696	387,023	243,673
Shinhan Capital (*)	842,491	778,710	63,781
Shinhan ITC	45,171	2,613	42,558
e-Shinhan	6,473	129	6,344
Shinhan Macquarie	4,237	2,716	1,521
	₩ 54,885,110	₩ 51,356,305	₩ 3,528,805

(*) After reflecting additional allowances for loan losses amounting to ₩709 million and ₩13,019 million to Shinhan Securities and Shinhan Capital, respectively.

Notes to Non-consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001 (the "Period")

(2) Income statements

(in millions of Korean won)

Company	Operating Revenue	Operating expense	Operating income(loss)	Ordinary income(loss)	Net income (loss)
Shinhan Bank	₩ 2,290,062	₩ 2,185,158	₩ 104,903	₩ 120,610	₩ 86,902
Shinhan Securities (*)	140,382	122,389	17,993	23,855	17,472
Shinhan Capital (*)	63,503	71,718	(8,215)	(11,623)	(107)
Shinhan ITC	5,696	2,567	3,130	3,129	1,316
e-Shinhan	460	3,659	(3,199)	(3,187)	(3,187)
Shinhan Macquarie	3,210	1,473	1,737	1,747	521
	₩ 2,503,313	₩ 2,386,964	₩ 116,349	₩ 134,531	₩ 102,917

(*) After reflecting additional provisions for loan losses, amounting to ₩3,688 million and ₩30,074 million of Shinhan Securities and Shinhan Capital, respectively.

12. Financing and Operating Assets of Subsidiaries

As of December 31, 2001, the financing and operating assets of the Company and subsidiaries are as follows:

(1) Financing

(in millions of Korean won)

	Deposits	Borrowings	Debentures	Total
Shinhan Financial Group Co., Ltd.	₩ -	₩ 20,000	₩ 146,957	₩ 166,957
Shinhan Bank	31,892,878	9,662,034	3,512,530	45,067,442
Shinhan Securities	191,051	137,240	-	328,291
Shinhan Capital	-	404,551	258,734	663,285
	₩ 32,083,929	₩ 10,223,825	₩ 3,918,221	₩ 46,225,975

(2) Operating assets

(in millions of Korean won)

	Loans (*)	Securities	Bank deposits	Total
Shinhan Financial Group Co., Ltd.	₩ 145,728	₩ 3,801,572	₩ -	₩ 3,947,300
Shinhan Bank	33,881,256	14,020,180	1,265,987	49,167,423
Shinhan Securities	58,642	272,394	178,195	509,231
Shinhan Capital	633,561	68,475	-	702,036
Shinhan ITC	430	13,437	-	13,867
e-Shinhan	36	181	-	217
	₩ 34,719,653	₩ 18,176,239	₩ 1,444,182	₩ 54,340,074

(*) Net of allowance for loan losses and present value discounts.

Notes to Non-consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001 (the "Period")

13. Contribution of Subsidiaries to the Company's Net Income

(in millions of Korean won and thousands of U.S. Dollars)

	Korean Won		U.S. Dollars (Note 2)		Ratio (%)
Shinhan Bank	₩	86,902	₩	65,532	38.5
Shinhan Securities		141,015		106,338	62.5
Shinhan Capital		(107)		(81)	(-) 0.1
Shinhan ITC		1,316		992	0.6
e-Shinhan		(3,597)		(2,712)	(-) 1.6
Shinhan Macquarie		266		201	0.1
Gain on equity method valuation		225,795		170,270	100.0
Other revenue		747		564	
Operating expense		(5,779)		(4,359)	
Net income	₩	220,763	₩	166,475	

14. Allowance for Loan Losses of Subsidiaries

For the period ended December 31, 2001, changes in the allowance for loan losses of the Company and subsidiaries are as follows:

(in millions of Korean won)

	Beginning balance		Increase (decrease)		Ending balance
Shinhan Financial Group Co., Ltd.	₩	-	₩	1,472	₩ 1,472
Shinhan Bank		609,623		(42,279)	567,344
Shinhan Securities (Note1)		30,022		(14,351)	15,671
Shinhan Capital (Note 2)		86,293		16,161	102,454
Shinhan ITC		18		7	25
Shinhan Macquarie		-		21	21
	₩	725,956	₩	(38,969)	₩ 686,987

(Note 1) Including additional loan loss allowances made by the Company of ₩4,397 million as of September 1, 2001 and ₩709 million as of December 31, 2001.

(Note 2) Including allowance for losses on disposition of lease assets and additional loan loss allowances made by the Company of ₩43,093 million as of September 1, 2001 and ₩13,019 million as of December 31, 2001.

15. Income Tax Expense

(a) Reconciliations of accounting income and taxable income for the period ended December 31, 2001 is as follows:

(in millions of Korean won)

	Temporary differences		Permanent differences		Total
Additions:					
Deemed interest for tax purposes	₩	-	₩	401	₩ 401
Entertainment expense in excess of limit		-		120	120
Gain on valuation of investment securities		-		129,466	129,466
	₩	-	₩	129,987	₩ 129,987
Deductions:					
Investment securities	₩	129,466	₩	-	₩ 129,466
Valuation gain using the equity method of accounting		225,795		-	225,795
	₩	355,261	₩	-	₩ 355,261

Notes to Non-consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001 (the "Period")

(b) Changes in significant accumulated temporary differences and tax effects is as follows:

Description	(in millions of Korean won)		
	Beginning Balance	Increase (decrease)	Ending Balance
Valuation gain using the equity method of accounting	₩ -	₩ (225,795)	₩ (225,795)
Loss carried over from prior year	-	4,511	4,511
Total	₩ -	₩ (221,284)	₩ (221,284)
Income tax effects	₩ -	₩ -	₩ -

Dividends from subsidiaries are excluded for the Company's taxable income according to the Korean Corporate Tax Law. Accordingly, deferred income tax liabilities related to the gain on equity method valuation are not recognized due to uncertainty of realization.

(c) There is no current tax obligation incurred for the period.

16. General and Administrative Expenses

For the period ended December 31, 2001, general and administrative expenses are as follows:

Accounts	(in millions of Korean won and thousands of U.S. Dollars)	
	Korean won	U.S. dollars (Note 2)
Salaries	₩ 1,742	\$ 1,314
Entertainment	237	179
Depreciation and amortization	173	130
Bad debts	1,472	1,110
Commissions	602	454
Employee benefits	75	56
Taxes and dues	22	17
Other	310	234
Total	₩ 4,633	\$ 3,494

17. Income Per Share

The Company's income per share for the period ended December 31, 2001 is computed as follows:

	(in millions of Korean won and thousands of U.S. Dollars, except for common shares)	
	Korean Won	U.S. Dollars (Note 2)
Net income	₩ 220,763	\$ 166,475
Extraordinary income/expense	-	-
Ordinary income	220,763	166,475
Weighted average number of common shares outstanding	292,344,192 shares	292,344,192 shares
Ordinary income per share (Korean won and U.S. Dollar)	₩ 755	\$ 0.57
Net income per share (Korean won and U.S. Dollar)	₩ 755	\$ 0.57

Notes to Non-consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001 (the "Period")

18. Dividends

(a) Dividends during the period ended December 31, 2001 are calculated as follows:

Description	Korean won	
Dividend (rate) per share	₩	600 (12 %)
Number of shares issued and outstanding (Note 1)		262,470,897 shares
Dividends	₩	150,812,285,352

(Note 1) As of December 31, 2001, 29,873,295 shares held by Shinhan Bank are excluded due to the non dividend bearing nature of such shares.

(b) Payout ratio and dividend yield for the period ended December 31, 2001 are calculated as follows:

	Korean won	
A. Dividends	₩	150,812,285,352
B. Net income for the Period		220,762,998,627
C. Payout ratio (A ÷ B)		68.31%
D. Dividend per share	₩	600
E. Stock price at the balance sheet date		16.350
F. Price-dividends yield (D ÷ E)		3.67%

(c) The Company originally proposed ₩750 of dividend per share (dividend rate per share: 15%). However, the Company amended its financial statements due to a resolution of the stockholders' meeting, held on March 20, 2002, concerning the dividend, which was set at ₩600 per share (dividend rate per share: 12%). Therefore, the Company's dividend payable and retained earnings were both changed by ₩37,703,071 thousands, from the previous amounts.

19. Statement of Cash Flows

Significant non-cash transactions during the period ended December 31, 2001 are summarized as follows:

Description	(in millions of Korean won and thousands of U.S. Dollars)	
	Korean won	U.S. Dollars (Note 2)
Acquisition of investment securities by stock transfer	₩ 3,438,371	\$ 2,592,845
Dividend payable	150,812	113,726
Valuation gain on investment securities recorded as a capital adjustment	129,466	97,629
Changes in retained earnings of subsidiaries	840	633
Legal reserve for the Period	22,076	16,647
Total	₩ 3,741,565	\$ 2,821,480

Notes to Non-consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001 (the "Period")

20. Value Added Information

Value added information included in general and administrative expenses for the period ended December 31, 2001 is as follows:

Description	(in millions of Korean won and thousands of U.S. Dollars)	
	Korean won	U.S. Dollars (Note 2)
Salaries	₩ 1,743	\$ 1,314
Employee benefits	75	57
Rental	2	1
Depreciation	168	127
Tax and dues	22	17
Total	₩ 2,010	\$ 1,516

21. Economic Uncertainties

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to customary business practices.

The Korean economy continues to experience difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidation and uncertainty exists with regard to the continued availability of financing. The Company may be either directly or indirectly affected by the situation described above.

The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

INDEPENDENT AUDITORS' REPORT

Ahn Kwon & Co. 

**Deloitte
Touche
Tohmatsu**

Ahn Kwon & Co.

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To the Stockholders and Board of Directors of Shinhan Financial Group Co., Ltd.

We have audited the accompanying consolidated balance sheet of Shinhan Financial Group Co., Ltd. (the "Company") and its subsidiaries as of December 31, 2001 and the related consolidated statement of income, changes in stockholders' equity and cash flows for the period from September 1, 2001 (date of inception) to December 31, 2001 (the "Period"). These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2001, and the results of their operations, the changes in their stockholders' equity and their cash flows for the Period in conformity with financial accounting standards generally accepted in the Republic of Korea ("Korean GAAP").

Without qualifying our opinion, we draw attention to the following:

Our audit also comprehended the translation of Korean won amounts into U.S. dollar amounts and in our opinion, such translation has been made in conformity with the basis stated in Note 2 to the accompanying consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside of Korea. Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, changes in stockholders' equity and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice. As described in Note 23 of the accompanying consolidated financial statements, the Company amended its financial statements due to the resolution of the stockholders' meeting, held on March 20, 2002, for the dividend, which was changed from the Company's original proposal. Accordingly, we reissue our audit report on the date of herein, which supersedes our audit report issued on February 2, 2002.

As discussed in Note 31 to the accompanying consolidated financial statements, the operations of the Company and its subsidiaries have been affected, and may continue to be affected for the foreseeable future, by the general unstable economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these uncertainties of the financial position of the Company and its subsidiaries as of the balance sheet date cannot presently be determined.

Ahn Kwon & Co.

March 20, 2002

Consolidated Balance Sheet

December 31, 2001

(In millions of Korean won and thousands of U.S. dollars)

	Korean Won	U.S. Dollars (Note 2)
ASSETS		
Cash and due from banks (Notes 4, 5 and 18)	₩ 2,356,145	\$ 1,776,748
Trading securities (Notes 2, 5, 6 and 17)	2,198,360	1,657,763
Investment securities (Notes 2, 5 and 6)	12,962,204	9,774,681
Loans (Notes 2, 5 and 24)	36,035,890	27,174,338
(Allowance for loan losses) (Notes 2, 3 and 8)	(642,744)	(484,687)
(Present value discounts) (Notes 2 and 7)	(21,775)	(16,420)
	35,371,371	26,673,231
Non-current assets		
Investment assets	250	189
Premises and equipment (Notes 2, 10, 17 and 18)	986,729	744,083
(Accumulated depreciation)	(329,953)	(248,815)
	656,776	495,268
Intangible assets (Note 2)	739	557
Other assets (Notes 2, 5, 11 and 25)	2,783,804	2,099,241
TOTAL ASSETS	₩ 56,329,649	\$ 42,477,678
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits (Notes 2, 5 and 12)	₩ 34,390,192	\$ 25,933,332
Borrowings (Notes 2, 5 and 13)	10,049,401	7,578,162
Debentures (Notes 2, 5 and 14)	4,075,972	3,073,654
(Discout on debentures)	(327,199)	(246,738)
	3,748,773	2,826,916
Allowances (Note 15)	159,196	120,048
Other liabilities (Notes 2, 5 and 16)	4,869,416	3,671,983
TOTAL LIABILITIES	53216,978	40,130,441
Stockholders' equity:		
Capital stock (Note 19)	₩ 1,461,721	\$ 1,102,271
Capital surplus	1,976,650	1,490,574
Retained earnings	69,110	52,115
Capital adjustments		
Treasury stock (Note 20)	(394,475)	(297,470)
Loss on valuation of investment securities (Note 2)	(335)	(253)
TOTAL STOCKHOLDERS' EQUITY	3,112,671	2,347,237
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	₩ 56,329,649	\$ 42,477,678

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Period from September 1, 2001 (date of inception) to December 31, 2001

(In millions of Korean won and thousands of U.S. dollars, except for per share data)

	Korean Won	U.S. Dollars (Note 2)
OPERATING REVENUE		
Interest income:		
Interest on due from banks	₩ 37,597	\$ 28,351
Interest on trading securities	63,078	47,566
Interest on investment securities	497,270	374,987
Interest on loans	1,208,969	911,673
Other	15,677	11,822
	1,822,591	1,374,399
Commission and fee income	319,298	240,780
Other operating revenue:		
Gain on disposition of trading securities	67,644	51,010
Gain from foreign exchange transactions	75,628	57,030
Fees on trust accounts	22,189	16,732
Derivative instruments related income	247,042	186,292
Other	5,467	4,123
	417,970	315,187
Total operating revenue	2,559,859	1,930,366
OPERATING EXPENSE		
Interest expenses:		
Interest on deposits	823,705	621,148
Interest on borrowings	266,621	201,056
Interest on debentures	125,028	94,282
Other	27,660	20,858
	1,243,014	937,345
Commission and fee expenses	57,875	43,643
Other expenses:		
Loss on disposition of trading securities	51,030	38,481
Loss on valuation of trading securities	12,648	9,538
Loss from foreign exchange transactions	31,002	23,378
Contributions to funds	21,709	16,371
Bad debt expense	384,443	289,905
Provision for allowances for guarantees and acceptances	3,268	2,465
Derivative instruments related expenses	247,925	186,958
General and administrative expenses (Note 30)	370,629	279,488
Other	16,224	12,234
	1,138,878	858,818
Total operating expense	(2,439,767)	(1,839,806)
OPERATING INCOME	120,092	90,560
NON-OPERATING REVENUE:		
Gain on disposition of investment securities	49,963	\$ 37,677
Reversal of impairment of investment securities	17,385	13,110
Gain from negative goodwill	123,543	93,162
Other	31,300	23,603
	222,191	167,552
NON-OPERATING EXPENSES:		
Loss on disposition of investment securities	39,308	29,642
Loss on impairment of investment securities	26,405	19,912
Loss on valuation of investment in the Monetary Stabilization Fund	10,991	8,288
Other	14,429	10,881
	(91,133)	(68,723)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Stockholders' Equity

Period from September 1, 2001 (date of inception) to December 31, 2001

(In millions of Korean won and thousands of U.S. dollars)

(Continued)

	Korean Won	U.S. Dollars (Note 2)
ORDINARY INCOME	251,150	189,389
EXTRAORDINARY LOSS	(508)	(383)
INCOME BEFORE PROVISION FOR INCOME TAXES	250,642	189,006
PROVISION FOR INCOME TAXES (Note 21)	(29,879)	(22,531)
NET INCOME	₩ 220,763	\$ 166,475
INCOME PER SHARE (Note 22)	₩ 882	\$ 0.67

	Korean Won	U.S. Dollars (Note 2)
CAPITAL STOCK:		
Balance at September 1, 2001 (Inception)	₩ -	\$ -
Stock transfer from subsidiaries	1,461,721	1,102,271
Balance at end of period	1,461,721	1,102,271
CAPITAL SURPLUS:		
Balance at September 1, 2001 (Inception)	-	-
Stock transfer from subsidiaries	1,976,650	1,490,574
Balance at end of period	1,976,650	1,490,574
RETAINED EARNINGS:		
Balance at September 1, 2001 (Inception)	-	-
Net income	220,763	166,475
Dividends paid (Note 23)	(150,812)	(113,726)
Change in subsidiaries	(841)	(634)
Balance at end of period	69,110	52,115
CAPITAL ADJUSTMENTS:		
Balance at September 1, 2001 (Inception)	-	-
Acquisition of treasury stock	(394,475)	(297,470)
Change in consolidated capital adjustment	(335)	(253)
Balance at end of period	(394,810)	(297,723)
TOTAL STOCKHOLDERS' EQUITY	₩ 3,112,671	\$ 2,347,237

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Period from September 1, 2001 (date of inception) to December 31, 2001

(In millions of Korean won and thousands of U.S. dollars)

	Korean Won	U.S. Dollars (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	₩ 220,763	\$ 166,475
Addition of expenses not involving cash outflows (Note 24)	693,905	523,268
Deduction of revenue not involving cash inflows (Note 24)	(390,191)	(294,239)
Changes in assets and liabilities resulting from operations	(243,121)	(183,335)
Net Cash Provided by Operating Activities	281,356	212,169
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of securities	488,631	368,472
Decrease in loans	1,544,884	1,164,983
Disposal of premises and equipment	42,305	31,902
Decrease in other assets	830,636	626,375
Acquisition of securities	(505,613)	(381,278)
Increase in loans	(3,503,131)	(2,641,679)
Acquisition of premises and equipment	(105,776)	(79,765)
Increase in intangible assests	(232)	(175)
Increase in other assets	(830,877)	(626,557)
Net Cash Used In Investing Activities	(2,039,173)	(1,537,722)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits	2,334,885	1,760,715
Increase in borrowings	361,229	272,399
Increase in debentures	805,575	607,477
Disposition of treasury stock	155,387	117,176
Increase in other liabilities	1,933,243	1,457,841
Decrease in deposits	(185,625)	(139,978)
Decrease in borrowings	(2,902,707)	(2,188,905)
Decrease in debentures	(250,624)	(188,993)
Decrease in oher liabilities	(752,143)	(567,184)
Dividends paid	(484)	(365)
Net Cash Provided By Financing Activities	1,498,736	1,130,183
NET INCREASE IN CASH AND DUE FROM BANK	(259,081)	(195,370)
CASH AND DUE FROM BANK AT BEGINNING OF THE PERIOD	2,615,226	1,972,118
CASH AND DUE FROM BANK AT END OF THE PERIOD	₩ 2,356,145	\$ 1,776,748

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

1. General

(1) Controlling company

Shinhan Financial Group Co., Ltd. (the "Company"), the controlling company, was incorporated on September 1, 2001 by all shares of stock owned by shareholders of Shinhan Bank, Shinhan Securities Co., Ltd., Shinhan Capital Co., Ltd. and Shinhan Investment Trust Management Co., Ltd. being transferred to the Company. The Company is engaged in management services and financing to affiliated companies. As of December 31, 2001, the Company has six subsidiaries including e-Shinhan Inc. and Shinhan Macquarie Financial Advisory Co., Ltd. and has capital of ₩1,461,721 million. The Company's shares have been listed on the Korea Stock Exchange since September 10, 2001.

(2) Subsidiaries included in consolidation

(a) Shinhan Bank

Shinhan Bank (the "Bank") was incorporated on September 15, 1981 under the General Banking Act of Korea to engage in the commercial banking and trust business. As of December 31, 2001, the Bank's capital was ₩1,375,915 million, and the Bank has 335 branch offices and 170 automated teller machine locations.

(b) Shinhan Securities Co., Ltd.

Shinhan Securities Co., Ltd. ("Shinhan Securities") was founded as Dong-Hwa Securities Co., Ltd. for underwriting, dealing and brokerage services on January 31, 1962 and changed its name to Shinhan Securities on August 2, 1985. As of December 31, 2001, Shinhan Securities' capital was ₩119,237 million, and Shinhan Securities has 32 branch offices in Korea.

(c) Shinhan Capital Co., Ltd.

Shinhan Capital Co., Ltd. ("Shinhan Capital") was incorporated on April 19, 1991 as a specialized leasing company under the laws of the Republic of Korea and is engaged in the leasing business under the Leasing Promotion Law. Shinhan Capital changed its name on May 27, 1999 from Shinhan Leasing Co., Ltd. to Shinhan Capital and its capital was ₩80,000 million as of December 31, 2001.

(d) Shinhan Investment Trust Management Co., Ltd.

On August 1, 1996, Shinhan Investment Trust Management Co., Ltd. ("Shinhan ITC") was established and obtained a license to engage in the business of investment and trust of securities and advisory services under the Investment and Trust of Securities Law. The total amount of assets under management is ₩2,815,362 million and Shinhan ITC's capital was ₩40,000 million as of December 31, 2001.

(e) The Bank's trust accounts

Trust accounts in which the Bank guarantees repayment of principal and, in certain cases, minimum interest earnings are included in consolidation.

(f) Shinhan Finance Ltd.

Shinhan Finance Ltd. ("Shinhan Finance") was incorporated in November 1990 in Hong Kong as a wholesale bank and has capital of USD 55.6 thousand as of December 31, 2001.

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

As of December 31, 2001, the ownerships between the Company and its subsidiaries are as follows:

Investor	Investee	Number of shares	Percentage of ownership
Shinhan Financial Group			
Co., Ltd.	Shinhan Bank	275,182,926	100.0
"	Shinhan Securities	23,847,457	100.0
"	Shinhan Capital	16,000,000	100.0
"	Shinhan ITC	8,000,000	100.0
Shinhan Bank	Shinhan Financial Group Co., Ltd.	29,873,295	10.2
"	Shinhan Finance	55,600	100.0

(3) Affiliated companies recorded using the equity method of accounting

Investments in certain subsidiaries and affiliated companies over which the Company controls or has significant influence are required to be accounted for using the equity method of accounting in accordance with financial accounting standards for consolidated financial statements generally accepted in Korea. The investments in the following companies are accounted for using the equity method of accounting:

(a) e-Shinhan Inc.

e-Shinhan Inc. was incorporated on February 23, 2001 to engage in the business of internet brokerage service and comprehensive management service on customer accounts. On September 1, 2001, e-Shinhan became one of the subsidiaries of the Company through a stock purchase, and its capital was ₩2,820 million as of December 31, 2001

(b) Shinhan Macquarie Financial Advisory Co., Ltd.

Shinhan Macquarie Financial Advisory Co., Ltd. ("Shinhan Macquarie") was incorporated on August 1, 2001 to engage in the business of financial advisory services and cross border leasing. On September 1, 2001, Shinhan Macquarie became one of the subsidiaries of the Company through a stock purchase, and its capital was ₩1,000 million as of December 31, 2001.

(c) Shinhan System Co., Ltd.

Shinhan System Co., Ltd. ("Shinhan System") was incorporated in May 1991 to engage in computer services and has capital of ₩1,000 million as of December 31, 2001.

(d) Shinhan Research Institute

Shinhan Research Institute ("Shinhan Research") was incorporated in May 1987 and has capital of ₩200 million as of December 31, 2001.

As of December 31, 2001, ownership of the Company by affiliates applying the equity method of accounting is as follows:

Company	Number of share owned	Percentage owned (%)
e-Shinhan	415,495	73.67
Shinhan Macquarie	102,000	51.00
Shinhan System	199,986	99.99
Shinhan Research	20,000	50.00

(Note) The above companies are excluded from consolidation due to an exemption based on the size of total assets.

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

2. Summary of Significant Accounting Policies

The Company and its subsidiaries maintain their official accounting records in Korean won and prepare statutory financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea ("Korean GAAP"). Certain accounting principles applied by the Company and its subsidiaries that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been restructured and translated into English from the Korean language financial statements.

(1) Translation of assets and liabilities in foreign currency

The Company maintains its accounts in Korean won. Transactions conducted in foreign currencies have been recorded in Korean won based on the prevailing rates of exchange at the transaction dates. As allowed under Korean financial accounting standards, the Company translates its foreign currency assets and liabilities at the Base Rate announced by the Korean government on the balance sheet date which, for U.S. dollars, was US\$1 : ₩1,326.10 as of December 31, 2001, except for swap funds which are translated at the rates specified in the contracts. Resulting gains or losses are included in current operations as gains or losses on foreign exchange transactions. In cases where the acquisition of operating lease property was financed before March 31, 1998 by foreign currency borrowings and the risk of fluctuation of the exchange rate is hedged through a lease rental denominated in a foreign currency, any gain or loss on foreign currency translation incurred from such foreign currency borrowings is deferred and recognized as a gain or loss when the related lease rental is recognized as revenue. Financial statements of overseas branches are also translated into Korean won at the above Base Rate on the balance sheet date.

The financial statements are stated in Korean won, the currency of the country in which the Company is incorporated and operates. The translations of Korean won amounts into U.S. dollar amounts are included solely for the convenience of readers outside of Korea and have been made at the rate of ₩1,326.10 to US\$1, the Base Rate announced by the Korean government as of December 31, 2001. Such translation should not be construed as a representation that the Korean won amounts could be converted into U.S. dollar amounts at that or any other rate.

(2) Securities

Debt and equity securities bought and held for the purpose of selling them in the near term are classified as trading securities and other securities are classified as investment securities. Among investment securities, debt securities are classified as either held-to-maturity debt securities or available-for-sale debt securities at the time of purchase.

Trading securities are stated at fair value, and valuation gains or losses are reflected in current operations.

Investments in equity securities with readily determinable fair values and debt securities held for investment purposes (available-for-sale) are reported at fair value with unrealized gains or losses reported as a capital adjustment in stockholders' equity until realized. Declines in the fair value which are anticipated to be not recoverable are recorded as losses in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded as a capital adjustment in stockholders' equity.

Investments in equity securities that do not have readily determinable fair values are reported at cost, except for declines in the Company's proportionate equity of the underlying book value of the investees which are anticipated to be not recoverable, which are recorded as losses in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.

Notwithstanding the above accounting principles, investments in equity securities of companies over which the Company controls or

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

exercises significant influence are reported using the equity method of accounting. Under the equity method of accounting, the Company records changes in its proportionate equity of the book value of the investee as current operations, capital adjustments or adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

Investments in the Stock Market Stabilization Fund and partnerships are reported at net asset value in the amount of its proportionate book value of the investee and the differences between net asset value and book value are charged to current operations.

Investments in held-to-maturity debt securities are recorded at acquisition cost and the difference between face value and acquisition cost are amortized using the effective interest rate over the redemption period. Declines in the fair value which are anticipated to be not recoverable are recorded as losses in current operations.

(3) Allowance for loan losses

Shinhan Bank, the Company's subsidiary, established a credit risk rating model, which considers the borrower's capacity to repay and credit risk ("Forward Looking Criteria").

Based on the above model, the Company and its subsidiaries classified their loans and provided allowances for loan losses as of December 31, 2001 as follows:

Credit Risk Grade	Loan Classification	Provision Rate (%)			
		Enterprise loans	Household loans	Card loans	Credit card loans
1	Normal	0.2	0.3	0.3	2.0
2		0.5	0.5	0.5	2.5
3		0.7	1.0	1.0	3.0
4		1.2	1.3	1.5	3.5
5		1.5	1.5	2.0	4.0
6		2.0	1.8	2.4	4.5
7	Precautionary	4.0	4.0	4.0	6.0
8	Substandard	20.0	20.0	20.0	20.0
9	Doubtful	95.0	50.0	50.0	50.0
10	Uncollectable	100.0	100.0	100.0	100.0

(4) Troubled loan restructuring

Restructured loans which are related to companies involved in bankruptcy proceedings, composition proceedings or workout programs with creditors are stated at present value of expected future cash flows, and the difference between carrying amount and the present value of expected future cash flows is presented as a present value discount, and amortized and credited to operations as interest income using the effective interest rate method. In addition, an allowance for the present value of restructured loans is made depending on the credit conditions of borrowers.

(5) Premises and equipment

Premises and equipment are stated at acquisition cost or revalued amounts. Depreciation is computed using the declining balance method, except for buildings and leasehold improvements which are depreciated using the straight-line method, over the estimated useful lives of the related assets. Major renewals and betterments are capitalized if there is an increase in the useful life or value of the asset, and maintenance and repairs are charged to expense as incurred.

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

(6) Intangible assets

Intangible assets are stated at acquisition cost less amortization computed using the straight-line method over 5 years.

(7) Discounts on debentures

Discounts on debentures are presented as a contra account to the related debentures and amortized using the effective interest rate method over the redemption period as interest expense.

(8) Allowance for severance benefits

Employees with more than one year of service are entitled to receive lump-sum payments upon termination of their employment based on the Company and its subsidiaries' policies. An annual provision is recorded for severance benefits based on the liability that would be incurred if all the employees were to terminate on the balance sheet date. In addition, a portion of the liability is covered by deposits with insurance companies, which are recorded as a contra account to the allowance for severance benefits.

(9) Allowance for losses on guarantees and acceptances

The Company and its subsidiaries provide an allowance for losses on guarantees and acceptances which are classified as substandard, doubtful and uncollectable, using the same method as that used to provide for losses on its enterprise loans.

(10) Income tax expense and deferred income tax

Income tax expense is comprised of taxes payable for the current year and the change in deferred income tax assets or liabilities. The difference between the income tax expense and the amount of income tax shown in the current period's tax return is accounted for as deferred income tax assets or liabilities applicable to future periods.

(11) Derivative instruments

Derivative instruments such as forward contracts, interest rate futures, currency swaps and interest rate swaps are stated at fair value in the balance sheets. Based on the purpose of transactions, derivative instruments are divided into hedge transactions or trading transactions. The Company records rights and obligations arising from derivative instruments as assets and liabilities, which are stated at fair value. The gains and losses that result from the change in the fair value of derivative instruments are reported in current earnings. However, for derivative instruments designed as hedging the exposure of variable cash flows, the effective portion of the gain or losses on the hedging instruments are recorded as a separate component of shareholders' equity and credited/charged to operations at the time the hedged transactions affect earnings, and the ineffective portion of the gains or losses is credited/charged immediately to operations.

(12) Accounting for leases and rentals

(a) Classification of leases

Shinhan Capital accounts for leases that are non-cancelable over the terms of lease and meet one or more of the following criterias, as financing leases. Leases that do not meet these criterias are accounted for operating leases.

- i) The ownership of the leased property transfers to the lessee with a contracted price or free at the end of the lease term.
- ii) The lease has a bargain purchase option.
- iii) The lease term is more than the estimated useful life of the leased property, or the lease term is equal to 75% or more of the estimated useful life of the leased property, if contracted after April 1, 1998.

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

iv) The present value of the lease receivable which is computed using an implicit interest rate equals or exceeds 90% of the fair value of the leased property, if contracted after April 1, 1998.

(b) Revenue recognition

In case of financing leases, the portion originated from principal is accounted for as collections of outstanding receivables and the remaining interest income is accounted for as revenue in the current period. Revenue from operating leases is recognized on a straight-line basis over the lease term.

(c) Capitalization of financing charges

Interest expense and other similar financing charges incurred in the acquisition of leased property prior to the commencement date of the lease are capitalized as a cost of the leased property.

(d) Depreciation of assets for operating leases

Depreciation of assets for operating leases is computed using the straight-line method over the economic useful lives (or lease terms if contracted before April 1, 1998).

(e) Allowance for losses on disposal of leased property

Allowance for losses on disposal of leased property on operating leases is provided using the same method as that used to provide for losses on enterprise loans.

3. Standards Applied for Preparing Consolidated Financial Statements

(1) Offset of investment account of the Company against stockholders' equity account of each subsidiary

The investment account of the Company was offset against the corresponding stockholders' equity account of each subsidiary.

(2) Goodwill or negative goodwill

The goodwill and negative goodwill are amortized over certain periods which are less than 20 years.

(3) Elimination of intercompany balances and transactions between the Company and subsidiaries

As of and for the period ended December 31, 2001, intercompany balances and transactions between the Company and subsidiaries are fully eliminated in consolidation.

(4) Allowance for loan losses

Additional allowances for loan losses on certain subsidiaries' loans are provided in the consolidated financial statements for the purpose of applying consistent standards to all subsidiaries. Details of additional allowances are as follows:

Company	(in millions of Korean won)	
	Amount	
Shinhan Securities	₩	709
Shinhan Capital		13,019
	₩	13,728

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

(5) Valuations in the investment account using the equity method of accounting is as follows:

Description	(in millions of Korean won)			
	e-Shinhan	Shinhan Macquarie	Shinhan System	Shinhan Research
Acquisition cost	₩ 8,270	₩ 510	₩ 1,000	₩ 100
Change in equity:				
Increase in retained earnings	-	-	721	116
Gain (loss) on valuation of securities	(3,597)	266	143	(58)
	(3,597)	266	864	58
Ending balance	₩ 4,673	₩ 776	₩ 1,864	₩ 158

4. Cash and Due from Banks

Cash and due from banks as of December 31, 2001 consist of the following:

	(in millions of Korean won and U.S. dollars)	
	Korean won	U.S. dollar (Note 2)
Cash and bank deposits:		
Cash on hand in Korean won	₩ 808,995	\$ 610,056
Cash on hand in foreign currency	42,925	32,369
Bank deposits in Korean won	23,061	17,390
Bank deposits in foreign currency	415	313
	875,396	660,128
Due from banks:		
Due from bank in Korean won	1,460,721	1,101,517
Due from bank in foreign currency	12,410	9,358
Off-shore due from bank in foreign currency	6,630	5,000
Other	988	745
	1,480,749	1,116,620
	₩ 2,356,145	\$ 1,776,748

Of the total due from banks as of December 31, 2001, ₩ 731,756 million is restricted for use.

5. Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2001 consist of the following:

	Foreign Currency (thousands of U.S. dollars)	Equivalent Korean won (millions)
Assets :		
Cash and due from banks	\$ 47,041	₩ 62,382
Trading securities	21,817	28,931
Investment securities	519,648	689,105
Loans	4,365,847	5,789,551
Other assets	32,845	43,556
	\$ 4,987,198	₩ 6,613,525
Liabilities :		
Deposits	\$ 1,364,348	₩ 1,809,261
Borrowings	2,609,386	3,460,307
Debentures	277,457	367,936
Other liabilities	107,618	142,711
	\$ 4,358,809	₩ 5,780,215

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

6. Securities

(1) As of December 31, 2001, securities consist of the following:

	(in millions of Korean won and U.S dollars)	
	Korean won	U.S. dollars (Note 2)
Trading securities:		
Stocks	₩ 89,144	\$ 67,223
Government bonds	359,092	270,788
Finance debentures	1,011,713	762,924
Corporate bonds	593,095	447,247
Beneficiary certificates	65,944	49,728
Commercial paper	28,931	21,817
Trading securities in foreign currency	50,000	37,704
Other	441	332
	2,198,360	1,657,763
Investment securities:		
Stocks	274,024	206,639
Equity investments	29,508	22,252
Government bonds	1,983,968	1,496,092
Finance debentures	2,262,200	1,705,905
Corporate bonds	6,546,329	4,936,527
Beneficiary certificates	1,171,508	883,424
Investment securities in foreign currency	689,106	519,648
Other	5,561	4,194
	₩ 12,962,204	\$ 9,774,681

(2) Details of investment securities in foreign currency as of December 31, 2001 are as follows:

Currency	Type of securities	(in thousands of USD and millions of Korean won)	
		U.S dollars	Equivalent Korean won
USD	Bonds	\$ 125,019.98	₩ 165,789
	Convertible bonds	22,809.74	30,248
	E-Bonds	17,283.01	22,919
	Floating rate notes	211,429.76	280,377
	Yankee bonds	36,197.87	48,002
	Investment in equity	49,122.24	65,141
	Other	24,196.15	32,087
		486,058.75	644,563
JPY	Bonds	14,377.50	19,066
	Medium term bonds	3,814.19	5,058
	Samurai bonds	9,917.80	13,152
	Other	7.54	10
	28,117.03	37,286	
EUR	Floating rate bonds	5,472.44	7,257
	Total	\$ 519,648.22	₩ 689,106

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

(3) Debt securities as of December 31, 2001 consist of the followings:

(in millions of Korean won)

	Face value	Acquisition cost	Fair value	Book value
Trading securities:				
Government bonds	₩ 359,444	₩ 360,078	₩ 360,095	₩ 359,092
Finance debentures	1,032,742	1,016,183	1,013,120	1,011,714
Corporate bonds	698,262	716,322	713,763	593,095
Total	₩ 2,090,448	₩ 2,092,583	₩ 2,086,978	₩ 1,963,901
Investment securities:				
Available-for-sale:				
Government bonds	₩ 806,085	₩ 767,600	₩ 890,464	₩ 808,070
Finance debentures	1,680,483	1,661,113	1,139,023	1,639,187
Corporate bonds	2,835,971	2,860,550	2,936,935	2,877,102
Other	3,179	3,144	2,519	2,543
	5,325,718	5,292,407	4,968,941	5,326,902
Held-to-maturity:				
Government bonds	806,085	767,600	890,464	808,070
Finance debentures	1,680,483	1,661,113	1,139,023	1,639,187
Corporate bonds	2,835,971	2,860,550	2,936,935	2,877,102
Other	3,179	3,144	2,519	2,543
	5,461,839	5,430,755	5,842,394	5,471,156
Total	₩ 10,787,557	₩ 10,723,162	₩ 10,811,335	₩ 10,798,058

(4) Investments in equity securities as of December 31, 2001 consist of the following:

(in millions of Korean won)

	Number of shares	Percentage ownership(%)	Acquisition cost	Fair or net asset value	Book value
Stocks:					
<Stock accounted for using the equity method of accounting>					
e-Shinhan	415	73.67	₩ 8,270	₩ 4,673	₩ 4,673
Shinhan Macquarie	102	51.00	510	776	776
Shinhan System	200	99.99	1,000	1,864	1,864
Shinhan Research	20	50.00	100	158	158
			9,880	7,471	7,471
<Other>					
Shinwon	8,588	5.92	10,108	7,815	7,815
Ssangyong Construction	8,365	6.78	21,082	4,099	4,099
Hyundai Construction	13,594	2.84	67,971	44,182	44,182
Kia Motors Co., Ltd.	1,640	0.42	11,548	14,531	14,531
Anam Semiconductors	2,230	1.99	14,556	12,644	12,644
Hyundai Petrochemical Co., Ltd.	3,501	4.97	14,005	26,475	14,005
Shinsegi Telecom., Inc.	785	0.49	11,512	2,329	11,512
Other	29,997	-	189,848	147,971	157,765
			340,630	260,046	266,553
			350,510	267,517	274,024
Investments in partnership:					
Stock Market Stabilization Fund		3.96	23,643	24,014	24,014
Korea Stock Exchange		3.13	2,149	17,413	2,149
Other		-	3,345	3,496	3,345
			29,137	44,923	29,508
			₩ 379,647	₩ 312,440	₩ 303,532

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

7. Loans

(1) As of December 31, 2001, loans consist of the following:

	(in millions of Korean won and thousands of U.S. Dollars)	
	Korean won	U.S. Dollars (Note 2)
Loans in Korean won	₩ 23,071,054	\$ 17,397,673
Loans in foreign currencies	3,114,850	2,348,880
Domestic import usance bills	10,840	8,174
Call loans	1,897,650	1,431,001
Bills bought in Korean won	2,061,137	1,554,285
Foreign exchange bills	1,877,234	1,415,605
Advance for guarantees	46,783	35,279
Credit card accounts	2,093,272	1,578,518
Bonds purchased under resale agreements	6,631	5,000
Privately placed bonds	1,136,410	856,956
Factored receivables	31,817	23,993
Receivables to be converted into equity	125,355	94,529
Financing leases	549,423	414,315
Other	13,434	10,130
(Allowance for loan losses)	(642,744)	(484,687)
(Present value discounts)	(21,775)	(16,420)
Total	₩ 35,371,371	\$ 26,673,231

(2) As of December 31, 2001, maturities on loans are as follows:

Remaining period	(in hundred millions of Korean won)		
	Loans in Korean won	Loans in foreign currency	Total
~ 1 year	₩ 149,209	₩ 22,571	₩ 171,780
1 ~ 3 years	64,635	1,874	66,509
3 years ~	16,867	6,703	23,570
Total	₩ 230,711	₩ 31,148	₩ 261,859

(3) Troubled loans restructured for the period ended December 31, 2001 consist of the following:

Description	(in millions of Korean won)		
	Principal before restructuring	After restructuring	Present value discount
Troubled loans restructured during the period	₩ 66,359	₩ 62,442	₩ 3,917
Beginning balance of present value discount			26,170
Amortization of present value discount			(9,129)
Loss on foreign currency translation			817
Ending balance			₩ 21,775

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

8. Allowance for Doubtful Accounts

(1) As of December 31, 2001, allowances for doubtful accounts consist of the followings:

(in millions of Korean won and thousands of U.S.Dollars)

	Korean won		U.S. Dollars (Note 2)	
Allowance for doubtful accounts related to:				
Loans	₩	642,744	\$	484,687
Other assets		78,396		59,118
	₩	721,140	\$	543,805

(2) Details of allowance for doubtful accounts provided by the Company and its subsidiaries, as of December 31, 2001 are as follows:

(in millions of Korean won)

	Beginning balance		Increase (decrease)		Ending balance	
Shinhan Financial Group						
Co., Ltd.	₩	-	₩	1,472	₩	1,472
Shinhan Bank		609,623		(42,279)		567,344
Shinhan Bank (Trust)		43,867		(13,643)		30,224
Shinhan Finance		3,155		794		3,949
Shinhan Capital		86,293		(16,161)		102,454
Shinhan Securities		30,022		(14,351)		15,671
Shinhan ITC		18		8		26
Total	₩	772,978	₩	(51,838)	₩	721,140

9. Lease Assets

The collection schedule for lease receivables of Shinhan Capital as of December 31, 2001 is as follows:

(in millions of Korean won)

Year	Operating leases		Financing leases		Total
2002.1.1 ~ 2002.12.31	₩	27,521	₩	205,655	₩ 233,176
2003.1.1 ~ 2003.12.31		7,894		157,151	165,045
2004.1.1 ~ 2004.12.31		2,091		120,898	122,989
2005.1.1 ~ 2005.12.31		99		87,136	87,235
2006.1.1 ~ 2006.12.31		14		45,432	45,446
Thereafter		-		38,526	38,526
Total		37,619		654,798	692,417
Unearned interest on financing leases		-		(105,375)	(105,375)
	₩	37,619	₩	549,423	₩ 587,042

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

10. Premises and equipment

(1) As of December 31, 2001, premises and equipment consist of the following:

	(in millions of Korean won and U.S. Dollars)	
	Korean won	U.S. Dollars (Note 2)
Land	₩ 276,705	\$ 208,661
Buildings	291,013	219,450
Other	419,011	315,972
	986,729	744,083
(Accumulated depreciation)	(329,953)	(248,815)
	₩ 656,776	\$ 495,268

(2) The value of land publicly declared by the government as of December 31, 2001 is as follows:

	(in millions of Korean won)	
	Book value	Declared value
Premises and equipment - Land	₩ 274,002	₩ 187,255

11. Other assets

Other assets as of December 31, 2001 consist of the following:

	(in millions of Korean won and thousands of U.S. dollars)	
	Korean won	U.S. Dollars (Note 2)
Account receivables	₩ 1,634,648	\$ 1,232,673
Advance payments	30,465	22,973
Prepaid expenses	13,383	10,092
Accrued income	584,711	440,925
Operating lease assets	153,944	116,088
Key money deposits	377,663	284,792
Deferred income tax assets	18,049	13,611
Derivative assets	91,932	69,325
Deferred foreign currency translation loss on operating lease	9,507	7,169
Other	61,006	46,004
(Accumulated depreciation on operating lease assets)	(112,130)	(84,556)
(Allowance for doubtful accounts)	(78,396)	(59,118)
(Present value discounts)	(978)	(737)
	₩ 2,783,804	\$ 2,099,241

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

12. Deposits

(1) As of December 31, 2001, deposits consist of the following:

	(in millions of Korean won and U.S. Dollars)	
	Korean won	U.S. Dollars (Note 2)
Deposits in Korean won	₩ 29,714,108	\$ 22,407,140
Negotiable certificate of deposits	2,866,823	2,161,845
Deposits in foreign currency	1,809,261	1,364,347
Total	₩ 34,390,192	\$ 25,933,332

(2) Details of deposits provided by the Company and its subsidiaries as of December 31, 2001 are as follows:

Company	(in millions of Korean won)		
	Deposits in Korean won	Negotiable certificate of deposits	Deposits in foreign currency
Shinhan Bank	₩ 272,439	₩ 28,668	₩ 13,455
Shinhan Bank (Trust)	22,791	-	-
Shinhan Securities	1,911	-	-
Shinhan Finance	-	-	4,638
Total	₩ 297,141	₩ 28,668	₩ 18,093

13. Borrowings

(1) As of December 31, 2001, borrowings consist of the following:

	(in millions of Korean won and U.S. Dollars)	
	Korean won	U.S. Dollars (Note 2)
Borrowings in Korean won	₩ 2,250,439	\$ 1,697,036
Borrowings in foreign currency	3,086,192	2,327,269
Off-shore borrowings in foreign currency	122,010	92,007
Bonds sold under repurchase agreements	3,849,967	2,903,225
Bills sold	257,887	194,470
Due to the Bank of Korea in foreign currency	139,084	104,882
Call money	343,822	259,273
Total	₩ 10,049,401	\$ 7,578,162

(2) Details of the borrowings of the Company and its subsidiaries as of December 31, 2001 are as follows:

Company	(in hundred millions of Korean won)		
	Borrowings in Korean won	Borrowings in foreign currency(*)	Total
Shinhan Financial Group Co., Ltd.	₩ 200	₩ -	₩ 200
Shinhan Bank	21,290	32,081	53,371
Shinhan Capital	909	1,273	2,182
Shinhan Securities	105	-	105
Shinhan Finance	-	119	119
Total	₩ 22,504	₩ 33,473	₩ 55,977

(*) Including due to the Bank of Korea and off-shore borrowings in foreign currency.

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

(3) The payment schedule of borrowings as of December 31, 2001 is as follows:

Year	(in hundred millions of Korean won)		
	Borrowings in Korean won	Borrowings in foreign currency(*)	Total
2002. 1. 1 ~ 2002. 12. 31	₩ 16,643	₩ 28,707	₩ 45,050
2003. 1. 1 ~ 2005. 12. 31	3,813	4,279	8,092
Thereafter	2,348	487	2,835
Total	₩ 22,504	₩ 33,473	₩ 55,977

(*) Including due to the Bank of Korea and off-shore borrowings in foreign currency.

(4) Subordinated borrowings reported as borrowings in Korean won as of December 31, 2001 are as follows:

Lender	Amount	Maturity	Interest rate	(in millions of Korean won)
				Repayment
Hungkuk Life Insurance	₩ 40,000	2007. 12. 31	8.0%	Maturity date
Kyobo Life Insurance	30,000	2008. 06. 30	8.0%	Maturity date
Samsung Life Insurance	9,000	2007. 10. 31	10.0%	Maturity date
Total	₩ 79,000			

14. Debentures

(1) As of December 31, 2001, debentures consist of the following:

	(in millions of Korean won and U.S. Dollars)	
	Korean won	U.S. Dollars (Note 2)
Debentures in Korean won	₩ 3,708,036	\$ 2,796,197
Debentures in foreign currency	367,936	277,457
	4,075,972	3,073,654
(Discount on debentures)	(327,199)	(246,738)
	₩ 3,748,773	\$ 2,826,916

(2) Details of debentures in Korean won as of December 31, 2001 consist of the following:

Description	(in millions of Korean won)	
	Amount	Interest rate (%)
Discount bonds	₩ 1,539,064	4.74 ~ 09.92
Compound interest rate bonds	100,000	5.00 ~ 07.10
Coupon bonds	525,552	6.30 ~ 11.46
Subordinated bonds	1,543,420	6.73 ~ 15.13
	₩ 3,708,036	

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

(a) The payment schedule of debentures in Korean won is as follows:

Period	(in millions of Korean won)	
	Amount	
2002. 1. 1. ~ 2002. 12. 31	₩	1,386,000
2003. 1. 1. ~ 2005. 12. 31		479,551
Thereafter		1,842,485
Total	₩	3,708,036

(3) Debentures in foreign currency

Shinhan Bank established two programs with Merrill Lynch International Limited and four other financial institutions to issue Euro Medium Term Notes (EMTN) on November 9, 1995 and Global Medium Term Notes (GMTN) on August 20, 1999. Details of the programs are as follows:

Total amount which can be issued	:	USD 2,000,000,000
Place of trading	:	London Stock Exchange
Issue price	:	Face value or discounted value
Maturity date and interest date	:	Various depending on date of issuance
Repayment	:	Maturity date

In accordance with the programs, Shinhan Bank issued the following debentures in foreign currencies as of December 31, 2001.

Issue date	Amount	Maturity	Interest rate	(in millions of USD)	
				Underwriter	
1997. 06. 27	USD 150	2002. 06. 26	Libor + 75bp	MERRILL LYNCH	
1999. 03. 15	30	2004. 03. 15	Libor + 260bp	ABN AMRO	
2000. 03. 30	20	2002. 03. 28	Libor + 100bp	RZB	
2000. 04. 06	20	2002. 04. 06	Libor + 80bp	NATEXIS	
2001. 04. 25	55	2002. 04. 25	Libor + 33bp	RZB	
Total	USD 275				

15. Allowances

(1) Allowances as of December 31, 2001 consist of the followings:

	(in millions of Korean won and thousands of U. S. dollars)			
	Korean won		U.S. Dollars (Note 2)	
Allowances for severance benefits	₩	192,465	\$	145,136
(National Pension Fund)		(10,185)		(7,680)
(Deposits with insurance company)		(36,161)		(27,269)
		146,119		110,187
Allowance for guarantees and acceptances		13,077		9,861
	₩	159,196	\$	120,048

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

(2) Details of allowances for guarantees and acceptances as of December 31, 2001 consist of the following:

	Guarantees and acceptances		Allowance		(in millions of Korean won)
					Ratio
Normal	₩	2,063,355	₩	-	-
Precautionary		108,032		-	-
Substandard		39,547		7,911	20 %
Doubtful		4,324		4,109	95 %
Uncollectable		1,057		1,057	100 %
	₩	2,216,315	₩	13,077	

The allowance is provided only for the guarantees and acceptances classified as substandard or below.

16. Other Liabilities

As of December 31, 2001, other liabilities consist of the followings:

	(in millions of Korean won and thousands of U. S. dollars)	
	Korean won	U.S. Dollars (Note 2)
Other allowances	₩ 2,320	\$ 1,749
Borrowings from trust accounts	651,160	491,034
Foreign exchange remittance pending	82,304	62,065
Securities sold	12,461	9,397
Accounts payable	1,627,273	1,227,112
Accrued expenses	1,166,807	879,879
Income tax payable	9,881	7,451
Dividends payable	152,929	115,322
Advance receipts	8,284	6,247
Unearned revenue	79,145	59,683
Withholding taxes	36,946	27,861
Guarantee deposits	92,634	69,854
Derivative liabilities	104,985	79,168
Deferred income tax liabilities	33,671	25,391
Deposits for stock subscription	26,455	19,949
Deferred foreign exchange translation gain related to operating lease	3,736	2,817
Other	778,425	587,003
	₩ 4,869,416	\$ 3,671,983

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

17. Pledged Assets

Pledged assets of the Company and its subsidiaries as collateral as of December 31, 2001 are as follows:

				(in millions of Korean won)
Account	Secured party	Amount	Remarks	
Government and public bonds	Bank of Korea	₩ 921,467	Secured for borrowings	
Land and buildings	Good Morning Securities	1,189	Collateral for key money	
Trading securities - Stocks	Korea Stock Exchange	2,327	Guarantees for futures and options	
Trading securities - Bonds	Korea Securities Finance	35,538	Secured on lease transactions	
		₩ 960,521		

18. Insured Assets

Insured assets of the Company and its subsidiaries as of December 31, 2001 are as follows:

			(in millions of Korean won)	
Assets insured	Amount	Insurance company		
Cash	₩ 15,508	Regent Fire and Marine Insurance		
Buildings	346,124	Samsung Fire and Marine Insurance		
Antiques	186	Regent Fire and Marine Insurance		
		₩ 361,818		

The Company has also comprehensive vehicles insurance, directors' insurance and accident insurance for employees.

19. Capital Stock

Details of capital stock as of December 31, 2001 are as follows:

Number of common stock authorized (shares)	:	1,000,000,000
Par value	:	₩5,000
Number of shares issued and outstanding	:	292,344,192

20. Treasury Stock

Treasury stock of ₩394,475 million as of December 31, 2001 is the Company's stock possessed by its subsidiary, Shinhan Bank, and it is planned to be disposed of in the near future.

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

21. Income Tax Expense

Details of income tax expense and deferred income tax assets and liabilities for the period ended and as of December 31, 2001 are as follows:

(1) Reconciliation of accounting income and taxable income

(in millions of Korean won)

Description	Temporary differences	Permanent differences	Total
Additions:			
Loss on valuation of trading securities	₩ 75,680	₩ -	₩ 75,680
Impairment loss on investment securities	26,505	-	26,505
Reserve for loss on foreign investment	5,658	-	5,658
Gain on valuation of securities using the equity method of accounting incurred by subsidiaries in prior year	27,463	-	27,463
Amount in excess of limit for allowance for severance benefits	555	-	555
Reversal of allowance for deposits with insurance company	25	-	25
Amortization of deferred foreign exchange translation loss related to operating leases	2,574	-	2,574
Deferred foreign currency translation gains	12,494	-	12,494
Financing leases	4,038	-	4,038
Settlement gains on financing leases	809	-	809
Bad debts	8,776	-	8,776
Allowance for loss on disposition of lease assets	1,215	-	1,215
Allowance for guarantees and acceptances	2,320	-	2,320
Valuation loss on investment securities	3,135	-	3,135
Compensation expense for stock options	735	-	735
Entertainment expense in excess of limit	-	1,532	1,532
Accounts payable	481	-	481
Accrued income earned by subsidiaries in prior year	39	-	39
Other	2,301	7,829	10,130
Sub-total	174,803	9,361	184,164

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

(Continued)

(in millions of Korean won)

Description	Temporary differences		Permanent differences		Total
Deductions:					
Accrued income on trading securities	₩	529	₩	-	₩ 529
Valuation gains on trading securities		77,789		-	77,789
Provision for allowance for severance benefits		106		-	106
Stock Market Stabilization Fund		17,589		-	17,589
Impairment loss on investment securities incurred by subsidiaries in prior year		17,497		-	17,497
Provision for allowance for guarantees and acceptances		4,532		-	4,532
Stock dividend		2,682		-	2,682
Troubled loan restructurings		10,283		-	10,283
Amount in excess of limit for allowance for loan losses incurred by subsidiaries in prior year		46,060		-	46,060
Allowance for loss on disposition of lease assets		901		-	901
Deferred foreign currency translation loss		10,251		-	10,251
Deferred foreign exchange translation gain related to operating leases		1,791		-	1,791
Foreign tax deduction		-		1,417	1,417
Loss on valuation of securities using the equity method of accounting (adjusted retained earnings)		-		6,250	6,250
Settlement gain on futures		51		-	51
Dividends received		-		859	859
Loss on disposition of treasury stock		-		15,836	15,836
Sub-total		190,061		24,362	214,423
Total	₩	(15,258)	₩	(15,001)	₩ (30,259)

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

(2) Change in significant accumulated temporary differences

(in millions of Korean won)

Description	Beginning balance	Increase	Decrease	Ending balance
Deductible temporary differences:				
Loss on valuation of marketable securities	₩ 224,324	₩ -	₩ 32,063	₩ 192,261
Donations payable	1,011	481	-	1,492
Stock Market Stabilization Fund	12,544	-	5,082	7,462
Impairment loss on investment securities	150,249	12,143	-	162,392
Allowance for guarantees and acceptances	17,609	-	2,212	15,397
Loss on valuation of securities using the equity method of accounting	38,267	-	18,530	19,737
Amount in excess of limit for allowance for loan losses	43,247	-	43,247	-
Amount in excess of limit for allowance for severance benefits	123	555	-	678
Deemed dividend	480	-	-	480
Stock dividend	6,744	-	2,682	4,062
Troubled loan restructurings	21,892	-	10,283	11,609
Bad debts	102,711	5,963	-	108,674
Allowance for loss on disposition of lease assets	1,002	314	-	1,316
Deferred foreign currency translation loss	33,316	-	10,251	23,065
Operating lease assets	25,647	-	-	25,647
Deferred foreign exchange translation credit related to operating leases	3,414	-	1,792	1,622
Compensation expense for stock options	1,263	735	-	1,998
	683,843	20,191	126,142	577,892
Taxable temporary differences:				
Reserve for loss on foreign investment	12,979	-	5,658	7,321
Accrued income on trading securities	333,490	489	-	333,979
Gain on redemption of marketable securities	301,391	-	43,516	257,875
Gain on valuation of securities using the equity method of accounting	38,015	-	32,431	5,584
Allowance for accumulated depreciation	4,639	-	-	4,639
Allowance for employee retirement deposits with insurance company	25	81	-	106
Stock Market Stabilization Fund	4,567	12,507	-	17,074
Fund for loss against nonperformance	164	-	-	164
Deferred foreign exchange translation gain related to operating leases	5,600	-	2,574	3,026

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

(Continued)

Description	Beginning balance	Increase	Decrease	Ending balance
Adjustment credit for foreign currency	₩ 30,837	₩ -	₩ 12,494	₩ 18,343
Financing leases	11,704	-	4,038	7,666
Settlement gain on financing leases	809	-	809	-
Reserve for loss on investments	950	-	-	950
Settlement gain on futures	-	51	-	51
Other	2,535	-	2,301	234
Sub -total	747,705	13,128	103,821	657,012
Total	₩ (63,862)	₩ 7,063	₩ 22,321	₩ (79,120)
Tax effect of cumulative temporary difference	₩ (19,670)	₩ 2,098	₩ 5,927	₩ (23,499)
Tax effects of tax loss carryforwards	431	7,877	431	7,877
Total deferred tax assets (liabilities)	₩ (19,239)	₩ 9,975	₩ 6,358	₩ (15,622)

Dividends from subsidiaries are excluded from the Company's taxable income according to the Korean Corporate Tax Law. Accordingly, deferred income tax liabilities related to the gain on equity method valuation are not recognized due to uncertainty of realization. In addition, Shinhan Bank has an asset revaluation surplus on land amounting to ₩77,448 million as of December 31, 2001. However, the tax effect is not recognized because of uncertainty of realization in the near future.

(3) Effective tax rates

The effective tax rate for the period ended December 31, 2001 is computed as follows:

	(in millions of Korean won) Amount
Income tax expense	₩ 29,879
Income before income tax expense	250,642
Effective tax rate	11.92%

(4) Income tax expense

Details of income tax expense for the period ended December 31, 2001 are as follows:

	(in millions of Korean won) Amount
Provision for taxes payable for the period	₩ 33,495
Change in deferred tax due to temporary differences	(3,829)
Change in deferred tax due to tax loss carryforwards	7,446
Income tax expense	₩ 29,879

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

22. Income per Share

Consolidated income per share for the period ended December 31, 2001 is computed as follows:

(in Korean won except for outstanding shares)

		Amount
Net income	₩	220,762,998,627
Addition of extraordinary loss		508,043,901
Deduction of income tax on extraordinary loss		(156,477,522)
Ordinary income		221,114,565,006
Weighted average number of shares outstanding		250,428,777 shares
Ordinary income per share	₩	883
Net income per share	₩	882

23. Dividends

(1) Dividends during the period ended December 31, 2001 are calculated as follows:

(in Korean won except for number of share)

Description		Amount
Dividend amount (rate) per share	₩	600 (12 %)
Number of share issued and outstanding (Note1)		262,470,897 shares
Dividends	₩	150,812,285,352

(Note 1) Excluding treasury stock of 29,873,295 shares, as of December 31, 2001.

(2) Payout ratio and dividend yields for the period ended December 31, 2001 are calculated as follows:

(in Korean won)

		Amount
A. Dividends	₩	150,812,285,352
B. Net income for the period		220,762,998,627
C. Payout ratio (A ÷ B)		68.31%
D. Dividend per share	₩	600
E. Stock price at the balance sheet date		16,350
F. Price-dividends yield (D ÷ E)		3.67%

(3) The Company originally proposed ₩750 of dividend per share (dividend rate per share: 15%). However, the Company amended its financial statements due to a resolution of the stockholders' meeting, held on March 20, 2002, concerning the dividend, which was resolved ₩600 per share (dividend rate per share: 12 %). Therefore, the Company's dividend payable and retained earnings were changed by ₩37,703,071 thousands, respectively, from the previous amounts.

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

24. Consolidated Statement of Cash Flows

(1) Cash and due from banks in the consolidated statement of cash flows are equal to cash and due from banks on the consolidated balance sheets as of December 31, 2001.

(2) Expenses not involving cash outflows from operating activities for the period ended December 31, 2001 are as follows:

Description	(in millions of Korean won and thousands of U.S. dollars)	
	Korean won	U.S. dollars (Note 2)
Interest expense	₩ 21,952	\$ 16,554
Depreciation and amortization expense	55,781	42,064
Bad debt expense	384,443	289,905
Provision for retirement benefits	29,459	22,215
Loss on disposition of securities	90,338	68,123
Loss of valuation on securities	23,639	17,826
Impairment loss on securities	26,405	19,912
Loss on valuation of securities using the equity method of accounting	3,246	2,448
Loss on disposition of premises and equipment	137	103
Loss from foreign exchange transactions	30,784	23,214
Loss from redemption of debentures	807	609
Provision for allowances for guarantees and acceptances	3,268	2,464
Expense related to derivative instruments	18,967	14,303
Compensation expense on stock options	735	554
Other	3,944	2,974
	₩ 693,905	\$ 523,268

(3) Revenue not involving cash inflows from operating activities for the period ended December 31, 2001 are as follows:

Description	(in millions of Korean won and thousands of U.S. dollars)	
	Korean won	U.S. dollars (Note 2)
Interest income	₩ 12,318	\$ 9,289
Gain on disposition of securities	117,606	88,685
Gain on valuation of securities	4,950	3,733
Reversal of impairment loss on securities	17,385	13,110
Reversal of allowance for loan losses	799	602
Gain on sale of loans	1,880	1,418
Gain on disposition of premises and equipment	77	58
Gain from negative goodwill	123,543	93,163
Income related to derivative instruments	34,900	26,318
Gain from foreign exchange transactions	75,523	56,951
Other	1,210	912
	₩ 390,191	\$ 294,239

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

(4) Significant transactions not involving cash inflows or outflows are as follows:

Description	(in millions of Korean won and thousands of U.S. Dollars)	
	Korean won	U.S. Dollars (Note 2)
Reclassification from trading securities to investment securities	₩ 2,575	\$ 1,942
Valuation gain on investment securities recorded as capital adjustment	335	253
Increase in dividend payable	188,515	142,157
Reclassification from loans to loans to be converted into equity	125,273	94,467
Reclassification from advances for guarantees to debt for equity swap	1,765	1,331
Increase in present value discounts from troubled debt restructuring	4,538	3,422
Acquisition of investment securities by stock transfer	3,438,371	2,592,844
Reclassification from advance payments to financing lease	176,557	133,140
Reclassification from advance payment to operating lease assets	7,396	5,577

25. Loans to Employees

The Company and its subsidiaries have loans to employees amounting to ₩68,381 million for housing as of December 31, 2001.

26. Derivative Instruments

(1) Details of derivative instruments as of December 31, 2001 are as follows:

Description		(in millions of Korean won)					
		Interest	Currency	Stock	Other	Total	
Purpose of transaction	Hedge	₩ 560,206	₩ 18,565	₩ -	₩ -	₩ 578,771	
	Trading	1,095,709	3,164,836	17,340	50	4,277,935	
		₩ 1,655,915	₩ 3,183,401	₩ 17,340	₩ 50	₩ 4,856,706	
Place of trading	Futures Exchange						
	Market	₩ 117,048	₩ 696	₩ 17,340	₩ 50	₩ 135,134	
	Over the Counter	1,538,867	3,182,705	-	-	4,721,572	
	₩ 1,655,915	₩ 3,183,401	₩ 17,340	₩ 50	₩ 4,856,706		
Type of derivative	Forward	₩ -	₩ 2,796,549	₩ -	₩ -	₩ 2,796,549	
	Future	117,048	696	17,340	50	135,134	
	Put option	-	50,392	-	-	50,392	
	Sell option	-	104,762	-	-	104,762	
	Swap	1,538,867	231,002	-	-	1,769,869	
		₩ 1,655,915	3,183,401	₩ 17,340	₩ 50	₩ 4,856,706	
Related gain (loss)	Unrealized loss	₩ (8,501)	₩ (1,524)	₩ -	₩ -	₩ (10,025)	
	Realized gain (loss)	13,302	3,142	(5,771)	-	10,673	

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

(2) Classification of hedge and trading transactions

		(in millions of Korean won)					
Description		Interest	Currency	Stock	Other	Total	
<Trading transactions>							
Place of trading	Futures Exchange						
	Market	₩ 117,048	₩ 696	₩ 17,340	₩ 50	₩	135,134
	Over the Counter	978,661	3,164,140	-	-		4,142,801
		₩ 1,095,709	₩ 3,164,836	₩ 17,340	₩ 50	₩	4,277,935
Type of derivative	Forward	₩ -	₩ 2,796,549	₩ -	₩ -	₩	2,796,549
	Future	117,048	696	17,340	50		135,134
	Put option	-	50,392	-	-		50,392
	Sell option	-	104,762	-	-		104,762
	Swap	978,661	212,437	-	-		1,191,098
		₩ 1,095,709	₩ 3,164,836	₩ 17,340	₩ 50	₩	4,277,935
Related gain (loss)	Unrealized gain (loss)	₩ 591	₩ (4,575)	₩ -	₩ -	₩	3,984
	Realized gain (loss)	(263)	4,800	(5,768)	-		1,231
<Hedge transactions>							
Place of trading	Futures Exchange						
	Market	₩ -	₩ -	₩ -	₩ -	₩	-
	Over the Counter	560,206	18,565	-	-		578,771
	₩ 560,206	₩ 18,565	₩ -	₩ -	₩	578,771	
Type of derivative	Future	₩ -	₩ -	₩ -	₩ -	₩	-
	Swap	560,206	18,565	-	-		578,771
		₩ 560,206	₩ 18,565	₩ -	₩ -	₩	578,771
Related gain (loss)	Unrealized gain (loss)	₩ (9,092)	₩ 3,051	₩ -	₩ -	₩	(6,041)
	Realized gain (loss)	13,565	(1,658)	-	-		11,907

(3) Fair value of derivative instruments

	(in millions of Korean won)			
	Contract amount	Fair value		
		Assets	Liabilities	
Hedge transactions - swaps	₩ 578,771	₩ 7,142	₩ 17,955	
Trading transactions - forwards	2,796,549	10,434	18,215	
Trading transactions - swaps	1,199,055	73,448	67,902	
Trading transactions - Options	155,154	908	913	
	₩ 4,729,529	₩ 91,932	₩ 104,985	

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

27. Contingent Liabilities and Commitments

(1) Contingent liabilities and commitments as of December 31, 2001 are as follows:

	(in millions of Korean won)	
	Amount	
Guarantees and acceptances:		
Guarantees and acceptances	₩	2,216,315
Outstanding letters of credit		1,608,918
Commitments		976,972
Notes endorsed with recourse		133,136

(2) As of December 31, 2001, the Company and its subsidiaries provided 22 blank notes, 2 notes amounting to ₩2,037,833 million and two blank checks as guarantees for borrowings.

(3) Litigation

As of December 31, 2001, the Company and its subsidiaries have 28 pending lawsuits as a dependant (total amount: ₩258,279 million). The Company's management expects no significant losses as a result of these lawsuits.

(4) Loans and securities related to companies involved in bankruptcy proceedings, composition proceedings or workout programs with creditors

As of December 31, 2001, the Company's subsidiaries hold loans (including guarantees) provided to and securities issued by companies involved in bankruptcy proceedings, composition proceedings or workout programs with creditors amounting to ₩247,077 million. The subsidiaries recorded allowances for losses on these loans and valuation losses on these securities in accordance with Korean GAAP. However, the ultimate recoverability of these loans and securities will depend on the terms of the companies' restructuring plans to be approved by the bankruptcy court or the creditors and the success of the companies in implementing the plans. The ultimate outcome of this matter cannot presently be determined.

(5) Loans and securities related to economically troubled countries

As of December 31 2001, the Company's subsidiaries hold loans (including guarantees) provided to and securities issued by companies in Indonesia, Russia and other economically troubled countries amounting to ₩88,656 million (USD 66,855 thousand). The subsidiaries recorded allowances for losses on these loans and valuation losses on these securities in accordance with Korean GAAP. However, the ultimate recoverability of these loans and securities cannot presently be determined.

(6) Loans sold to Korea Asset Management Corporation with recourse provisions

During the period, the subsidiaries repurchased loans which were transferred to the Korea Asset Management Corporation (KAMCO) in previous years amounting to ₩77,800 million. In addition, the subsidiaries have outstanding loans, which are subject to be repurchased when certain conditions are met, amounting to ₩172,600 million. Related to these outstanding loans, the subsidiaries established an allowance for doubtful accounts amounting to ₩36,900 million. However, additional gains or losses will be recorded upon repurchase of the loans or settlement with KAMCO in accordance with the recourse provisions.

(7) Subsidy for trust accounts

As of December 31, 2001, Shinhan Bank guarantees repayment of principal and, in certain cases, minimum interest earnings on trust account assets amounting to ₩2,279,100 million. During the period, there was no payment related to such guarantees to trust accounts. Additional gains or losses will be recorded based upon the results of the future operations of these guaranteed trust accounts.

(8) Shinhan Capital leases (charters) properties as a lessee for the purpose of providing operating leases for such properties as a lessor. Lease receipts and payments arising from such transactions are recorded as other operating income and expense. The total lease income and

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

expense are expected to amount to USD 15,875 thousand and USD 12,374 thousand, respectively, in the period from year 2002 to year 2006. Related to these lease contracts, Shinhan Capital prepaid rent and recorded long-term prepaid rent amounting to USD 2,330 thousand as of December 31, 2001. In addition, Shinhan Capital leases certain properties as operating leases, which Shinhan Capital subleases on operating leases, and records lease expense and sublease income. Through year 2002, the total sublease income and expenses are expected to amount to USD 600 thousand and USD 798 thousand, respectively.

With respect to the above lease contracts, Shinhan Capital does not record lease assets and liabilities (except for long-term prepaid rents) in its balance sheet. The collection of other operating income and sublease income may be affected by the lessees' credit.

28. Significant Transactions among Consolidated Companies

Significant transactions and account balances among consolidated companies for the period ended and as of December 31, 2001 are as follows:

(1) Significant transactions

(in millions of Korean won)

Revenue	Expense	Account	Amount
Shinhan Financial Group Co., Ltd.	Shinhan Bank	Interest income	₩ 113
"	Shinhan Capital	Interest income	634
Shinhan Bank	Shinhan Securities	Interest income	359
"	Shinhan Capital	Interest income	6,820
"	"	Commission income	1
"	Shinhan Macquarie	Commission income	46
Shinhan Securities	Shinhan Bank	Interest on deposit	191
Shinhan Capital	"	Interest income	64
Shinhan ITC	"	Interest income	373

(2) Account balances

(in millions of Korean won)

Creditor	Debtor	Account	Korean Won
Shinhan Financial Group Co., Ltd.	Shinhan Bank	Bank deposits	₩ 712
"	"	Other assets (Key money deposits)	5,331
"	"	Loans (Privately placed bonds)	50,000
"	"	Other assets (Accrued income)	103
"	Shinhan Capital	Loans	97,200
"	"	Other assets (Accrued income)	634
Shinhan Bank	Shinhan Securities	Credit card loans	137
"	Shinhan Capital	Loans in Korean won	29,249
"	"	Loans in Foreign currency	59,910
"	"	Marketable securities	100,000
"	"	Crdeit card loans	19
"	Shinhan ITC	Crdeit card loans	11
Shinhan Securities	Shinhan Bank	Bank deposits	4,696
Shinhan Capital	"	Marketable securities	19,448
"	"	Cash and cash equivalents	7,451
"	"	Long-term financial instruments	3
Shinhan ITC	"	Bank deposits	11,858
"	"	Other assets (Accrued income)	87
"	Shinhan Securities	Other assets (Key money deposits)	850

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

(3) Guarantees and acceptances

(in millions of Korean won and thousands of U.S. Dollars)

Guarantor	Guarantee	Guarantees and acceptances Provided on		
			Korean Won	U.S. Dollars (Note 2)
Shinhan Bank	Shinhan Capital	Borrowings in foreign currency	₩ 594	\$ 448
"	"	Letters of credit	7,655	5,773
"	"	"	9,655	7,281
			₩ 17,904	\$ 13,502

29. Condensed Financial Statements of Consolidated Companies

As of and for the period ended December 31, 2001, condensed financial statements of the Company and its subsidiaries are as follows:

(1) Balance sheets

(in millions of Korean won)

Company	Total assets	Total liabilities	Total Stockholders' equity
Shinhan Financial Group Co., Ltd.	₩ 3,955,981	₩ 319,034	₩ 3,636,947
Shinhan Bank	53,356,042	50,185,114	3,170,928
Shinhan Bank (Trust)	2,544,167	2,544,167	-
Shinhan Finance	542,399	477,258	65,141
Shinhan Securities	630,696	387,023	243,673
Shinhan Capital	842,491	778,710	63,781
Shinhan ITC	45,171	2,613	42,558
	₩ 61,916,947	₩ 54,693,919	₩ 7,223,028

(2) Income statements

(in millions of Korean won)

Company	Operating Revenue	Operating expense	Operating income (loss)	Ordinary income(loss)	Net income(loss)
Shinhan Financial Group Co., Ltd.	₩ 226,542	₩ 5,780	₩ 220,762	₩ 220,763	₩ 220,763
Shinhan Bank	2,290,062	2,185,158	104,903	120,610	86,902
Shinhan Bank (Trust)	111,350	110,062	1,288	-	-
Shinhan Finance	13,449	8,492	4,957	5,338	5,338
Shinhan Securities	140,382	122,389	17,993	23,855	17,472
Shinhan Capital	63,503	71,718	(8,215)	(11,623)	(107)
Shinhan ITC	5,696	2,567	3,130	3,129	1,316
	₩ 2,850,984	₩ 2,506,166	₩ 344,818	₩ 362,072	₩ 331,684

Notes to Consolidated Financial Statements

Period from September 1, 2001 (date of inception) to December 31, 2001

30. General and Administrative Expenses

For the period ended December 31, 2001, general and administrative expenses are as follows:

Description	(in millions of Korean won and thousands of U.S. dollars)	
	Korean won	U.S. dollars (Note 2)
Salaries	₩ 114,429	\$ 86,290
Payments of severance benefits	29,462	22,217
Other employees benefits	71,592	53,987
Rent	12,947	9,763
Entertainment	4,341	3,273
Depreciation and amortization	55,781	42,064
Taxes and dues	12,872	9,707
Advertising	18,329	13,822
Other	50,876	38,365
Total	₩ 370,629	\$ 279,488

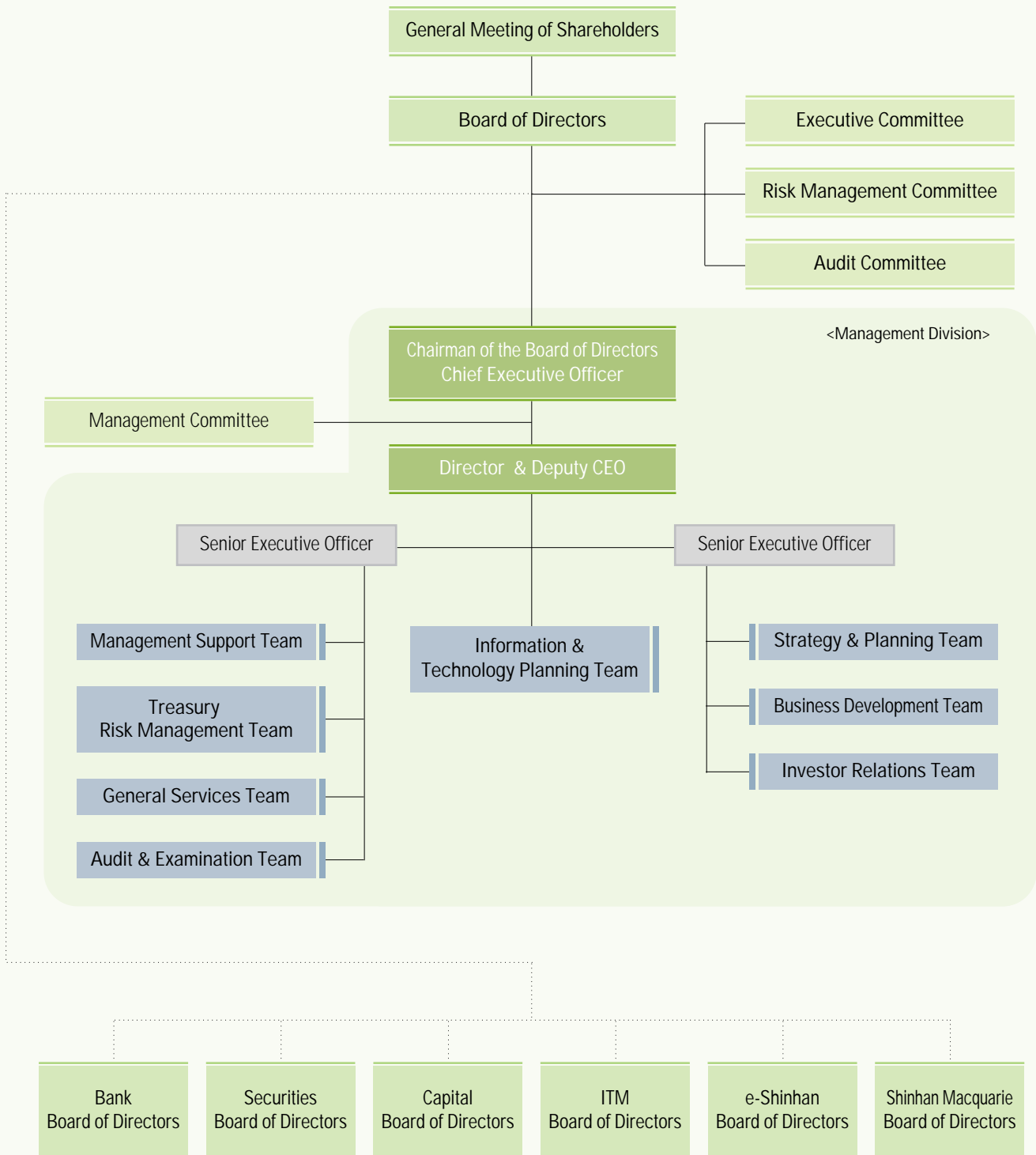
31. Economic uncertainties

In the course of 1997 in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices.

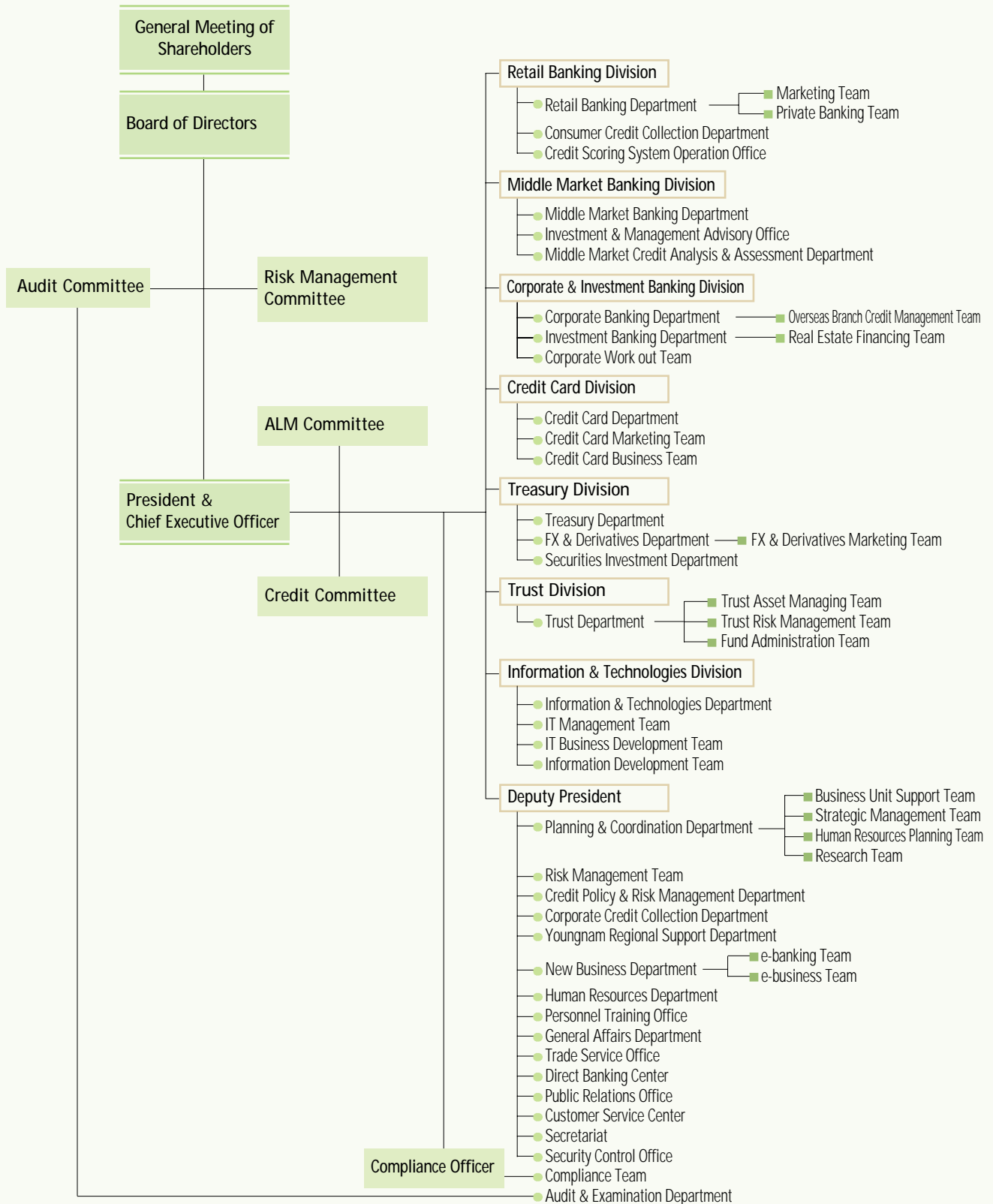
The Korean economy continues to experience difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidation and uncertainty exists with regard to the continued availability of financing. The Company and the subsidiaries may be either directly or indirectly affected by the situation described above.

The accompanying financial statements reflect management's current assessment of the impact to date of the economic situation on the financial position of the Company and the subsidiaries. Actual results may differ materially from management's current assessment.

Organization Chart (Shinhan Financial Group)



(Shinhan Bank)



E xecutive Officers and Outside Directors

SHINHAN FINANCIAL GROUP

<Executive Officers>

Eung Chan Ra
Chairman and Chief Executive Officer

Young Hwi Choi
Director & Deputy CEO

Sang Hoon Shin
Senior Executive Officer

Bhang Gil Choi
Senior Executive Officer

<Outside Directors>

In Ho Lee
Director

Byung Hun Park
Director

Young Hoon Choi
Director

Moon Pil Oh
Director

Sang Kyun Lee
Director

See Jong Kim
Director

Haeng Nam Chung
Director

Yong Woong Yang
Director

Dong Hyun Kwon
Director

Myung Ho Kim
Director

Pyung Joo Kim
Director

Alain Pénicaut
Director

SHINHAN BANK

<Executive Officers>

In Ho Lee
President and Chief Executive Officer

Hong Soon Moon
Director and Standing Auditor

Yong Kook Oh
Deputy President

Jae Woo Lee
Deputy President

Kee Do Nam
Deputy President

Joong Ok Huh
Deputy President

<Outside Directors>

Sahng Dae Kim
Deputy President

Myoung Kee Jang
Deputy President

Gwang Lim Youn
Deputy President

Christopher Shin
Executive Vice President

Dae Woon Lee
Executive Vice President

Jung Bo Lee
Director

Kap Young Jeong
Director

Yoon Je Cho
Director

Young Hwi Choi
Director

Sang Hoon Shin
Director

You Ji Kwak
Director

SHINHAN SECURITIES

<Executive Officers>

Yang Sang Yu
President

Woo Keun Lee
Executive Managing Director

Jeong Woo Seo
Executive Managing Director

Jung Soo Shim
Auditor

Jin Sub An
Managing Director

Tae Hyun Lee
Managing Director

Dae Seok Kang
Managing Director

Yeoul Joo Kim
Compliance Officer
(Managing Director)

Bhang Gil Choi
Director

<Outside Directors>

Chang Young Jung
Director

Hwa Nam Kim
Director

Hae Kyung Kim
Director

SHINHAN CAPITAL

Shin Joong Kang
President & Chairman Of Board of Director

Woong Man Son
Auditor

Jung Hun Hwang
Senior Executive Vice President

Yun Kang Jung
Senior Executive Vice President

Jang So Kim
Director

Byung Kook Song
Director

SHINHAN INVESTMENT TRUST MANAGEMENT

Po Kil Paik
President

Byung Tae Kim
Vice-President

Nam Hoon Paik
Auditor

Chang Ho Yim
Director

Young Deok Kim
CIO

e-SHINHAN

Seong Yoon Kim
President(CEO)

Sang Young Oh
Auditor

In Kyu Lee
Director

Byung Kook Song
Director

SHINHAN MACQUARIE FINANCIAL ADVISORY

John William Walker
Chairman of Board of Director

Tae Myung Yum
Director

Hee Seung Lee
Director

L Simon Clow
Director

Byung Sik Jang
Auditor

Directory (Shinhan Bank)

Head Office	Treasury Department	Trade Service Office
120, 2-ka, Taepyung-ro Chung-ku, Seoul 100-102, Korea Mailing Address : C.P.O. Box 6999, Seoul 100-669, Korea	Tel:+82 2 318-4272 Fax:+82 2 774-7013 Telex: SHBFX K29590 SWIFT: SHBKRSSE Shin Keun Yang General Manager	Tel:+82 2 774-7672 Fax:+82 2 773-6552 Telex : SHBANK K25583 SHBANK K25584 SWIFT : SHBKRSSE Jae Ik Kim General Manager

Global Network

Branches

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 USA
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 1-212-371-8875

Yong Sup Yoon

General Manager

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 7HB, United Kingdom
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 44-207-600-1826

Hee Soo Kim

General Manager

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 3-1, Toranomon 4-chome,
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 813-3578-9355

Baek Soon Lee

General Manager

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 Osaka, Japan
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 816-6243-2346

Min Ky Han

General Manager

Fukuoka

8th Fl., Tenjin Mitsui Bldg. 14-13, Tenjin
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 819-2724-7003

Eun Sik Kim

General Manager

Tianjin

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 86-22-2339-3009

Man Ki Hong

General Manager

Ho Chi Minh City

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 1, Ho Chi Minh City, Vietnam
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 848-829-9386

Hae Soo Kim

General Manager

Shinhan Finance Ltd

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 Landmark, 11 Pedder
 St., Central, Hong Kong
 852-2877-3121
 852-2877-2460

Myung Chul Kim

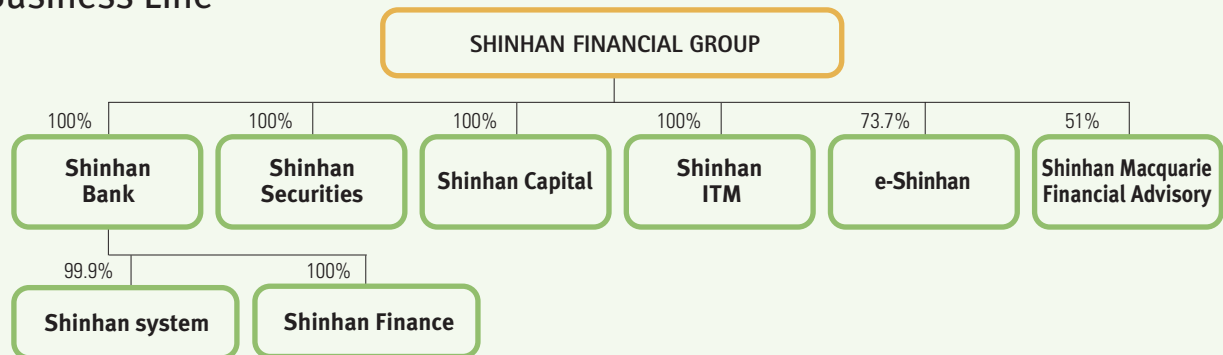
Managing Director

Corporate Data

Overview

Company	Established	Total Asset (₩bn)	Total Shareholders' Equity (₩bn)	Paid-in Capital (₩bn)	Ownership (%)	No. of Staff			Network			
						Management	Employee	Total	Domestic	Abroad	Total	
Holding Company	Shinhan Financial Group	01. 9. 1	3,956.0	3,599.2	1,461.7		15	41	56	1	-	1
Subsidiary	Shinhan Bank	81. 9.15	62,017.5	3,170.9	1,375.9	100	17	4,318	4,335	336	7	343
Subsidiary	Shinhan Securities	62. 1.31	631.4	244.4	119.2	100	11	726	737	33	-	33
Subsidiary	Shinhan Capital	91. 4.19	855.5	76.8	80.0	100	7	45	52	2	-	2
Subsidiary	Shinhan ITM	96. 8. 1	45.2	42.6	40.0	100	5	34	39	1	-	1
Subsidiary	e-Shinhan	01. 2.21	6.5	6.3	2.8	73.67	4	21	25	1	-	1
Subsidiary	Shinhan Macquarie Financial Advisory	01. 8. 1	4.2	1.5	1.0	51	5	-	5	1	-	1
Subsubsidiary	Shinhan System	91. 5.13	2.1	1.9	1.0	99.99	4	49	53	1	-	1
Subsubsidiary	Shinhan Finance	90.10.15	548.7	65.1	73.7	100	5	12	17	-	1	1

Business Line



Major Shareholders

SHINHAN BANK	10.22%	GOVERNMENT OF SINGAPORE	1.83%
CITIBANK N.A.(ADR DEPT.)	9.05%	JPMCB-CAP REEM GTH FD	1.80%
BNP PARIBAS	4.00%	DAEKYO Co., Ltd.	1.08%



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