



BUILT : FOR YOU

a New Force in Financial Services

Annual Report 2002



SHINHAN FINANCIAL GROUP

SHINHAN FINANCIAL GROUP



> BUILT: Ten in One

Providing Diversified Financial Services through One Network

Established as Korea's first privately initiated financial holding company, Shinhan Financial Group (SFG) is a premier financial institution with a comprehensive financial network. Through our ten subsidiaries, we offer a complete range of products and services in banking, securities, credit cards, investment trusts, lease financing, credit information, financial advisory, bancassurance and web-based financial portal service.

We seek to become a leading one-portal financial services group in Korea by leveraging the strengths of our diversified business platform and cooperating with our partners in order to maximize synergies. We are committed to providing efficient, convenient, and quality financial products and services to our customers while also creating sustainable growth and value for our shareholders.

Experience the wide spectrum of financial services provided through the powerful network of Shinhan Financial Group. Extend your financial network!

To anchor the holding company model as we adjust our business operations to construct a truly comprehensive financial services group...

> PROFILE

Shinhan Financial Group (“Group”), one of the most dynamic financial holding companies in Korea was established in September 2001 with six subsidiaries including Shinhan Bank as its flagship of the Group. Currently the Group consists of ten subsidiaries ; Shinhan Bank, Goodmorning Shinhan Securities, Shinhan Card, Shinhan Capital, Shinhan BNP Paribas Investment Trust Management, Jeju Bank, Shinhan Macquarie Financial Advisory, SH&C Life Insurance, e-Shinhan, and Shinhan Credit Information. The Group is providing comprehensive and high standard financial services through 494 branches network by approximately 7,000 staffs.

As of December 2002, SFG's total assets stood at ₩80.8 trillion, representing 23.3% year-on-year growth, while shareholders' equity totaled ₩4,010 billion. Net income for the year amounted to ₩603.9 billion.

Building on its solid performance in 2002, Shinhan Financial Group will continue to focus on customer satisfaction and profit-oriented management, delivering high returns and deriving maximum synergies through its unit companies.

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> FINANCIAL HIGHLIGHTS

	Korean Won in Billions		U.S. Dollars in Millions ¹⁾	
	2002	2001	2002	2001
FOR THE YEAR ²⁾				
Operating Revenue	5,929	5,249	4,939	4,373
Net Income ³⁾	604	499	503	415
(July to December)		221		184
AT YEAR END				
Total Assets ⁴⁾	80,830	65,569	67,336	54,622
Total Loans ⁴⁾	45,341	35,046	37,772	29,195
Total Deposits ⁴⁾	47,792	42,667	39,813	35,544
Total Securities ⁴⁾	19,911	19,285	16,587	16,065
Total Shareholders' Equity ⁵⁾	4,010	3,788	3,341	3,155
FINANCIAL RATIOS				
Return on Average Shareholders' Equity ⁶⁾	17.57%	13.72%		
Return on Average Assets ⁶⁾	0.94%	0.79%		
Cost Income Ratio				
(Bank only)	36.27%	36.21%		
(Consolidated)	45.04%	42.23%		
Substandard & Below Ratio				
(Bank only)	1.42%	2.42%		
(Consolidated)	1.78%	2.76%		
NPL Ratio by FSS ⁷⁾	0.69%	1.21%		
Net Interest Margin ⁸⁾				
(Korean Won)	2.97%	2.86%		
(Foreign Currency)	1.81%	2.33%		
Net Interest Spread (won) ⁸⁾	3.12%	2.81%		
BIS Capital Adequacy Ratio ⁹⁾				
(Tier 1 Capital Ratio)	6.81%	8.26%		
(Tier 2 Capital Ratio)	4.23%	3.76%		
SHARE INFORMATION				
Earnings Per Share (won, USD) ¹⁰⁾	2,066	755	1.72	0.63
Net Asset Value Per Share (won, USD)	13,178	12,312	10.98	10.26
Dividend Per Share (won, USD)	600	600	5.00	5.00
Market Value (won in billions)	3,625	5,131	3,020	4,274

Notes:

- Translated into U.S. dollars at rate of ₩1,200.40 per US\$1.00, the prevailing rate on December 31, 2002.
- As the holding company was formed on Sep. 1, 2001, financial statement figures reflect business results from July to December. Annual figures are calculated based on pro forma income statement (Jan. - Jun.) and consolidated income statements (Jul. - Dec.).
- 2001 net income was based on pro forma figures, while net income of ₩221 billion on income statement reflects earnings from Jul. - Dec. only.
- Calculated based on the sum of all subsidiaries minus intra-group transactions.
- SFG adopted the Statement of Korea Accounting Standards (SKAS) No. 6, 'Events Occurring after the Balance Sheet Date,' in the preparation of financial statements as of, and for the year ended, Dec. 31, 2002, respectively. According to the adoption of the new standard, SFG amended its financial statements for year 2001 for comparative purposes causing shareholders' equity to increase by ₩150.8billion.
- Actual six month net income of ₩221billion in 2001 was annualized for both ROA and ROE calculation.
- NPL ratios, as defined by the FSS, refer to the ratio of loans that do not pay interest to total loans. Substandard & below loans include loans to companies with low credit ratings, although they do pay interest.
- Includes credit card (Shinhan Bank + Shinhan Card).
- Based on credit risk.
- 2001 figures were calculated, based on the holding company's net income for six months.

> TO OUR SHAREHOLDERS

SFG's unique holding company business model features a dynamic one-portal financial institution, a comprehensive service network, to meet the increasingly diverse needs of our valued customers.



I am pleased to announce that we were able to attain our goals for 2002 while successfully realizing our vision for building a powerful one-portal financial services network. We believe that these accomplishments should be credited to your valued trust and support for Shinhan Financial Group.

A Year of Accomplishments

The year 2002 heralded the appearance of powerful new paradigms and changes in Korea. We witnessed, among many other events, increased social participation by our youth via the Internet during the presidential election and the public's unified support for the national team's advance into the Big 4 in the World Cup. Fueled by these developments, Korean society continues to reform, liberalize, and evolve into a society centered on public participation and egalitarian values.

It was, however, a challenging year for the financial services industry. Overall, financial institutions suffered difficulties in 2002 primarily due to the reverberating effects of continued recession concerns in the global market, compounded by adverse domestic conditions. The combined effects of a prolonged economic slowdown behind low interest rates, rising delinquency ratios for household loans, and downturns in the stock markets all negatively impacted the performance of financial institutions here in Korea. Additionally, competition among domestic financial institutions intensified across all business segments, especially in SME and consumer loans, in line with the trend towards enlargement and crossovers.

Amid such a challenging business environment, Shinhan Financial Group persevered and produced solid results in 2002. In particular, Shinhan Bank, flagship of the Shinhan fleet, posted strong results with its net earnings exceeding target goals.

We particularly devoted ourselves to solidifying foundations, restructuring our business portfolio as a comprehensive financial group with ten subsidiaries.

Aggressive Realignment

Embarking on our second year as a financial group, we have devoted ourselves to solidifying foundations and restructuring our business portfolio into a fully integrated, all-inclusive system, linking ten subsidiaries into one powerful network. We are dedicated to delivering all of the products and services that you need through a single relationship.

To this end, our endeavors in 2002 included the creation of Goodmorning Shinhan Securities through a successful merger between Good Morning Securities and Shinhan Securities; the spin-off of our credit card and credit information divisions; and the establishment of an investment trust joint venture with BNP Paribas as well as the establishment of SH&C Life Insurance, the first bancassurance company in Korea. Through these initiatives, the Group focused on building scale, increasing specialization, and adding breadth to our overall platform.

Alongside business realignment, we explored ways to expand our offering of innovative hybrid products and services that meet the diverse needs of our customers. In 2002, we introduced the Financial Plaza and the Corporate Banking Center, venues that enable and foster cross-selling opportunities between the banking and securities businesses. We also changed our corporate identity (CI) to reflect our new vision and strategies under the holding company system.

As a result, SFG's net income grew 77.6% year-on-year to exceed ₩600 billion at the end of 2002, mainly driven by increases in net income of Shinhan Bank, Jeju Bank and Shinhan Capital. Pre-provisioning income amounted to ₩1.2 trillion. Total assets also grew 23.3% over the year to ₩80.8 trillion, led by the growth of our banking, securities and investment & trust businesses.

Meeting Future Challenges

Today, we are faced with unprecedented, rapid changes and severe competition. The timing for recovery of the world economy remains in doubt due in part to uncertainties related to the war in the Middle East, North Korea nuclear issues, and recent corporate governance issues in Korea.

Nonetheless, the government is likely to push ahead with its privatization plan for the retrieval of public funds and domestic financial institutions, as a consequence, will need to continue their restructuring efforts.

Despite such challenges ahead, SFG is determined to turn this year into a memorable one. Always in search of higher standards, we will aggressively pursue the realization of maximum synergies. We will continue to strengthen our financial network and produce quality returns in 2003, the first year that we can achieve full-scale synergies to meet our mid- and long-term goals.

Accordingly, We Have Set Three Core Strategies:

First, we will continue to solidify foundations for all subsidiaries in targeting key customer segments. Shinhan Bank, serving as an axis for the holding company, will secure leadership in both profits and scale through expansion. This will consequently enable the credit card business to grow as well, thereby diversifying SFG's sales channels.

The securities group will look to realize its new vision of joining the Big 3 in the domestic industry. Upon the completion of its integration, Goodmorning Shinhan will emerge as a key driving force for our growth. The investment trust segment, bolstered by the recent participation of BNP Paribas, will strive to increase its market share by introducing a variety of advanced mutual fund and investment trust products and services.

Other subsidiaries will also pursue active strategies to fulfill the objective of producing competitive products and channeling through the two distribution channels, bank and securities.

Second, we will further expand our one-portal business model. One of the most competitive advantages of the holding company system is that it enables the sharing of customer information among the group subsidiaries. In this regard, we will place emphasis on the development of cross-selling-inductive products and leverage existing resources, including the financial network accounts (FNAs), bancassurance, investment banking services, such as IPO, M&A, and securities underwriting.

Third, we will further mold our holding company into a unified organization, with all subsidiaries moving toward a common goal under the direction of management. We understand that in order for the holding company to fully leverage its efforts, the management structures and operations of all subsidiaries should be organically linked.

To this end, the management of Shinhan Financial Group is committed to providing leadership marked by responsibility, transparency, and unity. Through a coherent voice, the management will work toward presenting a clear sense of strategic direction, reinforcing the business model, and heightening shareholder value.

Building a One-Portal Financial Service Network

Shinhan Financial Group is now challenging new horizons while contributing to the development and growth of the Korean financial services industry. We are well-positioned for our take-off as a world-class financial group. With the support of over 8,000 employees armed with dedication and professionalism, we are poised to grow into the most successful financial services group in Korea.

During the course of this journey, as we continue to build momentum and differentiate ourselves from our competitors, we look forward to your unwavering support, interest and encouragement.



Eung-Chan Ra
Chairman

> CEO'S INAUGURATION MESSAGE TO SHAREHOLDERS

Management transparency of the Group will be enhanced based on 'Global Standard' transforming Shinhan as an icon of financial service within the financial hub of Northeast Asia.



It is an honor to address you today as the new President and Chief Executive Officer of Shinhan Financial Group.

While this appointment is a great honor to me, I embark on this new challenge with a sense of renewed purpose. I also feel the tremendous weight of responsibility as we journey on towards realizing our vision of becoming Korea's leading financial group – delivering quality products and services that truly live up to the Shinhan name.

During my term as Deputy CEO over the last two years, Shinhan Financial Group has developed and launched the new 'One-Portal Asset Gathering Model'; completed acquisition and integration of Good Morning Securities; spun off the credit card division; and established joint venture initiatives with BNP Paribas in restructuring the breadth of our overall platform. In addition, since September of 2002, we have been pursuing the expansion of our banking business through the possible acquisition of Chohung Bank.

As the new CEO of Shinhan Financial Group, I will remain dedicated to advancing our three core business objectives, ultimately aimed to maximize shareholder value:

- Realization of synergies within the holding company
- Successful completion of plans for the Bank's growth in scale
- Maximization of shareholder value through capital management that emphasizes free cash flow

Realization of Synergies through the Holding Company Model

Under the current circumstances, the Korean economy cannot be expected to achieve the same level of rapid growth that characterized the development era. Already, we are witnessing the paradigm changes of our economy into a low-interest/low-growth environment, characteristic of advanced countries. Consequently, the imperative task at hand for Korean financial institutions is to develop a new earnings model that transcends the limitations of traditional, loan-driven asset growth.

Upon the inception of the holding company, our Group began shifting away from the commercial banking-centered-earnings model of the past. We believe that our new emphasis on the 'asset gathering' model represents an important and effective new approach to profit creation.

In this new approach, we will leverage the strengths of our diversified platform, attained by restructuring the securities business following the acquisition of Good Morning Securities as well as the successful establishment of bancassurance and ITMC joint ventures. From this year forward, we plan full-scale utilization of the 'asset gathering' business model and we remain confident that we soon will see positive results.

Successful Completion of Bank Expansion

As you are already well aware, our Group is currently pursuing acquisition of Chohung Bank under the premise that expansion through merger and acquisition is an effective strategy for our growth of scale.

Through the acquisition of Chohung, our Group will enjoy the benefits of a more extensive customer base and distribution platform, thereby maximizing cross-selling opportunities. Upon successful completion of bank expansion, we expect a temporary halt in the business portfolio restructuring which has been underway since last year. By leveraging the strengths of our new platform, we will concentrate efforts on propagating the new 'asset gathering' model and promoting organic growth.

Maximization of Shareholder Value Through Capital Management Emphasizing Free Cash Flow

Despite the changing paradigms in the financial services industry, the Korean banking sector remains fixated on increasing competitiveness through external growth.

Korean banks continue to face the burden of having to set aside profits achieved through external growth as provisioning to protect their capital positions.

However, upon successful completion of the Chohung acquisition, Shinhan Financial Group will emerge as the dominant market leader in the commercial banking segment. We will be freed from the traditional asset growth pressure that inevitably brings risk and demands capital.

As a consequence, it will be possible to count on a consistent free flow of cash. This accumulation of free cash flow will allow a steady increase in dividend payouts as well as possible buy-back and cancellation of shares, ultimately maximizing shareholder value through effective capital management.

My fellow shareholders, as compared to the time of Shinhan Financial Group's inception in September of 2001, the organization and scale of our Group has nearly doubled.

Moving forward, I am confident that all of us at Shinhan will not rest on past achievement but will put forth our very best efforts to accomplish the goal of not only becoming the best financial service group in Korea but also becoming a world-class financial group.

Management transparency of the Group will be enhanced based on 'Global Standards,' transforming Shinhan as an icon of financial services within the financial hub of northeast Asia. Especially, with differentiated competitiveness based on 'Best Practices' applications, we all will work tirelessly to enhance shareholder value with the largest market capitalization among Korean financial institutions.

Going forward, we sincerely ask for your continuing support, interest, and encouragement for the growth of the Group.



Young Hwi Choi

Young-Hwi Choi
President & CEO

> A CONVERSATION WITH CEO

We are committed to expanding group synergies and consolidating our one-portal financial service network system.

Q. Shinhan Group established the first privately led financial holding company. This should involve great responsibilities as a pioneer, such as the development of business models that are suited for the domestic financial environment going forward. What made you decide on the holding company model in the first place?

A. Korea's financial climate is rapidly changing. The needs of customers are not simply oriented towards high earnings, but are gradually becoming more complex and sophisticated. In other words, the demand for comprehensive and diverse financial assets and services is being heightened. Amid such changes in customer needs, competition in the markets is also intensifying mainly due to low interest rates and the aggressive advance of premier worldwide financial institutions' into the domestic markets.

In this evolving landscape, we cannot accommodate the needs of customers with only traditional deposit and loan services. Even the growth of assets, a core revenue driver, will be faced with limitations under the banking industry's current market conditions. We also face limitations in competing with foreign-based financial firms which are equipped with sophisticated product launching capabilities.

When observing examples in advanced countries, the proportion of banking products to total financial assets is less than 20%, while banking products dominate in Korea, occupying more than 50% of total financial assets.

In the future, however, financial assets in Korea will likely be gradually redistributed among insurance and securities products, away from the heavy concentration on banking products.

Accordingly, a number of banks are establishing strategic alliances with non-bank sectors such as insurance, centering their operations around the banking business or seeking crossovers in the form of bank subsidiaries.

We decided, nonetheless, that a loosely constructed one-portal model would eventually face the same type of limitations if those companies fail to hold in-house product lines and come to rely on outsourced products and services. This was deemed to be inappropriate in terms of efficiency as well.

Also considered was the fact that, under the current domestic system, the holding company model can benefit from such advantages as the sharing of information and the consolidated tax payment system.

Therefore, we established a holding company, given the changing landscape and the holding company model's numerous advantages. Currently SFG encompasses not only banking and securities as distribution channels but also product manufacturing lines such as investment trusts, credit card and bancassurance.

Q. Shinhan Group acquired Good Morning Securities and merged it with Shinhan Securities during 2002. What are the implications of such a move toward enhancement in securities operation?

A. The expansion of the securities business was indispensable to complete the transformation into a holding company. That is to say, reinforcement of the securities channel was a prerequisite to providing customers with a comprehensive package of financial products and services. The securities firm will serve as a principal distribution channel for private banking as well as the sale of beneficiary certificates and mutual funds going forward. In other words, it should boost our client coverage and promote cross-selling capability within the Group.

Goodmorning Shinhan will also play a pivotal role in corporate finance for such business activities as IPOs and the underwriting of securities by targeting quality SME clients of Shinhan Bank which are planning to enter the capital market.

Q. Shinhan Group is looking into the acquisition of banks. What significance should such an expansion of the banking arm have?

A. Shinhan Financial Group's original strategy was 'balanced diversification first and scale-growth later' which prioritized establishing foundations for the holding company model and cross-selling by 2002 as the first step and possible expansion of the subsidiaries as a secondary step.

However, with the emergence of the post-merger Kookmin Bank, the gap between the largest bank and following other banks has widened to more than three times. Amid a heightening possibility of additional M&A activity among banks, we determined that we might lose both the right timing and the right target bank if we were to stick to organic growth only.

Also, if those troubled banks, in which public funds had been injected in the past, liquidate their non-performing assets and get back on track within a couple of years, the so-called premiums of strong banks will be significantly diluted and competition among banks will be further intensified.

Thus, we realized that our optimal strategy for bolstering competitiveness in the markets should be to carry forward crossovers and expansion simultaneously.

Q. What was the main focus of your 2002 business strategies and what are your strategic directions for 2003?

A. SFG's mid and long-term vision is to grow into the leading one-portal financial services group representing Korea. In order to realize this vision, we have formulated plans to: lay out the right foundation for the one-portal system; expand group synergies in full-scale by 2004; and secure our position as a market leader by 2005.

In that sense, 2002 was a year of transition, marked by restructuring.

We completed the enlargement of the securities business, an important role as a distribution channel along with the bank; spun off the credit card division from the bank to seek competitiveness as a monoline credit card provider; and transformed the investment trust company, a core product manufacturer of the Group, into a joint venture (50:50) with BNP Paribas.

In addition, we are seeking to reinforce our competitiveness through the expansion of Shinhan Bank.

The year 2003 will be a crucial year for us as we begin to pursue synergies in full-scale. Nonetheless, we will continue to solidify and improve our platform to better service the needs of our valued customers.



Experience!

Now, experience SFG's innovation in financial services.

SFG restructured its business operations as a financial group to create a comprehensive financial network that encompasses banking, securities, investment trusts, lease financing, credit information and financial advisory within a one-portal system. Today, the SFG network is equipped to provide the most innovative and most convenient services for customers while maximizing shareholder value through the one-portal concept.

Now, experience SFG's innovation in financial services.



> BUILT: Ten in One

Ten Financial Companies in One Network


...Credit card and credit information operations were spun off to create part of the foundation for our one-portal system...

SHINHAN FINANCIAL GROUP

SHINHAN FINANCIAL GROUP

SHINHAN FINANCIAL GROUP





› **SHINHAN FINANCIAL GROUP**
Building a One-Portal
Financial Service Network

Shinhan Financial Group (SFG) is one of the most dynamic financial holding companies in Korea. The Group leads the domestic financial industry in adapting to the needs of consumers in an ever-changing marketplace. Responding to the growing demand for comprehensive financial services, SFG has founded a formidable network while becoming Korea's first privately funded financial holding company.

INTRODUCTION

Shinhan Financial Group is one of the most dynamic financial holding companies in Korea. The Group leads the domestic financial industry in servicing the needs of consumers in an ever-changing marketplace. Responding to the growing demand for fully integrated financial services, SFG has developed a powerful platform as Korea's first privately established financial holding company.

Comprising ten subsidiaries specialized in distinct areas, Shinhan Financial Group includes commercial banking, securities, credit card, investment trusts, lease financing, bancassurance, Internet-based financial portal service, financial advisory service, and credit information service. Each subsidiary complements the others in offering products and services creating an all-inclusive financial services network.

Having determined the previous bank only structure would have limitations for its growing customer base, SFG transformed itself into a financial holding company to operate its diverse businesses. Not only does the holding company structure give SFG greater flexibility in the constantly changing marketplace, it also enables SFG to generate synergies from diverse operations. The sharing of customer bases, distribution channels, and management resources greatly increases operational efficiency. Our closely integrated network also enables us to extensively cross-sell, as each subsidiary markets its own products as well as those of other subsidiaries.

SFG purposes to be more than just a well-integrated financial network, we aim to be a one-stop shop for financial solutions, enabling each subsidiary to offer an easy and convenient way to meet the diverse financial needs of all SFG customers.

SFG proactively seeks expansion and growth through partnership opportunities in order to improve services as well as enhance competitiveness and profitability. In this spirit, the Group formed a strategic partnership with BNP Paribas. Together, we have established joint ventures in bancassurance and asset management. Mutually beneficial partnerships involving well-established global players such as BNP Paribas will continue to be a crucial component of SFG's business strategy for the future.



> NEW CORPORATE IDENTITY

Shinhan Financial Group officially unveiled its new corporate identity (CI) on August 1, 2002. The new symbol is designed to represent the image of SFG as a comprehensive financial enterprise, leading Korea into the 21st century amid changes in worldwide financial trends. The new global trademark embodies SFG's forward vision as a financial holding company.

Conveyed in our new CI is SFG's determination to expand as an international financial institution; our position as a forerunner in customer-oriented professional finance service; and our pursuit of a diversified and yet integrated financial network.

Emphasizing these themes, the CI relies on two basic colors, gold and blue. Gold symbolizes premium or value while blue depicts fidelity, confidence and scale. The dove and the sprout, previous symbols of SFG, represent our hopes in keeping with our vision for the future, while the sphere, symbolic of the world, is a recognition of the implications of globalization. The central flowing 'S' shape signifies both continuity and constancy as Shinhan Financial Group develops as a leader in the 21st century.

> SUBSIDIARIES

(In Billions of Korean Won , as of Dec. 2002)

	SHINHAN BANK	GOOD MORNING SHINHAN SECURITIES	SHINHAN CARD	SHINHAN CAPITAL	SHINHAN BNP PARIBAS ITMC
	Offers a wide array of commercial banking products and services to retail, SME, and large corporate customers Serves as key subsidiary within the holding company	Along with SHB, serves as a primary distribution channel for the Group's wide range of products and services Created in August 2002 through the acquisition of Good Morning Securities	Credit card operation was spun off from SHB in June 2002	Provides financing and operating leases for industrial equipment	Manages investment trusts and distributes funds through a network of brokerages, including GMSS Joint venture with BNP Paribas since October 2002
Ownership	100%	59.4%	100%	100%	50%
Assets	69,716	1,570	2,474	960	47
Equity	2,861	588	247	84	45
Net income	596	32	1	4	5
Customers ('000)	5,476	298	2,451	1	639
Branches	348	95	13	1	0

> SUBSIDIARIES

(In Billions of Korean Won , as of Dec. 2002)

	JEJU BANK	SHINHAN MACQUARIE FINANCIAL ADVISORY	SH&C LIFE INSURANCE	E-SHINHAN	SHINHAN CREDIT INFORMATION
	Acquired in April 2002 and incorporated into the Group in May 2002 A regional bank operating in Jeju Island	Provides consulting and financial advisory services for privatizations, cross-border leasing, and structured finance Joint venture with Macquarie Bank	Engages in bancassurance business primarily targeting SFG customers Joint venture with Cadif, a wholly-owned subsidiary of BNP Paribas since October 2002	Offers high quality Internet-based financial services Jointly developed by Shinhan and Boston Consulting Group	Manages collections and credit investigations for all non - performing credits of the Group's subsidiaries Established in July 2002 to strengthen and maintain the Group's financial soundness
Ownership	62.4%	51%	50%	73.7%	100%
Assets	1,802	4	30	6	4
Equity	101	1	30	5	3
Net income	13	0	-1	-1	0
Customers ('000)	296	N.A.	N.A.*)	1,595	1
Branches	33	0	1	0	4

*Footnotes) SH&C Life Insurance commenced its business on December 27, 2002

> VISION AND PHILOSOPHY

The most diversified and versatile, distribution-centered one-portal financial services group, contributing to an improved way of life.

Shinhan Financial Group adopted a new corporate vision following the introduction of the holding company system in February 2001 to adapt to evolving trends in financial services.

The Most Diversified and Versatile Financial Group in Northeast Asia

- Seek balanced growth in retail and wholesale banking
- Secure a high quality business portfolio with competitiveness and scale in the financial services industry
- Construct a variety of business lines characterized by differentiated products, services, and leading brand image, and catered to each customer segment

The First Financial Services Group: Contributing to an Improved Way of life

- Improve the quality of life for customers, employees and shareholders
- Seek minimization of social costs while contributing to the development of the real economy through efficient deployment of capital in retail and corporate banking
- Set standards which people can trust, based on rational decision making and uncompromising ethics
- Lead Korea's financial industry and economy through responsiveness to the changing environment and continuous reform

Distribution-Centered One-Portal Financial Services Group

- Construct powerful distribution channels, which integrate and offer the finest products and services –Best of Breeds–under the Shinhan name to our valued customers
- Provide customized solutions, appropriate for each stage in customers' life and cultivate a single relationship to last for life.

> SERVICES AND PRODUCTS

We provide total service, delivering a full spectrum of financial solutions within the Group.



Shinhan is the only financial group in Korea equipped with a network to provide fully integrated services supported by subsidiaries in all financial sectors including banking, securities, credit card, investment trusts, leasing and insurance. SFG delivers a full spectrum of financial solutions from within the Group, maintaining pace with the life cycles of individual and corporate customers.

SFG provides online and offline products and services to meet the needs of individuals at different stages of life, including the following:

- For young adults:
Checking accounts, available credit beyond the bank account balance of customers; Composite Bankbook in linkage with credit card settlement; Subscription Deposits/Installment Savings; FNAs in linkage with securities trading accounts; a variety of multi-purpose and affiliated debit/credit cards; All Plus Point Service, a tool for integrating all transactions with banking, securities, credit cards and other services.
- For 30s-40s:
Green Home Loan, Elite Loan, Safe Loan linking insurance and loans, a diversity of investment trust funds, and automobile installment financing services
- For 50s:
Pension-type insurance and savings, and comprehensive financial consultations by Private Bankers for creation of optimal portfolios
- For the elderly:
Pension deposits, guarantee-type funds and consultations on tax deductions and inheritance

In addition, SFG provides top-notch and competitive solutions to corporate customers at various stages of development, including the following:

- Venture capital services including consultations on the commencement of enterprises and support of start-up funds—for companies in their inception;
- Loans for working capital and facilities, plus all types of lease services—for growing corporations with increasing sales;
- Underwriting services in relation to listing, capital increases, IPOs and issuance of corporate bonds—for mature businesses when management transparency is required as public awareness of the firm expands; and
- Investment banking services with highly advanced corporate financial consultations on project financing and asset-backed securities (ABS), in line with the growth strategies of corporate clients.

> STAFF

We aim to work as a team of dedicated specialists with the highest qualifications and understanding of our customers.

Following the restructuring into a financial holding company, Shinhan Financial Group reiterated core values that we seek to instill in our staff. These values are 'Creativity,' 'Responsiveness,' 'Passion' and 'Teamwork.'

Creativity requires an 'Innovative Mind' to fashion and improve businesses that widen horizons and break away from traditional limitations; 'Active Receptiveness to Change' to internalize external trends and transformations, reflecting them in business; and 'Creative Ideas' to freely suggest concepts for increased customer value.

Responsiveness reflects a 'Customer-Oriented Mindset' for employees to put themselves in the customer's position to understand their needs and provide prompt solutions; 'Efficient Decision Making' to collect sufficient information and to make decisions as quickly and efficiently as possible; and 'Power of Execution' to set priorities for prompt implementation.

Passion represents 'Professionalism' to do our best for self-development and to grow into experienced financial specialists; to develop 'Ownership' of our roles and responsibilities; and 'Desire for Accomplishment' to establish challenging objectives and to take initiatives in achieving goals.

Teamwork involves 'Partnership' to share our visions and to produce synergies through cooperation; 'Smooth Communication' to seek solutions together by carefully listening to other parties and accurately conveying opinions; and 'Open-mindedness' to consider the positions of other parties first and actively propose solutions.





> NETWORK

We promote a dynamic integrated business network to serve the needs of our valued customers.

'Well-Positioned To Accommodate Diversified Services'

Headquartered in Seoul, Korea, Shinhan Financial Group provides an extensive network of 486 domestic bank and securities branches and ten overseas offices located in six countries.

Our overseas units—all banking branches with the exception of two securities offices—are distributed in the US, England, Japan, China, Hong Kong and Vietnam. They serve as valuable resources for providing information for the introduction of new systems and institutions such as compliance, risk management, and corporate governance, and for supporting overseas business offices and subsidiaries of Korean corporations.

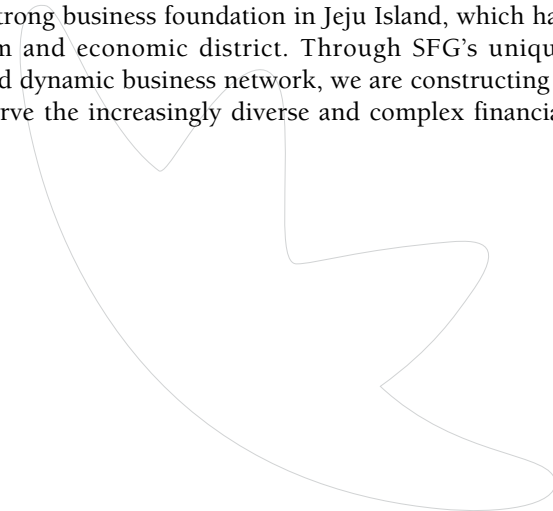
To facilitate the sharing of information and communication among headquarters, branches and subsidiaries, SFG has introduced and operates an enterprise information portal (EIP).

Of our domestic facilities, 48% are located within the Greater Seoul region while the remaining 52% are distributed throughout the nation. Among these, 78% are bank branches, 19% are securities offices, and 3% are card centers. These function as important distribution channels in providing Shinhan financial products and services to customers. Our bank branches were thoroughly restructured prior to establishment of the holding company in 2001, in order to provide appropriate levels of service by customer segmentation.

In the past, retail and corporate business transactions were not differentiated at the bank branch level. With restructuring, the retail and corporate banking functions were separated and then further subdivided to improve customer services. We now operate corporate banking facilities set up as SME Branches or Large Corporate Branches, while our Retail Branches provide customer service through our Quick Windows, OK Windows and VIP Windows. With this system of distribution channels, SFG is geared for effective marketing and sales of products and services which are produced and supplied by non-banking subsidiaries within our holding company system. The system

meets the increasingly diversifying needs of customers, and we also operate multipurpose branches that offer banking and securities transactions as well as specialized private banking (PB) branches. SFG pioneered use of the Relationship Manager (RM) system for specialization in product handling and sales. Our RMs are professionals, with certified technical skills such as financial planning, knowledge and experience in diverse product backgrounds including bancassurance and mutual funds (investment trusts) as well as banking products.

In 2002, a total of 36 branches were newly incorporated into SFG through the merger with Jeju Bank. This provided us a strong business foundation in Jeju Island, which has been emerging as a special tourism and economic district. Through SFG's unique holding company business model and dynamic business network, we are constructing a one-portal financial institution to serve the increasingly diverse and complex financial needs of our valued customers.



> CUSTOMERS

We were the first to carry out customer-oriented management.



The strength of Shinhan Financial Group comes from customers who trust the Shinhan name. We firmly believe that the support of our customers has provided the inspiration that has enabled us to overcome numerous obstacles in building the premier financial group that we are today.

We were the first to launch customer-oriented management by introducing advanced financial technologies as well as ATMs to improve customer convenience. Today, equipped with the finest Internet banking system, we provide services with speed and convenience unmatched by any of our competitors.

We were also the first to introduce the private financial holding company system into Korea in order to better serve the needs of our customers within an integrated network. SFG provides a full spectrum of products and services—from commercial banking, brokerage, and investment banking to credit cards, leasing, private banking, e-business and financial advisory assistance—across an extensive client base of over 10 million, comprising of 5.8 million customers for commercial banking, 2.5 million customers for credit cards, 0.7 million customers for brokerage services and investment banking, and 1.6 million customers for e-business.

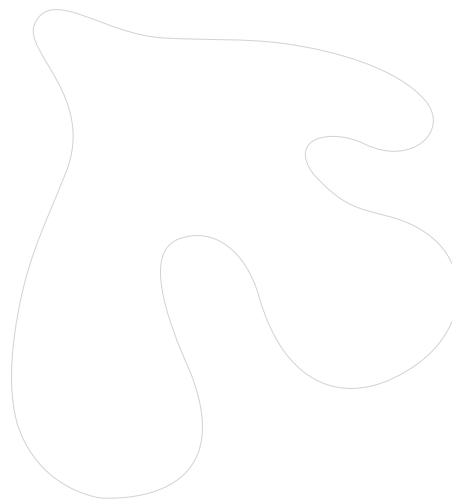
The number of commercial banking customers stands at 11 million, but those with actual transaction records total over 5.8 million. Among these valued customers, 40% or 2.3 million are active, of which 15.5% are high-net-worth (HNW) customers. HNW clients play pivotal roles in creating value for SFG, and we express our gratitude through superior service. Approximately 37% of our active customers have come to depend on cross-transactions with the Group's non-banking subsidiaries. This number will likely increase following additional development of multipurpose products and services.

Of about 0.7 million customers using our brokerage and investment services, some 32% are active with actual transactions. These customers are profitable clients to SFG relative to commercial banking customers. Credit card customers, with access to roughly 30 various card products and services, range from teenagers to elderly customers. Among

them, 87% are in the 20-40 age bracket, and 74% reside in the Seoul-Incheon regions. Overall, we believe that Shinhan's credit card customers represent individuals with both higher credit and income levels.

E-business customers (excluding patrons using our Internet banking) are relatively young, with 47% in their 20s and some 34% in their 30s, while those in their 40s or older make up 16%. By gender, males account for 65% of e-business customers, but the proportion of female clients is expected to rise with a growing number of customers using our electronic passbook. Our e-business customers primarily use integrated account management, electronic passbooks, and financial product brokerage services, with the latter two services provided for a fee. Clients using our free integrated account management service make up 35%, while those using electronic housekeeping and financial product brokerage services are no more than 0.62% and 3.7%, respectively. SFG seeks to satisfy customer needs with more diversified product and service offerings. This will lead to a gradual growth in the number of clients using fee-based services.

Shinhan Financial Group has concentrated its efforts on developing an electronic document warehouse (EDW), which will serve as the underpinning for a comprehensive, companywide CRM system. Shinhan Bank is already equipped with the system, while similar systems for securities and credit card divisions are under construction. When the CRM system integration is complete, we will be able to provide our clients the finest customized products through optimal channels.



> SHAREHOLDERS AND CORPORATE GOVERNANCE

We are seeking professionalism and efficiency through transparent and responsible management.

Corporate Governance Led By the Board of Directors

- SFG's Board of Directors (Board) is comprised primarily of nonpermanent directors including professional outside directors. The Board oversees and checks the management team, acting as a governing body.
- The Board particularly places emphasis on professionalism and efficiency and operates affiliated committees such as the Executive Committee, Audit Committee, and Risk Management Committee.

Accountability and Outcome-Oriented Culture

- SFG has recruited a responsible management team of professional executive officers, separating the decision-making and operational functions.
- The Board promotes a result-oriented culture, approving strategies and management goals to guide the executive team, undertaking transparent and objective evaluation of executive performance, while awarding compensation based on management results.

Efficient Group Operating System

- Mindful of its shareholders, SFG accepts responsibility for overall management results of the entire holding company. At the same time, as a shareholder in each unit, SFG supports and oversees management of its subsidiary companies.
- The holding company's Board of Directors controls decision making related to SFG's strategic direction. In turn, the Boards of Directors for various companies within the Group establish and pursue material business plans in conformity with such strategic directions.
- Coordination comes through the Management Committee, consisting of the holding company's management team and the CEO of each subsidiary within the Group. This enhances group synergies and assures smooth communications between SFG and the individual firms.

Compliance and Audit

- Group Internal Audit, reporting directly to the Chairman of the Board of Directors, oversees the activities of the Group with a special focus on legal, operational and reputation risk. Our external auditors, working closely with Group Internal Audit, assume all statutory auditing functions.
- The function of the Audit Committee of the Board of Directors is oversight. It monitors the integrity of the financial statements, SFG's compliance with legal and regulatory requirements and the independent performance of SFG's external auditors

Commitment To Our Shareholders

- We recognize that corporate governance is a continuous process.
- SFG will continue to improve its corporate governance in accordance with new experiences, statutory regulations and ongoing developments in national and international standards.



> CULTURE & COMMUNITY INVOLVEMENT

Striving to return benefits to society while sharing values with the public, we have adhered to a management philosophy of an 'Enterprise of Community.'

Shinhan Financial Group is committed to the belief that corporations should be a force for social change and that only those firms demonstrating responsibility and leadership will become world-class enterprises. Accordingly, SFG is committed to translating this belief into action.

Organized to create a new financial culture in Korea, SFG has demonstrated rapid progress, exerting significant influence on the nation's financial industry as well as growing into a noteworthy institution in the world's financial arena, despite our rather short history of only two decades.

We believe that such achievement would not have been possible without the support and encouragement of our customers and the communities we serve. Thus, SFG has willingly accepted responsibility as a corporate citizen and has adhered to the management philosophy of an 'Enterprise of Community' since its inception. In acting upon this philosophy, we have participated in a variety of social activities to serve the nation and the community.

We constantly strive to return benefits to society while sharing our results and values with the community. We believe this to be 'good business,' improving our brand image by benefiting the public we serve.

These endeavors, beginning with public service and contributions, demand proactive leadership with programs designed toward specific desired changes in society. They include:

Public Service Activities

Visits to Social Welfare Facilities

SFG families have regularly visited social welfare institutions such as sanitariums and nursery schools since 1985 to help provide care and encouragement for the less fortunate and the underprivileged.

Other (Contributions, Blood Donations)

SFG continues to expand its social responsibility roles. For instance, our efforts at selling Christmas seals and inviting subscriptions to help neighbors in need encompassed all operations and branches at year-end, recently raising ₩1 billion. Ongoing endeavors include donations of blood, relief funds for flood victims, and support for the disabled or less fortunate, such as young boys and girls who have to take responsibility for the livelihood of their families.

Educational Activities

Invitation of Children from Islands and Remote Places

Since 1990, SFG has participated in this annual event, organized by Seoul City and funded by financial institutions, to help young children extend their knowledge. Usually held for four days, the program includes field trips to the National Assembly, National Cemetery, Demilitarized Zone, financial institutions and other interesting places such as Everland and 63 Building, while presenting the visiting children with sports equipment, school supplies and souvenirs.

Sending Teachers Overseas

Began in 1988, this program targets dedicated teachers who have exhibited foresight for educational excellence. With some 8,000 participants in 16 projects so far, the program has enabled teachers to inquire into the history of Korean people, to reconfirm their excellence and to transmit their findings to students based on their vivid and personal experiences, thereby stirring pride in our people and culture.

Support of Scholarships

SFG has supported students in financial difficulties as well, enabling them to concentrate on studies, while also helping educational establishments and scholarship funds such as Korea Advanced Institute of Science and Technology (KAIST), Dongkuk University, Ulsan Metropolitan Office of Education, Jeollanamdo Office of Education, Ewha Woman's University, and Gachon Medical School. We will continue supporting funds and scholarships for the development of education in Korea.

Sports & Culture Activities

Sponsoring Shinhan Donghae Open Golf

SFG founded the Shinhan Donghae Open Golf Championship in 1981 to promote golf and contribute to sports activities in Korea. This golf championship is among the oldest sponsored golf championships in Korea, and SFG is proud to contribute to the development of the sport while providing a number of professionals such as Kyoung-Ju Choi, winner of two PGA tournaments in 2002, as well as amateur players, with opportunity to grow and compete in the world arena.



Enjoy!

Now, enjoy SFG's efficient, convenient and friendly financial services.

SFG restructured its business operations as a financial group to create a comprehensive financial network that encompasses banking, securities, investment trusts, lease financing, credit information and financial advisory within a one-portal system. Today, the SFG network is equipped to provide the most innovative and most convenient services for customers while maximizing shareholder value through the one-portal concept.

Now, enjoy SFG's efficient, convenient and friendly financial services.



➤ BUILT: Ten in One

Ten Financial Companies in One Network

...Our securities business was expanded through an acquisition, then integrated into our one-portal business model...

〉 REVIEW OF OPERATIONS

We maintained a competitive edge, developing optimal products and services while utilizing our extensive financial network through differentiated strategies.



SHINHAN FINANCIAL GROUP

SHINHAN FINANCIAL GROUP



RESET

RESET

RESET

› COMMERCIAL BANKING

Securing competitive advantage in targeted markets through strengthened customer relationship management.



Retail Banking

In 2002, the retail banking market was characterized by low interest rates, a short-term freeze of market funds, reactivation of the real estate market with sharply upturning prices, aggressive business expansion by post-merger mega-banks, and intensifying competition among financial institutions.

To cope effectively with such changes, Shinhan Financial Group implemented strategies to attain its objectives of generating synergies from the newly established holding company system while securing competitive advantage in target markets through strengthened customer relationship management (CRM). Such strategies included capturing access to the mortgage market, development and introduction of multipurpose financial instruments and customized products, consolidation of CRM marketing and activation of cross-selling.

As a result, SFG's total retail loans increased by ₩5,592.0 billion (US\$4,658 million), some 38.2% year-on-year (YoY), to ₩20,298.3 billion (US\$16,909 million) at the end of 2002. Total usable deposits rose ₩991.2 billion (US\$825 million), 3.2% over the year, to ₩32,341.3 billion (US\$26,942 million). At the same time, the delinquency ratio declined 0.03% YoY to 0.26%. In addition, the Group's pre-provisioning income, after adjustments following the spin-off of Shinhan Card, stood at ₩587.5 billion (US\$489 million), demonstrating solid growth of 14.3% as compared to the previous year's figure.

As the mortgage market was forecast to recover behind low basic interest rates and rising housing prices, we strengthened our loan sales network, teaming with approximately 10,000 realtors nationwide and utilizing an incentive system to spur efforts. Through active PR efforts and timely marketing, we were able to capture the market ahead of our competitors, particularly for the Green Home Loan which became a leading product in the residential mortgage market.

As for credit loans, we sought differentiated loan portfolios and a diversity of customized loan products to target customers through market segmentation. As a result, quality credit loans grew noticeably, recording ₩35.0 billion (US\$29 million) in the Noblesse Loan (for professionals), ₩284.0 billion (US\$237 million) in the Elite Loan (for high-income salaried men) and ₩100.5 billion (US\$84 million) in the VIP Credit Loan (for customers using Shinhan as their principal bank).

To address changing trends in customer financial needs and to overcome contraction in net interest margins (NIM), brought on by low interest rates and a reduction in the discrimination of prices, we concentrated on the development and marketing of new products, adding non-financial features in addition to asset portfolio products. Shifting away from sales that centered on traditional banking products, we introduced multi-purpose products to meet the changing financial needs of customers. Consequently, we secured ₩2,108.6 billion (US\$1,753 million) for floating-rate Substantial Short-term Revolving Time Deposits, and ₩2,974.8 billion (US\$2,478 million) for our Double Premium Time Deposit. Importantly, we pushed ahead with a strategy to continuously strengthen CRM and improve profitability by further defining core target customer groups who contribute most to our revenues, streamlining a variety of programs and business systems for differentiating CRM by customer group.

During the year we completed the Millennium Retail Branch (MRB) system, a one-portal branch business arrangement designed to focus on customer relationships, in order to transform from product-centered marketing to a one-on-one marketing strategy. We obtained visible results from this move – strengthening the loyalty of quality customers (with our high-net-worth client retention rate nearing 90%) – and increased the portion of cross-selling to total sales through information-based businesses. The number of VIP clients enjoying preferential treatment as target customers surged 12% over the year to 356,000. Of note, these clients contribute 88.1%, 81.7% and 70.7%, respectively, to our total revenues, deposits and loans. Our profitability per customer also advanced 11% YoY to ₩1,328,000.

In addition, we launched private banking (PB) services during the year for our most preferred VIP clients, operating two private banking centers. We realized a noticeable growth in deposits by clients utilizing our PB and professional consulting programs, leading the domestic wealth management market.

SFG focused on providing comprehensive financial services by linking various business units within our holding company system and the MRB system. Thus, we consolidated product and service lines, and constructed foundations to provide professional and systematized one-stop services, meeting the needs of customers who wish to conveniently manage their financial assets at a single institution.

We pushed ahead with the All Plus Point Service, a first among integrated mileage reward promotions in domestic financial communities, leading to an outstanding advance in the number of users to 296,000 from 34,000. We activated cross-selling within the Group and also improved our customer maintenance ratio. Further, we induced about 67,000 new accounts by developing financial network account (FNA) securities savings deposits, a new product in linkage with securities firms, in addition to 323,000 credit card accounts.

Meanwhile, the introduction of loan products with additional credit payment protection, a first in Korea, enabled us to also take the initiative in bancassurance which is scheduled for full-scale operation beginning in August 2003.

Above all, we advanced marketing efforts and activities for cross-selling and up-selling within the Group, analyzing data on transactions and demographic variables on shared customer information among the business units, developing models to improve our marketing by customer segment.

We introduced multipurpose products to meet diversifying financial needs of customers. We advanced marketing efforts and activities for cross-selling and up-selling within the Group.



In 2003, we expect continued challenge behind ongoing low interest rates, economic slowdowns, aggressive business expansion efforts by merged mega-banks following M&A activity, and intensifying competition among financial institutions.

SFG is confident, however, that we will continue extending our client bases as well as our share of business by actively utilizing CRM throughout the holding company and the MRB system, and by active cross-selling of group products within our one-stop banking system.

SME Banking

During 2002, Shinhan Financial Group reinforced its middle market leadership via continuous roll-outs of competitive products and services. Building on this strength in its core market, SFG recorded market share and coverage for those SMEs audited by an external auditor at 10% and 38%, respectively, at year-end. Particularly, its share and coverage for healthy SMEs audited by certified accounting firms amounted to 15% and 50%, respectively. Thus, we firmly maintained the number-one position in our core target market, amid increasingly intensifying competition among banks for SME business.

This success is due, in part, to our market segmentation policies, pursuing differentiated strategies for various types and sizes of corporate clientele. Specifically, we selected the highest-quality client companies as Premier Club members based on profits and financial soundness, offering distinctive products and services. Meanwhile, we endeavored to strengthen relationships with high-income customers through 'High-Touch Marketing' in which our Senior Relationships Managers visit them on a regular basis to obtain feedback on SFG services and to fortify relationships by way of personal contact.

We solidified competitiveness by constructing bases for scientific and systematic operations with our Marketing Alert System (MAS) which automatically offers information on major events and changes of client companies; Proactive Proposal Approach (PPA) which supports proposal marketing by our relationship managers (RMs), typically branch managers and assistant branch managers; and through Account Planning (AP) which enables comprehensive management of information by client.

To better serve our business customers via the Internet, we secured a leading position by continuously upgrading web-based banking accounts and BizBANK, our online financial service, while developing B2B purchase loans and integrated settlement systems.

Despite our growth, we garnered remarkable accomplishments from risk management as well. For the SME sector, the ratio of substandard and below loans to total loans and the delinquency ratio dropped further to 0.51% and 0.21%, respectively, due to advanced monitoring processes and risk management systems.

In 2003, competition in this target market likely will become even more fierce. Nonetheless, based on our unrivaled competitiveness and know-how in corporate banking, we will continue to expand our role as the middle market leader, developing fresh products and services for quality SMEs.

Large Corporate Banking

In 2002, from large corporate banking services, we registered pre-provisioning income of ₩124.0 billion (US\$103 million), pre-tax income of ₩151.0 billion (US\$126 million) and an ROA (based on pre-tax income) of 2.76%, while boosting the portion of revenues from new business (largely divided into income from commissions and investment banking) to 27.5% of total revenues.

Gathering momentum for great change and new developments in marketing for corporate banking, we introduced Account Planning(AP) and developed relevant computerization systems.

We also placed a cornerstone for opening the fee-based business era, generating commission income of ₩28.6 billion, a growth of 140% for the year. Such an upswing was primarily due to introduction of new services including M&A and corporate restructuring company (CRC) businesses; plus aggressive attacks on the markets for asset-backed securities (ABS), social overhead capital (SOC), real estate financing and syndicated loans; the activation of e-banking; and a successful advance into the derivatives market. We also started the Corporate Banking Center, combining the corporate banking divisions of Shinhan Bank (SHB) and Goodmorning Shinhan Securities (GMSH), also reorganizing the corporate and investment banking division and the branch business system on a large scale.

In 2003, we will devote our efforts to reinforcing the development and sales of advanced financial products and services to create and lead markets, discerning potential needs of customers by vigorous proposal marketing through the reinforced activation of marketing support systems such as AP, while improving our earnings structure by further expanding the scope and scale of fee-generating products and services.



> INVESTMENT BANKING

We are leading the investment banking industry, through joint marketing and CRM, backed by Relationship Managers.



Shinhan Financial Group offers a wide array of corporate financial products for investment banking such as leasing, ABS, M&A, CRC, SOC, project financing, syndicated loans, real estate development finance and equity investments. To continue leading the market, we also are developing optimal financial instruments that reflect the needs of corporate customers at home and abroad, based on accumulated know-how in corporate banking.

In 2002, the profitability of investment banking suffered overall, due mainly to continuing slowdowns in the initial public offering (IPO) market and declining fee income due to fewer bond issues.

Under such business conditions, SFG constructed foundations to reorganize its investment banking units and generate synergies within the Group. Specifically, it established the Corporate Banking Center to maximize synergies for investment banking; combined M&A and corporate banking sectors of GMSH into the Investment Banking Center to bolster efficiency; established the Product Development Center to develop and design multipurpose corporate banking products and services; and enabled SHB and GMSH to jointly engage in investment banking, organizing a structure for the maximum utilization of customer bases and resources.

Such an organizational system, a first in the domestic industry, should heighten the profitability of investment banking and bring synergistic effects that will outpace linkage businesses by large securities firms. The Group ultimately aims to lead the investment banking industry in the long term, primarily through joint marketing and CRM including management consulting and product support, backed by RMs. Other efforts include active participation in syndicated loans; specialized financial advisory and brokerage services for SOC financing; development of diverse revenue drivers for real property financing such as real estate development financing and REIT investments, and establishment of an M&A team.

Establishment of the Corporate Banking Center was meaningful in that it provided special service for corporate customers and marked another differentiated competitiveness for SFG, also bringing opportunities to increase revenues and sales through group units. It also was a first step toward developing SHB as the Group's investment banking headquarters.

In view of such external system consolidation, investment banking generated income of ₩11.7 billion (US\$10 million) from commissions and ₩8.1 billion (US\$7 million) from funds operation, greatly contributing to the improvement of SFG's earnings structure. By sector, SFG's ABS trustees handled 19% of the total domestic volume, or ₩6 trillion (US\$5 billion) out of ₩31 trillion (US\$26 billion) issued during 2002, demonstrating absolute superiority in the category of corporate trade receivables in reaching 42.8% or ₩2.4 trillion (US\$2 billion) of ₩5.6 trillion (US\$5 billion). We also are expanding market share with customized products, lead-managing four asset-backed loans of ₩250.0 billion (US\$208 million) under optimal financial conditions, analyzing asset structures and cash flows of corporate clients.

As for syndicated loans, both our image and market position at home and overseas were enhanced through active participation in new facility investment funds, and ship financing. Particularly, the SOC financing sector became an important revenue driver for SFG, providing optimal financial conditions to corporate clients and opportunities to expand stable high-end assets to the Group.

In 2003, SFG plans to secure its leadership for investment banking by: further amplifying revenue generating sectors such as ABS, syndicated loans, SOC, and real estate development financing; solidifying earnings bases through precise positioning for strategic sectors including M&As, equity investments and CRC; and introducing and promoting potential market segments such as the resumption of custody businesses and tax leasing, and activating synergistic business activities.

SFG established Shinhan Macquarie Financial Advisory (SMFA) in 2001 with Australia's Macquarie Bank Limited, a world-class investment bank ranked as Australia's best investment bank and a world market leader in project financing. Our Seoul-based joint venture will focus on such activities as:

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

Across its range of activities, SMFA has enjoyed a reputation for success based on two key factors—innovation and commitment to creating tailored solutions that meet the specific needs of clients, providing special benefits and value.

During 2002, SMFA achieved significant success, most notably in establishing the Korean Road Infrastructure Fund. The fund achieved a first closing with ₩247 billion (US\$206 million) in commitments from investors such as SHB, Kyobo Life Insurance, Macquarie Bank Limited and Government Official Pension Co.

The year saw SMFA attain more than 50% market share in the Korean infrastructure financial advisory market, currently advising on deals with total value in excess of US\$5 billion. In 2002, we concluded infrastructure deals with a value in excess of US\$800 million. We demonstrated market leadership through the release of innovative products and attracted foreign investors to the Korean market. SMFA also is developing structured retail products to further diversify the marketplace.

SMFA looks forward to a successful 2003, adding further investors for the Korean Road Infrastructure Fund, providing advisory services on the purchase of several key assets by the fund, and developing other finance products.

> BROKERAGE

We introduced the FNA, a new multipurpose financial product which enables banking and securities transactions with a single passbook.



Behind the stock market's prolonged downturn since 2000, with market volume slipping to ₩181 trillion (US\$151 billion) as of end-2002 from ₩243 trillion (US\$202 billion) in 2001, the brokerage business has been moving towards competition in quality. Competition in market share lost meaning a long time back due to dominance by online brokerage houses and an overall decline in the sector's profitability. Emerging as new competition factors are success in expanding customer bases and in capturing greater portions of each client's overall financial activities.

Shinhan Financial Group's brokerage business underwent notable change with the merger of Good Morning Securities and Shinhan Securities into Goodmorning Shinhan Securities (GMSH) during 2002. Following the merger, GMSH's market share of the brokerage market rose to the 6.6% level, closing in on the big five securities firms. The number of GMSH branches reached 95, helping to diversify SFG's business network.

The Group is committed to maintaining a competitive edge, utilizing its extensive financial network and developing a variety of models to enhance linked and joint businesses to maximize synergies among subsidiaries. Efforts include introduction of the FNA, a new multipurpose financial product which enables banking and securities transactions within a single account. Its unveiling in September 2002 led to the opening of some 63,000 FNAs by year-end, and brought the inclusion of securities services into SFG's PB centers. Significantly, SFG led the domestic brokerage market in futures and options transactions, standing at 5.8% and 5.8%, respectively at end-2002.

Over-the-counter (OTC) derivative trading, which opened in mid-2002, is forecast to grow into an attractive investment market. For 2003, we seek broader development of the derivatives business to further diversify our earnings structure. Early in the year, we plan to develop and introduce the finest futures and options trading system based on differentiated systems and our high-caliber professional staffing.

> ASSET MANAGEMENT

We developed a comprehensive asset management tool 'Shinhan Wizard System' to ensure transparent operations and employ scientific analysis.



The investment trust business was sluggish in 2002 due primarily to falling interest rates and bearish stock market in Korea. Equity and mixed-type (equity+bonds) funds were pressed for redemption due to continuing decline in the Korea Composite Stock Price Index (KOSPI). Cash migration intensified, mainly into short-term bonds and money market funds, as bond yields deteriorated.

Under such difficult conditions, SFG independently developed the 'Shinhan Wizard System' as a comprehensive asset management tool to ensure transparent operations and employ scientific analysis. This not only enabled the Group to secure efficient decision making for investments, operations, result analyses and risk management, but also contributed to enhancing SFG's image. As a consequence, assets under management jumped 66% YoY to reach ₩4.6 trillion (US\$4 billion) at the end of 2002, ranking 9th in asset management in Korea.

During the year, the Group joined with BNP Paribas to convert Shinhan Investment Trust into Shinhan BNP Paribas Investment Trust Management Company (Shinhan BNP ITMC) as a 50:50 joint venture. The Group is now poised to provide customers with top-notch products and services, including advanced financial and investment techniques. Specifically, we aim for Shinhan BNP ITMC to become one of the domestic industry's big five asset managers, taking advantage of strong product competitiveness and the holding company's synergy with expansion of customer bases, network of cross-selling systems, and joint product development.

> CREDIT CARDS

We secured competitiveness through niche marketing and market segmentation.



Since 1999, the credit card sector in Korea has witnessed unprecedented growth. Based on total credit usage, the market is forecast to continue growing at a compound annual rate of about 16% after 2002, reaching approximately ₩677 trillion (US\$564 billion) by end-2004. Competition has further stiffened with a number of financial institutions' recent entry into the market. In addition, other financial institutions are expanding into the consumer finance business. Increased rivalry and price competition are expected to further reduce credit card commissions. Nevertheless, the growth potential of the business remains strong due to aggressive marketing by card issuers.

Since April 1987, Shinhan Bank(SHB) has engaged in credit card and supplementary businesses, including cash advance service and card loans. In June 2002, SHB's credit card division was spun off to establish Shinhan Card which enjoys solid market position as a monoline card issuer, with its number of members and merchant stores reaching 2.5 million and 1.5 million, respectively, as of end-2002. Its strong point is that it can secure and retain quality card members through shared credit information among various SFG subsidiaries, actively employing relationship marketing.

During 2002, SFG led the new card usage culture in introducing differentiated products and innovative services. First, it rolled out data marketing, presenting all kinds of benefits such as discounts and mileage accumulation when cards are used on specific dates. It also endeavored to secure competitiveness through niche marketing and market segmentation, utilizing its credit card base and the Shinhan financial network, centering around banking, securities, insurance, credit information and investment consulting.

Shinhan Card's basic products are largely divided into two type of cards 'My Sense' for women and 'DO' for men. Shinhan Card also issues a variety of affiliated cards with competent partners in such diverse sectors as telecommunications, aviation, distribution, insurance, oil refining, education, religion, leisure and Internet. Furthermore, we are reinforcing online and offline service linkage systems, opening individual and corporate cyber branches to enable consultation and settlement-related inquiries through the Internet on a real time basis.

We will continue to present new paradigms for the credit card market, developing exquisitely designed products and services.

Beginning with its VISA Card alliance in 1989, SFG has provided clients with specialized services around the globe through strategic coalition with other world-class players such as Master Card and JCB. We also furnish a wide spectrum of services including all kinds of discounts, free overseas travel insurance, interest-free installments, and additional 'All Plus' points for use of the SFG financial network, in addition to basic point rewards.

Shinhan Card is meeting the diversifying needs of clients with a full range of services and products including revolving settlement and card loans. Importantly, it is devoted to reinforcing risk management via precise credit evaluations and limitations on clients, backed by the risk management system, while strengthening competitiveness.

For the future, SFG is determined to take the initiative in introducing 'one-card-for-all,' which will function both as a medium for Internet-based electronic transactions and be useful at every contact point and in every facet of people's lives, linking the fundamental functions of credit cards with those of comprehensive information media. Using the motto 'Fun & Joy' to characterize the most comfortable, delightful and convenient life, SFG looks to stand at the forefront of the credit card industry's march toward a so-called 'Cashless Society,' the ultimate dream of the industry. To this end, SFG will continue to present new paradigms for the market, developing exquisitely designed customer-friendly products and services, while delivering ultimate values.



> PRIVATE BANKING

We opened Shinhan Private Banking Centers to provide comprehensive asset management for HNW customers.



Private banking (PB) is one of SFG's new strategic businesses, targeting high-net-worth (HNW) customers who contribute significantly to our earnings performance. SFG aims to heighten customer loyalty by providing comprehensive asset management services that encompass securities, insurance, investment trusts, taxes and real estate, not to mention traditional banking services, plus Total Life Care including health, education, culture and travel.

The PB market has been continuously expanding as the numbers of people with substantial wealth have risen since the Asian foreign exchange crisis in late 1990s. According to a report on the wealth of the world released in June 2002, the number of individuals with financial assets of more than ₩1 billion (US\$0.83 billion) within Korea is estimated to be about 50,000, with their total asset volume reaching ₩165 trillion (US\$137 billion). Thus, the domestic PB market has a considerable number of potential clients and their assets are also rapidly growing. Accordingly, financial institutions such as banks, securities firms and insurance providers are staging keen competition to serve that exclusive market segment.

In accord with its MRB strategy initiated in October 1999, Shinhan Bank has installed VIP exclusive corners in about 200 branches throughout the country to provide specialized services to quality customers. However, as this was at the retail banking level, SFG decided to implement the PB business to preemptively meet the distinct needs of VIP customers in the HNW range (financial assets of more than ₩1billion). The PB Team was inaugurated in January 2002, and it opened the first branch for exclusive private banking to provide comprehensive asset management for wealthy clients in September 2002.

To ensure that Shinhan's private banking operations were appropriately structured, teams from ten firms within SFG—including SHB, GMSH, Shinhan BNP Paribas ITMC and SH&C Life Insurance—benchmarked leading select banking systems including BNP Paribas Private Bank, a premier bank in France, to establish initial strategies for our PB business.

In addition to its executive officer, Shinhan's private banking staff includes private bankers (in charge of customer management and sales), junior private bankers (supporting private bankers), GMSH's private bankers (in charge of securities-related business), and receptionists (who assist customers). Backing up these professionals is the PB Support Team within SHB headquarters, comprised of the Planning & Marketing Group (in charge of PB-related strategies, products & services, marketing, IT, private banker selection, stationing and evaluation) and the Specialist Group (with technicians skilled in law, real estate, tax accounting, and financial technology) which works with private bankers to provide professional consultation for PB customers.

A full spectrum of services offered by Shinhan Private Bank includes financial services such as banking, securities, insurance, investment trusts, as well as non-financial services such as those related to taxation, law, real estate, wills & inheritance management, and Total Life Care services including health, travel, shopping, sporting and information.

Clients enjoy guaranteed privacy with Platinum Cards enabling access to PB centers, monthly journals with information on investments delivered by SFG units, and a variety of frequent events and seminars related to financial products and services, tax strategies and real estate.

Differing from other private banking (PB) providers, private banking branches are located within each PB center so that clients can process all securities transactions including stocks, bonds, and futures & options in one place while seeking one-on-one consultations with our specialists on various matters relating to their assets.

Extensive effort enabled SFG to activate the PB business. The results are drawing the attention of the industry. The number of Shinhan's private banking clients amounted to 270 while managed assets totaled ₩620.0 billion (US\$516 million), at the end number at the end of 2002, within only four months after the opening.

For 2003, private banking plans to manage assets of more than ₩1 trillion (US\$0.8 billion), advancing that amount to ₩5 trillion (US\$4.2 billion) by the end of 2005. To this end, it plans to offer professional PB services to existing HNW clients of SHB, and then to undertake active solicitation of new customers.

It also will actively pursue extension of invested assets, reorganization of increased invested assets into high-margin portfolios, and non-financial service-related commission income with a view to firmly consolidating foundations for the PB business and heightening profitability in 2003. Also during the year, another PB branch will open in Seoul.

➤ BANCASSURANCE

We established a joint venture with Cardif to be the first insurance provider specialized in the bancassurance business.



SH&C Life Insurance was founded as a joint venture by SFG with Cardif, a bancassurance subsidiary of Shinhan's strategic partner BNP Paribas. The new firm obtained a business license from Financial Supervisory Service (FSS) as a general insurance provider with paid-in capital of ₩30.0 billion (US\$25 million) on December 3, 2002. When Korea's bancassurance market becomes operational in August 2003, SH&C Life Insurance will be in position to complete SFG's vision of becoming a one-portal financial service group.

SH&C Life Insurance has entered into agreements with SHB and Shinhan Card to launch sales of collective credit life insurance targeting loan customers and casualty insurance to card holders through their marketing channels. It also is planning for liberalization of the bancassurance business by preparing a variety of specialized competitive products and services utilizing SFG's sales networks and targeting customers of SFG companies.

Establishing Korea's first insurance provider specialized in the bancassurance business reflects SFG's strong will to provide its customers with advanced financial products. By combining Cardif's extensive experience and expertise through insurance operations in 27 countries including France, the home of bancassurance, with SFG's solid brand power and nationwide network, SH&C Life Insurance expects to lead the domestic market.

SH&C Life Insurance will greatly contribute to synergies within Shinhan Financial Group by maximizing sales of competitive products through the Group's marketing channels, thus increasing commission income among SFG companies.

In 2003, SH&C Life Insurance will concentrate on stabilizing sales networks and establishing foundations for stable income. It is determined to reach the breakeven point (BEP) within three years, though it usually takes more than ten years for an insurance business to reach BEP due to its initial business expenses. SH&C Life Insurance targets to generate revenues for more than 30% ROE by its fifth year of operations, based on highly cost-effective sales processes and curtailment of business expenses.

Targeting 2003 premium income of ₩11.9 billion, SH&C Life Insurance plans on securing the leading player's position with more than a 10% share in the bancassurance market which is forecast to grow to ₩4 trillion in total premium revenues within five years.

> E-BUSINESS

We designed e-Moden, a leading financial portal site in Korea, to offer high quality Internet financial services.



Some leading portal sites in the online financial service market failed to establish earnings and were forced to reduce services or dispose of businesses in Korea. SFG had, however, successfully prepared foundations for its ventures into e-commerce and is carrying out a diversity of e-businesses. It provides one-step-ahead stable banking services through SHB which introduced Internet banking for the first time in Korea in July 1999 and cyber loans, an online lending service, in 1999.

For instance, e-Moden.com, jointly designed by SFG and Boston Consulting Group to offer high quality Internet financial services, is a leading financial portal site in Korea. Its core services include consolidated account management, electronic family accounting book service to record all financial transactions, and a financial advisory clinic service to set up strategies for efficient asset management. With quality financial information services in place, it offers financial supermarket services enabling customers to purchase the most efficient products to meet their needs.

Subsequently, SFG has maintained its market leadership with the number of Internet financial service members amounting to 1.73 million and integrated account management service users passing through 0.6 million, at end-2002, within one year and seven months since its opening in May 2001. Also, e-Moden reached its monthly BEP in November 2002, within a year and six months after its launch.

Of note, such accomplishments were recognized with several awards during 2002, including a 'Korea E-finance Award' from the Finance and Economy Minister in July, 'Hit Web Site Award' from Hankook Ilbo newspaper in October, and an 'E-business Award' from the Minister of Commerce, Industry and Energy in November.

SFG's Internet banking particularly has the reputation of providing stable services for financial transactions as well as a variety of content to enhance customer satisfaction. The number of its Internet banking service users sharply increased to stand at more than one million at end-2002, while transaction volume is rising significantly as the service attracts high-loyalty members. Such Internet banking accounts for approximately 20% of total banking transactions at SHB. The array of specialized solutions and services it provides and operates includes:

- ezPlus, a customer-based banking solution in operation since February 2002, which has been enjoying popularity with customers who prefer speedy transactions;
- Web Customer Center, an artificial intelligence-type Internet consultation system, which has been constructed and improved to promptly cope with changing needs of customers; and
- BizBank, a banking system for corporations only, constructed in 2001 by SHB and in use by the majority of its corporate customers particularly contributing to the development of electronic financial transactions in the domestic B2B market with products such as e-Biz loans and online bonds.

Likewise, it offers virtual machine-based mobile banking services in partnership with SKT (transaction volume shot up more than 75% YoY), the B2B settlement system, in order to activate diverse electronic financial transactions and develop new earnings models and convenient services. It also is contributing to cultivation of the B2C electronic payment market promoting payment gateway transactions.

SFG plans to continue strengthening the profitability of its e-businesses, providing lifetime value-based wealth management services via efficient CRM with a one-on-one marketing system. We also will continue a myriad of research and development projects to provide better systems, services and products for swift, stable and secure electronic transactions for the entire spectrum of financial activity and to enhance the well-being and quality of life for SFG clients.

Securing foundations for a diversity of e-businesses including Internet and mobile banking.



> RISK MANAGEMENT

The Group Risk Management Committee establishes sustainable risk limits for the holding company and each subsidiary.

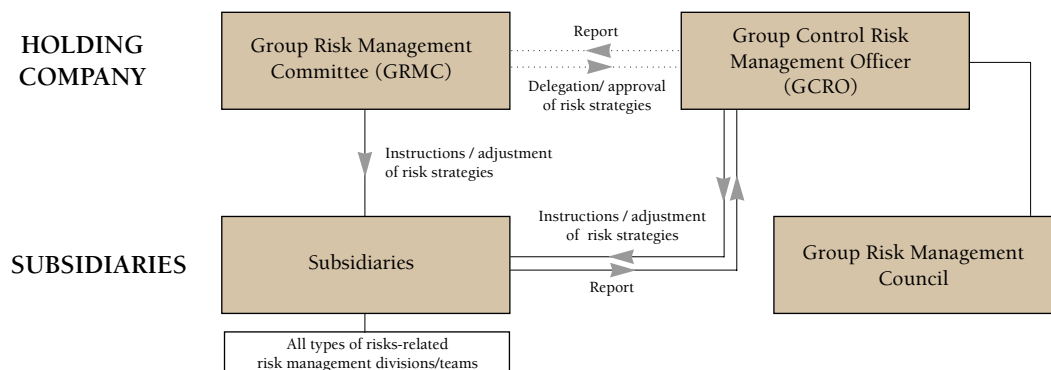


Shinhan Financial Group manages a diversity of risks that could arise within each business sector. Major targets include credit, market and liquidity risks. These risks are recognized, measured and reported in accordance with guidelines for risk management determined by the holding company.

Organization

SFG's basic policies and strategies for dealing with such risks are established by the holding company's Risk Management Committee. Those SFG managers responsible for these matters assist the committee and work with subsidiaries through the Group Risk Management Council, which includes personnel charged with risk management responsibilities in each subsidiary. The Group's policies and strategies are applicable to each subsidiary, and each also has its own risk management structure and detailed risk policies and strategies.

SFG has implemented a hierarchical system of limits to manage risks at a reasonable level. The Group Risk Management Committee (GRMC) establishes sustainable risk



limits for the Group and for each subsidiary. In turn, each subsidiary sets and manages detailed risk limits by division and type of product.

Group Risk Management Committee

The Group Risk Management Committee (GRMC) develops risk management frameworks for the holding company and each subsidiary, and coordinates group risk-related matters, establishing group risk policies and limits. The committee is comprised of three outside directors of the holding company. Responsibilities of the committee are as follows:

- Establishment of basic policies for risk management in concordance with management strategies;
- Determining permissible risk levels of the Group and subsidiary;
- Approval of appropriate investment limits and permissible loss limits by subsidiary;
- Enactment and revision of regulations for risk management; and
- Other matters which the board of directors and committees decide to be necessary

Decisions by the GRMC are reported to the Board of Directors.

Group Risk Management Council

The Group Risk Management Council discusses detailed matters in order to maintain the Group's risk policies and strategies in a consistent manner. The council consists of the holding company's managing director in charge of risks, as chairman of the council, and members are the holding company's Treasury Team manager and each subsidiary's risk management coordinator.

Credit Risk Management

Credit risk refers to risks which arise when customers fail to discharge their liabilities according to the contract. This is the greatest risk which SFG has to bear, and the majority of credit risk is derived from Shinhan Bank (SHB).

Basic policies for SHB's credit risk are determined by the Credit Committee. Led by the chief credit officer (CCO), and mainly comprised of the head of the credit-related division and the general manager of the Credit Policy & Risk Management Department, the bank's Credit Committee establishes companywide loan policies and inspects loans for amounts beyond normal limits.

Credit risk management for individual loans begins by determining the creditworthiness of the debtor. All corporate loan requests undergo a credit analysis using assessment models which consider the financial and non-financial factors of the individual corporation, as well as the industries in which the firm operates. Results of the credit evaluation set the basis for loan approval, limit management, price decision, and loan loss provisioning. SFG grants appropriate credit to small and individual companies by developing and applying separate assessment models for such corporations.

Corporate loans are objectively and carefully examined through the group decision-making process. Approvals for larger and complicated loans are primarily made by the Credit Officer Committee. Individual loans are screened by the Credit Scoring System (CSS) operating team, using objective statistical methods and the automated assessment system, based on SFG's credit policies.

Furthermore, SFG operates an early warning system to monitor loans at all times. Among corporate loan customers, companies with a probability of insolvency are automatically reviewed on a weekly basis by RMs and credit officers. The appropriateness of loan review results and the credit ratings of relevant companies are decided and adjusted, when necessary, by credit management divisions which are independent from business group headquarters. Borrowers are classified into three categories – 'companies showing signs of problems,' 'companies to be closely monitored' and 'normal companies' – according to such procedures. Loans provided to troubled companies are monitored and managed according to risk guidelines in order to minimize their deterioration to non-performing loan (NPL) status. Loan review operations are supported by the Industrial Information Team, which provides relevant data on industrial trends and companies, and the Financial Analysis Support System in cooperation with professional credit rating agencies.

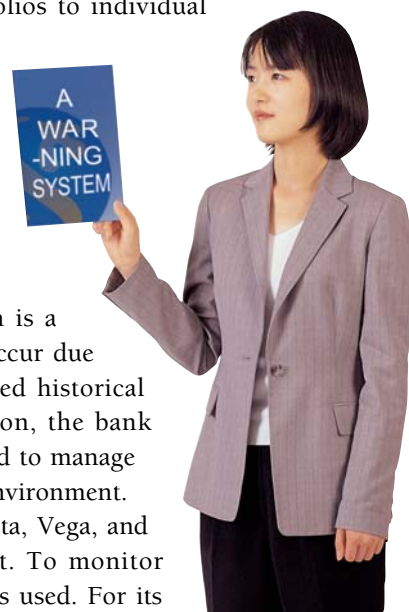
Market Risk Management

Market risk refers to risks generated by fluctuations in market prices, such as interest rates, share prices, and product prices. SFG divides and manages market risk into 'price risk,' on trading assets, 'interest rate mismatch risk' on interest-bearing assets and liabilities and 'foreign exchange (F/X) risk' on transactions involving foreign currency.

Market risk management basically aims to manage the maximum amount of possible loss to maintain the amount at risk within certain levels. To this end, SFG allocates and operates value-at-risk limits (VaR), investment limits, position limits, transaction limits, loss limits and stop-loss selling limits from portfolios to individual desks and dealers. Monitoring adherence to these limits is the responsibility of independent risk management teams and risk management officers within business units.

SFG also requires that new products (or transactions) of each business group are objectively analyzed and reviewed for risk factors prior to their execution.

To measure market risk, Shinhan Bank uses VaR which is a statistical system to calculate potential losses that could occur due to market fluctuation. VaR relies on a methodology called historical simulation and yields a 99% confidence level. In addition, the bank conducts a stress test to complement risk measurement and to manage losses that can result from rapid changes in the economic environment. The bank also uses Duration Basis Point Value (BPV), Delta, Vega, and other systems for the purpose of portfolio management. To monitor interest rate mismatch risk, the interest rate gap analysis is used. For its





We have been developing a more sophisticated risk control system to further strengthen risk measurement and management functions.

operations, Goodmorning Shinhan Securities (GMSH) applies risk equivalent figures that are computed by the relevant supervisory organization. In case of stock price futures and options, the company uses VaR calculated by Delta and Gamma methods.

To effectively manage market risk, Shinhan Bank allows only selected divisions, such as the Securities Investment Department, to trade securities including stocks which generate price volatility risk. Interest rate mismatch risk and F/X risk at bank branches are coordinated by the Treasury Division, backed by the headquarters and branch network system (the internal transfer price system), based on market interest rates.

SHB has been developing a more sophisticated risk control system since 2001. The new system was partially completed during 2002, further strengthening risk measurement and management functions. When it is fully operational, the bank will pursue extension of the system to all unit companies within SFG.

Liquidity Risk Management

Liquidity risk includes the risk of being unable to fulfill payment obligations on time, or being forced to raise capital at higher-than-market prices, or maintaining operational funds at lower-than-market rates. Each subsidiary observes liquidity-related guidelines (including liquidity ratios) set by relevant supervisory organizations, and also establishes contingency plans against unexpected capital shortages which could occur with sudden changes in the capital markets or monetary policies.

SFG also utilizes a system which simultaneously manages the maturities of raised funds and operating funds to schedule maturities of all types of funds in order to meet capital requirements at any time, with contingency plans for dealing with any liquidity-related

We are committed to enhancing shareholder value by minimizing losses and disruptions through effective risk management to improve safety, quality and business performance in our group.

situation. SHB, specifically, has established permissible gap limits so that compliance can be examined by the Asset & Liability Management (ALM) Committee on a monthly basis.

Overall, SFG diversifies the maturity dates on investments and obligations, securing a stable capital foundation to prevent liquidity risk from occurring.





> **Feel!**

Now, feel SFG's fresh financial services

SFG restructured its business operations as a financial group to create a comprehensive financial network that encompasses banking, securities, investment trusts, lease financing, credit information and financial advisory within a one-portal system. Today, the SFG network is equipped to provide the most innovative and most convenient services for customers while maximizing shareholder value through the one-portal concept.

Now, feel SFG's fresh financial services



› BUILT: Ten in One

Ten Financial Companies in One Network

...Our investment trust business alliance with BNP Paribas and the newly established SH&C Life Insurance (the first bancassurance company in Korea) greatly enhanced our one-portal financial services network.

> FINANCIAL INFORMATION

We will build a premier financial group with strong presence in financial markets within Korea and throughout the world

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 SHINHAN FINANCIAL GROUP



RESET



Management Discussion & Analysis

1. OVERVIEW

In 2002, the world economy turned to a recovery note on the back of expansion-oriented macroeconomic-policies made by major advanced nations including the US. However, the pace of recovery was minimal due to continued uncertainties. On the contrary, Korean economy posted relatively solid growth during the year, outpacing other major economies.

Behind this economic growth, corporate results rebounded, and loans to small and mid-size enterprises (SMEs) rose behind abundant market liquidity. Based on this, home equity loans rapidly grew backed by continued low interest rates and a flourishing housing market, while credit card usage sharply climbed led by cash advance services. Accordingly, financial supervisory authorities strengthened regulations looking to preemptively cope with the situation, leading to sharp upturns in delinquency ratios. This mainly came from the household sector, resulting in overall difficulties in the financial market.

Accordingly, financial supervisory authorities strengthened regulations looking to preemptively cope with the situation, leading to sharp upturns in delinquency ratios, which mainly came from the household sector, resulting in overall difficulties in the financial market.

Amid such an environment, Shinhan Financial Group (SFG) restructured its business structure with a view to becoming a 'one-portal financial service network' offering clients a wide array of solutions for their financial needs. Such efforts included (1) the acquisition of Good Morning Securities in order to increase its presence in the securities sector, which acts as an important distribution channel along with Shinhan Bank (SHB), (2) the spin-off of SHB's credit card division, which was done to increase the division's competitiveness as a monoline credit card provider, and (3) the transformation of its investment trust management company, one of SFG's core service providers, into a 50:50 joint venture with BNP Paribas. In addition, SFG looked to strategically reinforce its competitiveness by promoting crossover sales, acquiring Jeju Bank, creating a bancassurance subsidiary, and establishing Shinhan Credit Information, which specializes in collections and credit investigation.

Such efforts and commitment to improving corporate earnings results have enabled SFG to continue its solid growth, posting annual net income of ₩602.2 billion in 2002, an upswing of approximately 78% year-on-year (YoY). This positive outcome is particularly noteworthy, as it was attained amidst an aggravating business environment, including an upturn in delinquency ratios.

In 2003, SFG plans to begin realizing true synergies in earnest following its efforts to develop a foundation to become a 'one-portal financial service network.'

2. SUMMARY OF PROFITS AND LOSSES

(1) Shinhan Financial Group (Holding Company)

In 2002, SFG's consolidated net income reached ₩602.2 billion, soaring 173% YoY from the ₩220.8 billion posted in 2001. However, a simple comparison of the two figures is of no great significance, as the net income for 2001 reflects only six months (July~December) of operations under the SFG's holding company structure, which was complete in September 2001. Instead, it would be more meaningful to compare SFG's 2002 net income with an estimated 2001 net income

Management Discussion & Analysis

of ₩498.4 billion, which is the combined net income of SFG during the latter half of 2001 (₩220.8 billion), and the net income of subsidiaries during the first half of 2001 (₩277.6 billion). In this case, SFG's net income actually rose by 21% YoY in 2002.

Meanwhile, non-consolidated net income for 2002 came in at ₩603.9 billion, or ₩1.7 billion higher than consolidated income. This difference is attributed to different accounting standards in calculating consolidated and non-consolidated income. Specifically, gains on the disposal of Shinhan BNP Paribas Investment Trust Management Company (SH BNP ITMC) shares were reflected in SFG's net income according to the non-consolidated equity method of the 'Financial Accounting Standard' while these were processed as an increase in capital surplus according to the consolidated equity method of the 'Accounting Standard for Consolidated Financial Statements.' The table below shows SFG's consolidated net income for 2002 and pro forma net income for 2001.

2002 Consolidated Net Income

(In Billions of Korean Won)

	Net Income	Goodwill	Provision Adjustment	Operating Expenses	Total
SHB	595.9				595.9
GMSH	9.3	(8.5)	(1.5)		(0.7)
SH Card	0.5				0.5
SHC	7.6		5.8		13.4
SH BNP ITMC	4.0				4.0
Jeju	4.1	0.7	1.9		6.7
SH&C	(0.5)				(0.5)
e-Shinhan	(0.8)				(0.8)
SMFA	0.1				0.1
SHCI	0.1				0.1
SFG				(16.5)	(16.5)
Total	620.4	(7.8)	6.2	(16.5)	602.2

* Operating expense of ₩16.5 billion includes interest income of ₩3.0 billion, other Income of ₩0.1 billion, and SG&A expense of ₩19.4 billion.

2001 Pro Forma Consolidated Net Income

(In Billions of Korean Won)

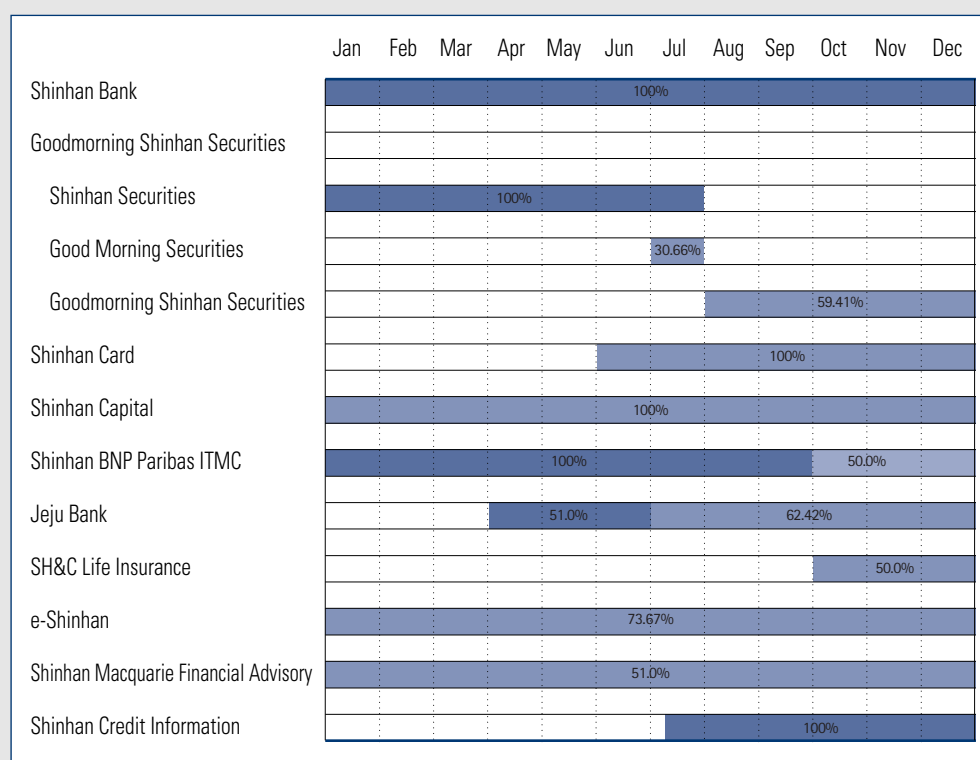
	Net Income	Goodwill	Provision Adjustment	Operating Expenses	Total
SHB	347.1				347.1
SHS	25.0	127.9	(0.7)		152.2
SHC	(26.1)		30.1		4.0
SH ITMC	3.4				3.4
e-Shinhan	(0.2)				(0.2)
SMFA	0.3	(3.4)			(3.1)
SFG				(5.0)	(5.0)
Total	349.5	124.5	29.4	(5.0)	498.4

* Operating expense of ₩5.0 billion includes SFG's real expenses from July to December.

> Management Discussion & Analysis

As seen above, Shinhan Securities' negative goodwill accounted for 25% of 2001 net income of W498.4 billion, and therefore, actual earnings power should have improved by 78%.

Changes at 2002-end from 2001-end include the merger of Good Morning Securities and Shinhan Securities, the spin-off of SHB's credit card division, the 50% stake sale of Shinhan Investment Trust to BNP Paribas, the acquisition of Jeju Bank, the creation of a bancassurance company, SH&C Life Insurance, and the establishment of Shinhan Credit Information. Changes in the ownership of the subsidiaries and the time of their inclusion into the holding company are as follows:

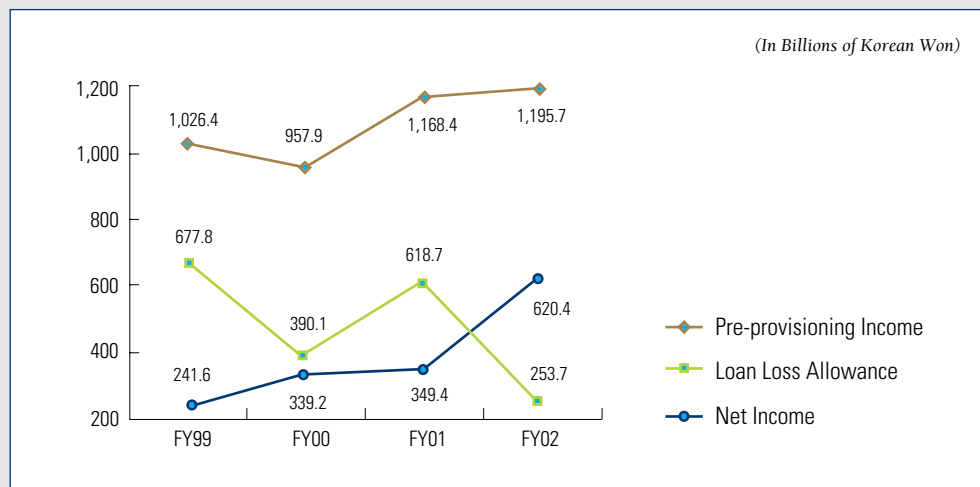


The table below shows SFG's annual pre-provisioning income, loan loss allowance, and net income of its major subsidiaries.

Management Discussion & Analysis

(In Billions of Korean Won)

	FY1999	FY2000	FY2001	FY2002
Pre-provisioning income				
SHB	853.3	948.9	1,093.0	1,060.2
GMSH	130.3	-7.1	42.9	20.7
SH Card				64.8
SHC	24.5	33.6	28.4	30.1
SH BNP ITMC	18.4	-17.6	4.1	6.0
Jeju Bank				15.1
SH&C Life Insurance				-0.5
e-Shinhan				-0.8
SMFA				0.1
SHCI				0.1
Total	1,026.4	957.9	1,168.4	1,195.7
Loan Loss Allowance				
SHB	651.0	359.3	551.6	168.3
SH Card				64.0
SHC	26.8	30.8	65.2	17.4
Others	0.0	0.0	1.9	4.0
Total	677.8	390.1	618.7	253.7
Net Income				
SHB	113.1	372.8	347.1	595.9
GMSH	119.9	-17.6	25.0	9.3
SH Card				0.5
SHC	-6.5	1.9	-26.1	7.6
SH BNP ITMC	15.1	-17.8	3.4	4.0
Jeju Bank				4.1
SH&C Life Insurance				-0.5
e-Shinhan				-0.8
SMFA				0.1
SHCI				0.1
Total	241.6	339.2	349.4	620.4



Management Discussion & Analysis

During 1999~2002, SFG's pre-provisioning income saw a continual upward trend, except in 2000 when the securities sector suffered from sluggish earnings. Such rising trend is primarily accredited to an improvement in the profitability of SHB, the group's core subsidiary. Of note, pre-provisioning income continued to rise while loan loss allowances continuously backed off. This was due to the bank cleaning up its books, as the majority of problematic loans had been charged off by 2001. In addition, the sharp YoY rise in loan loss allowances in 2001 was due to provisions earmarked for problematic loans related to the Hyundai affiliates, including Hynix Semiconductor.

Net income also showed a steady upturn, registering a sharp increase in 2002 thanks to the reflection of most NPLs by 2001. When looking at 2002 net income by subsidiary, SHB accounted for 96% of the Group's total. Meanwhile, non-bank subsidiaries' dull earnings were mainly attributed to unsatisfactory earnings posted by (1) the securities subsidiary on the back of poor performing stock markets and an ascent in one-time expenses following the merger, and (2) the credit card subsidiary in the wake of a rise in operating expenses due to its spin-off and aggravated asset quality. In 2003, the earnings contribution of non-bank subsidiaries should improve substantially as the majority of these businesses are expected to recover.

In addition to providing a wide array of financial services including securities, investment trusts, and lease services centering around SHB, SFG was established as Korea's first privately funded holding company on September 1, 2001 with an aim to carry forward the cross-selling model. The selection of the holding company structure was aimed to ultimately improve the Group's return on equity (ROE) by pushing ahead with fee-focused businesses through cross-selling.

However, SFG's interest income to non-interest income ratio edged up by 2%p to 62:38 at 2002-end, from 60:40 in 2001, which was primarily triggered by unfavorable earnings of non-bank subsidiaries.

It was difficult to expect visible synergies from the holding company structure in 2002, as it was only the second year since its establishment. Despite this, SFG strived to construct a one-portal business system, opening a retail banking plaza and a corporate banking center, while building a CRM system to share information on customers among the Group's affiliates. These efforts should help solidify the foundation for the cross-selling and help materialize synergies from the holding company structure in the near future.

In 2003, SFG will continuously pursue the construction of a one-portal business system while concentrating on the development of networking products and services.

The table below illustrates SFG's interest and non-interest income. Interest income continued to rise in 2002 on the back of continuous growth in group assets and improving margins. Non-interest income also took an upturn behind rising fees and commissions, and fees from trust income.

(In Billions of Korean Won)

	FY1999	FY2000	FY2001	FY2002
Interest Income	825.5	910.6	1,068.8	1,219.6
Non-interest Income				
Fees & Commissions	552.1	547.7	518.4	633.2
(Credit Card Income)	188.9	248.4	301.1	366.8
Fees on Trust Accounts	-101.2	-3.1	129.8	120.4
Securities-related Income	205.7	77.3	38.1	-74.0
Gains on F/X transactions	33.8	68.1	82.3	85.1
Other Income	-31.0	-65.9	-45.8	-25.0
Total	659.3	624.2	722.8	739.8

> Management Discussion & Analysis

(2) Shinhan Bank

1) Overview

(In Billions of Korean Won)

	FY1999	FY2000	FY2001	FY2002	YoY
Operating Revenues	3,558.9	4,344.5	4,679.7	4,821.3	3%
Interest Income	2,925.4	3,377.7	3,438.9	3,321.3	-3%
Commission Income	219.7	381.5	463.8	422.3	-9%
Other Operating Income	413.8	585.3	776.9	1,077.8	39%
Operating Expenses	3,445.3	3,894.6	4,239.1	3,888.9	-8%
Interest Expenses	2,047.3	2,487.9	2,405.6	2,104.4	-13%
Commission Expenses	30.0	28.5	76.1	101.4	33%
Other Operating Expenses	949.9	887.8	1,194.1	1,057.5	-11%
G&A Expenses	418.2	490.5	563.3	625.6	11%
Operating Income	113.6	449.9	440.5	932.4	112%
Non-Operating Income	135.1	146.5	206.1	119.1	-42%
Non-Operating Expenses	79.8	49.5	150.9	208.5	38%
Ordinary Income	169.0	547.0	495.7	843.0	70%
Extraordinary Gains	-	6.5	-	-	
Income Before Income Taxes	169.0	553.5	495.7	843.0	70%
Income Tax expenses	55.9	180.8	148.6	247.1	66%
Net Income for the Year	113.1	372.8	347.1	595.9	72%

In 2002, SHB posted net income of ₩595.9 billion, increasing 72% YoY, on the strength of an impressive 112% jump in operating income (₩491.9 billion). This rise in operating income was attributed to an 8% YoY decrease in operating expenses (-₩350.2 billion) and a 3% YoY increase in operating revenue (+₩141.6 billion).

Operating revenue rose ₩141.6 billion YoY due to an 86% jump (+₩327.5 billion) in gains from derivatives trading, while operating expenses declined due to a 73% YoY fall (-₩402.4 billion) in bad debt expenses following the disposal of NPLs in 2001.

The majority of SHB's derivatives trading gains was a result of hedging transactions. Losses on derivatives trading also surged. The table below shows the breakdown of SHB's other operating income.

Management Discussion & Analysis

Other Operating Income / Expenses

(In Billions of Korean Won)

	FY1999	FY2000	FY2001	FY2002	Chg.
Other Operating Income	413.8	585.3	776.9	1,077.8	300.9
1. Gains on Disposition of Trading Sec.	135.6	70.8	78.0	34.9	-43.1
2. Gains on Valuation of Trading Sec.	45.0	5.2	5.3	0.0	-5.3
3. Dividends on Trading Securities	1.1	1.4	0.2	1.9	1.7
4. Dividends on Investment Securities	0.6	4.5	1.5	12.7	11.1
5. Gains on Foreign-currency Trading	91.3	181.2	179.7	188.8	9.0
6. Fees and Commissions from T/A	57.9	87.1	129.9	120.3	-9.6
7. Reversal of G&A Allowance	0.0	39.2	0.0	9.4	9.4
8. Gains on Derivatives Trading	74.6	196.0	382.4	709.9	327.5
9. Reversal of Allowance for LLR	0.0	0.0	0.0	0.0	0.0
10. Other	7.8	0.0	0.0	0.0	0.0
Other Operating Expenses	949.9	887.8	1,194.1	1,057.5	-136.7
1. Loss on Disposition of Trading Sec.	62.0	72.6	95.1	31.5	-63.6
2. Loss on Valuation of Trading Sec.	12.2	1.2	5.4	6.2	0.7
3. Loss on Foreign-currency Trading	0.4	89.2	88.0	99.2	11.2
4. Contribution to Funds	28.6	35.8	40.5	43.7	3.2
5. Bad Debt Expenses	579.9	398.6	550.7	148.3	-402.4
6. Other Provisions	10.1	0.0	2.3	29.4	27.1
7. Subsidy for Trust Accounts	171.8	90.1	0.0	0.0	0.0
8. Loss on Derivatives Trading	73.0	181.5	386.1	670.5	284.4
9. Provision for A&G Losses	0.0	0.0	0.9	0.0	-0.9
10. Other	11.9	18.7	25.1	28.7	3.6

Meanwhile, ordinary Income backed off in 2002 by 9% (-₩89.4 billion) relative to operating income due to a surge in non-operating expenses and decline in non-operating income. The slip in non-operating income was mainly attributed to losses on investment securities. Specifically, SFG disposed of all its shares in Hynix Semiconductor during 2002, generating a ₩62.5 billion loss on the disposal of investment securities. In addition, an impaired loss of ₩41.0 billion was generated from investment securities in Hyundai Engineering & Construction.

Management Discussion & Analysis

Non-Operating Income/Expenses

(In Billions of Korean Won)

	FY1999	FY2000	FY2001	FY2002	Chg.
Non-operating Income	135.1	146.5	206.1	119.1	-87.0
Rental Income	2.2	6.2	6.9	5.4	-1.5
Gains on Valuation Using Equity Method	11.1	16.5	21.4	8.3	-13.1
Gains on Disposition of Investment Sec.	47.5	79.2	77.1	48.8	-28.3
Recovery of Investment Bond Impairment Loss	0.2	6.5	18.1	13.3	-4.7
Gains on Valuation of CBOs	-	19.9	12.9	-	-12.9
Gains on Sale of Loans	25.5	2.1	15.3	10.3	-5.0
Other	48.6	16.1	54.4	33.0	-21.5
Non-operating Expenses	79.8	49.5	150.9	208.5	57.6
Loss on Disposition of Tangible Assets	0.1	0.1	0.1	0.1	-0.0
Loss on Disposition of Investment Securities	5.3	1.2	51.5	86.7	35.1
Impaired Loss on Investment Securities	49.6	27.4	58.8	93.7	34.9
Loss on Sale of Loans	12.5	0.7	27.5	7.5	-20.0
Other	12.3	20.1	12.9	20.5	7.6

2) Expenses

General and Administrative (G&A) expenses rose at a slower pace in 2002, climbing 11% (₩62.3 billion) YoY, following a 15% YoY increase in 2001 and 17% YoY rise in 2000. The improvement in G&A expenses is attributable to a curtailment in personnel (93 persons) following the spin-off of SHB's credit card division in June 2002. In addition, as expense growth nearly matched that of income, SHB's cost-to-income ratio stood at 36.27% in 2002, similar to the 36.21% recorded in 2001.

Expense Details

(In Billions of Korean Won)

	FY1999	FY2000	FY2001	FY2002	YoY
Salaries	140.4	159.1	184.7	204.8	11%
Retirement Allowances	33.9	36.1	45.7	48.9	7%
Other Employee Benefits	75.2	108.6	106.1	125.5	18%
Rent	17.1	16.9	20.5	23.4	14%
Entertainment	7.0	6.3	6.4	4.1	-35%
Depreciation	40.7	53.0	63.8	62.8	-2%
Amortization on Intangible Assets	5.2	0.1	0.1	0.0	-94%
Taxes and Dues	23.5	25.4	25.4	26.1	3%
Advertising	7.6	11.7	25.4	29.7	17%
Other G&A Expenses	67.6	73.4	85.2	100.2	18%
Total	418.2	490.5	563.3	625.6	11%

> Management Discussion & Analysis

3) Interest Income

Interest income registered continuous growth on the strength of expanding assets and improving margins. In 2002, income climbed by 18% YoY (+₩183.6 billion), which is accredited to a 13% YoY drop in interest expenses while interest revenues edged back 3% YoY.

Despite upturns in interest earning assets and interest bearing liabilities, SHB saw declines in both interest revenue and interest expenses due to falls in deposit rates and lending rates behind low interest rates.

Interest Income/Expenses

(In Billions of Korean Won)

	FY1999	FY2000	FY2001	FY2002	YoY
Interest Income					
Interest on Due from Banks	97.3	112.9	64.1	20.9	-67%
Interest on Trading Securities	39.4	57.6	55.9	34.8	-38%
Interest on Investment Securities	982.4	1,108.6	985.7	836.4	-15%
Interest on Loans	1,613.8	2,046.1	2,291.3	2,407.6	5%
Other	192.5	52.6	42.0	21.5	-49%
Total	2,925.4	3,377.7	3,438.9	3,321.3	-3%
Interest Expenses					
Interest on Deposits	1,216.7	1,513.5	1,558.3	1,362.4	-13%
Interest on Borrowings	613.4	779.6	594.1	418.2	-30%
Interest on Debentures	160.7	158.1	207.9	303.5	46%
Other	56.6	36.6	45.3	20.3	-55%
Total	2,047.3	2,487.9	2,405.6	2,104.4	-13%
Net Interest Income	878.1	889.9	1,033.3	1,216.9	18%

The greater decline in interest expenses relative to interest income was caused by a more significant drop in deposit rates and a fall in funding costs following the spin-off of SHB's credit card division. Given Shinhan Card's interest expenses, which amounted to ₩60.4 billion in 2002, net interest income should have surged 12% YoY (+₩123.1 billion), while interest expenses would have dropped 10% YoY.

4) Net Interest Spread and Net Interest Margin

Domestic banks calculate net interest margins (NIM) based on the guidelines provided by the Financial Supervisory Service (FSS), Korea's regulator for the banking, securities, and insurance industries. The FSS revised its guidelines for computing NIM in June 2002. The revision requires that only cash advances and credit card loans be included in interest-earning assets, whereas previously, all credit card assets were reflected as interest-earning assets. In general, the rate of return (yield) on credit card assets is by far greater than that on loans or securities. Therefore, both NIS and NIM are expected to be smaller than in preceding years due to the changed standards. The following are changes in NIS and NIM by year, without considering the effects of the revised guidelines.

Management Discussion & Analysis

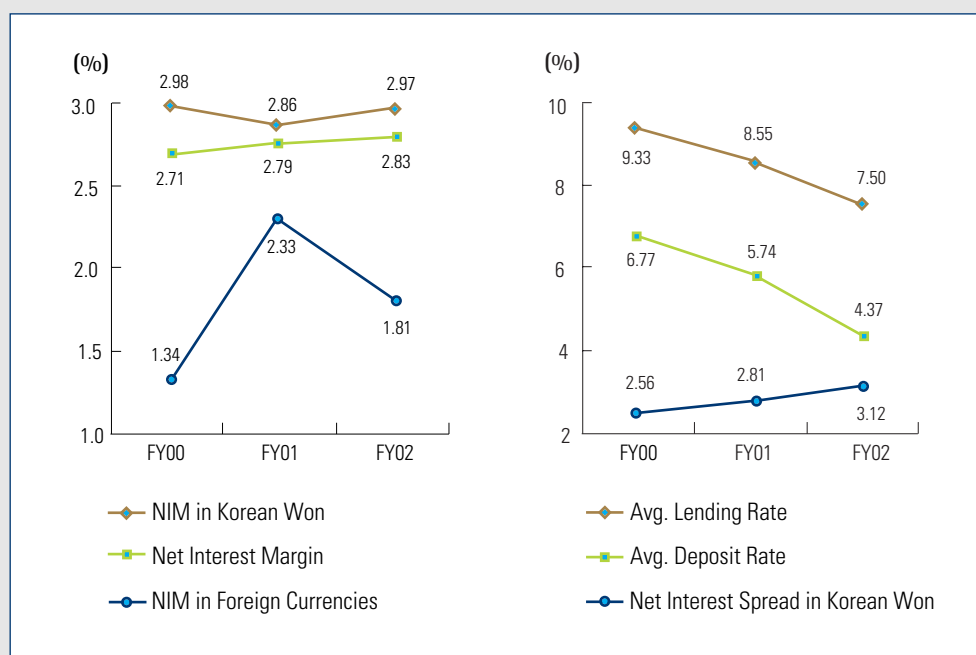
NIS vs. NIM by Year

	FY2000	FY2001	FY2002	YoY
Net Interest Spread in Korean Won	2.56	2.81	2.75	-0.06
Avg. Lending Rate	9.33	8.55	7.09	-1.46
Avg. Deposit Rate	6.77	5.74	4.34	-1.40
Net Interest Margin	2.71	2.79	2.54	-0.25
NIM in Korean Won	2.98	2.86	2.65	-0.21
NIM in Foreign Currencies	1.34	2.33	1.78	-0.55

However, as a simple comparison of NIS and NIM would be meaningless due the changed guidelines, we calculated them based on past guidelines as follows.

NIS vs. NIM by Year – Based on Previous Guidelines

	FY2000	FY2001	FY2002	YoY
Net Interest Spread in Korean Won	2.56	2.81	3.12	0.31
Avg. Lending Rate	9.33	8.55	7.50	-1.05
Avg. Deposit Rate	6.77	5.74	4.37	-1.37
Net Interest Margin	2.71	2.79	2.83	0.04
NIM in Korean Won	2.98	2.86	2.97	0.11
NIM in Foreign Currencies	1.34	2.33	1.81	-0.52



Management Discussion & Analysis

The following table shows details of Shinhan Bank's margin structure.

Margin Structure

(In Billions of Korean Won)

	FY2000		FY2001		FY2002	
	Volume	Yield	Volume	Yield	Volume	Yield
Interest Earning Assets (IEA)	40,232.5	8.92	45,364.3	8.12	51,187.8	7.11
IEA in Korean Won	33,642.3	9.20	39,037.8	8.44	45,053.3	7.62
Due from Banks	960.8	6.96	563.0	6.20	349.6	4.99
Securities	12,724.2	8.91	11,820.7	8.30	10,548.8	8.01
Total Loans	19,957.2	9.33	26,342.6	8.55	34,119.9	7.50
Loans	16,332.4	8.66	22,447.3	7.95	29,969.0	6.87
Corporate	10,871.9	8.37	13,297.1	7.69	14,862.5	6.68
Households	4,347.7	10.29	7,913.9	8.78	14,168.3	7.23
Bills Bought	2,568.9	7.41	2,294.8	7.03	2,019.0	6.28
Credit Card	1,350.0	18.40	1,807.5	16.71	2,408.2	15.12
Loan Loss Reserves (△)	457.5		295.1		384.9	
IEA in Foreign Currencies	6,590.2	7.47	6,326.6	6.12	6,134.6	3.38
Due from Banks	777.3	5.93	682.6	4.28	219.7	1.81
Securities	553.6	5.94	567.9	7.82	708.7	3.35
Total Loans	5,259.3	7.85	5,076.1	6.18	5,206.1	3.45
Loans	3,721.7	6.44	3,318.1	5.00	3,538.6	2.98
Bills Bought	1,847.1	9.39	2,022.5	7.30	1,806.0	4.10
Loan Loss Reserves (△)	309.5		264.5		138.4	
Interest Bearing Liabilities (IBL)	36,927.4	6.77	43,030.8	5.62	50,318.2	4.35
IBL in Korean Won	30,456.0	6.88	36,960.4	5.90	44,679.2	4.69
Total Deposits	21,514.0	6.77	26,574.0	5.74	31,394.6	4.37
Deposits	20,359.8	6.75	24,230.8	5.76	28,261.9	4.31
CDs	1,154.2	7.08	2,343.2	5.48	3,132.6	4.90
Borrowings	7,848.7	6.32	7,985.7	5.34	7,699.7	4.50
Finance Debentures	942.2	11.53	2,149.7	8.54	5,353.3	6.64
Others	151.1		251.1	17.67	231.6	8.58
IBL in Foreign Currencies	6,471.4	6.23	6,070.4	3.95	5,639.0	1.71
Deposits	1,612.6	4.31	1,869.9	2.58	1,693.8	0.93
Borrowings	3,899.3	7.02	3,601.7	4.61	3,405.5	2.09
Finance Debentures	739.0	6.70	473.5	5.13	386.2	2.23
Others	220.6	4.81	125.3	1.19	153.5	0.51
Net Interest Spread (NIS)		2.15		2.50		2.76
NIS in Korean Won		2.56		2.81		3.12
NIS in Foreign Currencies		3.55		3.60		2.52
Net Interest Margin		2.71		2.79		2.83
NIM in Korean Won		2.98		2.86		2.97
NIM in Foreign Currencies		1.34		2.33		1.81

*Includes commissions from credit cards. 2002 figures include Shinhan Card's credit card fees and commissions for comparison purposes.

Management Discussion & Analysis

NIS was on a continuous rise during 2000~2002 despite a drop in operating yields due to a decline in market interest rates, as funding costs fell by a relatively greater margin than that of operating yields.

Meanwhile, SHB's average interest rate on loans dropped 105bp YoY, while its average deposit rate slipped 137bp YoY, becoming a main contributor to improving NIS. The yield on securities continued to fall. This was due to the continuous downturn in market interest rates, as maturing high interest-rate securities were replaced with securities yielding lower interest rates.

Specifically, when dividing loans into household and corporate loans, the average yield of household loans stood at 7.23%, 55bp higher than that of corporate loans (6.68%). The gap in these two yields significantly narrowed relative to the 109bp gap seen in 2001, as growth in household loans was focused on home equity loans in 2002.

Meanwhile, based on average balance corporate loans climbed 12% YoY during 2002, while household loans jumped 79%. In addition, approximately 73% of such ascent in household loans was derived from a rise in home equity loans. The growth of home equity loans led to a contraction in margins. This is due to the fact that margins for home equity loans are smaller than credit loans, although these loans are exposed to less risk from interest rate fluctuations, as they are relatively long-term and bound to move in sync with market interest rates.

In 2002, the yield on credit card operations decreased by 159bp to 15.12%, which was attributed to falling market interest rates, intensifying competition, and strengthening government regulations. However, credit card operations still maintained higher yields as compared to other operations.

By quarter, NIM declined marginally in 3Q02, but then significantly improved in 4Q02. This was primarily due to declining funding rates and delinquency ratios. The marginal drop in NIM during 3Q02 was due to a sharp rise in delinquencies.

2002 NIM by Quarter

	1Q	2Q	3Q	4Q
NIM in Total	2.76%	2.80%	2.78%	2.83%
NIM in Korean Won	2.88%	2.93%	2.91%	2.97%
NIM in F/C	1.86%	1.79%	1.82%	1.81%

Note : Each quarterly percentage was calculated based on accumulated figures

5) Non-Interest Income

(In Billions of Korean Won)

	FY1999	FY2000	FY2001	FY2002	YoY
Fees & Commissions	273.0	353.0	387.7	320.8	-17.2%
(Credit Card Income)	188.9	248.4	301.1	216.4	-28.1%
Fees on Trust Accounts	-101.2	-3.1	129.8	120.3	-7.4%
Securities-related Income	116.3	96.3	7.7	-97.7	n/a.
Gains on F/X transactions	90.9	91.9	91.7	89.5	-2.4%
Other Income	40.0	-24.7	-39.8	-12.9	n/a.
Total	419.0	513.4	577.3	420.0	-27.2%

Management Discussion & Analysis

In 2002, non-interest income fell by 27.2% YoY (-₩157.3 billion), largely attributed to the following:

- (1) Credit card income during June~December (seven months) was excluded with the spin-off of the credit card division.
- (2) The sale of all Hynix Semiconductor shares, which were previously converted to equity from debt in 2Q02, generated a loss of ₩62.5 billion on the disposal of investment securities.

Annual credit card income plunged 28.1% YoY (-₩84.7 billion) to ₩216.4 billion, due to the fact that income from Shinhan Card was excluded. Given Shinhan Card's credit card fees and commissions of ₩147.4 billion in 2002, credit card fees and commissions surged 20.8% (+₩62.7 billion) during the year to ₩363.8 billion at 2002-end, while fees and commissions also jumped 20.8% (+₩80.5 billion).

Securities-related income fell ₩105.4 billion YoY, contributing to a decline in non-interest income. This noticeable decrease was due to loss on the disposal of loans for debt-for-equity swaps and impaired losses on investment securities. The loss on the disposal of investment securities amounted to ₩37.9 billion in 2002, which is down ₩63.5 billion YoY relative to the ₩25.6 billion gain on disposal of investment securities posted in 2001. As previously mentioned, this was mainly due to a ₩62.5 billion loss on the disposal of Hynix Semiconductor shares acquired from a debt-for-equity.

Meanwhile, SHB's 2002 impaired loss on investment securities amounted to ₩93.8 billion, an increase of ₩34.9 billion YoY from a loss of ₩58.8 billion in 2001. The loss included ₩70.8 billion on equity securities, and ₩23.0 billion on fixed income securities. Out of the ₩70.8 billion impaired loss on equity securities, ₩61.4 billion was derived from loss on debt-for-equity swaps, and the remainder ₩9.4 billion was from loss on investment in stocks. Out of the loss on shares acquired from debt-for-equity swaps, the majority was generated from Hyundai Engineering & Construction (₩41.0 billion).

Non-interest income edged up 9.1% (₩52.6 billion) YoY in 2002, as (1) income from Shinhan Card was included in the bank's credit card income, and (2) the loss on the disposal of Hynix Semiconductor shares was excluded. The following table shows the details of non-interest income after such adjustments.

Adjusted Non-interest Income

(In Billions of Korean Won)

	FY1999	FY2000	FY2001	FY2002	YoY
Fees & Commissions	273.0	353.0	387.7	468.2	20.8%
(Credit Card Income)	188.9	248.4	301.1	363.8	20.8%
Fees on Trust Accounts	-101.2	-3.1	129.8	120.3	-7.4%
Securities-related Income	116.3	96.3	7.7	-35.2	N/A
Gains on F/X transactions	90.9	91.9	91.7	89.5	-2.4%
Other Income	40.0	-24.7	-39.8	-12.9	N/A
Total	419.0	513.4	577.3	629.9	9.1%

Management Discussion & Analysis

6) Provisions

In 2002, loan loss provisions dropped 69.5% YoY (-₩383.3 billion) to ₩168.3 billion. When including loan loss provisions at Shinhan Card, this figure declined 58% YoY to ₩232.3 billion. The decrease was due to the write-off of most NPLs in 2001. Of SHB's provisions totaling ₩168.3 billion, provisions set aside for normal reasons amounted to ₩121.7 billion, while the remaining ₩46.6 billion was additionally earmarked following change in FSS guidelines on provisioning.

The following table details SFG's provisions by quarter.

	Increase in line with asset growth	Increase due to change in regulations		Total
		Amount	Remarks	
1Q	46.0	0.0		46.0
2Q	39.6	44.2	Stricter provisioning criteria for retail • Normal 0.5% → 0.75% • Precautionary 4.0% → 5.0% • Doubtful 50% → 55%	83.8
3Q	38.2	0.1	Stricter provisioning for assets exceeding LTV 60% in "over floated real estate investment area" designated by the government (Normal 1.0%, Precautionary 10.0%)	38.3
4Q	-2.1	2.3	Stricter provisioning for retail loans classified as precautionary assets (5.0% → 8.0%)	0.2
Total	121.7	46.6		168.3

(3) Goodmorning Shinhan Securities

SFG made a major acquisition in 2002 by taking over Good Morning Securities, to be merged with its subsidiary Shinhan Securities. The merger became a major stone for the expansion of SFG's presence in the securities sector, thereby preparing the holding company's affiliates for synergies going forward.

The newly merged securities firm, Goodmorning Shinhan Securities (GMSH), generated income of ₩11.2 billion for the five months (August~December) following the merger, while total income for the term to be included in SFG's income amounted to ₩1.7 billion. However, SFG did realize a ₩42.1 billion expense, generated from the merger. Considering pro forma net income, given that this was a one-time event, ordinary income actually totals ₩43.8 billion. Furthermore, GMSH's ₩17.5 billion loss in July was also due to a merger expense of ₩28.4 billion.

Management Discussion & Analysis

Income From Securities Operations

(In Millions of Korean Won)

	SHS (Jan - Jul)	GMS (Jul)	GMSH (Aug - Dec)	Total
Operating Revenues	244,977	34,149	319,675	598,802
Commissions received	51,452	19,833	104,923	176,209
Interest income	14,921	4,976	24,221	44,118
Other operating income	178,604	9,340	190,531	378,475
Operating Expenses	246,370	58,334	310,667	615,371
Commissions expense	11,818	3,136	12,364	27,319
Interest expense	6,298	1,264	12,221	19,783
Other operating expenses	164,550	8,313	176,514	349,377
G&A expenses	63,704	45,621	109,568	218,893
Operating Income	(1,393)	(24,184)	9,008	(16,569)
Non-operating income	26,257	699	11,650	38,607
Non-operating expenses	12,919	1,322	4,161	18,402
Ordinary Income	11,945	(24,807)	16,497	3,636
Extraordinary gains	(46)	0	0	(46)
Net Income Before Taxes	11,899	(24,807)	16,497	3,589
Income tax	3,857	(7,247)	5,246	1,856
Net Income (Loss) for the Year	8,042	(17,559)	11,251	1,734

Note: SFG's ownership was not reflected.

Earnings of GMSH declined immediately following the merger due to a slowdown in the overall stock markets, but have been since steadily recovering. SFG is now poised to generate and maximize synergies by implementing joint branches, operations, and marketing strategies, and introducing integrated product and service packages with SHB from a group-wide perspective. In addition, SFG expects to materialize synergies from the merger through successful IT integration and continued reorganization in 2003.

Post-merger operating income noticeably improved when compared to the combined operating income of the two companies prior to the merger. Post-merger operating income for August~December amounted to ₩9.0 billion (+186%) compared with the combined operating income of ₩4.8 billion which the two companies posted for the seven months prior to the merger. Accordingly, average monthly operating income prior to the merger stood at ₩690 million, however this figure rose to ₩1,800 million post merger. The following table compares operating income before and after the merger of Good Morning Securities and Shinhan Securities.

Operating Income Pre and Post Merger

(In Millions of Korean Won)

	SHS (Jan-Jul)	GMS (Jan-Jul)	Total (Jan-Jul)	GMSH (Aug-Dec)
Net Operating Income	(1,393)	6,239	4,846	9,008
Net commissions received	39,635	156,523	196,157	92,558
Net interest income	8,622	25,143	33,766	12,001
Net other operating income	(49,650)	(175,427)	(225,077)	(95,551)

Management Discussion & Analysis

It would be insignificant to analyze earnings based on the period included in SFG's consolidated financial statements following the merger of Good Morning Securities and Shinhan Securities during 2002. Consequently, earnings by period were compared by simply adding up the profits and losses of the two companies on an annual basis. Accordingly, the two firms' combined net income amounted to ₩59.0 billion in 2002, up 3% YoY (+₩1.7 billion), from ₩57.3 billion in 2001. Meanwhile, operating revenues climbed 33% YoY to ₩874.9 billion, and operating expenses surged 41% YoY to ₩861.1 billion. A greater rise in operating expenses relative to operating revenues was due to the fact that merger expenses were reflected in operating expenses. Of note, in 2002 earnings by GMSH saw proceeds of ₩9.6 billion on the disposal of Good Morning Investment Trust. The table below shows the combined earnings by the two brokerages in 2001 and 2002.

Combined Results

(In Millions of Korean Won)

	FY2001 (Jan - Dec)	FY2002 (Jan - Dec)	Chg.	YoY
Operating revenues	658,393	874,931	216,538	33%
Commissions received	316,016	340,880	24,864	8%
Interest income	83,143	76,105	-7,038	-8%
Other operating income	259,234	457,946	198,712	77%
Operating expenses	611,793	861,076	249,283	41%
Commissions expense	54,480	52,165	-2,315	-4%
Interest expense	43,965	30,338	-13,627	-31%
Other operating expenses	233,718	423,700	189,983	81%
G&A expenses	279,631	354,873	75,242	27%
Operating income	46,599	13,854	-32,745	-70%
Non-operating income	44,194	63,671	19,477	44%
Non-operating expenses	8,923	31,644	22,720	255%
Ordinary income	81,870	45,881	-35,988	-44%
Extraordinary gains	-144	-46	98	-68%
Net income before income taxes	81,726	45,835	-35,891	-44%
Income tax expense	24,414	-13,143	-37,557	-154%
Net income for the year	57,312	58,978	1,666	3%

* Based on the summation of Shinhan Securities and Good Morning Securities

Based on the summation of the two companies' 2002 earnings results, commission income from the brokerage business, which edged up 8% YoY (+₩24.8 billion), accounted for 39% of total operating income. Meanwhile, gains on securities trading soared 76% YoY (+₩193.8 billion) to ₩449.0 billion, from ₩255.2 billion in 2001, triggered by an increase in gains in futures/options trading.

Management Discussion & Analysis

Operating Revenue Breakdown

(In Millions of Korean Won)

	FY2001 (Jan - Dec)		FY2002 (Jan - Dec)	
	SHS	GMS	SHS	GMS
Commission Income	82,597	233,419	51,452	289,428
Brokerage	71,673	199,430	46,886	249,695
BC transactions	4,152	22,532	1,432	25,792
M&As	6,269	8,101	2,974	6,803
Interest Income and Dividend Income	26,249	61,942	15,818	63,932
Gain on trading securities	125,312	129,880	178,095	270,936
Other	2,970	-3,977	-388	5,658
Total	237,128	421,264	244,977	629,954

(4) Shinhan Card

The domestic credit card market posted unprecedented high growth for the last two to three years. Such rapid growth was basically attributable to an environment including government policies to boost credit card usage. However, it also brought about substantial adverse effects behind intensifying competition among credit card providers and a sudden expansion in household loans. Behind these side effects, most credit card companies posted net losses due to a rapid increase in credit risks and strengthening government regulations on loan loss provisioning. Even a select few who managed to generate positive income, suffered a sudden downfall in earnings relative to previous years.

Shinhan Card recorded net income of ₩0.5 billion for the seven months following its spin-off in June 2002. Although such result fell significantly short of expectations (original target: ₩27.0 billion), it has prepared a basis for solid growth going forward given the environmental changes, such as the industry's deteriorating business conditions, and insufficient infrastructure after its spin-off. Below is a summary of Shinhan Card's profits and losses for July 1~December 31, 2002.

Income Statement

(In Millions of Korean Won)

Operating Income	228,954
Credit Card Income	227,049
Interest income	1,881
Other operating income	25
Operating Expenses	228,213
Credit card expenses	79,636
Interest expense	60,425
G&A expenses	88,120
Other expenses	33
Operating Income	742
Non-Operating Income	228
Non-Operating Expenses	172
Ordinary Income	798
Income Taxes	294
Net Income for the Year	504

Management Discussion & Analysis

The majority of operating income came from credit card income (99%) in 2002. Specifically, Shinhan Card's credit card income of ₩227.0 billion broke down into the following: credit card commissions (₩67.5 billion), cash advance fees (₩105.6 billion), card loan income (₩28.6 billion), and other (₩25.4 billion).

Of credit card expenses, 70% (₩55.4 billion) accounted for agency fees paid to SHB, and the remaining 30% comprised subscription expenses (₩6.2 billion), commissions on the collection of delinquencies (₩3.4 billion), and fees paid for transaction approvals (₩2.5 billion). G&A expenses reached ₩24.1 billion, of which 58% was for personnel and service expenses, while the remaining 42% went to advertising (₩3.2 billion) and depreciation (₩2.8 billion).

(5) Shinhan Capital

The domestic leasing industry's restructuring is entering its final stage. Of the 17 leasing companies in Korea, five (Kyongnam Leasing, Kookmin Leasing, Chohung Capital, Jooeun Leasing, Hanvit Leasing & Finance) were acquired by third parties while Korea Development Leasing was put up for sale after completing its rescheduling, following government measures to correct non-banking financing businesses in July 2002.

In 2002, the industry's new leasing contracts amounted to ₩2.5 trillion, representing a significant increase of 67% (+₩1.0tn) YoY from ₩1.5 trillion in 2001. The rise was mainly due to a steady upturn in demand for leases by non-manufacturing companies, including transportation and service businesses, despite a decline in demand for leases by manufacturers and the activation of automobile leases sales.

The installment finance industry has displayed a significant increase in related earnings mainly on the back of rising automobile sales. However, as large installment finance companies are consolidating their market dominance, smaller companies are seeking ways out of their difficulties through heavy machinery/machinery installment financings for import passenger cars and heavy machinery.

New Lease Contracts

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	
			YoY	YoY
Industry Total	1,214.2	1,553.8	28.0%	2,466.0 58.7%
Shinhan Capital (Market Share)	169.2 13.9%	275.4 17.7%	62.8% 3.79%p	345.4 14.01% -3.71%p

Note: 2002 Shinhan Capital figures excluded ₩82.6 billion in asset acquisition.

Management Discussion & Analysis

New lease contracts by Shinhan Capital rose 25.4% YoY, reaching ₩345.4 billion, mainly on the back of (1) heightened competitiveness in funding through the holding company, (2) focusing on specialized businesses such as shipping, printers, and imported passenger cars, and (3) an expanding linkage with SHB in addition to an improved business environment. This resulted in a 14.0% market share for Shinhan Capital, the industry's highest for the second consecutive year. Although the company suffered a market share decline of 3.71%p relative to 2001, it is still believed to have fared well given the overall business environment led by industry restructuring and an increasing number of foreign leasing companies entering Korea. In 2002, Shinhan Capital's pre-provisioning income edged up 6.0% YoY to ₩30.1 billion, while net earnings turned to black reaching ₩7.6 billion, from a net loss of ₩26.1 billion in 2001.

Income Statements

(In Billions of Korean Won)

	FY2001	FY2002	Chg.	YoY
Operating Revenues	181.3	152.3	-29.0	-16.0%
Lease-related Income	126.0	102.4	-23.5	-18.7%
Interest Income from Loans	7.5	7.6	0.1	1.3%
Interest Income from Installment Financing Receivable	1.6	2.6	1.0	60.9%
Other Interest Income	9.5	3.0	-6.6	-69.0%
Others	36.7	36.7	0.0	0.0%
Operating Expenses	213.3	139.3	-74.0	-34.7%
Lease-related Expenses	60.8	43.1	-17.7	-29.0%
Interest Expense	49.6	43.0	-6.6	-13.4%
Bad Debt Expenses	66.4	17.4	-49.0	-73.7%
Others	36.5	35.7	-0.7	-2.0%
Operating Income	-32.0	13.0	45.0	-140.7%
Income Before Tax	-37.6	11.0	48.5	-129.3%
Tax Expenses	-11.4	3.4	14.8	-129.3%
Net Income	-26.1	7.6	33.8	-129.2%

Operating revenue backed off 16.0% YoY to ₩152.3 billion in 2002. This was mainly attributed to a decline in lease-related income due to (1) insignificant asset growth, based on average balance (declined during the first half and sharply increased toward the second half of 2002), and (2) the fact that the majority of new leasing transactions were financial leases reflected as interest income. Lease-related income accounted for 67% of operating revenues, but this portion will likely expand mainly on the back of income from automobile installment financing and interest income on loans through cooperating with affiliates.

> Management Discussion & Analysis

(6) Shinhan BNP Paribas ITMC

In 2002, Shinhan BNP Paribas Investment Trust Company (SH BNP ITMC) posted net income of ₩4.6 billion, up 35.3% (+₩1.2 billion) from the previous year. The rise was mainly due to a 25.5% increase in operating income, which was a result of rising trust fees in trust assets and income in proprietary assets, following it in assets under management (AUM). Trust fees advanced in the wake of an increase in AUM, which surged 66% YoY to ₩4.6 trillion at 2002-end, from ₩2.8 trillion at 2001-end. The ascent in income in proprietary assets was mainly attributed to a rise in income on trading securities, which was triggered by losses of ₩1.0 billion on high-yield beneficiary certificates reflected in 2001.

Meanwhile, G&A expenses rose 35.6% YoY due to increases in salaries and employee benefits (following a rise in the number of personnel and wage hikes), and advertising expenses. In addition, the non-operating loss of ₩1.5 billion in 2001 was accredited to ₩1.4 billion in lawsuit expenses (extraordinary loss). However this figure turned to black in 2002, coming in at ₩0.1 billion, up ₩1.6 billion YoY, as this extraordinary loss was non-recurring.

Income Statements

(In Billions of Korean Won)

	FY2001	FY2002	Chg.	YoY
Operating Income Before G&A expenses	9.6	12.5	2.9	30.2%
Fees on Trust Accounts	8.9	10.6	1.7	19.1%
Income in Proprietary Accounts	0.7	1.9	1.2	171.4%
Interest Income	1.5	1.3	-0.2	-13.3%
Income on Trading Securities	-0.8	0.6	1.4	-175.0%
G&A Expenses	4.5	6.1	1.6	35.6%
Salaries & Employee Benefits	2.5	3.1	0.6	24.0%
Depreciation Expenses	0.3	0.4	0.1	33.3%
Bad Debt Expenses	0.0	0.0	0.0	N/A
Others	1.7	2.6	0.9	52.9%
Operating Income	5.1	6.4	1.3	25.5%
Non-operating Income	-1.5	0.1	1.6	N/A
Income Before Tax	3.6	6.5	2.9	80.6%
Tax Expenses	0.2	1.9	1.7	850.0%
Net Income	3.4	4.6	1.2	35.3%

Management Discussion & Analysis

(7) Jeju Bank

(In Billions of Korean Won)

	FY2001	FY2002	Chg.	YoY
Operating Revenues	118.8	145.8	27.0	22.8%
Interest Income	97.3	127.9	30.5	31.4%
Fees & Commissions	14.8	14.1	-0.7	-4.7%
Fees from Trust Account	2.6	1.3	-1.3	-48.9%
Others	4.0	2.5	-1.5	-37.9%
Operating Expenses	116.6	129.4	12.8	11.0%
Interest Expenses	65.7	65.0	-0.7	-1.1%
Commission Expenses	2.0	3.2	1.2	62.4%
Loss on Trust Account	0.0	0.0	0.0	N/A
Others	24.8	28.5	3.8	15.2%
G&A Expenses	24.1	32.7	8.6	35.7%
Operating Income	2.2	16.4	14.2	646.6%
Non-operating Income	8.2	4.9	-3.3	-40.3%
Non-operating Expenses	9.3	8.8	-0.4	-4.8%
Ordinary Income	1.2	12.5	11.3	975.0%
Tax Expenses	0.0	0.0	0.0	N/A
Net Income	1.2	12.5	11.3	975.0%

Jeju Bank posted net income of ₩12.5 billion in 2002, skyrocketing 975% from 2001. Such explosive increase was mainly attributed to rising operating income, led by a surge in interest income. Interest income climbed 31.4% YoY (+₩30.5 billion) to ₩127.9 billion, from ₩97.3 billion in 2001. On the contrary, interest expenses fell 1.1% YoY (+0.7 billion), consequently leading to a 49.8% YoY (+₩31.3 billion) jump in net interest income. Such growth was spearheaded by an improvement in NIS and a rise in interest earning assets (IEA).

In 2002, Jeju Bank's NIS rose 0.22%p YoY to 5.16%, from 4.88% in 2001, while IEA also increased by 35.8% YoY to ₩1,356.4 billion, from ₩998.4 billion a year earlier. Meanwhile, 2002 NIM expanded 0.98%p YoY to 4.44%, from 3.46% in 2001, allowing Jeju Bank to maintain industry-high profitability during the year. In addition, the bank realized a non-operating loss of ₩3.9 billion, which includes a lawsuit-related loss of ₩3.7 billion and investment securities-related loss of ₩0.9 billion. ROA and ROE stood at 0.80% and 13.44%, respectively, in 2002.

(8) Others

SFG's Internet financial portal subsidiary, e-Shinhan, is seeing earnings improve as it provides more diversified financial services based on its rapidly expanding membership base. The number of e-Shinhan members reached 1.6 million at 2002-end, representing a net increase of more than 1.0 million members YoY. Grounded upon such growth, sales jumped 450% YoY to ₩2.5 billion, while the company's net loss also saw a significant YoY contraction to ₩1.1 billion in 2002. The subsidiary's sales comprised financial products such as loans and insurance (₩8.1 billion), electronic book keeping software (₩0.3 billion), marketing agency fees (₩1.0 billion), and advertising fees (₩0.4 billion).

Shinhan Macquarie Financial Advisory, which provides financial advisory services, including project financing, concluded a number of contracts in 2002, actively deploying its business activities. Particularly boosted by the development of the Korea Road Infrastructure Fund, Korea's first indirect investment fund for social overhead capital (SOC) facilities (fee-based roads), the

Management Discussion & Analysis

company posted sales of ₩5.1 billion and net income of ₩0.3 billion in 2002.

Shinhan Credit Information, established in September 2002 to improve SFG's asset quality through the prevention of NPLs and the smooth collection of debts by professional post-management, concentrates on managing SFG's NPLs. In 2002, it saw operating revenues of ₩3,136 million through active efforts to collect NPLs, and net income of ₩1.2 billion despite a short number of business days (four months) and minimal investments made since its inception. Currently, Shinhan Credit Information is primarily engaged in the management of NPLs entrusted by SHB and Shinhan Card, and plans to expand its business realm going forward to include the management of NPLs outside the Group and provide credit information.

SH&C Life Insurance was founded in October 2002 as a joint venture with Cardif, a bancassurance subsidiary of SFG's strategic partner, BNP Paribas, with a view to occupying the domestic bancassurance market (slated to open in August 2003). The company is pushing to construct infrastructure for the sale of bancassurance products through SFG's customer relationship channels. It posted a net loss of ₩0.9 billion in 2002, but expects to breakeven in 2005.

3. SUMMARY OF BALANCE SHEET FACTORS

(1) Shinhan Financial Group (Holding Company)

SFG's total assets stood at ₩80.8 trillion at 2002-end, registering a 23% (₩15.3tn) YoY increase. Such asset growth was mainly due to (1) a 16.4% YoY increase (+₩10.2 trillion) in SHB's total assets (including credit card assets), (2) a 65.8% YoY rise (+₩1.8 trillion) in SH BNP ITMC's AUM and (3) the acquisition of Good Morning Securities and Jeju Bank (₩2.7 trillion).

Specifically, SHB's total assets climbed 12.4% (+₩7.7tn) YoY to stand at ₩69.7 trillion at the end of 2002. However, considering the decline from the spin-off of its credit card division to Shinhan Card, SHB's actual asset growth stood at 16.4% or ₩10.2 trillion. Meanwhile, SH BNP ITMC's AUM soared 65.8% (+₩1.8tn) to ₩4.6 trillion as of 2002-end on the back of active business activities.

Change in Total Assets

(In Billions of Korean Won)

	1999	2000	2001	2002	Chg.	YoY
SHB	48,022.9	53,186.7	62,017.5	69,715.1	7,697.6	12%
B/A	39,530.2	47,511.5	53,356.0	58,889.4	5,533.4	10%
T/A	8,815.4	6,147.7	9,422.8	11,090.4	1,667.6	18%
GMSH	764.8	423.3	631.4	1,569.6	938.2	149%
SH Card				2,473.7	2,473.7	N/A
Jeju				1,802.2	1,802.2	N/A
SHC	975.6	878.1	855.5	960.2	104.7	12%
SH BNP ITMC	49.6	39.3	45.2	47.1	1.9	4%
(AuM)	6,023.6	2,513.0	2,784.9	4,618.0	1,833.1	66%
SH&C				29.7	29.7	N/A
(-) Intra-transaction	184.7	226.9	765.8	386.1	-379.7	-50%
Total Assets	55,651.8	56,813.5	65,568.7	80,829.6	15,260.9	23%

Note 1: The figures for 1999 and 2000 are based on pro forma financial statements.

2: Total assets included (1) SHB's trust accounts (performance-based) and (2) SH BNP ITMC's AUM, thereby differing from total assets on SFG's consolidated balance sheet.

Management Discussion & Analysis

SFG's deposits totaled ₩47.8 trillion at the end of 2002, up 12.0% YoY (+₩5.1 trillion). Of this total, ₩1.7 trillion was derived from the acquisition of Good Morning Securities and Jeju Bank, while the remaining ₩3.4 trillion was generated by an increase in deposits at SHB.

Total Deposits

(In Billions of Korean Won)

	1999	2000	2001	2002	Chg.	YoY
SHB	32,902.4	39,315.6	42,494.0	45,896.8	3,402.7	8.0%
B/A	25,013.8	33,726.4	35,970.0	39,627.8	3,657.8	10.2%
T/A	7,888.6	5,589.2	6,524.0	6,269.0	-255.1	-3.9%
GMSH	260.9	103.6	191.1	540.5	349.5	182.9%
SH Card				0.0	0.0	N/A
Jeju				1,415.1	1,415.1	N/A
SHC	0.0	0.0	6.7	0.0	-6.7	-100.0%
SH BNP ITMC	74.3	0.1	0.0	0.0	0.0	-100.0%
SH&C				0.0	0.0	N/A
(-) Intra-transaction	19.6	27.3	24.9	60.5	35.6	142.8%
Total	33,218.0	39,392.0	42,666.8	47,791.8	5,125.0	12.0%

Note: The figures for 1999 and 2000 are based on pro forma financial statements.

Total loans amounted to ₩45.3 trillion at 2002-end, up 29.4% YoY (+₩10.3 trillion). Of this total, ₩1.4 trillion was derived from the acquisition of Good Morning Securities and Jeju Bank, while ₩8.9 trillion was due to a rise in SHB loans.

Total Loans

(In Billions of Korean Won)

	1999	2000	2001	2002	Chg.	YoY
SHB	23,963.7	29,694.5	34,409.9	40,850.3	6,440.4	18.7%
B/A	21,975.4	28,666.6	33,881.2	40,579.0	6,697.8	19.8%
T/A	1,988.3	1,027.9	528.7	271.3	-257.4	-48.7%
GMSH	117.7	50.8	74.9	125.7	50.9	67.9%
SH Card				2,439.1	2,439.1	N/A
Jeju				1,319.1	1,319.1	N/A
SHC	521.2	592.5	649.7	746.7	97.0	14.9%
SH BNP ITMC	0.2	0.5	0.4	0.4	0.0	2.6%
SH&C				0.0	0.0	N/A
(-) Intra-transaction	132.4	169.0	89.3	140.3	51.0	57.1%
Total	24,470.4	30,169.3	35,045.6	45,341.1	10,295.4	29.4%

SFG's investment in securities rose 3.2% YoY (+0.6tn) to ₩19.9 trillion at 2002-end, of which ₩0.4 trillion was generated from the acquisition of Good Morning Securities and Jeju Bank.

Management Discussion & Analysis

Securities

(In Billions of Korean Won)

	1999	2000	2001	2002	Chg.	YoY
SHB	18,293.4	18,472.8	19,568.7	19,465.5	-103.2	-0.5%
B/A	12,168.7	13,651.0	14,020.2	13,855.0	-165.2	-1.2%
T/A	6,124.7	4,821.8	5,548.5	5,610.5	62.0	1.1%
GMSH	239.4	182.5	272.4	445.1	172.7	63.4%
SH Card				0.0	0.0	N/A
Jeju				276.9	276.9	N/A
SHC	108.3	96.4	68.5	57.9	-10.5	-15.4%
SH BNP ITMC	3.8	5.4	13.4	13.0	-0.5	-3.4%
SH&C				14.7	14.7	N/A
(-) Intra-transaction	32.7	30.6	638.2	362.6	-275.6	-43.2%
Total	18,612.2	18,726.5	19,284.8	19,910.5	625.7	3.2%

Note: The figures for 1999 and 2000 are based on pro forma financial statements.

(2) Shinhan Bank

1) Total Loans

Shinhan Bank (SHB) saw loans reach ₩40.9 trillion at the end of 2002, surging 18.7% YoY (+6.4tn). However, considering a decline from the spin-off of its credit card division, total assets actually grew by 16.4% (₩10.2tn) YoY. Such upturn was led by an increase in won-currency loans, with household loans being the greatest contributor.

(In Billions of Korean Won)

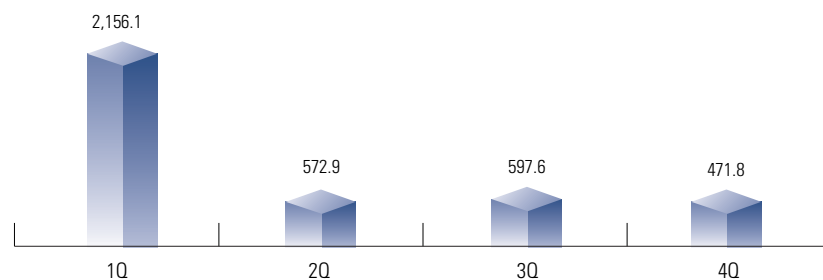
	FY1999	FY2000	FY2001	FY2002	Chg.	YoY
Bank Account						
Loans in Won						
Retails	3,665.5	5,700.7	10,772.9	15,992.7	5,219.8	48.5%
Home Equity Loan	1,041.7	2,126.1	6,940.2	10,738.6	3,798.4	54.7%
Others	2,623.8	3,574.6	3,832.7	5,254.1	1,421.4	37.1%
SMEs	8,526.4	9,974.1	10,618.9	11,876.0	1,257.1	11.8%
Large Corp.	2,872.3	3,461.8	2,937.5	3,754.3	816.8	27.8%
Public & Others	312.3	744.9	93.0	111.1	18.1	19.5%
Total	15,376.5	19,881.5	24,422.3	31,734.1	7,311.8	29.9%
Loans in Foreign Currencies (F/C)	3,496.1	2,137.9	2,887.7	3,719.3	831.6	28.8%
Credit Card Accounts	1,143.2	1,585.8	2,093.4	181.0	-1,912.5	-91.4%
Bills Bought in F/C	1,894.4	3,204.8	1,872.2	2,242.4	370.2	19.8%
Call Loans, RPs	271.8	1,592.9	1,826.4	502.9	-1,323.4	-72.5%
Others	790.0	898.6	1,362.2	2,774.9	1,412.8	103.7%
(Loan Loss Allowance)	(905.0)	(593.8)	(567.3)	(565.8)	-1.5	-0.3%
(Present Value Discount)	(91.6)	(41.3)	(15.5)	(9.8)	-5.8	-37.1%
Total	21,975.4	28,666.6	33,881.2	40,579.0	6,697.8	19.8%
Trust Account	1,988.3	1,027.9	528.7	271.3	-257.4	-48.7%
Total	23,963.7	29,694.5	34,409.9	40,850.3	6,440.4	18.7%

Management Discussion & Analysis

SHB's won-currency loans grew 29.9% YoY (+₩7.3 trillion) to ₩31.7 trillion at the end of 2002. By sector, retail loans jumped 48.5% YoY (+₩5.2 trillion), while SME loans and large corporate loans surged 11.8% YoY (+₩1.3 trillion) and 27.8% YoY (+₩0.8 trillion), respectively. Retail loans growth was primarily driven by home equity loans, which rose again following preceding years, soaring 54.7% YoY (+₩3.8 trillion) in 2002. As the home equity market, which was previously monopolized by Housing & Commercial Bank (currently Kookmin Bank), was open to all commercial banks from 1998-end, SHB secured its leading position before other players, resulting in rapid growth. Of note, SHB's home equity loans skyrocketed 104% YoY (+₩1.1 trillion) in 2000, and 226% YoY (+₩4.8 trillion) in 2001.

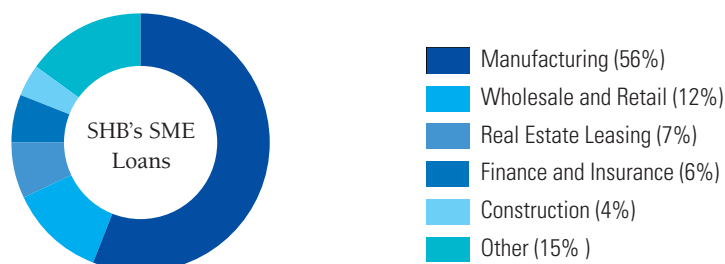
However, concerns over NPLs in the household sector (including credit cards) began to emerge from early 2002. Accordingly, SHB has been committed to controlling loan growth from 2Q02. SHB actively looked to decrease home equity loans in 2002, as evidenced by the declining growth trend by quarter (1Q02: 57% → 2Q02: 15% → 3Q02: 16% → 4Q02: 12%).

Quarterly Growth of Home Equity Loans in 2002 (In Billions of Korean Won)



SME loans amounted to ₩11.9 trillion at 2002-end, up 11.8% YoY (+1.3 trillion), which is attributed to loan growth, focused on quality registered SMEs. SHB classifies customers into ten categories according to credit rating, of which its target SMEs are those in 1st-4th grades. The entire SME loan market amounted to approximately ₩324 trillion at the end of 2002, of which registered SMEs accounted for 42%, or ₩136 trillion. As a result of aggressive marketing focused on these quality registered SMEs, SHB solidified its industry leadership with a 15% share of the SME loan market in 2002. Likewise, SHB also maintains the industry's lowest delinquency ratio backed by such quality SME-centered asset growth and strict risk management efforts.

By industry, SHB's SME loans consisted of manufacturing (56%), wholesale and retail (12%), real estate leasing (7%), finance and insurance (6%), construction (4%), and other (15%)



Management Discussion & Analysis

Meanwhile, loans to large corporations jumped 27.8% (₩0.8tn) YoY in 2002. SHB had sought to reconstitute this loan portfolio for the last few years, and the growth was attributed to a rise in loans to a select group of financially healthy large corporations during the reconfiguration. Such loans included ₩533.5 billion to Hyundai Motor, ₩487.7 billion to LG, and ₩204.7 billion to Samsung.

When observing SHB's loan portfolios relative to the end of 2001, floating rate notes, including call loans and repurchase agreements (RPs), significantly decreased while customer loans substantially increased. Such phenomenon was the result of SHB's efforts to reorganize its asset portfolio moving from low-earning assets, including securities and market loans, to highly lucrative assets.

Other loans of ₩2,774.9 billion made during 2002, included privately-placed bonds of ₩1,553.9 billion, and domestic import usance bills of ₩1,147.8 billion. The sharp YoY growth of other loans was led by a ₩1,136.9 billion rise in domestic import usance bills.

2) Total Deposits

(In Billions of Korean Won)

	FY1999	FY2000	FY2001	FY2002	Chg.	YoY
Bank Account						
Low-cost Deposits	7,262.1	8,932.9	10,014.1	10,857.5	843.4	8.4%
Demand	1,602.6	1,655.6	1,544.8	1,384.3	-160.5	-10.4%
Low-cost Savings	5,659.5	7,277.2	8,469.3	9,473.1	1,003.9	11.9%
Time Deposits	10,041.4	15,247.1	15,751.6	17,756.7	2,005.1	12.7%
Installment Deposits	1,147.3	1,329.8	1,496.1	1,761.1	265.0	17.7%
CDs	1,130.2	842.2	2,866.8	2,772.2	-94.6	-3.3%
RPs, Bills Sold	4,087.4	5,406.7	4,077.1	4,444.2	367.2	9.0%
Deposits in Won	23,668.4	31,758.7	34,205.7	37,591.6	3,386.0	9.9%
Deposits in F/C	1,345.4	1,967.8	1,764.3	2,036.1	271.8	15.4%
Total	25,013.8	33,726.4	35,970.0	39,627.8	3,657.8	10.2%
Trust Account	7,888.6	5,589.2	6,524.0	6,269.0	-255.1	-3.9%
Total	32,902.4	39,315.7	42,494.0	45,896.8	3,402.7	8.0%

Total deposits rose 8.0% YoY (+₩3.4tn), reaching ₩45.9 trillion at the end of 2002. Specifically, deposits in bank accounts surged 10.2% YoY, while those in trust accounts edged down 3.9% YoY. The relatively lower growth of deposits than that of loans was due to the fact that SHB raised funds through financial bonds in a low interest-rate environment. The merits of financial bonds are that they are sources of relatively long-term funding with no burdens from reserve requirements and deposit insurance premiums, along with insignificant management costs, although interest rates are 20-30bp higher than deposit rates. SHB raised ₩5.4 trillion through financial bonds during 2002. Observing SHB's funding portfolio, there was no significant change from the previous year-end. Table below shows the composition of funds raised.

Management Discussion & Analysis

Composition of Deposits

	FY1999	FY2000	FY2001	FY2002
Low-cost Deposits	29%	26%	28%	27%
Demand	6%	5%	4%	3%
Low-cost Saving	23%	22%	24%	24%
Time Deposits	40%	45%	44%	45%
Installment Deposits	5%	4%	4%	4%
CDs	5%	2%	8%	7%
RPs, Bills Sold	16%	16%	11%	11%
Deposits in Won	95%	94%	95%	95%
Loans in F/C	5%	6%	5%	5%
Total	100%	100%	100%	100%

3) Securities

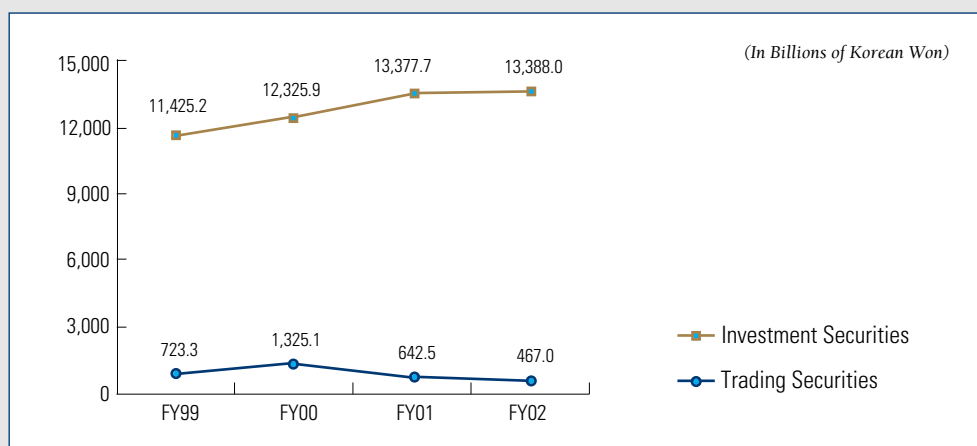
Securities holdings amounted to ₩13.9 trillion at 2002-end, down 27% YoY (-₩165.2 billion). The decline was mainly led by a 27% YoY (-₩175.5 billion) contraction in trading securities, while investment securities remained at the level seen at 2001-end. A continued downturn in the trading volume since 2000 was due to the portfolio's reconfiguration toward high-yield invested assets.

(In Billions of Korean Won)

	FY1999	FY2000	FY2001	FY2002	YoY
Trading Securities	723.3	1,325.1	642.5	467.0	-27%
Stocks	133.3	4.4	56.5	61.4	9%
Government Bonds	164.8	300.0	70.1	91.6	31%
Finance Debentures	97.7	528.7	227.6	110.6	-51%
Corporate Bonds	115.7	492.0	288.3	203.4	-29%
Beneficiary Certificates	211.8	0.0	0.0	0.0	N/A
Trading Securities in Foreign Currencies	0.0	0.0	0.0	0.0	N/A
Investment Securities	11,425.2	12,325.9	13,377.7	13,388.0	0%
Stocks	220.0	191.9	747.5	511.6	-32%
Equity Investments	670.7	9.0	12.5	8.3	-33%
Government Bonds	1,955.0	2,119.1	1,983.5	1,053.4	-47%
Finance Debentures	1,947.8	2,366.1	2,262.2	2,322.6	3%
Corporate Bonds	5,706.7	6,368.2	6,530.7	6,206.1	-5%
Beneficiary Certificates	320.2	631.2	1,171.5	2,432.1	108%
Bonds with Repurchase Agreements	0.0	0.0	0.0	0.0	N/A
Investment Securities in Foreign Currencies	562.6	637.4	664.2	853.9	29%
Other	42.2	3.0	5.6	0.0	-100%
Total	12,148.5	13,651.0	14,020.2	13,855.0	-27%

Note: Bank accounts only

Management Discussion & Analysis



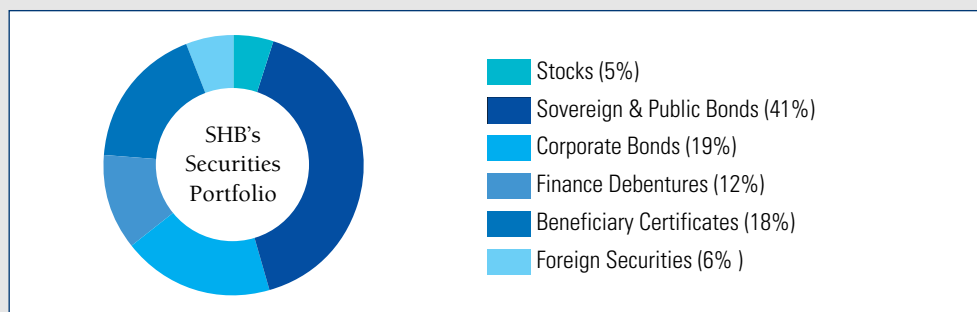
Looking at investment securities, other assets drifted lower except beneficiary certificates (BCs). BCs had been continuously rising behind the gradual separation of operations from sales. Among securities, sovereign and public bonds accounted for 41%, while corporate bonds, BCs and finance debentures made up 19%, 18%, and 12%, respectively. Stocks amounted to ₩640.5 billion, accounting for 5% of total securities, of which 5.6% was investment stocks and 0.4% was trading stocks. Government bonds made up 8.3%, but the portion of sovereign and public bonds to the total rose to 41%, when including government guaranteed bonds and monetary stabilization bonds, which made up the greatest weighting. The following table shows the composition of SHB's securities.

Securities Portfolio

(In Billions of Korean Won)

	1999		2000		2001		2002	
		%		%		%		%
Stocks	351.4	3%	196.3	1%	804.0	6%	640.5	5%
Sovereign & Public Bonds*	6,608.5	54%	6,722.9	49%	6,696.4	48%	5,639.5	41%
Corporate Bonds	2,695.5	22%	4,070.4	30%	3,593.4	26%	2,686.6	19%
Finance Debentures	683.2	6%	1,380.9	10%	1,072.7	8%	1,661.5	12%
Beneficiary Certificates	532.0	4%	631.2	5%	1,171.5	8%	2,432.1	18%
Foreign Securities	585.2	5%	637.4	5%	664.2	5%	786.5	6%
Others	712.9	6%	12.0	0%	18.1	0%	8.3	0%
Total	12,168.7	100%	13,651.0	100%	14,020.2	100%	13,855.0	100%

* Sovereign & Public Bonds in 2002 include 'Government Guaranteed Bonds (23%)' and 'Monetary Stabilization Bonds (9%).'



Management Discussion & Analysis

(3) Goodmorning Shinhan Securities

As of 2002-end, Goodmorning Shinhan Securities (GMSH) posted total assets of ₩1,570.2 billion, falling 23% YoY (-₩458.7 billion). First, this was mainly due to a decline in current assets, which was led by a significant reduction in deposits behind a decrease in customer deposits amid the bearish market. Deposits slumped 58% YoY to ₩512.2 billion at 2002-end, while trading securities retreated 46% YoY to ₩379.5 billion due to sluggish stock markets. Of total deposits, subscription deposits, to which customers pay when applying for IPOs, declined the most significantly (₩70.0 billion), while BCs saw the greatest drop among marketable securities (₩70.0 billion). Second, it was triggered by a contraction in current assets following the buy-back of stocks worth ₩380.0 billion, as shareholders exercised their dissent rights in opposing the merger.

Total liabilities amounted to ₩982.3 billion at 2002-end, down 11.7% YoY (-₩130.2 billion). Meanwhile, current liabilities declined 26.5% YoY (-₩216.3 billion) to ₩816.9 billion at 2002-end, from combined current liabilities of ₩1,033.2 billion in 2001, due to a decrease in customer deposits. In addition, combined stock trading value by Shinhan Securities and Good Morning Securities for nine months in 2002 amounted to ₩90 trillion, down 11.3% YoY (pro rate) from ₩136.0 trillion in 2001. However, their market share edged up 0.52%p to 7.31%, from 6.79% in 2001. Declining trading value was attributed to a sharp drop in volume behind the stock markets' continued bearishness since March 2002.

Balance Sheets

(In Millions of Korean Won)

	SHS	FY2001 GMS	Total	FY2002	Chg.
Current assets	511,742	1,015,413	1,527,155	1,111,778	-415,378
Deposits	176,675	635,241	811,917	512,244	-299,673
Trading securities	230,718	322,573	553,291	379,464	-173,827
Loans	53,036	26,575	79,612	74,075	-5,536
Others	51,313	31,023	82,336	145,994	63,658
Non-current assets	119,663	382,190	501,853	458,467	-43,386
Investment assets	61,757	163,218	224,975	156,908	-68,067
Tangible assets	57,906	218,972	276,878	301,558	24,681
Total assets	631,405	1,397,603	2,029,008	1,570,244	-458,764
Current liabilities	386,197	647,003	1,033,200	816,862	-216,338
Call money	96,000	0	96,000	50,000	-46,000
Short-term borrowings	10,480	74,210	84,690	61,348	-23,342
Customers' deposits	191,051	438,866	629,916	540,521	-89,395
Others	88,666	133,927	222,593	164,993	-57,601
Long-term liabilities	825	78,422	79,247	165,406	86,159
Total liabilities	387,022	725,425	1,112,447	982,268	-130,179
Total stockholders' equity	244,382	672,179	916,561	587,976	-328,585
Total liab. & stockholders' equity	631,405	1,397,603	2,029,008	1,570,244	-458,764

Sales of derivative products continued to expand steadily since the merger, with both sales and market share substantially rising YoY in 2002.

Management Discussion & Analysis

Trading Value

(In Trillions of Korean Won)

	SHS (Apr '01-Mar '02)	GMS (Apr '01-Mar '02)	Total (Apr '01-Mar '02)	SHS (Apr '02-Jul '02)	GMSH (Apr '02-Dec '02)	Total (Apr '02-Jul '02)
Stocks	355	1,003	1,358	123	778	901
Futures	237	297	533	82	1,240	1,322
Options	17	29	46	7	78	85

Market Share

(%)

	SHS (Apr '01-Mar '02)	GMS (Apr '01-Mar '02)	Total (Apr '01-Mar '02)	SHS (Apr '02-Jul '02)	GMSH (Apr '02-Dec '02)	Total (Apr '02-Jul '02)
Stocks	1.77	5.01	6.79	1.68	5.63	7.31
Futures	0.91	1.13	2.04	0.66	3.93	4.59
Options	1.20	2.11	3.31	0.79	3.98	4.77

(4) Shinhan Card

Shinhan Card (SH Card), established upon the spin-off of SHB's credit card division on June 1, 2002, took over SHB's credit card-related assets and liabilities at book value. The assets and liabilities transferred to Shinhan Card from SHB's credit card division are as follows:

(In Millions of Korean Won)

Debt	Amount	Credit	Amount
Assets		Liabilities	
Cash & Due from Banks	239,142	Corporate Bonds	1,946,740
Loans	1,952,886	Other Liabilities	16,863
Tangible Assets	3,289	Total	1,963,603
Other Assets	15,242	Shareholders' Equity	
		Paid-in Capital	152,847
		Capital Surplus	94,109
		Total	246,956
Total Assets	2,210,559	Total Liabilities & Shareholders' Equity	2,210,559

Below is the summary of Shinhan Card's balance sheet at the end of 2002, seven months after its establishment.

Management Discussion & Analysis

(In Millions of Korean Won)

Debt	Amount	Credit	Amount
Assets		Liabilities	
Current Assets	15,958	Current Liabilities	1,815,992
Credit Card Assets	2,439,076	Long-term Liabilities	410,242
Advance Payment	1,109,226	Total	2,226,234
Cash Advance	953,123		
Card Loans	472,641	Shareholders' Equity	
(Allowances)	(95,913)	Paid-in Capital	152,847
Fixed Assets	18,661	Capital Surplus	94,109
		Retained Earnings	503,964
		Total	247,460
Total Assets	2,473,694	Total Liabilities & Shareholders' Equity	2,473,694

The number of credit card customers at SFG surged 16.8% YoY, while the number of merchants jumped 161.9% YoY during 2002. Such impressive increase in the number of member stores was the result of SFG's efforts to construct an independent merchant store system since the spin-off of the credit card division. This figure stood at a mere 86,000 at the time of the spin-off, but greatly increased to 1.5 million after only seven months.

Meanwhile, sales grew 50.9% YoY in 2002, displaying a greater rise than the number of credit card members or credit card assets. This was attributable to SFG's concentration on marketing activities targeting existing quality customers rather than increasing the overall number of credit card members. Re-aged card loans soared 335% YoY to ₩38.3 billion at year-end, but made up only 1.4% of total credit card assets. Moreover, cash advances and credit card loans accounted for approximately 52% of the total.

(In Billions of Korean Won)

	FY2001	FY2002				YoY
		1Q	2Q	3Q	4Q	
Members (thousand)						
Card holders	2,181	2,338	2,393	2,451	2,548	16.8%
Merchant Line	590	681	1,016	1,425	1,545	161.9
Transaction volume						
Lump-sum	4,647.9	1,450.5	3,040.2	4,768.7	6,849.0	47.4%
Installment	537.4	157.0	320.0	485.1	704.6	31.1%
Cash advance	5,007.3	1,841.0	3,833.9	5,846.9	7,822.4	56.2%
Total	10,192.5	3,448.6	7,194.0	11,100.6	15,376.0	50.9%
Assets in balance						
General billings	864.2	898.8	992.2	1,048.2	1,290.2	49.3%
Cash advances	745.7	911.9	960.3	988.4	953.1	27.8%
Card loans	478.5	511.3	515.0	503.8	472.6	-1.2%
Total	2,093.4	2,328.7	2,467.5	2,540.4	2,715.9	29.7%
Re-aged Card Loans	8.8	8.0	10.1	17.8	38.3	335.2%

Note: Based on Shinhan Card + Shinhan Bank's 'Purchase Card'

Management Discussion & Analysis

(5) Shinhan Capital

(In Millions of Korean Won)

	FY2001	FY2002	Chg.	YoY
Assets				
Current assets	83,336	74,742	-8,594	-10.3%
Loans/Factoring	81,160	114,585	33,425	41.2%
Installment Financing	15,308	22,226	6,918	45.2%
Lease Assets	600,712	703,227	102,515	17.1%
Others	74,994	45,454	-29,540	-39.4%
Total	855,510	960,234	104,724	12.2%
Liabilities				
Borrowings	716,454	788,040	71,586	10.0%
Others	62,255	88,511	26,256	42.2%
Total	778,709	876,551	97,842	12.6%
Shareholders' Capital				
Paid-in Capital	80,000	80,000	0	0.0%
Retained Earnings	-474	7,098	7,572	-1597.5%
Capital Adjustment	-2,725	-3,414	-689	25.3%
Total	76,800	83,683	6,883	9.0%

Total assets surged 12.2% YoY (+₩104.7 billion) at Shinhan Capital, reaching ₩960.2 billion in 2002, following the lease market's recovery and the activation of businesses including reinforced funding competitiveness through the holding company.

By sector, lease assets climbed 17.1% YoY (+₩102.5 billion) mainly due to the activation of new lease contracts including shipping leases (₩86.9 billion), automobile leases (₩40.5 billion), and underwriting of assets (₩82.6 billion). Together, loan assets expanded 41.2% YoY (+₩33.4 billion), following the activation of linked businesses with SHB, while installment financial assets surged 45.2% YoY (+₩6.9 billion) due to the extension of ₩24.2 billion in installment finance transactions, including automobiles.

Borrowings jumped 10% YoY (+₩70.6 billion) to ₩788.0 billion in 2002, of which 46.8% (₩369.1 billion) were borrowings through the holding company. A rise in borrowings through the holding company was done to maximize synergies from a funding perspective. That way Shinhan Capital could cut its funding rate by approximately 120 basis points as the holding company boasts a domestic credit rating of AAA.

(6) Shinhan BNP Paribas ITMC

(In Millions of Korean Won)

	FY2001	FY2002	Chg.	YoY
Assets				
Cash and Due	45.2	47.1	1.9	4.2%
Trading Securities	23.6	29.8	6.2	26.3%
Stocks	13.1	12.7	-0.4	-3.1%
Bonds	0.0	0.0	0.0	N/A
Others	10.1	9.5	-0.6	-5.9%
Liabilities	3.0	3.2	0.2	6.7%
Short-term Borrowings	2.6	1.9	-0.7	-26.9%
Long-term Borrowings	0.0	0.0	0.0	N/A
Shareholders' Equity				
Paid-in Capital	42.6	45.2	2.6	6.1%
Discount on Stock Issuance	40.0	40.0	0.0	0.0%
Treasury Stocks	-0.2	-0.1	0.1	-50.0%
	0.0	0.0	0.0	N/A

Management Discussion & Analysis

Total proprietary assets at Shinhan BNP Paribas Investment Trust Management Company (SH BNP ITMC) edged up 4.2% YoY (+₩1.9 billion) to ₩47.1 billion as of the end of 2002. This was due to a rise in cash and deposits following an increase in net income. Trading securities backed off 3.1% YoY to ₩12.7 billion, with bonds making up 75% of the total, and almost no stock investments. Liabilities fell to ₩1.9 billion at 2002-end, of which current liabilities and long-term liabilities totaled ₩1.5 billion and ₩0.4 billion, respectively. The decline in liabilities was due to the settlement of lawsuit expenses, which were recorded as an accrued expense in the previous year. Meanwhile, the domestic investment trust industry's total AUM rose 11.2% YoY (+₩16.5tn) in 2002 behind the continued trend of low interest rates. The rise was mostly derived from an increase in money market funds (MMFs), due to short-term fluctuations of market funds, which were unable to find distinct investment targets amid unstable stock markets. The following shows the conditions of total AUM in the investment trust industry.

Assets Under Management in Investment Trust Industry

(In Billions of Korean Won)

	FY2001	FY2002	Chg.	YoY
Total AUM	147,567.7	164,050.6	16,482.9	11.2%
Equity Funds	48,188.7	54,537.4	6,348.7	13.2%
Bond Funds	63,977.1	60,031.0	-3,946.1	-6.2%
MMF	35,401.9	49,482.2	14,080.3	39.8%

SH BNP ITMC's total AUM rose 65.8% YoY (+₩1,833.6 billion) to ₩4,618.5 billion at 2002-end. This growth was attributed to the inflow of funds into the industry overall and superior asset management capabilities. SH BNP ITMC was selected as the best bond operator by Zeroing, a market research firm specializing in investment trust analysis, ranking first in bond yields. The domestic industry's average 12-month yield stood at 5.35%, while SH BNP ITMC posted a yield of 6.07%, the highest in the industry. Thanks to such accomplishments, the company's bond funds surged 50.0% (₩848.5 billion) over the year although the industry's total declined. The table below shows the situation of SH BNP ITMC's AUM.

SH BNP ITMC's AUM

(In Billions of Korean Won)

	FY2001	FY2002	Chg.	YoY
Total AUM	2,784.9	4,618.5	1,833.6	65.8%
Equity Funds	609.6	453.5	-156.1	-25.6%
Equity	77.5	53.6	-23.9	-30.8%
Hybrid	532.1	399.9	-132.2	-24.8%
Bond Funds	1,696.0	2,544.5	848.5	50.0%
Long-term	1,081.7	208.2	-873.5	-80.8%
Short-term	614.3	2,336.3	1,722.0	280.3%
MMF	479.3	1,620.5	1,141.2	238.1%

Management Discussion & Analysis

(7) Jeju Bank

Total assets at Jeju Bank reached W1.8tn at year-end, up 25% YoY (+W355.8 billion) due to a jump in loans. Korean won-currency loans, which can be looked at as customer loans, surged 34% YoY (+W300.5 billion). Such growth along with its improvement in NIM became a core factor for the bank's increase in income in 2002.

The rise in loans in 2002 was mainly driven by SME loans and household loans. Specifically, SME loans climbed 31.8% YoY (+W172.0 billion) and household loans jumped 48.9% YoY (+W144.4 billion), while loans to large corporations declined 14.7% YoY (W2.0 billion). At the end of 2002, Jeju Bank's loans comprised SME loans(60.6%), household loans (37.4%), large corporate loans (1.0%), and public & other loans (1.0%)

Balance Sheets

(In Billions of Korean Won)

	FY2001	FY2002	Chg.	YoY
Assets				
Cash & Due from Bank	70.7	59.5	-11.2	-16%
Trading Securities	1.4	50.7	49.3	3637%
Investment Securities	286.9	225.9	-61.0	-21%
Loans	961.8	1,317.8	356.1	37%
Fixed Assets	44.9	55.0	10.1	23%
Other Assets	79.2	91.8	12.5	16%
Total Assets	1,444.8	1,800.6	355.8	25%
Liabilities				
Deposits	1,074.0	1,399.1	325.1	30%
Borrowings	117.3	106.3	-11.1	-9%
Debentures	57.0	35.0	-22.0	-39%
Other Liabilities	135.3	159.2	23.9	18%
Total Liabilities	1,383.7	1,699.6	315.9	23%
Stockholders' Equity				
Capital Stock	55.5	77.6	22.2	40%
Capital Surplus	10.3	10.3	0.0	0%
Retained Earnings	0.0	8.4	8.4	N/A
Capital Adjustment	-4.6	4.7	9.3	-201%
Total Stockholders' Equity	61.2	101.1	39.9	65%
Total Liabilities and Stockholders' Equity	1,444.8	1,800.6	355.8	25%

Note: Bank accounts only

Loan Portfolio

(In Billions of Korean Won)

	FY2001	FY2002	Chg.	YoY	Portfolio
Corporate	554.5	724.4	169.9	30.6%	61.6%
SME	540.5	712.5	172.0	31.8%	60.6%
Large Corp.	13.9	11.9	-2.0	-14.7%	1.0%
Retail	295.1	439.5	144.4	48.9%	37.4%
Public & Others	10.0	11.4	1.4	13.9%	1.0%
Total Loans in Korean Won	859.6	1,175.3	315.7	36.7%	100.0%

Note: Bank accounts only

Management Discussion & Analysis

4. ASSET QUALITY

(1) Shinhan Financial Group

As of 2002-end, SFG's total credits amounted to ₩48.2 trillion, registering an increase of 31% YoY, due to a substantial increase in SHB assets and the acquisition of Good Morning Securities and Jeju Bank. Total loans primarily consisted of SHB loans (89.8%), with the remainder coming from SH Card loans (5.3%), Jeju Bank loans(2.7%) and 1.8% from SH Capital loans.

Loan Status

(In Billions of Korean Won)

	FY1999	FY2000	FY2001	FY2002	YoY
Normal	24,848.0	30,768.2	34,662.6	46,518.2	34.2%
Precautionary	3,113.3	1,669.9	1,118.4	815.7	-27.1%
Substandard	1,468.5	1,140.5	721.1	579.4	-19.6%
Doubtful	128.0	212.7	122.6	124.1	1.2%
Estimated Loss	573.3	95.4	172.3	155.9	-9.5%
Total	30,131.1	33,886.7	36,796.9	48,193.3	31.0%
Bad Loan ratio	2.33%	0.91%	0.80%	0.58%	-0.22%p
Substandard & below ratio	7.20%	4.27%	2.76%	1.78%	-0.98%p
Precautionary & below ratio	17.53%	9.20%	5.80%	3.48%	-2.32%p
Provisions	1,269.2	750.7	727.6	869.1	19.4%
Coverage Ratio against					
Bad Loans	181.0%	243.7%	246.8%	310.4%	63.6%p
Substandard & below	58.5%	51.8%	71.6%	101.1%	29.5%p
Precautionary & below	24.0%	24.1%	34.1%	51.9%	17.8%p

NPLs continued to fall in 2002 behind improving financial conditions and SFG's tighter risk management of domestic companies. As of 2002-end, the portion of substandard-and-below and precautionary-and-below loans declined to 1.78% and 3.48%, respectively, from 2.76% and 5.80% in 2001. The coverage ratio for substandard-and-below and precautionary-and-below loans also rose by 29.5%p YoY and 17.8%p YoY, respectively, to 101.1% and 51.9% at 2002-end.

(2) Shinhan Bank

1) Classification of Asset Quality and the Coverage Ratio

Total credits at Shinhan Bank reached ₩43,266.0 billion in 2002, up 20% YoY (+₩7,345.2 billion) from 2001. While loans increased, substandard-and-below and precautionary-and-below loans retreated 29% YoY (-₩51.7 billion) and 35% YoY (-₩79.4 billion), respectively. As a result, the portion of substandard-and-below and precautionary-and-below loans edged down by 0.99%p YoY and 2.49%p YoY, respectively. Such declines were attributable to (1) the issuance of ₩116.1 billion in asset-backed securities (ABS), and (2) ₩137.0 billion write-offs. The declines were also driven by quality asset-centered growth and stringent risk management, given the substantial growth in SHB's assets.

As of 2002-end, the coverage ratio against substandard-and-below and precautionary-and-below loans stood at 99.8% and 48.8%, respectively, up 28.0%p and 16.7%p, from the year earlier. Of note, the coverage ratio for bad loans reached 477.4% in 2002, an industry high.

Management Discussion & Analysis

Loan Status

(In Billions of Korean Won)

	FY1999	FY2000	FY2001	FY2002	YoY
Normal	24,192.1	30,126.6	33,981.1	42,005.8	24%
Precautionary	3,014.5	1,632.1	1,071.6	643.8	-40%
Substandard	1,365.0	1,062.1	667.0	487.5	-27%
Doubtful	105.3	184.8	106.6	57.2	-46%
Estimated Loss	557.1	69.4	94.5	71.7	-24%
Total	29,234.1	33,074.9	35,920.8	43,266.0	20%
Bad Loan ratio	2.27%	0.77%	0.56%	0.30%	-0.26%p
Substandard & below ratio	6.94%	3.98%	2.42%	1.42%	-0.99%p
Precautionary & below ratio	17.25%	8.91%	5.40%	2.91%	-2.49%p
Provisions	1,217.1	684.7	623.2	615.3	-1%
Bank Account	956.4	605.9	580.4	583.8	1%
Trust Account	260.7	78.8	42.8	31.5	-26%
Coverage Ratio against					
Bad loans	184%	269%	310%	477.4%	167.5%p
Substandard & below	60%	52%	72%	99.8%	28.0%p
Precautionary & below	24%	23%	32%	48.8%	16.7%p

Note: Bad loans are defined as 'Doubtful + Estimated Loss.'

The continuous fall in annual NPL ratios were attributed to SHB's continuous charge-off policy and risk management. The coverage ratio also continued to rise except for 2000. The ratio's decline in 2000 was triggered by a plunge in provisions due to large-scale write-offs during the year. The following table shows the details of asset disposals and depreciation by year.

Asset Disposal and Depreciation Charges

(In Billions of Korean Won)

	FY1999	FY2000	FY2001	FY2002
NPL Sale	0.0	0.0	0.0	0.0
ABS Issue	0.0	0.0	161.4	116.1
Write-off	328.8	1,129.5	729.8	137.5
Total	328.8	1,129.5	891.2	253.6

As of the end of 2002, the ratio of loan loss provisions to total loans stood at 1.4%. By sector, it was 1.1% for household loans and 1.4% for corporate loans. SHB has been carrying forward conservative asset quality classification and loan loss provisioning practices, and accordingly, it has earmarked more provisions for loans by quality classification than recommended by FSS guidelines. The table below shows SHB's loan loss provision ratios by loan quality classification.

Management Discussion & Analysis

Loan Loss Provisions by Loan Quality Classification

(In Billions of Korean Won)

	Normal	Precaut.	Substandard	Doubtful	Est. Loss	Total
Asset Classification	42,055.8	643.8	487.5	57.2	71.7	43,316.0
Household	15,951.4	77.2	72.9	18.2	29.3	16,149.0
Corporate	26,104.3	566.6	414.7	38.9	42.5	27,166.9
Provisions	312.0	30.0	129.7	57.6	71.7	601.0
Household	123.7	6.2	14.6	10.2	29.3	184.0
Corporate	187.8	21.7	92.5	37.0	42.5	381.5
Others	0.6	2.1	22.5	10.4	0.0	35.5
Provision Ratio	0.7%	4.7%	26.6%	100.8%	100.0%	1.4%
Household	0.8%	8.0%	20.1%	56.1%	100.0%	1.1%
Corporate	0.7%	3.8%	22.3%	95.0%	100.0%	1.4%

Note 1: As of the end of 2002

2: Special provisions set aside for ABS issuance (₩14.3bn) were excluded.

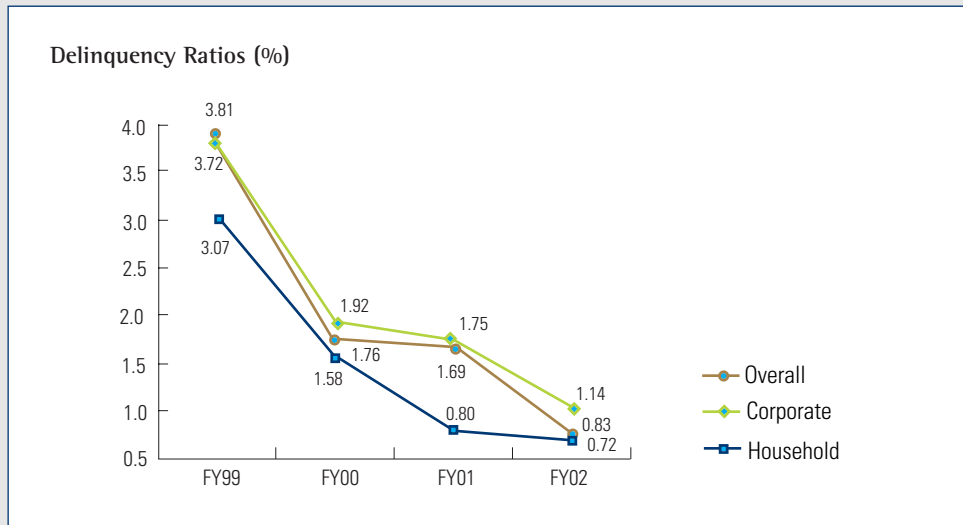
Delinquency Ratios

(In Billions of Korean Won)

		Overall	Corporate	Household
FY1999	Total	26,250.4	12,076.5	4,959.9
	Overdue	1,001.2	449.4	152.2
	Ratio	3.81%	3.72%	3.07%
FY2000	Total	29,893.3	13,675.8	6,458.5
	Overdue	526.5	262.6	102.1
	Ratio	1.76%	1.92%	1.58%
FY2001	Total	33,469.7	13,730.5	11,140.4
	Overdue	565.6	240.6	89.0
	Ratio	1.69%	1.75%	0.80%
FY2002	Total	41,977.4	15,736.4	16,149.0
	Overdue	347.1	179.6	115.9
	Ratio	0.83%	1.14%	0.72%

By sector, the delinquency ratio continuously declined, with SHB's overall delinquency ratio standing at 0.72% as of 2002-end, down 0.97%p YoY from the 1.69% recorded at 2001-end. Furthermore, delinquency ratios for corporate and household loans also fell by 0.61%p YoY and 0.01%p YoY, respectively, to 1.14% and 0.79% at 2002-end.

> Management Discussion & Analysis



Such declines should be of greater significance as they were accomplished during a period when the delinquency ratios of the entire domestic household loan sector were rising in 2002.

(3) Credit Card

Credit card assets expanded 29.7% YoY to ₩2.7 trillion at 2002-end. The ratios of substandard-and-below and precautionary-and-below loans to total loans also climbed 0.70%p YoY and 2.91%p YoY, respectively. These increases in NPLs were triggered by the deterioration of asset quality in the entire credit card industry during 2002.

As of 2002-end, loan loss provisions on credit card assets amounted to ₩97.4 billion, up 14.2% from the preceding year. However, the coverage ratios against substandard-and-below and precautionary-and-below loans dwindled to 124.2% and 52.8%, respectively, due to aggravating loan quality.

Quarterly NPL ratios fluctuated greatly led by changing standards for quality classification, rather than a change in credit card asset quality. The credit card asset quality was classified in accordance with the Credit-specialized Financial Business Act due to the spin-off of the credit card division during 2Q02. However, such standards for asset quality classification were strengthened in 3Q02. Also, guidelines for the quality classification of re-aged card loans were revised during 4Q02, leading to an upturn in the precautionary-and-below loan ratio. In other words, only delinquencies of longer than one month were classified as precautionary loans during 3Q, but all re-aged card loans were classified as precautionary-and-below from 4Q02, transferring a total of ₩31.5 billion into precautionary loans classification from normal loans. Below are the details of SFG's credit card asset quality classification.

Management Discussion & Analysis

Credit Card Asset Classification

(In Billions of Korean Won)

	FY2001	FY2002				YoY
		1Q	2Q	3Q	4Q	
Asset Classification						
Normal	2,012.2	2,232.8	2,444.2	2,460.1	2,531.7	25.8%
Precautionary	35.5	42.4	2.2	80.3	106.0	198.6%
Substandard	1.0	0.9	0.0	0.0	0.3	-70.0%
Doubtful	17.0	20.9	0.0	36.6	45.3	166.5%
Estimated Loss	27.7	31.7	21.3	39.5	32.8	18.4%
Total Credit	2,093.4	2,328.7	2,467.7	2,616.5	2,716.1	29.7%
NPL Ratio						
Substandard & below	2.18%	2.30%	0.86%	2.91%	2.89%	0.70%p
Precautionary & below	3.88%	4.12%	0.95%	5.98%	6.79%	2.91%p
Provisions	85.3	98.5	77.9	89.4	97.4	14.2%
NPL Coverage Ratio						
Substandard & below	186.7%	184.1%	365.7%	117.5%	124.2%	-62.4%p
Precautionary & below	105.0%	102.7%	331.5%	57.2%	52.8%	-52.2%p

Note: Based on Shinhan Card and Shinhan Bank's 'Purchase Card'

As of 2002-end, SFG's delinquency ratios for credit card assets rose YoY due to worsening quality of the household sector, including credit cards as previously mentioned. By quarter, the delinquency ratio substantially declined in 4Q02, relative to 3Q02, on the back of write-offs and active endeavors to curtail delinquencies.

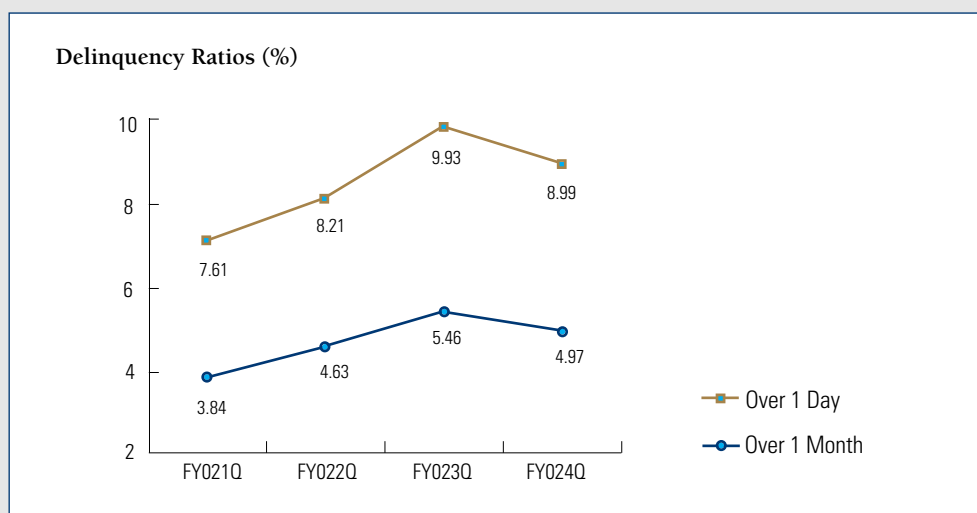
Delinquency Ratios

(In Billions of Korean Won)

	FY2001	FY2002				YoY
		1Q	2Q	3Q	4Q	
Delinquency Amount						
Over 1 Month	63.5	89.3	114.2	138.6	134.9	112.4%
Over 1 Day	133.2	170.8	211.9	252.3	244.1	83.3%
Delinquency Ratio						
Over 1 Month	3.03%	3.84%	4.63%	5.46%	4.97%	1.94%p
Over 1 Day	6.30%	7.16%	8.21%	9.93%	8.99%	2.69%p
NPL Sold and Written-off						
NPL Sold	0.0	0.0	0.0	0.0	0.0	N/A
Written-off	30.1	6.4	5.6	14.9	33.8	12.3%
Total	30.1	6.4	5.6	14.9	33.8	12.3%

Note: Based on Shinhan Card and Shinhan Bank's 'Purchase Card'

Management Discussion & Analysis



(4) Jeju Bank

Asset Classification

(In Billions of Korean Won)

	FY2001	FY2002	Chg.	YoY
Total Credit	961.7	1,281.6	319.9	33.26%
Substandard & below (Ratio)	26.5 2.76%	33.6 2.62%	7.1	-0.13%p
Precautionary & below (Ratio)	58.6 6.10%	83.1 6.48%	24.5	0.39%p
Provisions for Loan Losses Coverage Ratio	31.2	28.2	-3.0	-9.75%
Substandard & below	117.74%	83.80%		-33.93%p
Precautionary & below	53.22%	33.89%		-19.33%p
Delinquency Ratio	4.01%	3.61%		-0.40%p

Jeju Bank's total credits ballooned 33.3% YoY (+₩319.9 billion) to ₩1,281.6 billion at 2002-end. Its substandard-and-below loan ratio edged down 0.13%p YoY to 2.62%, while its precautionary-and-below loan ratio edged up 0.39%p YoY to 6.48%. Meanwhile, the coverage ratio for substandard-and-below loans stood at 83.8% as of 2002-end, down 33.9%p YoY from 117.7% in 2001. This was principally attributed to the write-off of ₩24.0 billion during the year. The coverage ratio against precautionary-and-below loans also slipped 19.3%p YoY to record 33.9% at 2002-end. The delinquency ratio marginally dropped to 3.6% at 2002-end.

Management Discussion & Analysis

5. CAPITAL ADEQUACY RATIOS

(1) Shinhan Financial Group

$$\begin{aligned} \text{Capital Adequacy Ratio} &= \text{Net Capital} / \text{Required Capital} \\ &= 4,784.0 / 3,697.7 = 129.4\% \end{aligned}$$

※ Minimum Guideline by FSS: 100%

(2) Shinhan Bank

(In Billions of Korean Won)

	FY1999	FY2000	FY2001	FY2002	YoY
Capital	3,797.3	4,024.9	4,299.4	4,407.6	3%
Tier 1	2,856.5	3,024.3	2,955.9	2,749.4	-7%
Tier 2	940.8	1,000.6	1,343.5	1,707.1	27%
Risk-weighted Assets	27,413.3	32,727.9	35,772.0	40,387.3	13%
Balance Sheet Assets	23,249.5	28,562.2	31,974.8	37,035.7	16%
Off-balance Sheet Assets	4,163.8	4,165.7	3,797.2	3,351.6	-12%
BIS Capital Adequacy Ratio	13.85%	12.30%	12.02%	10.91%	-1.11%p
Tier 1 Ratio	10.42%	9.24%	8.26%	6.81%	-1.46%p
Tier 2 Ratio	3.43%	3.06%	3.76%	4.23%	0.47%p

Note: Based on credit risk

At 2002-end, SHB's BIS ratio stood at 10.91%, down 1.11%p YoY, from 12.02% in 2001. Specifically, Tier 1 ratio dipped 1.46%p YoY, while Tier 2 ratio edged up 0.47%p YoY. The decline in BIS ratio was due to a 13% YoY surge in risk-weighted assets, while capital inched up by only 3%. The slip in Tier 1 capital was due to interim dividend payments and the spin-off of the credit card division – capital decreased by ₩247.0 billion as (1) the bank paid interim dividends of ₩348.6 billion to SFG during April 2002, and (2) its credit card division was spun off. However, net income amounted to ₩595.9 billion at year-end, leading to an increase in retained earnings by ₩81.5 billion YoY.

Tier 2 capital surged 27.1% (363.6 billion) YoY to ₩1,707.1 billion in 2002, mainly led by (1) the issuance of subordinated bonds (₩600.0 billion) and (2) an a ₩100.0 billion increase in accumulated loan loss provisions. Of note, SHB newly floated ₩600.0 billion in subordinated bonds during 2002, and subordinated bonds of ₩286.7 billion were excluded from Tier 2 capital upon their maturity. In addition, risk-weighted assets climbed 12.9% YoY (+4,615.3 billion) on the strength of a continuous increase in assets. Currently, SHB's BIS ratio is the highest among domestic commercial banks.

(3) Goodmorning Shinhan Securities

$$\begin{aligned} \text{Capital Adequacy Ratio} &= \text{Operational Net Capital} / \text{Total Risk} \\ &= 407.3 / 95.9 = 425.0\% \end{aligned}$$

※ Minimum Guideline by FSS: 150.0%

> Management Discussion & Analysis

(4) Shinhan Card

Capital Adequacy Ratio = Adjusted Capital / Adjusted Total Assets
= 268.6 / 2,473.7 = 10.9%

※ Minimum Guideline by FSS: 8.0%

(5) Shinhan Capital

Capital Adequacy Ratio = Adjusted Capital / Adjusted Total Assets
= 91.0 / 946.7 = 9.6%

※ Minimum Guideline by FSS: 7.0%

(6) Shinhan BNP Paribas Investment Trust Management Co.

Capital Adequacy Ratio = Net Capital / Total Risk
= 44.9 / 962.3 = 467.1%

※ Minimum Guideline by FSS: 150.0%

(7) Jeju Bank

Total Capital ₩14,209.2 million

 Tier 1 ₩9,541.8 million

 Tier 2 ₩4,667.4 million

Risk-weighted Assets ₩121,331.9 billion

BIS Ratio 11.71%

 Tier 1 7.86%

 Tier 2 3.85%

※ Minimum Guideline by FSS: 8.0%

Independent Auditors' Report

Based on a report originally issued in Korean

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THE BOARD OF DIRECTORS AND STOCKHOLDERS SHINHAN FINANCIAL GROUP CO., LTD.

We have audited the accompanying non-consolidated balance sheet of Shinhan Financial Group Co., Ltd. (the "Company") as of December 31, 2002 and the related non-consolidated statements of earnings, appropriation of retained earnings and cash flow for the year then ended. 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. The financial statements for the four-month period then ended December 31, 2001, presented herein for comparative purposes, were audited by other auditors, whose report thereon dated March 20, 2002 expressed an unqualified opinion on the financial statements.

We conducted our audit in accordance with the Auditing Standards, as established by the Financial Supervisory Commission of 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, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2002, and the result of its operations, the changes in its retained earnings, and its cash flow for the year then ended in accordance with the Financial Accounting Standards, as established by the Financial Supervisory Commission of the Republic of Korea.

The accompanying non-consolidated financial statements expressed in Korean Won have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the accompanying non-consolidated financial statements expressed in Korean Won have been translated into United States dollars on the basis set forth in Note 2(b) to the accompanying non-consolidated financial statements.

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

As discussed in Note 2(a) to the accompanying non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flow 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 1 to the accompanying non-consolidated financial statements, on April 4, 2002, the Company took over a 51% share of Jeju Bank from Korea Deposit Insurance Corporation and its percentage of ownership subsequently increased to 62% with the acquisition of additional common shares at ₩20,177 million. In addition, on June 1, 2002, Shinhan Card Co., Ltd. was established as 100% subsidiary of the Company through the spin-off of Shinhan Bank's credit card division, and on July 8, 2002, Shinhan Credit Information Co., Ltd. was established as a 100% subsidiary of the Company with ₩3,000 million of initial capital stock. Additionally, on June 18, 2002, the Company acquired a 29% share of Good Morning Securities Co., Ltd. from its largest shareholder, and on July 31, 2002, Good Morning Securities Co., Ltd. was merged with Shinhan Securities Co., Ltd., which was one of subsidiaries of the Company, at the exchange rate of 1.9976 Good Morning Securities Co., Ltd. shares for each Shinhan Securities Co., Ltd. share, and renamed to Goodmorning Shinhan Securities Co., Ltd. On October 1, 2002, SH&C Life Insurance Co., Ltd. was established under a joint venture agreement with Cadif Assurance Vie with ₩30 billion of initial capital stock and the Company owns 3,000,001 shares (50% of total outstanding shares + 1 share) of that company. In addition, on October 24, 2002, the Company sold 3,999,999 shares (50% of total outstanding shares - 1 share) of Shinhan Investment Trust Management Co., Ltd. which has been renamed to Shinhan BNP Paribas Investment Trust Management Co., Ltd., to BNP Paribas Asset Management.

As described in Note 4 to the accompanying non-consolidated financial statements, for the equity method of accounting, the financial statements of Goodmorning Shinhan Securities Co., Ltd., which were reviewed by other accountants, and those of Jeju Bank, which were audited by other auditors, were used. Those statements reflect total investment securities of ₩578,258 million (12.1% of total assets of the Company) as of December 31, 2002 and operating revenues of ₩5,934 million (1.0% of total operating revenue of the Company) for the year then ended.

As described in Note 4 (b) to the accompanying non-consolidated financial statements, Shinhan Bank is holding ₩461,867 million of loans (including guarantees and acceptances) provided to SK Global Co., Ltd. that confirmed its accounting fraud. Actual losses on these loans may differ materially from the management's assessments. The accompanying non-consolidated financial statements do not reflect the impact of the uncertainty on the financial position of the Company, for the equity method of accounting.

As described in Note 12 to the accompanying non-consolidated financial statements, the Company recorded ₩793,336 million of assets as of December 31, 2002 and ₩24,670 million of operating revenue for the year then ended through its related party transactions.

As described in Note 2(k) to the accompanying non-consolidated financial statements, the Company adopted the Statement of Korea Accounting Standards (SKAS) No. 6, "Events Occurring after the Balance Sheet Date", in preparation for financial statements as of and for the year ended December 31, 2002. The adoption of SKAS No. 6 had no effects on earnings for the year ended December 31, 2002 and resulted in a decrease in liabilities and an increase in stockholders' equity, amounting to ₩157,492 million, respectively. According to the adoption of the new statement, the Company amended financial statements for the four-month period ended December 31, 2001, presented herein for comparative purposes, and its liabilities decreased and stockholders' equity increased, amounting to ₩150,812 million, respectively.

KPMG Samjong Accounting Corp.

January 24, 2003

› Non-Consolidated Balance Sheets

December 31, 2002 and 2001 (In millions of Won and thousands of U.S. dollars)

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Assets				
Cash and due from bank (notes 3, 11, 12 and 25)	₩ 10,613	712	\$ 8,841	593
Investment securities (notes 4 and 25)	3,991,863	3,801,572	3,325,444	3,166,921
Loans, net (notes 5, 11, 12, 25 and 27)	765,281	145,728	637,522	121,400
Fixed assets, net (note 6)	1,754	1,469	1,461	1,224
Other assets (notes 7, 11 and 12)	15,468	6,500	12,886	5,414
Total assets	₩ 4,784,979	3,955,981	\$ 3,986,154	3,295,552
Liabilities and Stockholders' equity				
Liabilities:				
Borrowings (notes 8, 11 and 25)	₩ 36,012	20,000	\$ 30,000	16,661
Debentures, net (notes 8, 11 and 25)	732,030	146,958	609,822	122,424
Retirement and severance benefits (note 9)	237	-	197	-
Other liabilities (notes 10 and 11)	6,480	1,264	5,398	1,053
Total liabilities	774,759	168,222	645,417	140,138
Stockholders' equity:				
Common stock of ₩5,000 par value Authorized - 1,000,000,000 shares Issued - 292,361,125 shares in 2002 Issued - 292,344,192 shares in 2001	1,461,806	1,461,721	1,217,766	1,217,695
Additional paid in capital	1,976,625	1,976,650	1,646,639	1,646,660
Retained earnings (note 15)	672,530	219,922	560,255	183,207
Capital adjustments (notes 16 and 17)	(100,741)	129,466	(83,923)	107,852
Total stockholders' equity	4,010,220	3,787,759	3,340,737	3,155,414
Commitments and contingencies (note 13)				
Total liabilities and stockholders' equity	₩ 4,784,979	3,955,981	\$ 3,986,154	3,295,552

See accompanying notes to non-consolidated financial statements

➤ Non-Consolidated Statements of Earnings

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Won and thousands of U.S. dollars, except earnings per share data)

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Operating revenue:				
Valuation gain accounted for by the equity method (notes 4 and 26)	₩ 618,690	225,795	\$ 515,403	188,100
Interest income (note 12)	24,670	747	20,552	622
	643,360	226,542	535,955	188,722
Operating expense:				
Interest expense	21,632	1,089	18,021	907
Commission and fees	69	57	57	48
General and administrative expenses (note 18)	19,439	4,633	16,194	3,859
	41,140	5,779	34,272	4,814
Operating income	602,220	220,763	501,683	183,908
Non-operating income (expense):				
Foreign currency translation gain	3,645	-	3,036	-
Gain on disposition of investment securities	1,731	-	1,442	-
Foreign currency translation loss	(3,645)	-	(3,036)	-
Other, net	(20)	-	(17)	-
	1,711	-	1,425	-
Earnings before income taxes	603,931	220,763	503,108	183,908
Income taxes (note 20)	-	-	-	-
Net earnings	₩ 603,931	220,763	\$ 503,108	183,908
Basic earnings per share of common stock in Won and U.S. dollars (note 21)	₩ 2,066	755	\$ 1.721	0.629
Diluted earnings per share of common stock in Won and U.S. dollars (note 21)	₩ 2,064	755	\$ 1.719	0.629

See accompanying notes to non-consolidated financial statements

› Non-Consolidated Statements of Appropriations of Retained Earnings

Date of Appropriation for 2002: March 31, 2003

Date of Appropriation for 2001: March 20, 2002 (In millions of Korean won and thousands of U.S. dollars)

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Unappropriated retained earnings:				
Balance at beginning of year	₩ 47,034	-	\$ 39,182	-
Changes in retained earnings of subsidiaries	(511)	(841)	(426)	(701)
Net earnings for year	603,931	220,763	503,108	183,908
	650,454	219,922	541,864	183,207
Appropriation of retained earnings:				
Legal reserve	60,393	22,076	50,311	18,391
Dividends (note 22)	157,492	150,812	131,200	125,634
	217,885	172,888	181,511	144,025
Unappropriated retained earnings to be carried over to subsequent year	₩ 432,569	47,034	\$ 360,353	39,182

See accompanying notes to non-consolidated financial statements

➤ Non-Consolidated Statements of Cash Flows

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Cash flows from operating activities:				
Net earnings	₩ 603,931	220,763	\$ 503,108	183,908
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:				
Interest expense	1,175	92	979	76
Depreciation and amortization	512	173	426	144
Bad debt expense	2,374	1,472	1,978	1,226
Retirement and severance benefits	594	-	495	-
Valuation gain accounted for by the equity method	(618,690)	(225,795)	(515,403)	(188,100)
Stock compensation expense	643	-	536	-
Gain on disposition of investment securities	(1,731)	-	(1,442)	-
Increase in other assets	(4,609)	(754)	(3,840)	(628)
Increase in other liabilities	4,763	1,264	3,968	1,053
Retirement and severance benefits paid	(24)	-	(20)	-
Increase in due from insurer for severance benefits	(332)	-	(277)	-
Net cash used in operating activities	(11,394)	(2,785)	(9,492)	(2,321)
Cash flows from investing activities:				
Cash provided by investing activities:				
Dividends received	640,771	-	533,798	-
Decrease in investment securities	23,631	-	19,686	-
Decrease in other assets	39	-	32	-
	664,441	-	553,516	-
Cash used in investing activities:				
Increase in investment securities	467,962	8,781	389,838	7,315
Increase in loans	625,572	147,200	396,178	80,973
Acquisition of fixed assets	(797)	(1,643)	(664)	(1,368)
Increase in other assets	(2,038)	(5,745)	(6,139)	(4,786)
	(1,096,369)	(163,369)	(792,819)	(94,442)
Net cash used in investing activities	(431,928)	(163,369)	(359,820)	(136,095)

➤ Non-Consolidated Statements of Cash Flows

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Cash flows from financing activities:				
Cash provided by financing activities:				
Increase in borrowings	₩ 39,582	20,000	\$ 32,974	16,661
Increase in debentures	586,087	147,535	488,243	122,905
	625,669	167,535	512,217	139,566
Cash used in financing activities:				
Issuance cost on debentures paid	(2,087)	(669)	(1,739)	(557)
Decrease in borrowings	(20,000)	-	(16,661)	-
Dividends paid	(150,359)	-	(125,257)	-
	(172,446)	(669)	(143,657)	(557)
Net cash provided by financing activities	453,223	166,866	377,560	139,009
Net increase in cash and cash equivalents	9,901	712	8,248	593
Cash and cash equivalents, beginning of year	712	-	593	-
Cash and cash equivalents, end of year	₩ 10,613	712	\$ 8,841	593

See accompanying notes to non-consolidated financial statements

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001

(1) Description of the Company

Shinhan Financial Group Co., Ltd. (the "Company") was incorporated on September 1, 2001 by way of the transfer of all issued shares owned by shareholders of Shinhan Bank, Shinhan Securities Co., Ltd., Shinhan Capital Co., Ltd. and Shinhan Investment Trust Management Co., Ltd. to the Company. The Company was formed for the purpose of providing management services and financing to affiliated companies with ₩1,461,721 million of initial capital stock and the Company's shares were listed on the Korea Stock Exchange on September 10, 2001.

As of December 31, 2002, the Company has 10 subsidiaries and its capital stock was ₩1,461,806 million. Details of its subsidiaries are as follows:

(a) Shinhan Bank

Shinhan 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, 2002 Shinhan Bank's capital stock was ₩1,223,153 million. Shinhan Bank has 348 branch offices and 170 automated teller machine locations.

(b) Goodmorning Shinhan Securities Co., Ltd.

Goodmorning Shinhan Securities Co., Ltd. ("Goodmorning Shinhan Securities") was incorporated on April 2, 1973 to engage in securities trading, underwriting and brokerage services. Its shares were listed on the Korea Stock Exchange on December 19, 1986. On June 18, 2002, the Company acquired a 29% share of Good Morning Securities Co., Ltd. from its largest shareholders and on July 31, 2002, Good Morning Securities Co., Ltd. was merged with Shinhan Securities Co., Ltd., which was one of subsidiaries of the Company, at the exchange rate of 1.9976 Good Morning Securities Co., Ltd. shares for each Shinhan Securities Co., Ltd. share, and renamed to Goodmorning Shinhan Securities. As of December 31, 2002, it operates through 95 branches and its capital stock was ₩796,998 million.

(c) Shinhan Card Co., Ltd.

Shinhan Card Co., Ltd. ("Shinhan Card") was established on June 1, 2002 under Credit Specialty Finance Law through the spin-off of the credit card division of Shinhan Bank. Shinhan Card is engaged principally in credit card services, factoring, consumer loan and installment financing. As of December 31, 2002, Shinhan Card holds 1.55 million of franchise accounts and 2.55 million of credit card holders, and its capital stock was ₩152,847 million.

(d) Shinhan Capital Co., Ltd.

Shinhan Capital Co., Ltd. ("Shinhan Capital") was incorporated on April 19, 1991 to engage in the leasing and rental business and it changed its name on May 27, 1999 from Shinhan Leasing Co., Ltd. to Shinhan Capital. As of December 31, 2002, its capital stock was ₩80,000 million.

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001

(e) Shinhan BNP Paribas Investment Trust Management Co., Ltd.

On August 1, 1996, Shinhan BNP Paribas Investment Trust Management Co., Ltd. (“Shinhan BNP Paribas ITMC”) 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. Shinhan BNP Paribas ITMC’s capital stock was ₩40,000 million as of December 31, 2002. Additionally, on October 24, 2002, the Company sold 3,999,999 shares (50% of total outstanding shares – 1 share) of Shinhan Investment Trust Management Co., Ltd., which has been renamed to Shinhan BNP Paribas ITMC, to BNP Paribas Asset Management.

(f) Jeju Bank

Jeju Bank was incorporated on March 18, 1969 under the General Banking Act of Korea to engage in the commercial banking and trust business and listed its shares on the Korea Stock Exchange on December 28, 1972. On April 4, 2002, Jeju Bank became one of subsidiaries of the Company through acquiring a 51% share from Korea Deposit Insurance Corporation. Additionally, the Company’s percentage of ownership increased to 62% with the acquisition of additional common shares at ₩20,177 million on July 5, 2002 and its capital stock was ₩77,644 million as of December 31, 2002.

(g) SH&C Life Insurance CO., Ltd.

Shinhan Card Co., Ltd. (“Shinhan Card”) was established on June 1, 2002 under Credit Specialty Finance Law through the spin-off of the credit card division of Shinhan Bank. Shinhan Card is engaged principally in credit card services, factoring, consumer loan and installment financing. As of December 31, 2002, Shinhan Card holds 1.55 million of franchise accounts and 2.55 million of credit card holders, and its capital stock was ₩152,847 million.

(h) e-Shinhan Inc.

e-Shinhan Inc. (“e-Shinhan”) was incorporated on February 21, 2001 to engage in the business of internet brokerage service and comprehensive management services on customer accounts. Its capital stock was ₩2,820 million as of December 31, 2002.

(i) 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. Its capital stock was ₩1,000 million as of December 31, 2002.

(j) Shinhan Credit Information Co., Ltd.

Shinhan Credit Information Co., Ltd. (“Shinhan Credit Information”) was established on July 8, 2002 as wholly owned subsidiary of the Company to engage in the business of debt collection services and credit research. As of December 31, 2002, its capital stock was ₩3,000 million.

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001

Ownerships of Company's subsidiaries as of December 31, 2002 and 2001 are as follows:

Investor	Investee	2002		2001	
		Number of shares	Ownership Percentage (%)	Number of shares	Ownership Percentage (%)
The Company	Shinhan Bank	244,630,672	100.0	275,182,926	100.0
"	Goodmorning Shinhan Securities	94,084,384	(*) 59.4	(**) 23,847,457	100.0
"	Shinhan Card	30,569,400	100.0	-	-
"	Shinhan Capital	16,000,000	100.0	16,000,000	100.0
"	Shinhan BNP Paribas ITMC	4,000,001	50.0	8,000,000	100.0
"	Jeju Bank	9,692,369	62.4	-	-
"	SH&C Life Insurance	3,000,001	50.0	-	-
"	e-Shinhan	415,495	73.7	415,495	73.7
"	Shinhan Macquarie	102,000	51.0	102,000	51.0
"	Shinhan Credit Information	600,000	100.0	-	-
Shinhan Bank	The Company	29,873,674	10.2	29,873,295	10.2

(*) 1,041,408 shares of treasury stock considered

(**) Shares of Shinhan Securities Co., Ltd. before merger

(2) Basis of Financial Statements Presentation and Summary of Significant Accounting Policies

(a) Basis of Financial Statements Presentation

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with generally accepted financial accounting standards and the financial accounting standards applicable to financial holding companies 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 only by those who are informed about Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements.

(b) Basis of Financial Statements Translation

The accompanying non-consolidated financial statements are expressed in Korean Won and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ₩1,200.40 to US\$1, the basic exchange rate on December 31, 2002. These translations should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001

(c) Allowance for Loan Losses

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

For equity method accounting, the Company applies its own criteria in providing allowances for loan losses of its subsidiaries. Accordingly, additional allowances of ₩3,679 million for Goodmorning Shinhan Securities, ₩7,225 million for Shinhan Capital and ₩2,048 million for Jeju Bank are provided, as of December 31, 2002, for equity method accounting.

(d) Investment Securities

The Company's investment equity securities are composed entirely of equity securities in subsidiaries which are under significant influence of the Company.

Investments in equity securities of subsidiaries which are under significant influence of the Company are stated at an amount as determined using the equity method. The difference between carrying value and amount after adjusting investor's interest in investee's net assets is charged or credited to current income and the difference derived from changes in the investee's retained earnings is presented as an increase or decrease in the investor's beginning retained earnings. If the difference is derived from changes in investee's capital surplus or capital adjustment, it is charged to the capital adjustment as a component of stockholders' equity.

For debt securities presented in investments, acquisition cost is determined by the moving average method. Investments in debt securities categorized as held to maturity are recorded at amortized cost, with the related amortization included in interest income. Investments in debt securities other than those held to maturity are recorded at fair value with unrealized loss or gain included as a separate component of stockholders' equity. In valuing debt securities, if the fair value declines significantly and is not expected to recover, the difference between the book value and the fair value is charged to current operations as an impairment loss. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.

(e) Fixed Assets

i) Tangible Assets

Tangible assets are stated at cost. Significant additions or improvements extending value or useful lives of assets are capitalized, where normal maintenance and repairs are charged to expense when incurred.

The depreciation method and useful lives of tangible assets are as follows:

Descriptions	Depreciation Method	Useful Lives
Vehicles	Declining-balance	5 years
Furniture, fixtures and other	"	"
Leasehold improvement	Straight-line	"

> Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001

ii) Intangible Assets

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

(f) Discounts on Debentures

Discounts on debentures issued, which represent the difference between the face value of debentures issued and the issuance price of debentures, are amortized on the effective interest method over the life of the debentures. The amount amortized is included in interest expense.

(g) Income Taxes

Income tax on the earnings for the year comprises current and deferred tax. Income tax is recognized in the statement of earnings except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable earnings will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(h) Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on current rates of pay and length of service when they leave the Company. The Company's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying non-consolidated balance sheets. A portion of the liability is covered by an employees' severance pay insurance where the employees have a vested interest in the deposit with the insurance company. The deposit for severance benefit insurance is, therefore, reflected in the accompanying balance sheets as a deduction from the liability for retirement and severance benefits.

(i) Translation of Foreign Currency Denominated Assets and Liabilities

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet date, with the resulting gains and losses recognized in current results of operations. As permitted by the Financial Accounting Standards, monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at ₩1,200.40 and ₩1,326.10 to US\$ 1, the basic rates of exchange on December 31, 2002 and 2001, respectively. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate ruling at the date of the transaction.

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001

(j) Stock Options

The stock option program allows the Company's employees to acquire shares of the Company or to be compensated for the market price difference. In case of stock grant type, the Company values stock options based upon an option pricing model under the fair value method and recognizes this value as an expense and a capital adjustment over the period in which the options vest. In case of price compensation type, the Company recognizes the compensation expense as an expense and a liability over the period in which the options vest.

(k) Contingent Liabilities

Contingent losses are generally recognized as a liability when probable and reasonably estimable.

(l) Adoption of New Accounting Standard

The Company adopted the Statement of Korea Accounting Standards (SKAS) No. 6, "Events Occurring after the Balance Sheet Date", in preparation for financial statements as of and for the year ended December 31, 2002. The statement requires companies not to record dividends as liabilities in balance sheet, which are presented in the statement of appropriation of retained earnings, resulting in financial status presentation before appropriation of retained earnings in balance sheet. The adoption of SKAS No. 6 had no effects on earnings for the year ended December 31, 2002 and resulted in a decrease in liabilities and an increase in stockholders' equity, amounting to ₩157,492 million, respectively.

According to the adoption of the new statement, the Company amended the financial statements for the four-month period ended December 31, 2001, presented herein for comparative purposes, and its liabilities decreased and stockholders' equity increased, amounting to ₩150,812 million, respectively.

On February 5, 2003, the BOD of the Company approved the accompanying non-consolidated financial statements.

(3) Cash and Due from Banks

As of December 31, 2002, ₩2.5 million of cash and due from banks is restricted for guarantee deposits on bank accounts.

(4) Investment Securities

(a) Investment securities as of December 31, 2002 and 2001 consist of the following

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Stocks	₩ 3,990,774	3,801,572	\$ 3,324,537	3,166,921
Bonds	1,089	-	907	-
	₩ 3,991,863	3,801,572	\$ 3,325,444	3,166,921

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(b) Changes in investment equity securities accounted for by the equity method for the year ended December 31, 2002 and for the four-month period ended December 31, 2001 are as follows:

Subsidiaries	2002						Book value as of December 31, 2002
	Book value as of December 31, 2001	Investment/disposition/dividend, net	Equity method gain (loss)	Retained earnings	Capital adjustments	Total changes	
Shinhan Bank	₩ 3,446,112	(870,651)	595,866	(215)	(127,160)	(402,160)	3,043,952
Goodmorning	243,673	390,710	(749)	(36)	(102,032)	287,893	531,566
Shinhan Securities (*)							
Shinhan Card	-	246,956	504	-	-	247,460	247,460
Shinhan Capital	63,781	-	13,429	(63)	(689)	12,677	76,458
Shinhan BNP	42,557	(23,900)	3,961	(74)	37	(19,976)	22,581
Paribas ITMC							
Jeju Bank	-	42,935	6,683	(118)	(2,808)	46,692	46,692
SH&C Life Insurance	-	15,000	(453)	-	83	14,630	14,630
e-Shinhan	4,673	-	(806)	(1)	26	(781)	3,892
Shinhan Macquarie	776	(484)	134	(3)	-	(353)	423
Shinhan Credit	-	3,000	121	-	-	3,121	3,121
Information							
	₩ 3,801,572	(196,434)	618,690	(510)	(232,543)	189,203	3,990,775

(*) Equity method on Shinhan Securities before merger included

(**) The financial statements of Goodmorning Shinhan Securities reviewed by other accountants and the financial statements of Jeju Bank audited by other auditors were used

Subsidiaries	2001					Book value as of December 31, 2001
	Acquisition cost	Equity method gain (loss)	Retained earnings	Capital adjustments	Total changes	
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 BNP ITMC	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

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

Under the equity method, the Company records changes in its proportionate equity of the book value of subsidiaries as either current earnings, capital adjustments or adjustments to retained earnings, depending on the nature of the underlying change in book value of subsidiaries. Differences between the acquisition cost and fair value of subsidiaries are amortized (reversed) over reasonable period within 20 years using the straight-line method.

Shinhan Bank is holding ₩461,867 million of loans (including guarantees and acceptances) provided to SK Global Co., Ltd. that confirmed its accounting fraud. Actual losses on these loans may differ materially from the management's assessments. The accompanying non-consolidated financial statements do not reflect the impact of the uncertainty on the financial position of the Company, for the equity method of accounting.

The changes in goodwill (negative goodwill) for the year ended December 31, 2002 are as follows:

	Beginning balance	Increase (decrease)	Amortization (reversal)	Ending balance
Goodmorning Shinhan Securities	₩ -	170,045	8,503	161,542
Jeju Bank	-	(7,585)	(551)	(7,034)
	₩ -	162,460	7,952	154,508

(c) Investment debt securities as of December 31, 2002 are as follows:

	Acquisition cost	Fair value	Book value
Bond with stock warrant issued by Shinhan Bank	₩ 1,785	1,089	1,089

(5) Loans

Loans as of December 31, 2002 and 2001 consist of the following:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Loans in Won	₩ 497,200	97,200	\$ 414,195	80,973
Loans in foreign currencies	71,927	-	59,919	-
Privately placed bonds	200,000	50,000	166,611	41,653
	769,127	147,200	640,725	122,626
Less: Allowance for loan losses	(3,846)	(1,472)	(3,203)	(1,226)
	₩ 765,281	145,728	\$ 637,522	121,400

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(a) Details of loans as of December 31, 2002 and 2001 are as follows:

	Borrower	Maturity	Interest rate	2002	2001
Loans in Won	Shinhan Capital	2004.10.29	6.72%	₩ 29,000	29,000
"	"	2004.12.10	7.49%	68,200	68,200
"	"	2005. 01.30	7.34%	30,000	-
"	"	2007. 04.04	8.12%	20,000	-
"	"	2005. 04.29	7.49%	30,000	-
"	"	2005.06.26	6.95%	30,000	-
"	"	2007.07.29	6.65%	20,000	-
"	"	2007.11.21	6.18%	20,000	-
"	"	2005.12.16	5.95%	30,000	-
"	"	2007.12.16	6.22%	20,000	-
"	Shinhan Card	2005.11.21	5.93%	100,000	-
"	"	2005.12.16	5.95%	100,000	-
				497,200	97,200
Loans in foreign currencies	Shinhan Capital	2005.03.13	Libor+1.2%	36,012	-
	"	2005.09.13	Libor+1.14%	35,915	-
				71,927	-
Privately placed bonds	Shinhan Bank	2008.12.21	7.42%	50,000	50,000
"	Jeju Bank	2008.05.20	8.14%	20,000	-
"	Goodmorning	2004.09.26	6.23%	130,000	-
	Shinhan Securities				
				200,000	50,000
Less: Allowance for loan losses				769,127	147,200
				(3,846)	(1,472)
				₩ 765,281	145,728

(6) Fixed Assets

Details of fixed assets as of December 31, 2002 and 2001 are summarized as follows:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Property and equipment:	₩ 242	242	\$ 202	202
Vehicles	344	286	286	238
Furniture and fixtures	1,283	1,040	1,069	866
Leasehold improvement and other	1,869	1,568	1,557	1,306
	(656)	(169)	(546)	(140)
Less: Accumulated depreciation	1,213	1,399	1,011	1,166
Intangible assets:	20	25	16	21
Organization costs	521	45	434	37
Other	541	70	450	58
	₩ 1,754	1,469	\$ 1,461	1,224

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(7) Other Assets

Other assets as of December 31, 2002 and 2001 are as follows:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Guarantee deposits	₩ 7,069	5,331	\$ 5,889	4,441
Long-term receivables	2,361	-	1,967	-
Accrued income	4,333	737	3,610	614
Prepaid expenses	48	16	40	13
Prepaid income taxes	982	2	818	1
Other	675	414	562	345
	₩ 15,468	6,500	\$ 12,886	5,414

(8) Borrowings and Debentures

(a) Borrowings and debentures as of December 31, 2002 and 2001 consist of the following:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Borrowings in Won	₩ -	20,000	\$ -	16,661
Borrowings in foreign currencies	36,012	-	30,000	-
	₩ 36,012	20,000	\$ 30,000	16,661
Korean Won debentures	₩ 700,000	150,000	\$ 583,139	124,958
Foreign currency debentures	36,012	-	30,000	-
	736,012	150,000	613,139	124,958
Less: Discounts on debentures	(3,982)	(3,042)	(3,317)	(2,534)
	₩ 732,030	146,958	\$ 609,822	122,424

(b) Details of borrowings as of December 31, 2002 and 2001 are as follows:

	Maturity	Interest rate	2002	2001	Lender
Borrowings in Won	2002.09.01	CD+1.1%	₩ -	7,000	KorAm Bank
"	"	CD+1.1%	-	10,000	"
"	"	CD+1.35%	-	1,500	"
"	"	"	-	1,000	"
"	"	"	-	500	"
			-	20,000	
Borrowings in foreign currencies	2005.03.13	Libor+1%	36,012	-	Industrial & Commercial Bank of China
			₩ 36,012	20,000	

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

	Maturity date	Interest rate	2002	2001
Korean Won debentures				
1st non-guaranteed	2004.10.29	5.00%	₩ 30,000	30,000
2nd non-guaranteed	2004.12.10	6.00%	70,000	70,000
3rd non-guaranteed	2006.12.21	7.12%	50,000	50,000
4th non-guaranteed	2005.01.30	6.69%	30,000	-
5th non-guaranteed	2007.04.04	7.47%	20,000	-
6th non-guaranteed	2005.04.29	6.84%	30,000	-
7th non-guaranteed	2007.05.20	7.25%	20,000	-
8th non-guaranteed	2005.06.26	6.30%	30,000	-
9th non-guaranteed	2007.07.29	6.30%	20,000	-
10th non-guaranteed	2004.09.26	5.50%	130,000	-
11-1st non-guaranteed	2005.11.21	5.60%	100,000	-
11-2nd non-guaranteed	2007.11.21	5.88%	20,000	-
12-1st non-guaranteed	2005.12.16	5.65%	130,000	-
12-2nd non-guaranteed	2007.12.16	5.96%	20,000	-
			700,000	150,000
Foreign currency debentures	2005.09.13	Libor+0.85%	36,012	-
Less: Discounts on debentures			(3,982)	(3,042)
			₩ 732,030	146,958

(c) The maturities of borrowings and debentures as of December 31, 2002 are as follows:

	Balance	Repayment schedule			
		2004.1.1~ 2004.12.31	2005.1.1~ 2005.12.31	2006.1.1~ 2006.12.31	2007.1.1~ 2007.12.31
Borrowings in foreign currencies	₩ 36,012	-	36,012	-	-
Korean Won debentures	700,000	230,000	320,000	50,000	100,000
Foreign currency debentures	36,012	-	36,012	-	-
	₩ 772,024	230,000	392,024	50,000	100,000

(9) Retirement and Severance Benefits

Changes in retirement and severance benefits for the year ended December 31, 2002 and for the four-month period ended December 31, 2001 are summarized as follows:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Beginning balance	₩ -	-	\$ -	-
Payment	25	-	21	-
Provision	594	-	495	-
	569	-	474	-
Due from insurer for severance benefits	(332)	-	(277)	-
	₩ 237	-	\$ 197	-

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(10) Other Liabilities

Other liabilities as of December 31, 2002 and 2001 consist of the following:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Withholding taxes	₩ 523	203	\$ 436	170
Dividends payable	453	-	377	-
Accounts payable	1,542	434	1,285	362
Accrued expenses	3,962	627	3,301	522
	₩ 6,480	1,264	\$ 5,399	1,054

(11) Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2002 are summarized as follows:

	Foreign currency (U.S. dollars)	Equivalent Won
Assets:		
Cash and due from banks	\$ 90	₩ 108
Loans	59,919	71,927
Other assets (accrued income)	547	657
	60,556	72,692
Liabilities:		
Borrowings	30,000	36,012
Debentures	30,000	36,012
Discounts on debentures	(79)	(95)
Other liabilities (accrued expenses)	258	310
	\$ 60,179	₩ 72,239

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(12) Related Party Transactions

Significant balances and transactions with the related parties as of and for the year ended December 31, 2002 and as of and for the four-month period ended December 31, 2001 are summarized as follows:

(a) Details of transactions

Revenue earned	Expense incurred	Account	2002	2001
The Company	Shinhan Bank	Interest income	₩ 5,581	113
	Goodmorning			
"	Shinhan Securities	Interest income	2,158	-
"	Shinhan Capital	"	15,006	634
"	Jeju Bank	"	1,000	-
"	Shinhan Card	"	925	-
			24,670	747
Shinhan Bank	The Company	Rental income	2	-
"	Shinhan Capital	Interest income	6,055	6,820
"	"	Rental income	271	-
"	"	Gain on derivatives transactions	64	-
"	"	Commission income	-	1
"	Jeju Bank	Interest income	238	-
"	Goodmorning	"	1,414	359
"	Shinhan Securities			
"	"	Rental income	21	-
"	Shinhan Card	Interest income	786	-
"	"	Commission income	55,271	-
"	"	Rental income	468	-
"	Shinhan Macquarie	Rental income	100	-
"	"	Commission income	-	46
Goodmorning	Shinhan Bank	Interest income	257	191
Shinhan Securities				
"	Shinhan Card	Rental income	5	-
Shinhan Card	Shinhan Bank	Interest income	491	-
"	Goodmorning	Interest income	106	-
	Shinhan Securities			
Shinhan Capital	Shinhan Bank	Interest income	150	64
"	"	Gain on derivative transactions	2,468	-
Shinhan BNP Paribas ITMC	Shinhan Bank	Interest income	380	373
"	"	Commission income	41	-
Jeju Bank	"	Interest income	83	-
SH&C Life Insurance	Shinhan Bank	Interest income	180	-
Shinhan Credit Information	Shinhan Card	Commission income	2,289	-
"	Shinhan Bank	"	772	-
e-Shinhan	"	Interest income	-	38
Shinhan Macquarie	"	Interest income	15	-

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(b) Account balances

Revenue earned	Expense incurred	Account	2002	2001
The Company	Shinhan Bank	Cash and due from banks	₩ 10,613	712
"	"	Other assets (Guarantee deposits)	6,902	5,331
"	"	Loans (Privately placed bonds)	50,000	50,000
"	"	Other assets (Long-term receivables)	2,171	-
"	"	Other assets (Accrued income)	123	103
"	Goodmorning	Loans (Privately placed bonds)	130,000	-
"	Shinhan Securities			
"	"	Other assets (Accrued income)	134	-
"	Shinhan Card	Loans	200,000	-
"	"	Other assets (Accrued income)	925	-
"	Shinhan Capital	Loans	369,127	97,200
"	"	Other assets (Long-term receivables)	190	-
"	"	Other assets (Accrued income)	2,965	634
"	Jeju Bank	Loans (Privately placed bonds)	20,000	-
"	"	Other assets (Accrued income)	186	-
			793,336	153,980
Shinhan Bank	Shinhan Capital	Loans	37,959	89,159
"	"	Trading securities	-	100,000
"	"	Other assets (Accrued income)	133	-
"	Goodmorning	Loans (Privately placed bonds)	70,000	-
"	Shinhan Securities			
"	"	Other assets (Accrued income)	1,047	-
"	"	Other assets (Guarantee deposits)	530	-
"	Shinhan Card	Call loans	7,500	-
"	Jeju Bank	Loans (Privately placed bonds)	3,140	-
Goodmorning	Shinhan Bank	Due from banks	11,908	4,696
Shinhan Securities				
"	"	Other assets (Guarantee deposits)	5,526	-
"	"	Other assets (Accrued income)	252	-
Shinhan Card	"	Other assets (Guarantee deposits)	387	-
"	Goodmorning	Other assets (Guarantee deposits)	3,289	-
"	Shinhan Securities			
Shinhan Capital	Shinhan Bank	Short-term financial instruments	16,666	7,454
"	"	Trading securities	-	19,448
"	"	Currency swap	2,000	-
"	"	Other assets (Guarantee deposits)	418	-
Shinhan BNP Paribas ITMC	"	Due from banks	8,985	11,858
"	"	Other assets (Accrued income)	-	87
"	Goodmorning	Other assets (Guarantee deposits)	850	850
"	Shinhan Securities			
Jeju Bank	Shinhan Bank	Call loans	4,922	-
SH&C Life Insurance	"	Cash and cash equivalents	12,327	-
e-shinhan	"	Due from banks	3,718	4,223
"	"	Other assets (Accrued income)	-	27
Shinhan Macquarie	"	Due from banks	168	1,529
"	"	Other assets (Guarantee deposits)	-	71
Shinhan Credit Information	"	Cash and cash equivalents	1,395	-

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(c) Guarantees and acceptances

The guarantees and acceptances provided between the related parties as of December 31, 2002 are as follows:

Creditor	Debtor	Account	Amount guaranteed
Shinhan Bank	Shinhan Capital	Letter of credit	₩ 13,480

(13) Commitments and Contingencies

As of December 31, 2002, the Company has provided a blank note to KorAm Bank, as collateral related to bank overdrafts.

(14) Insurance

As of December 31, 2002, the Company maintains insurance policies covering loss and liability arising from automobile accidents.

(15) Retained Earnings

Retained earnings as of December 31, 2002 and 2001 are summarized as follows:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Legal reserves	₩ 22,076	-	\$ 18,391	-
Unappropriated retained earnings	650,454	219,922	541,864	183,207
	672,530	219,922	560,255	183,207

The Korean Financial Holding Company Act requires the Company to appropriate a minimum of 10% of annual net earnings 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 the stockholders' approval, it may be transferred to common stock in connection with stock dividends or used to reduce any accumulated deficit.

(16) Capital Adjustment

Capital adjustments as of December 31, 2002 and 2001 consist of the following:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Valuation gain (loss) on investment securities	₩ (103,745)	129,466	\$ (86,425)	107,852
Stock option	3,004	-	2,502	-
	₩ (100,741)	129,466	\$ (83,923)	107,852

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(17) Stock Options

Stock options are recorded as a capital adjustment on the balance sheets and the related compensation expense is recorded as a current expense over certain periods in accordance with Korean GAAP. Details of stock options in effects as of December 31, 2002 are as follows:

(a) Details of stock options

	Personnel of the Company	Personnel of subsidiaries
Grant date	2002.05.22	2002.05.22
Shares granted	213,500 shares	790,700 shares
Share expired to date	-	6,500 shares
Shares outstanding	213,500 shares	784,200 shares
Type of stock options	Stock grant or price compensation	Stock grant or price compensation
Exercise price (Won)	₩ 18,910	₩ 18,910
Exercise period	Within 4 years after 2 years from grant date	Within 4 years after 2 years from grant date
Forfeited period	after 6 years from grant date	after 6 years from grant date

(b) Changes in stock compensation expense

	Personnel of the Company	Personnel of subsidiaries
Compensation expense recorded as of December 31, 2002	₩ 643	2,361
Compensation expense to be recorded in subsequent years	1,452	5,333

(c) The Company calculated the compensation expenses using the fair value method for stock grant and details are as follows:

	Personnel of the Company	Personnel of subsidiaries
Risk-free interest rate	6.43%	6.43%
Expected exercise period	4 years	4 years
Expected stock price volatility	27.13%	27.13%
Expected dividend yield	0%	0%
Expected ratios of no-exercise	0%	0%
Weighted average exercise price (Won)	₩ 18,910	₩ 18,910
Weighted average fair value (Won)	9,812	9,812

For stock options, which were granted to the personnel of the subsidiaries, the difference between the exercise price and the fair value on the date of exercise would be assumed by the subsidiaries of the Company. Therefore, in relation to those stock options, the subsidiaries have recorded compensation expense as long-term payables, and the Company has accounted for as long-term receivables.

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(18) General and Administrative Expenses

Details of general and administrative expenses for the year ended December 31, 2002 and for the four-month period ended December 31, 2001 are as follows:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Salaries and wages	₩ 7,008	1,743	\$ 5,838	1,452
Retirement benefits	594	-	495	-
Other employee benefits	370	75	308	63
Entertainment	1,903	237	1,585	198
Depreciation and amortization	512	173	427	144
Bad debts	2,374	1,472	1,978	1,226
Taxes and dues	125	22	105	18
Commissions and fees	5,748	602	4,788	502
Other	805	309	670	256
	₩ 19,439	4,633	\$ 16,194	3,859

(19) Value Added Information

Value added information included in general and administrative expenses for the year ended December 31, 2002 and for the four-month period ended December 31, 2001 are as follows:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Salaries and wages	₩ 7,008	1,743	\$ 5,838	1,452
Retirement benefits	594	-	495	-
Other employee benefits	370	75	308	63
Rent	46	2	38	1
Depreciation	489	168	407	140
Taxes and dues	125	22	105	18
	₩ 8,632	2,010	\$ 7,191	1,674

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(20) Income Taxes

- (a) The Company is subject to income taxes based on taxable earnings, which results in the normal tax rate of 29.7%.

The components of income taxes for the year ended December 31, 2002 and for the four-month period ended December 31, 2001 are summarized as follows:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Current income taxed	₩ -	-	\$ -	-
Deferred taxes	-	-	-	-
	₩ -	-	\$ -	-

- (b) Reconciliation of accounting income and taxable income for the year ended December 31, 2002 and for the four-month period ended December 31, 2001 is as follows:

Description	Temporary difference		Permanent difference	
	2002	2001	2002	2001
Addition:				
Dividend received	₩ 640,771	-	-	-
Deemed interest	-	-	-	401
Accrued income earned in prior period	737	-	-	-
Investment securities	510	-	-	-
Retirement and severance benefits	342	-	-	-
Stock compensation expense	-	643	-	-
Entertainment expense in excess of tax limit	-	1,843	-	-
	642,360	2,486	-	401
Deduction:				
Dividend received	-	(640,578)	-	-
Retained earnings	-	(510)	-	-
Accrued income earned in current year (period)	(4,332)	-	-	-
Due from insurer for severance benefits	(332)	-	-	-
Valuation gain accounted for by the equity method	(618,690)	-	(225,795)	-
	(623,354)	(641,088)	(225,795)	-
	₩ 19,006	(638,602)	(225,795)	401

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(c) Changes in significant accumulated temporary differences and tax effects for the year ended December 31, 2002 and for the four-month period ended December 31, 2001 are as follows:

	2002			
	Beginning balance	Increase	Decrease	Ending balance
Deductible temporary differences:				
Investment securities	₩ -	-1,351	-	1,351
Retirement and severance benefits	-	342	-	342
	₩ -	1,693	-	1,693
Taxable temporary differences:				
Valuation gain accounted for by the equity method	₩ 225,795	618,690	640,771	203,714
Accrued income	-	5,069	737	4,332
Due from insurer for severance benefits	-	332	-	332
Organization costs	-	4	-	4
	₩ 225,795	624,095	641,508	208,382
Tax effects of temporary differences:				
Deferred tax assets	₩ -	503	-	503
Deferred tax liabilities (*)	-	(5,341)	(219)	(5,122)
Tax effects of tax loss carryforwards:				
Deferred tax assets	-	6,295	-	6,295
Net deferred tax assets (liabilities)	-	1,457	(219)	1,676
Tax effects recorded in financial statements(**)	₩ -	-	-	-

(*) ₩12,579 million of tax effects on valuation gain accounted for by the equity method are recognized taking into account the considering certainty of realization of deferred income taxes for each subsidiary.

(**) Tax effects on temporary differences and tax loss carryforwards are not recognized due to uncertainty of realization. Accordingly, the total amount of tax effects on tax loss carryforwards, which are not recognized as deferred taxes, is ₩21,195 million, with the tax benefit maturity of ₩5,553 million in 2006 and ₩ 15,642 million in 2007.

	2001			
	Beginning balance	Increase	Decrease	Ending balance
Valuation gain accounted for by the equity method	₩ -	(225,795)	-	(225,795)
Tax loss carryforwards (before tax return)	-	4,511	-	4,511
	-	(221,284)	-	(221,284)
Tax effects recorded in the financial statements (*)	₩ -	-	-	-

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

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(21) Earnings Per Share

(a) Basic earnings per share

Basic earnings per common share is calculated by dividing net earnings by the weighted average number of shares of common stock outstanding. The Company's basic earnings per share for the year ended December 31, 2002 and for the four-month period ended December 31, 2001 are computed as follows:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Net earnings for year / period	₩ 603,930,621,631	220,762,998,627	\$ 503,107,815	183,907,863
Weighted average number of common shares outstanding	292,353,444	292,344,192	292,353,444	292,344,192
Basic earnings per share	₩ 2,066	755	\$ 1.721	0.629

(b) Diluted earnings per share

Diluted earnings per common share is computed using the weighted average number of shares outstanding during the period plus the dilutive effect of stock options outstanding during the period. If stock options were exercised, 997,700 share of common stock would be issued. If stock options were exercised and converted into common stock on grant date, the weighted average number of common shares outstanding is 292,962,997. Details of computation of diluted earnings per share are as follows:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Net earnings for year / period	₩ 603,930,621,631	220,762,998,627	\$ 503,107,815	183,907,863
Add: Compensation expense (net of income taxes)	642,776,9244	-	535,469	-
Diluted net earnings	604,573,398,555	220,762,998,627	503,643,284	183,907,863
Weighted average number of common shares outstanding	292,962,997	292,344,192	292,962,997	292,344,192
Diluted earnings per share	₩ 2,064	755	\$ 1.719	0.629

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(22) Dividends

(a) Dividends for the year ended December 31, 2002 and for the four-month period ended December 31, 2001 are calculated as follows:

	2002	2001
Number of share issued and outstanding	292,361,125	292,344,192
Number of share issued and outstanding available for dividends (*)	262,487,451	262,470,897
Face value per share	₩ 5,000	5,000
Dividend per share (dividend rate per par value)	600 (12%)	600 (12%)
Dividends	₩ 157,492,470,600	150,812,285,352

(*) Shares owned by subsidiaries excluded

(b) Payout ratios and dividend yields as of December 31, 2002 and 2001 are calculated as follows:

	2002	2001
A. Dividends	₩ 157,492,470,600	150,812,285,352
B. Net earnings	603,930,621,631	220,762,998,627
C. Payout ratios (A ÷ B)	26.08%	68.31%
D. Dividend per share	600	600
E. Stock price	13,813	16,350
F. Price-dividends yields (D ÷ E)	4.34%	3.67%

(23) Statements of Cash Flows

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

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Acquisition of investment securities by stock transfer	₩ -	3,438,371	\$ -	2,864,354
Valuation gain on investment securities recorded as a capital adjustment	233,211	129,466	194,278	107,852
Changes in retained earnings of subsidiaries	510	840	425	700
Stock option recorded as long-term receivables	2,361	-	1,967	-
Stock exchanges	85	-	71	-

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won)

(24) Condensed Financial Statements of Subsidiaries

Condensed financial statements of subsidiaries as of and for the years ended December 31, 2002 and 2001 are as follows:

(a) Balance sheets

Subsidiaries	2002		
	Total assets	Total liabilities	Total stockholders' equity
Shinhan Bank	₩ 58,889,402	56,028,923	2,860,479
Goodmorning Shinhan Securities	1,570,244	982,268	587,976
Shinhan Card	2,473,694	2,226,234	247,460
Shinhan Capital	960,234	876,551	83,683
Shinhan BNP Paribas ITMC	47,081	1,918	45,163
Jeju Bank	1,800,648	1,699,577	101,071
SH&C Life Insurance	29,738	478	29,260
e-Shinhan	5,758	475	5,283
Shinhan Macquarie	3,503	2,675	828
Shinhan Credit Information	3,931	810	3,121
	₩ 65,784,233	61,819,909	3,964,324

Subsidiaries	2001		
	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 ITMC	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

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won)

(b) Statements of Earnings

Subsidiaries	2002				
	Operating revenue	Operating expense	Operating income (loss)	Ordinary income (loss)	Net earnings (loss)
Shinhan Bank	₩ 4,821,339	3,888,932	932,407	842,993	595,866
Goodmorning Shinhan Securities (*)	482,873	474,722	8,151	11,845	31,624
Shinhan Card	228,954	228,213	741	798	504
Shinhan Capital	152,314	139,302	13,012	10,988	7,635
Shinhan BNP Paribas ITMC	12,773	6,312	6,461	6,066	4,605
Jeju Bank	145,558	129,404	16,154	12,502	12,502
SH&C Life Insurance	338	1,243	(905)	(905)	(905)
e-Shinhan	2,529	3,776	(1,247)	(1,094)	(1,094)
Shinhan Macquarie	5,127	5,405	(278)	(742)	281
Shinhan Credit Information	3,136	3,001	135	162	121
	₩ 5,854,941	4,880,310	974,631	882,613	651,139

(*) For the period from April 1, 2002 to December 31, 2002

Subsidiaries	2001				
	Operating revenue	Operating expense	Operating income (loss)	Ordinary income (loss)	Net earnings (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 ITMC	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

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won)

(25) Financing and Operating Status of the Company and Subsidiaries

The financing and operating status of the Company and its subsidiaries as of December 31, 2002 and 2001 are as follows:

(a) Financing

Subsidiaries	2002			
	Deposits	Borrowings	Debentures (*)	Total
The Company	₩ -	36,012	732,030	768,042
Shinhan Bank	35,183,537	10,598,668	6,068,826	51,851,031
Goodmorning Shinhan Securities	540,521	147,876	200,000	888,397
Shinhan Card	-	613,743	1,559,776	2,173,519
Shinhan Capital	-	702,570	72,912	775,482
Jeju Bank	1,414,150	106,252	35,000	1,555,402
	₩ 37,138,208	12,205,121	8,668,544	58,011,873

(*) Net of discounts on debentures

Subsidiaries	2001			
	Deposits	Borrowings	Debentures (*)	Total
The Company	₩ -	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

(*) Net of discounts on debentures

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won)

(b) Operating assets

Subsidiaries	2002			
	Loans (*)	Securities	Cash and due from bank	Total
The Company	₩ 765,281	3,991,863	10,613	4,767,757
Shinhan Bank	40,579,006	13,855,009	1,138,414	55,572,429
Goodmorning Shinhan Securities	122,057	456,500	575,506	1,154,063
Shinhan Card	2,439,076	-	15	2,439,091
Shinhan Capital	739,518	57,947	16,668	814,133
Shinhan BNP Paribas ITMC	443	12,981	29,813	43,237
Jeju Bank	1,317,051	276,867	9,673	1,603,591
SH&C Life Insurance	-	14,728	13,327	28,055
e-Shinhan	51	382	3,718	4,151
Shinhan Macquarie	-	-	169	169
Shinhan Credit Information	-	-	1,398	1,398
	₩ 45,962,483	18,666,277	1,799,314	66,428,074

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

- After reflecting additional provisions for loan losses, amounting to ₩3,679 million, ₩7,225 million and ₩2,048 million of Goodmorning Shinhan Securities, Shinhan Capital and Jeju Bank, respectively, in order to apply the same criteria in providing allowances for loan losses

Subsidiaries	2001			
	Loans (*)	Securities	Cash and due from bank	Total
The Company	₩ 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 ITMC	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

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won)

(26) Contribution of Subsidiaries to the Company's Net Earning

Effects under the equity method on the Company's net earnings are as follows:

	2002		2001	
	Amount	Ratio (%)	Amount	Ratio (%)
Valuation gain accounted for by the equity method on:				
Shinhan Bank	₩ 595,866	96.31	86,902	38.5
Goodmorning Shinhan Securities (*)	(749)	(0.12)	141,015	62.5
Shinhan Card	504	0.08	-	-
Shinhan Capital	13,429	2.17	(107)	(0.1)
Shinhan BNP Paribas ITMC	3,961	0.64	1,316	0.6
Jeju Bank	6,683	1.08	-	-
SH&C Life Insurance	(453)	(0.07)	-	-
e-Shinhan	(804)	(0.13)	(3,597)	(1.6)
Shinhan Macquarie	134	0.02	266	0.1
Shinhan Credit Information	121	0.02	-	-
	618,690	100.00	225,795	100.00
Other income	30,050		748	
Other expense	(44,809)		(5,780)	
Net earnings	₩ 603,931		220,763	

(*) Valuation gain accounted for by the equity method on Shinhan Securities before merger for 2001

(27) Allowance for Loan Losses of the Company and its Subsidiaries

For the year ended December 31, 2002 and for the four-month period ended December 31, 2001, the changes in allowance for loan losses of the Company and its subsidiaries are as follows:

	2002			2001		
	Beginning balance	Increase (decrease)	Ending balance	Beginning balance	Increase (decrease)	Ending balance
The Company	₩ 1,472	2,374	3,846	-	1,472	1,472
Shinhan Bank	567,344	(1,500)	565,844	609,623	(42,279)	567,344
Goodmorning Shinhan Securities (*)	82,609	4,833	87,442	30,022	(14,351)	15,671
Shinhan Card	-	96,074	96,074	-	-	-
Shinhan Capital (**)	102,454	(68,667)	33,787	86,293	16,161	102,454
Shinhan BNP Paribas ITMC	25	(17)	8	18	7	25
Jeju Bank (***)	26,952	2,366	29,318	-	-	-
e-Shinhan	-	1	1	-	-	-
Shinhan Macquarie	21	1	22	-	21	21
	₩ 780,877	35,465	816,342	725,956	(38,969)	686,987

(*) Including additional allowance for loan losses made by the Company of ₩3,679 million as of December 31, 2002 / Shinhan Securities' ending balance for 2001 and Good Morning Securities' beginning balance (as of March 31, 2002) for 2002 considered

(**) Including additional allowance for loan losses made by the Company of ₩7,225 million and ₩13,019 million as of December 31, 2002 and 2001, respectively

(***) Including additional allowance for loan losses made by the Company of ₩2,048 million as of December 31, 2002

> Notes to Non-Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 *(In millions of Korean won and thousands of U.S. dollars)*

(28) Economic Environment

In response to general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, 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 Company may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above.

The accompanying non-consolidated financial statements reflect management's 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 assessments.

Independent Auditors' Report

Based on a report originally issued in Korean

KPMG Samjong Accounting Corp.

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THE BOARD OF DIRECTORS AND STOCKHOLDERS 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, 2002 and the related consolidated statements of earnings, changes in stockholders' equity and cash flow for the year then ended. 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. The financial statements of Goodmorning Shinhan Securities Co., Ltd. and Jeju Bank whose assets and revenues represent 4.69% and 7.79%, respectively, of the consolidated totals, were reviewed by other accountants and audited by other auditors, respectively, and our opinion, in connection with the amounts included for these subsidiaries, is based solely on the reports of other accountants and auditors. The consolidated financial statements for the four-month period ended December 31, 2001, presented herein for comparative purposes, were audited by other auditors, whose report thereon dated March 20, 2002 expressed an unqualified opinion on the financial statements.

We conducted our audit in accordance with the Auditing Standards, as established by the Financial Supervisory Commission of 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2002, and the result of their operations, the change in their stockholders' equity, and their cash flow for the year then ended in accordance with the Financial Accounting Standards, as established by the Financial Supervisory Commission of the Republic of Korea.

The accompanying consolidated financial statements expressed in Korean Won have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the accompanying consolidated financial statements expressed in Korean Won have been translated into United States dollars on the basis set forth in Note 2(b) to the accompanying consolidated financial statements.

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

As discussed in Note 2(a) to the accompanying consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position, result of operations and cash flow 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 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 1 to the accompanying consolidated financial statements, on April 4, 2002, the Company took over shares of Jeju Bank and on June 1, 2002, Shinhan Card Co., Ltd. was established through the spin-off of Shinhan Bank's credit card division. Additionally, on June 18, 2002, the Company acquired shares of Good Morning Securities Co., Ltd., and on July 31, 2002, Good Morning Securities Co., Ltd. was merged with Shinhan Securities Co., Ltd. On October 1, 2002, SH&C Life Insurance Co., Ltd. was established under the joint venture agreement. According to the change of consolidated companies mentioned above, assets, liabilities, operating income and net earnings as of and for the year ended December 31, 2002 increased by ₩3,401,577 million, ₩722,190 million, ₩469,421 million and ₩246 million, respectively.

As described in Note 2(p) to the accompanying consolidated financial statements, the Company adopted the Statement of Korea Accounting Standards (SKAS) No. 6, "Events Occurring after the Balance Sheet Date", in preparation for financial statements as of and for the year ended December 31, 2002. The adoption of SKAS No. 6 had no effects on earnings for the year ended December 31, 2002, and resulted in a decrease in liabilities and an increase in stockholders' equity, amounting to ₩157,492 million, respectively. According to the adoption of the new statement, the Company amended financial statements for the four-month period ended December 31, 2001, presented herein for comparative purposes, and its liabilities decreased and stockholders' equity increased, amounting to ₩150,812 million, respectively.

As described in Note 28 (j) to the accompanying consolidated financial statements, Shinhan Bank is holding ₩461,867 million of loans (including guarantees and acceptances) provided to SK Global Co., Ltd. that confirmed its accounting fraud. Actual losses on these loans may differ materially from the management's assessments. The accompanying consolidated financial statements do not reflect the impact of the uncertainty on the financial position of the Company and its subsidiaries.

KPMG Samjong Accounting Corp.

January 24, 2003

This report is effective as of January 24, 2003, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Consolidated Balance Sheets

December 31, 2002 and 2001 (In millions of Korean won and thousands of U.S. dollars)

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Assets				
Cash and due from bank (notes 4, 16, 17 and 18)	₩ 2,817,134	2,356,145	\$ 2,346,829	1,962,800
Trading securities (notes 5, 16 and 18)	2,076,319	2,198,360	1,729,689	1,831,356
Investment securities (notes 5, 16 and 18)	13,407,898	12,962,204	11,169,526	10,798,237
Loans, net (notes 6 and 18)	45,244,360	35,371,371	37,691,070	29,466,320
Fixed assets, net (notes 7 and 17)	1,093,845	657,515	911,233	547,747
Other assets, net (notes 8, 9 and 18)	2,128,038	2,784,054	1,772,774	2,319,272
Total assets	₩ 66,767,594	56,329,649	\$ 55,621,121	46,925,732
Liabilities and Stockholders' equity				
Liabilities:				
Deposits (notes 10 and 18)	₩ 38,722,333	34,390,192	32,257,858	28,648,944
Borrowings (notes 11 and 18)	11,351,814	10,049,401	9,456,693	8,371,710
Debentures, net (notes 12 and 18)	8,395,403	3,748,773	6,993,838	3,122,936
Retirement and severance benefits, net (note 13)	159,519	146,118	132,888	121,724
Other liabilities (notes 14 and 18)	4,177,159	4,731,681	3,479,806	3,941,754
Total liabilities	62,806,228	53,066,165	52,321,083	44,207,068
Stockholders' equity:				
Common stock of ₩5,000 par value	1,461,805	1,461,721	1,217,765	1,217,695
Authorized - 1,000,000,000 shares				
Issued - 292,361,125 shares in 2002				
292,344,192 shares in 2001				
Consolidated capital surplus	1,887,708	1,976,650	1,572,566	1,646,660
Consolidated retained earnings	670,763	219,923	558,783	183,208
Consolidated capital adjustments	(379,796) ^{oo}	(394,810) ^{oo}	(316,392) ^{oo}	(328,899)
(notes 19 and 20)	320,886	-	267,316	-
Minority interest				
Total stockholders' equity	3,961,366	3,263,484	3,300,038	2,718,664
Commitments and contingencies (note 26)				
Total liabilities and stockholders' equity	₩ 66,767,594	56,329,649	\$ 55,621,121	46,925,732

See accompanying notes to consolidated financial statements

Consolidated Statements of Earnings

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Operating revenue:				
Interest income:				
Interest on due from banks	₩ 50,342	37,598	\$ 41,938	31,321
Interest on trading securities	121,815	63,077	101,479	52,547
Interest on investment securities	855,037	497,270	712,293	414,254
Interest on loans	2,598,516	1,208,969	2,164,708	1,007,138
Other	20,655	15,677	17,207	13,060
	3,646,365	1,822,591	3,037,625	1,518,320
Fees and commission income	842,973	319,299	702,243	265,994
Other operating income:				
Trading securities related gains	94,203	67,940	78,476	56,598
Dividend income from securities	16,090	869	13,404	724
Gain on foreign currency transactions	214,869	75,628	178,998	63,002
Fees on trust accounts	48,752	22,189	40,613	18,484
Gain on derivatives	1,043,567	247,042	869,350	205,800
Other	22,084	4,302	18,397	3,584
	1,439,565	417,970	1,199,238	348,192
	5,928,903	2,559,860	4,939,106	2,132,506
Operating expenses:				
Interest expense:				
Interest on deposits	1,497,088	823,705	1,247,157	686,192
Interest on borrowings	441,794	266,621	368,039	222,110
Interest on debentures	392,526	125,029	326,996	104,156
Other	20,732	27,660	17,271	23,043
	2,352,140	1,243,015	1,959,463	1,035,501
Fees and commission expense	160,115	57,875	133,385	48,213
Other operating expenses:				
Loss on trading securities	86,181	63,678	71,794	53,047
Foreign exchange loss	129,305	31,002	107,718	25,826
Bad debt expense	192,690	384,443	160,521	320,262
General and administrative expenses (note 21)	941,757	370,629	784,536	308,755
Derivative related losses	981,550	247,925	817,686	206,535
Other	146,662	41,201	122,178	34,324
	2,478,145	1,138,878	2,064,433	948,749
	4,990,400	2,439,768	4,157,281	2,032,463
Operating income	938,503	120,092	781,825	100,043

Consolidated Statements of Earnings

Year ended December 31, 2002 and four-month period ended December 31, 2001
(In millions of Korean won and thousands of U.S. dollars, except earnings per share data)

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Non-operating income:				
Gain on investment securities	₩ 106,894	72,002	\$ 89,049	59,982
Gain on sales of loans	11,636	1,880	9,693	1,566
Other	45,357	148,309	37,785	123,550
	163,887	222,191	136,527	185,098
Non-operating expense:				
Loss on investment securities	209,984	76,704	174,929	63,899
Loss on sales of loans	7,815	-	6,510	-
Other	32,275	14,429	26,886	12,020
	250,074	91,133	208,325	75,919
Ordinary income	852,316	251,150	710,027	209,222
Extraordinary loss	-	508	-	423
Earnings before income taxes	852,316	250,642	710,027	208,799
Income taxes (note 22)	254,572	29,879	212,073	24,891
Net earnings before minority interest	597,744	220,763	497,954	183,908
Net loss in minority interest	4,419	-	3,681	-
Net earnings	₩ 602,163	220,763	\$ 501,635	183,908
Ordinary income per share in Won and U.S. dollars (note 23)	₩ 2,294	876	\$ 1.91	0.73
Net earnings per share in Won and U.S. dollars (note 23)	₩ 2,294	875	\$ 1.91	0.73

See accompanying notes to consolidated financial statements

Consolidated Statements of Changes in Stockholders' Equity

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Capital stock:				
Balance at beginning of year (period)	₩ 1,461,721	-	\$ 1,217,695	-
Acquisition of equity securities in subsidiaries	-	1,461,721	-	1,217,695
Stock issuance	84	-	70	-
Balance at end of year (period)	1,461,805	1,461,721	1,217,765	1,217,695
Consolidated capital surplus:				
Balance at beginning of year (period)	1,976,650	-	1,646,660	-
Acquisition of equity securities in subsidiaries	-	1,976,650	-	1,646,660
Stock issuance by the Company	(25)	-	(21)	-
Stock issuance by subsidiaries	730	-	608	-
Acquisition of treasury stock by subsidiaries	(62,939)	-	(52,432)	-
Merger between subsidiaries	(40,110)	-	(33,414)	-
Other	13,402	-	11,165	-
Balance at end of year (period)	1,887,708	1,976,650	1,572,566	1,646,660
Consolidated retained earnings:				
Balance at beginning of year (period)	219,923	-	183,208	-
Net earnings	602,163	220,763	501,635	183,908
Dividends paid	(150,812)	-	(125,635)	-
Change in retained earnings of subsidiaries	(511)	(840)	(425)	(700)
Balance at end of year (period)	670,763	219,923	558,783	183,208
Consolidated capital adjustments:				
Balance at beginning of year (period)	(394,810)	-	(328,899)	-
Acquisition of treasury stock	-	(394,475)	-	(328,620)
Other	15,014	(335)	12,507	(279)
Balance at end of year (period)	(379,796)	(394,810)	(316,392)	(328,899)
Minority interest:				
Balance at beginning of year (period)	-	-	-	-
Net loss for year (period)	(4,419)	-	(3,681)	-
Other	325,305	-	270,997	-
Balance at end of year (period)	320,886	-	267,316	-
Total Stockholders' equity	₩ 3,961,366	3,263,484	\$ 3,300,038	2,718,664

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Cash flows from operating activities:				
Net earnings	₩ 602,163	220,763	\$ 501,635	183,908
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:				
Gain related to trading securities, net	(8,022)	4,702	85,880	3,917
Loss related to investment securities, net	103,090	55,781	107,978	46,469
Depreciation and amortization	129,617	384,443	160,521	320,262
Bad debt expense	192,690	29,459	61,360	24,541
Retirement and severance benefits	73,657	(1,880)	(3,183)	(1,566)
Gain on disposition of loans, net	(3,821)	(123,543)	(428)	(102,918)
Reversal of negative goodwill	(514)	(309,684)	18,221	(257,984)
Changes in assets and liabilities, net	21,872	(40,986)	15,567	(34,144)
Other	18,686			
Net cash provided by operating activities	1,129,418	214,793	940,868	178,935
Cash flows from investing activities:				
Cash provided by investing activities:				
Decrease in loans	1,516,256	1,544,883	1,263,126	1,286,973
Decrease in trading securities	384,614	428,390	320,405	356,873
Decrease in investment securities	1,390,229	60,241	1,158,138	50,184
Disposition of fixed assets	83,145	42,305	69,264	35,242
Decrease in other assets	77,909	733,812	64,903	611,308
	3,452,153	2,809,631	2,875,836	2,340,580
Cash used in investing activities:				
Increase in loans				
Increase in trading securities	(10,380,665)	(3,503,129)	(8,647,672)	(2,918,301)
Increase in investment securities	-	(8,238)	-	(6,863)
Acquisition of fixed assets	(1,974,920)	(497,375)	(1,645,218)	(414,341)
Increase in other assets	(213,170)	(106,008)	(177,582)	(88,311)
Net cash used in investing activities	(402,101)	(14,220)	(334,973)	(11,846)
	(12,970,856)	(4,128,970)	(10,805,445)	(3,439,662)
	(9,518,703)	(1,319,339)	(7,929,609)	(1,099,083)

➤ Consolidated Statements of Cash Flows

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Cash flows from financing activities:				
Cash provided by financing activities:				
Increase in deposits	₩ 2,721,369	2,334,885	\$ 2,267,052	1,945,089
Increase in borrowings	21,128,581	361,229	17,601,284	300,924
Increase in debentures	6,832,428	805,575	5,691,792	671,088
Increase in other liabilities	4,303,743	1,240,300	3,585,257	1,033,239
Issuance of additional capital stock	2,007	1	1,672	1
Disposition of treasury stock	3,176	155,387	2,646	129,446
Disposition of subsidiaries' stock	23,668	-	19,717	-
	35,014,972	4,897,377	29,169,420	4,079,787
Cash used in financing activities:				
Decrease in deposits	(93,561)	(185,625)	(77,942)	(154,636)
Decrease in borrowings	(19,968,791)	(2,902,707)	(16,635,114)	(2,418,116)
Decrease in debentures	(2,313,112)	(250,624)	(1,926,951)	(208,784)
Decrease in other liabilities	(3,969,262)	(712,472)	(3,306,616)	(593,529)
Dividends paid	(150,359)	(484)	(125,257)	(403)
Acquisition of treasury stock	(373,180)	-	(310,880)	-
Other	(26)	-	(22)	-
	(26,868,291)	(4,051,912)	(22,382,782)	(3,375,468)
Net cash provided by financing activities	8,146,681	845,465	6,786,638	704,319
Net decrease in cash and cash equivalents	(242,604)	(259,081)	(202,103)	(215,829)
Increase in cash and cash equivalents due to change of consolidated subsidiaries	703,593	2,615,226	586,132	2,178,629
Cash and cash equivalents, beginning of year (period)	2,356,145	-	1,962,800	-
Cash and cash equivalents, end of year (period)	₩ 2,817,134	2,356,145	\$ 2,346,829	1,962,800

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001

(1) General Description on Consolidated Companies

Shinhan Financial Group Co., Ltd., the controlling company, and its subsidiaries included in consolidation or accounted for by the equity method are summarized as follows:

(a) Controlling Company

Shinhan Financial Group Co., Ltd. (the "Company"), the controlling company, was incorporated on September 1, 2001 by way of the transfer of all issued shares owned by shareholders of Shinhan Bank, Shinhan Securities Co., Ltd., Shinhan Capital Co., Ltd. and Shinhan Investment Trust Management Co., Ltd. to the Company. The Company was formed for the purpose of providing management services and financing to subsidiaries with ₩1,461,721 million of initial capital stock and the Company's shares were listed on the Korea Stock Exchange on September 10, 2001.

As of December 31, 2002, the Company has 16 subsidiaries which are consolidated or accounted for by the equity method, and its capital stock was ₩1,461,806 million

(b) Subsidiaries included in Consolidation

a. Shinhan Bank

Shinhan Bank was incorporated on September 15, 1981 under the General Banking Act of Korea to engage in commercial banking and trust business. As of December 31, 2002 Shinhan Bank's capital stock was ₩1,223,153 million. Shinhan Bank has 348 branch offices and 170 automated teller machine locations.

b. Goodmorning Shinhan Securities Co., Ltd.

Goodmorning Shinhan Securities Co., Ltd. ("Goodmorning Shinhan Securities") was incorporated on April 2, 1973 to engage in securities trading, underwriting and brokerage services and its shares were listed on the Korea Stock Exchange on December 19, 1986. On June 18, 2002, the Company acquired a 29% share of Good Morning Securities Co., Ltd. from its largest shareholders and on July 31, 2002, Good Morning Securities Co., Ltd. was merged with Shinhan Securities Co., Ltd., which was one of subsidiaries of the Company, at the exchange rate of 1.9976 Good Morning Securities Co., Ltd. shares for each Shinhan Securities Co., Ltd. share, and renamed to Goodmorning Shinhan Securities. As of December 31, 2002, it operates through 95 branches and its capital stock was ₩796,998 million.

c. Shinhan Card Co., Ltd.

Shinhan Card Co., Ltd. ("Shinhan Card") was established on June 1, 2002 under the Credit Specialty Finance Law through the spin-off of the credit card division of Shinhan Bank. Shinhan Card is engaged principally in credit card services, factoring, consumer loans and installment financing and it holds 1.55 million franchise accounts and 2.55 million of credit card holders. As of December 31, 2002, its capital stock was ₩152,847 million.

d. Shinhan Capital Co., Ltd.

Shinhan Capital Co., Ltd. ("Shinhan Capital") was incorporated on April 19, 1991 to engage in the leasing and rental business and it changed its name on May 27, 1999 from Shinhan Leasing Co., Ltd. to Shinhan Capital. As of December 31, 2002, its capital stock was ₩80,000 million.

> Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001

e. Shinhan BNP Paribas Investment Trust Management Co., Ltd.

On August 1, 1996, Shinhan BNP Paribas Investment Trust Management Co., Ltd. ("Shinhan BNP Paribas ITMC") 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. Shinhan BNP Paribas ITMC's capital stock was ₩40,000 million as of December 31, 2002. Additionally, on October 24, 2002, the Company sold 3,999,999 shares (50% of total outstanding shares – 1 share) of Shinhan Investment Trust Management Co., Ltd., which has been renamed to Shinhan BNP Paribas ITMC, to BNP Paribas Asset Management and it renamed to Shinhan BNP Paribas ITMC.

f. Jeju Bank

Jeju Bank was incorporated on March 18, 1969 under the General Banking Act of Korea to engage in the commercial banking and trust business and listed its shares on the Korea Stock Exchange on December 28, 1972. On April 4, 2002, Jeju Bank became one of subsidiaries of the Company through acquiring a 51% share from Korea Deposit Insurance Corporation. Additionally, the Company's percentage of ownership increased to 62% with the acquisition of additional common shares at ₩20,177 million on July 5, 2002 and its capital stock was ₩77,644 million as of December 31, 2002.

g. SH&C Life Insurance Co., Ltd.

SH&C Life Insurance Co., Ltd. ("SH&C Life Insurance") was established in October 1, 2002 to engage in insurance business and other related business. As of December 31, 2002, its capital stock was ₩30,000 million.

h. Trust accounts of Shinhan and Jeju Bank

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

i. Shinhan Finance Ltd.

Shinhan Finance Ltd. ("Shinhan Finance") was incorporated in November 1990 in Hong Kong as a wholesale bank and has USD 55.6 million of capital stock as of December 31, 2002.

j. Good Morning Securities Europe Ltd.

Good Morning Securities Europe Ltd. ("Good Morning Securities Europe") was established in 1991 and has been providing securities trading, underwriting and derivative brokerage services in Europe under the Securities and Futures Authority (SFA) of UK. Its capital stock as of December 31, 2002 was ₩6,498 million.

k. Good Morning Securities USA Inc.

Good Morning Securities USA Inc. ("Good Morning Securities USA") was established in 1993 and has been providing securities trading, underwriting and derivative brokerage services under the Federal Securities Act of USA. Its capital stock as of December 31, 2002 was ₩3,342 million.

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001

Ownerships between the Company and its subsidiaries included in consolidation as of December 31, 2002 are as follows:

Investor	Investee (Consolidated subsidiaries)	2002		2001	
		Number of shares	Ownership (%)	Number of shares	Ownership (%)
The Company	Shinhan Bank	244,630,672	100.0	275,182,926	100.0
"	Goodmorning Shinhan Securities	94,084,384	(*) 59.4	23,847,457	(**) 100.0
"	Shinhan Card	30,569,400	100.0	-	-
"	Shinhan Capital	16,000,000	100.0	16,000,000	100.0
"	Shinhan BNP Paribas ITMC	4,000,001	50.0	8,000,000	100.0
"	Jeju Bank	9,692,369	62.4	-	-
"	SH&C Life Insurance	3,000,001	50.0	-	-
Shinhan Bank	The Company	29,873,674	10.2	29,873,295	10.2
"	Shinhan Finance	55,600	100.0	55,600	100.0
Goodmorning Shinhan Securities	Good Morning Securities Europe	5,000,000	100.0	-	-
"	Good Morning Securities USA	15,000	100.0	-	-

(*) 1,041,408 shares of treasury stock considered

(**) Shares of Shinhan Securities Co., Ltd. prior to merger with Good Morning Securities presented

Jeju Bank, Shinhan Card, Goodmorning Shinhan Securities, SH&C Life Insurance are initially included in the consolidation in year 2002. Accounting to this change of consolidated companies, assets, liabilities, operating income and net earnings as of and for the year ended December 31, 2002 increased by ₩3,401,577 million, ₩722,190 million, ₩469,421 million and ₩246 million, respectively.

(c) Subsidiaries accounted for by the Equity Method

a. e-Shinhan Inc.

e-Shinhan Inc. ("e-Shinhan") was incorporated on February 21, 2001 to engage in the business of internet brokerage service and comprehensive management services on customer accounts. Its capital stock as of December 31, 2002 was ₩2,820 million.

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. Its capital stock as of December 31, 2002 was ₩1,000 million.

c. Shinhan Credit Information Co., Ltd.

Shinhan Credit Information Co., Ltd. ("Shinhan Credit Information") was established on July 8, 2002 as wholly owned subsidiary of the Company to engage in the business of debt collection services and credit research. As of December 31, 2002, its capital stock was ₩3,000 million.

d. Shinhan System Co., Ltd.

Shinhan System Co., Ltd. ("Shinhan System") was incorporated in May 1991 to engage in computer services and its capital stock as of December 31, 2002 was ₩1,000 million.

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001

Ownerships between the Company and its subsidiaries included in consolidation as of December 31, 2002 are as follows:

Investor	Investee (equity method)	2002		2001		Reason for exclusion from the scope of consolidation
		Number of shares	Ownership (%)	Number of shares	Ownership (%)	
The Company	e-Shinhan	415,495	73.7	415,495	73.7	Asset under ₩ 7 billion
"	Shinhan Macquarie	102,000	51.0	102,000	51.0	"
"	Shinhan Credit Information	600,000	100.0	-	-	"
Shinhan Bank	Shinhan System	200,000	100.0	200,000	100.0	"
"	Shinhan Research	-	-	20,000	50.0	"

(2) Basis of Financial Statements Presentation and Summary of Significant Accounting Policies

(a) Basis of Financial Statements Presentation

The Company maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with the 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 consolidated financial statements are intended for use only by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements.

(b) Basis of Financial Statements Translation

The accompanying consolidated financial statements are expressed in Korean Won and have been translated, solely for convenience of the reader, into U.S. dollars at the rate of ₩ 1,200.40 to US\$ 1, the basic exchange rate on December 31, 2002. These translations should not be construed as a representation that any or all of the amounts shown could be converted into U.S. dollars at this or any other rate.

(c) Translation of Foreign Currency Denominated Assets and Liabilities

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet date, with the resulting gains and losses recognized in current results of operations. As permitted by the Financial Accounting Standards, monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at ₩ 1,200.40 and ₩ 1,326.10 to US\$ 1, the basic rate of exchange on December 31, 2002 and 2001, respectively, except for swap funds which are translated at the specified rates in the contracts. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Korean Won at the foreign exchange rate ruling at the date of the transaction. Financial statements of overseas branches are also translated into Korean Won at the above base rates on the balance sheet dates.

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001

(d) Trading and Investment Securities

Debt and equity securities bought and held for the purpose of selling them in the near term are classified as trading securities. Those securities are recorded at fair market value. Valuation gains or losses on trading securities is included in current earnings.

Debt and equity securities other than presented in the trading securities are classified as investment securities.

Investments in debt securities categorized as held to maturity are recorded at amortized cost, with the related amortization included in interest income.

Investments in debt securities other than those held to maturity are recorded at fair value with the unrealized gain or loss included as a capital adjustment, which is a separate component of stockholders' equity.

Investment in equity securities with readily determinable fair values (except for the investment in affiliated companies accounted for using the equity method) are carried at fair value and the unrealized loss or gain is charged or credited to the capital adjustment account in the balance sheet.

Investments in equity securities (except for the investment in affiliated companies accounted for using the equity method) that do not have readily determinable fair values are stated at acquisition cost. If the Company's equity in the net book value of the investee declines significantly and is not expected to recover, the difference between the book value and the fair value is charged to current results of operations as an impairment loss.

Investments in the Stock Market Stabilization Fund and partnerships (investments in special funds) 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 earnings.

Notwithstanding the above valuation methods, investments in equity securities of companies, over which the Company controls or exercises significant influence, are stated at an amount as determined using the equity method of accounting. The difference between carrying value and amount after adjusting investor's interest in investee's net assets is charged or credited to current income and the difference derived from changes in the investee's retained earnings is presented as the increase or decrease in the investor's beginning retained earnings. If the difference is derived from changes in investee's capital surplus or capital adjustment, it is charged to the capital adjustment as a component of stockholders' equity.

In accordance with the accounting and reporting guidelines prescribed by the Korean trust and banking regulatory authorities, securities included in trust accounts of Shinhan and Jeju Bank are recorded at market value. However, according to the interim measure of the revised guidelines, debt securities included in the unspecified money trusts already established before the effective date of the revised guidelines (November 13, 1998) are recorded at acquisition cost.

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001

(e) Allowance for Loan Losses

Shinhan Bank established the credit risk-rating model, which considers the borrowers' capacity to repay and credit risk ("Forward Looking Criteria: FLC") in classifying its corporate loans and making provisions for loan losses. Based on the above model, the Company and its subsidiaries classified their corporate loans by ten credit risk ratings and made provisions for loan losses in the amount of 0.2~2%, 4%, 20%, 95% and 100% of those classified in category 1~6 (normal), 7 (precautionary), 8 (sub-standard), 9 (doubtful) and 10 (estimated loss), respectively, while household loans and credit card loans were classified by considering current financial status including delinquency period, bankruptcies and collaterals value. For those loans was made provision for loan losses of 0.75~1%, 5~7%, 20%, 55%~60% and 100% of those classified in normal, precautionary, sub-standard, doubtful and estimated loss, respectively.

(f) Troubled Loans 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 on restructured loans is made depending on the credit conditions of borrowers.

(g) Fixed Assets

i) Tangible Assets

Tangible assets are stated at cost, except for the case of revaluation made in accordance with the Asset Revaluation Law. Significant additions or improvements extending value or useful lives of assets are capitalized, while normal maintenance and repairs are charged to expense when incurred.

Depreciation is computed using the declining-balance method, except straight-line method for building and leasehold improvement, over estimated useful lives of the related assets.

ii) Intangible Assets

Intangible assets are stated at acquisition cost less amortization computed using the straight-line method over useful lives of related intangible assets.

(h) Discounts on Debentures

Discounts on debentures issued, which represent the difference between the face value of debentures issued and the issuance price of debentures, are amortized on the effective interest method over the lives of the debentures. The amount amortized is included in interest expense.

(i) Allowance for Guarantees and Acceptances

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

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001

(j) Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on current rates of pay and length of service when they leave the Company. The Company's estimated liability under the plan which would be payable if all employees left on the balance sheet date is accrued in the accompanying balance sheets. A portion of the liability is covered by an employees' severance pay insurance where the employees have a vested interest in the deposit with the insurance companies. The deposits for retirement insurance is, therefore, reflected in the accompanying balance sheet as a deduction from the liability for retirement and severance benefits.

Under the National Pension Scheme of Korea, the Company transferred a certain portion of retirement allowances of employees to the National Pension Fund. The amount transferred will reduce the retirement and severance benefit amount to be payable to the employees when they leave the Company and is accordingly reflected in the accompanying financial statements as a reduction from the retirement and severance benefit liability.

(k) Contingent Liabilities

Contingent losses are generally recognized as liability when probable and reasonably estimable.

(l) Income Taxes

Income tax on the earnings or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of earnings except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable earnings will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Derivatives

Forward foreign exchange contracts, currency swaps, interest rate swaps, etc. are valued principally at the fair value of rights or obligations associated with derivatives contracts as assets and liabilities. The gain realized or loss incurred from derivative transactions is recognized in current operations.

Forward foreign exchange contracts, which have been made to hedge foreign exchange receivables and payables in future, are classified as forward foreign exchange contracts for hedging purposes. Unrealized gain or loss on forward foreign exchange contracts for hedging purposes is deferred as capital adjustment. The deferred gain or loss will be credited or charged to income when related foreign exchange receivables and payables are settled.

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001

(n) Accounting for Leases and Rentals

The Company accounts for and classifies its lease transactions as either the operating or capital lease, depending on the terms of the lease under the Korean Lease Accounting Standards.

If a lease is substantially noncancellable and meets one or more of the criteria listed below, the present value of future minimum lease payments is reflected as an obligation under capital lease. Otherwise, it is classified as an operating lease with lease payments expensed as incurred.

- Ownership of the leased property shall be transferred to the lessee at the end of the lease term without additional payment or for a contract price.
- The lease has a bargain purchase option.
- The lease term is equal to 75% or more of the estimated economic useful life of the leased property.
- The present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90% of the fair value of the leased property.

In case of capital 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.

All costs and charges incurred in connection with acquiring lease assets by inception date of the lease are recorded as advance payments on operating lease assets or capital lease receivables.

Additionally, 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).

(o) Stock Options

The stock option program allows the Company's employees to acquire shares of the Company or to be compensated for the market price difference. In case of stock grant type, the Company values stock options based upon an option pricing model under the fair value method and recognizes this value as an expense and a capital adjustment over the period in which the options vest. In case of price compensation type, the Company recognizes the compensation express as an express and a liability over the period in which the options vest.

(p) Adoption of New Accounting Standard

The Company adopted the Statement of Korea Accounting Standards (SKAS) No. 6, "Events Occurring after the Balance Sheet Date", in preparation for financial statements as of and for the year ended December 31, 2002. The statement requires companies not to record dividends as liabilities in balance sheet, which are presented in the statement of appropriation of retained earnings, resulting in financial status presentation before appropriation of retained earnings in balance sheet. The adoption of SKAS No. 6 had no effects on earnings for the year ended December 31, 2002 and resulted in a decrease in liabilities and an increase in stockholders' equity, amounting to ₩157,492 million, respectively.

According to the adoption of the new statement, the Company amended the financial statements for the four-month period ended December 31, 2001, presented herein for comparative purposes, and its liabilities decreased and stockholders' equity increased, amounting to ₩150,812 million, respectively.

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(3) Standards applied for Preparing Consolidated Financial Statements

- (a) The investment account of the Controlling Company was offset against the stockholders' equity account of each subsidiary as of the date of acquisition.
- (b) The Company records differences between the cost of investment accounts and the corresponding fair value of subsidiaries' net assets at the time of acquisition as goodwill (negative goodwill) and those are amortized over certain periods, which are less than 20 years.
- (c) All significant inter-company transactions and account balances among the consolidated companies have been fully eliminated in consolidation.
- (d) 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 as of December 31, 2002 and 2001 are as follows:

	2002	2001
Goodmorning Shinhan Securities	₩ 3,679	709
Shinhan Capital	7,225	13,019
Jeju Bank	2,048	-
	₩ 12,952	13,728

- (e) Valuations in the investment account for by the equity method are as follows:

	2002					Total
	e-Shinhan	Shinhan Macquarie	Shinhan Credit Information	Shinhan System	Shinhan Reserach	
Beginning balance	₩ 4,673	776	-	1,864	158	7,471
Investment and dividend, net	-	(484)	3,000	-	(158)	2,358
Current earnings (loss) - valuation gain (loss) by the equity method	(806)	134	121	137-	-	(414)
Retained earnings	(1)	(3)	-	-	-	(4)
Capital adjustment - unrealized valuation gain (loss) by the equity method	26	-	-	-	-	26
Ending balance	₩ 3,892	423	3,121	2,001	-	9,437

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

	2001				Total
	e-Shinhan	Shinhan Macquarie	Shinhan System	Shinhan Reserach	
Beginning balance	₩ -	-	1,000	100	1,100
Investment and dividend, net	8,270	510	-	-	8,780
Current earnings (loss) - valuation gain (loss) by the equity method	(3,597)	266	143	(58)	(3,246)
Retained earnings	-	-	721	116	837
Ending balance	₩ 4,673	776	1,864	158	7,471

(4) Cash and Due from Banks

(a) Cash and due from banks as of December 31, 2002 and 2001 consist of the following:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Cash on hand in Won	₩ 903,183	808,995	\$ 752,402	673,938
Cash on hand in foreign currencies	55,994	42,925	46,646	35,759
Due from banks in Won	1,715,695	1,483,781	1,429,269	1,236,072
Due from banks in foreign currencies	142,262	19,456	118,512	16,208
Other	-	988	-	823
	₩ 2,817,134	2,356,145	\$ 2,346,829	1,962,800

(b) Restricted due from banks as of December 31, 2002 and 2001 are summarized as follows:

	2002	2001	Restrictions
Due from banks in Won:			
Reserve deposits in the Bank of Korea	₩ 749,928	382,839	General Banking Act
Due from banks for customers' accounts	495,500	142,880	Reserve for customers' deposits
Other	129,639	140,919	Deposits for retirement insurance and other
Due from banks in foreign currencies	74,976	65,118	Pledged for contract performance
	₩ 1,450,043	731,756	

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(c) The maturities of the due from banks by remaining period as of December 31, 2002 are summarized as follows:

Remaining period	Due from banks in Won	Due from banks in foreign currencies	Total
Due within 3 months	₩ 686,579	131,569	818,148
3 months ~ 6 months	35,531	6,002	41,533
6 months ~ 1 year	98,354	-	98,354
1 ~ 3 years	43,406	-	43,406
Due after 3 years	851,825	4,691	856,516
Total	₩ 1,715,695	142,262	1,857,957

(5) Trading and Investment Securities

(a) Securities as of December 31, 2002 and 2001 consist of the following:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Trading securities:				
Stocks	₩ 76,934	89,143	\$ 64,090	74,261
Government bonds	411,403	359,092	342,722	299,144
Finance debentures	636,852	1,011,714	530,533	842,814
Corporate bonds	749,940	593,095	624,742	494,081
Beneficiary certificates	127,874	65,944	106,526	54,935
Commercial paper	48,794	50,000	40,648	41,653
Trading securities in foreign currencies	24,522	28,931	20,428	24,101
Other	-	441	-	367
	2,076,319	2,198,360	1,729,689	1,831,356
Investment securities:				
Stocks	233,925	274,024	194,873	228,278
Investment in special fund	9,371	29,508	7,807	24,582
Government bonds	1,095,784	1,983,968	912,849	1,652,756
Finance debentures	2,322,575	2,262,200	1,934,834	1,884,538
Corporate bonds	6,408,934	6,546,329	5,338,999	5,453,456
Beneficiary certificates	2,432,095	1,171,508	2,026,071	975,932
Investment securities in foreign currencies	905,211	689,106	754,091	574,063
Other	3	5,561	2	4,632
	13,407,898	12,962,204	11,169,526	10,798,237
Total	₩ 15,484,218	15,160,564	\$ 12,899,215	12,629,593

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(b) Trading and investment debt securities as of December 31, 2002 and 2001 consist of the following:

	2002			
	Face value	Acquisition cost	Fair value(*)	Book value(**)
Trading securities:				
Government bonds	₩ 408,214	411,901	412,703	411,403
Finance debentures	657,650	635,289	638,807	636,852
Corporate bonds	741,096	751,686	750,718	749,940
	1,806,960	1,798,876	1,802,228	1,798,195
Investment securities:				
<Available-for-sale>				
Government bonds	547,446	541,301	586,886	556,279
Finance debentures	1,956,000	1,923,275	1,952,046	1,919,808
Corporate bonds	3,163,563	3,208,441	3,261,873	3,187,515
	5,667,009	5,673,017	5,800,805	5,663,602
<Held-to-maturity>				
Government bonds	543,903	532,735	622,457	539,505
Finance debentures	408,462	404,785	445,557	402,767
Corporate bonds	3,218,405	3,231,513	3,390,391	3,221,419
	4,170,770	4,169,033	4,458,405	4,163,691
	9,837,779	9,842,050	10,259,210	9,827,293
	₩ 11,644,739	11,640,926	12,061,438	11,625,488

(*) Debt securities are recorded at fair value using the market yield of bonds provided by the bond credit rating and pricing association.

(**) The difference between fair value and book value is recorded as accrued income.

	2001			
	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
	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	1,173,392	1,145,096	1,293,222	1,175,898
Finance debentures	624,250	610,460	707,408	623,013
Corporate bonds	3,661,179	3,672,186	3,838,493	3,669,227
Other	3,018	3,013	3,271	3,018
	5,461,839	5,430,755	5,842,394	5,471,156
	10,787,557	10,723,162	10,811,335	10,798,058
	₩ 12,878,005	12,815,745	12,898,313	12,761,959

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(c) Investment equity securities as of December 31, 2002 and 2001 consist of the following:

	2002			
	Ownership (%)	Acquisition cost	Net asset or fair value	Book value
Investment equity securities by the equity method:				
e-Shinhan	73.67	₩ 4,673	3,892	3,892
Shinhan Macquarie	51.00	510	423	423
Shinhan Credit Information	100.00	3,000	3,121	3,121
Shinhan System	100.00	1,000	2,001	2,001
		9,183	9,437	9,437
Other:				
Saehan	2.45	2,248	2,144	2,144
Korea Securities Finance	3.39	11,573	14,645	11,573
Hanwha ITMC	4.50	1,350	1,419	1,419
ECN Securities	6.25	1,600	1,468	1,600
ShinDongBang	2.74	1,987	928	928
Shinwon	3.29	7,260	2,578	2,578
Handsome	1.48	3,533	2,269	2,269
Hyundai Construction	2.69	65,364	20,982	20,982
SK Telecom	0.04	4,822	7,718	7,718
INTEC Telecom	4.03	2,438	768	2,438
Hyundai Petrochemical	5.34	9,244	41,313	9,244
Other		205,017	182,477	161,595
		316,436	278,709	224,488
		325,619	288,146	233,925
Investment in special fund:				
Stock Market Stabilization Fund		4,835	5,936	5,936
Other		3,435	3,562	3,435
		8,270	9,498	9,371
		₩ 333,889	297,644	243,296

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

	2001			
	Ownership (%)	Acquisition cost	Net asset or fair value	Book value
Investment equity securities by the equity method:				
e-Shinhan	73.67	₩ 8,270	4,673	4,673
Shinhan Macquarie	51.00	510	776	776
Shinhan System	99.99	1,000	1,864	1,864
Shinhan Research	50.00	100	158	158
		9,880	7,471	7,471
Other:				
Shinwon	5.92	1,108	7,815	7,815
Ssangyong Construction	6.78	21,082	4,099	4,099
Hyundai Construction	2.84	67,971	44,182	44,182
Kia Motors	0.42	11,548	14,531	14,531
Anam Semiconductor	1.99	14,556	12,644	12,644
Hyundai Petrochemical	4.97	14,005	26,475	26,475
Shinsegi Telecom	0.49	11,512	2,329	11,512
Other		189,848	147,971	157,765
		340,630	260,046	266,553
		350,510	267,517	274,024
Investment in special fund:				
Stock Market Stabilization Fund		23,643	24,017	24,014
Korea Stock Exchange		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

(d) The maturity of investment debt securities classified as held-to maturity by remaining period as of December 31, 2002 are summarized as follows:

Remaining period	Government bonds	Finance debentures	Corporate bonds	Total
Due within 3 months	₩ 354	82,160	53,021	135,535
3 months ~ 6 months	476	66,650	91,340	158,466
6 months ~ 1 year	65,171	57,672	1,301,399	1,424,242
1 ~ 3 years	301,321	146,381	1,119,998	1,567,700
Due after 3 years	172,183	49,904	655,661	877,748
	₩ 539,505	402,767	3,221,419	4,163,691

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(e) Investment securities in foreign currencies classified by issuing country as of December 31, 2002 are as follows:

	Foreign currency	Equivalent Won	Ratio (%)
Korea	\$ 476,202.57	₩ 571,634	63.15
U.S.A	99,712.41	119,695	13.22
Malaysia	11,640.29	13,973	1.54
Indonesia	2,800.00	3,361	0.37
Philippines	6,364.55	7,640	0.85
Germany	12,561.65	15,079	1.67
Japan	3,189.77	3,829	0.42
Other	141,620.31	170,001	18.78
	\$ 754,091.55	₩ 905,212	100.00

(6) Loans

(a) Loans outstanding as of December 31, 2002 and 2001 consist of the following:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Loans in Won	₩ 31,287,787	23,071,054	\$ 26,064,468	19,219,472
Loans in foreign currencies	3,489,504	3,114,850	2,906,951	2,594,843
Domestic import usance bills	1,154,569	10,840	961,820	9,030
Call loans	610,606	1,897,650	508,669	1,580,848
Korean Won bills bought	2,162,547	2,061,137	1,801,522	1,717,042
Foreign currency bills bought	2,263,872	1,877,234	1,885,931	1,563,840
Payments on guarantees and acceptances	89,657	46,783	74,689	38,973
Credit card accounts	2,795,865	2,093,272	2,329,111	1,743,812
Bonds purchased under repurchase agreement	-	6,631	-	5,524
Privately placed bonds	1,484,356	1,136,410	1,236,551	946,693
Factoring receivables	63,627	31,817	53,005	26,505
Loans convertible into equity securities	6,504	125,355	5,418	104,428
Financing lease receivables	610,488	549,423	508,570	457,700
Receivables from cancelled financing lease	10,939	-	9,113	-
Other	17,706	13,434	14,750	11,191
	46,048,027	36,035,890	38,360,568	30,019,901
Less: Allowance for loan losses	(785,773)	(642,744)	(654,592)	(535,441)
Present value discounts	(17,894)	(21,775)	(14,906)	(18,140)
	₩ 45,244,360	35,371,371	\$ 37,691,070	29,466,320

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(b) The maturities of loans by remaining period as of December 31, 2002 are as follows:

Remaining period	Loans in Won	Loans in foreign currencies	Other	Total
Due within 3 months	₩ 4,970,286	393,060	6,373,742	11,737,088
3 months ~ 6 months	4,393,858	699,390	811,375	5,904,623
6 months ~ 1 year	8,379,063	1,332,252	878,332	10,589,647
1 ~ 3 years	11,489,933	452,397	138,3218	13,325,548
Due after 3 years	3,382,075	612,405	495,243	4,489,723
	₩ 32,615,215	3,489,504	9,941,910	46,046,629

(*) Loans in Won include ₩1,328,826 million of discounted bills bought in Won and exclude ₩1,398 million of loans in trust accounts of Jeju Bank as of December 31, 2002.

(c) Loan classified by country as of December 31, 2002 are as follows:

	2002				
	Loans in Won	Loans in foreign currencies	Other loans	Total	Ratio(%)
Korea	₩ 32,615,215	2,820,291	9,696,621	45,132,127	98.01
U.S.A	-	7,124	30,010	37,134	0.08
U.K.	-	-	1,059	1,059	-
Japan	-	628,671	-	628,671	1.37
Germany	-	12,004	60,020	72,024	0.16
Italy	-	-	60,020	60,020	0.13
Canada	-	-	7,923	7,923	0.02
Austria	-	-	42,014	42,014	0.09
Ireland	-	-	24,008	24,008	0.05
Indonesia	-	16,148	-	16,148	0.04
Thailand	-	3,204	-	3,204	0.01
Vietnam	-	1,041	-	1,041	-
Hongkong	-	-	20,235	20,235	0.04
Singapore	-	1,021	-	1,021	-
	₩ 32,615,215	3,489,504	9,941,910	46,046,629	100.00

(*) Loans in Won include ₩1,328,826 million of discounted bills bought in Won and exclude ₩1,398 million of loans in trust accounts of Jeju Bank as of December 31, 2002.

(d) Loans classified by consumer as of December 31, 2002 are as follows:

	Loans in Won	Loans in foreign currencies	Other	Total	Ratio (%)
Corporate	₩ 15,945,862	3,427,197	7,410,254	26,783,313	58.17
Household	16,538,978	45,938	2,225,690	18,810,606	40.85
Public and other	130,375	16,369	305,966	452,710	0.98
	₩ 32,615,215	3,489,504	9,941,910	46,046,629	100.00

(*) Loans in Won include ₩1,328,826 million of discounted bills bought in Won and exclude ₩1,398 million of loans in trust accounts of Jeju Bank as of December 31, 2002.

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(e) Restructured loans due to commencement of bankruptcy proceedings, composition proceedings or workout programs during the year ended December 31, 2002 are as follows:

	Composition	Bankruptcy proceedings	Workout	Total
Equity securities converted from loans	₩ 6,793	1,905	663	9,366
Conversion of convertible bonds	-	-	493	493
Reduction in interest rate	3,436	2,094	14,779	20,309
Balances before restructuring	10,229	3,999	15,940	30,168
Balances after restructuring	3,550	1,151	13,284	17,985
Loss resulting from restructuring	₩ 6,679	2,848	2,656	12,183

(f) Sale of non-performing loans

Pursuant to asset securitization plans, Shinhan Bank (“the Bank”) sold non-performing loans of ₩79,955 million (including ₩2,121 million on Trust account) through issuing asset backed securities, for the year ended December 31, 2002. In respect of these sales, the Bank recognized gains of ₩11,705 million (including ₩ 1,406 million on Trust accounts) and a losses of ₩7,999 million (including ₩465 million in the Trust accounts), respectively, and it recorded ₩24,879 million of impairment losses on subordinated debentures, which the Bank assumed through securitization plans. In addition, as of December 31, 2002, the Bank has provided ₩20,000 million of securities as collateral and ₩56,000 million of reselling rights for the purpose of credit enhancement in relation to the asset securitization plans.

(g) Changes in allowance for losses on loans, accounts receivable and accrued income for the year ended December 31, 2002 and for the four-month period ended December 31, 2001, are as follows:

	2002		
	Beginning balance	Increase (Decrease)	Ending balance
The Company	₩ 1,472	2,374	3,846
Shinhan Bank	567,344	(1,500)	565,844
Shinhan Bank - Trust account	30,225	(6,202)	24,023
Shinhan Finance	3,949	(683)	3,266
Goodmorning Shinhan Securities (*)	48,854	479	49,333
Shinhan Card	-	96,104	96,104
Shinhan Capital (**)	102,454	(68,667)	33,787
Shinhan BNP Paribas ITMC	25	(15)	10
Jeju Bank (***)	26,952	2,366	29,318
Jeju Bank - Trust account	153	(11)	142
	₩ 781,428	24,245	805,673

(*) After reflecting additional allowance for losses of ₩3,679 million as of December 31, 2002

(**) After reflecting additional allowance for losses of ₩13,019 million and ₩7,225 million as of December 31, 2001 and 2002.

(***) After reflecting additional allowance for losses of ₩2,048 million as of December 31, 2002

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

	2001		
	Beginning balance	Increase (Decrease)	Ending balance
The Company	₩ -	1,472	1,472
Shinhan Bank	609,623	(42,279)	567,344
Shinhan Bank - Trust account	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 ITMC	18	7	25
	₩ 772,978	(51,839)	721,139

(*) Allowance for losses provided by each subsidiaries as of date of inception, September 1, 2001

(**) After reflecting additional allowance for losses and allowance for losses on disposition of lease assets as of December 31, 2001

(***) After reflecting additional allowance for losses as of December 31, 2001

(7) Fixed Assets

Fixed assets as of December 31, 2002 and 2001 consist of the following:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Tangible assets:				
Land	₩ 346,538	276,705	\$ 288,685	230,511
Buildings	465,484	291,013	387,774	242,430
Other	571,048	419,011	475,715	349,060
Less: Accumulated depreciation	(455,839)	(329,953)	(379,739)	(274,869)
	927,231	656,776	772,435	547,132
Intangible assets:				
Goodwill	161,542	-	134,573	-
Negative goodwill	(6,340)	-	(5,282)	-
Other	11,365	739	9,468	615
	166,567	739	138,759	615
	46	-	39	-
Other fixed assets	₩ 1,093,845	657,515	\$ 911,233	547,747

The officially declared value of land used in domestic branches at December 31, 2002 and 2001, as announced by the Minister of Construction and Transportation, is as follows:

	Book value		Declared value	
	2002	2001	2002	2001
Land	₩ 345,832	274,002	261,145	187,255

The officially declared value, which is used for government purposes, does not represent the fair value.

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(8) Other Assets

Other assets as of December 31, 2002 and 2001 consist of the following:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Accounts receivable	₩ 572,367	1,634,648	\$ 476,814	1,361,753
Advance payments	11,623	30,465	9,683	25,379
Prepaid expenses	24,863	13,383	20,712	11,149
Accrued income	465,140	584,711	387,488	487,097
Operating lease assets	177,678	153,944	148,015	128,244
Guarantee deposits paid	448,387	377,663	373,531	314,614
Deferred tax assets	102,052	18,049	85,015	15,036
Derivative assets	120,443	91,932	100,336	76,584
Investment assets	6,569	250	5,472	208
Other	298,676	70,513	248,814	58,741
	2,227,798	2,975,558	1,855,880	2,478,805
Less: Present value discounts	(614)	(978)	(511)	(815)
Allowance for losses	(19,752)	(77,080)	(16,455)	(64,211)
Accumulated depreciation on operating lease assets	(79,247)	(112,130)	(66,017)	(93,410)
Allowance for losses on disposition of lease assets	(147)	(1,316)	(123)	(1,097)
	(99,760)	(191,504)	(83,106)	(159,533)
	₩ 2,128,038	2,784,054	\$ 1,772,774	2,319,272

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(9) Lease Assets

Other assets as of December 31, 2002 and 2001 consist of the following:

(a) Operating lease assets

Operating lease assets classified by industry as of December 31, 2002 are summarized as follows:

	In millions of Korean won	In thousands of U.S. dollars (Note 2)
Mining	₩ 7,603	\$ 6,334
Manufacturing:	84,633	70,505
Food and beverages	14,678	12,228
Clothing and fabrics	5,580	4,648
Paper and publishing	25,654	21,371
Chemicals	21,296	17,741
Mining	1,236	1,030
Metal	214	178
Electrical components and equipment	7,658	6,380
Other manufacturing	8,317	6,929
Energy and gas	14,302	11,914
Construction	2,637	2,197
Retail / wholesale and lodging	6,236	5,195
Transportation and containers	20,507	17,083
Banking, insurance and other financing	77	64
Medical	14,266	11,884
Public and consumer services	27,417	22,840
	177,678	148,016
Less: Accumulated depreciation	(79,247)	(66,017)
Less: Allowance for losses on disposition of lease assets	(147)	(122)
	₩ 98,284	81,877

(b) The collection schedule of future lease receivables as of December 31, 2002, is as follows:

	Operating lease	Capital lease	Total
2003.01.01 ~ 2003.12.31	₩ 45,431	242,525	287,956
2004.01.01 ~ 2004.12.31	33,374	189,761	223,135
2005.01.01 ~ 2005.12.31	13,850	137,663	151,513
2006.01.01 ~ 2006.12.31	3,125	80,609	83,734
2007.01.01 ~ 2007.12.31	1,552	25,108	26,660
Thereafter	734	18,344	19,078
	98,066	694,010	792,076
Unrealized interest income on capital lease	-	(83,523)	(83,523)
	₩ 98,066	610,487	708,553

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(10) Deposits

(a) Deposits as of December 31, 2002 and 2001 consist of the following:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Korean Won deposits	₩ 33,851,353	29,714,108	\$ 28,200,061	24,753,506
Foreign currency deposits	2,094,331	1,809,261	1,744,694	1,507,215
Negotiable certificates of deposit	2,776,649	2,866,823	2,313,103	2,388,223
	₩ 38,722,333	34,390,192	\$ 32,257,858	28,648,944

(b) The maturities of deposits by remaining period as of December 31, 2002 is as follows:

Remaining period	Korean Won deposits (*)	Foreign currency deposits	Negotiable certificates of deposit	Total
Due within 3 months	₩ 10,113,071	1,101,437	1,719,391	12,933,899
3 months ~ 6 months	3,781,970	333,393	883,531	4,998,894
6 months ~ 1 year	9,132,488	304,313	115,654	9,552,455
1 ~ 3 years	2,084,954	355,187	58,073	2,498,214
Due after 3 years	8,723,824	-	-	8,723,824
	₩ 33,836,307	2,094,330	2,776,649	38,707,286

(*) Excluding ₩15,046 million of deposits in Jeju Bank's trust accounts

(11) Borrowings

(a) Borrowings as of December 31, 2002 and 2001 consist of the following:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Borrowings in Won	₩ 1,900,616	2,250,439	\$ 1,583,319	1,874,741
Borrowings in foreign currencies	4,670,846	3,208,201	3,891,075	2,672,610
Bonds sold with repurchase agreements	4,300,609	3,849,967	3,582,647	3,207,237
Bills sold	206,965	257,887	172,413	214,834
Due to the Bank of Korea in foreign currencies	75,285	139,085	62,716	115,865
Call money	197,493	343,822	164,523	286,423
	₩ 11,351,814	10,049,401	\$ 9,456,693	8,371,710

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(b) Details of subordinated borrowings as of December 31, 2002 and 2001 are as follows:

Lender	Date of contract	Maturity	Interest rate (%)	2002	2001
Hungkuk Life Insurance	1997.12.31	2007.12.31	7.0	₩ 40,000	40,000
Kyobo Life Insurance	1998.06.30	2008.06.30	5.5	30,000	30,000
Samsung Life Insurance	1997.10.31	2007.10.31	10.0	-	9,000
				₩ 70,000	79,000

(c) The maturities of borrowings as of December 31, 2002 are as follows:

Remaining period	Borrowings in Won	Borrowings in foreign currencies	Bonds sold with repurchase agreements	Other	Total
Due within 3 months	₩ 808,083	2,000,221	2,019,043	328,305	5,155,652
3 months ~ 6 months	41,731	1,029,718	1,102,900	120,531	2,294,880
6 months ~ 1 year	89,700	1,004,765	795,305	4,030	1,893,800
1 ~ 3 years	283,406	610,921	383,361	23,630	1,301,318
Due after 3 years	677,696	25,221	-	3,247	706,164
	₩ 1,900,616	4,670,846	4,300,609	479,743	11,351,814

(12) Debentures

(a) Debentures as of December 31, 2002 and 2001 consist of the following:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Korean Won debentures	₩ 8,331,629	3,708,036	\$ 6,940,710	3,089,000
Foreign currency debentures	469,236	367,936	390,900	306,511
Less: Discounts on debentures	(405,462)	(327,199)	(337,772)	(272,575)
	₩ 8,395,403	3,748,773	\$ 6,993,838	3,122,936

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(b) Details of Korean Won debentures as of December 31, 2002 and 2001 consist of the following:

	2002		2001	
	Face value	Interest rate (%)	Face value	Interest rate (%)
Discounted debentures	₩ 3,910,000	4.01~9.92	₩ 1,240,000	4.74~9.92
Compound interest debentures	-	-	100,000	5.00~7.10
Coupon debentures	2,674,425	5.43~11.46	525,552	6.30~11.46
Debentures with stock warrants (*)	299,064	15.0	299,064	15.0
Subordinated debentures	1,432,172	6.23~11.95	1,543,420	6.73~15.13
	8,315,661		3,708,036	
Loss on fair value hedge	(15,968)		-	
	₩ 8,331,629		₩ 3,708,036	

(*) Shinhan Bank's third series non-guaranteed and non-separable debentures with stock warrants issued on December 2, 1998 with an exercise price of ₩5,000 per share. In respect of the debentures, the Bank recorded ₩298,539 million and ₩298,606 million of discount on debentures as of December 31, 2002 and 2001, respectively. The exercise period will expire on December 2, 2003.

(c) Foreign currency debentures as of December 31, 2002 and 2001 are summarized as follows:

	2002					
	U.S. dollars (Note 2)	Equivalent Won	Interest rate (%)	U.S. dollars (Note 2)	Equivalent Won	Interest rate (%)
MTN (*)	\$ 354,000	₩433,224	4/Libor+0.2	\$ 275,000	₩ 367,936	Libor+0.33~2.6
Non-guaranteed debenture	30,000	36,012	Libor+0.85	-	-	
	\$ 384,000	₩469,236		\$ 275,000	₩367,936	

(*) Shinhan Bank established two programs with Merrill Lynch International Limited and other four financial institutions to issue Euro Medium Term Note (EMTN) on November 9, 1995 and Global Medium Term Note (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

Additionally, valuation gain (loss) on derivatives included in equivalent Won amount.

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(d) The maturities of debentures by remaining period as of December 31, 2002 are as follows:

Remaining period	Korean Won debentures	Foreign currency debentures	Total
Due within 3 months	₩ 1,514,887	-	1,514,887
3 months ~ 6 months	536,807	-	536,807
6 months ~ 1 year	2,138,065	193,144	2,331,209
1 ~ 3 years	2,042,179	276,092	2,318,271
Due after 3 years	2,099,691	-	2,099,691
Total	₩ 8,331,629	469,236	8,800,865

(13) Retirement and Severance Benefits

Changes in retirement and severance benefits for the year ended December 31, 2002 and the four-month period ended December 31, 2001 are summarized as follows:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Beginning balance	₩ 192,465	173,048	\$ 160,334	144,158
Adjustment due to consolidation scope	15,838	-	15,812	-
Adjustment due to foreign exchange rate	(6)	(10)	(5)	(8)
Payment	(56,765)	(10,033)	(47,289)	(8,358)
Provision (*)	73,657	29,460	58,742	24,542
Ending balance	225,189	192,465	187,594	160,334
Less: Contribution to National Pension Fund	(8,868)	(10,185)	(7,387)	(8,485)
Less: Due from insurer for severance benefits	(56,802)	(36,162)	(47,319)	(30,125)
	₩ 159,519	146,118	\$ 132,888	121,724

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(14) Other Liabilities

Other liabilities as of December 31, 2002 and 2001 consist of the following:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Allowance for losses on guarantees and acceptances	₩ 3,659	13,077	\$ 3,048	10,894
Other allowances	30,716	2,320	25,588	1,933
Borrowings from trust accounts	278,578	651,160	232,071	542,453
Foreign exchange remittances pending	158,937	82,304	132,404	68,564
Securities sold not yet purchased	-	12,461	-	10,381
Accounts payable	539,108	1,627,273	449,107	1,355,609
Accrued expenses	1,108,373	1,166,807	923,337	972,015
Income tax payable	172,343	9,881	143,571	8,231
Dividend payable	2,629	2,116	2,190	1,763
Advance receipts	6,056	8,284	5,045	6,901
Unearned revenues	87,414	79,145	72,821	65,932
Taxes withheld	76,096	36,946	63,392	30,778
Guarantee deposits received	149,729	92,634	124,733	77,169
Derivatives liabilities	112,677	104,985	93,866	87,458
Deferred income tax liabilities	262	33,671	218	28,050
Guarantee deposits for subscription	4,945	26,455	4,120	22,038
Miscellaneous	1,445,636	782,162	1,204,295	651,585
	₩ 4,177,159	4,731,681	\$ 3,479,806	3,941,754

(15) Guarantees and acceptances

(a) The guarantees and acceptances as of December 31, 2002 are as follows:

Guarantees and acceptances outstanding	
Guarantees and acceptances in Won:	
Guarantees for contract performance	₩ 99,936
Guarantees on loan collaterals	54,660
Guarantees on debentures	15,900
Other	273,656
	444,152
Guarantees and acceptances in foreign currencies:	
Acceptances on letters of credit	408,397
Acceptances for letters of guarantee for importers	101,381
Other	390,264
	900,042
Contingent guarantees and acceptances	
Letters of credit	1,939,913
Other	271,163
	2,211,076
	₩ 3,555,270

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(b) Outstanding commitments as of December 31, 2002 are as follows:

Commitments for loans in Won	₩ 2,213,114
Commitments for loans in foreign currencies	153,891
Other commitments in foreign currencies	72,098
	₩ 2,439,103

(c) The guarantees and acceptances provided by country as of December 31, 2002 are as follows:

	Guarantees and acceptances outstanding in				Contingent guarantees and acceptances	
	Won		Foreign currencies		Balance	Ratio (%)
	Balance	Ratio (%)	Balance	Ratio (%)		
Korea	₩ 444,152	100.00	₩ 859,427	95.49	₩ 2,073,762	93.79
U.S.A	-	-	193	0.02	102,108	4.62
Japan	-	-	36,844	4.09	23,105	1.04
U.K.	-	-	1,926	0.21	28	0.00
China	-	-	666	0.07	1,158	0.05
Vietnam	-	-	685	0.08	9,176	0.42
Australia	-	-	140	0.02	758	0.03
German	-	-	16	0.00	661	0.03
Other	-	-	145	0.02	320	0.01
	₩ 444,152	100.00	₩ 900,042	100.00	₩ 2,211,076	100.00

(d) The guarantees and acceptances provided by consumer as of December 31, 2002 are as follows:

	Guarantees and acceptances outstanding in				Contingent guarantees and acceptances	
	Won		Foreign currencies		Balance	Ratio (%)
	Balance	Ratio (%)	Balance	Ratio (%)		
Corporate	₩ 443,121	99.77	₩ 899,765	99.97	₩ 2,109,180	95.39
Household	959	0.22	235	0.03	540	0.02
Public and other	72	0.02	42	-	101,356	4.58
	₩ 444,152	100.00	₩ 900,042	100.00	₩ 2,211,076	100.00

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(e) The allowances for losses on guarantees and acceptances provided according to the same credit risk classifications on loans as of December 31, 2002 and 2001 are as follows:

	2002					
	Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Guarantees and acceptances in Won						
Balance	₩ 435,180	7,349	1,274	208	141	444,152
Allowances	-	-	255	199	141	594
Ratio (%)	-	-	20.00	95.00	100.00	0.13
Guarantees and acceptances in foreign currencies						
Balance	₩ 874,397	15,150	9,211	1,257	27	900,042
Allowances	-	-	1,842	1,195	27	3,064
Ratio (%)	-	-	20.00	95.00	100.00	0.34
2001						
	Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Guarantees and acceptances						
Balance	₩ 2,063,355	108,032	39,547	4,324	1,057	2,216,315
Allowances	-	-	7,911	4,109	1,057	13,077
Ratio (%)	-	-	20.00	95.00	100.00	0.58

(16) Pledged assets

Assets pledged as collateral as of December 31, 2002 and 2001 are summarized as follows:

Accounts	2002	2001
Government bonds	₩ 1,469,910	921,467
Cash and due from banks in Won	9,465	-
Trading securities	10,411	37,865
Investment securities	35,404	-
	₩ 1,525,190	959,332

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(17) Insured assets

Insured assets as of December 31, 2002 are summarized as follows:

Assets insured	Won
Cash	₩ 12,350
Tangible assets	544,195
Antiques	19,097
Other tangible assets	30,470
	₩ 606,112

In addition, the Company maintains fire insurance for its assets, key employees' indemnity insurance, worker's compensation insurance for its employees and other insurance policies covering loss and liability arising from accidents.

(18) Foreign Currency Denominated Assets and Liabilities

Assets and liabilities denominated in foreign currency as of December 31, 2002 and 2001 consist of the following:

	Foreign currency		Equivalent Won	
	2002	2001	2002	2001
Assets:				
Cash and due from banks	\$ 165,158	47,041	₩ 198,256	62,382
Trading securities	20,428	21,817	24,522	28,931
Investment securities	754,091	519,648	905,211	689,105
Loans	6,139,577	4,365,847	7,369,949	5,789,551
Other assets	43,554	32,845	52,283	43,556
Total	\$ 7,122,808	4,987,198	₩ 8,550,221	6,613,525
Liabilities:				
Deposits	\$ 1,744,693	1,364,348	₩ 2,094,330	1,809,261
Borrowings	4,147,803	2,609,386	4,979,021	3,460,307
Debentures	389,880	277,457	468,014	367,936
Other liabilities	151,299	107,618	181,618	142,711
Total	\$ 6,433,675	4,358,809	₩ 7,722,983	5,780,215

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(19) Consolidated Capital Adjustments

Consolidated capital adjustments as of December 31, 2002 and 2001 consist of the following:

	Foreign currency		Equivalent Won	
	2002	2001	2002	2001
Treasury stock				
Unrealized valuation gain (loss) on investment securities	\$ (391,299)	(394,475)	₩ (325,974)	(328,620)
Stock options	6,090	(335)	5,073	(279)
Cumulative effects of foreign currency translation	2,905	-	2,420	-
Total	2,508	-	2,089	-
Total	\$ (379,796)	(394,810)	₩ (316,392)	(328,899)

Above treasury stock is the Company's stock (29,874 thousand shares in 2002 and 29,873 thousand shares in 2001) possessed by Shinhan Bank, and it is planned to be disposed of in the near future.

(20) Stock Options

The stock options consist of the Company's stock options (₩3,004 million) which were granted to the personnel of the Company and its subsidiaries, and the subsidiaries' stock options ((-) ₩99 million) which were granted to the personnel of the subsidiaries, under a resolution at the Board of Directors' meeting. Details of the Company's stock options in effects as of December 31, 2002 are as follows:

(a) Details of the Company's stock options

	Personnel of the Company	Personnel of subsidiaries
Grant date	2002.05.22	2002.05.22
Shares granted	213,500 shares	790,700 shares
Type of stock options	Stock grant or price compensation	Stock grant or price compensation
Exercise price (Won)	₩ 18,910	₩ 18,910
Exercise period	Within 4 years after 2 years from grant date	Within 4 years after 2 years from grant date
Forfeited period	after 6 years from grant date	after 6 years from grant date

(b) Changes in stock compensation expense

	Personnel of the Company	Personnel of subsidiaries
Compensation expense recorded as of December 31, 2002	₩ 643	2,361
Compensation expense to be recorded in subsequent years	1,452	5,333

> Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(c) The Company calculated the compensation expenses using the fair value method for stock grant and details are as follows:

Risk-free interest rate	6.43%
Expected exercise period	4 years
Expected stock price volatility	27.13%
Expected dividend yield	0%
Expected ratios of no-exercise	0%
Weighted average exercise price	₩ 18,910
Weighted average fair value	₩ 9,812

(21) General and Administrative Expenses

General and administrative expenses for the year (period) ended December 31, 2002 and 2001 consist of the following:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Salaries and wages	₩ 345,683	114,429	\$ 287,973	95,326
Retirement benefits	73,657	29,462	61,361	24,544
Other employee benefits	144,229	71,592	120,151	59,640
Rent	30,073	12,947	25,052	10,785
Entertainment	8,720	4,341	7,264	3,617
Depreciation	89,064	55,753	74,195	46,445
Amortization	12,328	28	10,270	23
Taxes and public dues	36,395	12,872	30,319	10,723
Advertising	52,736	18,329	43,932	15,269
Other	148,874	50,876	124,020	42,383
	₩ 941,757	370,629	\$ 784,537	308,755

(22) Income Taxes

(a) The Company is subject to income taxes based on taxable earnings which result in the normal tax rate of 29.7%.

The components of income taxes for the year(period) ended December 31, 2002 and 2001 are summarized as follows:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Current	₩ 339,505	33,495	\$ 282,827	27,903
Deferred				
- tax effects of cumulative temporary differences	(85,456)	3,830	(71,190)	3,191
- tax effects of tax loss carry forwards	523	(7,446)	436	(6,203)
	(84,933)	(3,616)	(70,755)	(3,012)
	₩ 254,572	29,879	\$ 212,073	24,891

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

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

	2002			Ending balance
	Beginning balance	Increase	Decrease	
Deductible temporary differences:				
Valuation loss on trading securities	₩ 192,261	52,570	-	244,831
Impairment loss on investment securities	162,392	116,494	-	278,886
Allowance for losses on guarantees and acceptances	15,397	19,962	-	35,359
Valuation loss on securities accounted for by the equity method	19,737	160	-	19,897
Retirement and severance benefits	679	67,616	-	68,295
Bad debt expense	108,674	52,280	-	160,954
Troubled loans restructuring	11,609	-	3,365	8,244
Operating lease assets	25,647	-	4,252	21,395
Other	41,498	6,203	27,226	23,840
	577,894	315,285	31,478	861,701
Taxable temporary differences:				
Accrued income	333,979	-	98,382	235,597
Valuation gain on trading securities	257,876	-	237,439	20,436
Valuation gain on securities accounted for by the equity method	231,379	-	23,026	208,353
Valuation gain on derivatives	51	22,353	-	22,404
Other	59,686	267,465	41,918	285,233
	882,807	289,818	400,602	772,023
Net (*)	(304,913)	25,467	(369,124)	89,678
Addition/Deduction (**)				
Tax effects on Jeju Bank				(47,783)
Tax effects on SH&C Life Insurance				249
Valuation gain accounted for by the equity method	225,795			206,689
Realizable temporary differences	(79,118)			248,833
Tax effect of cumulative temporary difference	(23,498)			73,903
Tax effects of tax loss carryforwards (***)	7,877			27,886
Net deferred tax assets (liabilities) (****)	₩ (15,621)			101,789

(*) Temporary differences as of acquisition date on Jeju Bank and Goodmorning Shinhan Securities amounting to ₩10,884 million and ₩45,143 million, respectively, are included.

(**) Tax effects are not recognized because of uncertainty of realization in the near future.

(***) Tax effects of tax loss carryforwards as of acquisition date on Goodmorning Shinhan Securities amounting to ₩69,136 million is included.

(****) The amount consists of deferred tax asset of ₩102,051 millions and deferred tax liability of ₩262 million.

(*****) Shinhan Bank has an asset revaluation gain on land amounting to ₩77,448 million as of December 31, 2002. However, the tax effect is not recognized because of uncertainty of realization in the near future.

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

	2001			Ending balance
	Beginning balance	Increase	Decrease	
Deductible temporary differences:				
Valuation loss on trading securities	₩ 224,324	-	32,063	192,261
Impairment loss on investment securities	150,249	12,143	-	162,392
Allowance for losses on guarantees and acceptances	17,609	-	2,212	15,397
Valuation loss on securities accounted for by the equity method	38,267	-	18,530	19,737
Amount in excess of limit for allowance for loan losses	43,247	-	43,247	-
Bad debt expense	102,711	5,963	-	108,674
Troubled loans restructuring	21,892	-	10,283	11,609
Operating lease assets	25,647	-	-	25,647
Other	59,897	2,085	19,807	42,175
	683,843	20,191	126,142	577,892
Taxable temporary differences:				
Accrued income on trading securities	333,490	489	-	333,979
Valuation gain on trading securities	301,391	-	43,516	257,875
Valuation gain on securities accounted for by the equity method	38,015	-	32,431	5,584
Other	74,809	12,639	27,874	59,340
	747,705	13,128	103,821	657,012
Net	(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
Tax effect	₩ (19,239)	9,975	6,358	(15,622)

(*) Tax effects on valuation gain accounted for by the equity method are not recognized due to uncertainty of realization for each subsidiaries.

(**) The The Bank has an asset revaluation gain on land amounting to ₩ 77,448 million as of December 31, 2002. However, the tax effect is not recognized because of uncertainty of realization in the near future.

(c) Effective tax rate for the year(period) ended December 31, 2002 and 2001 is as follows:

	2002	2001
Earnings before income taxes	₩ 852,316	250,642
Income taxes	254,572	29,879
Effective income tax rate	29.87%	11.92%

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(23) Earnings Per Share

Earnings per common share is calculated by dividing net earnings by the weighted average number of shares of common stock outstanding. Consolidated earnings per share for the year ended December 31, 2002 and the four-month period ended December 31, 2001 are computed as follows:

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Net earnings	₩ 602,163,036,549	220,762,998,627	\$ 501,635,319	183,907,863
Plus: Extraordinary loss	-	508,043,901	-	423,229
Less: Income taxes on extraordinary loss	-	(156,477,522)	-	(130,354)
Ordinary income	602,163,036,549	221,114,565,006	501,635,319	184,200,737
Weighted average number of shares outstanding (share)	262,480,002	252,406,218	262,480,002	252,406,218
Ordinary income per share	2,294	876	1.91	0.73
Net earnings per share	₩ 2,294	875	\$ 1.91	0.73

(24) Dividends

(a) Cash dividends for the year ended December 31, 2002 and the four-month period ended December 31, 2001 are calculated as follows:

	2002	2001
Number of share issued and outstanding	292,361,125	292,344,192
Number of share issued and outstanding available for dividends	262,487,451	262,470,897
Face value per share	₩ 5,000	5,000
Dividend per share (dividend rate per par value)	600 (12%)	600 (12%)
Dividends	₩ 157,492,470,600	150,812,285,352

(b) Payout ratios and dividends yields as of December 31, 2002 and 2001 are calculated as follows:

	2002	2001
A.Dividends	₩ 157,492,470,600	150,812,285,352
B.Net earnings	603,930,621,631	220,762,998,627
C.Payout ratios (A ÷ B)	26.08%	68.31%
D.Dividend per share	600	600
E.Stock price	13,813	16,350
F.Price-dividends yields (D ÷ E)	4.34%	3.67%

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(25) Statements of Cash Flows

(a) Cash and cash equivalents as of December 31, 2002 and 2001 in statements of cash flows are equivalent to cash and due from banks on the balance sheets.

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

	In millions of Korean won		In thousands of U.S. dollars (Note 2)	
	2002	2001	2002	2001
Decrease in stockholders' equity due to acquisition of treasury stock by subsidiaries	₩ 63,939	-	\$ 53,265	-
Decrease in stockholders' equity due to merger between subsidiaries	40,110	-	33,414	-
Valuation gain (loss) on investment securities recorded as capital adjustments	(125,161)	335	(104,266)	279
Reclassification of trading securities to investment securities	214,006	2,575	178,279	2,145
Reclassification of loans to loans convertible into securities	73,905	125,273	61,567	104,359
Conversion of loans to investment securities	192,756	1,765	160,576	1,470
Increase in present value discount due to restructuring	-	4,538	-	3,780
Acquisition of equity in subsidiaries	-	3,438,371	-	2,864,354
Reclassification of advance payments to financing leases	-	183,953	-	153,243

(26) Derivatives

(a) Details of unsettled derivative instruments as of December 31, 2002 are as follows:

		2002		
		Purpose of transactions		
		Trading	Hedge	Total
Currency related	Forwards	₩ 3,732,439	-	3,732,439
	Swaps	645,577	24,080	669,657
	Call options	18,006	-	18,006
	Put options	24,008	-	24,008
		4,420,030	24,080	4,444,110
Interest related	Interest rate futures	378,499	4,308	382,807
	Interest rate options	20,000	-	20,000
	Interest rate swap	4,775,747	1,647,336	6,423,083
		5,174,246	1,651,644	6,825,890
Index related	St Stock price index futures	29,176	63,805	92,981
	Stock price index options	37,868	-	37,868
		67,044	63,805	130,849
		₩ 9,661,320	1,739,529	11,400,849

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(b) Valuation on trading and hedging derivative instruments as of and for the year ended December 31, 2002 are as follows:

	Valuation gain (losses)			Fair value	
	Trading	Hedging	Total	Assets	Liabilities
<Currency related>					
Forwards	₩ 21,184	-	21,184	51,731	32,412
Futures	537	-	537	-	-
Swaps	(2,457)	(4,417)	(6,874)	12,763	19,818
Put options	558	-	558	439	-
Sell options	(775)	-	(775)	-	743
	19,047	(4,417)	14,630	64,933	52,973
<Interest related>					
Interest rate options	12	-	12	146	146
Interest rate swap	(2,711)	11,797	9,086	54,915	57,538
	(2,699)	11,797	9,098	55,061	57,684
<Index related>					
Stock price index futures	(1,233)	-	(1,233)	449	1,648
Stock price index options	1,407	-	1,407	-	372
	184	-	184	449	2,020
	₩ 16,532	7,380	23,912	120,443	112,677

(c) Fair value of derivative instruments as of December 31, 2002 are as follows:

	Contract amount	Fair value	
		Assets	Liabilities
Hedging Swaps	₩ 578,771	₩ 7,142	17,955
Trading Forwards	2,796,549	10,434	18,215
Swaps	1,199,055	73,448	67,902
Options	155,154	908	913
	4,729,529	91,932	104,985

(27) Employees Benefits

The Company and its subsidiaries have provided housing loans of ₩87,674 million and ₩68,381 million to employees as of December 31, 2002 and 2001, respectively.

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(28) Commitments and Contingencies

(a) Guarantees and acceptances

Guarantees and acceptances and commitments as of December 31, 2002 are summarized as follows:

	In millions of Korean won	In thousands of U.S. dollars (Note 2)
Guarantees and acceptances outstanding	₩ 1,344,194	\$ 1,119,788
Contingent guarantees and acceptances	2,213,982	1,844,370
Commitments	2,439,103	2,031,909
Endorsed bills	14,318	11,928

(b) The Company and its subsidiaries pledged its 14 blank notes and 2 blank checks to financial institutions as collateral for borrowings.

(c) Litigation

As of December 31, 2002, the Company and its subsidiaries has 84 pending lawsuits as a defendant (total amount: ₩293,351 million). The Company's management expects that ultimate liability and significant losses as a result of these lawsuits would not materially effect their financial position.

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

As of December 31, 2002, the Company and its subsidiaries are holding loans (including guarantees) provided to and securities issued by companies involved in bankruptcy proceedings, composition proceedings or workout programs with creditors amounting to ₩379,476 million. The Company recorded an allowance for losses on these loans and incurred 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 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.

(e) Loans and securities related to economically troubled countries

As of December 31, 2002, Shinhan Bank is holding loans (including guarantees) and securities amounting to ₩39,583 million (\$32,975 thousand), which were provided to or issued by the companies in Indonesia, Russia and other economically troubled countries. Shinhan Bank recorded an allowance 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.

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(f) Loans sold under repurchase agreements to Korea Asset Management Corporation

During the year ended December 31, 2002, Shinhan and Jeju Bank repurchased loans which were transferred to the Korea Asset Management Corporation (KAMCO) in previous years amounting to ₩379,500 million. In addition, Shinhan and Jeju Bank has outstanding loans, which are subject to be repurchased when certain conditions are met, amounting to ₩63,600 million on bank accounts and ₩13,700 million on trust accounts. Related to these outstanding loans, Shinhan and Jeju Bank established an allowance for loan losses amounting to ₩24,900 million. However, additional gains or losses will be recorded upon repurchase of or settlement for the loans by KAMCO in accordance with the recourse provisions.

(g) Subsidy for Trust accounts

As of December 31, 2002, Shinhan Bank and Jeju Bank guarantees repayment of principal and, in certain cases, minimum interest earnings on trust account assets amounting to ₩1,576,700 million and ₩1,600 million, respectively. Additional gains or losses will be recorded based upon the results of the future operations of these guaranteed trust accounts.

(h) Lease contracts

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 expense are expected to amount to \$12,695 thousand and \$11,185 thousand, respectively, in the period from year 2002 to year 2008. 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.

(i) Securitization

During the year ended December 31, 2002 and 2001, Shinhan Bank sold ₩197,441 million of loans through issuing asset backed securities, and in relation to those sales, the Bank provided ₩56,000 million of reselling rights for the purpose of credit enhancement. Additional losses may be recorded upon exercising reselling rights in accordance with these securitization plans.

(j) Loans related to SK Global Co., Ltd.

Shinhan Bank is holding ₩ 461,867 million of loans (including guarantees and acceptances) provided to SK Global Co., Ltd. that confirmed its accounting fraud. Actual losses on these loans may differ materially from the management's assessments. The accompanying consolidated financial statements do not reflect the impact of the uncertainty on the financial position of the Company and its subsidiaries.

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(29) Significant Transactions among Consolidated Companies

Significant transactions and account balances among consolidated companies for the year(period) ended December 31, 2002 and 2001 are as follows:

(a) Significant transactions

Revenue	Expense	Account	2002	2001
The Company	Shinhan Bank	Interest income	₩ 5,581	113
"	Jeju Bank	Interest income	1,000	-
"	Shinhan Capital	Interest income	15,006	634
"	Shinhan Card	Interest income	925	-
"	Goodmorning	Interest income	2,158	-
	Shinhan Securities			
Shinhan Bank	The Company	Rental income	2	-
"	Shinhan Capital	Interest income	6,055	6,820
"	"	Rental income	271	-
"	"	Derivatives related gains	64	-
"	"	Fees and commission income	-	1
"	Jeju Bank	Interest income	238	-
"	Goodmorning	Interest income	1,414	359
	Shinhan Securities			
"	"	Rental income	21	-
"	Shinhan Card	Interest income	786	-
"	"	Fees and commission income	55,271	-
"	"	Rental income	468	-
"	Shinhan Bank (Trust)	Fees on trust accounts	82,270	81,000
"	Shinhan Finance	Interest income	6,848	10,065
Shinhan Finance	Shinhan Bank	Interest income	2,224	5,665
Goodmorning	"	Interest income	257	191
Shinhan Securities				
"	Shinhan Card	Rental income	5	-
Shinhan Card	Shinhan Bank	Interest income	491	-
"	Goodmorning	Interest income	106	-
	Shinhan Securities			
Shinhan Capital	Shinhan Bank	Interest income	150	64
"	"	Valuation gain on currency swap	2,468	-
Shinhan BNP Paribas ITMC	"	Interest income	380	373
"	"	Fees and commission income	41	-
Jeju Bank	"	Interest income	83	-
"	Jeju Bank (Trust)	Fees on trust accounts	1,322	2,580
SH&C Life Insurance	Shinhan Bank	Interest income	180	-

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(b) Account balances

Revenue	Expense	Account	2002	2001
The Company	Shinhan Bank	Bank deposits	₩ 10,613	712
"	"	Guarantee deposits	6,902	5,331
"	"	Privately placed debentures	50,000	50,000
"	"	Long-term receivables	2,171	-
"	"	Accrued income	123	103
"	Goodmorning	Privately placed debentures	130,000	-
"	Shinhan Securities			
"	"	Accrued income	134	-
"	Shinhan Card	Loans	200,000	-
"	"	Accrued income	925	-
"	Shinhan Capital	Loans	369,127	97,200
"	"	Long-term receivables	190	-
"	"	Accrued income	2,965	634
"	Jeju Bank	Privately placed debentures	20,000	-
"	"	Accrued income	186	-
Shinhan Bank	Shinhan Capital	Loans	37,959	89,159
"	"	Securities	-	100,000
"	"	Accrued income	133	-
"	Goodmorning	Privately placed debentures	70,000	-
"	Shinhan Securities			
"	"	Accrued income	1,047	-
"	"	Guarantee deposits	530	-
"	Shinhan Card	Call loans	7,500	-
"	Jeju Bank	Privately placed debentures	3,140	-
"	Shinhan Bank (Trust)	Accrued income	122,927	59,233
Shinhan Bank (Trust)	Shinhan Bank	Borrowing from trust accounts	82,179	205,383
Shinhan Bank	Shinhan Finance	Loans	314,756	188,041
Goodmorning	Shinhan Bank	Due from bank	11,908	4,696
Shinhan Securities				
"	"	Guarantee deposits	5,526	-
"	"	Accrued income	252	-
Shinhan Card	"	Guarantee deposits	387	-
"	Goodmorning	Guarantee deposits	3,289	-
"	Shinhan Securities			
Shinhan Capital	Shinhan Bank	Short-term financial instruments	16,666	7,454
"	"	Trading securities	-	19,448
"	"	Currency swap	2,000	-
"	"	Guarantee deposits	418	-
Shinhan BNP Paribas ITMC	"	Bank deposits	8,985	11,858
"	"	Accrued income	-	87
"	Goodmorning	Guarantee deposits	850	850
"	Shinhan Securities			
Jeju Bank	Shinhan Bank	Call loans	4,922	-
Jeju Bank (Trust)	Jeju Bank	Borrowings from trust accounts	36,262	11,240
SH&C Life Insurance	Shinhan Bank	Cash and cash equivalents	12,327	-
Shinhan Finance	"	Loans	274,306	122,348

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(c) Guarantees and acceptances

Guarantor	Guarantee	Guarantees and acceptances provided on	2002	2001
Shinhan Bank	Shinhan Capital	Letter of credit	₩ 12,470	17,904
"	Shinhan Finance	Loans	11,817	-
Goodmorning	Good Morning	Contracts	14,405	-
Shinhan Securities	Securities USA			
			₩ 38,692	17,904

(30) Condensed Financial Statements of Consolidated Companies

Condensed financial statements of the Company and its subsidiaries as of December 31, 2002 and 2001 are as follows:

(a) Balance sheets

Subsidiaries	2002		
	Total assets	Total liabilities	Total stockholders' equity
The Company	₩ 4,784,979	774,759	4,010,220
Shinhan Bank	58,889,402	56,028,924	2,860,478
Shinhan Bank – Trust account	1,742,131	1,742,131	-
Shinhan Finance	513,726	446,894	66,832
Goodmorning Shinhan Securities	1,570,244	982,268	587,976
Good Morning Securities Europe	3,942	56	3,886
Good Morning Securities USA	9,462	1,980	7,482
Shinhan Card	2,473,694	2,226,234	247,460
Shinhan Capital	960,234	876,551	83,683
Shinhan BNP Paribas ITMC	47,081	1,918	45,163
Jeju Bank	1,800,648	1,699,577	101,071
Jeju Bank – Trust accounts	16,045	16,045	-
SH&C Life Insurance	29,738	478	29,260
	₩ 72,841,326	64,797,815	8,043,511

Subsidiaries	2001		
	Total assets	Total liabilities	Total stockholders' equity
The Company	₩ 3,955,981	356,737	3,599,244
Shinhan Bank	53,356,042	50,185,114	3,170,928
Shinhan Bank – Trust account	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 ITMC	45,171	2,613	42,558
	₩ 61,916,947	54,731,622	7,185,325

Notes to Consolidated Financial Statements

Year ended December 31, 2002 and four-month period ended December 31, 2001 (In millions of Korean won and thousands of U.S. dollars)

(b) Statements of Earnings

Subsidiaries	2002				
	Operating revenue	Operating expense	Operating income	Ordinary income (loss)	Net earning (loss)
The Company	₩ 643,360	41,141	602,219	603,931	603,931
Shinhan Bank	4,821,339	3,888,932	932,407	842,993	595,866
Shinhan Bank (Trust accounts)	133,114	131,452	1,662	-	-
Shinhan Finance	22,385	14,692	7,693	8,171	8,171
Goodmorning Shinhan Securities	482,873	474,722	8,151	11,845	31,624
Goodmorning Securities Europe	703	1,544	(841)	(849)	(849)
Good Morning Securities USA	9,703	7,984	1,719	1,516	1,516
Shinhan Card	228,954	228,213	741	798	504
Shinhan Capital	152,314	139,302	13,012	10,988	7,635
Shinhan BNP Paribas ITMC	12,773	6,312	6,461	6,066	4,605
Jeju Bank	145,558	129,404	16,154	12,502	12,502
Jeju Bank – Trust accounts	1,165	1,859	(694)	-	-
SH&C Life Insurance	338	1,243	(905)	(905)	(905)
	₩ 6,654,579	5,066,800	1,587,779	1,497,056	1,264,600

(*) For the period from April 1, 2002 to December 31, 2002

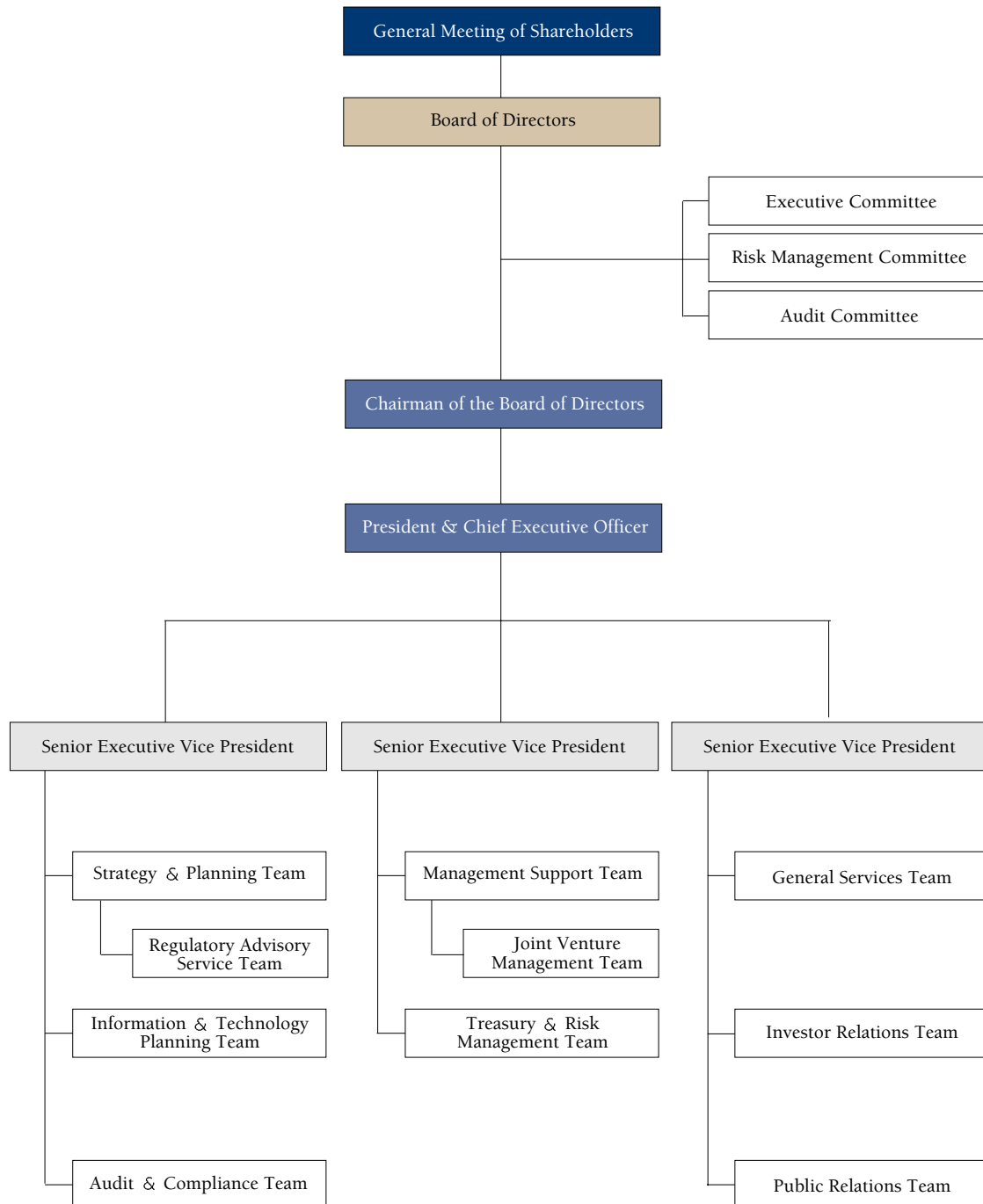
Subsidiaries	2001				
	Operating revenue	Operating expense	Operating income	Ordinary income (loss)	Net earning (loss)
The Company	₩ 226,542	5,780	220,762	220,763	220,763
Shinhan Bank	2,290,062	2,185,158	104,903	120,610	86,902
Shinhan Bank – Trust accounts	111,350	110,062	1,288	-	-
Shinhan Finance	13,449	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 ITMC	5,696	2,567	3,130	3,129	1,316
	₩ 2,850,984	2,506,166	344,818	362,072	331,684

(31) Economic Environment

In response to general unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, 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 Company and its subsidiaries may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying consolidated financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company and its subsidiaries. Actual results may differ materially from management's current assessments.

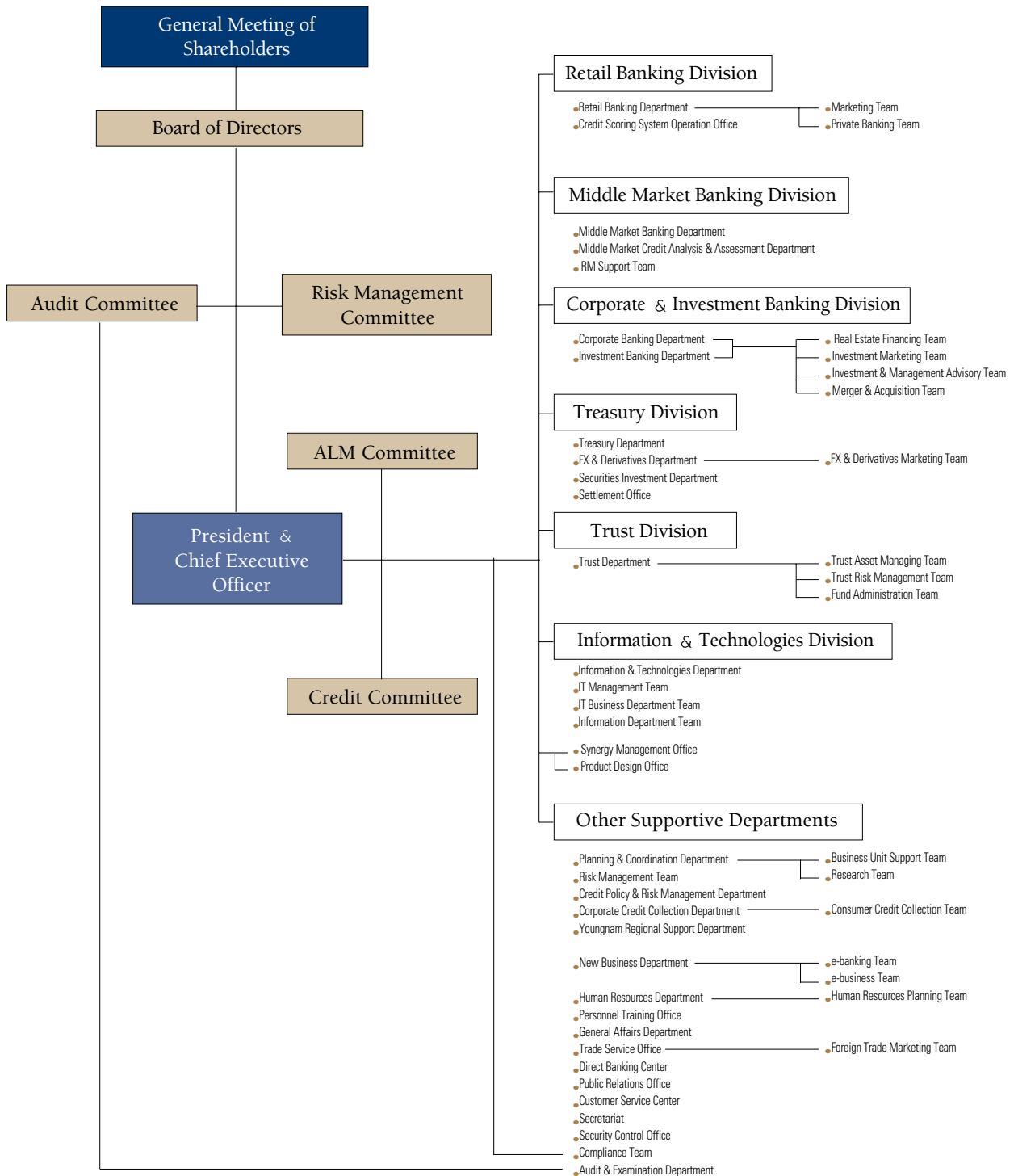
> ORGANIZATION CHART

(Shinhan Financial Group)



ORGANIZATION CHART

(Shinhan Bank)



> DIRECTORY

(Shinhan Bank)

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Yong-Sup Yoon
General Manager

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Myung-Chul Kim
Managing Director

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Man-Ki Hong
General Manager

> Executive Officers and Outside Directors

SHINHAN FINANCIAL GROUP

<Executive Officers>

Eung-Chan Ra
Chairman

Young-Hwi Choi
President & Chief Executive Officer

Bhang-Gil Choi
Senior Executive Vice President

Min-Ki Han
Senior Executive Vice President

Youn-Soo Song
Senior Executive Vice President

<Outside Directors>

In-Ho Lee
Director

Young-Seok Choi
Director

Jae-Kun Yoo
Director

Young-Soo Lee
Director

Myung-Ho Kim
Director

Byung-Joo Kim
Director

Il-Sup Kim
Director

Byung-Hun Park
Director

Moon-Pil Oh
Director

Kun-Chi Kim
Director

Pyung-Jo Park
Director

Young-Chul Kwon
Director

Alain Pénicaut
Director

SHINHAN BANK

<Executive Officers>

Sang-Hoon Shin
President and Chief Executive Officer

Hong-Soon Moon
Director and Standing Auditor

Jae-Woo Lee
Deputy President

Joong-Ok Huh
Deputy President

Sahng-Dae Kim
Deputy President

Gwang-Lim Youn
Deputy President

Woo-Sup Cho
Deputy President

Hee-Soo Kim
Deputy President

Do-Heui Han
Deputy President

Christopher Shin
Executive Vice President

Dae-Woon Lee
Executive Vice President

<Outside Directors>

Young-Hwi Choi
Director

Jung-Bo Lee
Director

Kap-Young Jeong
Director

Bhang-Gil Choi
Director

Kyung-Suh Park
Director

GOODMORNING SHINHAN SECURITIES

<Executive Officers>

Woo-Keun Lee
Vice-chairman

Ki-Kwon Doh
President and CEO

Sung-No Lee
Audit Committee Director

Keun-Mo Lee
Senior Executive Vice President

Jong-Kil Park
Senior Executive Vice President

Dae-Suk Kang
Senior Executive Vice President

Hyeon-Jae Han
Senior Executive Vice President

Chae-Young Jung
Senior Executive Vice President

Hong-Shik Kim
Senior Executive Vice President

<Outside Directors>

Eung-Chan Ra
Director

Bhang-Gil Choi
Director

Alain Pénicaut
Director

Dae-Ryun Chang
Director

Chang-Young Chung
Director

SHINHAN CARD

<Executive Officers>

Sung-Kyun Hong
President and Chief Executive Officer

Tae-Gyu Lee
Director and Standing Auditor

Seong-Won Kim
Deputy CEO

Woo-Yeop Shim
Deputy CEO

Moon-Han Kim
Deputy CEO

<Outside Directors>

Hee-Moon Kang
Director

Byung-Duck Kim
Director

Byung-Kook Song
Director

Chul-Young Lee
Director

Min-Ki Han
Director

SHINHAN BNP PARIBAS ITMC

<Executive Officers>

Richard Valenti
President and Chief Executive Officer

Nam-Hoon Paik
Statutory Auditor

Michel-Henry Masoin
Deputy CEO

Ludovic Le Touze
Deputy CEO

Seong-Yeon Won
Senior Executive Vice President

<Outside Directors>

Guy De Froment
Director

Frank Goasguen
Director

Po-Kil Paik
Director

Bhang-Gil Choi
Director

Byung-Kook Song
Director

Dong-Hwan Lee
Director

SHINHAN CAPITAL

<Executive Officers>

Dong-Girl Lee
President and Chairman

Yun-Kang Jung
Vice President

Myoung-Kee Jang
Vice President

<Outside Directors>

Woong-Man Son
Auditor

Youn-Soo Song
Director

Byung-Kook Song
Director

JEJU BANK

<Executive Officers>

Kook-Joo Kim
Chairman and President

Woong-Jin Chung
Director & Auditor

Seo-Kyu Chang
Deputy President

Tae-Sang Moon
Executive vice president

<Outside Directors>

Bhang-Gil Choi
Director

Hyung-Joon Song
Director

Soon-Woo Hong
Director

Si-Jong Kim
Director

Hyang-Jin Huh
Director

Young-Jin Rhee
Director

SHINHAN MACQUARIE FINANCIAL ADVISORY

<Executive Officers>

John William Walker
President and Chief Executive Officer

<Outside Directors>

Young-Han Kim
Director

In-Cheol Park
Director

Byung-Shik Jang
Auditor

Simon Clow
Director

SH & C LIFE INSURANCE

<Executive Officers>

François Xavier Hussenot
Chief Executive Officer

Jean Patrick Simon
Deputy CEO

Oeih-Hwan Cha
Auditor

<Outside Directors>

Do-Heui Han
Director

Byung-Kook Song
Director

Dong-Hwan Lee
Director

Gerard Binet
Director

E-SHINHAN

<Executive Officers>

Seong-Yoon Kim
President and Chief Executive Officer

<Outside Directors>

Sang-Young Oh
Auditor

In-Kyu Lee
Director

Byung-Kook Song
Director

SHINHAN CREDIT INFORMATION

<Executive Officers>

Beom-Seong Shin
Chief Executive Officer

<Outside Directors>

Byung-Shik Jang
Auditor

Jeum-Joo Gweon
Director

Young-Kyu Hwang
Director

> Status Regarding the Group's Shares

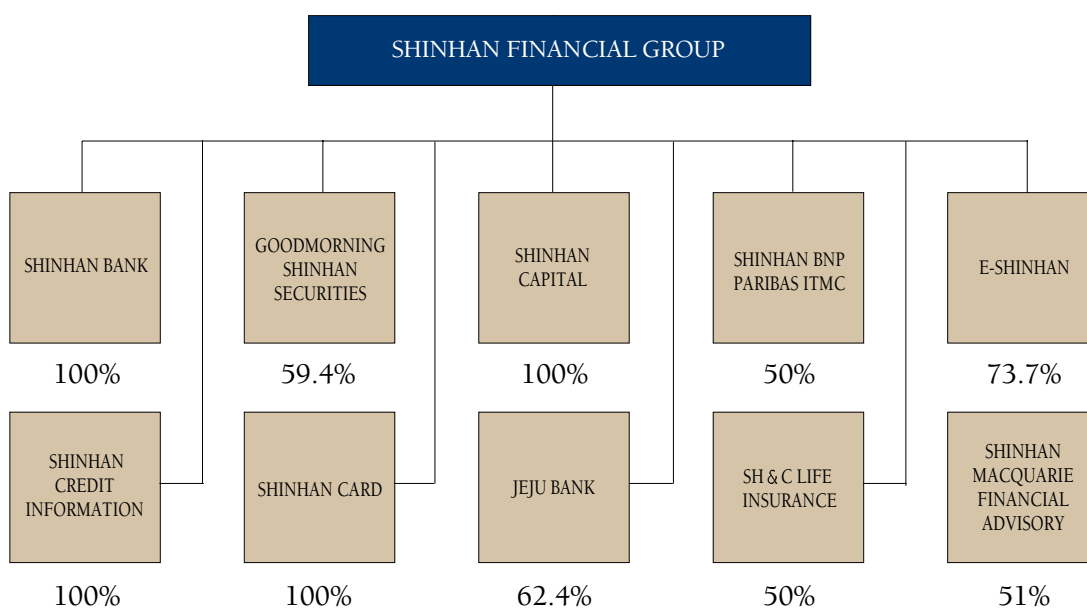
TYPES AND VOLUME OF SHARES ISSUED

Stock Type	Number of Shares Issued	Value
Registered common stocks	292,361,125	1,462billion won

SFG OWNERSHIP STRUCTURE

Single Shareholder	No. of Shares Held	Ownership Stake
Shinhan Bank	29,873,674	10.2%
Citibank. N. A.	13,576,770	4.6%
BNP Paribas	11,693,767	4.0%
National Pension Fund	7,302,985	2.5%
JPMCB	4,520,310	1.5%
Daekyo	4,594,549	1.6%
Others	220,799,070	75.6%
Total	292,361,125	100%

> Ownership of Subsidiaries





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