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2003 ANNUAL REPORT

# JUST THE BEGINNING

Building our way to becoming the financial leader through One-Portal network.

# THE BEST IS YET TO COME



## RELY ON SFG

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## Rely on SFG to build enterprise value through the synergy of our One-Portal network.

Shinhan Financial Group Co., Ltd. (SFG) is Korea's first financial holding company that delivers comprehensive financial solutions through a powerful One-Portal network to meet all of our customers' financial needs. Our subsidiaries offer quality financial products and services in commercial banking, credit card, private banking, asset management, investment banking, brokerage and insurance.

As of December 31, 2003, SFG reported KRW 160 trillion in total assets, over 10 million active customers, and 970 network branches nationwide. In addition, SFG has 21 offices in nine countries, including the U.S., the U.K., Japan, China, Germany, India, Hong Kong, Vietnam and Singapore.

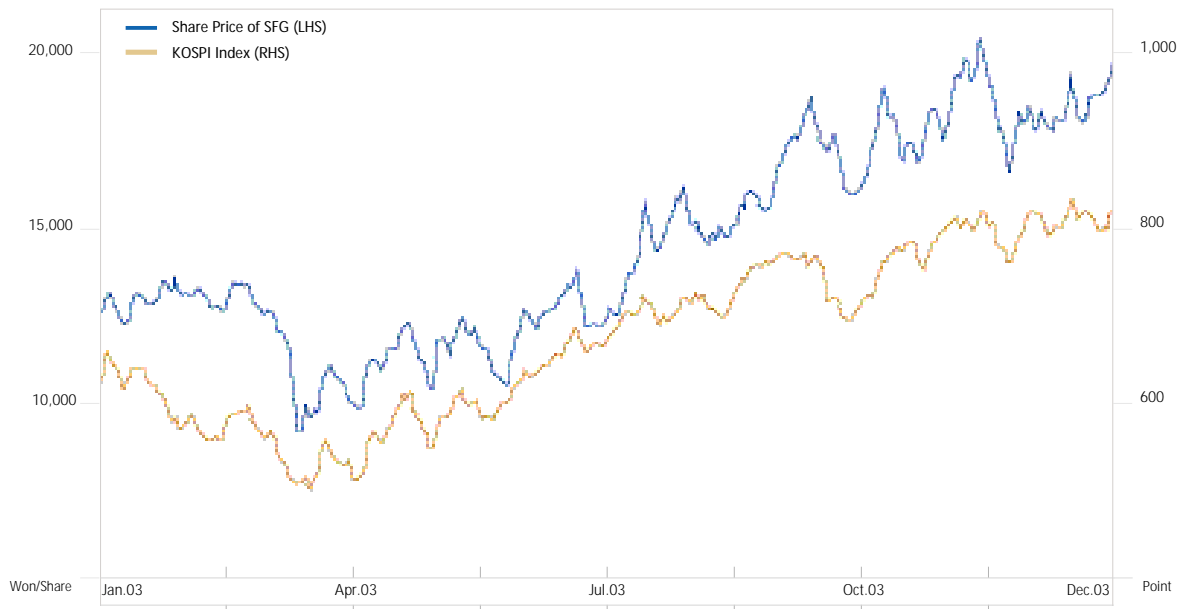
# Financial highlights

	Korean Won in Billions		U.S. Dollars in Millions <sup>1)</sup>	
	2003	2002	2003	2002
<b>For the year</b>				
Operating Revenue	₩ 8,072	₩ 5,929	\$ 6,739	\$ 4,950
Net Income	363	602	303	504
<b>At year-end</b>				
Total Assets <sup>2)</sup>	₩ 159,354	₩ 80,830	\$ 133,039	\$ 67,482
Total Loans <sup>2)</sup>	94,344	45,341	78,764	37,854
Total Deposits <sup>2)</sup>	99,280	47,792	82,885	39,900
Total Securities <sup>2)</sup>	35,218	19,911	29,402	16,623
Total Shareholders' Equity	6,118	4,010	5,108	3,348
<b>Financial Ratios</b>				
Return on Average Shareholders' Equity	8.66%	17.57%		
Return on Average Assets	0.39%	0.94%		
Cost Income Ratio	43.08%	43.83%		
Substandard & Below Ratio	3.49%	1.78%		
Net Interest Margin <sup>3)</sup>	2.26%	2.83%		
(Korean Won)	2.40%	2.97%		
(Foreign Currency)	1.50%	1.81%		
Net Interest Spread (Won) <sup>3)</sup>	2.51%	3.12%		
BIS Capital Adequacy Ratio	10.49%	10.91%		
(Tier 1 Capital Ratio)	6.34%	6.81%		
(Tier 2 Capital Ratio)	4.15%	4.23%		
<b>Share Information</b>				
Earnings Per Share (Won)	₩ 1,003	₩ 2,045		
Net Asset Value Per Share (Won)	15,234	13,270		
Dividend Per Share (Won)	600	600		
Market Value (Won in Billions)	5,608	3,625		

Notes:

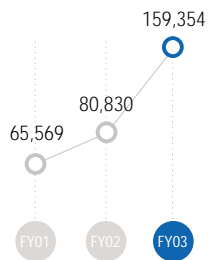
- 1) Converted into U.S. dollars at a rate of ₩1,197.80 per US\$1.00, the prevailing rate on December 31, 2003.
- 2) Calculated based on the sum of all subsidiaries minus intra-group transactions.
- 3) Shinhan Bank only (Shinhan Credit Card spun-off in June 2002)

■ Stock Performance



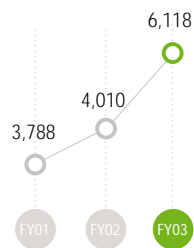
**Total Assets**

(In Billions of Korean Won)



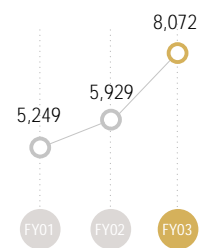
**Total Shareholders' Equity**

(In Billions of Korean Won)



**Operating Revenue**

(In Billions of Korean Won)



## Message from the Chairman



We have, to date, strategically managed the evolving financial environment, and we will continue to perform and achieve growth to come out at the top.

## To our constituents



SFG is off to a great start this year, paving the way for an even more exciting and great challenges ahead. In 2003, we secured our position as the second largest financial services group in Korea, and entered the global capital market by listing on the New York Stock Exchange. Through the combined efforts of our team members, we have made significant improvement in our management structure, resulting in the successful establishment of a solid foundation for future growth and global opportunities. These are meaningful achievements, but we will not stop here. We will continue to make bigger and better advancements and aim to place first in the financial services industry in terms of corporate value.

We have emerged as Korea's second largest comprehensive financial services group within a relatively short period. Subsequent to our transformation into a holding company structure in 2001, we have established a core business portfolio covering banking, securities, credit card and asset management. Furthermore, the acquisition of Chohung Bank has resulted in a new formidable platform for creating synergies, not just for our banking business, but for our non-banking, financial-services related businesses as well. While the consolidation process of Shinhan Bank and Chohung Bank will take two to three years to create true organizational cohesiveness in operational efficiency and cultural alignment, our new identity has already strengthened our brand power and global recognition.

Moving forward, our efforts will be concentrated on upgrading our business strategy of customers, markets, channel and IT infrastructure, leveraging our collective customer base and channel network. As we make further improvements in business management in line with global standards, we will also focus on enhancing management transparency and corporate governance for protection of shareholder rights.

In the next decade, change and progress through consolidation, intense competition, and growing sophistication of customer needs will determine winners and losers. Accordingly, we will develop into a financial services group with global competitiveness in products and services, as well as in revenues and profits. We have, to date, strategically managed the evolving financial environment, and we will continue to perform and achieve growth to come out at the top.

I would like to take this opportunity to share our appreciation for the support we are receiving from our investors and customers.

Sincerely,



Eung-Chan Ra  
Chairman of Shinhan Financial Group

## Message from the CEO



Our financial innovation and reform will help Shinhan Financial Group emerge as a first-rate financial institution.



## To our constituents



It has been one year since I assumed the role of president and chief executive officer of Shinhan Financial Group (SFG). With one goal in mind, to secure our position as the leading universal financial services group in Korea, we have taken aggressive measures to achieve extensive financial innovation and reform. We developed new financial products and services, added marketing and distribution channels, realigned corporate strategies and policies, and established a common goal. With the acquisition of Chohung Bank in August 2003, our future prospects for One-Portal network is brighter than ever, moving us closer to our vision.

### ■ Operating environment in 2003

In 2003, Korea's economy achieved a limited recovery. Export-driven gains were offset by contractions in domestic demand from uncertain geo-political and economic conditions, and increasing household debt. Such an operating environment further highlighted what we had forecasted few years back when we established our universal-banking structure: the need for financial institutions to focus on risk management and commission-based income growth. This became more apparent with the negative developments at select corporations, such as the accounting scandal at SK Networks and the liquidity crisis at LG Card.

The operating environment in 2004 will continue to pose competition-driven challenges for domestic financial institutions. Early this year, the biggest question on investors' minds was how the entry of foreign financial services companies would affect the financial landscape of Korea. I believe the entry of foreign financial institutions into Korea will result in advancements for our financial market. Competition is good for improving service quality and corporate productivity. The key is for SFG to continue to develop and maintain our unrivaled lead in One-Portal network and customer relationship.

### ■ Notable highlights in 2003

In 2003, we witnessed the beginning stages of cooperative efforts toward creating revenue synergies for increasing our commission-based income and diversifying revenue sources. SFG subsidiaries developed various hybrid financial products and services, such as financial network accounts (FNAs), securities savings deposits, bancassurance and structured products. These products were cross-sold and up-sold through our integrated distribution channels, including Financial Plaza, Private Banking, Corporate Banking Center, and Branch-in-Branch (BIB) Business Offices. In addition, as part of our efforts to create accessible and accurate information and cost-efficient synergies, we completed the integration of our

2001

Establishment of Shinhan Financial Group

call centers and customer relationship management (CRM) to enable a Group-wide customer database for customized marketing and promotion.

At the end of 2003, our total assets reached KRW 159 trillion, an increase of 97% from the previous year, with over 10 million active customers. Our healthy growth in assets and customer base were offset by a combination of the industry-wide negative effects stemming from SK Networks and LG Card, and a net loss from CHB. As a result, while our Group's preprovision income increased by 35.9% from KRW 1,195.7 billion in 2002 to KRW 1,625.1 billion in 2003, net income decreased by 39.7% to KRW 363 billion, due to heavy provisioning burden related to bad debts. However, we posted relatively sound profit results when compared to our Korean peers because we had adhered to rigorous asset quality and risk management strategy.

The investment community recognized the prospects of the SFG business model and our acquisition of Chohung Bank. In September 2003, we dramatically increased our credibility through the successful listing of ADRs on the New York Stock Exchange, and by the year-end, we achieved a total shareholder return of 45%.

2002

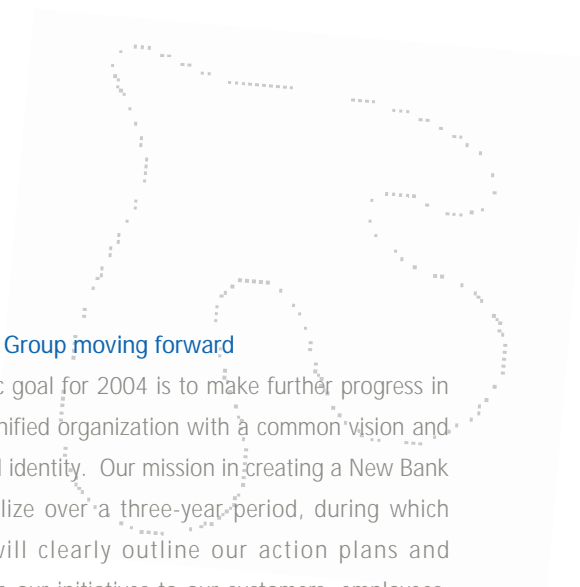
Expansion and Reorganization of Business Portfolios

■ Unity of the Group moving forward

Our strategic goal for 2004 is to make further progress in building a unified organization with a common vision and strong brand identity. Our mission in creating a New Bank will materialize over a three-year period, during which time, we will clearly outline our action plans and communicate our initiatives to our customers, employees, and investors.

During the first and second phases of creating the New Bank, SFG management will work closely with Shinhan Bank and Chohung Bank to align the two banks' portfolios, policies and strategies, including risk management and product pricing. We will also commence a full-scale preparation for IT, back-office and headquarters integration. The third phase of integration will involve front-end and organizational integration, including branch reconfiguration and division functions.

While the step-by-step operational integration will be approached with careful analysis and execution, we will also stress the importance of corporate cultural cohesiveness and trust. I believe this will be our biggest challenge, but it is one that I look most forward to. We will build shared pride and ambition among the people of



2003

Acquisition of Chohung Bank and Listing on the New York Stock Exchange

SFG and subsidiaries. Every subsidiary plays a key role in the Group, and our newest addition to the family, Chohung Bank, will add tremendous value to SFG with its great track record for fostering customer loyalty. As we build a new and enhanced human resources management system, we envision a corporate culture that is open, flexible, performance-driven, and socially responsible.

All executives and employees at SFG will work toward unity to execute our management plan with ferocious energy and spirit to achieve our vision.

I would like to thank all of our investors, customers and employees for their support and encouragement.



*Young Hwi Choi*

Young-Hwi Choi  
President & Chief Executive Officer  
Shinhan Financial Group

## RELY ON SFG

SFG's subsidiaries conduct business under the principal management goal to create value as a single entity, rather than separate organizations. Hence, our customers and investors identify Shinhan subsidiaries as a single brand that they can rely on for professionalism and honesty. The people at SFG will protect that trust and foster greater working relationship with our customers and investors through our core values of integrity and responsibility.



We create value that customers  
and investors can rely on.



S.F.G

# Corporate Governance

Throughout the world, investors are voicing their growing concern and demand for responsible and transparent corporate governance. Accordingly, the legal and regulatory framework related to corporate governance is strengthening to increase the level of protection for shareholder rights.

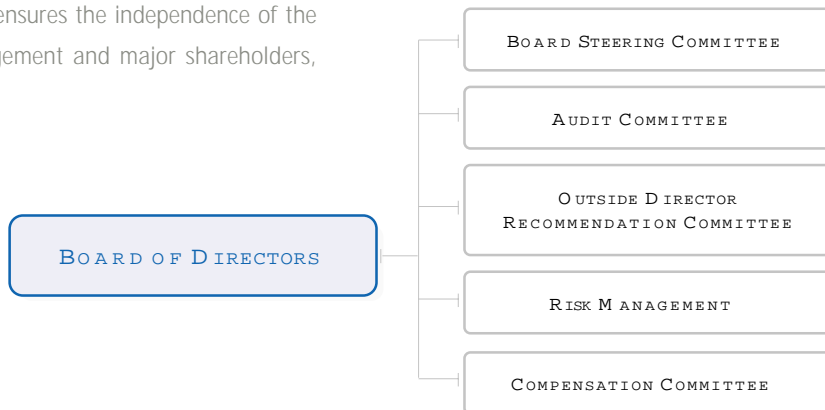
SFG fully recognizes the management's responsibility for effective corporate governance transparency of financial information. As such, SFG will continue to devote our efforts to maximize shareholder protection by faithfully fulfilling the management's fiduciary duties to our shareholders.

The Group improved the professionalism and independence of the Board of Directors' subcommittees by revising our by-laws to improve our corporate governance structure and function. One of the revisions of the by-laws led SFG to expand the number of professional outside directors from three to five. Another revision led SFG to establish the Outside Director Recommendation Committee and the Compensation Committee. The higher ratio of outside directors ensures the independence of the Board from senior management and major shareholders,



while also benefiting the Group through the expertise and experience of leading academics and professionals from a broad range of backgrounds.

We are also committed to improving the transparency of financial information. In conjunction with SFG's listing on the New York Stock Exchange, we introduced a disclosure control system to improve our existing disclosure procedures, and to set clearer disclosure rules through the establishment of the Disclosure Committee within the Group. We provide regular, detailed and accurate disclosure through quarterly reports and interim reports. In addition, we make available matters related to legal obligations and decisions pertaining to important developing matters. To ensure ease of access, all information subject to disclosure is posted in both English and Korean on our website at [www.shinhangroup.com](http://www.shinhangroup.com).



# Board of Directors & Management

## ■ SHINHAN FINANCIAL GROUP

### | Executive Directors |

Eung-Chan Ra  
Chairman  
Young-Hwi Choi  
President & CEO

### | Non-Executive Directors |

In-Ho Lee  
Director  
Young-Seok Choi  
Director  
Yong-Woong Yang  
Director

### | Outside Directors |

Pyung-Joo Kim  
Director  
Il-Sup Kim  
Director  
Sang-Yoon Lee  
Director  
Yoon-Soo Yoon  
Director  
Sang-Chul Lee  
Director  
Byung-Hun Park  
Director  
Moon-Pil Oh  
Director  
Young-Soo Lee  
Director  
Dong-Hyun Kwon  
Director  
Philippe Reynieix  
Director

### | Executive Officers |

Bhang-Gil Choi  
Senior Executive Vice President  
Chil-Sun Hong  
Senior Executive Vice President  
Hee-Soo Kim  
Senior Executive Vice President  
Byung-Jae Cho  
Senior Executive Vice President  
Baek Soon Lee  
Senior Executive Vice President

## ■ SHINHAN BANK

### | Executive Directors |

Sang-Hoon Shin  
President & CEO  
Jae-Ho Cho  
Director & Standing Auditor

### | Outside Directors |

Young-Hwi Choi  
Director  
Kap-Young Jeong  
Director  
Kyung-Suh Park  
Director  
Sang-Rock Seo  
Director  
Hee-Soo Kim  
Director

### | Executive Officers |

Jae-Woo Lee  
Deputy President  
Gwang-Lim Youn  
Deputy President  
Woo-Sup Cho  
Deputy President  
Min-Ky Han  
Deputy President  
Youn-Soo Song  
Deputy President  
Do-Heui Han  
Deputy President  
Jin-Won Suh  
Deputy President  
Shin-Keun Yang  
Deputy President  
Sang-Young Oh  
Executive Vice President

## ■ CHOHUNG BANK

### | Executive Directors |

Dong-Soo Choi  
President & CEO  
Ji-Hong Yoo  
Director & Standing Auditor

### | Outside Directors |

Young-Hwi Choi  
Director  
Byung-Jae Cho  
Director  
Young-Sung Park  
Director  
Dae-Sik Kim  
Director  
Chang-Seong Jang  
Director

### | Executive Officers |

Hong-Hee Chae  
Deputy President  
Yong-Chang Kwang  
Deputy President  
Yong-Uk O  
Deputy President  
Chang-Il Park  
Deputy President  
Jeong-Woo Chang  
Deputy President  
Kwang-Yub Chung  
Deputy President  
Jae-Yoo Kim  
Deputy President  
Bhang-Gil Choi  
Deputy President  
In-Joon Chaey  
Deputy President

## ■ GOODMORNING SHINHAN SECURITIES

### | Executive Directors |

Woo-Keun Lee  
Representative Director, Vice-Chairman  
Ki-Kwon Doh  
Representative Director, President & CEO  
Sung-No Lee  
Audit Committee Director

### | Non-Executive Directors |

Young-Hwi Choi  
Director  
Alain Pénicaud  
Director  
Bhang-Gil Choi  
Director

### | Outside Directors |

Jin-Won Park  
Director  
Hyoung-Tae Kim  
Director

### | Executive Officers |

Keun-Mo Lee  
Senior Executive Vice President  
Dae-Suk Kang  
Senior Executive Vice President  
Jong-Kil Park  
Senior Executive Vice President  
Hyeon-Jae Han  
Senior Executive Vice President  
Chae-Young Jung  
Executive Vice President  
Hong-Shik Kim  
Executive Vice President

■ SHINHAN CARD

**Executive Directors** |  
Sung-Kyun Hong  
President & CEO  
Tae-Gyu Lee  
Director and Standing Auditor

**Non-Executive Director** |  
Hee-Moon Kang  
Director

**Outside Directors** |  
Chil-Sun Hong  
Director  
Byung-Kook Song  
Director  
Chul-Young Lee  
Director

**Executive Officers** |  
Seoun-Won Kim  
Deputy CEO  
Woo-Yeop Shim  
Executive Deputy CEO  
Moon-Han Kim  
Executive Deputy CEO

■ SHINHAN CAPITAL

**Executive Director** |  
Dong-Girl Lee  
President & Chairman

**Non-Executive Directors** |  
Byung-Jae Cho  
Director  
Joung-Soo Kim  
Director

**Executive Officers** |  
Wong-Man Son  
Auditor  
Sahng-Dae Kim  
Deputy President  
Seung-Keun Oh  
Executive Vice President

■ SHINHAN BNP PARIBAS ITMC

**Executive Director** |  
Richard Valenti  
President & Chief Executive Officer

**Non-Executive Directors** |  
Guy De Froment  
Director  
Frank Goasguen  
Director  
Po-Kil Paik  
Director  
Chil-Sun Hong  
Director  
Joung-Soo Kim  
Director  
Dong-Hwan Lee  
Director

**Executive Officers** |  
Al Noor Premji  
Chief Operating Officer  
Myouun-Wook Kang  
Chief Marketing Officer  
Ui-Hyun Roh  
Statutory Auditor

■ JEJU BANK

**Executive Directors** |  
Kook-Joo Kim  
Chairman and President  
Young-Sin Kim  
Director and Auditor

**Outside Directors** |  
Si-Jong Kim  
Director  
Hyang-Jin Huh  
Director  
Hyung-Joon Song  
Director  
Soon-Woo Hong  
Director  
Hee-Soo Kim  
Director

**Executive Officers** |  
Ki-Hyung Seong  
Deputy President  
Tae-Sang Moon  
Deputy President

■ E-SHINHAN

**Executive Director** |  
Seoung-Yoon Kim  
President & Chief Executive Officer

**Non-Executive Director** |  
Joung-Soo Kim  
Director

**Executive Officer** |  
Byung-Sik Jang  
Auditor

■ SHINHAN MACQUARIE FINANCIAL ADVISORY

**Executive Director** |  
John Willian Walker  
President & Chief Executive Officer

**Non-Executive Directors** |  
Simon Clow  
Director  
In-Cheol Park  
Director  
Young-Han Kim  
Director

**Executive Officer** |  
Byung-Sik Jang  
Auditor

■ SH&C LIFE INSURANCE

**Executive Director** |  
François-Xavier Hussenot  
Chief Executive Officer

**Non-Executive Directors** |  
Gerald Binet  
Director  
Byung-Kook Song  
Director  
Hak-Ju Kim  
Director  
Dong-Hwan Lee  
Director

**Executive Officers** |  
Oeih-Hwan Cha  
Auditor  
Jean-Patrick Simon  
Deputy CEO  
Woo-Sung Kim  
Executive Director

■ SHINHAN CREDIT INFORMATION

**Executive Director** |  
Beom-Seong Shin  
Chief Executive Officer

**Non-Executive Directors** |  
Joung-Soo Kim  
Director  
Young-Kyu Hwang  
Director  
Hang-Yeon Kim  
Director  
Kwang-Yeon Kim  
Director

**Executive Officers** |  
Chan-Kyoung Kim  
Deputy CEO  
Won-Hoi Koo  
Deputy CEO  
Kang-Mo Lee  
Auditor





## SFG's Employees

We strive to attain world-class competitiveness in professional development, performance achievement, and social contributions.

Shinhan Financial Group strives to attain world-class competitiveness in professional development, performance achievement, and social contributions. As an organization based on openness and sharing spirit, we are committed to customer service and social welfare. Through our core values of dignity, integrity and responsibility, we will continue to play an active role in contributing to the society.

### ■ Leadership and Professionalism

"Market Leader in Financial Services"

Our employees are the driving force behind our organization's growth and development and through their expertise, hardwork, and devotion, SFG has become a market leader in financial services. Based on our sense of ownership and responsibility, SFG employees share a common vision to provide the highest quality of customer service through increased efficiency and productivity. SFG promotes a working environment that fosters professional development and teamwork.



### ■ Customer and Market-Orientation

"In Pursuit of Change and Innovation"

As a customer-oriented comprehensive financial services group, SFG makes every effort to promptly address our customers' needs. But we also take the time to rediscover all of our customers. That is because our role is not just to be a service provider but also a companion to our customers. SFG takes pride in our devotion to build a close working relationship with our customers and our contribution to their financial growth and success.

### ■ Social Contribution

"Great Company with the Highest Credibility"

As a leader representing Korea's financial industry, we will fulfill our duty to help create a healthy, vibrant economy. We have a strong sense of morality as a member of the society and we are committed to providing social services and making contributions to help further the development of our society.

## BUILD IN ALL DIRECTIONS

Customers, investors, and communities are our past, present, and future. As we build SFG through change and innovation, we aim to provide our customers with comprehensive financial solutions and essential benefits, offer our investors financial soundness with growth opportunities, and contribute to our communities' social liveliness through shared spirit and hope.



Through change and innovation, we will build in all directions for our customers, investors and communities.



# ALL DIRECTIONS

# Vision & Strategy

Shinhan Financial Group (SFG), originally founded as Shinhan Bank in 1982, became Korea's first bona fide financial holding company in Sept. 2001. The successful conversion of the bank business into a One-Portal model, through change and innovation, has helped SFG evolve into the second largest financial group in Korea. Our goal is to make continual improvements in our One-Portal network to meet all of our customers' financial needs and to secure SFG's position as the leading financial services group in Asia.

The One-Portal business structure allows SFG to provide customers with the best mix of financial products and services through a single relationship and distribution network. This core competency will serve as a growth engine for SFG's subsidiaries as they leverage and share common resources, such as customer database, sales force, and distribution channels, and the "Shinhan" branding, advertisement and reputation.

The SFG subsidiaries will help improve the Group's revenue structure through profit diversification and stability. Each subsidiary will focus on customer relationship, transitioning away from the traditional, transaction-oriented business model into a customized, wealth management model. In addition, through the collective efforts of the subsidiaries to provide total financial solutions through the One-Portal network, we aim to build the "Shinhan" name as one that customers will come to prefer and trust.

In particular, with the addition of Chohung Bank into the Group's financial network, SFG has been able to greatly improve the competitiveness of our distribution platform through increased customer base, business network, and brand recognition. The integration of Shinhan Bank's advanced financial techniques with Chohung Bank's broad customer base will lead to great future opportunities.

SFG will have a complete new identity with international competitiveness, and grow to be Korea's representative financial group with competencies equal to prominent financial institutions around the world.

In 2004, SFG will (1) develop the One-Portal business structure to support our New Bank; (2) expand our business scope and target markets; and (3) create a performance-based, market-oriented corporate culture. Subsequently, SFG will secure world-class competitiveness and establish our status as the market leader in Korea.

## Our Customers and Investors

We will maximize shareholder value by ensuring the highest customer satisfaction.



### ■ Our Customers

Through our customer-oriented management, SFG's goal is to serve the needs of all of our customers. Hence, we aim to continuously create and provide customized and convenient, comprehensive financial solutions that yield effective results.

In 2003, SFG engaged in a number of initiatives to advance our efforts for customization and convenience. We established a Group-wide integrated CRM (customer relation management) system that consolidated all the subsidiaries' customer, product and distribution information into a single Group-wide database. This change allows sales divisions of all subsidiaries to share information in order to cross-sell and up-sell the Group's products and services. In addition, our enhanced customer segmentation enables branches to rearrange customer stations according to the types of customer relationship and financial need, greatly enhancing each branch's productivity and efficiency.

We provide comprehensive financial solutions through our One-Portal network, giving customers access to numerous banking and non-banking products and services, such as credit card, insurance, and investment products.

Depending on the branch location and its wealth concentration, some branches also maintain full-service customer management with exclusive counseling offices, supported by private bankers, portfolio managers, legal and tax advisors, and product specialists, such as brokers, insurance agents and leasing specialists.

Similarly, for corporate finance services, SFG established a comprehensive financial services support system, SBM (small business management) for SME (small- to medium-sized enterprises), and RM (relationship managers) for large corporations, to create consolidated corporate finance centers that provide banking, securities and lease financing services. In parallel to retail banking, SFG is also developing a corporate finance center model that will handle corporate banking, brokerage, and investment banking services for all corporate clients.

SFG also offers top financial services in Korea through Internet banking, home trading platforms, mobile banking and ATMs. In addition, the Group operates an integrated call center for banking, securities and credit card services to improve the productivity of the branches and to reduce labor costs.



Through the integrated network, SFG will continue to improve customer satisfaction by expanding product and service choices. We plan to provide comprehensive financial solutions that support all the financial needs of our customers at all stages of their lives.

### ■ Our Investors

We create business success through products and services that meet our customers' financial needs and goals. In 2003, our investors displayed their confidence in SFG's performance and prospects through strong support.

As measured by stock price, 2003 was a great year for SFG. Investors applauded our acquisition of CHB and put high value on our synergy creation for a One-Portal financial network. Accordingly, the share price of SFG was up by 39.3% for the year, outperforming the KOSPI by 16.6 percentage points. Our total return for shareholders, including dividends, was approximated 45% in 2003.

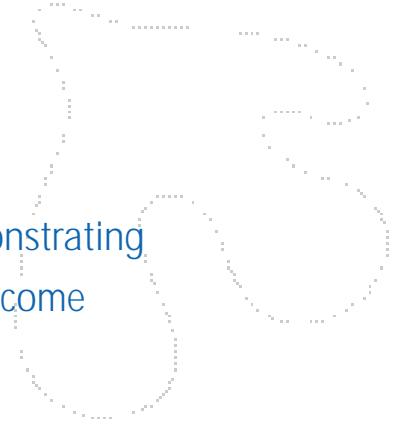
SFG also successfully completed the listing of our American Depository Receipts (ADRs) on the New York Stock Exchange in September 2003. Our increasing global investor base reminds SFG of our duty to continue our value creation through change and innovation. Hence, we will adopt best global practices, including corporate governance transparency and management accountability.

In corporate governance, we created two additional subcommittees, the Outside Director Recommendation Committee and the Compensation Committee. We also improved transparency by introducing a disclosure control system. As a holding company that relies on the transparency, accountability and profitability of our subsidiaries, SFG values investor rights and devotes our efforts to maximizing shareholder value.



# Our Communities & Society

We are well aware that only those enterprises demonstrating responsibility and leadership towards society can become world-class enterprises.



Shinhan Financial Group believes that corporations are the centripetal force behind social change. We are well aware that only those enterprises demonstrating responsibility and leadership towards society can become world-class enterprises. By giving back to our society, we build trust and respect among the people and strengthen our community relationship. SFG has emerged as a notable financial institution in the financial industry, both at home and abroad, because we have put such knowledge into practice. Shinhan Financial Group of today would not exist without the support and affection of our customers and the society that we serve.

From our founding stages, we have adhered to our management philosophy of "Enterprise of Community." We participate in numerous social activities and events to fulfill our responsibility and role as a corporation serving the nation and society. We continuously strive to share our success, performance and value with the local communities.

## ■ Public Services

### >> Visits to Social Welfare Facilities

A tradition that began in 1985, SFG families make regular visits to social welfare institutions, such as sanitariums and nurseries during the holidays, to help provide comfort and encouragement for the less fortunate and the underprivileged in our society.

### >> Visits to Military Bases

SFG conducts annual visits to military bases to thank the soldiers of the armed forces for their devotion to the national security. SFG established a sisterhood relationship with the 6955 Unit of the Army (20th Division of the Mechanized Infantry) on December 18, 1985.

### >> Voluntary Social Services

In November 2003, SFG established the 'Happy Messenger' Volunteer Corps in conjunction with Shinhan Bank and Chohung Bank. Through the "Happy Messenger," we play an active role in numerous volunteering activities, including visits to various social welfare facilities.

### >> Other activities (Contributions, Blood Donations, etc.)

All SFG business offices participate in the annual Christmas Seal sales campaigns and community chest drives (a.k.a. Fruits of Love Campaign). Recently, SFG has expanded our role in the campaign by contributing KRW 1 billion.

In July 2003, Chohung Bank was awarded the President's Honor for its "Hope 2003 Community Chest Drive." SFG gladly assumed the responsibility and is now an active supporter of the social services activities.



SFG also participates in various events in sharing friendship with neighbors in hardship, through activities such as blood donations, relief funds for flood victims, and sponsorship of organizations for the disabled.

## ■ Educational Support

### >> Broadening the knowledge and experience of children

SFG works with Seoul City and helps fund their campaign to invite young children from islands and remote places to help them extend their knowledge and experience. Usually held over a period of four days, the program conducts field trips to financial institutions, Demilitarized Zone (DMZ),

National Assembly, National Cemetery, and other interesting places, such as Everland and 63 Building. In addition, visiting children are presented with sports equipment, school supplies and souvenirs.

### >> Sending Teachers Overseas

SFG's "Sending Teachers Overseas" program was started in 1998 to allow dedicated school teachers to experience educational systems of foreign countries. To date, we have conducted 16 overseas visits, in which over 8,000 teachers have participated in the program.

### >> Scholarship Programs

SFG provides financial assistance to students in financial need, enabling them to concentrate on their studies. SFG also supports educational institutions and related organizations in their efforts to further develop the Korean educational system. To date, SFG has provided scholarships and educational funds to Korea Advanced Institute of Science and Technology (KAIST), Korea Scholarship Foundation, Dongkuk University, Jeollanam-do Office of Education, Ulsan Metropolitan Office of Education, Gacheon Medical School, Ewha Woman's University and Bum-Suk Academic Scholarship Foundation. We will also continue to support Chohung Bank's Overseas Korean Children Scholarship Program.







#### >> Children's Economic Education Classes

In cooperation with the Maeil Business Newspaper, SFG runs special classes in basic economics for younger children, with the objective to instill proper money values and economic understanding in children.

### ■ Sports & Cultural Support

#### >> Sponsorship of Shinhan Donghae Open Golf Tournament

SFG founded the Shinhan Donghae Open Golf Championship in 1981 to promote golf and other sports activities in Korea. The golf tournament, among the oldest sponsored golf tournaments in Korea, has greatly contributed to the development of the sport in Korea. The tournament has also provided a number of professional and amateur golfers, including Kyoungju Choi who has won in the PGA tour, with the opportunity to grow and compete in the world arena.

#### >> Supporting Sports Team

In our efforts to promote and develop sports and healthy activities in Korea, SFG contributes to the fostering of talented athletes and the promotion of regional sports by supporting Chohung Bank's Track & Field Team and Swimming Team, established in 1992 and 2003, respectively.

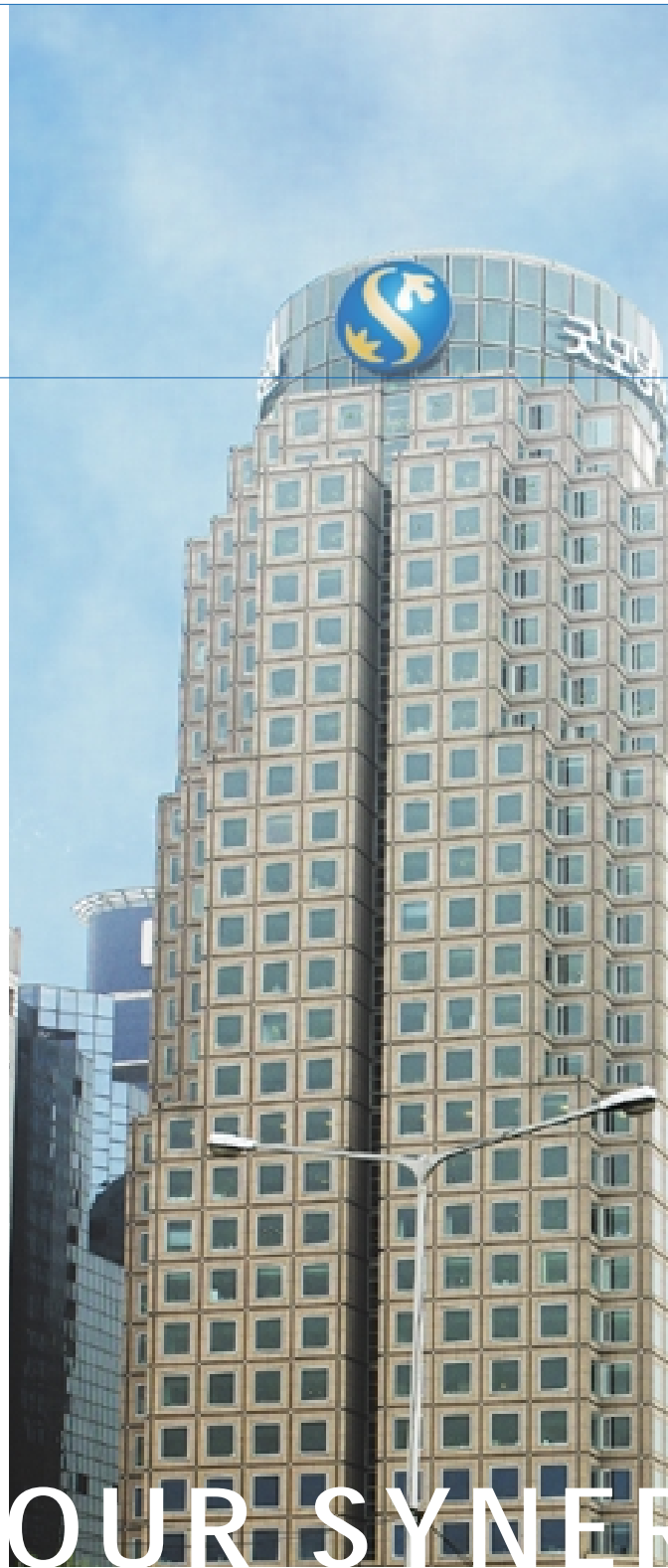
#### >> Operation of Chohung Museum of Finance

SFG will continue to support the Chohung Museum of Finance, which was opened in 1997, on the centennial anniversary of Chohung Bank. The museum promotes an understanding of the history of the banking industry in Korea and provides insightful information related to the banking industry to the general public. The museum was selected by the Ministry of Culture and Tourism, the first in the financial industry, as part of the government project to establish a comprehensive information database and cyber museum on national heritage.



## OUR SYNERGY CREATION

We have already begun to realize the early stages of synergy creation from our One-Portal network. Our subsidiaries are working closely together through shared resources to develop effective financial solutions - all under the reliable Shinhan brand.



OUR SYNERGY

Our One-Portal network stimulates synergy that  
benefits all SFG subsidiaries,  
and our customers and investors.

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RGY CREATION

# Subsidiaries

SHINHAN BANK	<ul style="list-style-type: none"> <li>- A commercial bank offering products and services to retail, SME, and large corporate customers</li> <li>- Serves as key subsidiary within the holding company</li> </ul>
CHOHUNG BANK	<ul style="list-style-type: none"> <li>- The oldest commercial bank in Korea with 107 years of history</li> <li>- Incorporated as a new member of the SFG in August 2003</li> </ul>
GOOD MORNING SHINHAN SECURITIES	<ul style="list-style-type: none"> <li>- A securities brokerage company</li> <li>- Along with SHB and CHB, serves as a primary distribution channel for the Group's wide range of products and services</li> <li>- Created in August 2002 through the acquisition of Good Morning Securities</li> </ul>
SHINHAN CARD	<ul style="list-style-type: none"> <li>- A credit card company</li> <li>- Credit card operation was spun off from SHB in June 2002</li> </ul>
SHINHAN CAPITAL	<ul style="list-style-type: none"> <li>- A leasing company established in 1991</li> <li>- Provides financing and operating leases of industrial equipment</li> </ul>
SHINHAN BNP PARIBAS ITMC	<ul style="list-style-type: none"> <li>- An Investment Trust Company</li> <li>- Joint venture with BNP Paribas established in October 2002</li> </ul>
JEJU BANK	<ul style="list-style-type: none"> <li>- A regional bank operating in Jeju Island</li> <li>- Acquired in April 2002 and incorporated into the SFG in May 2002</li> </ul>
SHINHAN MACQUARIE FINANCIAL ADVISORY	<ul style="list-style-type: none"> <li>- An investment advisory company established in 2001</li> <li>- Joint Venture with Macquarie Bank</li> </ul>
SH&C LIFE INSURANCE	<ul style="list-style-type: none"> <li>- An insurance company</li> <li>- Joint venture with Cardif, a wholly-owned subsidiary of BNP Paribas established in October 2002</li> </ul>
E-SHINHAN	<ul style="list-style-type: none"> <li>- An Internet-based financial services provider</li> <li>- Jointly developed by Shinhan and Boston Consulting Group and established in 2001</li> </ul>
SHINHAN CREDIT INFORMATION	<ul style="list-style-type: none"> <li>- Manages collections and credit investigations for all non-performing credits of the SFG's subsidiaries</li> <li>- Established in July 2002 to strengthen and maintain the SFG's financial soundness</li> </ul>

(In Billions of Korean Won , as of Dec. 2003)

OWNERSHIP	ASSETS	EQUITY	NET INCOME	CUSTOMERS('000)	BRANCHES
100%	84,136	3,515	476	5,652	358
81.2%	63,331	1,939	-195	9,630	542
59%	2,926	638	23	1,089	85
100%	1,778	158	-90	2,567	10
100%	1,154	102	16	1	4
50%	48	45	1	N.A	1
62.4%	1,796	104	3	305	32
51%	11	7	1	N.A.	1
50%	114	26	-2	42 *	1
73.7%	4	4	-1	2,206	1
51%	14	9	1	N.A	14

\*Footnotes) SH&amp;C Life Insurance commenced its business on December 27, 2003

# Commercial Banking



## ■ Retail Banking

The market environment surrounding the retail banking industry in 2003 was marked by increased market risks and intense competition. This was due to (1) continued low interest rates and economic recession; (2) credit delinquencies triggered by the surge in household debt and financial market instability caused by SK Networks (formerly SK Global) and LG Card; (3) sluggish growth in the real estate market; and (4) aggressive marketing by domestic financial institutions for personal financial services, including bancassurance, financial planning, and asset management, as well as capital markets products, such as multi-purpose and hybrid financial instruments.

In coping with such challenging retail banking environment, SFG focused on qualitative growth, as opposed to quantitative growth, through profitability-oriented asset expansion. SFG established efficient and detailed retail banking business strategies, reinforced risk management functions, and improved our asset quality. The Group also concentrated on promoting cross-sales of comprehensive financial products through our One-Portal financial network, and improved our retail business structure by focusing on the development of customer relationship marketing tools for higher customer satisfaction.

As a result, Shinhan Bank's (SHB) retail loans increased by 11.7% YoY (year-over-year), or KRW 1,872.2 billion, to KRW 17,864.9 billion in 2003. In addition, Shinhan Bank's deposits increased by 12.6% YoY, or KRW 5,766 billion, to KRW 51,662.8 billion. As for Chohung Bank (CHB), retail loans increased by KRW 366.7 billion to KRW 15,483.2 billion, while deposits decreased by KRW 8,281.1 billion to KRW 43,895.2 billion.

In 2003, SFG implemented a flexible operation strategy for mortgage loans to account for the risks brought by the increase in household delinquencies and sluggish growth in the real estate market. The Group also conducted relationship marketing with our real estate agencies to build a cooperative network. As a result, SHB's and CHB's mortgage loans increased by KRW 1,185 billion to KRW 11,923.6 billion, and by KRW 167.4 billion to KRW 6,923.1 billion, respectively.

In the unsecured loans sector, Shinhan Bank continued to post solid growth, with High Class Loans (for professionals) totaling KRW 90.8 billion, Elite Loans (for high income earners) totaling KRW 488.9 billion and 'Public Servant Prime Loans' totaling KRW 153.5 billion, as a result of its continuous

SFG has focused on qualitative growth, as opposed to quantities growth, through profitability-oriented asset expansion.



expansion in high net-worth (HNW) customer base and reinforcement of strategic product sales by target customers.

In the Small-Biz area, Shinhan Bank's small office and home office (SOHO) loans increased by KRW 190.1 billion to KRW 6,080.3 billion, primarily as a result of the expanded market share on the back of differentiated services and aggressive marketing strategies.

To execute our asset gathering strategy, SFG focused on the marketing and sales of both traditional banking products and other hybrid financial instruments that collectively meet the diverse financial needs of customers; hence, enabling SFG to manage a growing percentage of our customers' entire assets. For example, SFG's timely introduction and marketing of hybrid instruments allowed us to secure sales of KRW 1,011.1 billion in equity-linked products and index-linked time deposits, which emerged as popular financial products in the banking sector, reflecting demand for higher-rate yielding products.

We also expanded the level of services and the availability of our Cash Management Services and B2B (business-to-business) Settlement Accounts. In 2003, we also strengthened our Millennium Retail Branch (MRB) structure,

a One-Portal business model designed to focus marketing activities on relationship-based, customer-segmented financial solutions, rather than product promotions. Our newly integrated CRM and updated MRB strengthen SFG's ability to anticipate and offer effective products and services that meet our customers' financial goals, and earn the loyalty of our customers. As a part of that effort, we pursued differentiated prestige-level services, targeting and focusing our product development and marketing on HNW customers and the Private Banking (PB) market.

As a result of our relationship-based, customer segmentation targeting, the number of major customers who use SHB or CHB as their main transaction bank, increased by 8.4% YoY to 313,000. These major customers account for 70% of total revenues, 85.8% of deposits and 71% of loans of the Retail Banking Division. SFG's profitability per customer also posted a steady growth, an increase of 10.6% to KRW 1.47 million in 2003. In particular, the number of HNW customers and HNW customer retention rate reached 154,000 (12.4% increase) and 90%, respectively.

## ■ SME Banking

The competition in the small and medium-sized enterprises (SMEs) market intensified among banks in 2003. To create differentiated marketing strategies for attracting quality SMEs, SFG focused on segmenting SMEs into target groups for product development and marketing.

As of the end of 2003, SFG held a leading position in the market for SMEs that prepared financial statements audited by independent auditors, with a market share of 16%. The Group's market share for well-established SMEs that are audited by certified public accounts and, at the same time, meet certain credit rating criteria, also reached 18.6%, ranking first in the market.

SFG introduced several marketing programs tailored to the needs of each client group. We provided 'Premier Club' membership to our best-quality corporate customers, 'High-Touch Marketing' to strengthen relationship with HNW corporate customers, and 'Frontier Club' to identify and support potential HNW corporate customers.

In particular, Shinhan Bank has greatly contributed to the generation of new revenue sources for the Group by operating a business service center comprised of corporate finance experts from respective fields to promote business linkage with Good Morning Shinhan Securities. The center provides customized financial services, such as IPOs, M&As, and bond issuance in cooperation with the Group's securities house to assist healthy SMEs to tap into the direct financing markets.

SFG is also focusing on the development and improvement of various computer-related systems in our efforts to systematically manage SME customers. Accordingly, SFG developed and implemented (1) Marketing Alert System (MAS) that automatically provides information on major transactions and changes in accounts of client companies; (2) Proactive Proposal Approach (PPA) that supports proposal marketing by our relationship managers (RMs); (3) Account Planning (AP) that provides comprehensive information management of individual clients; and (4) Relationship Support System (RSS) that enables the monitoring of changes in volume and profitability of all of the customers in charge.

Amidst such remarkable growth, we also made significant progress in the risk management function, accomplishing our annual targets in substandard and below loan and delinquency ratios with our advanced screening processes and risk management protocols.







In 2004, despite the intense competition in the SME market, we will continue to reinforce our position as the middle market leader by developing and marketing effective products and services for SMEs.

### ■ Large Corporate Banking

SFG launched the Large Corporate Banking Division in our efforts to strengthen the Group's RM (Relationship Manager)-oriented marketing structure and improve risk management of corporate banking business.

In 2003, SFG focused on asset quality and risk management. Due to the unstable financial market conditions, we limited our exposure to large corporations. Hence, SHB's and CHB's large corporate loans decreased by KRW 357.7 billion (9.5%) to KRW 3,396.6 billion and by KRW 1,150.6 billion (30.7%) to KRW 2,591.5 billion, respectively.

We also have established the foundation for increasing fee-based revenues through (1) aggressive penetration of the markets for asset-backed securities (ABS), real estate financing, social overhead capital (SOC) and syndicated loans; (2) stimulation of e-banking; (3) expansion in the volume and quality of derivatives through strategic

alliances with advanced financial institutions; and (4) introduction of a creditor account commitment fee for the first time in Korea.

In 2004, we will restructure our marketing activities for large corporate banking to focus on investment banking. We plan to raise the percentage of revenues from investment banking to 50% of the total revenues from our large corporate banking division. As we expand the scale and scope of fee-based business, we will harness new revenue sources from transaction advisory and execution, e-Banking services, and sales of structured and indirect investment products.

To further strengthen our position in large corporate banking, we plan to streamline our internal business processes, and establish an advanced, preemptive risk management system by basing loan extensions on the cash flow of affiliated and individual companies.

# Investment Banking



SFG's investment banking services offer a wide variety of structured products and corporate finance services including asset-backed securities (ABS), corporate restructuring company (CRC) services, social overhead capital (SOC), project financing, syndicated loan, and M&A advisory.

SFG established the Corporate Banking Center in August 2002 to promote investment banking business and maximize synergies in corporate finance among affiliated companies within the Group. The Center allows us to implement a win-win strategy for both our banks and customers by offering comprehensive One-Portal financial services to our corporate clients.

In the ABS public offering business, SFG secured the second largest market share at 19% in 2003. In addition, we are solidifying our position as a leading bank in the ABS market by issuing asset-backed commercial papers (ABCP) through our 'Goldwing' ABCP conduit. We issued 25 new ABS/ABLs (Asset Backed Loans) in 2003, with deposits and ABL value of KRW 7,520.4 billion and KRW 302.5 billion, respectively. As a result, our commission-based business has greatly contributed to the improvement of our revenue structure.

As for our syndicated loan business, we expanded the scope of our investments into new facilities, non-performing loans (NPL), acquisition financing and ship financing in domestic and international financial markets, with investments totaling KRW 300 billion in 2003. Our leading role in structured financing and ship financing has greatly improved our market position in the industry.

Our SOC financing business also posted a high profit, concluding with five underwriter-consulting contracts in 2003. As such, SOC financing has grown into an important part of our investment portfolio.

The real estate financing business also made healthy cash flow contributions to our investment banking business, displaying strong market competitiveness by signing 29 new financing projects totaling KRW 468.2 billion in 2003.

In the IPO category, SFG recorded a notable performance, underwriting the initial public offerings of STX Shipbuilding and SsemTech last year. In addition, SFG has emerged as a key player in the international finance market, having successfully issued the global public bond offering of KEPCO's (Korea Electric Power Corporation) equity ownership in Powercomm valued at US\$250 million. SFG

In line with our 'To the Top of IB' slogan of 2004, we will solidify our position as the leader in the investment banking market.



participated in various transactions in 2003, including the sales of KEPCO's subsidiary of KEPID, Daehan Investment & Securities and Korea Investment & Securities.

In 2004, SFG established a separate 'Marketing Support Team' within our bank subsidiaries to promote timely gathering and analysis of market information through diverse channels to provide marketing support for the investment banking business. These marketing support activities are expected to greatly contribute to penetrating the investment banking market and increasing revenues.

To further support our investment banking business, SFG established Shinhan Macquarie Financial Advisory (SMFA) in 2001, a joint venture between Shinhan Financial Group and Australian based Macquarie Group. SMFA is a leading advisor in the SOC and real estate

In 2003, SMFA team has been recognized through several milestones and awards, namely:

- \* 2003 Achievement Awards for the "Most Innovative Deal" from Finance Asia for Korean Road Infrastructure Fund (KRIF)
- \* 2003 'Award of Recognition' from Korea Highway Corporation (KHC) for the contribution of SMFA to the private infrastructure business in Korea
- \* Lessee Advisor for Korea Highway Corporation
- \* Lessee Advisor for Korea Highway Corporation's Intelligent Traffic System Lease
- \* Advisor for the acquisition of convertible bonds for Daegu-Pusan Toll way
- \* Advisor for the acquisition of Kwangju Second Toll Road Section



With our 'To the Top of IB' slogan of 2004, we will solidify our position as the leader in the investment banking market in Korea by maintaining our competitive edge in ABS, real estate investment financing, syndicated loans and SOC securities, while creating synergies among the businesses within the Group.

# Brokerage

The goal of our Vision 2005 initiative is to become the leader in our industry.



The business environment surrounding the domestic securities business in 2003 continued to deteriorate as intense competition among securities firms led to declining commission fees. In anticipating a wave of restructuring activities in the securities industry, Good Morning Securities and Shinhan Securities voluntarily merged in 2002, attracting attention in the marketplace as a new business model for harnessing synergies between securities business and banking business.

Accordingly, SFG will maximize our business synergies by (1) implementing a premium pricing strategy that targets high-quality individual and corporate customers through market segmentation; and (2) reinforcing the business network with SHB and CHB. In the retail sector, we plan to expand our business scope into sales of new products such as FNA, Wrap and ELS (equity-linked securities), strengthening the wealth management function of our services. We will also improve the productivity of our backup operations, and reinforce income management and cost control. The goal of our Vision 2005 initiative is to become the leader in our industry.

In 2003, SFG's brokerage business via Good Morning Shinhan Securities (GMSH) focused on One-Portal services provided through its extensive network comprised of 78 branches, 4 branch-in-branch (securities business office located within bank branches), and 1 business office, along with over 900 bank branches of SHB and CHB supporting its operations. GMSH's number of Financial Network Accounts (FNA), a multi-purpose financial product that enables banking and securities transactions within a single account, reached over 400,000 accounts as of the end of 2003, on the back of cross-selling among bank subsidiaries of the Group. In 2004, GMSH will continue its efforts to achieve both quantitative and qualitative growth in FNAs.

GMSH will continue to lay the foundation to emerge as the best comprehensive securities house in Korea by integrating core capabilities of Good Morning Securities with those of Shinhan Securities including (1) prominent research capacity; (2) specialties in international sales (3) corporate finance with strengths in specialization and know-how; and (4) systematic and thorough risk management.

# Asset Management

SFG will devote our efforts to diversify the product lines by expediting the development of advanced financial products.



The investment trust industry in 2003 faced difficulties due to the large-scale redemption of money market funds (MMF) triggered by the SK Network's accounting fraud, and pressures for the redemption of maturing credit card bonds. As a result, the overall deposits of bond funds decreased by 17.6% from the previous year. The adversity of the market was further heightened by the rise in market interest rates subsequent to the second half of 2003.

Amidst such difficult conditions, SFG achieved a meaningful growth, both in quantity and quality, as a result of systematic investment and enhanced credit-risk management. In particular, we were able to avoid investing in SK Network's corporate bonds based on our accurate credit analysis. Separately, we received favorable responses from our customers for implementing a fair redemption policy on MMFs. SFG was also designated to operate the public funds of the governmental sector such as the Ministry of Information and Communication and Ministry of Labor. Moreover, SFG was successful in enlarging the customer base in the investment trust business by reinforcing retail sales through Shinhan Bank and Good Morning Shinhan Securities.

In 2004, Shinhan BNP Paribas Investment Trust Management Company (Shinhan BNP ITMC), the asset management arm of SFG established in 2002 as a 50:50 joint venture with BNP Paribas, will concentrate its efforts on retail business through the reinforcement of relationships with our bank subsidiaries. It will also continuously increase its share in the corporate customer market, including pension funds through partnerships with major securities firms.

SFG will devote our efforts to diversify the product lines by expediting the development of advanced financial products. We will also focus on improving the transparency and expertise in our asset management practice.



# Credit Cards



SFG's credit card business is comprised of two sectors: (1) Shinhan Card, a specialized credit card company that was divested from Shinhan Bank in June 2002; and (2) Chohung Bank's credit card business acquired by the Group in 2003.

In 2003, Korea's credit card industry underwent the hardest period in its history. In particular, the industry was shaken by massive credit delinquencies caused by the industry's aggressive expansionary policy of the past, resulting in the restructuring of the industry through mergers and acquisitions.

Amidst such unfavorable background, Shinhan Card was able to stand out as one of the few credit card companies to post relatively sound business results due to the distinct risk management ability of SFG. In terms of operating size, Shinhan Card secured 2.7 million card members and 2.0 million affiliated merchants as of the end of 2003, with total credit card usage reaching KRW 15.8 trillion. In particular, Shinhan Card's delinquency rate, on the basis of payment default of one month overdue, remained at 6.15%, substantially lower than the industry average of 14%. In 2004, Shinhan Card's profit is expected to rebound in tandem with the steady fall in its delinquency rate.

The recently acquired credit card business of Chohung Bank retains 3.2 million cardholders and 250 thousand merchant stores, with a total credit card usage of KRW 20.4 trillion. The credit card unit restricted business expansion to focus on improving asset quality in 2003, due to the relatively high delinquency rate and increase in non-performing assets. In 2004, the quality of its assets is expected to improve the level of Shinhan Card's standards with the reinforced asset quality management.

In terms of marketing, Shinhan Card added various services to promote its major credit card products: 'D-O' (for men) and 'My Sense' (for women). It also expanded customers' choices by introducing new affiliated credit cards with our partners in education and insurance sectors. In order to better serve the needs of our upper-tier customers, Shinhan Card devised the new Platinum Pro Card, which selectively provides most preferred services by previous Platinum Card customers.

This year, delinquencies in household debts are expected to continue as a result of the delay in the economic recovery. In addition, risk burden may increase due to a series of delinquencies of multiple debt holders that could arise in the process of restructuring credit card companies. Accordingly, SFG will devote our efforts to establishing the foundations for

Shinhan Card was able to stand out as one of the few credit card companies to post relatively sound business results due to the distinct risk management ability of SFG.



growth through the promotion of HNW customer-oriented marketing and the reinforcement of asset quality management.

We will actively utilize our advantage as a financial holding company. In addition to sharing customer databases of each subsidiary within the Group, we can benefit our customers by developing products and services that increase synergies among companies under the Shinhan family.

By vitalizing target marketing on HNW customers within the Group, SFG plans to promote our business operations toward increasing customer loyalty. SFG will also expand our HNW customer base by targeting high-income earners from the middle class. We will strive to stimulate increases in card usage and spending of customers by reinforcing communication channels such as the internet, direct marketing and telemarketing. In addition, we will devote our efforts to securing and fostering core competent personnel to build our expertise and specialty in the credit card industry. Furthermore, we will expand our investments in the business infrastructures such as IT systems, and improve service quality and operation system of our call centers for better customer satisfaction.

SFG plans to overhaul our credit evaluation system based on efficient risk-reward analysis, while implementing strengthened risk management to improve our asset quality and minimize non-performing assets. In this respect, we are currently upgrading our credit evaluation systems and plan to establish supplementing systems with an optimal Application Scoring System (ASS) scorecard. We also plan to expand the number of qualified screening personnel and reinforce our Behavior Scoring System (BSS), while minimizing ex-ante and ex-post delinquencies. Moreover, we will strive to control additional delinquencies of multiple-debt holders.

By achieving such business goals, SFG aims to fulfill our pivotal role in the consumer finance industry and lead the upcoming era of 'one-card-for-all.'

# Private Banking



The interest of customers on private banking (PB) is heightened due to the prolonged low interest rates in the domestic financial markets and active promotion of private banking services by domestic banks and securities companies. In order to actively cope with such changing market environment, SFG is focusing on upgrading our private banking business by reinforcing our operation strategy and support system to attract high net worth (HNW) customers and fostering professional employees.

In line with its Millennium Retail Branch (MRB) strategy initiated in October 1999, Shinhan Bank has installed VIP exclusive corners in over 200 branches throughout the country to provide high-quality services to HNW customers. In order to meet the diverse needs of customers for advanced financial products, Shinhan Bank began preparations to enter into the private banking business in September 2001. In January 2002, Shinhan Bank launched the Private Banking Team and successfully opened its first Private Banking Center in Seoul on September 3, 2002.

The addition of Chohung Bank as a subsidiary in the Group in September 2003, has enabled us to expand the private

banking market by utilizing the nation-wide branch network of Chohung Bank. As of the end of 2003, the combined private banking assets under the management of Shinhan Bank and Chohung Bank reached KRW 2.4 trillion.

Shinhan Private Bank has actively pursued a business strategy aimed at increasing asset under management (AUM), and dominating Korea's PB market. In 2003, the Bank successfully increased its customers' share of wallet (SOW) by providing HNW customers with exclusive services through PB centers. Shinhan Private Bank enhanced customer relationship services by holding seminars for investment topics, introducing 'Member Gets Member' (MGM) program, and organizing various customer events, including golf tournament charities and skin care classes.

Shinhan Private Bank introduced high margin products such as foreign currency bond funds, foreign currency deposits with Korean won conversion options, and tax-separate government bond funds, and focused on fee-based products, such as PB securities trading, savings deposits, and bancassurance products. In addition, the company created "Inheritance Management Services" and developed comprehensive real estate management products for the



SFG's private banking will lead the PB market in Korea through expansion, profit maximization and progression.



first time in Korea to provide real estate agency services, investment consulting and lease management services.

As a result of such strategies in the PB market, the total amount of assets under management has more than doubled, from KRW 950.0 billion to KRW 1,560 billion in 2003, while new deposits for asset management increased by KRW 420.0 billion. Total operating income increased by KRW 7.4 billion, while operating income to deposits ratio increased by 14 basis points over the prior year.

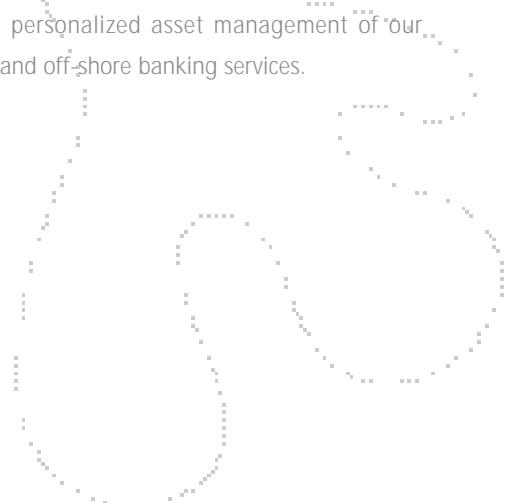
We have driven a strategy to support the diverse businesses of PB centers with highly professional staff. By actively utilizing professionals such as tax accountants, real estate experts and property appraisers, we have been able to increase customer satisfaction. We provided many value-added services to improve our private banking services, such as financial trend reports, monthly e-mails alerts and investment information magazines. In addition, we developed software to protect the financial privacy and information of PB customers.

SFG's private banking will lead the PB market in Korea through expansion, profit maximization and progression. In terms of expansion, we plan to integrate the customer

databases and networks of Shinhan Bank and Chohung Bank. For profit maximization, we will secure stable revenues through high margin sources.

We will also steadily secure competent private bankers, while at the same time, reinforce the consulting abilities and knowledge of our real estate and tax experts. Also, we will seek approval from the financial authorities to expand our bank's business scope into the growing investment advisory sector.

As for progression, we plan to provide high quality PB services through asset management solutions, such as 'Art Banking' for investments in works of art, 'Family Office' for the personalized asset management of our client families, and off-shore banking services.



# Bancassurance

In 2003, SH&C played a leading role in creating synergies among subsidiaries by cross-selling guarantee insurances through active telemarketing activities.



In 2003, SH&C played a leading role in creating synergies among subsidiaries by cross-selling guarantee insurances through active telemarketing activities to Shinhan Card customers. SH&C plans to expand its telemarketing of non-dividend paying casualty insurances by utilizing the nationwide network of 970 branches of SHB and CHB.

SH&C Life Insurance was established as a joint venture between SFG with Cardif, a subsidiary of BNP Paribas. With sales of insurances over bank windows being permitted subsequent to September 2003, SH&C has steadily secured its position, specializing in bancassurances products for life, pension, and casualty insurances. By leveraging Shinhan Bank's brand power and Cardif's differentiated bancassurance business expertise, SH&C is fast becoming a trusted and reliable bancassurance company.

While most insurance companies in Korea started their bancassurance business with floating rate products, SH&C retained its leading position by selling variable life insurance products. Our Deux-Plus Variable Annuity Life Insurance was particularly successful in penetrated the market, ranking 8th (4% market share) among the bancassurance companies in terms of insurance premium revenues, and ranking first if only the variable annuity life insurance products are considered. Although domestic customers still remain anxious and reserved about variable insurance products, these products are popular in developed countries as long-term investment products because they provide stable and profitable old-age funds.

The year 2004 marks the second anniversary of SH&C Life Insurance. As the best bancassurance company in Korea, SH&C will present a win-win business model for customers and business partners by identifying and understanding their respective needs. In this respect, SH&C is devoting its energy not only to contribute to the maximization of the Group-wide performance, but also to take the lead in the new trend of the domestic financial markets.



# E-Business

We will continue a myriad of research and development projects to provide secure electronic transactions for the entire spectrum of financial activities.

Shinhan Bank was the first financial services company in Korea to introduce internet banking and cyber loans, an online lending service in 1999. With the advent of new trends in service channels, including mobile banking and smart card, SFG will continue to lead e-business services by staying ahead of the trends in electronic financial solutions.

In 2003, SFG's internet banking maintained 3.72 million customers, an increase of 680,000 customers from the previous year, with transaction volume increasing rapidly due to strong customer loyalty. Our internet transaction volume is steadily growing. Internet deposits increased by 37% YoY to KRW 127.3 billion in 2003, while internet loans increased by 31% YoY to KRW 11.4 billion. The electronic payment of taxes and dues has also expanded, accounting for over 10% of total number of tax payments.

The ezPlus service, a customer-based banking solution introduced in February 2002, provides stable internet banking services. ezPlus meets the diverse needs of customers, including securities and insurance services, and has attracted many new customers due to the ease and convenience of the service.

In addition, the service has further been reinforced with the addition of English internet banking services, tax payment service and upgraded security functions.

The BizBank service, a corporation-based banking solution introduced in 2001, is used by the majority of SFG's corporate customers. The service is receiving favorable responses due to its advanced security system and diverse range of services that meet the needs of corporations. In particular, online banking products such as e-Biz loans and online bonds are contributing to the increasing volume of electronic financial transactions in the domestic business-to-business market.



The E-Moden service, jointly developed between e-Shinhan and Boston Consulting Group to offer high quality internet financial services, is a distinct financial portal site in Korea. Its core services include comprehensive account management, electronic family accounting book service to help record all household 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.

SFG has also focused on strengthening customer relationships through internet banking by hosting electronic commerce events to increase the customers' Shinhan brand exposure and recognition. We also enhanced the internet customer channel of our offline branches by establishing a bank-wide e-mail system, Short Message Service (SMS) system, and message dispatch service within internet banking.

We are actively preparing for the new financial paradigms such as Smart Cards and mobile banking. With the convergence of financial institutions and mobile carriers, we are striving to reinforce our position as a leading player in the mobile banking market by identifying the needs of our customers and providing dedicated services.

With the development and advancement of SFG's e-business services, our profitability has increased significantly. SFG posted KRW 53.3 billion in commission revenue from e-banking, an increase of 17.1% from the

previous year, as a result of the increase in online transactions and implementation of new businesses. Payment Gateway (PG) business is another source of revenue, providing various profit-generating services, including internet lotteries and credit-information reference services.

In 2003, we added card management and schedule management functions to improve the consolidated account management of e-Moden. In this respect, we were successful in widely publicizing the superiority of our electronic account books through mass media, such as television and newspapers. The number of subscribers continues to increase and we receive favorable responses from our customers. We are also devoting our efforts in securing loyal customers through free e-mail accounts and expansion of online services such as shopping and games.

SFG plans to continue strengthening the profitability of its e-businesses, providing lifetime value-based wealth management services through efficient CRM and one-on-one marketing system.

We 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 activities, and to enhance the quality of life for our clients.

# Risk Management

SFG has implemented a hierarchical system to limit and manage risks within an acceptable range.



Shinhan Financial Group (SFG) manages various risks that could arise from business activities. Major risks include credit, market and liquidity risks, which are recognized, measured, and reported to SFG by each subsidiary to ensure its compliance with the SFG guidelines for risk management.

## ■ Organization

SFG has implemented a hierarchical system to limit and manage risks within an acceptable range. The Group Risk Management Committee, at the holding company level, sets the risk governing guidelines and strategies to establish functional risk limits for each subsidiary, which has its own risk management structure, and detailed risk management policies and strategies. The subsidiary's risk managers identify and evaluate the risks involved in its business and reports to the Group Risk Management Council.

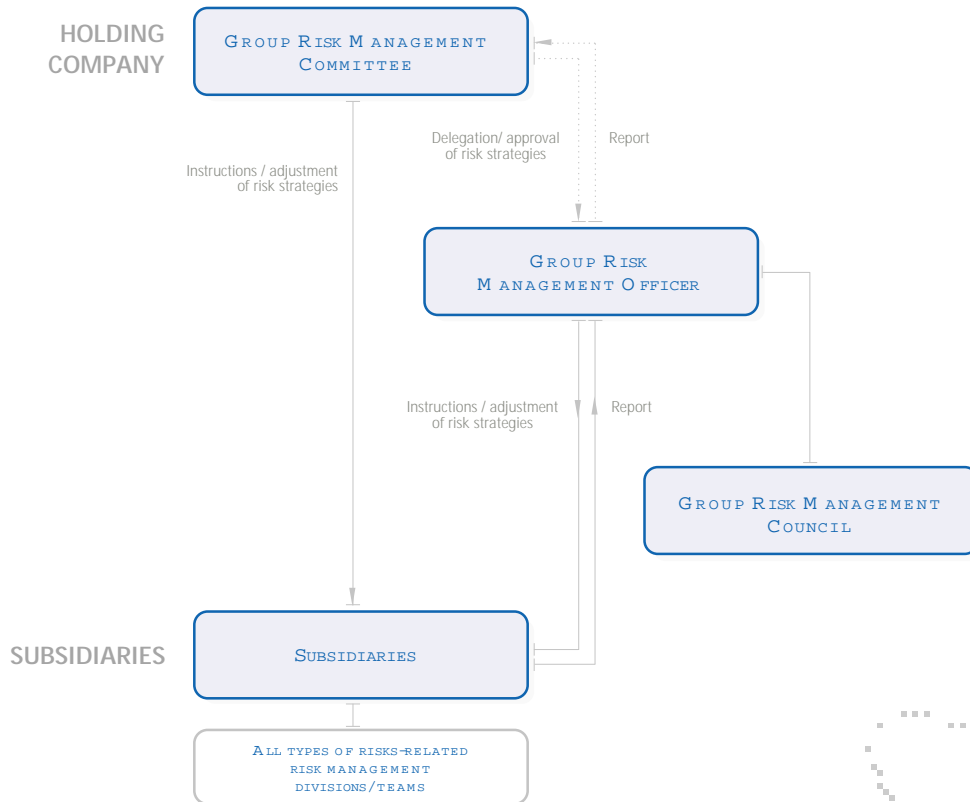
The Group Risk Management Committee develops risk management framework for SFG and its subsidiaries, and coordinates Group risk-related matters by establishing Group risk policies and limits. The Committee consists of three outside directors and the decisions made by the Committee are reported to the Board of Directors.

The Group Risk Management Council discusses detailed matters in order to maintain consistency in the Group's risk policies and strategies. The council consists of SFG's Group Risk Management Officer, who serves as the chairman of the council, SFG's Treasury Team manager, and coordinators of each subsidiary's risk management divisions.

## ■ Credit Risk Management

Credit risk refers to risks that arise when borrower fail to discharge their liabilities according to the contract. This is the greatest risk that SFG has to bear. The majority of credit risk derives from Shinhan Bank (SHB) and Chohung Bank (CHB).

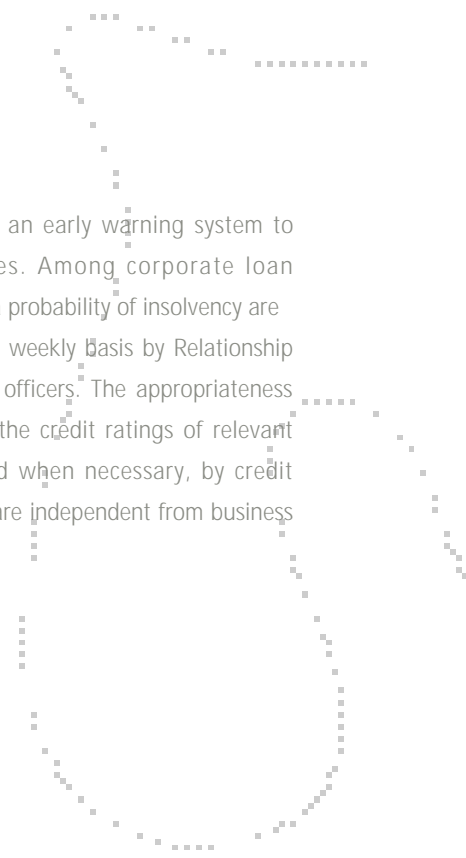
Basic risk policies for SHB and CHB are determined by the Credit Committee. Led by the chief credit officer (CCO) and mainly comprised of the head of the credit-related division and the general manager of the Credit Policy & Risk Management Department, the Credit Committee establishes company-wide loan policies, and inspects loans for amounts beyond normal limits. Credit risk management for individual loans begins by determining the creditworthiness of the borrower. All corporate loan requests undergo a credit analysis using assessment models that consider the financial and non-financial factors of the individual corporation, as well as the industries in which the corporation operates. Results of

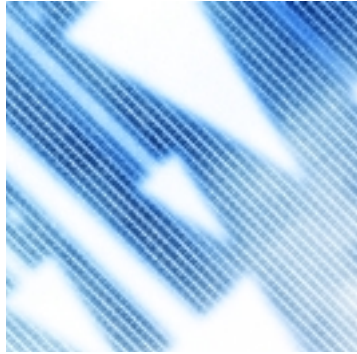


the credit evaluation set the basis for loan approval, limit management, price decision, and loan loss provisioning. SFG grants appropriate credit to small and individual companies by developing and applying separate assessment models for such corporations.

Corporate loans are objectively and carefully examined through the Group decision-making process. Approvals for larger and complex 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 Relationship Managers (RMs) and credit officers. The appropriateness of loan review results and the credit ratings of relevant companies can be adjusted when necessary, by credit management divisions that are independent from business group headquarters.





### ■ Market Risk Management

Market risk refers to risks generated by changes in market prices, such as interest rate, commodity prices. SFG divides and manages market risk into "Price risk" on trading assets, "interest rate 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 that SFG is willing to bear without a significant impact on its operations. 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.

Shinhan Bank and Chohung Bank use a statistical system to calculate potential losses due to market fluctuation. Shinhan Bank uses a methodology called historical simulation, which is based on a 99% confidence level. In addition, each bank conducts a stress test to complement risk measurement and manages losses that can result from rapid changes in the economic environment.

Shinhan Bank 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 operations, Goodmorning Shinhan Securities (GMSH) applies risk equivalent figures that are computed by the relevant supervisory organization. In the case of stock price futures and options, GMSH 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 that 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.



## ■ Liquidity Risk Management

Liquidity risk is the risk of insolvency, default or loss due to disparity between inflow and outflow of funds, including having to obtain funds at a high price or to dispose of securities at an unfavorable price due to lack of available funds or loss of attractive investment opportunities.

SFG has the following basic principles for liquidity risk management:

- \* Maintain an appropriate level of liquidity risk through liquidity risk management based on liquidity gap or debt-to-equity ratio at each maturity date;
- \* Assess and monitor net cash flows by currency and by maturity and continuously evaluate available sources of funds and the possibility of disposal of any liquid assets;
- \* Diversify sources and uses of funds by product and by maturity to prevent excessive concentration in certain periods or products; and
- \* Prepare contingency plans to cope with a potential liquidity crisis.

Each subsidiary manages liquidity risk in accordance with the risk limits and guidelines established internally, as well as those directed by the relevant regulatory authorities. Pursuant to regulations applicable to financial holding companies and banks as promulgated by the Financial Supervisory Committee (FSC), Shinhan Bank and Chohung Bank are required to keep specific Won (KRW) and foreign currency liquidity ratios. These ratios require the banks to keep the ratio of liquid assets to liquid liabilities above certain minimum levels.

SHB and CHB manage its liquidity risk within the limits set on local Won and foreign currency accounts in accordance with the FSC regulations. The FSC requires Korean banks to maintain a Won liquidity ratio of at least 105.0% and a foreign currency liquidity ratio of at least 80%. The FSC defines the liquidity ratio as liquid assets, including marketable securities due within three months, divided by liabilities due within three months.

The Treasury Department of each bank is in charge of liquidity risk management with respect to the banks' Won and foreign currency funds. The Treasury Department of the bank submits the monthly funding and asset management plans to the Asset Liabilities Management (ALM) Committee for approval, based on the analysis of various factors, including macroeconomic indices, interest rate and foreign exchange movements and the maturity profile of the bank's assets and liabilities. The Risk Management Division measures the bank's liquidity ratio and liquidity gap ratio on a monthly basis and reports whether they are in compliance with the limits of the ALM Committee on a monthly basis.



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# Management's Discussion & Analysis

## . Overview

The Korean economy in 2003 experienced a noticeable fall in domestic demand and economic slowdown due to the rising household debt levels and credit-card delinquencies, as well as the negative implications from SK Networks' (formerly SK Global) accounting scandal and LG Card's liquidity crisis. However, signs of recovery in the domestic economy began to emerge during the later part of the year, driven by export-led expansion and the U.S.-led global economic recovery. In the household sector, the increase in household debt and credit delinquencies surfaced as a major social problem.

In the case of corporate lending, the low interest rate environment prompted financial institutions to expand their loan policies towards SMEs, as opposed to large corporations that carried higher credit risks. In addition, home mortgage loans rapidly grew in the household sector due to healthy demand, low interest rates and abundant market liquidity. With respect to the credit card sector, 2003 was a difficult year for the industry, with sales and assets substantially decreasing from the previous year as both financial supervisory authorities and credit card companies reduced cash advance limits, wrote-off and disposed of non-performing assets, and regulated delinquent credit card members as a result of the increase in private credit card delinquencies.

For Shinhan Financial Group, 2003 was a year that saw big progress in the group's conglomeratization towards One Portal business model. In September 2003, SFG acquired an 80% stake in Chohung Bank, the oldest bank in Korea with a history of 100 years, to include the bank as a core subsidiary of the group. While 2002 can be assessed as a year that established the foundations for a diversified business portfolio in its efforts to establish a universal banking model, 2003 was a year of conglomeratization for completing the group's business portfolio. As such, SFG was able to solidify its position as the 2nd largest bank in terms of assets, and become one of the most influential financial services groups in Korea.

With the acquisition of Chohung Bank, SFG is now better positioned than ever to establish stable growth through economies of scale. In the near future, SFG aims to revitalize the company into a world-class financial services group through the successful consolidation of Shinhan and Chohung Bank to create a New Bank and to develop synergies among the group's subsidiaries for both the banking and non-banking operations. In this respect, SFG is committed to fulfilling the tasks set forth in achieving its goals.

## . Summary of Profit/Loss

### 1. Shinhan Financial Group (Holding Company)

In 2003, SFG's consolidated net income decreased by 39.7 percent to 363.0 billion won from 602.2 billion won in 2002. The drop in net income can be attributed to (1) the substantial decrease in Shinhan Bank's net income (119.7 billion won decrease over 2002) caused by increased accumulation of allowances for loans to SK Networks and LG Card; (2) deficit turnaround (minus 84.3 billion won) of Shinhan Card as a result of increased private credit card delinquencies; and (3) net loss incurred by Chohung Bank following its acquisition in September 2003 (net loss of 42.7 billion won in the 4 months subsequent to acquisition).

# Management's Discussion & Analysis

## 2003 Consolidated Net Income

(In Billions of Korean Won)

	Net Income	Goodwill	Provision Adjustment	Operating Expenses	Total
SHB	476.0		0.2		476.2
CHB	(195.3)	(20.0)	172.6		(42.7)
GMSH	23.2	(17.0)	2.6		8.8
SHCard	(89.8)		5.5		(84.3)
SHC	15.8		10.4		26.2
SHBNPITM	0.9				0.9
Jeju	3.0	0.8	1.4		5.2
SH&C Life	(1.7)				(1.7)
e-Shinhan	(1.2)				(1.2)
SMFA	1.4				1.4
Credit Inform	0.5				0.5
SFG				(26.3)	(26.3)
<b>Total</b>	<b>232.8</b>	<b>(36.2)</b>	<b>192.7</b>	<b>(26.3)</b>	<b>363.0</b>

\* Operating expense of ₩26.3 billion includes interest income of ₩5.1 billion, other income of -₩7.5 billion, and SG&A expense of ₩23.9 billion.

The holding company's net income is comprised of the combined net income of individual subsidiaries according to SFG's respective ownership ratio (232.8 billion won), amortization expenses on goodwill (36.2 billion won), provision adjustments (192.7 billion won) and general administrative expenses of the holding company (26.3 billion won). SFG's amortization expenses on goodwill is composed of 20.0 billion won for the 4 month amortization of goodwill incurred as a result of the acquisition of Chohung Bank and 17.0 billion won for the amortization of goodwill from the acquisition of Good Morning Securities. Meanwhile, 90 percent or 172.6 billion won of provision adjustments, totaling 192.7 billion won, was incurred because of the reversal of allowances from Chohung Bank. Such reversal of allowances can be attributed to the incurrence of partial adjustment factors in Chohung Bank's book value at the end of the fiscal year, which was deducted in calculating its fair value at the time the bank was acquired by SFG in August 2003.

# Management's Discussion & Analysis

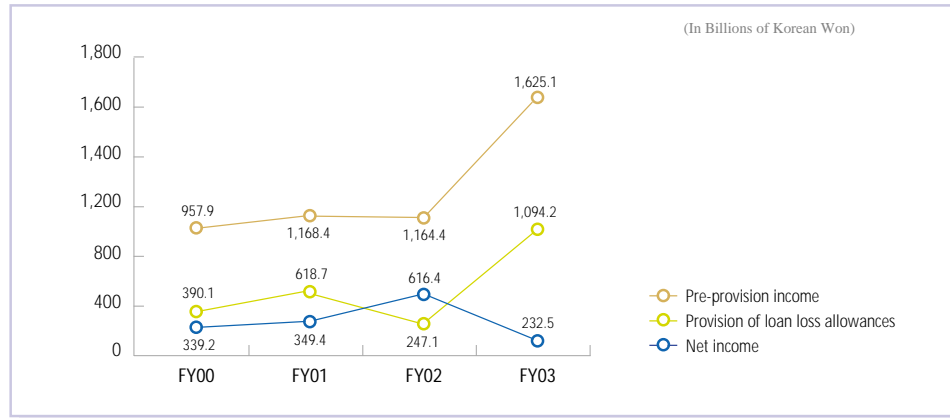
The following table shows SFG's annual pre-provision income, provision of loan loss allowances, and net income of its major subsidiaries.

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	FY2003	YoY
<b>Pre-provision income</b>					
SHB	948.9	1,093.0	1,060.2	1,173.9	10.7%
CHB				201.8	n.a
GMSH	(7.1)	42.9	20.7	49.5	139.1%
SHCard			64.8	147.1	127.1%
SHC	33.6	28.4	30.1	30.2	0.5%
SHITM	(17.6)	4.1	6.0	1.5	(75.2)%
Jeju Bank			15.1	21.2	40.3%
SH&C			(0.5)	(1.7)	n.a
e-Shinhan			(0.8)	(1.1)	n.a
SMFA			0.1	2.1	1970.4%
SHCI			0.1	0.6	500.0%
<b>Total</b>	<b>957.9</b>	<b>1,168.4</b>	<b>1,195.7</b>	<b>1,625.1</b>	<b>35.9%</b>
<b>Provision of loan loss allowances</b>					
SHB	359.3	551.6	168.3	435.1	158.5%
CHB				396.3	n.a
GMSH	0.0	1.8	(5.3)	0.0	n.a
SHCard			64.0	235.9	268.8%
SHC	30.8	65.2	17.4	7.4	(57.3)%
SHITM	0.0	0.1	0.0	0.0	(40.4)%
Jeju Bank			2.7	19.4	618.5%
SH&C			0.0	0.0	n.a
e-Shinhan			0.0	0.0	n.a
SMFA			0.0	0.0	n.a
SHCI			0.0	0.0	n.a
<b>Total</b>	<b>390.1</b>	<b>618.7</b>	<b>247.1</b>	<b>1,094.2</b>	<b>342.8%</b>
<b>Net Income</b>					
SHB	372.8	347.1	595.9	476.0	(20.1)%
CHB				(195.3)	n.a
GMSH	(17.6)	25.0	9.3	23.2	149.5%
SHCard			0.5	(89.8)	n.a
SHC	1.9	(26.1)	7.6	15.8	106.4%
SHITM	(17.8)	3.4	4.0	0.9	(77.5)%
Jeju Bank			0.1	3.0	n.a
SH&C			(0.5)	(1.7)	n.a
e-Shinhan			(0.8)	(1.2)	n.a
SMFA			0.1	1.4	1300.0%
SHCI			0.1	0.5	270.0%
<b>Total</b>	<b>339.2</b>	<b>349.4</b>	<b>616.4</b>	<b>232.8</b>	<b>(62.2)%</b>

Note1) Operating expense of ₩26.3 billion includes interest income of ₩5.1 billion other income of - ₩7.5 billion and SG&A expense of ₩23.9 billion.  
 Note1) Excluding Goodwill, Provision adjustment and SFG's operating expense.

## Management's Discussion & Analysis



The group's overall pre-provision income showed a continual upward trend, with the exception of 2000 when its securities business suffered from sluggish earnings. In 2003, SFG's rising income was further supported by the addition of Chohung Bank's 4 month pre-provision income and Shinhan Bank's 10.7 percent YoY (year-on-year) increase in interest revenue, offset by the decrease in credit card business income due to its spin off in June, 2002.

Despite continued increase in pre-provision income, SFG's provisions for bad debts increased 3.3 fold to 1,094.2 billion won from the previous year. The increase can be accredited to the significant rise in the provisions for bad debts from Shinhan Bank, Chohung Bank and Shinhan Card, due to the SK Networks turmoil, LG Card crisis and a surge in credit card delinquencies.

The group's net income fell substantially from 2002 due to such large accumulation of provisions for bad debts. However, despite the unfavorable domestic securities industry caused by low trade volume and commission fees, the increase in net income of Good Morning Shinhan Securities (149.5%) and Shinhan Capital (106.4%) was an encouraging sign for SFG. In the near future, profit contribution of SFG's non-banking subsidiaries to the group is expected to improve continuously.

The composition ratio of interest income to non-interest income increased by 3 percentage points from 62:38 in 2002 to 65:35 in 2003 due to the rise in interest income ratio stemming from the decrease in Chohung Bank's non-interest income (mainly losses on sales of loans (169.6 billion won)). Excluding the Chohung Bank factor, the composition ratio of interest income to non-interest revenue increased by 1 percentage point in 2003 from the previous year.

The period from the group's launch in September 2001 to 2003 can be seen as a preparative stage for creating group synergies. In its continuation, SFG will focus on realizing such synergies subsequent to 2004 by actively conducting CRM activities that utilize extensive bank information about customers, products and channels to develop products and services can be up-sold or cross-sold among the group's banking and non-banking subsidiaries.

# Management's Discussion & Analysis

SFG's non-interest income is depicted below.

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	FY2003
Interest Income	910.6	1,068.8	1,219.6	1,757.7
Non-interest Income				
Fees & Commissions	547.7	518.4	633.2	987.4
(Credit Card Income)	248.4	301.1	366.8	589.2
Fees on Trust Accounts	(3.1)	129.8	120.4	88.2
Securities-related Income	77.3	38.1	(74.0)	(40.3)
Gains on FX transactions	68.1	82.3	85.1	108.0
Other Income	(65.9)	(45.8)	(25.0)	(191.2)
Total	624.2	722.8	739.8	952.1

## 2. Shinhan Bank

### (1) Overview

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	FY2003	YoY
Operating Revenues	4,344.5	4,679.7	4,821.3	4,851.9	0.6%
Interest Income	3,377.7	3,438.9	3,321.3	3,540.1	6.6%
Commission Income	381.5	463.8	422.3	299.4	(29.1)%
Other Operating Income	585.3	776.9	1,077.8	1,012.6	(6.0)%
Operating Expenses	3,894.6	4,239.1	3,888.9	4,180.6	7.5%
Interest Expenses	2,487.9	2,405.6	2,104.4	2,128.9	1.2%
Commission Expenses	28.5	76.1	101.4	34.5	(66.0)%
Other Operating Expenses	887.8	1,194.1	1,057.5	1,348.7	27.5%
G&A Expenses	490.5	563.3	625.6	668.6	6.9%
Operating Income	449.9	440.5	932.4	671.4	(28.0)%
Non-Operating Income	146.5	206.1	119.1	100.4	(15.7)%
Non-Operating Expenses	49.5	150.9	208.5	86.0	(58.8)%
Ordinary Income	547.0	495.7	843.0	685.8	(18.6)%
Extraordinary Gains	6.5	-	-	-	
Income Before Income Taxes	553.5	495.7	843.0	685.8	(18.6)%
Income Tax Expenses	180.8	148.6	247.1	209.7	(15.1)%
Net Income for the Year	372.8	347.1	595.9	476.0	(20.1)%

Shinhan Bank's operating income and net income fell by 28% and 20%, respectively, in 2003. Operating revenues slightly increased by 0.6% YoY, aided by a solid 6.6% growth in interest income, and offset by a 29.1% decline in commission income. The decline in commission income resulted from a drop in trust fees, and a decrease in credit card fees stemming from the spin-off of Shinhan Bank's credit card business in June 2002. On the other hand, despite the 66% decrease in commission expenses due to lowered legal fees related to mortgage loans assumed by customers, total operating expenses increased by 7.5%, as a result of a 27.5% rise in other operating expenses from an increased provisioning burden for bad debt.

## Management's Discussion & Analysis

The following depicts the details of other operating income and other operating expenses.

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	FY2003	Chg.
Other Operating Income	585.3	776.9	1,077.8	1,012.6	(65.2)
Gains on Disposition of Trading Sec.	70.8	78.0	34.9	36.7	1.8
Gains on Valuation of Trading Sec.	5.2	5.3	0.0	0.0	0.0
Dividends on Trading Securities	1.4	0.2	1.9	1.7	(0.2)
Dividends on Investment Securities	4.5	1.5	12.7	1.5	(11.2)
Gains on Foreign-currency Trading	181.2	179.7	188.8	166.6	(22.2)
Fees and Commissions from T/A	87.1	129.9	120.3	81.9	(38.4)
Reversal of Allowance for G&A	39.2	0.0	9.4	0.3	(9.1)
Gains on Derivatives Trading	196.0	382.4	709.9	720.5	10.6
Reversal of Allowance for LLR	0.0	0.0	0.0	3.4	3.4
Other	0.0	0.0	0.0	0.0	0.0
Other Operating Expenses	887.8	1,194.1	1,057.5	1,348.7	291.2
Loss on Disposition of Trading Sec.	72.6	95.1	31.5	20.4	(11.1)
Loss on Valuation of Trading Sec.	1.2	5.4	6.2	1.2	(5.0)
Loss on Foreign-currency Trading	89.2	88.0	99.2	106.4	7.2
Contribution to Funds	35.8	40.5	43.7	52.2	8.5
Bad Debt Expenses	398.6	550.7	148.3	438.7	290.4
Other Provisions	0.0	2.3	29.4	0.0	(29.4)
Subsidy for Trust Accounts	90.1	0.0	0.0	0.0	0.0
Loss on Derivatives Trading	181.5	386.1	670.5	670.9	0.4
Provision for A&G Losses	0.0	0.9	0.0	0.0	0.0
Other	18.7	25.1	28.7	58.9	30.2

Meanwhile, ordinary income decreased by 18.6%, representing a smaller magnitude compared to 28% drop in operating income. This can be attributed to the decrease in non-operating income offset by the significant reduction in non-operating losses, with non-operating income decreasing by 15.7% YoY or 18.7 billion won compared to 58.8% YoY or 122.5 billion won decrease in non-operating expenses. The rise in non-operating income mainly came from significant reduction in losses related to investment securities in 2003, as opposed to the incurrence of large investment securities losses related to debt-equity swap of Hynix Semiconductor, and disposal and impairment losses from Hyundai Engineering & Construction shares in 2002.

## Management's Discussion & Analysis

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	FY2003	Chg.
Non-operating Income	146.5	206.1	119.1	100.4	(18.7)
Rental Income	6.2	6.9	5.4	4.9	(0.5)
Gains on Valuation Using Equity Method	16.5	21.4	8.3	-	(8.3)
Gains on Disposition of Investment Sec.	79.2	77.1	48.8	42.8	(6.0)
Recovery of Investment Bond Impairment Loss	6.5	18.1	13.3	13.0	(0.3)
Gains on Valuation of CBO	19.9	12.9	-	-	-
Gains on Sale of Loans	2.1	15.3	10.3	3.6	(6.7)
Other	16.1	54.4	33.0	36.0	3.0
Non-operating Expenses	49.5	150.9	208.5	86.0	(122.5)
Loss on Disposition of Tangible Assets	0.1	0.1	0.1	0.2	0.1
Loss on Disposition of Investment securities	1.2	51.5	86.7	25.3	(61.4)
Impaired Loss in Investment Securities	27.4	58.8	93.7	36.1	(57.6)
Loss on Sale of Loans	0.7	27.5	7.5	-	(7.5)
Other	20.1	12.9	20.5	24.4	3.9

### (2) Interest Income

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	FY2003	YoY
Interest Income					
Interest on Due from Banks	112.9	64.1	20.9	22.9	9%
Interest on Trading Securities	57.6	55.9	34.8	27.0	(22)%
Interest on Investment Securities	1,108.6	985.7	836.4	795.7	(5)%
Interest on Loans	2,046.1	2,291.3	2,407.6	2,677.2	11%
Other	52.6	42.0	21.5	17.3	(20)%
Total	3,377.7	3,438.9	3,321.3	3,540.1	7%
Interest Expenses					
Interest on Deposits	1,513.5	1,558.3	1,362.4	1,325.8	(3)%
Interest on Borrowings	779.6	594.1	418.2	369.2	(12)%
Interest on Debentures	158.1	207.9	303.5	411.6	36%
Other	36.3	45.3	20.3	22.2	9%
Total	2,487.9	2,405.6	2,104.4	2,128.9	1%
Net Interest Income	889.9	1,033.3	1,216.9	1,411.2	16%

Shinhan Bank's net interest income increased steadily as a result of balanced asset growth centered on corporate and retail loans, posting an increase of 16% (194.3 billion won) YoY in 2003. In particular, interest income rose by 7%, while increase in interest expenses remained at 1%. In addition, the average return rate of interest-bearing assets decreased by 79 basis points due to continued falling interest rates during 2003, while average expense rate of interest-bearing liabilities also decreased by 57 basis points. Interest income increased significantly due to large-scale asset growth in spite of interest margin spreads having decreased by 21 basis points compared to 2002.



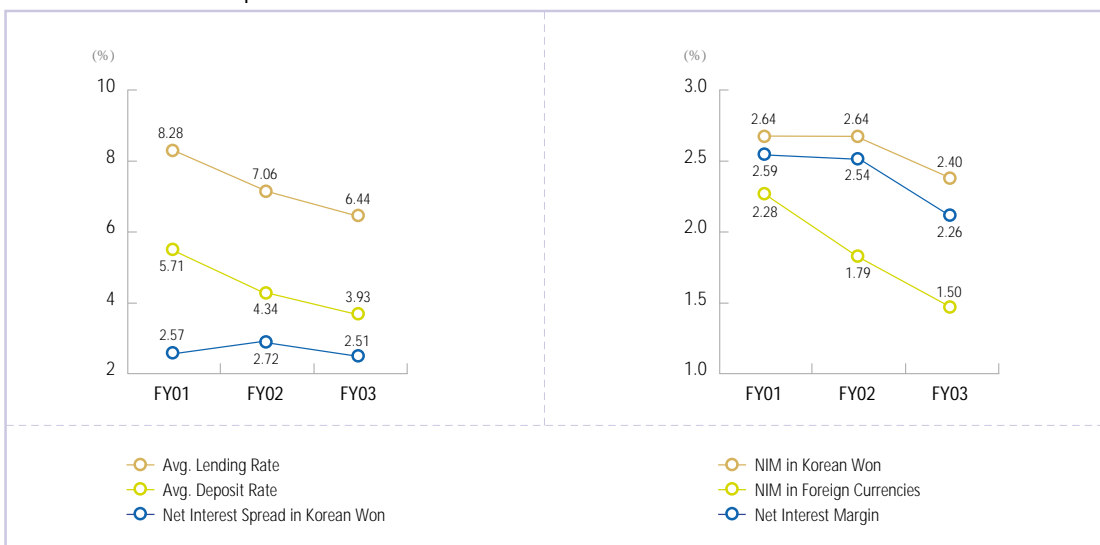
# Management's Discussion & Analysis

## (3) Net Interest Spread and Net Interest Margin

Net interest margins (NIM) of domestic banks are calculated based on the guidelines set forth by the Financial Supervisory Service (FSS). The FSS revises its NIM calculation guidelines every 6 months subsequent to 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 included as interest-earning assets. In addition, the revised guidelines also mandate that only profit and loss related to bona fide securities interests be considered in NIM calculations of securities, excluding gains and losses from securities trading or valuation. In general, NIS (net interest spread) and NIM calculations based on the revised standards are expected to be lower than that of the previous years since the rate of return on credit card assets is by far greater than that of loans or securities.

As frequent changes in the FSS's standards greatly undermine the direct comparability of current NIM with past figures, the following represents 2001 and 2003 NIM figures recalculated based on the end of 2002.

### NIS and NIM annual comparison



As shown in the table, both NIS and NIM fell during 2003 over 2002 as a result of (1) falling average rate of return on securities as the past high-interest carrying securities matured and were replaced with low-interest carrying securities; (2) absent operational income from credit card accounts due to the spin-off of the group's credit card business; (3) relatively low interest rates offered to financial consumers to attract superior loans amidst intense market competition in both corporate and household loan sectors; and (4) higher funding costs due to the incremental cost associated with bond issuance. In particular, Shinhan Bank has managed to maintain superior asset soundness compared to competitors due to its longstanding corporate and retail loan policy that focuses on well-organized risk management. As such, Shinhan Bank possessed a lower NIS and NIM compared to its competitors. However, taking into account bad debt expenses, Shinhan Bank traditionally maintains, on average, the highest level of NIM in the banking industry.

# Management's Discussion & Analysis

The following is a detailed table Shinhan Bank's margin structure.

(In Billions of Korean Won)

	Y2001		Y2002		Y2003	
	Volume	Yield	Volume	Yield	Volume	Yield
Interest Earning Assets(IEA)	44,877	8.00	49,778	6.82	57,957	6.03
IEA in Korean Won	38,550	8.32	43,644	7.31	48,794	6.70
Due From Banks	563	6.20	350	4.99	455	4.71
Securities	11,821	8.48	10,549	8.04	10,540	7.59
Total Loans	25,855	8.28	32,710	7.06	37,799	6.44
Loans	22,447	7.95	29,969	6.87	35,891	6.37
Corporate	13,297	7.69	14,863	6.68	18,015	6.18
Households	7,914	8.78	14,168	7.23	16,829	6.69
Bills Bought	2,295	7.03	2,019	6.28	2,257	6.01
Credit Card	1,320	14.51	999	11.74	101	6.06
Loan Loss Reserves( )	295	0.00	385	0.00	621	0.00
IEA in Foreign Currencies	6,327	6.07	6,135	3.36	9,164	2.49
Due from Banks	683	4.28	220	1.81	195	0.75
Securities	568	6.80	709	3.22	1,008	2.60
Total Loans	5,076	6.23	5,206	3.45	7,960	2.52
Loans	3,318	5.08	3,539	2.98	4,638	2.89
Bills Bought	2,023	7.30	1,806	4.10	3,463	1.93
Loan Loss Reserves( )	265	0.00	138	0.00	141	0.00
Interest Bearing Liabilities (IBL)	43,302	5.61	49,415	4.31	58,518	3.74
IBL in Korean Won	37,232	5.88	43,776	4.65	49,449	4.24
Total Deposits	26,845	5.71	31,670	4.34	34,825	3.93
Deposits	24,502	5.74	28,538	4.28	30,868	3.86
CDs	2,343	5.48	3,133	4.90	3,957	4.49
Borrowings	7,986	5.34	7,700	4.50	7,141	4.29
Finance Debentures	2,150	8.54	4,174	7.06	7,187	5.55
Others	251	17.67	232	8.58	296	7.41
IBL in Foreign Currencies	6,070	3.95	5,639	1.71	9,069	1.01
Deposits	1,870	2.58	1,694	0.93	3,017	0.54
Borrowings	3,602	4.61	3,405	2.09	5,139	1.17
Finance Debentures	473	5.13	386	2.23	602	2.07
Others	125	1.19	154	0.51	311	0.84
Net Interest Spread (NIS)	-	2.39	-	2.51	-	2.30
NIS in Korean Won	-	2.57	-	2.72	-	2.51
NIS in Foreign Currencies	-	3.65	-	2.52	-	1.99
Net Interest Margin	-	2.59	-	2.54	-	2.26
NIM in Korean Won	-	2.64	-	2.64	-	2.40
NIM in Foreign Currencies	-	2.28	-	1.79	-	1.50

## Management's Discussion & Analysis

By quarter, NIM declined marginally in the 1st and 2nd quarter of 2003, but then stabilized subsequent to the 3rd quarter. This was primarily due to (1) the slowdown in substitution of high interest-earning securities for low interest-earning marketable securities; and (2) controlled asset growth subsequent to the second half of 2003. In 2004, Shinhan Bank is expected to show a slightly increase in NIM from the 2003 levels.

### 2003 NIM by Quarter

	1Q	2Q	3Q	4Q
NIM in Total	2.43%	2.34%	2.27%	2.26%
NIM in Korean Won	2.59%	2.50%	2.43%	2.40%
NIM in F/C	1.56%	1.51%	1.45%	1.50%

### (4) Non-interest Income

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	FY2003	YoY
Fees & Commissions	353.0	387.7	320.8	264.9	(17.4)%
(Credit Card Income)	248.4	301.1	216.4	68.9	(68.2)%
Fees on Trust Accounts	(3.1)	129.8	120.3	81.9	(31.9)%
Securities-related Income	96.3	7.7	(97.7)	8.3	n.a.
Gains on FX Transactions	91.9	91.7	89.5	60.2	(32.8)%
Other Income	(24.7)	(39.8)	(12.9)	(37.1)	186.5%
<b>Total</b>	<b>513.4</b>	<b>577.3</b>	<b>420.0</b>	<b>378.2</b>	<b>(10.0)%</b>

During 2003, non-interest income fell by 10% YoY, primarily, because of (1) credit card income dropping by 68.2% YoY in 2003 due to the spin-off of the bank's credit card business in June 2002; and (2) other expenses sharply increasing due to the uniform increase in deposit insurance fee by the Korea Deposit Insurance Corporation.

### 3. Chohung Bank

#### (1) Overview

Founded in 1897, Chohung Bank is the oldest bank in Korea with over 560 domestic and overseas networks and nearly 10-million customer base.

Subsequent to the financial crisis in 1997, Chohung Bank received public funds of 2.7 trillion won from the government because of rising burdens in bad loan provisions due to a series of bankruptcy of conglomerates in Korea, and depressed domestic economy. Amidst the bank's active restructuring efforts in reducing labor and branches, the bank was added as the 11th subsidiary of SFG in August 2003, in accordance with the government's plan to sell its share as a means to recover public funds during 2002.

## Management's Discussion & Analysis

The decision by SFG to acquire Chohung Bank was necessitated by (1) the acceleration of intensified competition in the domestic financial market with active participation by foreign financial institutions subsequent to the IMF crisis in 1997; and (2) the desire to diversify the group's profit model through a holding company structure amidst the low growth environment.

Chohung bank is a core subsidiary along with Shinhan Bank, comprising 41% or 63.3 trillion won of SFG's total assets, 45.4% or 42.9 billion won of total loans and 45.6% or 45.2 trillion won of total deposits.

However, the bank posted a net loss for the second consecutive year, totaling 966.0 billion won and 586.0 billion won in 2003 and 2002, respectively. Of its net loss in 2003, the bank's performance for the last 4 months of 2003, (net loss of 195.3 billion won) was reflected in SFG's consolidated net income according to the equity method.

With respect to Chohung Bank's asset soundness, NPL ratio also increased from 3.75% in 2002 to 4.82% in 2003, as the sluggish economy and household delinquencies continued throughout 2003.

Despite its net loss in 2003, the bank's BIS ratio improved by 0.21 percentage points to 8.87% YoY as of the end of 2003, due to issuance of hybrid bonds, reduction of risky assets and capital increase of 200 billion won by SFG.

### (2) Income Statement Highlights

#### Chohung Bank P/L Highlights

(In Billions of Korean Won)

	FY2003 (Sept. - Dec.)
Interest Income	373.2
Interest Revenues	866.2
Interest Expenses	493.0
Non-interest Income	79.9
Commission Income	268.0
(Credit Card Income)	214.8
Income on Trust Accounts	6.2
Income on Securities	(24.9)
Income on Foreign Currency Trading	46.4
Others	(215.8)
G&A Expenses	251.3
Pre-provisioning Income	201.8
Loan Loss Allowance	(396.3)
Net Income for the Year	(195.3)

Net loss reflected in SFG's consolidated net income based on [equity method] was 195.3 billion won in 2003. The figure reflects only 4 months (September~December) of the bank's net loss as it was added as a group subsidiary in August.

Amidst prevailing low interest rates due to continued economic recession both domestically and internationally, the bank's overall interest income did not change drastically with the marginal decline in interest expenses due to its low-cost funding structure centering on deposits related to district courts.

## Management's Discussion & Analysis

In 2003, Chohung Bank saw a decrease in credit card commission income due to sluggish domestic demand and contracted household consumption. In addition, the bank incurred a 169.5 billion loss from the disposal of assets related to multi-loan debtors. However, the bank posted a significant increase in non-interest income due to an increase in gain on sales of, and a decline in impairment loss from, available-for-sale securities.

### (3) NIM and NIS

	2001	2002(A)	2003(B)	(%) (B-A)
<b>NIM (FSS standards)</b>	<b>3.57</b>	<b>3.36</b>	<b>3.04</b>	<b>(0.32)%p</b>
Korean Won	3.81	3.59	3.29	(0.30)%p
Foreign Currencies	2.23	1.35	0.98	(0.37)%p
<b>NIS (FSS standards)</b>	<b>3.36</b>	<b>3.22</b>	<b>2.87</b>	<b>(0.35)%p</b>

Note) NIM and NIS are adjusted according to the new FSS standards.

The bank's NIM declined by 32 basis points to 3.04% YoY due to decreased margins caused by intensified competition for loans, while NIS in Korean won also fell by 35 basis points to 2.87%.

The bank plans to continuously improve NIM by expanding its sound assets through restructuring and low-cost deposits, as well as by realizing synergies in its operations through the holding company structure.

### 4. Goodmorning Shinhan Securities

The Korean securities market in 2003 was characterized by a series of uncertainties such as geo-political issues involving North Korea, the Iraqi War, and the domestic economic turmoil including SK Networks (formerly SK Global) accounting scandal. These uncertainties resulted in a substantial decrease in the overall market turnover (trade volume), which marked 3.5 trillion won during 2003 compared to 4.2 trillion won in 2002. Amid the downturn in trade volume, Goodmorning Shinhan Securities (GMSH) posted operating profit of 68.6 billion won and net profit of 35.8 billion won in 2003.

As the market trade volume declined, GMSH's overall top line also decreased year-on-year. Commission income in 2003 was 263 billion won, down by 23% from the previous year, with a sharp decline of 28% (190 billion won) in the equity brokerage commission, which contributed to the overall top-line drop. However, the company saw a slight increase in the derivatives brokerage commission, which edged up by 3%. A notable performance was shown in the trading business, as the net trading gain in 2003 was 57 billion won, up by 10% from the previous year's level. Net interest gain declined sharply by 50% YoY. The overall revenue for 2003 amounted to 341 billion won, down by 19% from last year.

# Management's Discussion & Analysis

(In Millions of Korean Won)

	CY2002	CY2003	Chg.	YoY
Operating Revenues	420,892	340,777	(80,115)	(19.0)%
Commissions received	340,880	262,735	(78,145)	(22.9)%
Net Trading Gain	51,633	56,975	5,342	10.3%
Net Interest Income	26,195	13,127	(13,068)	(49.9)%
Other Operating Income	2,185	7,940	5,755	263.4%
Operating Expenses	407,038	310,769	(96,269)	(23.7)%
Commissions Expenses	52,165	40,863	(11,302)	(21.7)%
G&A Expenses	354,873	269,907	(84,966)	(23.9)%
Operating Income	13,854	30,008	16,154	116.6%
Non-operating Income(loss)	31,980	38,606	6,626	20.7%
Ordinary Income	45,834	68,614	22,780	49.7%
Extraordinary Gains	0	2	2	-
Net Income Before Taxes	45,834	68,616	22,782	49.7%
Income Tax	(13,143)	32,801	45,944	n.a.
Net Income(loss) for the Year	58,977	35,813	(23,164)	(39.3)%
Commission Income	340,888	262,735	(78,153)	(22.9)%
Equity	263,340	189,640	(73,700)	(28.0)%
Futures / Options	33,299	34,214	915	2.7%
Beneficiary Certificates	27,245	15,273	(11,972)	(43.9)%
Underwriting	9,777	10,555	778	8.0%
M&A	4,340	437	(3,903)	(89.9)%
Others*	2,880	12,615	9,735	338.0%

\*Includes ELS sales commission

One of GMSH's primary management commitments after the merger was to reduce the high cost base. Hence, the company has faithfully executed its cost reduction strategy over the year, and the operating expense came down by 24% YoY, and totaled 311 billion won. G&A expenses were also reduced by 24% due to a 28% decrease in staff expense. The sharp decline in staff expense was due to a decrease in the overall headcounts, which was reduced by 6% from 2002-end.

(In millions of Korean Won)

	CY2002	CY2003	Chg.	YoY
G&A Expenses	354,873	369,907	(84,966)	(23.9)%
Staff Expenses	205,192	147,995	(57,197)	(27.9)%
Other General Expenses	99,737	95,915	(3,822)	(3.8)%
Depreciation	27,400	18,082	(9,318)	(34.0)%
Credit Loss Expense	22,545	7,915	(14,630)	(64.9)%

## Management's Discussion & Analysis

In 2003, GMSH mainly focused on building a solid infrastructure that would allow the core business units to create and maximize synergy effects with the banking operations. Following the merger in 2002, the company put much effort in setting key initiatives and executing them to grow its business based on cross-selling of products and services among the Group's affiliates. In the retail area, GMSH first designed and introduced an innovative financial product called Financial Network Account (FNA), in which customers can enjoy a combination of banking, securities and credit card services. Shortly after the launch of FNA in September 2002, the product's uniqueness drew heavy attention from the customers and it was one of the hottest products in the financial industry, selected as "The Hit Product of 2003" by Choong Ang Daily. The number of FNAs at 2003 year-end was 441,453, compared to 67,279 at previous year-end.

Another key strategy GMSH has executed over the year was strengthening its branch network. Combined with the extensive banking network that consists of over 800 branches, GMSH's network was redesigned through relocation and renovation, which allowed bank and securities units to effectively cross-sell each other's products. The company also grouped the bank and securities branches located in the vicinity as "Family Branches." By doing so, GMSH's sales representatives will be given opportunities to effectively communicate with the banking staff and create joint synergies. Lastly, one of the key tactics in strengthening the branch network was adopting Branch-in-Branch model, manning securities sales representatives in the bank branches to allow customers to enjoy both bank and securities services within a branch.

In the wholesale area, key synergy strategies were set mainly in the investment banking sector. GMSH has relocated its Investment Banking Center to SHB's headquarters in order to facilitate communication and cooperation with SHB. By utilizing SHB's solid corporate client base, GMSH has been able to grow its core investment banking business in both equity and debt sectors. GMSH's investment bankers are closely working with the bank's Relationship Managers in the Corporate Finance Center to maximize cross-selling. Added to the traditional investment banking business in equity and debt origination, GMSH also broadened its range of financial services to structured finance and designing OTC derivatives products such as ELS (equity-linked securities).

The earnings potential of GMSH is significant for SFG and is key to the Group's success in building a solid non-banking arm to fully accomplish the Group's diversification scheme. SFG believes in 2004, GMSH will be able to grow synergies in both retail and investment banking areas on the back of a solid infrastructure. GMSH now boasts a unique business model with high earnings potential through Group synergies, and SFG believes GMSH will drive its earnings to industry's top position in the near-term. One promising note is that, at year-end 2003, the two separate unions of former Shinhan Securities and Good Morning Securities have consolidated. This was one of GMSH's key accomplishments for the entire organization. The company hopes that such cultural integration will motivate all of the GMSH employees and thus bring about their strong commitments and contribution to business growth and management success.

### 5. Shinhan Card

The domestic credit card market in 2003 faced a massive surge in non-performing loans due to credit delinquencies caused by the prolonged economic recession. As a result, the majority of credit card companies in Korea recorded huge losses due to increased burden of accumulating provisions for bad debts and the sharp reduction in credit card usage (23% decrease YoY) stemming from delayed recovery in private consumption. In addition, credit card companies affiliated to banks (Kookmin, KEB and Woori Card) underwent voluntary restructuring through mergers with their respective parent banks due to deteriorating profitability and liquidity crisis. Meanwhile, LG Card was sold off to Korea Industrial Bank, while intense restructuring of Samsung Card is currently underway, including the receipt of support from Samsung Group's subsidiaries as a means to survive.

## Management's Discussion & Analysis

Shinhan Card posted a net loss of 89.8 billion won due to the accumulation of 235.9 billion won in provisions for bad debts, despite recording a pre-provisioning income of 147.1 billion won. The figure represents a relatively small loss compared to other companies owing to business activities centering on high-net-worth customers.

While credit card usage decreased by 23% for the overall credit card market, the company's card usage increased by 2.7% YoY, totaling 15,790.9 billion won.

The following is a summary of Shinhan Card's Profit/Loss.

(In Millions of Korean Won)

	FY2002	FY2003	YoY
Operating Revenues	228,954	431,863	88.6%
Credit Card Income	227,049	378,999	66.9%
Revenue from Securitization	0	52,440	n.a.
Interest Income	1,881	71	(96.2)%
Other Operating Income	25	353	1317.6%
Operating Expenses	228,213	506,606	122.0%
Credit Card Expenses	79,636	118,806	49.2%
Interest Expenses	60,425	109,824	81.8%
G&A Expenses	88,120	277,915	215.4%
Other Expenses	33	61	88.4%
Operating Income	742	(74,743)	n.a.
Non-operating Income	228	282	23.6%
Non-operating Expenses	172	15,602	8957.9%
Ordinary Income	798	(90,063)	n.a.
Income Taxes	294	(239)	n.a.
Net Income for the Year	504	(89,824)	n.a.

The company's operating revenues increased by 88.6% YoY with credit card commissions increasing by 151.9 billion won and asset-back securities operating revenue totaling 52.4 billion won. Meanwhile, operating expenses increased by 122% from the previous year as a result of higher commission expenses, general & administrative expenses and contributions to allowances for bad debts, increasing by 39.2 billion won, 17.8 billion won and 172 billion won, respectively. Ordinary income and net income recorded 901 billion won and 898 billion won, respectively, owing to the incurrence of 15.1 billion won in impairment losses on investment securities in the company's non-operating expense line.



## Management's Discussion & Analysis

### 6. Shinhan Capital

The year 2003 was a difficult year for the domestic leasing industry with limited business activities as a result of deteriorating funding environment brought by the increase in non-performing loans of credit card companies and aftereffects of the liquidity crisis. However, the industry maintained an overall operational size of the previous year's level in leasing, installment financing and CRC (Corporate Restructuring Company) sectors.

The industry's overall new leasing contracts increased by 21.7% YoY due to the steady growth of automobile leases, despite the sluggish corporate facilities investments in the leasing industry.

However, the credit card and installment financing companies, which handles leasing businesses, showed signs of business contraction compared to 2002 due to difficulties in funding. While the overall performance of installment financing industry fell in 2003 due to reduced demand for durable consumer goods, such as automobiles and electrical home appliances, the demand for imported automobiles continued to increase due to the bi-polarization of consumption. In addition, competition has also intensified with the participation of installment financing companies affiliated to foreign automobile manufacturers in the domestic market.

In case of CRC industry, competition intensified due to the increase in market players and decrease in restructuring activities of target companies. However, there were active transactions in private non-performing loans due to the drastic increase in private non-performing loans and large-scale loan sales by installment financing companies to comply with financial supervisory standards.

Amidst such market conditions, Shinhan Capital increased its high profit assets to 157.5 billion won during 2003 by opening its Busan branch, expanding business network through linkage with banks, and entering into new businesses such as CRC and real estate PF (Project Financing). Accordingly, the company posted a growth rate in total assets and operating assets of 20.2% and 23.7%, respectively. In addition, Shinhan Capital's substandard and below ratio dropped to 2.7% in 2003 from 4.9% in 2002, through write-offs and selling of bad non-performing assets. Reflecting the company's business growth and improved asset soundness, credit rating agencies raised Shinhan Capital's bond and commercial paper ratings one notch up to A- and A2-, respectively.

#### New Lease Contracts

(In Billions of Korean Won)

	FY2001	FY2002		FY2003	
			YoY		YoY
Industry Total	1,554	2,466	58.7%	3,001	21.7%
Shinhan Capital	275	345	25.4%	409	18.6%
(Market Share)	17.7%	14.01%	(3.69)%p	13.6%	(0.41)%p

Note) 2002 Shinhan Capital figures excluded ₩82.6 billion in asset underwriting.

New lease contracts by Shinhan Capital in 2003 recorded at 409 billion won, securing the highest market share for the second consecutive year with 13.6% of the total market. While its market share fell by 0.41 percentage points compared to 2002, the company made notable achievements considering the overall business environment of leasing industry, and the restructuring and expansion of foreign leasing companies.

## Management's Discussion & Analysis

With respect to profit and loss, the company's pre-provisioning income remained at similar levels of 2002, totaling 30.2 billion won, as a result of lease contracts (including ship leases) exceeding the previous year's levels, increase in fees and commission income related to real estate PF, and the execution of new capital centering on sound assets. However, the company posted a net income of 15.8 billion won, a 107% increase YoY, due to the sharp decline in contributions to provision for bad debts (10 billion won).

(In Billions of Korean Won)

	FY2001	Fy2002	FY2003	Chg.	YoY
Operating Revenues	181.3	152.3	145.4	(6.9)	(4.5)%
Lease-related Income	126.0	102.4	116.3	13.9	13.5%
Interest Income from Loans	7.5	7.6	13.5	5.9	77.6%
Interest Income from Installment Financing Receivable	1.6	2.6	3.3	0.7	26.9%
Other Interest Income	9.5	3.0	3.2	0.2	6.6%
Others	36.7	36.7	9.1	(27.6)	(75.2)%
Operating Expenses	213.3	139.3	116.1	(23.2)	(16.7)%
Lease-related Expenses	60.8	43.1	46.7	3.6	8.3%
Interest Expenses	49.6	43.0	47.9	4.9	11.4%
Bad Debt Expenses	66.4	17.4	7.5	(9.9)	(57.0)%
Others	36.5	35.7	14.0	(21.7)	(60.8)%
Operating Income	(32.0)	13.0	29.3	16.3	125.4%
Income Before Tax	(37.6)	11.0	22.6	11.6	105.5%
Tax Expenses	(11.4)	3.4	6.8	3.4	100.0%
Net Income	(26.1)	7.6	15.8	8.2	107.9%

### 7. Shinhan BNP Paribas ITMC

During 2003, Shinhan BNP Paribas Investment Trust Company (SH BNPP ITMC) posted net income of 1.8 billion won, down by 61% (2.8 billion won) from the previous year. The fall was mainly caused by the increase in operating expenses from two non-recurring events. These were the increased legal costs of a lawsuit and a change in management structure. During 1Q 2003, a legal settlement caused special losses of 2.8 billion won to SH BNPP ITMC and the company underwent a change in management structure due to its joint venture agreement with BNP Paribas Asset Management, which increased the number of employees and subsequently increased salaries by 41.2% compared to 2002. Excluding these non-recurring events, operating expenses of SH BNPP have actually fallen by 7.4% from the previous year.

On the revenue side, SH BNPP actually managed to increase its market share despite of the difficult situation of the Korean asset management industry during 2003. Fees on trusts accounts had slightly increased due to the increase in asset under management during 2003.

# Management's Discussion & Analysis

## Shinhan ITMC's Income Statement

(In Billions of Korean Won)

	2001	2002	2003	Chg.	YoY
Operating Revenues	9.6	12.8	12.7	(0.1)	(0.8)%
Fees on Trust Accounts	8.9	10.5	10.7	0.2	1.9%
Others	0.7	0.3	0.2	(0.1)	(33.3)%
Interest Income	1.5	2.0	1.8	(0.2)	(10.0)%
Operating Expenses	4.5	6.3	10.6	4.3	68.3%
Loss on Trust Accounts	0.0	0.0	2.8	2.8	-
G&A Expenses	4.5	6.1	7.3	1.2	19.7%
Salaries & Employee Benefits	2.5	3.1	4.8	1.7	54.8%
Others	2.0	3.0	2.5	(0.5)	(16.7)%
Operating Income	5.1	6.5	2.1	(4.4)	(67.7)%
Non-operating Income	(1.5)	(0.4)	0.5	0.9	n.a.
Income Before Tax	3.6	6.5	2.6	(3.9)	(60.0)%
Tax Expenses	0.2	1.9	0.8	(1.1)	(57.9)%
Net Income	3.4	4.6	1.8	(2.8)	(60.9)%

## 8. Jeju Bank

(In Billions of Korean Won)

	FY2001	FY2002	FY2003	Chg.	YoY
Operating Revenues	118.8	145.6	137.1	(8.5)	(5.8)%
Interest Income	97.3	118.8	116.0	(2.8)	(2.4)%
Fees & Commissions	14.8	23.0	18.4	(4.6)	(20.0)%
Fees from Trust Account	2.6	1.3	0.4	(0.9)	(69.2)%
Others	4.0	2.5	2.3	(0.2)	(7.2)%
Operating Expenses	116.6	129.4	136.9	7.5	5.8%
Interest Expenses	65.7	65.0	60.7	(4.3)	(6.6)%
Commission Expenses	2.0	3.2	3.4	0.2	6.0%
Loss on Trust Account	0.0	0.0	0.0	0.0	n.a.
Others	24.8	28.5	36.3	7.8	27.3%
G&A Expenses	24.1	32.7	36.5	3.8	11.6%
Operating Income	2.2	16.2	0.2	(16.0)	(98.8)%
Non-operating Income	8.2	4.3	5.1	0.8	18.6%
Non-operating Expenses	9.3	8.0	4.5	(3.5)	(43.8)%
Ordinary Income	1.2	12.5	0.8	(11.7)	(93.6)%
Tax Expenses	0.0	0.0	(4.0)	(4.0)	n.a.
Net Income	1.2	12.5	4.8	(7.7)	(61.6)%

Jeju Bank's net income in 2003 decreased by 61.6% YoY to 4.8 billion won, primarily, as a result of the drop in operating revenues and increase in operating expenses. The increase in operating expenses can be attributed to the rise in sales & administrative expenses (3.8 billion won) and other expenses (7.8 billion won), including bad debt expenses.

## Management's Discussion & Analysis

In 2003, the bank's NIS declined by 0.47 percentage points to 4.47% YoY, while NIM decreased by 0.62 percentage points from 4.44% in 2002 to 3.82% in 2003. However, both the bank's NIS and NIM figures still represent the highest levels in the domestic banking industry. Meanwhile, Jeju Bank's ROA and ROE fell sharply to 0.28% and 4.76%, respectively, reflecting the bank's decline in net income.

### 9. Others

The business environment surrounding e-Shinhan, SFG's Internet financial portal subsidiary, was unfavorable as a result of deteriorating financial environment, both at home and abroad, despite its membership expansion through steady increase in membership subscription of electronic housekeeping books and improved integrated account management functions.

As of the end of 2003, the number of its members increased by 600 thousand YoY to 2.2 million. However, e-Shinhan posted a net loss of 1.2 billion won due to an operating revenues decline of 32% YoY, despite the 11% reduction in operating expenses.

e-Shinhan's revenues are comprised of financial commission for loans and insurances (0.68 billion won), content fees such as electronic book keeping software (0.46 billion), advertising fees (0.48 billion won), and other fees and commission income (0.09 billion won).

Shinhan Macquarie Financial Advisory (SMFA), which provides financial advisory services, including project financing, concluded a number of contracts in 2003, actively deploying its business activities. Particularly boosted by the development of the Korea Road Infrastructure Fund (KRIF), Korea's first indirect investment fund for social overhead capital (SOC) facilities (fee-based roads), the company posted sales of W11.4 billion and net income of W2.9 billion in 2003. SMFA had received 2003 Achievement Awards for the "Most Innovative Deal" from Finance Asia for the successful asset acquisitions for KRIF and other various awards for its recognition as a leading financial advisory in corporate & project finance in Korea.

Shinhan Credit Information was established in September 2002 to improve the asset soundness of SFG's subsidiaries through the prevention of NPLs and the steady collection of debts by professional post-management, concentrating on the management of SFG's NPL collection work. In 2003, the company posted sales and net income of 25.6 billion won and 741 million won, respectively, with the addition of Lonestar's NPL collection services. Currently, Shinhan Credit Information is primarily engaged in the management of NPLs entrusted by SHB and Shinhan Card. Furthermore, the company expects to add NPL collection services for Chohung Bank to its business in 2004, and plans to expand its business realm going forward to include the management of NPLs outside the group and provide credit information.

Founded in October 2002, SH&C Life Insurance is a joint venture between SFG and Cardif, an insurance subsidiary of BNP Paribas. It was established to provide bancassurance products to SFG's customers. The company currently operates three product lines, selling protection products through Shinhan Card's telemarketing channel, credit insurance products to Shinhan Bank customers and insurance savings products through SFG's branch networks. It posted W43.2 billion of total insurance premium sold during 2003 and net loss of W3.4 billion in 2003. The company expects to be breakeven in 2005.

# Management's Discussion & Analysis

## . Summary of Balance Sheet Factor

### 1. Shinhan Financial Group (Holding Company)

SFG's total assets recorded at 159.3 trillion won as of the end of 2002, posting a 97% (78.5 trillion won) increase over 2002. The significant growth in total assets can be attributed to (1) asset increase from the addition of Chohung Bank as a subsidiary (63.6 trillion won) and (2) increase in Shinhan Bank's total assets (14.4 trillion won). In addition, SFG's non-banking subsidiaries also expanded its influence in the domestic financial market through asset growth, with SH&C, Good Morning Shinhan Securities and Shinhan Capital recording 283%, 86% and 20% growth in assets, respectively.

#### Change in Total Assets

	(In Billions of Korean Won)					
	2000	2001	2002	2003	Chg.	YoY
SHB	53,186.7	62,017.5	69,715.1	84,135.9	14,420.8	21%
B/A	47,511.5	53,356.0	58,889.4	70,071.2	11,181.8	19%
T/A	6,147.7	9,422.8	11,090.4	14,471.9	3,381.6	30%
CHB				63,331.3	63,331.3	n.a.
B/A				57,887.5	57,887.5	n.a.
T/A				4,261.9	4,261.9	n.a.
GMSH	423.3	631.4	1,569.6	2,926.2	1,356.6	86%
SHCard	n.a.	n.a.	2,473.7	1,778.2	(695.5)	(28)%
Jeju	n.a.	n.a.	1,802.2	1,795.7	(6.5)	0%
SHC	878.1	855.5	960.2	1,153.9	193.7	20%
SHITMC	39.3	45.2	47.1	47.5	0.4	1%
(AuM)	2,513.0	2,784.9	4,618.0	4,725.7	107.7	2%
SH&C	n.a.	n.a.	29.7	114.0	84.3	283%
(-) Intra-transaction	226.9	765.8	386.1	654.2	268.1	69%
<b>Total Assets</b>	<b>56,813.5</b>	<b>65,568.7</b>	<b>80,829.6</b>	<b>159,354.2</b>	<b>78,524.6</b>	<b>97%</b>

Note 1) The figures for 2000 is based on pro forma financial statements.

Note 2) Total assets included (1) SHB's trust accounts and (2) SH IMTC's AuM, thereby differing from total assets on SFG's consolidated balance sheet.

SFG's deposits totaled 99.3 trillion won at the end of 2003, up by 107.7% (51.1 trillion won) YoY. The increase can be attributed to the rise in deposits as a result of CHB acquisition (45.3 trillion won) and Shinhan Bank's deposit increase (5.8 trillion won), while Good Morning Shinhan Securities showed a solid customer base increase, with deposits growing by 91% YoY.

# Management's Discussion & Analysis

## Change in Total Deposits

(In Billions of Korean Won)

	2000	2001	2002	2003	Chg.	YoY
SHB	39,315.6	42,494.0	45,896.8	51,669.9	5,773.2	12.6%
B/A	33,726.4	35,970.0	39,627.8	45,612.6	5,984.8	15.1%
T/A	5,589.2	6,524.0	6,269.0	6,057.3	(211.7)	(3.4)%
CHB				45,236.5	45,236.5	n.a.
B/A				41,297.8	41,297.8	n.a.
T/A				3,938.7	3,938.7	n.a.
GMSH	103.6	191.1	540.5	1,032.8	492.2	91.1%
SHCard						
Jeju			1,415.1	1,452.1	37.0	2.6%
SHC	0.0	6.7	0.0	0.0	0.0	n.a.
SHITMC	0.1	0.0	0.0	0.0	0.0	n.a.
SH&C			0.0	0.0	0.0	n.a.
(-) Intra-transaction	27.3	24.9	60.5	111.6	51.0	84.4%
<b>Total Assets</b>	<b>39,392.0</b>	<b>42,666.8</b>	<b>47,791.8</b>	<b>99,279.8</b>	<b>51,488.0</b>	<b>107.7%</b>

(Note) The figures for 2000 is based on pro forma financial statements.

Total loans amounted to 94.3 trillion won as of the end of 2003, increasing by 108.1% (49 trillion won) YoY. Of the total loans, 42.9 trillion won was derived from the acquisition of CHB, while the remaining 7.2 trillion was generated from SHB, an increase of 17.7% YoY. In addition, Good Morning Shinhan Securities and Shinhan Capital's total loans also increased by 216% and by 20.4%, respectively, owing to improved businesses. However, Shinhan Card liquidated 161.1 billion won worth of its loans during 2003 to improve its assets soundness, resulting in a 56.6% decrease YoY in assets.

## Change in Total Loans

(In Billions of Korean Won)

	2000	2001	2002	2003	Chg.	YoY
SHB	29,694.5	34,409.9	40,850.3	48,064.4	7,214.1	17.7%
B/A	28,666.6	33,881.2	40,579.0	47,783.9	7,204.9	17.8%
T/A	1,027.9	528.7	271.3	280.4	9.2	3.4%
CHB				42,852.1	42,852.1	n.a.
B/A				42,701.7	42,701.7	n.a.
T/A				150.4	150.4	n.a.
GMSH	50.8	74.9	125.7	397.4	271.6	216.0%
SHCard			2,439.1	1,058.7	(1,380.4)	(56.6)%
Jeju			1,319.1	1,327.3	8.2	0.6%
SHC	592.5	649.7	746.7	899.1	152.4	20.4%
SH ITMC	0.5	0.4	0.4	0.2	(0.3)	(60.2)%
SH&C			0.0	0.0	0.0	n.a.
(-) Intra-transaction	169.0	89.3	140.3	255.6	115.3	82.2%
<b>Total Assets</b>	<b>30,169.3</b>	<b>35,045.6</b>	<b>45,341.1</b>	<b>94,343.6</b>	<b>49,002.5</b>	<b>108.1%</b>

(Note) The figures for 2000 is based on pro forma financial statements.

# Management's Discussion & Analysis

SFG's investment in securities at the end of 2003 reached 35.2 trillion won, up by 76.9% (15.3 trillion won) YoY. Of the increase, 12.9 trillion won was derived from the acquisition of CHB, while 1.6 trillion, 562.4 billion and 682.8 billion were generated from increase in securities investments of SHB, Good Morning Shinhan Securities and Shinhan Card, respectively.

## Change in Securities Investments

(In Billions of Korean Won)

	2000	2001	2002	2003	Chg.	YoY
SHB	18,472.8	19,568.7	19,465.5	21,017.2	1,551.7	8.0%
B/A	13,651.0	14,020.2	13,855.0	15,592.2	1,737.2	12.5%
T/A	4,821.8	5,548.5	5,610.5	5,425.0	(185.5)	(3.3)%
CHB				12,953.8	12,953.8	n.a
B/A				9,208.3	9,208.3	n.a
T/A				3,745.5	3,745.5	n.a
GMSH	182.5	272.4	445.1	1,007.5	562.4	126.3%
SHCard				682.8	682.8	n.a
Jeju			276.9	252.0	(24.9)	(9.0)%
SHC	96.4	68.5	57.9	54.4	(3.6)	(6.1)%
SHITMC	5.4	13.4	13.0	10.2	(2.7)	(21.2)%
SH&C			14.7	38.7	23.9	162.4%
(-) Intra-transaction	30.6	638.2	362.6	798.5	435.9	120.2%
<b>Total Assets</b>	<b>18,726.5</b>	<b>19,284.8</b>	<b>19,910.5</b>	<b>35,218.1</b>	<b>15,307.6</b>	<b>76.9%</b>

Note) The figures for 2000 is based on pro forma financial statements.

## 2. Shinhan Bank

### (1) Total Loans

Shinhan Bank (SHB) saw loans reach 48.1 trillion won at the end of 2003, an increase of 17.7% YoY (7.2 trillion won). The most notable increase came from SME loans, of the total loans in Korean won. Loans in Korean won, loans in foreign currencies and call loans & other loans increase by 5.3 trillion won, 1.0 trillion won and 1.7 trillion won, respectively. The most significant increase in Korean won loans came from SME and household loans, increasing by 3.6 trillion won and 1.9 trillion won, respectively, while loan exposure to large corporations fell by 0.36 trillion won. The increase in SME loans can be attributed to the bank's change in business strategy to focus on quality SME loans.

# Management's Discussion & Analysis

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	FY2003	Chg.	YoY
Bank Account						
Loans in Won						
Retails	5,700.7	10,772.9	15,992.7	17,864.9	1,872.2	11.7%
Home Equity Loan	2,126.1	6,940.2	10,738.6	11,923.6	1,185.0	11.0%
Others	3,574.6	3,832.7	5,254.1	5,941.3	687.2	13.1%
SMEs	9,974.1	10,618.9	11,876.0	15,492.8	3,616.8	30.5%
Large Corp.	3,461.8	2,937.5	3,754.3	3,396.6	(357.7)	(9.5)%
Public & Others	744.9	93.0	111.1	303.0	191.9	172.7%
Total	19,881.5	24,422.3	31,734.1	37,057.3	5,323.2	16.8%
Loans in Foreign Currencies	2,137.9	2,887.7	3,719.3	4,728.5	1,009.2	27.1%
Credit Card Accounts	1,585.8	2,093.4	181.0	0.1	(180.9)	(99.9)%
Bills Bought in F/C	3,204.8	1,872.2	2,242.4	1,844.9	(397.5)	(17.7)%
Call Loans, RPs	1,592.9	1,826.4	502.9	1,309.2	806.3	160.3%
Others	898.6	1,362.2	2,774.9	3,717.0	942.1	33.9%
(Loan Loss Allowance)	(593.8)	(567.3)	(565.8)	(866.4)	300.6	53.1%
(Present Value Discount)	(41.3)	(15.5)	(9.8)	(6.7)	(3.1)	(31.4)%
Total	28,666.6	33,881.2	40,579.0	47,783.9	7,204.9	17.8%
Trust Account	1,027.9	528.7	271.3	280.4	9.1	3.4%
<b>Total</b>	<b>29,694.5</b>	<b>34,409.9</b>	<b>40,850.3</b>	<b>48,064.3</b>	<b>7,214.0</b>	<b>17.7%</b>

Note) The figures for 2000 is based on pro forma financial statements.

## Quarterly Increase of Loans in Korean Won

(In Billions of Korean Won)

	1Q	2Q	3Q	4Q	Total
Household loans	(35.3)	728.7	1,140.7	38.1	1,872.2
SME loans	1,115.6	1,644.1	861.5	(4.4)	3,616.8
Large corporation loans	305.9	365.0	(223.2)	(805.2)	(357.5)
Public and other loans	122.5	25.6	40.6	3.2	191.9
<b>Total</b>	<b>1,508.7</b>	<b>2,763.4</b>	<b>1,819.6</b>	<b>(768.3)</b>	<b>5,323.4</b>

By quarter, household loans increased substantially in the second and third quarter, while SME loans surged from the first to third quarter of 2003. In addition, large corporation loans increased by 0.67 trillion won in the first half, while decreasing by 1.03 trillion won in the second half. This reflects the bank's policy and intent to significantly expand its assets in the first half to link asset growth with revenue generation, while recovering a substantial portion of its outstanding loans to large and SME corporations in the fourth quarter to focus on risk management because of the delay in economic recovery.



# Management's Discussion & Analysis

## (2) Total Deposits

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	FY2003	Chg.	YoY
Bank Account						
Low-cost Deposits	8,932.9	10,014.1	10,857.5	12,974.1	2,116.6	19.5%
Demand	1,655.6	1,544.8	1,384.3	1,434.5	50.2	3.6%
Low-cost Savings	7,277.2	8,469.3	9,473.1	11,539.6	2,066.5	21.8%
Time Deposits	15,247.1	15,751.6	17,756.7	18,818.3	1,061.6	6.0%
Installment Deposits	1,329.8	1,496.1	1,761.1	1,764.6	3.5	0.2%
CDs	842.2	2,866.8	2,772.2	5,136.0	2,363.8	85.3%
RPs, Bills Sold	5,406.7	4,077.1	4,444.2	3,620.8	(823.4)	(18.5)%
Deposits in Won	31,758.7	34,205.7	37,591.6	42,313.8	4,722.2	12.6%
Deposits in F/C	1,967.8	1,764.3	2,036.1	3,291.7	1,255.6	61.7%
Total	33,726.4	35,970.0	39,627.8	45,605.5	5,977.7	15.1%
Trust Account	5,589.2	6,524.0	6,269.0	6,057.3	(211.7)	(3.4)%
<b>Total</b>	<b>39,315.7</b>	<b>42,494.0</b>	<b>45,896.8</b>	<b>51,662.8</b>	<b>5,766.0</b>	<b>12.6%</b>

Note) The figures for 2000 is based on pro forma financial statements.

Total deposits reached 51.7 trillion won at the end of 2003, up by 12.6% (5.8 trillion won) YoY. While bank account deposits rose by 19.5%, trust account deposits continued to fall subsequent to 2002. The relatively low growth rate of deposits compared to loans can be attributed to the bank's funding through financial bonds to take advantage of the low interest rate conditions. In fact, while par interest rates of financial bonds are 20-30 basis points higher than deposit interest rates, its merits lie in the fact that it is a means for long-term financing, requiring no reserve deposits or deposit insurances and management costs. Shinhan Bank's financial bond balance during 2003 increased by 50% to 6.12 trillion won, from 6.07 trillion won in 2002.

SHB's composition of deposits in 2003 showed marginal change from 2002. The following depicts the respective portion of SHB's total deposits.

(In Millions of Korean Won)

	FY2000	FY2001	FY2002	FY2003
Low-cost Deposits	26%	28%	27%	28%
Demand	5%	4%	3%	3%
Low-cost Saving	22%	24%	24%	25%
Time Deposits	45%	44%	45%	41%
Installment Deposits	4%	4%	4%	4%
CDs	2%	8%	7%	11%
RPs, Bills Sold	16%	11%	11%	8%
Deposits in Won	94%	95%	95%	93%
Loans in F/C	6%	5%	5%	7%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

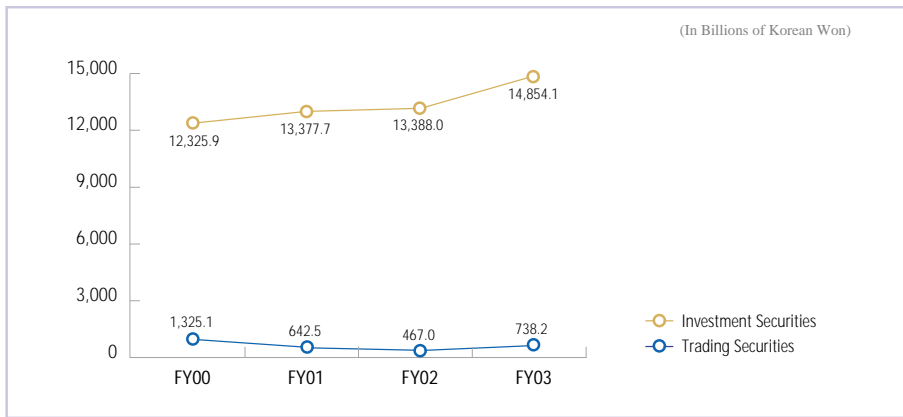
# Management's Discussion & Analysis

## (3) Securities

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	FY2003	YoY
<b>Trading Securities</b>	<b>1,325.1</b>	<b>642.5</b>	<b>467.0</b>	<b>738.2</b>	<b>58%</b>
Stocks	4.4	56.5	61.4	74.1	21%
Government Bonds	300.0	70.1	91.6	278.5	204%
Finance Debentures	528.7	227.6	110.6	305.6	176%
Corporate Bonds	492.0	288.3	203.4	80.0	(61)%
Beneficiary Certificates					
Trading Securities in Foreign Currencies					
<b>Investment Securities</b>	<b>12,325.9</b>	<b>13,377.7</b>	<b>13,388.0</b>	<b>14,854.1</b>	<b>11%</b>
Stocks	191.9	747.5	511.6	961.8	88%
Equity Investments	9.0	12.5	8.3	7.4	(11)%
Government Bonds	2,119.1	1,983.5	1,053.4	1,709.1	62%
Finance Debentures	2,366.1	2,262.2	2,322.6	3,541.6	52%
Corporate Bonds	6,368.2	6,530.7	6,206.1	4,747.8	(23)%
Beneficiary Certificates	631.2	1,171.5	2,432.1	2,505.9	3%
Bonds with Repurchase Agreements	0.0	0.0	0.0	0.0	n.a.
Investment Securities in Foreign Currencies	637.4	664.2	853.9	1,370.3	60%
Other	3.0	5.6	0.0	10.2	n.a.
<b>Total</b>	<b>13,651.0</b>	<b>14,020.2</b>	<b>13,855.0</b>	<b>15,592.3</b>	<b>13%</b>

Note) Bank Accounts only



# Management's Discussion & Analysis

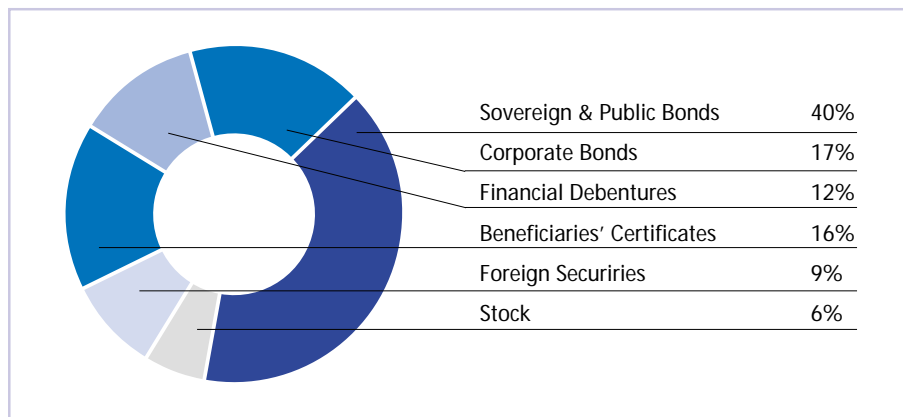
Securities holdings amounted to 15.6 trillion won at the end of 2003, up by 13% YoY. In particular, both short-term trading securities and investment securities held by SHB increased from the previous year. In the case of both short-term trading securities and investment securities, the relative portion of corporate bonds declined, while that of government bonds and bank debentures increased. Investments securities of stocks and foreign currency securities posted a significant growth of 88% and 60% YoY, respectively.

The table below depicts percentage share of respective securities by type as of the end of 2003. The largest percentage share of safe government bonds was 52%, followed by investment grade corporate bonds, beneficiary certificates and stocks. The overall percentage share was similar to the previous year.

(In Billions of Korean Won)

	2000		2001		2002		2003	
		%		%		%		%
Stocks	196.3	1%	804.0	6%	640.5	5%	973.9	6%
Sovereign & Public Bonds*	6,722.9	49%	6,696.4	48%	5,639.5	41%	6,188.5	40%
Corporate Bonds	4,070.4	30%	3,593.4	26%	2,686.6	19%	2,602.4	17%
Finance Debentures	1,380.9	10%	1,072.7	8%	1,661.5	12%	1,871.8	12%
Beneficiary Certificates	631.2	5%	1,171.5	8%	2,432.1	18%	2,505.9	16%
Foreign Securities	637.4	5%	664.2	5%	786.5	6%	1,432.3	9%
Others	12.0	0%	18.1	0%	8.3	0%	17.5	0%
<b>Total</b>	<b>13,651.0</b>	<b>100%</b>	<b>14,020.2</b>	<b>100%</b>	<b>13,855.0</b>	<b>100%</b>	<b>15,592.3</b>	<b>100%</b>

\*Sovereign & Public Bonds include 'Government Guaranteed Bonds (13%)' and 'Monetary Stabilization Bonds (14%)'



# Management's Discussion & Analysis

## 3. Chohung Bank

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	FY2003	Chg.	YoY
Bank Account						
Loans in Won						
Retails	5,385.4	9,072.3	15,456.5	15,823.2	366.7	2.4%
Home Equity Loan	1,616.2	3,761.7	6,755.7	6,923.1	167.4	2.5%
Others	3,769.2	5,310.6	8,700.8	8,900.1	199.3	2.3%
SMEs	8,282.3	9,204.5	13,213.4	14,426.8	1,213.4	9.2%
Large Corp.	4,440.4	3,606.6	3,742.1	2,591.5	(1,150.6)	(30.7)%
Public & Others	497.6	237.8	369.9	487.5	117.6	31.8%
Total	18,605.7	22,121.2	32,781.9	33,329.0	547.1	1.7%
Loans in Foreign Currencies	3,353.9	2,548.9	3,480.8	3,165.3	(315.5)	(9.1)%
Credit Card Accounts	2,973.5	4,934.5	5,898.5	3,698.7	(2,199.8)	(37.3)%
Bills Bought in F/C	2,629.4	2,094.3	1,775.6	1,736.3	(39.3)	(2.2)%
Call Loans, RPs	854.4	84.7	655.8	351.0	(304.8)	(46.5)%
Others	2,801.3	2,791.8	2,361.1	2,098.3	(262.8)	(11.1)%
(Loan Loss Allowance)	(1,669.7)	(1,030.7)	(1,604.6)	(1,658.9)	(54.3)	3.4%
(Present Value Discount)	(171.8)	(29.6)	(20.5)	(18.0)	2.5	(12.0)%
Total	29,376.6	33,515.0	45,328.5	42,701.7	(2,626.8)	(5.8)%
Trust Account	1,323.3	278.0	170.5	150.4	(20.1)	(11.8)%
<b>Total</b>	<b>30,699.9</b>	<b>33,793.1</b>	<b>45,499.0</b>	<b>42,852.1</b>	<b>(2,646.9)</b>	<b>(5.8)%</b>

Total loans in 2003 decreased by 5.8% YoY to 42,852.1 billion won from 45,499.0 billion won in 2002. The decline can be attributed to the bank's decline in credit card debts (5.5 trillion won) as a result of active risk management, including bad debt write-off (1.4 trillion won), sell-off of assets of debtors with multiple debts (368.2 billion won) and reduction of unused credit card use limits.

Loans in Korean won totaled 33,329 billion won, an increase of 547.1 billion won from 32,781.9 billion won in 2002.

Large corporation loans decreased by 30.7% YoY to 2,591.5 billion won as a result of the increasing dependence on direct financing market such as corporate bond issuance. Large corporation loans' percentage share of the total loans in Korean won decreased from 11.4% to 7.8%.

However, SME loans increased by 1,213.4 billion won or 9.2%, to 14,426.8 billion won from 13,213.4 billion won in 2002. SME loans' percentage share of the total loans in Korean won increased from 40.3% to 43.3%.

With respect to household loans, home mortgage loans slightly increased by 167.4 billion won or 2.5%, from 6,755.7 billion won in 2002 to 6,923.1 billion won in 2003 as a result of the government's housing market stabilization measures.

Trust account assets posted a decrease of 11.8%, totaling 150.4 billion won due to the reduced operation size stemming from a decrease in deposit, including new trust accounts.

# Management's Discussion & Analysis

## 4. Goodmorning Shinhan Securities

Goodmorning Shinhan's (GMSH) total assets at year-end 2003 posted at 2.9 trillion won, a sharp increase from the previous year-end level of 1.6 trillion won. The highest contributor to the increase in total assets was the deposit level, as it soared 112.3% from previous year-end, marking 1.1 trillion won at 2003-end. The sharp increase in deposits, however, was attributable to the subscription deposit amounting to 411 billion won, which was temporarily reflected on the balance sheet as the IPO for STX was in progress. We expect the deposit level to go down at the next quarter-end as the IPO deal closes. The loan balance also substantially increased year-on-year totaling 381 billion won, up by 415% from the previous year-end. While the overall current assets grew by more than 130% posting at 2.6 trillion won, due to the steep increase in both deposits and loans, non-current assets dropped by 21.1% YoY, as both investment assets and tangible assets fell.

Total liabilities marked 2.3 trillion won as of 2003-end, up by 133.1% YoY. Short-term borrowings grew from 61 billion won to 441 billion won, while customer deposits also increased by 91.1% YoY from 541 billion won to 1.03 trillion won.

Total shareholders' equity increased by 8.5% YoY, totaling 638 billion won, on the back of increased retained earnings and diminished discount on stock issuance.

### GMSH's Balance Sheet

(In Millions of Korean Won)

	FY2002	FY2003	Chg.	YoY
Current assets	1,111,778	2,566,108	1,454,330	130.8%
Deposits	512,244	1,087,498	575,254	112.3%
Trading securities	379,464	764,160	384,696	101.4%
Loans	74,075	381,475	307,400	415.0%
Others	145,994	332,975	186,981	128.1%
Non-current assets	458,467	361,910	(96,557)	(21.1)%
Investment assets	156,908	151,337	(5,571)	(3.6)%
Tangible assets	301,558	210,573	(90,985)	(30.2)%
<b>Total assets</b>	<b>1,570,244</b>	<b>2,928,017</b>	<b>1,357,773</b>	<b>86.5%</b>
Current liabilities	816,862	2,125,291	1,308,429	160.2%
Call money	50,000	0	(50,000)	(100.0)%
Short-term borrowings	61,348	441,000	379,652	618.8%
Customers' deposits	540,521	1,032,769	492,248	91.1%
Others	164,993	651,522	486,529	294.9%
Long-term liabilities	165,406	164,753	(653)	(0.4)%
<b>Total liabilities</b>	<b>982,268</b>	<b>2,290,044</b>	<b>1,307,776</b>	<b>133.1%</b>
<b>Total stockholders' equity</b>	<b>587,976</b>	<b>637,973</b>	<b>49,997</b>	<b>8.5%</b>
<b>Total liab. &amp; stockholders' equity</b>	<b>1,570,244</b>	<b>2,928,017</b>	<b>1,357,773</b>	<b>86.5%</b>

Amid the bearish market environment, GMSH's overall equity trade volume slid during 2003 totaling 99 trillion won, down by 27% YoY. Equity brokerage market share also dropped from 6.53% in 2002 to 6.07% in 2003. However, GMSH obtained a strong position in both futures and options market over the year. Futures trading volume jumped by 159% YoY, while options trading volume soared by 204%. Significant improvement was seen in GMSH's derivatives brokerage market share, which moved the company ahead of its peers. Futures brokerage market share recorded at 7.55% in 2003, edging up by 3.6 percentage points from the previous year, while options brokerage market share marked at 9.53%, up by 5.5 percentage points YoY.

# Management's Discussion & Analysis

## Trade Volume

(In Trillions of Korean Won)

	FY2002	FY2003	Chg.	YoY
Stocks	135	99	(36)	(27.0)%
Futures	156	404	248	158.7%
Options	10	30	20	204.1%

## Market Share

(%)

	FY2002	FY2003	Chg.
Stocks	6.53	6.07	(0.46)%p
Futures	3.91	7.55	3.64%p
Options	4.00	9.53	5.53%p

## 5. Shinhan Card

Shinhan Card's total assets as of the end of 2003 reached 1,778.2 billion won, down by 28.1% YoY. Credit card assets decreased by 56.7% YoY due to asset liquidation during 2003. When including asset-backed securities, the figure represents a decline of 5.4% YoY.

Below is the summary of Shinhan Card's balance sheet at the end of 2003.

(In Millions of Korean Won)

	FY2002	FY2003	Chg.	YoY
<b>Assets</b>				
1. Current Assets	15,958	175,675	159,717	-
2. Credit Card Assets	2,439,076	1,057,167	(1,381,909)	(56.7)%
Advance Payment	1,109,226	586,826	(522,400)	(47.1)%
Cash Advance	953,123	327,351	(625,772)	(65.7)%
Card Loans	472,641	260,274	(212,366)	(44.9)%
(Allowances)	(95,913)	(117,285)	(21,371)	22.3%
3. Fixed Assets	18,661	545,350	526,689	-
Total	2,473,694	1,778,191	(695,503)	(28.1)%
<b>Liabilities</b>				
1. Current Liabilities	1,815,992	568,900	(1,247,092)	(68.7)%
2. Long-term Liabilities	410,242	1,051,656	641,414	156.4%
Total	2,226,234	1,620,555	(605,678)	(27.2)%
<b>Shareholders' Equity</b>				
1. Paid-in Capital	152,847	152,847	0	0.0%
2. Capital Surplus	94,109	94,109	0	0.0%
3. Retained Earnings	503,964	(89,320)	(89,824)	-
Total	247,460	157,636	(89,824)	(36.3)%



## Management's Discussion & Analysis

The domestic credit card industry in 2003 underwent difficulties due to the overall credit card loan delinquency and liquidity crisis. In turn, the industry was forced to eliminate non-performing assets, while completely revising its business strategy towards expanding sound credit-card members. Despite such adverse conditions, the number of Shinhan Card members increased by 8.8%. In addition, the number of affiliated merchants increased by 36.7% YoY exceeding 2 million. As a result, Shinhan Card was successful in establishing a fully independent affiliated merchant network within one and a half years since its spin-off.

Despite the credit card usage amount decline of 22.9% YoY throughout the industry (lump sum: 0.7%, installment: 31.1%, cash advance: 33.1%), Shinhan Card's lump sum installment payment sales increased by 18.4% and by 47%, respectively, while posting a lower decline rate of 15% for cash advances, compared to the overall industry. As a result, the percentage share of cash advances of the company's total sales declined from 51% in 2002 to 42.1% in 2003, reflecting the company's focus on lump sum or installment payment settlement services as opposed to higher risk cash advances.

(In Billions of Korean Won)

	FY2002	FY2003				YoY
		1Q	2Q	3Q	4Q	
<b>Members (thousand)</b>						
Card holders	2,548	2,661	2,670	2,690	2,773	8.8%
Merchant Line	1,545	1,665	1,860	1,990	2,112	36.7%
<b>Transaction volume (cumulative amount)</b>						
Lump-sum	6,849.0	2,074.6	4,204.6	6,060.0	8,106.2	18.4%
Installment	704.6	220.6	471.8	734.9	1,036.1	47.0%
Cash advance	7,822.4	1,871.1	3,591.8	5,171.5	6,648.6	(15.0)%
Total	15,376.0	4,166.2	8,268.1	11,966.4	15,790.9	2.7%
<b>Assets in balance</b>						
General billings	1,109.2	1,121.4	843.7	823.7	586.8	(47.1)%
(Allowance for losses)	(42.7)	(49.2)	(63.9)	(65.0)	(65.4)	
Cash advances	953.1	985.3	922.8	815.1	260.3	(72.7)%
(Allowance for losses)	(36.7)	(61.8)	(63.3)	(44.7)	(33.3)	
Card loans	472.6	421.2	393.1	355.1	327.4	(30.7)%
(Allowance for losses)	(16.5)	(18.5)	(21.7)	(17.6)	(18.6)	
Total	2,535.0	2,527.8	2,159.7	1,993.9	1,174.5	(53.7)%
(Allowance for losses)	(95.9)	(129.6)	(148.9)	(127.3)	(117.3)	
Re-aged Card Loans	38.3	39.0	39.8	31.6	27.2	(28.9)%

Note) Including Purchase Card, reported basis

# Management's Discussion & Analysis

## 5-1. Chohung Bank Credit card business

### Business Overview and Soundness

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	FY2003	Change	YoY
Members (thousand)	3,010	4,121	4,266	3,205	(1,061)	(24.9)%
Merchants (thousand)	n.a.	248	285	253	(32)	(11.2)%
Account balance	2,973.3	4,934.6	5,898.4	3,698.7	(2,199.7)	(37.3)%
Lump sum	343.3	536.2	766.3	739.6	(26.7)	(3.5)%
Installment	503.9	1,510.2	1,601.9	790.9	(811.0)	(50.6)%
Cash advance	2,011.5	2,612.4	2,854.3	1,418.7	(1,435.6)	(50.3)%
Card loan	114.6	275.8	675.9	749.5	73.6	10.9%
(Re-aged card loans)	(23.5)	(160.5)	(539.0)	(681.9)	142.9	26.5%

The number of credit card members as of December 2003 decreased by 24.9% (1.06 million) to 3.2 million, primarily, as a result of active disposal of non-performing assets and membership cancellation of delinquent members in the process of sell-off of bad loans to multiple-debtors. The total number of affiliated merchants remained at about 250 thousand, decreasing by 11.2% YoY.

Credit card account balance declined by 37% or 2,199.7 billion won, to 3,698.7 billion won as a result of the bank's measures in writing off significant amount of delinquent members' settlements (1,360.3 billion won), sell-off of assets (170.9 billion won) and reduction of unused credit card limits.

### Credit Card Use Amount and Pre-provisioning Operating Income

(In Billions of Korean Won)

	FY2001	FY2002	FY2003	Change	YoY
Total Use Amount					
Lump sum	4,330.2	5,341.1	5,484.3	143.2	2.7%
Installment	3,178.6	4,341.5	2,504.8	(1,836.7)	(42.3)%
Cash advance	19,403.2	20,224.3	12,585.4	(7,638.9)	(37.8)%
Total	26,912.0	29,906.9	20,574.5	(9,332.4)	(31.2)%
Pre-provisioning operating income	813.4	997.0	831.4	(165.6)	(17)%

Total credit card usage amount reached 20,574.5 billion won, decreased by 31% YoY as a result of installment and cash advance usage decreasing by 42.3% and 37.8%, respectively. This can be attributed to the bank's decision to restrict cash advances to credit card members with multiple debts and, in turn, raise the portion of lump sum and installment payments.

Pre-provisioning operating income of the bank's credit card business declined by 17% or 165.6 billion won, to 831.4 billion won in 2003 as a result of the significant reduction in the percentage share of cash advances.



# Management's Discussion & Analysis

## 6. Shinhan Capital

(In Millions of Korean Won)

	FY2001	FY2002	FY2003	Chg.	YoY
<b>Assets</b>					
Current assets	83,336	74,742	85,063	10,321	13.8%
Loans/Factoring	81,160	114,585	203,630	89,045	77.7%
Installment Financing	15,308	22,226	22,770	544	2.4%
Lease Assets	600,712	703,227	771,062	67,835	9.6%
Others	74,994	45,454	71,382	25,928	57.0%
<b>Total</b>	<b>855,510</b>	<b>960,234</b>	<b>1,153,907</b>	<b>193,673</b>	<b>20.2%</b>
<b>Liabilities</b>					
Borrowings	716,454	788,040	911,043	123,003	15.6%
Others	62,255	88,511	140,640	52,129	58.9%
<b>Total</b>	<b>778,709</b>	<b>876,551</b>	<b>1,051,683</b>	<b>175,132</b>	<b>20.0%</b>
<b>Shareholders' Capital</b>					
Paid-in Capital	80,000	80,000	80,000	0	0.0%
Retained Earnings	(474)	7,098	22,852	15,754	221.9%
Capital Adjustment	(2,725)	(3,414)	(628)	2,786	(81.6)%
<b>Total</b>	<b>76,800</b>	<b>83,683</b>	<b>102,224</b>	<b>18,541</b>	<b>22.2%</b>

Shinhan Capital posted a growth in total assets of 20.2% (193.7 billion won) YoY, amounting to 1.15 trillion won, as a result of active business operations owing to its reinforced competitiveness in funding that was secured through SFG, and recovery of the leasing industry.

By sectors, loan assets, installment financing and lease assets increased by 77.7%, 2.4% and 9.6%, respectively. In 2004, Shinhan Capital's asset growth and profitability are expected to enhance significantly as a result of the active business linkage with SHB and its plans to link its business with CHB in 2004.

As of the end of 2003, the company's borrowings totaled 911.0 billion won, an increase of 15.6% (123 billion won) YoY, of which 70.8% (644.9 billion won) was injected through SFG. The increase in borrowings through the holding company was done to maximize synergies from a funding perspective. In this respect, Shinhan Capital was able to reduce its average funding rate by approximately 120 basis points as the holding company boasts a domestic credit rating of AAA.

# Management's Discussion & Analysis

## 7. Shinhan BNP Paribas ITMC

(In Billions of Korean Won)

	FY2001	FY2002	FY2003	Chg.	YoY
<b>Assets</b>	45.2	47.1	<b>47.5</b>	0.4	0.8%
(Cash and Due)	23.6	29.8	29.5	(0.3)	(1.0)%
(Trading Securities)	13.1	12.7	9.5	(3.2)	(25.2)%
Bonds	10.1	9.5	-	-	-
Others	3.0	3.2	-	-	-
<b>Liabilities</b>	2.6	1.9	<b>2.5</b>	0.6	31.6%
(Short-term Borrowings)	2.1	1.5	2.1	0.6	40.0%
(Long-term Borrowings)	0.5	0.4	0.4	0.0	0.0%
<b>Shareholders' Equity</b>	42.6	45.2	<b>45.0</b>	(0.2)	(0.4)%
(Paid-in Capital)	40.0	40.0	40.0	0.0	0.0%
(Retained Earnings)	2.7	5.2	5.0	(0.2)	(3.8)%

Total assets at Shinhan BNP Paribas Investment Trust Management Company (SH BNPP ITMC) increased slightly by 0.8% (0.4 billion won) to 47.5 billion won by the end of 2003. The increase in liabilities reflects the unpaid amount of incentives for the employees to be granted after the end of the fiscal year of 2003 (March 2004). Previously, SH BNPP did not have any incentive schemes for its employees. Meanwhile, the domestic investment trust industry's total AUM (Assets Under Management) had declined by 17.6% YoY (28.9 trillion won) in 2003 due to the various events such as SK Networks and LG card.

### Assets Under Management in Investment Trust Industry

(In Billions of Korean Won)

	FY2001	FY2002	FY2003	Chg.	YoY
<b>Total AUM</b>	147,267.7	164,050.6	<b>135,101.4</b>	(28,949.2)	(17.6)%
Equity Funds	48,188.7	54,537.4	40,391.3	(14,146.1)	(25.9)%
Bond Funds	63,977.1	60,031.0	52,658.0	(7,373.0)	(12.3)%
MMF	5,401.9	49,482.2	42,052.2	(7,430.0)	(15.0)%

## Management's Discussion & Analysis

Despite the difficult operating environment, SH BNPP IMTC's managed to increase its total AUM by 2.32% YoY (107.2 billion won) to W4.7 trillion at year-end 2003. This growth was attributed to the steady inflow of funds pushed by the sales from SFG's distribution networks. By avoiding risky assets, SH BNPP ITMC managed to stir away from the financial scandals such as SK Global and LG Card, which caused various losses to other ITMCs in Korea. The table below shows SH BNPP ITMC's AUM.

### SHITMC's AUM

(In Billions of Korean Won)

	FY2001	FY2002	FY2003	Chg.	YoY
<b>Total AUM</b>	2,784.9	4,618.5	<b>4,725.7</b>	107.2	2.32%
Equity Funds	609.6	453.5	327.7	(125.8)	(27.7)%
Equity	77.5	53.6	76.8	23.2	43.3%
Hybrid	532.1	399.9	250.9	(149.0)	(37.3)%
Bond Funds	1,696.0	2,544.5	3,244.4	699.9	27.5%
Long-term	1,081.7	208.2	383.8	175.6	84.3%
Short-term	614.3	2,336.3	2,860.6	524.3	22.4%
MMF	479.3	1,620.5	1,153.6	(466.9)	(28.8)%

### 8. Jeju Bank

Total assets of Jeju Bank at the end of 2003 remained at the similar level of 2002, amounting to 1.79 trillion won. A detailed breakdown shows the bank's loans increased marginally, while its trading securities (32 billion won) were reduced drastically. Total liabilities also recorded a figure similar to that of 2002, reaching 1,683.4 billion won, with deposits increasing by 39 billion won, and borrowings and other liabilities decreasing by 22% and 21%, respectively.

Loans have continued to increase subsequent to the significant growth in the SME and retail categories in 2002. SME and retail loans increased by 50.9 billion won (7.1%) and 14.3 billion won (3.3%), respectively, while large corporation loans decreased by 7.6 billion won (63.8%). As of the end of 2003, Jeju Bank's loans are comprised of SME loans (61.5%), household loans (36.6%), large corporation loans (0.3%), and public & other loans (1.5%).

# Management's Discussion & Analysis

(In Billions of Korean Won)

	FY2001	FY2002	FY2003	Chg.	YoY
<b>Assets</b>					
Cash & Due from Bank	70.7	59.5	72.5	13.0	22%
Trading Securities	1.4	50.7	18.6	(32.1)	(63)%
Investment Securities	286.9	225.9	224.5	(1.4)	(1)%
Loans	961.8	1,317.8	1,326.1	8.3	1%
Fixed Assets	44.9	55.0	52.2	(2.8)	(5)%
Other Assets	79.2	91.8	92.1	0.3	0%
<b>Total Assets</b>	<b>1,444.8</b>	<b>1,800.6</b>	<b>1,786.0</b>	<b>(14.6)</b>	<b>(1)%</b>
<b>Liabilities</b>					
Deposits	1,074.0	1,399.1	1,438.3	39.2	3%
Borrowings	117.3	106.3	83.3	(23.0)	(22)%
Debentures	57.0	35.0	35.0	0.0	0%
Other Liabilities	135.3	159.2	125.8	(33.4)	(21)%
<b>Total Liabilities</b>	<b>1,383.7</b>	<b>1,699.6</b>	<b>1,683.4</b>	<b>(16.2)</b>	<b>(1)%</b>
<b>Stockholders' Equity</b>					
Capital Stock	55.5	77.6	77.6	0.0	0%
Capital Surplus	10.3	10.3	10.3	0.0	0%
Retained Earnings	0.0	8.4	13.2	4.8	57%
Capital Adjustment	(4.6)	4.7	2.5	(2.2)	(47)%
<b>Total Stockholders' Equity</b>	<b>61.2</b>	<b>101.1</b>	<b>103.6</b>	<b>2.5</b>	<b>3%</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>1,444.8</b>	<b>1,800.6</b>	<b>1,786.0</b>	<b>(14.6)</b>	<b>(1)%</b>

Note) Bank Account only

## Jeju Bank's Loan Portfolio

(In Billions of Korean Won)

	FY2001	FY2002	FY2003	Chg.	YoY	Portfolio
Corporate	554.5	724.4	767.7	43.3	6.0%	61.9%
SME	540.5	712.5	763.4	50.9	7.1%	61.5%
Large Corp.	13.9	11.9	4.3	(7.6)	(63.8)%	0.3%
Retail	295.1	439.5	453.8	14.3	3.3%	36.6%
Public & Others	46.0	32.2	18.9	(13.3)	(41.3)%	1.5%
<b>Total Loans in Korean Won</b>	<b>895.6</b>	<b>1,196.1</b>	<b>1,240.4</b>	<b>44.3</b>	<b>3.7%</b>	<b>100.0%</b>

Note) Bank Account only

# Management's Discussion & Analysis

## . Asset Quality

### 1. Shinhan Financial Group

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	FY2003	YoY
Normal	30,768.2	34,662.6	46,518.2	92,408.5	98.7%
Precautionary	1,669.9	1,118.4	815.7	2,980.8	265.5%
Substandard	1,140.5	721.1	579.4	1,877.6	224.0%
Doubtful	212.7	122.6	124.1	971.2	682.9%
Estimated Loss	95.4	172.3	155.9	596.0	282.2%
<b>Total</b>	<b>33,886.7</b>	<b>36,796.9</b>	<b>48,193.3</b>	<b>98,834.1</b>	<b>105.1%</b>
Bad Loan ratio	0.91%	0.80%	0.58%	1.59%	1.00%p
Substandard & below ratio	4.27%	2.76%	1.78%	3.49%	1.70%p
Precautionary & below ratio	9.20%	5.80%	3.48%	6.50%	3.03%p
Provisions	750.7	727.6	869.1	2,911.5	235.0%
Coverage Ratio against					
Bad Loans	243.7%	246.8%	310.4%	185.8%	(124.6)%p
Substandard & below	51.8%	71.6%	101.1%	84.5%	(16.6)%p
Precautionary & below	24.1%	34.1%	51.9%	45.3%	(6.6)%p

As of the end of 2003, SFG's total credits amounted to 98.8 trillion won, posting an increase of 105.1% YoY, as a result of the increase in loan assets of 44.9 trillion won due to the acquisition of CHB. Total loans primarily consisted of SHB and CHB loans (94.8%), with the remaining balance coming from Shinhan Card loans (2.4%), Jeju Bank loans (1.3%), Shinhan Capital loans (1.0%) and Good Morning Shinhan Securities loans (0.4%).

As shown in the table above, SFG's overall asset quality deteriorated due to (1) the rise in credit risk related to corporate and household loans throughout the financial industry in 2003 and (2) the relatively weak asset soundness of CHB vis-a-vis SHB.

As of 2003-end, the ratio of non-performing, substandard-and-below and precautionary-and-below loans increased by 1.00%p, 1.70%p and 3.03%p, respectively. As a result, the coverage ratio of loan loss provisions for non-performing, substandard-and-below and precautionary-and-below loans also fell by 124.6%p, 16.6%p and 6.6%p YoY, respectively, to 185.8%, 84.5% and 45.3%, respectively. As such, SFG has accumulated provisions for bad debts in excess of adequate levels compared to risks.

# Management's Discussion & Analysis

## 2. Shinhan Bank

### (1) Classification of Asset Quality and Coverage Ratio

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	FY2003	YoY
Normal	30,126.6	33,981.1	42,005.8	46,916.7	12%
Precautionary	1,632.1	1,071.6	643.8	832.9	29%
Substandard	1,062.1	667.0	487.5	895.6	84%
Doubtful	184.8	106.6	57.2	54.5	(5)%
Estimated Loss	69.4	94.5	71.7	121.6	70%
<b>Total</b>	<b>33,074.9</b>	<b>35,920.8</b>	<b>43,266.0</b>	<b>48,821.3</b>	<b>13%</b>
Bad Loan ratio	0.77%	0.56%	0.30%	0.36%	0.06%p
Substandard & below ratio	3.98%	2.42%	1.42%	2.20%	0.77%p
Precautionary & below ratio	8.91%	5.40%	2.91%	3.90%	0.99%p
Provisions	684.7	623.2	615.3	894.7	45%
Bank Account	605.9	580.4	583.8	869.8	49%
Trust Account	78.8	42.8	31.5	24.9	(21)%
Coverage Ratio against					
Bad loans	269%	310%	477.4%	508.1%	30.7%p
Substandard & below	52%	72%	99.8%	83.5%	(16.3)%p
Precautionary & below	23%	32%	48.8%	47.0%	(1.9)%p

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

As of the end of 2003, total loans subject to asset quality classification reached 48,821 billion won, up by 13% YoY (5,555.3 billion won). While total loans increased by 13% in 2003, precautionary-and-below and substandard-and-below loans rose by 29% and 85% YoY, respectively, as a result of huge loans to LG Card and SK Networks being classified as precautionary-and-below. Accordingly, the bank's asset quality slightly deteriorated from the previous year with precautionary-and-below and substandard-and-below ratios rising 77 and 99 basis points, respectively.

However, SHB has accumulated loan loss provisions of 49% and 40% of its loans to SK Networks and LG Card, respectively. With the recent business normalization of SK Networks, the estimated loss is expected to be below the provision accumulation rate. In this respect, SHB's level of loan loss provisions adequately reflects the credit risks of its outstanding loans.

As of the end of 2003, SHB's ratio of loan loss provisions to total loans for precautionary-and-below and substandard-and-below loans fell by 16.3%p and 1.9% YoY to 83.5% and 47.0%, respectively. However, the ratio of loan loss provisions to total loans for bad loans increased by 30.7%p YoY to 508.1%, the highest overall level in the domestic banking industry.

The following table shows the details of asset disposals and depreciation by year.

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	FY2003
NPL Sale	0.0	0.0	0.0	0.0
ABS Issue	0.0	161.4	116.1	0.0
Write-off	1,129.5	729.8	137.5	71.5
<b>Total</b>	<b>1,129.5</b>	<b>891.2</b>	<b>253.6</b>	<b>71.5</b>

## Management's Discussion & Analysis

As of the end of 2003, the ratio of loan loss provisions to total loans stood at 1.8%. By sectors, the ratio posted at 1.3% for household loans and 2.0% for corporate loans. SHB has carried forward conservative asset quality classification and loan loss provisioning practices as a strict policy, and accordingly, accumulated more provisions for bad loans according to asset quality classification than recommended by FSS guidelines. The table below shows SHB's loan loss provision ratios by loan quality classification.

(In Billions of Korean Won)

	Normal	Precaut.	Substandard	Doubtful	Est. Loss	Total
Asset Classification	46,916.7	832.9	895.6	54.5	121.6	48,821.4
Household	17,698.1	80.6	166.8	13.2	52.8	18,011.5
Corporate	28,917.6	752.3	728.8	41.4	66.8	30,506.8
Provisions	348.7	94.4	242.3	46.8	122.9	855.1
Household	137.1	6.5	33.6	7.5	54.1	238.8
Corporate	208.9	87.9	208.7	39.3	66.8	611.6
Provision Ratio	0.7%	11.3%	27.1%	85.9%	101.1%	1.8%
Household	0.8%	8.1%	20.1%	57.2%	102.5%	1.3%
Corporate	0.7%	11.7%	28.6%	95.0%	100.0%	2.0%

(Note) As of the end of 2003

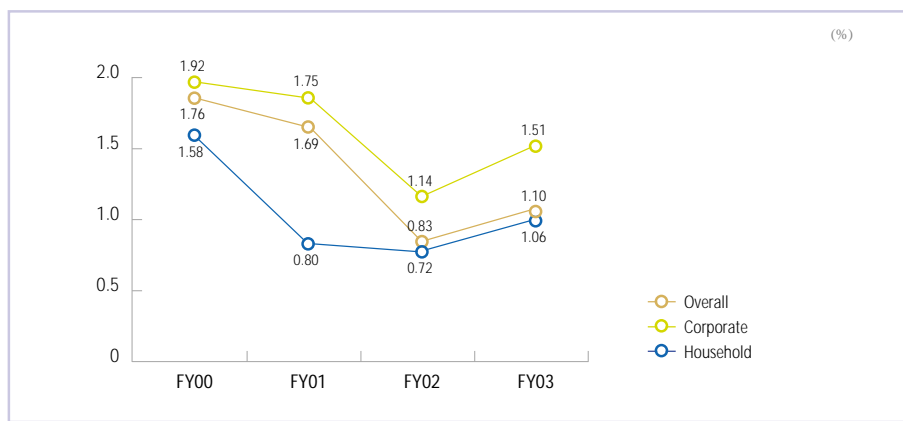
### (2) Delinquency Ratio

(In Billions of Korean Won)

		Overall	Corporate	Household
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%
FY2003	Total	47,552.4	18,991.6	18,011.5
	Overdue	521.0	286.2	190.7
	Ratio	1.10%	1.51%	1.06%

# Management's Discussion & Analysis

SHB's overall delinquency ratio and delinquency ratio by sectors continued to decline subsequent to 2000. Overall delinquency ratio increased by 27 basis points YoY to 1.10% as of the end of 2003, while delinquency ratios for corporate and household loans also rose by 37 basis points and 34 basis points, respectively, to 1.51% and 1.06%, respectively. This can be attributed to the significant increase of credit risks in the corporate and household sectors during 2003. The figures also reflect (1) deteriorating business environment due to delayed recovery of the domestic economy, (2) the sharp increase in household debts, and (3) the lack of liquidity in the household sector. However, SHB's delinquency ratio marks the lowest level in the domestic banking industry, which shows the relative superiority of its loan asset quality compared to other banks.



### 3. Chohung Bank

(In Billions of Korean Won)

	FY2000	FY2001	FY2002	FY2003	YoY
Normal	29,807.1	34,220.9	45,547.0	40,934.5	(10.1)%
Precautionary	1,947.4	2,224.3	1,891.4	1,789.5	(5.4)%
Substandard	2,043.6	588.2	477.4	941.2	97.2%
Doubtful	1,102.3	483.1	1,150.4	816.8	(29.0)%
Estimated Loss	467.0	165.2	220.8	407.8	84.7%
<b>Total</b>	<b>35,367.4</b>	<b>37,681.7</b>	<b>49,287.0</b>	<b>44,889.8</b>	<b>(8.9)%</b>
Bad Loan ratio	4.44%	1.72%	2.78%	2.73%	(0.05)%p
Substandard & below ratio	10.22%	3.28%	3.75%	4.82%	1.07%p
Precautionary & below ratio	15.72%	9.18%	7.59%	8.81%	1.22%p
Provisions	1,988.8	1,122.0	1,755.1	1,751.3	(0.2)%
Bank Account	1,733.5	1,082.4	1,730.5	1,712.9	(1.0)%
Trust Account	255.3	39.6	24.5	38.4	56.4%
Coverage Ratio against					
Bad loans	126.7%	173.1%	128.0%	143.0%	15.0%p
Substandard & below	55.0%	90.7%	94.9%	80.9%	(14.1)%p
Precautionary & below	35.8%	32.4%	46.9%	44.3%	(2.6)%p

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



## Management's Discussion & Analysis

CHB's NPL ratio increased by 1.07%p (317.2 billion won) to 4.82% from 3.75% in 2002, primarily due to the classification of loans to SK Networks (178 billion won) as substandard-and-below and the rise in household and credit card delinquencies (140 billion won).

Ratio of precautionary-and-below loans also increased by 1.22%p (215.3 billion won) to 8.81% from 7.59% in 2002, due to the delinquency of loans to LG Card (173 billion won).

CHB's loan loss provision balance fell slightly to 1,751.3 billion won from 1,755.1 billion won in 2002, while coverage ratio for substandard-and-below and precautionary-and-below loans recorded at 80.9% and 44.3% due to the bank's active write-off policy for NPLs.

In 2004, CHB plans to focus on the improvement of asset quality by minimizing delinquencies through asset management centering on sound loans and strict risk management.

#### 4. Shinhan Card

Shinhan Card's ratio of substandard-and-below and precautionary-and-below loans to total loans climbed by 3.09%p and 16.97%p YoY, respectively, to 6.17% and 24.16% as a result of the overall delinquencies in the domestic credit card industry. However, on a reported basis (which includes asset-backed securities) posted at 3.7% and 13.5%, respectively. The sharp increase in non-performing assets was affected by (1) delinquencies in the overall industry and (2) Shinhan Card's liquidation of non-performing and sound assets through asset reduction. In addition, the company sold off NPLs of 458.2 billion won by issuing ABS, and wrote off 277 billion won of non-performing assets.

As a result of the company's diverse efforts to improve asset quality and normalize business activities, including the early sell-off of non-performing assets, reduction of cash advance portion of sales, and expansion of new sound members, Shinhan Card maintained the best asset quality as of the end of 2003. The company is also expected to be one of the first credit card companies to achieve a profit turnaround in the industry in 2004.

# Management's Discussion & Analysis

## Credit Card(Shinhan Card) Asset Classification

(In Billions of Korean Won)

	FY2002	FY2003				YoY
		1Q	2Q	3Q	4Q	
Asset Classification						
Normal	2,352.9	2,266.4	1,815.8	1,650.3	890.7	(62.1)%
Precautionary	104.3	142.2	203.3	229.4	211.3	102.6%
Substandard	0.0	0.0	0.0	0.0	0.0	
Doubtful	45.3	73.4	89.9	88.0	51.2	12.9%
Estimated Loss	32.8	45.8	50.6	26.2	21.3	(34.9)%
Total Credit	2,535.2	2,527.8	2,159.7	1,993.9	1,174.5	(53.7)%
NPL Ratio						
Substandard & below	3.08%	4.72%	6.51%	5.73%	6.17%	3.09%p
Precautionary & below	7.19%	10.34%	15.92%	17.23%	24.16%	16.97%p
Provisions	96.1	129.8	150.8	126.6	116.6	21.3%
NPL Coverage Ratio						
Substandard & below	123.1%	108.9%	107.3%	110.9%	160.9%	37.77%p
Precautionary & below	52.7%	49.6%	43.9%	36.8%	41.1%	(11.60)%p

Note) Including Purchase Card, reported basis

Shinhan Card's delinquent ratio of one month overdue increased by 0.91%p to 6.15%, while ratio of delinquencies of one day overdue decreased to 8.57%, down by 0.63%p YoY. This can be attributed to the downturn in the occurrences of delinquencies of new members and the company's efforts to normalize its business through cancellation of delinquent memberships and write-offs and sell-offs activities, amidst the growing non-performing assets and delinquencies in the credit card industry as a whole.

## Shinhan Card Delinquency Ratios

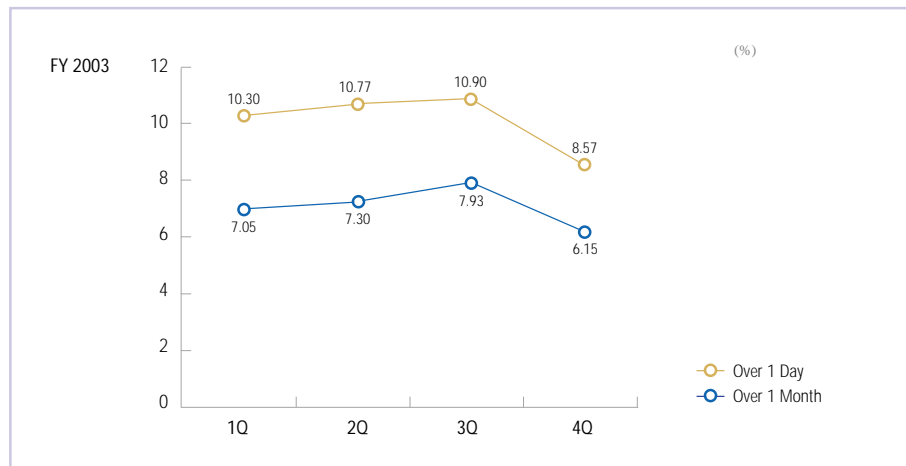
(In Billions of Korean Won)

	FY2002	FY2003				YoY
		1Q	2Q	3Q	4Q	
Delinquency Amount						
Over 1 Month	132.9	178.3	184.5	186.8	147.4	10.9%
Over 1 Day	233.3	260.3	272.1	256.8	205.6	(11.8)%
Delinquency Ratio						
Over 1 Month	5.24%	7.05%	7.30%	7.93%	6.15%	0.91%p
Over 1 Day	9.20%	10.30%	10.77%	10.90%	8.57%	(0.63)%p
NPL Sold and Written-off						
NPL Sold	0.0	0.0	0.0	0.0	450.6	
Written-off	54.3	27.2	58.9	108.2	82.3	
Total	54.3	27.2	58.9	108.2	533.0	

Note) Based on Shinhan Card(including purchase card) / Managed basis



# Management's Discussion & Analysis



## 4-1. Chohung Bank Credit card business

### Asset Quality and Delinquency Ratio

In 2003, CHB credit card business's ratio of substandard-and-below and precautionary-and-below loans to total loans increased by 2.66%p to 11.51% and by 11.84%p to 27.6%, respectively. This can be attributed to the increase in delinquent members and the deterioration of asset quality due to the overall delinquencies in the credit card industry.

On an annual basis, the ratio of delinquencies of one month overdue reached its all time high of 9.64% at the end of 2002. Subsequently, the delinquency ratio declined to 7.42% as of the end of 2003. As of the end of 2003, the actual delinquency ratio, taking into account depreciations, was almost flat, and the ratio is expected to normalize subsequent to the second half of 2004.

The following table depicts the changes in asset quality and delinquency ratio by quarter.

	FY2000	FY2001	FY2002	FY2003	YoY
Asset Quality					
Ratio of substandard & below loans	2.00%	3.33%	8.85%	11.51%	2.66%p
Ratio of precautionary & below loans	4.82%	6.43%	15.75%	27.59%	11.84%p
Delinquency ratio (one month overdue)	4.44%	4.33%	9.64%	7.42%	2.22%p

Note) The figures includes 'purchase cards'

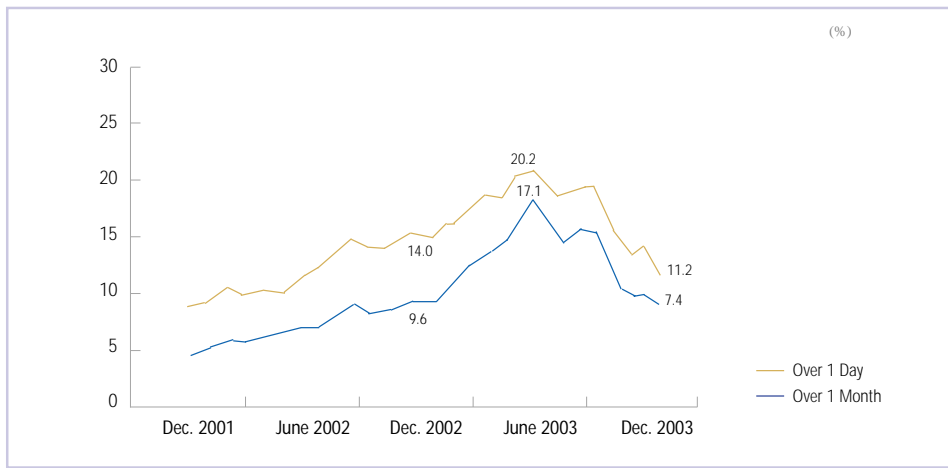
# Management's Discussion & Analysis

## 2003 Quarterly Depreciations

(In Billions of Korean Won)

	FY2002	1Q 2003	2Q 2003	3Q 2003	4Q 2003	FY2003
Depreciation	430.3	308.6	470.4	432.8	148.5	1,360.3

## Change in Credit Card Delinquency Rate



## 5. Cheju Bank

(In Billions of Korean Won)

	FY2001	FY2002	FY2003	Chg.	YoY
Total Credit	961.7	1,281.6	1,312.5	30.9	2.41%
Substandard & below	26.5	33.6	38.0	4.4	13.10%
(Ratio)	2.76%	2.62%	2.90%		0.28%p
Precautionary & below	58.6	83.1	137.9	54.8	65.98%
(Ratio)	6.10%	6.48%	10.51%		4.03%p
Provisions for Loan Losses	31.2	28.2	34.6	6.4	22.88%
Coverage Ratio					
Substandard & below	117.74%	83.80%	91.05%		7.25%p
Precautionary & below	53.22%	33.89%	25.09%		(8.80)%p
Delinquency Ratio	4.01%	3.63%	3.15%		(0.48)%p

## Management's Discussion & Analysis

Total loans of Jeju Bank as of the end of 2003 increased marginally to 1,312.5 billion won. The bank's ratio of substandard-and-below and precautionary-and-below loans to total loans also increased by 0.28%p to 2.90% and by 4.03%p to 10.51%, respectively.

The bank's loan loss provision coverage ratio for substandard-and-below loans rose by 7.25%p to 91.05%, while loan loss provision coverage ratio for precautionary-and-below loans declined by 8.80%p to 25.09%. The figures represent the bank's accumulation of adequate levels of loan loss provisions in respect to credit risk.

The bank's delinquency ratio stood at 3.15% as of the end of 2003, down by 0.48%p.

### . Capital Adequacy Ratio

#### 1. Shinhan Financial Group

$$\begin{aligned} \text{Capital Adequacy Ratio} &= \text{Net Capital} / \text{Required Capital} \\ &= 8,847.7 / 7,472.0 = 118.4\% \\ \text{Minimum Guideline by FSS} &: 100\% \end{aligned}$$

#### 2. Shinhan Bank

(In Billions of Korean Won)

	YE2000	YE2001	YE2002	YE2003	YoY
Capital	4,024.9	4,299.4	4,407.6	4,936.5	12.0%
Tier 1	3,024.3	2,955.9	2,749.4	2,984.8	8.6%
Tier 2	1,000.6	1,343.5	1,707.1	2,196.3	28.7%
Risk-weighted Assets	32,727.9	35,772.0	40,387.3	47,064.9	16.5%
Balance Sheet Assets	28,562.2	31,974.8	37,035.7		
Off-balance Sheet Assets	4,165.7	3,797.2	3,351.6		
BIS Capital Adequacy Ratio	12.30%	12.02%	10.91%	10.49%	(0.42)%p
Tier 1 Ratio	9.24%	8.26%	6.81%	6.34%	(0.47)%p
Tier 2 Ratio	3.06%	3.76%	4.23%	4.15%	(0.08)%p

Note) FY2000–FY2002 based on credit risk, FY2003 based on Market risk

At the end of 2003, SHB's BIS ratio stood at 10.49%, down by 0.42%p. Specifically, both Tier 1 ratio and Tier 2 ratio fell by 0.47%p and 0.08%p, respectively.

## Management's Discussion & Analysis

The decline in BIS ratio was due to the asset growth rate surpassing the capital growth rate (12.0% YoY) with risk-weighted assets (16.5% YoY), respectively. Its decline also can be attributed to SHB's write-off of SFG investment securities (10% of SFG's common stock issues) in the bank's shareholder's equity according to FSS's guidelines. The shares of SFG, held by SHB, were sold to various domestic and foreign investors in March 2004. Accordingly, the bank's BIS ratio is expected to increase by 0.52%p as a result of the sell-off.

With regard to risk-weighted assets, the bank's balance sheet asset increased by 5,424 billion won due to the rise in corporate and household loans. In addition, the bank's off-balance sheet assets increased by 804 billion won, as a result of its committed and derived transactions. In the case of capital, retained earnings increased by 235.4 billion won due to the rise in the bank's net income, while subordinated bonds and loan loss provisions also increased by 489.1 billion won. Currently, SHB's BIS ratio is the highest among domestic commercial banks.

### 3. Chohung Bank

(In Billions of Korean Won)

	YE2002	YE2003	YoY
Capital	3,708.8	3,572.4	(3.7)%
Tier 1	1,973.1	1,800.9	(8.7)%
Tier 2	1,742.9	1,782.4	2.3%
Risk-weighted Assets	42,840.9	40,260.9	(6.0)%
Balance Sheet Assets			
Off-balance Sheet Assets			
BIS Capital Adequacy Ratio	8.66%	8.87%	0.22%p
Tier 1 Ratio	4.61%	4.47%	(0.13)%p
Tier 2 Ratio	4.05%	4.40%	0.35%p

Note) Based on Market Risk

CHB's BIS capital adequacy ratio as of the end of 2003 was up by 0.22 percentage points to 8.87%. Total qualifying capital was reduced from 3,708.8 billion won in 2002 to 3,572.4 billion won. However, CHB's BIS ratio improved as a result of a decrease in risk-weighted assets.

Despite the capital increase through the issuance of hybrid debt, CHB's Tier 1 capital decreased by 8.7%, from 1,973 billion won in 2002 to 1,800.9 billion won as a result of the bank's consolidated net loss of 962.9 billion won. In addition, Tier 1 capital ratio also declined from 4.61% in 2002 to 4.47% in 2003. Meanwhile, despite the decrease in the approved amount of subordinated debts, Tier 2 capital increased slightly from 1,742.9 billion won in 2002 to 1,782.4 billion won due to the rise in valuation gain on available-for-sale securities as a result of the changes in the holding purpose of investment securities.

Total risk-weighted assets decreased by 6.0% from 42,840.9 billion won in 2002 to 40,260.9 billion won. On-balance-sheet assets also decreased to 38,921.5 billion won in 2003 from 41,273.3 billion won in the previous year due to depreciation of credit card bonds and reduction in usage amount of credit cards, while unlisted assets decreased from 1,567.6 billion won in 2002 to 1,339.4 billion won in 2003.

# Management's Discussion & Analysis

## 4. Goodmorning Shinhan Securities

$$\begin{aligned} \text{Capital Adequacy Ratio} &= \text{Operational Net Capital} / \text{Total Risk} \\ &= 453.3 / 95.4 = 475.0\% \end{aligned}$$

Minimum Guideline by FSS: 150.0% (300% to conduct OTC derivatives business)

## 5. Shinhan Card

$$\begin{aligned} \text{Capital Adequacy Ratio} &= \text{Adjusted Capital} / \text{Adjusted Total Assets} \\ &= 261.9 / 1,901.2 = 13.8\% \end{aligned}$$

Minimum Guideline by FSS: 8.0%

Capital adequacy ratio exceeded FSS's 8.0 percent minimum guideline by 5.8 percentage points to 13.8 percent due to asset reduction via asset securitization and undertaking of subordinated bonds from the holding company.

## 6. Shinhan Capital

$$\begin{aligned} \text{Capital Adequacy Ratio} &= \text{Adjusted Capital} / \text{Adjusted Total Assets} \\ &= 112.8 / 1,139.3 = 9.9\% \end{aligned}$$

Minimum Guideline by FSS: 7.0%

## 7. Jeju Bank

Total Capital	₩136.9 bn
Tier 1	₩96.1 bn
Tier 2	₩40.8 bn
Risk-weighted Assets	₩1,249.1 bn
BIS Ratio	10.96%
Tier 1	7.69%
Tier 2	3.27%
Minimum Guideline by FSS :	8%

# Independent Auditor's Report

Based on a report originally issued in Korean



## KPMG Samjong Accounting Corp.

P. O. Box KangNam 1989	Star Tower 10th fl., 737, Yeoksam Dong, Kangnam-gu Seoul 135-984 Republic of Korea	Tel. 82-2-2112-0100 Fax. 82-2-2112-0101 www.kr.kpmg.com
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### To the Board of Directors and Stockholders Shinhan Financial Group Co., Ltd. :

We have audited the accompanying non-consolidated balance sheets of Shinhan Financial Group Co., Ltd. (the "Company") as of December 31, 2003, and 2002, and the related statements of earnings, appropriation of retained earnings and cash flows for the years then ended. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits. The financial statements of Chohung Bank were audited by other auditors, and effects of that subsidiary on the Company's securities as of and net loss for the year ended December 31, 2003 are ₩1,887,328 million (representing 22.8% of the non-consolidated total assets) and ₩43,545 million, respectively. In addition, the financial statements of Goodmorning Shinhan Securities Co., Ltd. and Jeju Bank were reviewed by other accountants and audited by other auditors, respectively, and effects of those subsidiaries on the Company's securities as of and net earnings for the year ended December 31, 2002 are ₩578,258 million (representing 12.1% of non-consolidated total assets) and ₩5,934 million, respectively. Our opinion, in connection with the amounts included for these subsidiaries, is based solely on the reports of other accountants and auditors.

We conducted our audits 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 and significant estimates used by management, as well as evaluating the overall financial statement presentation. We believe that our audits, reviews by other accountants and audits by other auditors provide 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, 2003 and 2002, and the results of its operations, the changes in its retained earnings, and its cash flows for the years 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 as of and for the year ended December 31, 2003 and 2002 have been translated into United States dollars solely for the convenience of the reader and on the basis set forth in Note 2(b) to the non-consolidated financial statements.

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

As described in Note 1 and 5 to the non-consolidated financial statements, on July 9, 2003, the Company made an agreement with the Korea Deposit Insurance Corporation (the "KDIC") to acquire 80.04% (543,570,144 shares) of total outstanding shares in Chohung Bank. In accordance with the agreement, the Company purchased 266,349,371 shares in exchange for the Company's shares on August 18, 2003 and 277,220,773 shares in cash on August 19, 2003. The acquisition of the shares was accounted for using the purchase method, and the acquisition cost of the shares and goodwill were ₩1,857,983 million and ₩840,244 million, respectively. Additionally, pursuant to the acquisition agreement, the Company would be required to pay contingent consideration to the KDIC at the maximum amount of ₩652,284 million related to Asset Indemnity Payment, ₩166,516 million related to General Indemnity Payment and additional Earn Out Payment based on earnings of Chohung Bank in future periods. These contingent considerations are not included in the acquisition cost on the date of acquisition, for the amount is not determinable. On December 30, 2003, its percentage of ownership subsequently increased to 81.15% through additional equity acquisition at ₩200,000 million. In addition, on June 18, 2003, the Company sold 49% (294,000 shares) of total outstanding shares in Shinhan Credit Information Co., Ltd. to LSH Holdings LLC.

As described in Note 1 to the non-consolidated financial statements, the Company's American depository shares were listed on the New York Stock Exchange on September 16, 2003.

As described in Note 1 to the non-consolidated financial statements, on March 3, 2004, Shinhan Bank sold 10.2% (29,873,295 shares) of total outstanding shares in the Company at ₩627,339 million (₩21,000 per share), through after-hour block trading.

As discussed in note 2(a) to the 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 flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying non-consolidated financial statements are for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

As described in Note 2(n) to the non-consolidated financial statements, the Company adopted Statements of Korea Accounting Standards ("SKAS") No. 2 through No. 9, effective from the first fiscal year beginning after December 31, 2002, while, SKAS No. 6, "Events Occurring after the Balance Sheet Date" has been adopted since the year ended December 31, 2002 with encouraged earlier application.

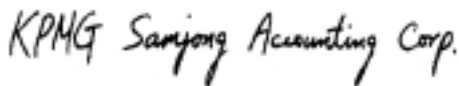
As described in Note 4 to the non-consolidated financial statements, Shinhan Bank and Chohung Bank are holding loans (including guarantees and acceptances) provided to and securities issued by SK Networks Co., Ltd. (formerly SK Global Co., Ltd.), amounting to ₩396,058 million and ₩303,011 million, respectively. As regards to those loans and securities, Shinhan Bank provides ₩110,982 million of allowance for loan losses and recorded ₩1,178 million of impairment loss on available-for-sale securities, and Chohung Bank provides ₩93,784 million of allowance for loan losses, as of December 31, 2003. Actual losses on these loans and securities 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.

# Independent Auditor's Report

Based on a report originally issued in Korean

As described in Note 4 to the non-consolidated financial statements, Shinhan Bank, Chohung Bank and Goodmorning Shinhan Securities Co., Ltd. are holding loans provided to and securities issued by LG Card Co., Ltd., which has been controlled by creditor banks due to its liquidity crisis, amounting to ₩189.3 billion, ₩172.9 billion and ₩22.6 billion, respectively. Actual losses on these loans and securities may differ materially from the management's assessments and 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. Additionally, Shinhan Bank and Chohung Bank have agreed with creditor banks to provide additional capital, amounting to ₩81.3 billion and ₩73.4 billion, respectively.

As described in Note 12 to the non-consolidated financial statements, the Company recorded ₩1,976,841 million of assets (representing 23.8% of non-consolidated total assets) as of December 31, 2003 and ₩97,787 million of operating revenue (representing 20.1% of non-consolidated total operating revenue) for the year ended December 31, 2003 through its related party transactions.



KPMG Samjong Accounting Corp.  
Seoul, Korea  
January 30, 2004

This report is effective as of January 30, 2004, 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 non-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.

# Non-Consolidated Balance Sheets

December 31, 2003 and 2002

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
<b>Assets</b>				
Cash and due from bank (notes 3, 12 and 13)	₩ 5,353	10,613	\$ 4,469	8,860
Securities (note 4)	6,308,538	3,991,864	5,266,771	3,332,663
Loans (notes 6, 12 and 13)	1,935,180	765,281	1,615,612	638,905
Fixed assets (notes 7 and 15)	2,020	1,754	1,686	1,464
Other assets (notes 8, 12 and 13)	43,339	15,467	36,182	12,914
	₩ 8,294,430	4,784,979	\$ 6,924,720	3,994,806
<b>Liabilities and Stockholders' equity</b>				
Liabilities:				
Borrowings (notes 9 and 13)	₩ 165,868	36,012	\$ 138,477	30,065
Debentures (notes 9 and 13)	1,980,543	732,030	,653,484	611,146
Retirement and severance benefits (note 10)	-	238	-	199
Other liabilities (notes 11 and 13)	30,464	6,479	25,434	5,409
Total liabilities	2,176,875	774,759	1,817,395	646,819
Stockholders' equity:				
Capital stock of ₩5,000 par value (note 16)				
Common stock	1,472,007	1,461,806	1,228,926	1,220,409
Authorized - 1,000,000,000 shares				
Issued - 294,401,300 shares in 2003				
292,361,125 shares in 2002				
Preferred stock	486,523	-	406,180	-
Issued - 97,304,564 shares in 2003				
Capital surplus (note 16)	3,316,380	1,976,625	2,768,726	1,650,212
Retained earnings (note 17)	866,398	672,530	723,324	561,471
Capital adjustments (notes 5, 18 and 19)	(23,753)	(100,741)	(19,831)	(84,105)
Total stockholders' equity	6,117,555	4,010,220	5,107,325	3,347,987
Commitments and contingencies (note 14)				
	₩ 8,294,430	4,784,979	\$ 6,924,720	3,994,806

See accompanying notes to non-consolidated financial statements.

# Non-Consolidated Statements of

For the years ended December 31, 2003 and 2002

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Operating revenue:				
Valuation gain using the equity method (notes 4 and 26)	₩ 388,641	618,690	\$ 324,462	516,522
Interest income (note 12)	97,787	24,670	81,639	20,596
	486,428	643,360	406,101	537,118
Operating expense:				
Interest expense	92,616	21,632	77,322	18,060
Fees and commission	4,962	68	4,143	57
General and administrative expenses (note 20)	23,902	19,440	19,955	16,230
	121,480	41,140	101,420	34,347
Operating income	364,948	602,220	304,681	502,771
Non-operating income (expense):				
Gain (loss) from sale of investment securities accounted for by the equity method, net	(166)	1,731	(139)	1,445
Loss from sale of available-for-sale securities	(1,725)	-	(1,440)	-
Gain (loss) on foreign currency transactions, net	1	(1)	1	(1)
Donation	(34)	(23)	(28)	(19)
Other, net	(797)	4	(665)	3
	(2,721)	1,711	(2,271)	1,428
Earnings before income taxes	362,227	603,931	302,410	504,199
Income taxes (note 21)	-	-	-	-
Net earnings	₩ 362,227	603,931	\$ 302,410	504,199
Ordinary income and net earnings per share in Won and U.S. dollars (note 22)	952	2,066	0.79	1.72
Diluted ordinary income and net earnings per share in Won and U.S. dollars (note 22)	921	2,064	0.77	1.72

See accompanying notes to non-consolidated financial statements.

# Non-Consolidated Statements of Appropriation of Retained Earnings

Date of Appropriation for 2003: March 25, 2004

Date of Appropriation for 2002: March 31, 2003

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Unappropriated retained earnings:				
Balance at beginning of year	₩ 432,569	47,034	\$ 361,136	39,267
Changes in retained earnings of subsidiaries	(10,848)	(510)	(9,057)	(426)
Cumulative effect of accounting changes	(20)	-	(17)	-
Net earnings	362,227	603,931	302,410	504,200
	783,928	650,455	654,472	543,041
Appropriation of retained earnings:				
Legal reserve	36,223	60,393	30,241	50,420
Dividends (note 23)	242,114	157,493	202,132	131,485
	278,337	217,886	232,373	181,905
Unappropriated retained earnings to be carried over to subsequent year	₩ 505,591	432,569	\$ 422,099	361,136

See accompanying notes to non-consolidated financial statements.

# Non-Consolidated Statements of Cash Flows

For the years ended December 31, 2003 and 2002

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Cash flows from operating activities:				
Net earnings	₩ 362,227	603,931	\$ 302,410	504,199
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:				
Provision for retirement and severance benefit	140	594	117	496
Stock compensation costs	1,381	643	1,153	537
Interest expense	2,492	1,175	2,080	981
Depreciation	568	489	474	408
Amortization	109	24	91	20
Bad debts	5,879	2,374	4,908	1,982
Loss (gain) from sale of investment securities accounted for by the equity method, net	166	(1,731)	139	(1,445)
Loss from sale of available-for-sale securities	1,725	-	1,440	-
Valuation gain using the equity method	(388,641)	(618,690)	(324,462)	(516,522)
Increase in other assets	(21,526)	(4,610)	(17,971)	(3,849)
Increase in other liabilities	23,510	4,764	19,628	3,977
Retirement and severance benefit paid	(180)	(24)	(150)	(20)
Increase in deposit for severance benefit insurance	(198)	(332)	(165)	(277)
Net cash used in operating activities	(12,347)	(11,393)	(10,308)	(9,512)
Cash flows from investing activities:				
Cash provided by investing activities:				
Dividends received	186,896	640,771	156,033	534,956
Proceeds from sale of investment securities accounted for by the equity method	1,529	23,631	1,277	19,729
Proceeds from sale of available-for-sale securities	2	-	1	-
Proceeds from disposition of fixed assets	29	-	24	-
Decrease in other assets	-	39	-	33
	188,456	664,441	157,335	554,718
Cash used in investing activities:				
Purchases of investment securities accounted for by the equity method	(1,128,423)	(467,962)	(942,080)	(390,685)
Increase in loans	(1,176,009)	(625,572)	(981,807)	(522,268)
Purchases of fixed assets	(993)	(798)	(828)	(666)
Increase in other assets	(1,105)	(2,038)	(923)	(1,701)
	(2,306,530)	(1,096,370)	(1,925,638)	(915,320)
Net cash used in investing activities	(2,118,074)	(431,929)	(1,768,303)	(360,602)

(Continued)

# Non-Consolidated Statements of Cash Flows

For the years ended December 31, 2003 and 2002

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Cash flows from financing activities:				
Cash provided by financing activities:				
Increase in borrowings	130,009	39,582	108,540	33,045
Increase in debentures	1,250,000	586,087	1,043,580	489,303
Issuance of additional shares	927,648	-	774,460	-
	2,307,657	625,669	1,926,580	522,348
Cash used in financing activities:				
Redemption of borrowings	-	(20,000)	-	(16,697)
Dividends paid	(157,017)	(150,359)	(131,088)	(125,529)
Issuance cost on debentures paid	(3,871)	(2,087)	(3,232)	(1,742)
Issuance cost on additional shares paid	(21,608)	-	(18,040)	-
	(182,496)	(172,446)	(152,360)	(143,968)
Net cash provided by financing activities	2,125,161	453,223	1,774,220	378,380
Net increase (decrease) in cash and cash equivalents	(5,260)	9,901	(4,391)	8,266
Cash and cash equivalents at beginning of year	10,613	712	8,860	594
Cash and cash equivalents at end of year	₩ 5,353	10,613	\$ 4,469	8,860

See accompanying notes to non-consolidated financial statements.

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (1) General 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.

On September 16, 2003, the Company's American depository shares were listed on the New York Stock Exchange.

As of December 31, 2003, the Company has 11 subsidiaries and its capital stock consists of ₩1,472,007 million in common stock and ₩486,523 million in preferred stock. Details of its subsidiaries are as follows:

### (a) Shinhan Bank

Shinhan Bank was established on September 15, 1981 under the General Banking Act of the Republic of Korea to engage in the commercial banking and trust operations. Shinhan Bank operates through 362 branches and 174 automated teller machine locations and its capital stock amounts to ₩1,224,034 million as of December 31, 2003.

### (b) Chohung Bank

Chohung Bank was established on October 1, 1943 under the General Banking Act of the Republic of Korea through the merger of Han Sung Bank, which was established on February 19, 1897, and Dong Il Bank, which was established on August 8, 1906, to engage in commercial banking and trust operations. The shares of Chohung Bank were listed on the Korea Stock Exchange on June 3, 1956, and Chohung Bank operates through 470 domestic branches, 87 depository offices and 6 overseas branches and its capital stock amounts to ₩3,595,592 million as of December 31, 2003.

On July 9, 2003, the Company made an agreement with the Korea Deposit Insurance Corporation (the "KDIC") to acquire 80.04% (543,570,144 shares) of total outstanding shares in Chohung Bank. In accordance with the agreement, the Company purchased 266,349,371 shares in exchange for the Company's shares on August 18, 2003 and 277,220,773 shares in cash on August 19, 2003.

Additionally, the Company's percentage of ownership increased to 81.15% through additional equity acquisition at ₩200,000 million on December 30, 2003.

### (c) 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, and renamed to Goodmorning Shinhan Securities. As of December 31, 2003, it operates through 83 branches and its capital stock amounts to ₩796,998 million.

### (d) 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 loan and installment financing. As of December 31, 2003, Shinhan Card holds 2.11 million of franchise accounts and 2.77 million of credit card holders, and its capital stock amounts to ₩152,847 million.



# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

(e) 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. Its capital stock as of December 31, 2003 amounts to ₩80,000 million.

(f) 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. 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 Group. Its capital stock as of December 31, 2003 amounts to ₩40,000 million.

(g) Jeju Bank

Jeju Bank was incorporated on March 18, 1969 under the General Banking Act of the Republic 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 the KDIC. 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 as of December 31, 2003 amounts to ₩77,644 million.

(h) 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. Its capital stock as of December 31, 2003 amounts to ₩30,000 million.

(i) 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, 2003 amounts to ₩2,820 million.

(j) 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, 2003 amounts to ₩1,000 million.

(k) 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. Additionally, the Company sold 294,000 shares (49% of total outstanding shares) of Shinhan Credit Information to LSH Holdings LLC on June 18, 2003. Its capital stock as of December 31, 2003 amounts to ₩3,000 million.

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

Ownerships of the Company's subsidiaries as of December 31, 2003 and 2002 are as follows:

Investor	Investee	2003		2002	
		Number of shares	Ownership Percentage (%)	Number of shares	Ownership Percentage(%)
The Company	Shinhan Bank	244,806,782	100.0	244,630,672	100.0
	Chohung Bank	583,570,144	81.2	-	-
	Goodmorning Shinhan Securities	94,084,384	(*) 59.4	94,084,384	59.4
	Shinhan Card	30,569,400	100.0	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	4,000,001	50.0
	Jeju Bank	9,692,369	62.4	9,692,369	62.4
	SH&C Life Insurance	3,000,001	50.0	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	306,000	51.0	600,000	100.0
	Shinhan Bank	The Company	29,873,359	(**)10.2	29,873,674

(\*) 1,047,213 shares of treasury stock were considered.

(\*\*) Preferred stocks were excluded and 10.2% (29,873,295 shares) of shares in the Company were sold at ₩627,339 million (₩21,000 per share) on March 3, 2004 through after-hour block trading.

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

### (a) Basis of Financial Statements Presentation

The Company maintains its accounting records in Korean Won and prepares statutory non-consolidated financial statements in the Korean language (Hangul) 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 non-consolidated 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.

The accompanying non-consolidated financial statements include only the accounts of the Company, and do not include the accounts of any of its subsidiaries.

Certain accounts of prior year's non-consolidated financial statements were reclassified to conform to the current year's presentation. These reclassifications did not result in any material change to reported net earnings or stockholders' equity.

### (b) Basis of Financial Statements Translation

The 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 ₩1,197.80 to US\$1, the basic exchange rate on December 31, 2003. 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

December 31, 2003 and 2002

## (c) Allowance for Loan Losses

Allowance for loan losses is provided to cover estimated losses on loans, based on past experience of collection and analysis of the collectibility of individual outstanding loans.

## (d) Investments in Securities

Effective January 1, 2003, the Company adopted Statement of Korea Accounting Standards ("SKAS") No. 8, "Investments in Securities." In accordance with SKAS No. 8, certain debt and equity securities should be classified into one of the three categories of held-to-maturity, available-for-sale, or trading securities at the time of acquisition and such determination should be reassessed at each balance sheet date. Investments in debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

Trading securities are carried at fair value, with unrealized holding gains and losses included in earnings. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a capital adjustment. Investments in equity that do not have readily determinable fair values are stated at cost. Declines in value judged to be other-than-temporary on available-for-sale securities are charged to current results of operations. Investments in debt securities that are classified into held-to-maturity are reported at amortized cost at the balance sheet date and such amortization is included in interest income.

Marketable securities are at the quoted market prices as of the period end. Non-marketable debt securities are recorded at the fair values derived from the discounted cash flows by using an interest rate deemed to approximate the market interest rate. The market interest rate is determined by the issuers' credit rate announced by the accredited credit rating agencies in Korea. Money market funds are recorded at the fair value determined by the investment management companies.

## (e) Investment Securities under the Equity Method

Investments in affiliated companies with the Company's ownership of 20% or more or over which the Company has significant management control are stated at an amount as determined using the equity method.

Under the equity method, the Company's initial investment is recorded at cost and is subsequently increased to reflect the Company's share of the investee income and reduced to reflect the Company's share of the investee losses or dividends received. Any excess in the Company's acquisition cost over the Company's share of the investee's identifiable net assets is generally recorded as goodwill or other intangibles. Goodwill (negative goodwill) is amortized by the straight-line method over a reasonable period, generally less than 20 years. When events or circumstances indicate that carrying amount may not be recoverable, the Company reviews goodwill for any impairment.

Under the equity method, the Company does not record its share of losses of affiliate companies when such losses would make the Company's investment in such entity less than zero.

For the equity method, the Company applies its own criteria in providing allowances for loan losses of its affiliated companies. Accordingly, additional allowances provided for the year ended December 31, 2003 for Chohung and Jeju Bank amount to ₩27,431 million and ₩739 million, respectively, by the equity method.

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (f) 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	"

### ii) Intangible Assets

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

## (g) 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.

## (h) 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.

## (i) 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.

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (j) 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. Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at ₩1,197.80 and ₩1,200.40 to US\$1, the rate of exchange on December 31, 2003 and 2002, respectively, that is permitted by the Financial Accounting Standards. 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.

## (k) 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.

## (l) Contingent Liabilities

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

## (m) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to financial statements. Actual results could differ from those estimates.

## (n) Adoption of New Accounting Standard

The Company adopted SKAS No. 2 through No. 9, effective from the first fiscal year beginning after December 31, 2002, while, SKAS No. 6, "Events Occurring after the Balance Sheet Date" has been adopted since the year ended December 31, 2002 with encouraged earlier application. The cumulative effect of change in accounting principles is offset directly against beginning balance of the stockholders' equity, while the Company reports financial statements of the current year in accordance with the new method as regards to change in estimate, prospectively.

## (3) Cash and Due from Banks

As of December 31, 2003 and 2002, ₩2.5 million of cash and due from banks is restricted for guarantee deposits on bank accounts.

## (4) Securities

Securities as of December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Investment securities accounted for by the equity method	₩ 6,308,538	3,990,775	\$ 5,266,771	3,331,754
Available-for-sale securities	-	1,089	-	909
	₩ 6,308,538	3,991,864	\$ 5,266,771	3,332,663

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (a) Investment Securities accounted for by the Equity Method

(i) Details of investment securities accounted for by the equity method as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won

Subsidiaries	2003					
	Beginning balance	Acquisition and dividend, net	Equity method gain (loss)	Retailed earnings	Capital adjustments	Ending balance
Shinhan Bank	₩ 3,043,952	(182,592)	476,273	937	177,048	3,515,618
Chohung Bank (*)	-	2,057,983	(43,545)	621	(127,731)	1,887,328
Goodmorning Shinhan Securities	531,566	-	8,787	(12,342)	18,861	546,872
Shinhan Card	247,460	-	(84,324)	-	-	163,136
Shinhan Capital	76,458	-	26,204	-	2,786	105,448
Shinhan BNP Paribas ITMC	22,581	(1,000)	917	(37)	25	22,486
Jeju Bank	46,692	(2,423)	5,189	-	(1,366)	48,092
SH&C Life Insurance	14,630	-	(1,684)	-	75	13,021
e-Shinhan	3,892	-	(1,166)	(1)	-	2,725
Shinhan Macquarie	423	-	1,446	(26)	-	1,843
Shinhan Credit Information	3,121	(1,696)	544	-	-	1,969
	₩ 3,990,775	1,870,272	388,641	(10,848)	69,698	6,308,538

Shinhan Bank and Chohung Bank are holding loans (including guarantees and acceptances) provided to and securities issued by SK Networks Co., Ltd. (formerly SK Global Co., Ltd.), amounting to ₩396,058 million and ₩303,011 million, respectively. As regards to those loans and securities, Shinhan Bank provides ₩110,982 million of allowance for loan losses and recorded ₩1,178 million of impairment loss on available-for-sale securities, and Chohung Bank provides ₩93,784 million of allowance for loan losses, as of December 31, 2003. Actual losses on these loans and securities 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.

Additionally, Shinhan Bank, Chohung Bank and Goodmorning Shinhan Securities are holding loans provided to and securities issued by LG Card Co., Ltd., which has been controlled by creditor banks due to its liquidity crisis, amounting to ₩189.3 billion, ₩172.9 billion and ₩22.6 billion, respectively. Actual losses on these loans and securities may differ materially from the management's assessments and 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. Additionally, Shinhan Bank and Chohung Bank have agreed with creditor banks to provide additional capital, amounting to ₩81.3 billion and ₩73.4 billion, respectively.

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

The changes in goodwill (negative goodwill) for the year ended December 31, 2003 are as follows:

In Millions of Korean Won					
		Beginning balance	Increase (decrease)	Amortization (reversal)	Ending balance
Chohung Bank	₩	-	(*)866,757	20,006	846,751
Goodmorning Shinhan Securities		161,542	-	17,004	144,538
Jeju Bank		(7,034)	-	(758)	(6,276)
	₩	154,508	866,757	36,252	985,013

(\*) ₩26,513 million of additional goodwill through additional equity acquisition were included.

In Millions of Korean Won						
2002						
Subsidiaries	Beginning balance	Acquisition and dividend, net	Equity method gain (loss)	Retailed earnings	Capital adjustments	Ending balance
Shinhan Bank	₩ 3,446,112	(870,651)	595,866	(215)	(127,160)	3,043,952
Goodmorning Shinhan Securities	243,673	390,710	(749)	(36)	(102,032)	531,566
Shinhan Card	-	246,956	504	-	-	247,460
Shinhan Capital	63,781	-	13,429	(63)	(689)	76,458
Shinhan BNP Paribas ITMC	42,557	(23,900)	3,961	(74)	37	22,581
Jeju Bank	-	42,935	6,683	(118)	(2,808)	46,692
SH&C Life Insurance	-	15,000	(453)	-	83	14,630
e-Shinhan	4,673	-	(806)	(1)	26	3,892
Shinhan Macquarie	776	(484)	134	(3)	-	423
Shinhan Credit Information	-	3,000	121	-	-	3,121
	₩ 3,801,572	(196,434)	618,690	(510)	(232,543)	3,990,775

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

In Millions of Korean Won					
		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

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (b) Available-for-Sale Securities

Available-for-sale securities as of December 31, 2003 and 2002 are as follows:

	Acquisition cost	In Millions of Korean Won	
		Fair value (book value)	
		2003	2002
Bond with stock warrant issued by Shinhan Bank	₩ 1,785	-	1,089

In addition, changes in unrealized gain (loss) on available-for-sale securities for the years ended December 31, 2003 and 2002 are as follows:

		In Millions of Korean Won	
		2003	2002
Beginning balance of unrealized gain (loss)	₩	(668)	-
Realized gain (loss)		173	-
Other changes		495	(668)
Ending balance of unrealized gain (loss)	₩	-	(668)

## (5) Acquisition of Chohung Bank

On July 9, 2003, the Company made an agreement with the KDIC to acquire 80.04% (543,570,144 shares) of total outstanding shares in Chohung Bank. In accordance with the agreement, the Company purchased 266,349,371 shares in exchange for the Company's shares on August 18, 2003 and 277,220,773 shares in cash on August 19, 2003.

As regards to the acquisition, the Company recognized identifiable assets and liabilities of Chohung Bank as fair value on the date of acquisition using the purchase method.

Condensed balance sheets as of December 31, 2002 and August 31, 2003 and statements of earnings for the year ended December 31, 2002 and the eight months ended August 31, 2003 of Chohung Bank are as follows:

		In Millions of Korean Won	
		December 31, 2002	August 31, 2003 (Acquisition date)
Condensed balance sheets:			
Total assets	₩	66,196,288	65,297,366
Total liabilities		63,903,990	63,153,224
Total stockholders' equity	₩	2,292,298	2,144,142
Condensed statements of earnings:			
Operating revenue	₩	5,317,063	3,666,283
Operating expense		5,451,812	4,335,577
Operating income (losses)		(134,749)	(669,293)
Ordinary income (losses)		(611,160)	(694,949)
Net earnings (losses)	₩	(586,045)	(720,293)



# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

Goodwill incurred in relation to the acquisition of Chohung Bank is as follows:

	In Millions of Korean Won	
Acquisition cost	₩	1,857,983
Net asset value (fair value)		1,017,739
Goodwill	₩	840,244

Additionally, the Company would be required to pay contingent consideration to the KDIC in relation to the earnings in the future and changes in fair value of assets and liabilities of Chohung Bank and the details are as follows:

■ **Asset Indemnity Payment**

- Amount : ₩652,284 million - asset indemnity amount for corporate loans, returned KAMCO loans and credit card loans
- Payment date : earlier of 60 days after the date asset indemnity is determined as of June 30, 2005 or the date as agreed on
- Interest : 4.3% per annum

■ **General Indemnity Payment**

- Amount : ₩166,516 million (deductible any amounts due and payable by the KDIC to the Company in connection with the breach of representation or warranty)
- Payment date : the second anniversary date of cash portion closing date
- Interest : 4.3% per annum

■ **Earn Out Payment**

- Amount : 20% of the total excess amount, which means net earnings of Chohung Bank for fiscal years of 2004, 2005 and 2006 in excess of ₩1,800 billion
- Payment date : within 30 days after the date excess amount is determined for the fiscal year of 2006

These contingent considerations are not included in the acquisition cost on the date of acquisition, for the amount is not determinable.

## (6) Loans

(a) Loans as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Loans in Won	₩ 1,637,200	497,200	\$ 1,366,839	415,094
Loans in foreign currencies	107,705	71,927	89,919	60,049
Privately placed bonds	200,000	200,000	166,973	166,973
	1,944,905	769,127	1,623,731	642,116
Less: allowance for loan losses	(9,725)	(3,846)	(8,119)	(3,211)
	₩ 1,935,180	765,281	\$ 1,615,612	638,905

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

(b) Details of loans as of December 31, 2003 and 2002 are as follows:

		In Millions of Korean Won		
	Borrower	Interest rate (%)	2003	2002
Loans in Won	Shinhan Card	4.83~6.28	₩ 1,100,000	200,000
"	Shinhan Capital	4.83~8.12	537,200	297,200
			1,637,200	497,200
Loans in foreign currencies	Shinhan Capital	Libor+0.9~1.2	107,705	71,927
Privately placed bonds	Shinhan Bank	7.42	50,000	50,000
"	Goodmorning			
"	Shinhan Securities	6.23	130,000	130,000
"	Jeju Bank	8.14	20,000	20,000
			200,000	200,000
			1,944,905	769,127
Less: allowance for loan losses			(9,725)	(3,846)
			₩ 1,935,180	765,281

(c) The maturities of loans by remaining period as of December 31, 2003 and 2002 are as follows:

		In Millions of Korean Won			
At December 31, 2003	Loans in Won	Loans in foreign currencies	Privately placed bonds	Total	
Due in 6 months or less	₩ 90,000	-	-	90,000	
Due after 6 months through 12 months	97,200	-	130,000	227,200	
Due after 1 years through 3 years	1,220,000	107,705	-	1,327,705	
Thereafter	230,000	-	70,000	300,000	
	₩ 1,637,200	107,705	200,000	1,944,905	

		In Millions of Korean Won			
At December 31, 2002	Loans in Won	Loans in foreign currencies	Privately placed bonds	Total	
Due in 6 months or less	₩ -	-	-	-	
Due after 6 months through 12 months	-	-	-	-	
Due after 1 years through 3 years	417,200	71,927	130,000	619,127	
Thereafter	80,000	-	70,000	150,000	
	₩ 497,200	71,927	200,000	769,127	

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (7) Fixed Assets

Fixed assets as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Property and equipment:				
Vehicles	₩ 391	242	\$ 326	202
Furniture and fixtures	993	344	829	287
Leasehold improvement and other	1,404	1,283	1,172	1,071
	2,788	1,869	2,327	1,560
Less: Accumulated depreciation	(1,182)	(656)	(987)	(548)
	1,606	1,213	1,340	1,012
Intangible assets:				
Organization costs	-	20	-	17
Other	414	521	346	435
	414	541	346	452
	₩ 2,020	1,754	\$ 1,686	1,464

## (8) Other Assets

Other assets as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Guarantee deposits paid	₩ 7,840	7,069	\$ 6,545	5,902
Accounts receivable	7,612	2,361	6,355	1,971
Accrued income	11,334	4,332	9,463	3,617
Advance payments	10	-	8	-
Prepaid expenses	1,667	48	1,392	40
Prepaid income taxes	13,867	982	11,577	820
Other	1,009	675	842	564
	₩ 43,339	15,467	\$ 36,182	12,914

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (9) Borrowings and Debentures

(a) Borrowings and debentures as of December 31, 2003 and 2002 consist of the following:

	Interest rate(%)	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
		2003	2002	2003	2002
<b>Borrowings:</b>					
Borrowings in Won	4.63~5.56	₩ 94,000	-	\$ 78,477	-
Borrowings in foreign currencies	Libor+0.7~1	71,868	36,012	60,000	30,065
		₩ 165,868	36,012	\$ 138,477	30,065
<b>Debentures:</b>					
Korean Won debentures	4.76~7.47	₩ 1,950,000	700,000	\$ 1,627,985	584,405
Foreign currency debentures	Libor+0.85	35,934	36,012	30,000	30,065
		1,985,934	736,012	1,657,985	614,470
Less: discounts on debentures		(5,391)	(3,982)	(4,501)	(3,324)
		₩ 1,980,543	732,030	\$ 1,653,484	611,146

(b) The maturities of borrowings and debentures as of December 31, 2003 and 2002 are as follows:

At December 31, 2003	In Millions of Korean Won				
	Borrowings in Won	Borrowings in foreign currencies	Korean Won debentures	Foreign currency debentures	Total
Due in 6 months or less	₩ 90,000	-	-	-	90,000
Due after 6 months through 12 months	4,000	-	230,000	-	234,000
Due after 1 years through 3 years	-	71,868	1,590,000	35,934	1,697,802
Thereafter	-	-	130,000	-	130,000
	₩ 94,000	71,868	1,950,000	35,934	2,151,802
<b>At December 31, 2002</b>					
Due in 6 months or less	₩ -	-	-	-	-
Due after 6 months through 12 months	-	-	-	-	-
Due after 1 years through 3 years	-	36,012	570,000	36,012	642,024
Thereafter	-	-	130,000	-	130,000
	₩ 497,200	36,012	700,000	36,012	772,024

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (10) Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Estimated severance liability at beginning of year	₩ 570	-	\$ 476	-
Provision	(180)	(24)	(150)	(20)
Payment	140	594	117	496
Estimated severance liability at end of year	530	570	442	476
Less: deposits for severance benefit insurance	(530)	(332)	(442)	(277)
Net balance at end of year	₩ -	238	\$ -	199

## (11) Other Liabilities

Other liabilities as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Withholding taxes	₩ 1,176	523	\$ 982	437
Dividends payable	928	453	775	378
Accounts payable	14,492	1,541	12,099	1,286
Accrued expenses	12,189	3,962	10,176	3,308
Unearned revenue	1,679	-	1,402	-
	₩ 30,464	6,479	\$ 25,434	5,409

## (12) Related Party Transactions

### (a) Details of transactions

Significant transactions with the related parties for the years ended December 31, 2003 and 2002 are as follows:

			In Millions of Korean Won	
Revenue earned	Expense incurred	Account	2003	2002
The Company	Shinhan Bank	Interest income	₩ 4,340	5,58
"	Goodmorning Shinhan Securities	Interest income	8,099	2,158
"	Shinhan Card	Interest income	54,006	925
"	Shinhan Capital	Interest income	29,714	15,006
"	Jeju Bank	Interest income	1,628	1,000
			97,787	24,670
Shinhan Bank	Chohung Bank	Gain on derivatives	1,838	-
"	Goodmorning Shinhan Securities	Interest income	3,121	1,414
"	"	Rental income	29	21

(Continued)

## Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

In Millions of Korean Won

Revenue earned	Expense incurred	Account		2003	2002
Shinhan Bank	Shinhan Card	Interest income	₩	4,445	786
"	"	Fees and commission		57,941	55,271
"	"	Rental income		859	468
"	Shinhan Capital	Interest income		3,136	6,055
"	"	Gain on derivatives		361	64
"	"	Rental income		309	271
"	Jeju Bank	Interest income		237	258
"	SH&C Life Insurance	Fees and commission		2,723	-
"	Shinhan Macquarie	Rental income		-	100
Chohung Bank	Shinhan Bank	Interest income		996	-
"	"	Gain on derivatives		139	-
"	Goodmorning Shinhan Securities	Interest income		26	-
"	SH&C Life Insurance	Fees and commission		744	-
Goodmorning Shinhan Securities	Shinhan Bank	Interest income		1,391	257
"	"	Fees and commission		466	-
"	Chohung Bank	Interest income		136	-
"	Shinhan Card	Rental income		242	5
"	Shinhan BNP Paribas ITMC	Rental income		201	-
Shinhan Card	Shinhan Bank	Interest income		7	491
"	"	Fees and commission		29	-
"	Goodmorning Shinhan Securities	Interest income		-	106
"	Jeju Bank	Fees and commission		81	-
"	SH&C Life Insurance	Fees and commission		338	-
Shinhan Capital	Shinhan Bank	Interest income		437	150
"	"	Gain on derivatives		1,111	2,468
"	Chohung Bank	Interest income		690	-
Shinhan BNP Paribas ITMC	Shinhan Bank	Interest income		393	380
"	"	Fees and commission		-	41
Jeju Bank	Shinhan Bank	Interest income		99	83
SH&C Life Insurance	Shinhan Bank	Interest income		498	180
"	"	Insurance income		514	-
e-Shinhan	Shinhan Bank	Interest income		132	-
"	Shinhan Card	Fees and commission		22	-
"	The Company	Fees and commission		62	-
Shinhan Macquarie	Shinhan Bank	Interest income		-	15
Shinhan Credit Information	Shinhan Bank	Fees and commission		2,614	772
"	"	Interest income		35	-
"	Goodmorning Shinhan Securities	Fees and commission		31	-
"	Shinhan Card	Fees and commission		8,646	2,289
"	Shinhan Capital	Fees and commission		61	-
"	Jeju Bank	Fees and commission		623	42
				95,763	71,987
			₩	193,550	96,657

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (b) Account balances

Significant balances with the related parties as of December 31, 2003 and 2002 are as follows:

			In Millions of Korean Won	
Creditor	Debtor	Account	2003	2002
The Company	Shinhan Bank	Due from banks	₩ 5,327	10,613
"	"	Other assets		
		(Guarantee deposits paid)	7,673	6,902
"	"	Loans (Privately placed bonds)	50,000	50,000
"	"	Other assets (Accounts receivable)	6,786	2,171
"	"	Other assets (Accrued income)	185	123
"	Goodmorning Shinhan Securities	Loans (Privately placed bonds)	130,000	130,000
"	"	Other assets (Accrued income)	134	134
"	Shinhan Card	Loans	1,100,000	200,000
"	"	Other assets (Accounts receivable)	154	-
"	"	Other assets (Accrued income)	6,387	925
"	Shinhan Capital	Loans	644,905	369,127
"	"	Other assets (Accounts receivable)	624	190
"	"	Other assets (Accrued income)	4,442	2,965
"	Jeju Bank	Loans (Privately placed bonds)	20,000	20,000
"	"	Other assets (Accrued income)	186	186
"	Shinhan Credit Information	Other assets (Accounts receivable)	38	-
			1,976,841	793,336
Shinhan Bank	Chohung Bank	Securities	132,708	-
"	"	Derivative assets	797	-
"	Goodmorning Shinhan Securities	Loans (Privately placed bonds)	30,000	70,000
"	"	Other assets (Accrued income)	350	1,047
"	"	Other assets		
		(Guarantee deposits paid)	4,068	530
"	Shinhan Card	Call loans	28,500	7,500
"	"	Other assets (Accrued income)	87	-
"	Shinhan Capital	Loans	75,933	37,959
"	"	Derivative assets	97	-
"	"	Other assets (Accrued income)	136	133
"	Jeju Bank	Loans (Privately placed bonds)	3,140	3,140
"	"	Other assets (Accounts receivable)	561	-
"	SH&C Life Insurance	Other assets (Accounts receivable)	1,455	-
Chohung Bank	Shinhan Bank	Securities	96,515	-
"	"	Derivative assets	4,324	-
"	Shinhan Capital	Loans	392	-
Goodmorning Shinhan Securities	Shinhan Bank	Due from banks	53,064	11,908
"	"	Other assets		
		(Guarantee deposits paid)	6,637	5,526

(Continued)

## Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

In Millions of Korean Won

Creditor	Debtor	Account	2003	2002
Goodmorning				
Shinhan Securities	Shinhan Bank	Other assets (Accrued income)	₩ 154	252
"	Chohung Bank	Due from banks	2,011	-
"	"	Other assets (Accrued income)	8	-
Shinhan Card	The Company	Other assets (Prepaid expense)	906	-
"	Shinhan Bank	Cash and due from banks	102	-
"	"	Other assets (Guarantee deposits paid)	1,189	387
"	Goodmorning Shinhan Securities	Other assets (Guarantee deposits paid)	4,635	3,289
"	SH&C Life Insurance	Other assets (Accounts receivable)	338	-
Shinhan Capital	The Company	Other assets (Prepaid expense)	773	-
"	Shinhan Bank	Short-term financial instruments	58,231	16,666
"	"	Other assets (Prepaid expense)	39	-
"	"	Other assets (Accrued income)	69	-
"	"	Currency swap	1,941	2,000
"	"	Other assets (Guarantee deposits paid)	292	418
"	Chohung Bank	Securities	6,714	-
"	"	Other assets (Accrued income)	173	-
Shinhan BNP				
Paribas ITMC	Shinhan Bank	Cash and due from banks	4,436	8,985
"	"	Other assets (Accrued income)	105	-
"	Goodmorning Shinhan Securities	Other assets (Guarantee deposits paid)	3,496	850
Jeju Bank	Shinhan Bank	Call loans	-	4,922
"	"	Other assets (Accounts receivable)	561	-
SH&C Life Insurance	Shinhan Bank	Cash and cash equivalents	33,563	12,327
"	"	Other assets (Accrued income)	46	-
e-Shinhan	Shinhan Bank	Cash and cash equivalents	2,158	3,718
Shinhan Macquarie	Shinhan Bank	Cash and cash equivalents	1,187	168
Shinhan Credit				
Information	Shinhan Bank	Cash and cash equivalents	1,686	1,395
"	"	Other assets (Accounts receivable)	280	-
"	"	Other assets (Guarantee deposits paid)	866	-
"	Shinhan Card	Other assets (Accounts receivable)	892	-
"	Jeju Bank	Other assets (Accrued income)	101	-
"	"	Other assets (Guarantee deposits paid)	60	-
			565,776	193,120
			₩ 2,542,617	986,456



# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (c) Guarantees and acceptances

The guarantees and acceptances provided between the related parties as of December 31, 2003 are as follows:

				In Millions of Korean Won	
Creditor	Debtor	Account		Amount guaranteed	
The Company	Goodmorning Shinhan Securities	Lease guarantee	₩	50,000	
Shinhan Bank	Shinhan Capital	Letter of credit		30,547	
"	Shinhan Finance	Guarantees for loans		11,025	
Shinhan Bank	Good Morning USA	Guarantees for operations		14,374	
			₩	105,946	

## (13) Assets and Liabilities Denominated in Foreign Currency

Assets and liabilities denominated in foreign currency as of December 31, 2003 and 2002 are as follows:

	In Thousands of U.S. Dollars (note 2)		In Millions of Korean Won	
	Foreign currency		Equivalent Won	
	2003	2002	2003	2002
<b>Assets:</b>				
Cash and due from banks	\$ -	90	₩ -	108
Loans	89,919	59,919	107,705	71,927
Other assets (accrued income)	426	547	510	657
<b>Total</b>	<b>\$ 90,345</b>	<b>60,556</b>	<b>₩ 108,215</b>	<b>72,692</b>
<b>Liabilities:</b>				
Borrowings	\$ 60,000	30,000	₩ 71,868	36,012
Debentures	30,000	30,000	35,934	36,012
Discounts on debentures	(51)	(79)	(60)	(95)
Other liabilities (accrued expenses)	382	503	457	604
<b>Total</b>	<b>\$ 90,331</b>	<b>60,424</b>	<b>₩ 108,199</b>	<b>72,533</b>

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (14) Commitments and Contingencies

### (a) Indemnification on contingent loss

Pursuant to the sale agreement of 50% shares in Shinhan ITMC, entered into between BNP Paribas Asset Management Group and the Company, the Company agreed to compensate BNP Paribas Asset Management Group for contingent loss arising from following pending lawsuits filed against Shinhan BNP Paribas ITMC:

			In Millions of Korean Won	
Plaintiff	Claimed for		₩	Amount to be claimed
Bumin Mutual Savings Bank	Indemnity for losses		₩	100
Fine Capital Co., Ltd. (formerly Kookmin leasing Co., Ltd.)	"			2,800
			₩	2,900

According to the settlement of the lawsuit by Fine Capital Co., Ltd., the Company recorded ₩987 million of loss for the year ended December 31, 2003. However, the ultimate outcome of other lawsuits cannot be presently determined.

(b) As of December 31, 2003, the Company has provided a blank note to Koram Bank, as collateral related to bank overdrafts.

## (15) Insurance

As of December 31, 2003, the Company maintains insurance policies covering loss and liability arising from automobile accidents.

## (16) Capital Stock

(a) The Company issued new preferred stock for the year ended December 31, 2003, and the details are as follows:

	Number of shares	Predetermined dividend rate(%)	Redeemable period
<b>Redeemable preferred stock:</b>			
Series 1	9,316,792	4.04	August 19, 2004~August 18, 2006
Series 2	9,316,792	4.04	August 19, 2005~August 18, 2007
Series 3	9,316,792	4.04	August 19, 2006~August 18, 2008
Series 4	9,316,792	4.04	August 19, 2007~August 18, 2009
Series 5	9,316,793	4.04	August 19, 2008~August 18, 2010
Series 6	3,500,000	7.00	July 19, 2006~August 18, 2006
Series 7	2,433,334	7.46	July 19, 2008~August 18, 2008
Series 8	66,666	7.86	July 19, 2010~August 18, 2010
	52,583,961		
<b>Redeemable convertible preferred stock:</b>			
Series 9 (*)	44,720,603	2.02	August 19, 2006~August 18, 2008
	97,304,564		

(\*) Convertible period : August 19, 2004 ~ August 18, 2007  
 Conversion ratio : 1 common share to 1 preferred share  
 Conversion price in Won : ₩18,086

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

(b) Details of changes in capital stock for the years ended December 31, 2003 and 2002 are as follows:

	Number of shares	2003 Capital stock	Capital surplus
Balance at beginning of the year	292,361,125	1,461,806	1,976,625
Redeemable preferred stock issued:			
Series 1 to 5	46,583,961	232,920	237,784
Series 6 to 8	6,000,000	30,000	855,530
Redeemable convertible preferred stock issued:			
Series 9	44,720,603	223,603	228,271
Common stock issued	1,864,065	9,320	18,183
Stock exchange	176,110	881	(13)
Balance at end of the year	391,705,864	1,958,530	3,316,380

	Number of shares	2003 Capital stock	Capital surplus
Balance at beginning of the year	292,344,192	1,461,721	1,976,650
Stock exchange	16,933	85	(25)
Balance at end of the year	292,361,125	1,461,806	1,976,625

## (17) Retained Earnings

Retained earnings as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Legal reserves	₩ 82,469	22,076	\$ 68,850	18,430
Retained earnings before appropriations	783,929	650,454	654,474	543,041
	₩ 866,398	672,530	\$ 723,324	561,471

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.

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (18) Capital Adjustment

Capital adjustments as of December 31, 2003 and 2002 consist of the following:

Grant date	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Unrealized loss on investment securities accounted for by the equity method	₩ (33,379)	(103,077)	\$ (27,867)	(86,055)
Unrealized loss on available-for-sale securities	-	(668)	-	(558)
Stock options (note 19)	9,626	3,004	8,036	2,508
	₩ (23,753)	(100,741)	\$ (19,831)	(84,105)

## (19) Stock Options

(a) Details of stock options

Grant date	In Millions of Korean Won	
	May 22, 2002	May 15, 2003
Shares granted	1,004,200 shares	1,156,300 shares
Share expired to date	40,081 shares	8,055 shares
Shares outstanding	964,119 shares	1,148,245 shares
Type of stock options	Stock grant or price compensation	Stock grant or price compensation
Exercise price (Won)	₩ 18,910	₩ 11,800
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) The Company calculated the compensation cost using the fair value method for stock grant and details are as follows:

Grant date	In Millions of Korean Won	
	May 22, 2002	May 15, 2003
Risk-free interest rate	6.43%	4.25%
Expected exercise period	4 years	4 years
Expected stock price volatility	27.13%	22.11%
Expected dividend yield	0%	0%
Expected ratios of no-exercise	0%	0%
Weighted average fair value (Won)	₩ 9,812	₩ 5,292

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

(c) Changes in stock compensation expense for the year ended December 31, 2003 are as follows:

Grant date	Stock compensation cost	Personnel of		Total	
		the Company	subsidiaries		
May 22, 2002	Recorded at beginning of the year	₩	643	2,361	3,004
	Incurred during the year		938	3,752	4,690
	To be recorded in subsequent years		347	1,337	1,684
May 15, 2003	Recorded at beginning of the year		-	-	-
	Incurred during the year		443	1,489	1,932
	To be recorded in subsequent years		958	3,187	4,145

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 accounts receivable.

## (20) General and Administrative Expenses

Details of general and administrative expenses for the years ended December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Salaries and wages	₩ 9,821	7,008	\$ 8,199	5,851
Provision for retirement and severance benefits	140	594	117	496
Other employees benefits	601	370	502	309
Rental	142	46	119	38
Entertainment	1,455	1,903	1,215	1,589
Depreciation	568	489	474	408
Amortization	109	24	91	20
Bad debts	5,879	2,374	4,908	1,982
Taxes and dues	361	125	301	104
Advertising	22	72	18	60
Fees and commission	1,374	5,748	1,147	4,799
Other	3,430	687	2,864	574
	₩ 23,902	19,440	\$ 19,955	16,230

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (21) 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 years ended December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Current income taxes	₩ -	-	\$ -	-
Deferred taxes	-	-	-	-
	₩ -	-	\$ -	-

(b) Reconciliation of accounting income and taxable income for the years ended December 31, 2003 and 2002 is as follows:

Description	In Millions of Korean Won			
	Temporary difference		Permanent difference	
	2003	2002	2003	2002
<b>Addition:</b>				
Dividends received	₩ 186,896	640,771	-	-
Accrued income earned in prior year	4,332	737	-	-
Securities	10,848	510	-	-
Retirement and severance benefits	-	342	-	-
Stock compensation cost	-	-	1,381	643
Entertainment expense in excess of tax limit	-	-	1,434	1,843
Other	20	-	34	-
	202,096	642,360	2,849	2,486

Description	In Millions of Korean Won			
	Temporary difference		Permanent difference	
	2003	2002	2003	2002
<b>Deduction:</b>				
Dividends received	-	-	186,058	640,578
Retained earnings	-	-	10,868	510
Accrued income earned in current year	11,334	4,332	-	-
Deposit for retirement and severance benefits insurance	198	332	-	-
Valuation gain using the equity method	388,641	618,690	-	-
	400,173	623,354	196,926	641,088
	₩ (198,077)	19,006	(194,077)	(638,602)

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

(c) Changes in significant accumulated temporary differences and tax effects for the years ended December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won			
	2003			
	Beginning balance	Increase	Decrease	Ending balance
Deductible temporary differences:				
Securities	₩ 1,351	10,848	-	12,199
Retirement and severance benefits	342	-	-	342
	1,693	10,848	-	12,541
Taxable temporary differences:				
Valuation gain using the equity method	(203,714)	(388,641)	(186,896)	(405,459)
Accrued income	(4,332)	(11,334)	(4,332)	(11,334)
Deposit for severance benefit insurance	(332)	(198)	-	(530)
Other	(4)	-	(20)	(16)
	(208,382)	(400,173)	(191,248)	(417,307)
Net	(206,689)			(404,766)
Unrealizable temporary differences on valuation gain using the equity method	191,135			386,200
Net temporary differences	(15,554)			(18,566)
Tax effects of temporary differences	(4,619)			(5,106)
Tax effects of tax loss carryforwards	6,295			13,706
Net tax effects	1,676			8,600
Tax effects recorded in financial statements (*)	₩ -			-

(\*) Tax effects on temporary differences and tax loss carryforwards are not recognized due to uncertainty of realization. Total amount of tax loss carryforwards, which are not recognized as deferred taxes, is ₩49,842 million, with the tax benefit maturity of ₩5,553 million in 2006, ₩14,363 million in 2007 and ₩29,926 million in 2008.

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

In Millions of Korean Won

	2002			
	Beginning balance	Increase	Decrease	Ending balance
Deductible temporary differences:				
Investment securities accounted for by the equity method	₩ -	1,351	-	1,351
Retirement and severance benefit	-	342	-	342
	-	1,693	-	1,693
Taxable temporary differences:				
Valuation gain using the equity method	225,795	618,690	640,771	203,714
Accrued income	-	5,069	737	4,332
Deposit for severance benefit insurance	-	332	-	332
Organization costs	-	4	-	4
	225,795	624,095	641,508	208,382
Net	(225,795)			(206,689)
Unrealizable temporary differences on valuation gain using the equity method	225,195			191,135
Net temporary differences	-			(15,554)
Tax effects of temporary differences	-			(4,619)
Tax effects of tax loss carryforwards	1,340			6,295
Net tax effects	1,340			1,676
Tax effects recorded in financial statements (*)	₩ -			-

(\*) Tax effects on temporary differences and tax loss carryforwards are not recognized due to uncertainty of realization. Total amount of 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.

## (22) Earnings Per Share

### (a) Earnings per share

Earnings per common share is calculated by dividing net earnings by the weighted average number of shares of common stock outstanding. The Company's ordinary income and net earnings per share for the years ended December 31, 2003 and 2002 are computed as follows:

(In Millions of Korean Won, except earnings per share)

	2003	2002
Net earnings for year	₩ 362,227	603,931
Extraordinary loss (gain)	-	-
Dividends on preferred stock	83,397	-
Ordinary income available for common stock	278,830	603,931
Weighted average number of common shares outstanding (share)	292,856,507	292,353,944
Ordinary income per share in Won	₩ 952	2,066
Net earnings per share in Won	₩ 952	2,066



# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (b) Diluted earnings per share

For the year ended December 31, 2003, if convertible preferred stock and stock options exercised, 46,832,967 share of common stocks would be issued, and if preferred stock converted into common stock on issue date, weighted average number of common shares outstanding is 309,397,004. Additionally, for the year ended December 31, 2002, if stock options exercised on grant date, 977,700 share of common stocks would be issued and weighted average number of common shares outstanding is 292,962,997.

Details of diluted ordinary / net earnings per share due to dilutive effect for the years ended December 31, 2003 and 2002 are as follows:

	(In Millions of Korean Won, except earnings per share)	
	2003	2002
Ordinary income available for common stock	₩ 278,830	603,931
Add : Dividends on convertible preferred stock	6,043	-
Stock compensation expense	-	643
Diluted ordinary income / net earnings	284,873	604,574
Weighted average number of common shares outstanding (share)	309,397,004	292,962,997
Diluted ordinary income per share in Won	₩ 921	2,064
Diluted net earnings per share in Won	₩ 921	2,064

## (c) Securities applicable to common shares

	Convertible period	Number of shares to be issued
Redeemable convertible preferred stock	August 19, 2004~August 18, 2007	44,720,603
Stock options	May 22, 2004~May 22, 2008	964,119
Stock options	May 15, 2005~June 15, 2009	1,148,245
		46,832,967

## (d) (Diluted) earnings per share for each quarters in 2003 are as follows:

	In Millions of Korean Won			
	Quarter ended			
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
Earnings per share in Won	₩ 193	157	436	166
Diluted earnings per share in Won	193	157	415	156

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (23) Dividends

(a) Dividends for the years ended December 31, 2003 and 2000 are calculated as follow:

	2003			2002
	Common shares	Preferred shares	Total	Common shares
Total number of share issued and outstanding	294,401,300	97,304,564	391,705,864	292,361,125
Shares excluded (*)	(29,873,359)	-	(29,873,359)	(29,873,674)
Face value per share	264,527,941	97,304,564	361,832,505	262,487,451
	5,000	5,000	5,000	5,000
Dividend per share in Won (rate per share) (**)	₩ 600 (12%)	857(17.14%)	669 (13.38%)	600 (12%)
Dividends in Millions of Korean Won	₩ 158,717	83,397	242,114	157,492

(\*) Dividends on shares held by subsidiaries as of December 31, 2003 and 2002 are not paid.

(\*\*) Dividends per share on preferred stock are weighted average amount and details are as follows:

	Number of shares	Dividends per share in Won	Dividend rate per share (%)	Dividends
Redeemable preferred stock:				
Series 1	9,316,792	270	5.40	2,518
Series 2	9,316,792	270	5.40	2,518
Series 3	9,316,792	270	5.40	2,518
Series 4	9,316,792	270	5.40	2,518
Series 5	9,316,793	270	5.40	2,518
Series 6	3,500,000	10,500	210.0	36,750
Series 7	2,433,334	11,190	223.8	27,229
Series 8	66,666	11,790	235.8	786
	52,583,961			77,355
Redeemable convertible preferred stock:				
Series 9	44,720,603	135	2.70	6,042
	97,304,564			83,397

(b) Payout ratios for the years ended December 31, 2003 and 2002 are calculated as follows:

	2003			2002
	Common shares	Preferred shares	Total	Common shares
Dividends in Won	₩ 158,717	83,397	242,114	157,492
Net earning in Won	₩ 278,830	83,397	362,227	603,931
Payout ratios (%)	56.92		66.84	26.08

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

(c) Dividend yields on common shares for the years ended December 31, 2003 and 2002 are calculated as follows:

	In Korean Won	
	2003	2002
Dividends per share in Won	₩ 600	600
Stock price in Won at the balance sheet date	18,513	13,813
Dividends yields (%)	3.24	4.34

## (24) Statements of Cash Flows

Significant transactions not involving cash inflows or outflows for the years ended December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won	
	2003	2002
Acquisition of investment securities accounted for by the equity method in exchange for the Company's shares	₩ 929,559	-
Changes in capital adjustments due to the equity method	69,698	232,543
Changes in retained earnings due to the equity method	10,848	510
Changes in unrealized gain on available-for-sale securities	668	668
Stock options recorded as accounts receivable	5,241	2,361
Stock exchange	881	85
Amortization offsetted to retained earnings due to accounting change	20	-

## (25) Financial Performance

Financial performance for the quarters ended December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won	
	Quarter ended December 31, 2003	Quarter ended December 31, 2002 (Unaudited)
Operating revenue	₩ 142,131	164,132
Operating income	107,347	151,499
Net earnings	105,681	170,403
Net earnings per share in Won	166	583

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (26) Condensed Financial Statements of Subsidiaries

### (a) Balance sheets

Condensed balance sheets of subsidiaries as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won			
<b>2003</b>			
Subsidiaries	Total assets	Total liabilities	Total stockholders' equity
Shinhan Bank	₩ 70,066,189	66,550,821	3,515,368
Chohung Bank	59,227,864	57,289,224	1,938,640
Goodmorning Shinhan Securities	2,928,017	2,290,044	637,973
Shinhan Card	1,778,191	1,620,555	157,636
Shinhan Capital	1,153,907	1,051,683	102,224
Shinhan BNP Paribas ITMC	47,461	2,489	44,972
Jeju Bank	1,785,961	1,682,328	103,633
SH&C Life Insurance	114,012	87,970	26,042
e-Shinhan	3,924	225	3,699
Shinhan Macquarie	11,255	7,642	3,613
Shinhan Credit Information	13,588	9,726	3,862
	<b>₩ 137,130,369</b>	<b>130,592,707</b>	<b>6,537,662</b>

In Millions of Korean Won			
<b>2002</b>			
Subsidiaries	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
	<b>₩ 65,784,233</b>	<b>61,819,909</b>	<b>3,964,324</b>

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (b) Statements of Earnings

Condensed statements of earnings of subsidiaries for the years ended December 31, 2003 and 2002 are as follows:

In Millions of Korean Won					
2003					
Subsidiaries	Operating revenue	Operating expense	Operating income (loss)	Ordinary income (loss)	Net earnings (loss)
Shinhan Bank	₩ 4,851,995	4,180,640	671,355	685,756	476,023
Chohung Bank	5,425,189	6,107,050	(681,861)	(915,775)	(965,951)
Goodmorning Shinhan Securities (*)	649,701	619,693	30,008	68,616	35,813
Shinhan Card	431,863	506,606	(74,743)	(90,063)	(89,824)
Shinhan Capital	145,355	116,084	29,271	22,565	15,755
Shinhan BNP Paribas ITMC (*)	12,728	10,604	2,124	2,629	1,834
Jeju Bank	137,162	137,005	157	727	4,751
SH&C life Insurance (*)	44,986	47,478	(2,492)	(3,369)	(3,369)
e-Shinhan	1,714	3,361	(1,647)	(1,583)	(1,583)
Shinhan Macquarie (*)	11,454	7,816	3,638	3,804	2,559
Shinhan Credit Informatio	25,557	24,309	1,248	1,096	741
	₩11,737,704	11,760,646	(22,942)	(225,597)	(523,251)

(\*) For the period from January 1, 2003 to December 31, 2003 reflected

In Millions of Korean Won					
2002					
Subsidiaries	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

(\*\*) For the period from date of inception to December 31, 2002

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

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (27) Financing and Operating Status of the Company and Subsidiaries

The financing and operating status of the Company and its subsidiaries as of December 31, 2003 and 2002 are as follows:

### (a) Financing

In Millions of Korean Won

	2003			
	Deposits	Borrowings	Debentures (*)	Total
The Company	₩ -	165,868	1,980,543	2,146,411
Shinhan Bank	41,991,839	10,621,963	9,115,997	61,729,799
Chohung Bank	40,030,091	5,711,922	6,424,165	52,166,178
Goodmorning Shinhan Securities	1,032,769	657,838	161,000	1,851,607
Shinhan Card	-	1,318,182	259,991	1,578,173
Shinhan Capital	-	787,433	114,814	902,247
Jeju Bank	1,438,284	83,299	35,000	1,556,583
	₩ 84,492,983	19,346,505	18,091,510	121,930,998

(\*) Net of discounts on debentures

In Millions of Korean Won

	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

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## (b) Operating

In Millions of Korean Won

	2003			
	Loans (*)	Securities	Cash and due from bank	Total
The Company	₩ 1,935,180	6,308,538	5,353	8,249,071
Shinhan Bank	47,783,925	15,592,202	2,697,780	66,073,907
Chohung Bank	42,701,666	9,208,341	548,249	52,458,256
Goodmorning Shinhan Securities	397,354	1,020,131	1,154,647	2,572,132
Shinhan Card	1,058,667	682,841	3,886	1,745,394
Shinhan Capital	899,140	54,388	58,232	1,011,760
Shinhan BNP Paribas ITMC	176	680	29,498	30,354
Jeju Bank	1,326,103	243,024	21,122	1,590,249
SH&C Life Insurance	44	38,650	38,511	77,205
e-Shinhan	36	107	2,160	2,303
Shinhan Macquarie	-	-	1,187	1,187
Shinhan Credit Information	-	-	1,691	1,691
	₩ 96,102,291	33,148,902	4,562,316	133,813,509

(\*) Net of allowance for loan losses and discounts

In Millions of Korean Won

	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	125,736	456,500	575,506	1,157,742
Shinhan Card	2,439,076	-	15	2,439,091
Shinhan Capital	746,743	57,947	16,668	821,358
Shinhan BNP Paribas ITMC	443	12,981	29,813	43,237
Jeju Bank	1,319,099	276,867	9,673	1,605,639
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
	₩ 45,975,435	18,666,277	1,799,314	66,441,026

(\*) Net of allowance for loan losses and discounts

# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

Effects under the equity method on the Company's net earnings for the years ended December 31, 2003 and 2002 are as follows:

	2003		2002	
	Amount	Ratio (%)	Amount	Ratio (%)
In Millions of Korean Won				
Valuation gain accounted for by the equity method on:				
Shinhan Bank	₩ 476,273	122.55	₩ 595,866	96.31
Chohung Bank	(43,545)	(11.20)	-	-
Goodmorning Shinhan Securities	8,787	2.26	(749)	(0.12)
Shinhan Card	(84,324)	(21.70)	504	0.08
Shinhan Capital	26,204	6.74	13,429	2.17
Shinhan BNP Paribas ITMC	917	0.24	3,961	0.64
Jeju Bank	5,189	1.33	6,683	1.08
SH&C Life Insurance	(1,684)	(0.43)	(453)	(0.07)
e-Shinhan	(1,166)	(0.30)	(806)	(0.13)
Shinhan Macquarie	1,446	0.37	134	0.02
Shinhan Credit Information	544	0.14	121	0.02
	388,641	100.00	618,690	100.00
Other income	98,210		30,050	
Other expense	(124,624)		(44,809)	
Net earnings for year	₩ 362,227		₩ 603,931	



# Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

Changes in allowance for loan losses of the Company and its subsidiaries for the years ended December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won					
	2003			2002		
	Beginning balance	Increase (decrease)	Ending balance	Beginning balance	Increase (decrease)	Ending balance
The Company	₩ 3,846	5,879	9,725	1,472	2,374	3,846
Shinhan Bank	565,844	300,584	866,428	567,344	(1,500)	565,844
Chohung Bank	1,604,607	81,743	1,686,350	82,609	4,833	87,442
Goodmorning Shinhan Securities (*) (**)	87,442	(44,394)	43,048	-	96,074	96,074
Shinhan Card	96,074	22,535	118,609	102,454	(68,667)	33,787
Shinhan Capital (*)	33,787	(15,888)	17,899	25	(17)	8
Shinhan BNP Paribas ITMC	8	6	14	26,952	2,366	29,318
Jeju Bank (*)	29,318	5,952	35,270	1,472	2,374	3,846
SH&C Life Insurance	-	1	1	-	-	-
e-Shinhan	1	7	8	-	1	1
Shinhan Macquarie	22	76	98	21	1	22
Shinhan Credit Information	-	36	36	-	-	-
	₩ 2,420,949	356,537	2,777,486	780,877	35,465	816,342

(\*) Amounts include additional allowance for loan losses of ₩12,952 million and ₩13,019 million as of December 31, 2003 and December 31, 2002, respectively.  
 (\*\*) Beginning balance in 2002 was Good Morning Securities' allowance for loan losses as of March 31, 2002.

## (30) Effective Date for Financial Statements

The accompanying non-consolidated financial statements are to be approved at the Board of Directors' meeting on February 24, 2004.

## (31) Economic Environment

In common with other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement structural reforms to historical business practices including corporate governance. The Company may be either directly or indirectly affected by these 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 environment on the financial position and results of operations of the Company. Actual results may differ materially from management's current assessment.

# Independent Auditor's Report

Based on a report originally issued in Korean



## KPMG Samjong Accounting Corp.

P. O. Box  
KangNam 1989

Star Tower 10th fl.,  
737, Yeoksam Dong, Kangnam-gu  
Seoul 135-984  
Republic of Korea

Tel. 82-2-2112-0100  
Fax. 82-2-2112-0101  
[www.kr.kpmg.com](http://www.kr.kpmg.com)

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

We have audited the accompanying consolidated balance sheets of Shinhan Financial Group Co., Ltd. (the "Company") and its subsidiaries as of December 31, 2003, and 2002, and the related statements of earnings, changes of stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The financial statements of Chohung Bank, which were audited by other auditors, reflect 40.90% of the Company's consolidated total assets as of and 22.03% of the Company's consolidated operating revenue for the year ended December 31, 2003. In addition, the financial statements of Goodmorning Shinhan Securities Co., Ltd. and Jeju Bank, which were reviewed by other accountants and audited by other auditors, respectively, reflect 4.69% of the Company's consolidated total assets as of and 7.79% of the Company's consolidated operating revenue for the year ended December 31, 2002. Our opinion, in connection with the amounts included for these subsidiaries, is based solely on the reports of other accountants and auditors.

We conducted our audits 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 and significant estimates used by management, as well as evaluating the overall financial statement presentation. We believe that our audits, reviews by other accountants and audits by other auditors provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2003 and 2002, and the results of its operations, the changes in its stockholders' equity, and its cash flows for the years 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 as of and for the year ended December 31, 2003 and 2002 have been translated into United States dollars solely for the convenience of the reader and on the basis set forth in note 2(b) to the consolidated financial statements.

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

As described in note 1(b) and 4 to the consolidated financial statements, on July 9, 2003, the Company made an agreement with the Korea Deposit Insurance Corporation (the "KDIC") to acquire 80.04% (543,570,144 shares) of total outstanding shares in Chohung Bank. In accordance with the agreement, the Company purchased 266,349,371 shares in exchange for the Company's shares on August 18, 2003 and 277,220,773 shares in cash on August 19, 2003. The acquisition of the shares was accounted for using the purchase method, and the acquisition cost of the shares and goodwill were ₩1,857,983 million and ₩840,244 million, respectively. Additionally, pursuant to the acquisition agreement, the Company would be required to pay contingent consideration to the KDIC at the maximum amount of ₩652,284 million related to Asset Indemnity Payment, ₩166,516 million related to General Indemnity Payment and additional Earn Out Payment based on earnings of Chohung Bank in future periods. These contingent considerations are not included in the acquisition cost on the date of acquisition, for the amount is not determinable. On December 30, 2003, its percentage of ownership subsequently increased to 81.15% through additional equity acquisition at ₩200,000 million. In addition, on June 18, 2003, the Company sold 49% (294,000 shares) of total outstanding shares in Shinhan Credit Information Co., Ltd. to LSH Holdings LLC.

As described in note 1(a) to the consolidated financial statements, the Company's American depository shares were listed on the New York Stock Exchange on September 16, 2003.

As described in note 1(b) to the consolidated financial statements, on March 3, 2004, Shinhan Bank sold 10.2% (29,873,295 shares) of total outstanding shares in the Company at ₩627,339 million (₩21,000 per share), through after-hour block trading.

As discussed in note 2(a) to the 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, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying 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 2(a) to the consolidated financial statements, the Company adopted Statements of Korea Accounting Standards ("SKAS") No. 2 through No. 9, effective from the first fiscal year beginning after December 31, 2002, while, SKAS No. 6, "Events Occurring after the Balance Sheet Date" has been adopted since the year ended December 31, 2002 with encouraged earlier application.

As described in note 29(h) to the consolidated financial statements, Shinhan Bank and Chohung Bank are holding loans (including guarantees and acceptances) provided to and securities issued by SK Networks Co., Ltd. (formerly SK Global Co., Ltd.), amounting to ₩396,058 million and ₩303,011 million, respectively. As regards to those loans and securities, Shinhan Bank provides ₩110,982 million of allowance for loan losses and recorded ₩1,178 million of impairment loss on available-for-sale securities, and Chohung Bank provides ₩93,784 million of allowance for loan losses, as of December 31, 2003. Actual losses on those loans and securities may differ materially from the management's assessments and the accompanying consolidated financial statements do not reflect the impact of the uncertainty on the financial position of the Company and its subsidiaries.

# Independent Auditor's Report

Based on a report originally issued in Korean

As described in note 29(h) to the consolidated financial statements, Shinhan Bank, Chohung Bank and Goodmorning Shinhan Securities Co., Ltd. are holding loans provided to and securities issued by LG Card Co., Ltd., which has been controlled by creditor banks due to its liquidity crisis, amounting to ₩189.3 billion, ₩172.9 billion and ₩22.6 billion, respectively. Actual losses on those loans and securities may differ materially from the management's assessments and the accompanying consolidated financial statements do not reflect the impact of the uncertainty on the financial position of the Company and its subsidiaries. Additionally, Shinhan Bank and Chohung Bank have agreed with creditor banks to provide additional capital, amounting to ₩81.3 billion and ₩73.4 billion, respectively.



KPMG Samjong Accounting Corp.  
Seoul, Korea  
January 30, 2004

This report is effective as of January 30, 2004, 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, 2003 and 2002

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
<b>Assets</b>				
Cash and due from bank (notes 5, 17, 18 and 19)	₩ 6,418,280	2,847,134	\$ 5,358,390	2,376,969
Securities (notes 6, 17 and 19)	28,003,660	15,454,214	23,379,245	12,902,165
Loans (notes 7 and 19)	94,921,179	45,244,361	79,246,267	37,772,885
Fixed assets (notes 8, 17 and 18)	2,853,680	1,093,844	2,382,435	913,211
Other assets (notes 9, 10, 19 and 28)	7,012,593	2,128,042	5,854,561	1,776,626
	₩139,209,392	66,767,595	\$116,220,898	55,741,856
<b>Liabilities and Stockholders' equity</b>				
Liabilities:				
Deposits (notes 11 and 19)	₩ 87,592,605	38,722,333	\$ 73,127,905	32,327,878
Borrowings (notes 12 and 19)	17,209,576	11,351,814	14,367,654	9,477,221
Debentures (notes 13 and 19)	17,747,879	8,395,403	14,817,063	7,009,018
Retirement and severance benefits (note 14)	205,951	159,519	171,941	133,176
Other liabilities (notes 15, 19 and 28)	10,345,750	4,177,159	8,637,294	3,487,361
Total liabilities	133,101,761	62,806,228	111,121,857	52,434,654
Stockholders' equity:				
Capital stock of ₩5,000 par value (note 20)				
Common stock	1,472,007	1,461,806	1,228,926	1,220,409
Authorized - 1,000,000,000 shares				
Issued - 294,401,300 shares in 2003				
292,361,125 shares in 2002				
Preferred stock	486,523	-	406,180	-
Issued - 97,304,564 shares in 2003				
Consolidated capital surplus	3,200,805	1,887,708	2,672,237	1,575,979
Consolidated retained earnings	872,053	670,763	728,046	559,996
Consolidated capital adjustments (notes 21 and 22)	(519,362)	(379,797)	(433,597)	(317,079)
Minority interest in consolidated subsidiaries	595,605	320,887	497,249	267,897
Total stockholders' equity	6,107,631	3,961,367	5,099,041	3,307,202
Commitments and contingencies (note 29)				
	₩139,209,392	66,767,595	\$116,220,898	55,741,856

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Earnings

For the years ended December 31, 2003 and 2002

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Operating revenue:				
Interest income:				
Interest on due from banks	₩ 56,845	50,342	\$ 47,458	42,029
Interest on securities	1,122,893	976,851	937,463	815,538
Interest on loans	3,779,897	2,598,517	3,155,700	2,169,408
Other	36,319	20,655	30,321	17,244
	4,995,954	3,646,365	4,170,942	3,044,219
Fees and commission income	1,355,949	842,973	1,132,033	703,768
Insurance income	42,934	-	35,844	-
Other operating income:				
Dividends on securities	8,496	16,090	7,093	13,433
Realized gain from sale of trading securities	133,377	89,965	111,352	75,109
Unrealized gain on trading securities	32,063	4,238	26,768	3,538
Gain on foreign currency transactions	256,046	214,869	213,764	179,386
Gain on derivatives	1,043,246	1,043,567	870,968	871,236
Other	204,012	71,350	170,322	59,568
	1,677,240	1,440,079	1,400,267	1,202,270
	8,072,077	5,929,417	6,739,086	4,950,257
Operating expenses:				
Interest expense:				
Interest on deposits	1,865,645	1,497,088	1,557,560	1,249,865
Interest on borrowings	473,069	441,794	394,948	368,838
Interest on debentures	630,406	392,526	526,303	327,706
Other	27,776	20,732	23,189	17,308
	2,996,896	2,352,140	2,502,000	1,963,717
Fees and commission expense	195,099	160,115	162,881	133,674
Insurance expense	47,618	-	39,754	-
Other operating expenses:				
Realized loss from sale of trading securities	111,004	69,901	92,673	58,358
Unrealized loss on trading securities	53,776	16,280	44,896	13,592
Bad debt expense	1,150,491	192,690	960,503	160,870
Loss on derivatives	989,540	981,550	826,131	819,460
Loss on foreign currency transactions	135,622	129,305	113,226	107,952
General and administrative expenses (note 23)	1,348,139	941,757	1,125,513	786,239
Other	258,106	146,662	215,484	122,443
	4,046,678	2,478,145	3,378,426	2,068,914
	7,286,291	4,990,400	6,083,061	4,166,305
Operating income	785,786	939,017	656,025	783,952

(Continued)

# Consolidated Statements of Earnings

For the years ended December 31, 2003 and 2002

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Non-operating income (expense):				
Realized gain (loss) from sale of available-for-sale securities, net	56,641	(16,616)	47,287	(13,872)
Reversal of impairment loss on available-for-sale securities	15,562	14,192	12,992	11,848
Impairment loss on available-for-sale securities	(103,110)	(109,279)	(86,083)	(91,233)
Gain (loss) on sale of loans	(166,102)	3,821	(138,672)	3,190
Other, net	42,202	21,181	35,233	17,683
	(154,807)	(86,701)	(129,243)	(72,384)
Ordinary income	630,979	852,316	526,782	711,568
Extraordinary gain (loss)	-	-	-	-
Earnings before income taxes	630,979	852,316	526,782	711,568
Income taxes (note 24)	253,947	254,572	212,011	212,533
Net earnings before minority interest	377,032	597,744	314,771	499,035
Net income (loss) in minority interest	14,044	(4,419)	11,725	(3,689)
Consolidated net earnings	₩ 362,988	602,163	\$ 303,046	502,724
Earnings per share in Won and U.S. dollars (note 25):				
Ordinary income and net earnings per share	₩ 1,063	2,294	\$ 0.89	1.92
Diluted ordinary income and net earnings per share	₩ 1,022	2,294	\$ 0.85	1.92

See accompanying notes to Consolidated financial statements.

# Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2003 and 2002

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
<b>Capital stock:</b>				
Balance at beginning of year	₩ 1,461,806	1,461,721	\$ 1,220,409	1,220,338
Stock issuance	496,724	85	414,697	71
Balance at end of year	1,958,530	1,461,806	1,635,106	1,220,409
<b>Consolidated capital surplus:</b>				
Balance at beginning of year	1,887,708	1,976,650	1,575,979	1,650,234
Stock issuance by the Company	1,339,756	(25)	1,118,514	(21)
Stock issuance by subsidiaries	-	730	-	609
Acquisition of treasury stock by subsidiaries	-	(62,939)	-	(52,546)
Merger between subsidiaries	-	(40,110)	-	(33,486)
Other	(26,659)	13,402	(22,256)	11,189
Balance at end of year	3,200,805	1,887,708	2,672,237	1,575,979
<b>Consolidated retained earnings:</b>				
Balance at beginning of year	670,763	219,923	559,996	183,606
Net earnings	362,988	602,163	303,046	502,724
Dividends paid	(157,493)	(150,812)	(131,485)	(125,907)
Change in retained earnings of subsidiaries	(4,205)	(511)	(3,511)	(427)
Balance at end of year	872,053	670,763	728,046	559,996
<b>Consolidated capital adjustments:</b>				
Balance at beginning of year	(379,797)	(394,810)	(317,079)	(329,613)
Other	(139,565)	15,013	(116,518)	12,534
Balance at end of year	(519,362)	(379,797)	(433,597)	(317,079)
<b>Minority interest in consolidated subsidiaries:</b>				
Balance at beginning of year	320,887	-	267,897	-
Net income (loss) for year	14,044	(4,419)	11,725	(3,689)
Other	260,674	325,306	217,627	271,586
Balance at end of year	595,605	320,887	497,249	267,897
<b>Total Stockholders' equity</b>	<b>₩ 6,107,631</b>	<b>3,961,367</b>	<b>\$ 5,099,041</b>	<b>3,307,202</b>

See accompanying notes to Consolidated financial statements.



# Consolidated Statements of Cash Flows

For the years ended December 31, 2003 and 2002

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Cash flows from operating activities:				
Net earnings	₩ 362,988	602,163	\$ 303,046	502,724
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation	139,486	89,064	116,452	74,356
Amortization	43,269	12,328	36,124	10,292
Bad debt	1,150,491	192,690	960,503	160,870
Provision for retirement and severance benefits	46,003	73,657	38,406	61,494
Realized gain from sale of securities, net	(78,848)	(3,448)	(65,827)	(2,879)
Unrealized loss on securities, net	19,303	3,843	16,116	3,209
Impairment loss on securities	103,110	109,279	86,083	91,233
Reversal of impairment loss on securities	(15,562)	(14,192)	(12,992)	(11,848)
Loss (gain) from sale of loans	166,102	(3,821)	138,672	(3,190)
Gain on foreign currency transactions, net	(118,494)	-	(98,927)	-
Gain on derivatives, net	(22,099)	(303)	(18,450)	(253)
Stock compensation costs	10,911	3,718	9,109	3,104
Retirement and severance benefits paid	(29,114)	(60,720)	(24,306)	(50,693)
Decrease in National Pension Fund	(27,292)	(12,492)	(22,785)	(10,429)
Decrease in deposit for severance benefit insurance	551	2,125	460	1,774
Net earnings (loss) in minority interest	14,044	(4,419)	11,725	(3,689)
Decrease in trading securities	5,494	414,614	4,587	346,146
Decrease (increase) in other assets	985,671	1,177,734	822,901	983,249
Increase (decrease) in other liabilities	(1,534,901)	(1,084,775)	(1,281,434)	(905,639)
Other, net	276,523	46,987	230,859	39,226
Net cash provided by operating activities	1,497,636	1,544,032	1,250,322	1,289,057
Cash flows from investing activities:				
Cash provided by investing activities:				
Decrease in securities	18,472,028	1,390,229	15,421,630	1,160,652
Decrease in loans	3,867,654	1,516,256	3,228,965	1,265,867
Disposition of fixed assets	611,770	83,145	510,745	69,415
Decrease in other assets	1,059,380	69,593	884,438	58,101
Inc other liabilities	-	8,316	-	6,943
	24,010,832	3,067,539	20,045,778	2,560,978
Cash used in investing activities:				
Increase in securities	(20,427,161)	(1,974,920)	(17,053,899)	(1,648,790)
Increase in loans	(7,539,166)	(10,380,665)	(6,294,178)	(8,666,442)
Purchases of fixed assets	(734,215)	(211,601)	(612,970)	(176,658)
Increase in other assets	(1,193,799)	(403,670)	(996,660)	(337,010)
Decrease in other liabilities	(589,041)	-	(491,769)	-
	(30,483,382)	(12,970,856)	(25,449,476)	(10,828,900)
Net cash used in investing activities	(6,472,550)	(9,903,317)	(5,403,698)	(8,267,922)

(Continued)

# Consolidated Statements of Cash Flows

For the years ended December 31, 2003 and 2002

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Cash flows from financing activities:				
Cash provided by financing activities:				
Increase in deposits	4,080,882	2,721,369	3,406,981	2,271,973
Increase in borrowings	27,548,192	21,128,580	22,998,991	17,639,489
Increase in debentures	7,454,802	6,832,428	6,223,745	5,704,148
Increase in other liabilities	1,121,237	4,303,744	936,081	3,593,040
Disposition of treasury stock	1	3,176	1	2,652
Disposition of subsidiaries' stock	-	23,668	-	19,760
Issuance of common stock	27,648	2,007	23,082	1,676
Issuance of preferred stock	900,000	-	751,378	-
	41,132,762	35,014,972	34,340,259	29,232,738
Cash used in financing activities:				
Decrease in deposits	-	(93,561)	-	(78,111)
Decrease in borrowings	(28,671,851)	(19,968,792)	(23,937,093)	(16,671,224)
Decrease in debentures	(5,755,268)	(2,313,112)	(4,804,866)	(1,931,134)
Payments of issuance cost on debentures	(9,541)	-	(7,965)	-
Decrease in other liabilities	(320,538)	(3,969,262)	(267,606)	(3,313,794)
Dividends paid	(159,616)	(150,359)	(133,258)	(125,529)
Payments of stock issuance costs	(21,608)	-	(18,040)	-
Stock exchange	-	(26)	-	(22)
Acquisition of treasury stock	(26)	(373,180)	(22)	(311,555)
	(34,938,448)	(26,868,292)	(29,168,850)	(22,431,369)
Net cash provided by financing activities	6,194,314	8,146,680	5,171,409	6,801,369
Increase in cash and cash equivalents due to changes in consolidation scope	2,351,746	703,594	1,963,388	587,405
Net increase in cash and cash equivalents	1,219,400	490,989	1,018,033	409,909
Cash and cash equivalents at beginning of year	2,847,134	2,356,145	2,376,969	1,967,060
Cash and cash equivalents at end of year	<del>₩</del> 6,418,280	2,847,134	\$ 5,358,390	2,376,969

See accompanying notes to Consolidated financial statements.

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (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"), 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 BNP Paribas Investment Trust Management Co., Ltd. (formerly 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, 2003, the Company has 23 subsidiaries, which are consolidated or accounted for by the equity method, and its capital stock amounts to ₩1,472,007 million in common stock and ₩486,523 million in preferred stock, respectively.

In addition, on September 16, 2003, the Company's American depository shares were listed on the New York Stock Exchange.

### (b) Subsidiaries included in Consolidation

#### a. Shinhan Bank

Shinhan Bank was established on September 15, 1981 under the bank act of the Republic of Korea to engage in commercial banking, trust and foreign exchange business and other related operations as permitted under the bank act and other relevant laws and regulations in the Republic of Korea. Its capital stock as of December 31, 2003 amounts to ₩1,224,034 million and it has 362 branch offices and 174 automated teller machine locations.

#### b. Chohung Bank

Chohung Bank was established on October 1, 1943 under the General Banking Act of the Republic of Korea through the merger of Han Sung Bank, which was established on February 19, 1897, and Dong Il Bank, which was established on August 8, 1906, to engage in commercial banking and trust operations. The shares of Chohung Bank were listed on the Korea Stock Exchange on June 3, 1956, and Chohung Bank operates through 470 domestic branches, 87 depository offices and 6 overseas branches and its capital stock amounts to ₩3,595,592 million as of December 31, 2003.

On July 9, 2003, the Company made an agreement with the Korea Deposit Insurance Corporation (the "KDIC") to acquire 80.04% (543,570,144 shares) of total outstanding shares in Chohung Bank. In accordance with the agreement, the Company purchased 266,349,371 shares in exchange for the Company's shares on August 18, 2003 and 277,220,773 shares in cash on August 19, 2003.

Additionally, the Company's percentage of ownership increased to 81.15% through additional equity acquisition at ₩200,000 million on December 30, 2003.

#### c. 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



# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

Securities Co., Ltd., which was one of subsidiaries of the Company, and renamed to Goodmorning Shinhan Securities. As of December 31, 2003, it operates through 83 branches and its capital stock amounts to ₩796,998 million.

d. 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 loan and installment financing. As of December 31, 2003, Shinhan Card holds 2.11 million of franchise accounts and 2.77 million of credit card holders, and its capital stock amounts to ₩152,847 million.

e. 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. Its capital stock as of December 31, 2003 amounts to ₩80,000 million.

f. 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. 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 Group. Its capital stock as of December 31, 2003 amounts to ₩40,000 million.

g. Jeju Bank

Jeju Bank was incorporated on March 18, 1969 under the General Banking Act of the Republic 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 the KDIC. 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 as of December 31, 2003 amounts to ₩77,644 million.

h. 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. Its capital stock as of December 31, 2003 amounts to ₩30,000 million.

i. Trust accounts of Shinhan, Chohung and Jeju Bank

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

j. Shinhan Finance Ltd.

Shinhan Finance Ltd. ("Shinhan Finance") was incorporated in November 1990 in Hong Kong as a wholesale bank and its capital stock as of December 31, 2003 amounts to US\$ 55.6 million.

k. Chohung Investment Trust Management Co., Ltd.

Chohung Investment Trust Management Co., Ltd. ("Chohung ITMC") was established in 1988 and engages in securities management services and conducts surveys of the economic and capital markets. Its capital stock as of December 31, 2003 amounts to ₩45,000 million.

l. Chohung Finance Ltd.

Chohung Finance Ltd. ("Chohung Finance") engages in merchant banking activities in Hong Kong. Its capital stock as of December 31, 2003 amounts to US\$15,000 thousand.

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

m. Chohung Bank of America

Chohung Bank of America ("Chohung America") was established on March 24, 2003 through the merger of Chohung Bank of New York and California Chohung Bank. Its capital stock as of December 31, 2003 amounts to US\$14,000 thousand.

n. Chohung Bank (Deutschland) GmbH

Chohung Bank (Deutschland) GmbH ("Chohung Deutschland") was established in 1994 and its capital stock as of December 31, 2003 amounts to EUR 15,339 thousand.

o. Good Morning Securities Europe Ltd.

Good Morning Securities Europe Ltd. ("Good Morning 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, 2003 amounts to GBP 5,000 thousand.

p. Good Morning Securities USA Inc.

Good Morning Securities USA Inc. ("Good Morning 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, 2003 amounts to US\$4,200 thousand.

Ownerships between the Company and its subsidiaries included in consolidation as of December 31, 2003 and 2002 are as follows:

Investor	Investee	2003		2002	
		Number of shares	Ownership(%)	Number of shares	Ownership(%)
The Company	Shinhan Bank	244,806,782	100.0	244,630,672	100.0
	Chohung Bank	583,570,144	81.2	-	-
	Goodmorning Shinhan Securities	94,084,384	(*)59.4	94,084,384	(*)59.4
	Shinhan Card	30,569,400	100.0	30,569,400	100.0
	Shinhan Capital	16,000,000	100.0	16,000,000	100.0
	Shinhan BNPP ITMC	4,000,001	50.0	4,000,001	50.0
	Jeju Bank	9,692,369	62.4	9,692,369	62.4
	SH&C Life Insurance	3,000,001	50.0	3,000,001	50.0
Shinhan Bank	The Company	29,873,359	(**)10.2	29,873,674	10.2
	Shinhan Finance	55,600	100.0	55,600	100.0
Chohung Bank	Chohung ITMC	7,179,678	79.8	-	-
	Chohung Finance	149,999	100.0	-	-
	Chohung America	400,000	100.0	-	-
	Chohung Deutschland	-	100.0	-	-
Goodmorning	Good Morning Europe	5,000,000	100.0	5,000,000	100.0
Shinhan Securities	Good Morning USA	15,000	100.0	15,000	100.0

(\*) 1,047,213 shares of treasury stock were considered.

(\*\*) Preferred stocks were excluded and 10.2% (29,873,295 shares) of shares in the Company were sold at ₩627,339 million (₩21,000 per share) on March 3, 2004 through after-hour block trading.

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (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, 2003 amounts to ₩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, 2003 amounts to ₩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. Its capital stock as of December 31, 2003 amounts to ₩3,000 million.

In addition, on June 18, 2003, the Company sold 49% (294,000 shares) of total outstanding shares in Shinhan Credit Information to LSH Holdings LLC.

### d. Shinhan Data System Co., Ltd. (Formerly Shinhan System Co. Ltd.)

Shinhan Data System Co., Ltd. ("Shinhan Data System") was incorporated in May 1991 to engage in computer services and its capital stock as of December 31, 2003 amounts to ₩1,000 million.

### e. Chohung Vina Bank

Chohung Vina Bank ("Chohung Vina") engages in banking activities in Vietnam. Its capital stock as of December 31, 2003 amounts to US\$20,000 thousand, in which Chohung Bank owns 50 percent.

Ownerships in subsidiaries accounted for by the equity method of accounting as of December 31, 2003 and 2002 is as follows:

Investor	Investee (equity method)	2003		2002		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	306,000	51.0	600,000	100.0	
Shinhan Bank	Shinhan Data System	200,000	100.0	200,000	100.0	
Chohung Bank	Chohung Vina	-	50.0	-	-	Absence of control

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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

### (a) Basis of Financial Statements Presentation

The Company maintains its accounting records in Korean Won and prepares statutory consolidated financial statements in the Korean language (Hangul) 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.

The Company adopted Statements of Korea Accounting Standards (SKAS) No. 2 through No. 9, effective from the first fiscal year beginning after December 31, 2002, while SKAS No. 6, "Events Occurring after the Balance Sheet Date", has been adopted since the year ended December 31, 2002 with encouraged earlier application. Certain accounts of prior year's consolidated financial statements were reclassified to conform to the current year's presentation.

### (b) Basis of Financial Statements Translation

The 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 ₩1,197.80 to US\$1, the basic exchange rate on December 31, 2003. 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) Investments in Securities

Effective January 1, 2003, the Company adopted Statement of Korea Accounting Standards ("SKAS") No. 8, "Investments in Securities." In accordance with SKAS No. 8, certain debt and equity securities should be classified into one of the three categories of held-to-maturity, available-for-sale, or trading securities at the time of acquisition and such determination should be reassessed at each balance sheet date. Investments in debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) are classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

Trading securities are carried at fair value, with unrealized holding gains and losses included in earnings. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a capital adjustment. Investments in equity that do not have readily determinable fair values are stated at cost. Declines in value judged to be other-than-temporary on available-for-sale securities are charged to current results of operations. Investments in debt securities that are classified into held-to-maturity are reported at amortized cost at the balance sheet date and such amortization is included in interest income.

Marketable securities are at the quoted market prices as of the period end. Non-marketable debt securities are recorded at the fair values derived from the discounted cash flows by using an interest rate deemed to approximate the market interest rate. The market interest rate is determined by the issuers' credit rate announced by the accredited credit rating agencies in Korea. Money market funds are recorded at the fair value determined by the investment management companies.

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (d) Investment Securities accounted for by the Equity Method

Investments in affiliated companies with the Company's ownership of 20% or more or over which the Company has significant management control are stated at an amount as determined using the equity method.

Under the equity method of accounting, the Company's initial investment is recorded at cost and is subsequently increased to reflect the Company's share of the investee income and reduced to reflect the Company's share of the investee losses or dividends received. Any excess in the Company's acquisition cost over the Company's share of the investee's identifiable net assets is generally recorded as goodwill or other intangibles and amortized by the straight-line method over the estimated useful life. Goodwill (negative goodwill) is amortized over a reasonable period, generally less than 20 years. When events or circumstances indicate that carrying amount may not be recoverable, the Company reviews goodwill for any impairment. Under the equity method of accounting, the Company does not record its share of losses of affiliate companies when such losses would make the Company's investment in such entity less than zero.

In case of translating financial statements denominated in foreign currencies, where the balances are determined by the equity method, assets and liabilities are translated at current rate as of the balance sheet date and capital accounts at historical rate. Any differences resulting from such foreign currency translation are accounted for as valuation gains (losses) under the equity method, a component of capital adjustments in the stockholder's equity.

## (e) Allowance for Loan Losses

The Company establishes 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, while household loans and credit card loans are classified by considering current financial status including delinquency period, bankruptcies and collaterals value.

## (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) Discount on Debentures

Discount on debenture issued, which represents the difference between the face value and issuance price of debentures,



# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

is amortized using the effective interest method over the life of the debentures. The amount amortized is included in interest expense.

## (i) 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.

## (j) 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.

## (k) 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.

## (l) 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. Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at ₩1,197.80 and ₩1,200.40 to US\$1, the rate of exchange on December 31, 2003 and 2002, respectively, that is permitted by the Financial Accounting Standards. 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.

## (m) Derivatives

Derivative instruments are presented as assets or liabilities valued principally at the fair value of rights or obligations associated with the derivative contracts. The unrealized gain or loss from derivative transactions is recognized in current operations.

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

However, for derivative instruments for the purpose of hedging the exposure to the variability of cash flows of a forecasted transaction, the hedge-effective portion of the derivative's gain or loss is deferred as a capital adjustment, a component of stockholder's equity. The ineffective portion of the gain or loss is charged or credited to current results of operations.

## (n) 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.

## (o) 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).

## (p) Interest Income Recognition

Interest income on loans is recognized on the accrual basis, except for interest income on loans having overdue interest and principal and loans to customers who are bankrupt.

## (q) Contingent Liabilities

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

## (r) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the Republic of Korea requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to financial statements. Actual results could differ from those estimates.

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (3) Standards applied for Preparing Consolidated Financial Statements

- (a) The investment account of the Controlling Company is 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) With respect to same borrowers' loans with same credit risk, allowance for loan losses accounts are maintained on the same with subsidiaries in consolidation. As results, additional allowance for loan losses of Chohung and Jeju Bank, amounts to ₩27,431 million and ₩739 million as of December 31, 2003, respectively.

## (4) Acquisition of Chohung Bank

On July 9, 2003, the Company made an agreement with the KDIC to acquire 80.04% (543,570,144 shares) of total outstanding shares of Chohung Bank. In accordance with the agreement, the Company purchased 266,349,371 shares in exchange for the Company's shares on August 18, 2003 and 277,220,773 shares in cash on August 19, 2003.

As regards to the acquisition, the Company recognized identifiable assets and liabilities of Chohung Bank as fair value on the date of acquisition using the purchase method.

Condensed consolidated balance sheets as of December 31, 2002 and August 31, 2003 and consolidated statements of earnings for the year ended December 31, 2002 and the eight months ended August 31, 2003 of Chohung Bank are as follows:

	In Millions of Korean Won	
	December 31, 2002	August 31, 2003 (Acquisition date)
Condensed consolidated balance sheets:		
Total assets	₩ 67,270,429	67,395,133
Total liabilities	64,949,848	65,240,936
Total stockholders' equity	₩ 2,320,581	2,154,197
Condensed consolidated statements of earnings:		
Operating revenue	₩ 5,466,883	3,779,757
Operating expense	5,570,049	4,446,657
Operating income (losses)	(103,166)	(666,900)
Ordinary income (losses)	(601,127)	(691,610)
Minority interest in consolidated subsidiaries	(1,910)	(200)
Net earnings (losses)	₩ (586,468)	(718,901)
Goodwill incurred in relation to the acquisition of Chohung Bank is as follows:		
Acquisition cost		₩ 1,857,983
Net asset value (fair value)		1,017,739
Goodwill		₩ 840,244

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

Additionally, the Company would be required to pay contingent consideration to the KDIC in relation to the earnings in the future and changes in fair value of assets and liabilities of Chohung Bank and the details are as follows:

■ **Asset Indemnity Payment**

- Amount : ₩652,284 million - asset indemnity amount for corporate loans, returned KAMCO loans and credit card loans
- Payment date : earlier of 60 days after the date asset indemnity is determined as of June 30, 2005 or the date as agreed on
- Interest : 4.3% per annum

■ **General Indemnity Payment**

- Amount : ₩166,516 million (deductible any amounts due and payable by the KDIC to the Company in connection with the breach of representation or warranty)
- Payment date : the second anniversary date of cash portion closing date
- Interest : 4.3% per annum

■ **Earn Out Payment**

- Amount : 20% of the total excess amount, which means net earnings of Chohung Bank for fiscal years of 2004, 2005 and 2006 in excess of ₩1,800 billion
- Payment date : within 30 days after the date excess amount is determined for the fiscal year of 2006

These contingent considerations are not included in the acquisition cost on the date of acquisition, for the amount is not determinable.

## (5) Cash and Due from Banks

(a) Cash and due from banks as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Cash on hand in Won	₩ 1,742,777	903,183	\$ 1,454,982	754,035
Cash on hand in foreign currencies	165,006	55,994	137,757	46,747
	1,907,783	959,177	1,592,739	800,782
Due from banks in Won	4,119,983	1,745,695	3,439,625	1,457,418
Due from banks in foreign currencies	390,514	142,262	326,026	118,769
	4,510,497	1,887,957	3,765,651	1,576,187
	₩ 6,418,280	2,847,134	\$ 5,358,390	2,376,969

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(b) Restricted due from banks as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won			
	2003	2002	Restrictions
Due from banks in Won:			
Reserve deposits in the Bank of Korea	₩ 2,407,044	749,928	General banking act
Due from banks for customers' accounts	1,038,745	495,500	Reserve for customers' deposits
Other	157,037	129,639	Deposit for severance benefit insurance and other
Due from banks in foreign currencies	72,833	74,976	Pledged for contract performance
	₩ 3,675,659	1,450,043	

(c) The maturities of the due from banks by remaining period as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won			
At December 31, 2003	Due from banks in Won	Due from banks in foreign currencies	Total
Due in 3 months or less	₩ 1,482,708	366,364	1,849,072
Due after 3 months through 6 months	40,254	11,990	52,244
Due in 12 months	38,335	3,371	41,706
Due in 3 years	-	-	-
Thereafter	2,558,686	8,789	2,567,475
	₩ 4,119,983	390,514	4,510,497

At December 31, 2002	Due from banks in Won	Due from banks in foreign currencies	Total
Due in 3 months or less	₩ 716,579	131,569	848,148
Due after 3 months through 6 months	35,531	6,002	41,533
Due in 12 months	98,354	-	98,354
Due in 3 years	43,406	-	43,406
Thereafter	851,825	4,691	856,516
	₩ 1,745,695	142,262	1,887,957

## (6) Securities

Securities as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars	
	2003	2002	2003	2002
Trading securities	₩ 4,876,614	2,014,293	\$ 4,071,309	1,681,660
Available-for-sale securities	19,443,355	9,146,301	16,232,555	7,635,917
Held-to-maturity securities	3,664,060	4,284,183	3,058,992	3,576,709
Investment securities accounted for by the equity method	19,631	9,437	16,389	7,879
	₩ 28,003,660	15,454,214	\$23,379,245	12,902,165

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (a) Trading securities

i) Trading securities as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars(Note 2)	
	2003	2002	2003	2002
Stocks	₩ 188,922	76,934	\$ 157,724	64,229
Government bonds	1,712,070	411,403	1,429,345	343,466
Finance debentures	1,656,756	636,852	1,383,166	531,685
Corporate bonds	996,699	742,440	832,109	619,836
Beneficiary certificates	57,446	97,870	47,960	81,708
Commercial paper	59,579	48,794	49,740	40,736
Securities in foreign currencies	1,330	-	1,110	-
Other	203,812	-	170,155	-
	₩ 4,876,614	2,014,293	\$ 4,071,309	1,681,660

ii) Details of debt securities classified as trading securities as of December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won			
	2003			
	Face value	Acquisition cost	Fair value (*)	Book value (**)
Government bonds	₩ 1,730,282	1,716,317	1,723,726	1,712,070
Finance debentures	1,696,152	1,671,623	1,677,283	1,656,756
Corporate bonds	991,446	1,005,953	999,576	996,699
	₩ 4,417,880	4,393,893	4,400,585	4,365,525

	2002			
	Face value	Acquisition cost	Fair value (*)	Book value (**)
Government bonds	₩ 408,214	411,901	412,703	411,403
Finance debentures	657,650	635,289	638,807	636,852
Corporate bonds	733,596	744,186	743,218	742,441
	₩ 1,799,460	1,791,376	1,794,728	1,790,696

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

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

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(b) Available-for-sale securities

i) Available-for-sale securities as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars(Note 2)	
	2003	2002	2003	2002
Stocks	₩1,123,476	224,488	\$ 937,949	187,417
Investment in special fund	64,489	9,371	53,840	7,824
Government bonds	2,575,282	556,279	2,150,010	464,417
Finance debentures	4,625,283	1,919,808	3,861,482	1,602,778
Corporate bonds	6,481,937	3,203,031	5,411,535	2,674,095
Beneficiary certificates	2,525,018	2,432,095	2,108,046	2,030,469
Securities in foreign currencies	1,415,713	801,229	1,181,928	668,917
Other	632,157	-	527,765	-
	₩19,443,355	9,146,301	\$16,232,555	7,635,917

ii) Details of debt securities classified as available-for-sale securities as of December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won			
	2003			
	Face value	Acquisition cost	Fair value (*)	Book value (**)
Government bonds	₩ 2,540,013	2,532,025	2,622,940	2,575,282
Finance debentures	4,704,000	4,614,120	4,697,923	4,625,283
Corporate bonds	6,673,214	6,471,921	6,521,275	6,481,937
	₩13,917,227	13,618,066	13,842,138	13,682,502

	2002			
	Face value	Acquisition cost	Fair value (*)	Book value (**)
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	3,179,063	3,224,382	3,277,389	3,203,031
	₩ 5,682,509	5,688,958	5,816,321	5,679,118

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

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

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

iii) Equity securities classified as available-for-sale securities as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won

2003				
	Ownership (%)	Acquisition cost	Net asset or fair value	Book value
<b>Stock:</b>				
Hynix Semiconductor Inc.	10.24	₩ 175,398	254,346	254,346
Ssang Yong Motors Co., Ltd.	10.31	68,506	128,292	129,292
Ssang Yong Cement Industrial Co., Ltd.	10.16	54,096	54,096	54,096
Ssang Yong Corporation	45.22	30,589	30,589	30,589
Hyundai Engineering and Construction Co., Ltd.	5.07	54,514	29,413	29,413
Daewoo Engineering and Construction Co., Ltd.	2.82	11,487	24,609	24,609
Korea Securities Finance Corporation	6.35	21,633	25,597	21,633
SK Telecom Co., Ltd.	0.12	17,106	20,478	20,478
Handsome Co., Ltd.	1.43	3,533	3,288	3,288
Ssangyong Engineering and Construction Co., Ltd.	5.37	6,080	3,248	3,248
NamSun Co., Ltd.	4.87	3,195	1,639	1,639
Feel Max Co., Ltd.	12.00	3,000	3,000	3,000
Other	-	609,366	554,972	547,845
		1,058,503	1,133,567	1,123,476
<b>Investment in special fund:</b>				
Stock Market Stabilization Fund		21,438	48,039	48,039
Korea Stock Exchange		2,612	21,134	2,612
Good KDB 2nd Securitization Specialty Co., Ltd.		3,000	3,088	3,000
Other		6,012	6,092	10,838
		33,062	78,353	64,489
		₩ 1,091,565	1,211,920	1,187,965



# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

	2002			
	Ownership (%)	Acquisition cost	Net asset or fair value	Book value
Stock:				
Saehan Industries Inc.	2.45	₩ 2,248	2,144	2,144
Korea Securities Finance Co.	3.39	11,573	14,645	11,573
Hanwha Investment Trust Management Co., Ltd.	4.50	1,350	1,419	1,419
Korea ECN Securities Co., Ltd.	6.25	1,600	1,468	1,600
ShinDongBang Co., Ltd.	2.74	1,987	928	928
Shinwon Co., Ltd.	3.29	7,260	2,578	2,578
Handsome Co., Ltd.	1.48	3,533	2,269	2,269
Hyundai Engineering and Construction Co., Ltd.	2.69	65,364	20,982	20,982
SK Telecom Co., Ltd.	0.04	4,822	7,718	7,718
INTEC Telecom Co., Ltd.	4.03	2,438	768	2,438
Hyundai Petrochemical Co., Ltd.	5.34	9,244	41,313	9,244
Other	2.45	205,017	182,477	161,595
		316,436	278,709	224,488
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
		₩ 324,706	288,207	233,859

## (6) Securities, Continued

iv) The maturity of available-for-sale securities by remaining period as of December 31, 2003 are as follows:

	In Millions of Korean Won			
	Government bonds	Finance debentures	Corporate bonds	Total
Due in 3 months or less	₩ 103,419	1,128,796	178,732	1,410,947
Due after 3 months through 6 months	95,735	799,242	448,949	1,343,926
Due in 12 months	168,840	1,262,752	630,835	2,062,427
Due in 3 years	1,252,751	1,385,682	4,161,545	6,799,978
Thereafter	954,537	48,811	1,061,876	2,065,224
	₩ 2,575,282	4,625,283	6,481,937	13,682,502

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

v) Available-for-sale securities denominated in foreign currencies classified by issuing country as of December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won			In Thousands of U.S. Dollars		
	2003			2002		
	U.S. dollar	Equivalent Won	Ratio (%)	U.S. dollar	Equivalent Won	Ratio (%)
Korea	\$ 731,852	₩ 876,612	61.92	\$ 460,564	₩ 552,883	69.00
U.S.A.	317,771	380,626	26.89	97,772	117,366	14.66
Malaysia	11,703	14,018	0.99	11,640	13,973	1.75
Indonesia	-	-	-	300	360	0.04
Philippines	588	704	0.05	6,365	7,640	0.95
Germany	14,037	16,814	1.19	12,562	15,079	1.88
Japan	5,029	6,023	0.43	3,190	3,829	0.48
Other	100,948	120,916	8.53	75,057	90,099	11.24
	\$ 1,181,928	₩ 1,415,713	100.00	\$ 667,450	₩ 801,229	100.00

(c) Held-to-maturity securities

i) Held-to-maturity securities as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 2)	
	2003	2002	2003	2002
Government bonds	₩ 558,336	539,505	\$ 466,135	450,413
Finance debentures	543,791	402,768	453,991	336,256
Corporate bonds	2,389,916	3,213,403	1,995,255	2,682,755
Securities in foreign currencies	172,017	128,504	143,611	107,283
Other	-	3	-	2
	₩ 3,664,060	4,284,183	\$ 3,058,992	3,576,709

ii) Details of debt securities classified as held-to-maturity securities as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won			
	2003			
	Face value	Acquisition cost	Fair value (*)	Book value
Government bonds	₩ 550,292	553,294	632,545	558,336
Finance debentures	551,144	544,773	569,935	543,791
Corporate bonds	2,380,892	2,398,606	2,461,181	2,389,916
	₩ 3,482,328	3,496,673	3,663,661	3,492,043

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

	2002			
	Face value	Acquisition cost	Fair value (*)	Book value
Government bonds	₩ 543,903	532,735	622,457	539,505
Finance debentures	408,462	404,785	445,557	402,768
Corporate bonds	3,210,405	3,223,072	3,382,375	3,213,403
	₩ 4,162,770	4,160,592	4,450,389	4,155,676

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

iii) The maturity of held-to-maturity securities by remaining period as of December 31, 2003 and 2002 are as follows:

At December 31, 2003	In Millions of Korean Won			
	Government bonds	Finance debentures	Corporate bonds	Total
Due in 3 months or less	₩ 45,739	67,592	149,675	263,006
Due after 3 months through 6 months	17,479	38,282	159,114	214,875
Due in 12 months	141,231	125,037	723,190	989,458
Due in 3 years	231,214	213,027	482,760	927,001
Thereafter	122,673	99,853	875,177	1,097,703
	₩ 558,336	543,791	2,389,916	3,492,043

At December 31, 2002	In Millions of Korean Won			
	Government bonds	Finance debentures	Corporate bonds	Total
Due in 3 months or less	₩ 354	82,160	45,005	127,519
Due after 3 months through 6 months	476	66,650	91,340	158,466
Due in 12 months	65,171	57,672	1,301,399	1,424,242
Due in 3 years	301,321	146,381	1,119,998	1,567,700
Thereafter	172,183	49,905	655,661	877,749
	₩ 539,505	402,768	3,213,403	4,155,676

iv) Held-to-maturity securities denominated in foreign currencies classified by issuing country as of December 31, 2003 and 2002 are as follows:

	2003			2002		
	U.S. dollar	Equivalent Won	Ratio (%)	U.S. dollar	Equivalent Won	Ratio (%)
Korea	\$ 127,308	₩ 152,489	88.65	\$ 91,721	₩ 110,103	85.68
U.S.A.	1,965	2,354	1.37	1,940	2,329	1.81
Indonesia	3,449	4,131	2.40	2,500	3,001	2.34
Other	10,889	13,043	7.58	10,890	13,071	10.17
	\$ 143,611	₩ 172,017	100.00	\$ 107,051	₩ 128,504	100.00

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(d) Investment securities accounted for by the equity method

i) Details of investment securities accounted for by the equity method as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won

2003						
Subsidiaries	Beginning balance	Investment and sale, net	Equity method gain (loss)	Retained earnings	Capital adjustments	Ending balance
e-Shinhan	₩ 3,892	-	(1,166)	(1)	-	2,725
Shinhan Macquarie	423	-	1,446	(26)	-	1,843
Shinhan Credit Information	3,121	(1,695)	544	-	-	1,970
Shinhan Data System	2,001	-	152	-	-	2,153
Chohung Vina	-	9,166	1,434	-	340	10,940
	₩ 9,437	7,471	2,410	(27)	340	19,631

2002						
Subsidiaries	Beginning balance	Investment, sale and dividend, net	Equity method gain (loss)	Retained earnings	Capital adjustments	Ending balance
e-Shinhan	₩ 4,673	-	(806)	(1)	26	3,892
Shinhan Macquarie	776	(484)	134	(3)	-	423
Shinhan Credit Information	-	3,000	121	-	-	3,121
Shinhan System	1,864	-	137	-	-	2,001
Shinhan Research	158	(158)	-	-	-	-
	₩ 7,471	2,358	(414)	(4)	26	9,437

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (7) Loans

(a) Loans outstanding as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 2)	
	2003	2002	2003	2002
Loans in Won	₩ 72,853,369	32,616,614	\$ 60,822,649	27,230,434
Loans in foreign currencies	6,779,634	3,489,504	5,660,072	2,913,261
Domestic import usance bills	2,714,909	1,154,569	2,266,579	963,908
Call loans	1,438,737	610,606	1,201,150	509,773
Korean Won bills bought	1,058,981	833,721	884,105	696,044
Foreign currency bills bought	3,610,006	2,263,872	3,013,864	1,890,026
Payments on guarantees and acceptances	107,743	89,657	89,951	74,851
Credit card loans	4,931,496	2,795,865	4,117,128	2,334,167
Bonds purchased with resale agreements	470,300	-	392,636	-
Privately placed bonds	2,416,843	1,484,356	2,017,735	1,239,235
Factoring receivables	174,955	63,627	146,064	53,120
Loans convertible into equity securities	80,933	6,504	67,568	5,430
Financing lease receivables	807,396	621,427	674,066	518,807
Cash management account	186,369	-	155,592	-
Other	17,390	17,706	14,518	14,782
	97,649,061	46,048,028	81,523,677	38,443,838
Less: allowance for loan losses	(2,808,118)	(785,773)	(2,344,396)	(656,014)
present value premiums (discounts)	80,236	(17,894)	66,986	(14,939)
	₩ 94,921,179	45,244,361	\$ 79,246,267	37,772,885

(b) The maturities of loans by remaining period as of December 31, 2003 and 2002 are as follows:

At December 31, 2003	In Millions of Korean Won			
	Loans in Won	Loans in foreign currencies	Other	Total
Due in 3 months or less	₩ 15,160,538	885,099	8,318,745	24,364,382
Due after 3 months through 6 months	13,263,016	1,451,347	1,324,392	16,038,755
Due in 12 months	21,080,434	2,039,158	1,552,614	24,672,206
Due in 3 years	16,806,243	1,156,538	3,868,644	21,831,425
Thereafter	6,543,138	1,247,492	2,951,663	10,742,293
	₩ 72,853,369	6,779,634	18,016,058	97,649,061

At December 31, 2002	In Millions of Korean Won			
	Loans in Won	Loans in foreign currencies	Other	Total
Due in 3 months or less	₩ 4,971,684	393,060	6,373,742	11,738,486
Due after 3 months through 6 months	4,393,858	699,390	811,375	5,904,623
Due in 12 months	8,379,063	1,332,252	878,332	10,589,647
Due in 3 years	11,489,933	452,397	1,383,218	13,325,548
Thereafter	3,382,076	612,405	495,243	4,489,724
	₩ 32,616,614	3,489,504	9,941,910	46,048,028

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(c) Loan classified by country as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won

2003					
	Loans in Won	Loans in foreign currencies	Other loans	Total	Ratio (%)
Korea	₩ 72,853,369	4,426,217	17,910,007	95,189,593	97.48
U.S.A.	-	803,204	678	803,882	0.82
U.K.	-	63,047	19,182	82,229	0.09
Japan	-	936,055	1,105	937,160	0.96
Germany	-	1,165	-	1,165	-
Ireland	-	-	62,168	62,168	0.07
Indonesia	-	31,605	-	31,605	0.03
Thailand	-	599	-	599	-
Vietnam	-	52,456	2,403	54,859	0.06
Panama	-	78,414	-	78,414	0.08
Russia	-	2,096	-	2,096	-
Hong Kong	-	63,486	14,578	78,064	0.08
China	-	192,572	5,937	198,509	0.20
Other	-	128,718	-	128,718	0.13
	₩ 72,853,369	6,779,634	18,016,058	97,649,061	100.00

2002					
	Loans in Won	Loans in foreign currencies	Other loans	Total	Ratio (%)
Korea	₩ 32,616,614	2,820,291	9,696,621	45,133,526	98.01
U.S.A.	-	7,124	30,010	37,134	0.08
U.K.	-	-	1,059	1,059	0.00
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	0.00
Hong Kong	-	-	20,235	20,235	0.04
Singapore	-	1,021	-	1,021	0.00
	₩ 32,616,614	3,489,504	9,941,910	46,048,028	100.00

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(d) Loans classified by consumer as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won

2003					
	Loans in Won	Loans in foreign currencies	Other	Total	Ratio (%)
Corporate	₩ 37,321,076	6,134,976	12,729,866	56,185,918	57.53
Household	34,527,896	97,993	5,113,230	39,739,119	40.70
Public and other	1,004,397	546,665	172,962	1,724,024	1.77
	₩ 72,853,369	6,779,634	18,016,058	97,649,061	100.00

2002					
	Loans in Won	Loans in foreign currencies	Other	Total	Ratio (%)
Corporate	₩ 15,945,863	3,427,197	7,410,253	26,783,313	58.16
Household	16,538,978	45,938	2,225,690	18,810,606	40.85
Public and other	131,773	16,369	305,967	454,109	0.99
	₩ 32,616,614	3,489,504	9,941,910	46,048,028	100.00

(e) Restructured loans due to commencement of bankruptcy proceedings, composition proceedings or workout programs during the years ended December 31, 2003 and 2002 are as follows:

In Millions of Korean Won

2003					
	Composition	Bankruptcy	Workout		Total
			Corporate loans	Individuals loans	
Loans for equity conversion	₩ -	29,083	410,140	-	439,223
Loans converted into convertible bonds	-	2,159	38,545	-	40,704
Reduction in interest rate	-	149,903	164,223	1,539	315,665
Loan balance before restructuring	-	181,145	612,908	1,539	795,592
Loan balance after restructuring	-	160,019	501,076	1,242	662,337
Loss resulting from restructuring	₩ -	21,126	111,832	297	133,255

## Notes to Consolidated Financial Statements

December 31, 2003 and 2002

	2002				
	Composition	Bankruptcy	Workout		Total
			Corporate loans	Individuals loans	
Loan for equity conversion	₩ 6,793	1,905	668	-	9,366
Loans converted into convertible bonds	-	-	493	-	493
Reduction in interest rate	3,436	2,094	14,779	-	20,309
Loan balance before restructuring	10,229	3,999	15,940	-	30,168
Loan balance after restructuring	3,550	1,151	13,284	-	17,985
Loss resulting from restructuring	₩ 6,679	2,848	2,656	-	12,183

(f) Changes in allowance for losses on loans, accounts receivable and accrued income for the years ended December 31, 2003 and 2002 are as follows:

In Millions of Korean Won

	2003		
	Beginning balance (*)	Increase (Decrease) (**)	Ending balance (***)
The Company	₩ 3,846	(3,846)	-
Shinhan Bank	565,844	300,584	866,428
Shinhan Bank (Trust account)	24,023	(5,687)	18,336
Shinhan Finance	3,266	609	3,875
Chohung Bank	-	1,705,719	1,705,719
Chohung Bank (Trust account)	-	23,359	23,359
Chohung ITMC	-	11	11
Chohung Finance	-	4,549	4,549
Chohung America	-	4,252	4,252
Chohung Deutschland	-	2,696	2,696
Goodmorning Shinhan Securities	49,333	(13,989)	35,344
Shinhan Card	96,104	22,506	118,610
Shinhan Capital	33,787	(15,886)	17,901
Shinhan BNPP ITMC	10	4	14
Jeju Bank	29,318	5,952	35,270
Jeju Bank (Trust account)	142	(142)	-
Total	₩ 805,673	2,030,691	2,836,364

(\*) Additional allowance for loan losses of Goodmorning Shinhan Securities, Shinhan Capital and Jeju Bank, amounting to ₩12,952 million, is included.

(\*\*) Allowance for loan losses of Chohung Bank, amounting to ₩2,172,379 million as of August 31, 2003 (acquisition date), is reflected.

(\*\*\*) Additional allowance for loan losses of Chohung and Jeju Bank, amounting to ₩28,170 million, is included.

(\*\*\*\*) Allowance for losses on other assets and disposition of operating lease assets is included.



# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

	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 BNPP ITMC	25	(15)	10
Jeju Bank	26,952	2,366	29,318
Jeju Bank (Trust account)	153	(11)	142
<b>Total</b>	<b>₩ 781,428</b>	<b>24,245</b>	<b>805,673</b>

(\*) Additional allowance for loan losses of Goodmorning Shinhan Securities, Shinhan Capital and Jeju Bank, amounting to ₩13,019 million and ₩12,952 million as of December 31, 2003 and 2002, is included, respectively.

(\*\*) Allowance for loan losses of Shinhan Securities Co., Ltd. before to merger is considered.

(\*\*\*) Allowance for losses on other assets is included.

## (8) Fixed Assets

Fixed assets as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 2)	
	2003	2002	2003	2002
<b>Tangible assets:</b>				
Land	₩ 995,168	346,538	\$830,830	289,312
Buildings	729,315	465,484	608,879	388,616
Other	1,129,104	571,048	942,648	476,747
	2,853,587	1,383,070	2,382,357	1,154,675
Less: accumulated depreciation	(974,792)	(455,839)	(813,819)	(380,563)
	1,878,795	927,231	1,568,538	774,112
<b>Intangible assets:</b>				
Goodwill	964,788	161,542	805,467	134,866
Negative goodwill	(5,655)	(6,340)	(4,721)	(5,293)
Other	15,440	11,365	12,890	9,488
	974,573	166,567	813,636	139,061
Other fixed assets	312	46	261	38
	<b>₩ 2,853,680</b>	<b>1,093,844</b>	<b>\$2,382,435</b>	<b>913,211</b>

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

The officially declared value of land used in domestic branches at December 31, 2003 and 2002, as announced by the Minister of Construction and Transportation, is as follows:

	In Millions of Korean Won			
	Book value		Declared value	
	2003	2002	2003	2002
Land (Domestic only)	₩ 991,993	345,832	975,097	261,145

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

## (9) Other Assets

Other assets as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 2)	
	2003	2002	2003	2002
Accounts receivable	₩ 1,570,819	572,367	\$ 1,311,420	477,849
Advance payments	42,827	11,623	35,755	9,704
Prepaid expenses	29,146	24,863	24,333	20,757
Prepaid income taxes	13,988	3,268	11,678	2,728
Accrued income	696,940	465,144	581,850	388,332
Operating lease assets	405,794	177,678	338,783	148,337
Less: accumulated depreciation	(182,375)	(79,247)	(152,258)	(66,160)
allowance for losses on disposition	(2,210)	(147)	(1,845)	(123)
Guarantee deposits paid	956,596	454,956	798,627	379,826
Deferred tax assets	78,135	102,052	65,232	85,200
Derivative assets	518,836	120,443	433,157	100,554
Other	2,910,279	295,409	2,429,687	246,626
	7,038,775	2,148,409	5,876,419	1,793,630
Less: allowance for losses	(26,036)	(19,753)	(21,736)	(16,491)
present value discounts	(146)	(614)	(122)	(513)
	₩ 7,012,593	2,128,042	\$ 5,854,561	1,776,626

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (10) Operating Lease Assets

(a) Operating lease assets classified by industry as of December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won	
	2003	2002
Mining	₩ 4,343	7,603
Manufacturing:		
Food and beverages	485	14,678
Clothing and fabrics	3,429	5,580
Paper and publishing	14,617	25,654
Chemicals	19,230	21,296
Mining	241	1,236
Metal	138	214
Electrical components and equipment	38,815	7,658
Other manufacturing	36,309	8,317
	113,264	84,633
Energy and gas	6,569	14,302
Construction	6,962	2,637
Retail / wholesale and lodging	8,669	6,236
Transportation and containers	212,728	20,507
Banking, insurance and other financing	681	77
Medical	15,748	14,266
Public and consumer services	36,830	27,417
	405,794	177,678
Less: accumulated depreciation	(182,375)	(79,247)
allowance for losses on disposition of lease assets	(2,211)	(147)
	₩ 221,208	98,284

(b) The collection schedule of future lease receivables as of December 31, 2003, is as follows:

	In Millions of Korean Won		
	Operating lease	Financing lease	Total
January 1, 2004 ~ December 31, 2004	₩ 63,056	334,267	397,323
January 1, 2005 ~ December 31, 2005	44,637	257,899	302,536
January 1, 2006 ~ December 31, 2006	31,035	181,296	212,331
January 1, 2007 ~ December 31, 2007	20,503	78,126	98,629
Thereafter	125,078	55,090	180,168
	284,309	906,678	1,190,987
Unrealized interest income on financing lease	-	(99,282)	(99,282)
	₩ 284,309	807,396	1,091,705

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (11) Deposits

(a) Deposits as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 2)	
	2003	2002	2003	2002
Korean Won deposits	₩ 75,496,450	33,851,353	\$ 63,029,262	28,261,273
Foreign currency deposits	4,932,403	2,094,331	4,117,885	1,748,481
Negotiable certificates of deposits	7,118,586	2,776,649	5,943,051	2,318,124
	87,547,439	38,722,333	73,090,198	32,327,878
Add: present value premium	45,166	-	37,707	-
	₩ 87,592,605	38,722,333	\$ 73,127,905	32,327,878

(b) The maturities of deposits by remaining period as of December 31, 2003 and 2002 are as follows:

At December 31, 2003	In Millions of Korean Won			
	Korean Won deposits	Foreign currency deposits	Negotiable certificates of deposits	Total
Due in 3 months or less	₩ 22,326,297	3,267,799	3,563,065	29,157,161
Due after 3 months through 6 months	6,003,790	357,334	1,759,652	8,120,776
Due in 12 months	19,203,989	710,832	1,674,109	21,588,930
Due in 3 years	5,373,674	595,357	120,675	6,089,706
Thereafter	22,588,700	1,081	1,085	22,590,866
	₩ 75,496,450	4,932,403	7,118,586	87,547,439

At December 31, 2002	In Millions of Korean Won			
	Korean Won deposits(*)	Foreign currency deposits	Negotiable certificates of deposits	Total
Due in 3 months or less	₩ 10,113,071	1,101,437	1,719,391	12,933,899
Due after 3 months through 6 months	3,781,970	333,393	883,531	4,998,894
Due in 12 months	9,132,488	304,313	115,654	9,552,455
Due in 3 years	2,084,954	355,188	58,073	2,498,215
Thereafter	8,723,824	-	-	8,723,824
	₩ 33,836,307	2,094,331	2,776,649	38,707,287

(\*) ₩15,046 million of deposits in Jeju Bank's trust accounts is excluded.

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (12) Borrowings

(a) Borrowings as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 2)	
	2003	2002	2003	2002
Borrowings in Won	₩ 4,401,380	1,900,616	\$ 3,674,553	1,586,756
Borrowings in foreign currencies	7,193,596	4,670,846	6,005,674	3,899,521
Bonds sold with repurchase agreements	4,427,073	4,300,609	3,696,004	3,590,423
Bills sold	705,954	206,965	589,376	172,788
Due to the Bank of Korea in foreign currencies	64,051	75,285	53,473	62,853
Call money	417,522	197,493	348,574	164,880
	₩ 17,209,576	11,351,814	\$ 14,367,654	9,477,221

(b) Details of subordinated borrowings as of December 31, 2003 and 2002 are as follows:

Lender	Period of contract	Interest rate (%)	In Millions of Korean Won	
			2003	2002
Hungkuk Life Insurance	December 31, 1997 ~ December 31, 2007	7.0	₩ 40,000	40,000
Kyobo Life Insurance	June 30, 1998 ~ June 30, 2008	5.5	30,000	30,000
			₩ 70,000	70,000

(c) The maturities of borrowings as of December 31, 2003 and 2002 are as follows:

At December 31, 2003	In Millions of Korean Won			
	Borrowings in Won	Borrowings in foreign currencies	Other	Total
Due in 3 months or less	₩ 2,309,091	3,855,897	2,871,796	9,036,784
Due after 3 months through 6 months	288,131	1,689,287	1,478,867	3,456,285
Due in 12 months	191,984	1,162,733	1,110,451	2,465,168
Due in 3 years	399,962	387,229	153,179	940,370
Thereafter	1,212,212	98,450	307	1,310,969
	₩ 4,401,380	7,193,596	5,614,600	17,209,576

At December 31, 2002	In Millions of Korean Won			
	Borrowings in Won	Borrowings in foreign currencies	Other	Total
Due in 3 months or less	₩ 808,083	2,000,221	2,347,348	5,155,652
Due after 3 months through 6 months	41,731	1,029,718	1,223,431	2,294,880
Due in 12 months	89,700	1,004,765	799,335	1,893,800
Due in 3 years	283,406	610,921	406,991	1,301,318
Thereafter	677,696	25,221	3,247	706,164
	₩ 1,900,616	4,670,846	4,780,352	11,351,814

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (13) Debentures

(a) Debentures as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars (Note 2)	
	2003	2002	2003	2002
Korean Won debentures	₩ 16,177,484	8,331,629	\$ 13,505,998	6,955,776
Foreign currency debentures	1,591,121	469,236	1,328,369	391,748
	17,768,605	8,800,865	14,834,367	7,347,524
Less: present value discounts	(156,171)	(405,462)	(130,382)	(338,506)
Add: present value premiums	135,445	-	113,078	-
	₩ 17,747,879	8,395,403	\$ 14,817,063	7,009,018

(b) Details of Korean Won debentures as of December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won			
	2003		2002	
	Face value	Interest rate (%)	Face value	Interest rate (%)
Discounted debentures	₩ 6,436,500	3.93~6.91	₩ 3,910,000	4.01~6.00
Coupon debenture	6,554,434	0.24~7.47	2,674,425	5.25~8.20
Debentures with stock warrants	-	-	299,064	15.00
Subordinated debenture	2,910,292	5.58~18.00	1,432,172	6.23~15.13
Hybrid securities (*)	272,564	7.80	-	-
	16,173,790		8,315,661	
Add: loss on fair value hedge	3,694		15,968	
	₩ 16,177,484		₩ 8,331,629	

(\*) Hybrid securities issued by Chohung Bank

Redemption : Redeemable 5 years after issuance date

Interest rate : 7.80% for 10 years after issuance date

Thereafter - 50% of the difference between 7.80% and 5 year maturity government bonds rate is added.

Interest payment : Quarterly paid

Maturity date : 30 years after issuance date (renewable by Chohung Bank)

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(c) Details of foreign currency debentures as of December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won			In Thousands of U.S. Dollars		
	2003			2002		
	U.S. dollars	Equivalent Won	Interest rate (%)	U.S. dollars	Equivalent Won	Interest rate (%)
MTN (*)	\$ 800,000	₩ 967,791	1.59~6.25	\$ 354,000	₩ 433,224	4/L+0.2
Non-guaranteed debentures	30,000	35,934	L+0.85	30,000	36,012	L+0.85
Subordinated debentures	490,396	587,396	11.50~11.88	-	-	
	\$1,320,396	₩ 1,591,121		\$ 384,000	₩ 469,236	

(\*) 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 : US\$ 2,000,000  
 Place of trading : London Stock Exchange  
 Issue price : Face value or discounted value  
 Maturity date and interest date : Various depending on date of issuance  
 Redemption : Maturity date  
 Additionally, valuation gain (loss) on derivatives is included in equivalent Won amount.

(d) The maturities of debentures by remaining period as of December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won		
	Korean Won debentures	Foreign currency debentures	Total
<b>At December 31, 2003</b>			
Due in 3 months or less	₩ 2,460,384	-	2,460,384
Due after 3 months through 6 months	2,735,660	-	2,735,660
Due in 12 months	3,144,010	179,670	3,323,680
Due in 3 years	4,537,860	388,560	4,926,420
Thereafter	3,299,570	1,022,891	4,322,461
	₩ 16,177,484	1,591,121	17,768,605
<b>At December 31, 2002</b>			
Due in 3 months or less	₩ 1,514,887	-	1,514,887
Due after 3 months through 6 months	536,807	-	536,807
Due in 12 months	2,138,065	193,144	2,331,209
Due in 3 years	2,042,179	276,092	2,318,271
Thereafter	2,099,691	-	2,099,691
	₩ 8,331,629	469,236	8,800,865

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (14) Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won		In Thousands of U.S. Dollars(note 2)	
	2003	2002	2003	2002
Beginning balance	₩ 225,188	192,465	\$ 188,001	160,682
Changes in consolidation scope	105,794	15,838	88,324	13,223
Adjustment due to foreign exchange rate	42	(7)	35	(6)
Payment	(29,114)	(56,765)	(24,306)	(47,391)
Provision	46,003	73,657	38,406	61,494
Ending balance	347,913	225,188	290,460	188,001
Less: contribution to National Pension Fund	(133,645)	(56,802)	(111,575)	(47,422)
deposit for severance benefit insurance	(8,317)	(8,867)	(6,944)	(7,403)
	₩ 205,951	159,519	\$ 171,941	133,176

## (15) Other Liabilities

Other liabilities as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars(note 2)	
	2003	2002	2003	2002
Allowance for losses on guarantees and acceptances (note 16)	₩ 57,398	3,659	\$ 47,920	3,055
Other allowances	68,025	30,716	56,792	25,644
Borrowings from trust accounts	665,158	278,578	555,316	232,575
Foreign exchange remittances pending	159,954	158,937	133,540	132,691
Securities sold	353,732	-	295,318	-
Accounts payable	1,397,803	539,108	1,166,975	450,082
Accrued expenses	1,742,597	1,108,373	1,454,831	925,341
Income tax payable	103,873	172,343	86,720	143,883
Dividend payable	1,645	2,629	1,373	2,195
Advance receipts	95,116	6,056	79,409	5,056
Unearned revenues	163,650	87,414	136,626	72,979
Taxes withheld	78,271	76,096	65,346	63,530
Guarantee deposits received	270,766	149,729	226,053	125,003
Derivatives liabilities	471,442	112,677	393,590	94,070
Deferred tax liabilities	34	262	28	219
Guarantee deposits for stock subscriptions	19,090	4,945	15,938	4,128
Miscellaneous	4,697,196	1,445,637	3,921,519	1,206,910
	₩ 10,345,750	4,177,159	\$ 8,637,294	3,487,361



# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (16) Guarantees and Acceptances

(a) The guarantees and acceptances as of December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won	
	2003	2002
<b>Guarantees and acceptances outstanding</b>		
Guarantees and acceptances in Won:		
Guarantees for contract performance	₩ 122,759	99,936
Guarantees on loan collaterals	118,261	54,660
Guarantees on debentures	32,331	15,900
Other	765,517	273,656
	1,038,868	444,152
Guarantees and acceptances in foreign currencies:		
Acceptances on letters of credit	422,945	408,397
Acceptances for letters of guarantee for importers	161,993	101,381
Other	651,416	390,264
	1,236,354	900,042
<b>Contingent guarantees and acceptances</b>		
Letters of credit	2,611,654	1,939,913
Other	550,917	271,163
	3,162,571	2,211,076
	₩ 5,437,793	3,555,270

(b) Outstanding commitments as of December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won	
	2003	2002
Commitments for loans in Won	₩ 3,383,264	2,213,114
Commitments for loans in foreign currencies	237,610	153,891
Other commitments in foreign currencies	42,890	72,098
	₩ 3,663,764	2,439,103

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(c) The guarantees and acceptances provided by country as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won

2003						
	Guarantees and acceptances outstanding in				Contingent guarantees and acceptances	
	Won		Foreign currencies			
	Balance	Ratio (%)	Balance	Ratio (%)	Balance	Ratio (%)
Korea	₩ 1,038,868	100.00	₩ 1,160,272	93.84	₩ 3,017,786	95.42
U.S.A.	-	-	51,740	4.18	92,943	2.94
Japan	-	-	19,474	1.58	24,972	0.79
U.K.	-	-	2,134	0.17	9,582	0.30
China	-	-	1,222	0.10	3,569	0.11
Vietnam	-	-	445	0.04	12,867	0.41
Other	-	-	1,067	0.09	852	0.03
	₩ 1,038,868	100.00	₩ 1,236,354	100.00	₩ 3,162,571	100.00

2002						
	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

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(d) The guarantees and acceptances provided by consumer as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won

2003						
	Guarantees and acceptances outstanding in				Contingent guarantees and acceptances	
	Won		Foreign currencies		Balance	Ratio (%)
	Balance	Ratio (%)	Balance	Ratio (%)		
Corporate	₩ 983,361	94.65	₩ 1,232,823	99.71	₩ 3,081,786	97.45
Household	1,410	0.14	1,575	0.13	78,339	2.48
Public and other	54,097	5.21	1,956	0.16	2,446	0.08
	₩ 1,038,868	100.00	₩ 1,236,354	100.00	₩ 3,162,571	100.00

2002						
	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	4.59
	₩ 444,152	100.00	₩ 900,042	100.00	₩ 2,211,076	100.00

(e) The allowances for losses on guarantees and acceptances provided according to the same credit risk classifications on loans as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won

2003						
	Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Guarantees and acceptances in Won						
Balance	₩ 890,423	5,722	140,591	1,901	231	1,038,868
Allowances	-	-	32,039	1,000	231	33,270
Ratio (%)	-	-	20.00	50.00	100.00	3.20
Guarantees and acceptances in foreign currencies						
Balance	₩ 1,159,864	56,471	17,779	144	2,096	1,236,354
Allowances	-	18,338	3,556	138	2,096	24,128
Ratio (%)	-	42.82	35.72	100.00	100.00	1.95
Total guarantees and acceptances						
Balance	₩ 2,050,287	62,193	158,370	2,045	2,327	2,275,222
Allowances	-	18,338	35,595	1,138	2,327	57,398
Ratio (%)	-	-	20.00	50.00	100.00	2.52

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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	
Total guarantees and acceptances							
Balance	₩ 1,309,577	22,499	10,485	1,465	168	1,344,194	
Allowances	-	-	2,097	1,394	168	3,659	
	-	-	20.00	95.00	100.00	0.27	

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## (17) Pledged assets

Assets pledged as collateral as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won			
Accounts	2003	2002	Related transactions for
Cash and due from banks	₩ 9,254	9,465	Credit card loans and beneficiary certificates
Securities	6,884,465	1,515,725	Borrowings, derivatives and settlements
Land and buildings	121,823	-	Collaterals
	₩ 7,015,542	1,525,190	

## (18) Insured assets

Details of Insured assets as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won		
Assets insured	2003	2002
Cash	₩ 16,288	12,350
Tangible assets used in operations	1,195,239	544,195
Tangible assets held for non-operating uses	-	19,097
Other tangible assets	27,748	30,470
	₩ 1,239,275	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.

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (19) Foreign Currency Denominated Assets and Liabilities

Assets and liabilities denominated in foreign currency as of December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	Foreign currency		Equivalent Won	
	2003	2002	2003	2002
<b>Assets:</b>				
Cash and due from banks	\$ 463,782	165,158	₩ 555,520	198,256
Securities	1,326,649	774,519	1,589,060	929,733
Loans	12,018,177	6,139,577	14,395,371	7,369,949
Other assets	123,287	43,554	147,673	52,283
	\$ 13,931,895	7,122,808	₩16,687,624	8,550,221
<b>Liabilities:</b>				
Deposits	\$ 4,117,885	1,744,693	₩ 4,932,403	2,094,331
Borrowings	7,308,075	4,147,803	8,753,612	4,979,021
Debentures	1,328,370	389,900	1,591,121	469,236
Other liabilities	177,590	151,299	212,719	181,618
	\$ 12,931,920	6,433,695	₩15,489,855	7,724,206

## (20) Capital Stock

(a) The Company issued new preferred stock for the years ended December 31, 2003 the details are as follows:

	Number of shares	Predetermined dividend rate(%)	Redeemable period
<b>Redeemable preferred stock:</b>			
Series 1	9,316,792	4.04	August 19, 2004 ~ August 18, 2006
Series 2	9,316,792	4.04	August 19, 2005 ~ August 18, 2007
Series 3	9,316,792	4.04	August 19, 2006 ~ August 18, 2008
Series 4	9,316,792	4.04	August 19, 2007 ~ August 18, 2009
Series 5	9,316,793	4.04	August 19, 2008 ~ August 18, 2010
Series 6	3,500,000	7.00	July 19, 2006 ~ August 18, 2006
Series 7	2,433,334	7.46	July 19, 2008 ~ August 18, 2008
Series 8	66,666	7.86	July 19, 2010 ~ August 18, 2010
	52,583,961		
<b>Redeemable convertible preferred stock:</b>			
Series 9 (*)	44,720,603	2.02	August 19, 2006 ~ August 18, 2008
	97,304,564		

(\*) Convertible period : August 19, 2004 ~ August 18, 2007  
 Conversion ratio : 1 common share to 1 preferred share  
 Conversion price in Won : ₩18,086

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(b) Details of changes in capital stock for the years ended December 31, 2003 and 2002 are as follows:

2003		
	Number of shares	Capital stock
Balance at beginning of the year	292,361,125	1,461,806
Redeemable preferred stock issued:		
Series 1 to 5	46,583,961	232,920
Series 6 to 8	6,000,000	30,000
Redeemable convertible preferred stock issued:		
Series 9	44,720,603	223,603
Common stock issued	1,864,065	9,320
Stock exchange	176,110	881
Balance at end of the year	391,705,864	1,958,530

2002		
	Number of shares	Capital stock
Balance at beginning of the year	292,344,192	1,461,721
Stock exchange	16,933	85
Balance at end of the year	292,361,125	1,461,806

## (21) Consolidated Capital Adjustments

Consolidated capital adjustments as of December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Treasury stock	₩ (391,300)	(391,300)	\$ (326,682)	(326,682)
Unrealized gain (loss) on securities:				
Available-for-sale securities	(153,786)	6,065	(128,390)	5,063
Investment securities accounted for by the equity method	137	26	114	22
Stock options: (note 22)				
Options granted by the Company	9,626	3,004	8,036	2,508
Options granted by the subsidiaries	926	(99)	773	(83)
Cumulative effects on foreign currency translation adjustments	15,035	2,507	12,552	2,093
	₩ (519,362)	(379,797)	\$ (433,597)	(317,079)

The treasury stocks held by Shinhan Bank is 29,873,295 shares as of December 31, 2003 and 2002. On March 3, 2004, Shinhan Bank sold those treasury stocks at ₩627,339 million (₩21,000 per share), through after-hour block trading.

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (22) Stock Options

The stock options consist of the Company's stock options, which were granted to the personnel of the Company and its subsidiaries, and the subsidiaries' stock options which were granted to the personnel of the subsidiaries. As of December 31, 2003, details of the stock options granted by the Company under a resolution at the Board of Directors' meeting are as follows:

### (a) Details of the Company's stock options

Grant date	May 22, 2002	May 15, 2003
Shares granted	1,004,200 shares	1,156,300 shares
Share expired to date	40,081 shares	8,055 shares
Shares outstanding	964,119 shares	1,148,245 shares
Type of stock options	Stock grant or price compensation	Stock grant or price compensation
Exercise price (Won)	₩ 18,910	₩ 11,800
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) The Company calculated stock compensation costs using the fair value method for stock grant and details are as follows:

Grant date	May 22, 2002	May 15, 2003
Risk-free interest rate (%)	6.43	4.25
Expected exercise period	4 years	4 years
Expected stock price volatility (%)	27.13	22.11
Expected dividend yield (%)	-	-
Expected ratios of no-exercise (%)	-	-
Weighted average fair value in Won	₩ 9,812	₩ 5,292

### (c) Changes in stock compensation costs for the years ended December 31, 2003 and 2002 are as follows:

Grant date	Stock compensation costs	In Millions of Korean Won		
		Personnel of the Company	Personnel of subsidiaries	Total
May 22, 2002	Recorded at beginning of the year	₩ 643	2,361	3,004
	Incurred during the year	938	3,752	4,690
	To be recorded in subsequent years	347	1,337	1,684
May 15, 2003	Recorded at beginning of the year	-	-	-
	Incurred during the year	443	1,489	1,932
	To be recorded in subsequent years	958	3,187	4,145

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (23) General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2003 and 2002 consist of the following:

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Salaries and wages	₩ 514,793	345,682	\$ 429,782	288,597
Provision for retirement and severance benefits	46,003	73,657	38,406	61,494
Other employees benefits	179,065	144,229	149,495	120,412
Rent	47,598	30,073	39,738	25,107
Entertainment	13,665	8,720	11,408	7,280
Depreciation	139,486	89,064	116,452	74,356
Amortization	43,269	12,328	36,124	10,292
Tax and dues	53,816	36,394	44,929	30,384
Advertising	42,922	52,736	35,834	44,027
Other	267,522	148,874	223,345	124,290
	₩ 1,348,139	941,757	\$ 1,125,513	786,239

## (24) 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 years ended December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Current income taxes	₩ 230,259	338,042	\$ 192,235	282,219
Changes in deferred taxes:				
Temporary differences	(3,100)	(83,994)	(2,588)	(70,123)
Tax loss carryforwards	26,788	524	22,364	437
	₩ 253,947	254,572	\$ 212,011	212,533

(b) Deferred income tax adjusted by temporary differences in retained earnings for the years ended December 31, 2003 and 2002 are as follows:

Description	In Millions of Korean Won			
	Temporary difference		Permanent difference	
	2003	2002	2003	2002
Addition	₩ 1,198,264	-	1,634,692	23,046
Deduction	1,485,397	238,742	1,296,128	668,961
	₩ (287,133)	(238,742)	338,564	(645,915)



# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(c) Effective tax rates for the years ended December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won	
	2003	2002
Earnings before income taxes	₩ 253,947	254,572
Income taxes	630,979	852,316
Effective income tax rate (%)	40.25	29.87

(d) Changes in significant accumulated temporary differences and tax effects for the years ended December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won			
	2003			
	Beginning balance	Increase	Decrease	Ending balance
Deductible temporary differences:				
Securities	₩ 252,422	185,135	5,566	431,991
Impairment loss on securities	278,886	514,251	-	793,137
Unrealized loss on securities	19,897	15,096	-	34,993
Retirement and severance benefits	68,295	25,361	-	93,656
Bad debts	160,954	306,449	-	467,403
Stock compensation costs	2,347	4,977	-	7,324
Restructured loans	8,244	254,600	-	262,844
Allowance for losses on guarantees and acceptances	35,359	32,923	-	68,282
Other	35,296	251,729	11,061	275,964
	861,700	1,590,521	16,627	2,435,594
Taxable temporary differences:				
Securities	25,470	-	3,189	22,281
Unrealized loan on securities	450,866	394,584	-	845,450
Accrued income	219,612	113,540	-	333,152
Group retirement and severance benefits	59,749	29,823	-	89,572
Other	16,326	70,586	2,617	84,295
	772,023	608,533	5,806	1,374,750
Net (*)	89,677	981,988	10,821	1,060,844
Addition/Deduction:				
Unrealized gain from valuation by the equity method (**)	206,689			386,200
Tax effects on subsidiaries (***)	(47,534)			(1,193,691)
Realizable temporary differences	248,832			253,353
Tax effect of cumulative temporary difference	73,903			71,165
Tax effect of cumulative temporary differences in overseas subsidiaries	-			5,745
Donation in excess of deductible limit	-			93
Tax effects of tax loss carryforwards	27,886			1,098
Net deferred tax assets (****)	₩ 101,789			78,101

(\*) ₩1,258,300 million of temporary differences arising from the acquisition of Chohung Bank in August, 2003, is included.

(\*\*) Tax effects on valuation gain under the equity method are not recognized due to uncertainty of realization of deferred income taxes for each subsidiary.

(\*\*\*) Tax effects of ₩(18,566) million in the Company, ₩1,205,483 million in Chohung Bank, ₩7,066 million in Shinhan Card and ₩(292) million in SH&amp;C Life Insurance are not recognized due to uncertainty of realization in the near future or offset to tax loss carryforwards.

(\*\*\*\*) The amount consists of deferred tax asset of ₩78,135 million and deferred tax liability of ₩34 million.

(\*\*\*\*\*) Shinhan Bank has an asset revaluation gain on land amounting to ₩77,436 million as of December 31, 2003. However, the tax effect is not recognized because of uncertainty of its realization in the near future.

## Notes to Consolidated Financial Statements

December 31, 2003 and 2002

	2002			
	Beginning balance	Increase	Decrease	Ending balance
Deductible temporary differences:				
Securities	₩ 199,724	52,699	-	252,422
Impairment loss on securities	162,392	116,494	-	278,886
Unrealized loss securities	19,737	161	-	19,898
Retirement and severance benefits	679	67,616	-	68,295
Bad debt expense	108,674	52,280	-	160,954
Stock compensation expense	1,998	349	-	2,347
Allowance for losses on guarantees and acceptances	15,397	19,962	-	35,359
Restructured loans	11,609	-	3,365	8,244
Other	57,684	5,725	28,113	35,296
	577,894	315,285	31,478	861,701
Taxable temporary differences:				
Securities	17,074	277	12,008	5,343
Unrealized gain on securities	489,255	-	38,388	450,867
Accrued income	333,979	-	114,367	219,612
Group retirement and severance benefits	106	59,643	-	59,749
Other	42,393	26,061	32,001	36,453
	882,807	85,981	196,764	772,024
Net (*)	(304,913)	229,304	(165,286)	89,677
Addition/Deduction				
Tax effects on Jeju Bank (**)	-	-	-	(47,783)
Tax effects on SH&C Life Insurance (**)	-	-	-	249
Unrealized gain from valuation by the equity method (***)	225,795	-	-	206,689
Realizable temporary differences	(79,118)			248,832
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 arising from the acquisition of Jeju Bank and Goodmorning Shinhan Securities amounting to ₩10,884 million and ₩45,143 million, respectively, are included.

(\*\*) Tax effects are not recognized due to uncertainty of realization in the near future.

(\*\*\*) ₩206,689 million of tax effects on valuation gain under the equity method are not recognized due to uncertainty of realization of deferred income taxes for each subsidiary.

(\*\*\*\*) Tax effects of tax loss carryforwards arising from the acquisition of Goodmorning Shinhan Securities amounting to ₩69,136 million is included.

(\*\*\*\*\*) The amount consists of deferred tax asset of ₩102,051 million and deferred tax liability of ₩262 million.

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (25) Earnings Per Share

### (a) Basic earnings per share

Earnings per common share are calculated by dividing net earnings by the weighted average number of shares of common stock outstanding. Earnings per share for the years ended December 31, 2003 and 2002 are computed as follows:

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Net earnings for year	₩ 362,988	602,163	\$ 303,046	502,724
Plus: extraordinary loss (gain)	-	-	-	-
Less: income taxes on extraordinary loss (gain)	-	-	-	-
dividends on preferred stock	83,397	-	69,625	-
Ordinary available for common stock	279,591	602,163	233,421	502,724
Weighted average number of shares outstanding (in million shares)	263	262	263	262
Ordinary income per share in Won and U.S. dollars	₩ 1,063	2,294	0.89	1.92
Net earnings per share in Won and U.S. dollars	₩ 1,063	2,294	0.89	1.92

### (b) Diluted earnings per share

For the year ended December 31, 2003, if convertible preferred stock and stock options exercised, 46,832,967 shares of common stocks would be issued, and if preferred stock converted into common stock on issue date, weighted average number of common shares outstanding is 279,523,704.

Details of diluted ordinary / net earnings per share due to dilutive effect for the year ended December 31, 2003 are as follows:

	In Millions of Korean Won		In Thousands of U.S. Dollars (note 2)	
	2003	2002	2003	2002
Ordinary income available for common stock	₩ 279,591		233,421	
Plus: dividends on preferred stock	6,043		5,045	
Plus: stock compensation costs	-		-	
Diluted ordinary income and net earnings	285,634		238,466	
Weighted average number of common shares outstanding (million shares)	279		279	
Diluted ordinary income per share in Won	₩ 1,022		0.85	
Diluted net earnings per share in Won	₩ 1,022		0.85	

Diluted income and earnings per share for the year ended December 31, 2002 are not computed because stock options have no dilutive effect.

### (c) Securities applicable to common shares

	Convertible (exercisable) period	Number of shares to be issued
Preferred convertible shares	August 19, 2004 ~ August 18, 2007	44,720,603
Stock options	May 22, 2004 ~ May 22, 2008	964,119
	May 15, 2005 ~ June 15, 2009	1,148,245
		46,832,967

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(d) Ordinary and net earnings per share for the quarters ended in 2003 are as follows:

	Quarter ended			
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
Basic ordinary income and net earnings per share in Won	₩ 215	175	492	181
Diluted ordinary income and net earnings per share in Won	215	175	464	168

## (26) Dividends

(a) Dividends for the years ended December 31, 2003 and 2002 are calculated as follow:

	2003		2002	
	Common shares	Preferred shares	Total	Common shares
Total number of share issued and outstanding (shares)	294,401,300	97,304,564	391,705,864	292,361,125
Shares excluded (shares) (*)	(29,873,359)	-	(29,873,359)	(29,873,674)
Face value per share in Won	264,527,941	97,304,564	361,832,505	262,487,451
Dividend per share in Won (**)	₩ 5,000	5,000	5,000	5,000
Dividend rate per share (%)	₩ 600	857	669	600
Dividend rate per share (%)	12	17.14	13.38	12
Dividends in Won	₩ 158,717	83,397	242,114	157,492

(\*) Dividends on shares held by subsidiaries as of December 31, 2003 and 2002 are not paid.

(\*\*) Dividends per share on preferred stock are weighted average amount and details are as follows:

	Number of shares	Dividend per share in Won	Dividend rate per share (%)	Dividends
Redeemable preferred stock:				
Series 1	9,316,792	270	5.40	2,518
Series 2	9,316,792	270	5.40	2,518
Series 3	9,316,792	270	5.40	2,518
Series 4	9,316,792	270	5.40	2,518
Series 5	9,316,793	270	5.40	2,518
Series 6	3,500,000	10,500	210.0	36,750
Series 7	2,433,334	11,190	223.8	27,229
Series 8	66,666	11,790	235.8	786
	52,583,961			77,355
Redeemable convertible preferred stock:				
Series 9	44,720,603	135	2.70	6,042
	97,304,564			83,397

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(b) Payout ratios for the years ended December 31, 2003 and 2002 are calculated as follows:

	2003		2002	
	Common shares	Preferred shares	Total	Common shares
Dividends in Won	₩ 158,717	83,397	242,114	157,492
Net earnings in Won (*)	₩ 278,830	83,397	362,227	603,931
Payout ratios (%)	56.92		66.84	26.08

(\*) Ordinary income available for common stock based on non-consolidated financial statements is considered

(c) Dividend yields on common shares for the years ended December 31, 2003 and 2002 are calculated as follows:

	2003	2002
Dividends per share in Won	₩ 600	600
Stock price in Won at the balance sheet date	18,513	13,813
Dividends yields (%)	3.24	4.34

## (27) Statements of Cash Flows

(a) Cash and cash equivalents as of December 31, 2003 and 2002 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 for the years ended December 31, 2003 and 2002 are as follows:

	In Millions of Korean Won	
	2003	2002
Acquisition of shares in subsidiaries through stock exchange	₩ 929,559	-
Decrease in stockholders' equity due to acquisition of treasury stock by subsidiaries	-	62,939
Decrease in stockholders' equity due to merger between subsidiaries	-	40,110
Changes in unrealized gain on available-for-sale securities	69,698	125,161
Reclassification of trading securities to available-for-sale securities	-	214,006
Reclassification of loans to loans convertible into equity securities	38,545	73,905
Reclassification of loans to available-for-sale securities	127,907	192,756
Changes in consolidated retained earnings	10,848	510
Reclassification of advance payments to financing leases	250,847	7,227
Reclassification of advance payments to operating lease assets	12,455	6,003

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (28) Derivatives

(a) Details of unsettled derivative instruments as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won

		2003		
		Purpose of transactions		
		Trading	Hedge	Total
Currency related	Forwards	₩ 14,840,784	351,365	15,192,149
	Futures	47,550	-	47,550
	Swap	3,644,048	18,039	3,662,087
	Call options	271,465	-	271,465
	Put options	265,730	-	265,730
			19,069,577	369,404
Interest rate related	Futures	212,670	7,785	220,455
	Call options	70,000	-	70,000
	Put options	75,700	-	75,700
	Swap	12,535,881	2,835,600	15,371,481
	Government bonds	50,189	-	50,189
			12,944,440	2,843,385
Stock price Index related	Futures	220,022	-	220,022
	Stock swap	2	-	2
	Call options	981,590	111,231	1,092,821
	Put options	1,047,973	-	1,047,973
	ELS	21	-	21
	Warrants	367	-	367
			2,249,975	111,231
		₩ 34,263,992	3,324,020	37,588,012
		2002		
		Purpose of transactions		
		Trading	Hedge	Total
Currency related	Forwards	₩ 3,732,439	-	3,732,439
	Swap	645,577	24,080	669,657
	Call options	18,006	-	18,006
	Put options	24,008	-	24,008
			4,420,030	24,080
Interest rate related	Futures	378,499	4,308	382,807
	Options	20,000	-	20,000
	Swap	4,775,747	1,647,336	6,423,083
			5,174,246	1,651,644
Stock price Index related	Futures	29,176	63,805	92,981
	Options	37,868	-	37,868
			67,044	63,805
		₩ 9,661,320	1,739,529	11,400,849

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(b) Valuation on trading and hedging derivative instruments as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won

2003					
	Valuation gain (losses)			Fair value	
	Trading	Hedge	Total	Assets	Liabilities
Currency related:					
Forwards	₩ (4,905)	1,826	(3,079)	146,208	157,678
Swap	(3,785)	(1,769)	(5,554)	63,834	51,769
Call options	924	-	924	5,128	-
Put options	(1,134)	-	(1,134)	-	5,515
	(8,900)	57	(8,843)	215,170	214,962
Interest rate related:					
Call options	763	-	763	1,225	-
Put options	(744)	-	(744)	-	1,176
Swap	(22,526)	(18,583)	(41,109)	166,253	138,678
Government bonds	57	-	57	-	6
	(22,450)	(18,583)	(41,033)	167,478	139,860
Stock price Index related:					
Futures	(248)	-	(248)	-	10,542
Stock swap	125	-	125	-	265
Call options	59,271	10,667	69,938	106,119	-
Put options	(63,731)	-	(63,731)	-	105,813
ELS	8,739	-	8,739	214	-
Warrants	(812)	-	(812)	29,855	-
	3,344	10,667	14,011	136,188	116,620
	₩ (28,006)	(7,859)	(35,865)	518,836	471,442
2002					
	Valuation gain (losses)			Fair value	
	Trading	Hedge	Total	Assets	Liabilities
Currency related:					
Forwards	₩ 21,184	-	21,184	51,731	32,412
Swap	(2,457)	(4,417)	(6,874)	12,763	19,818
Call options	558	-	558	439	-
Put options	(775)	-	(775)	-	743
	18,510	(4,417)	14,093	64,933	52,973
Interest rate related:					
Options	12	-	12	146	146
Swap	(2,711)	11,797	9,086	54,915	57,538
	(2,699)	11,797	9,098	55,061	57,684
Stock price Index related:					
Futures	(1,233)	-	(1,233)	449	1,648
Options	1,407	-	1,407	-	372
	184	-	184	449	2,020
	₩ 15,995	7,380	23,375	120,443	112,677

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (29) Commitments and Contingencies

### (a) Guarantees and acceptances

Guarantees and acceptances and commitments as of December 31, 2003 are summarized as follows:

	In Millions of Korean Won
Guarantees and acceptances outstanding	₩ 2,275,222
Contingent guarantees and acceptances	3,162,571
Commitments	3,663,764
Endorsed bills	7,045,629

(b) The Company and its subsidiaries pledged its 10 blank notes, 2 blank checks and 5 notes amounting to ₩1,742 million to financial institutions as collateral for borrowings.

### (c) Litigation

As of December 31, 2003, the Company and its subsidiaries has 180 pending lawsuits as a defendant (total amount: ₩932,497 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, 2003, 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 ₩871,788 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 sold under repurchase agreements to Korea Asset Management Corporation

As of December 31, 2003, the Company and its subsidiaries have outstanding loans, which were transferred to the Korea Asset Management Corporation (KAMCO) and are subject to be repurchased when certain conditions are met, amounting to ₩95,689 million. Related to these outstanding loans, those subsidiaries established ₩23,468 million of an allowance for loan losses as of December 31, 2003, however, additional gains or losses will be recorded upon repurchase of or settlement for the loans by KAMCO in accordance with the recourse provisions.

(f) Securitization

Prior to the year ended December 31, 2002, Shinhan and Chohung Bank sold loans through issuing asset backed securities and have provided ₩174,160 million of reselling rights for the purpose of credit enhancement and ₩40,000 million of guarantees as of December 31, 2003 in relation to those sales. In accordance with this securitization plans, additional losses may be recorded upon exercising reselling rights.

(g) Subsidy for Trust accounts

As of December 31, 2003, Shinhan, Chohung and Jeju Bank guarantees repayment of principal and, in certain cases, minimum interest earnings on trust account assets in total amount of ₩3,128 billion. Additional losses will be recorded based upon the results of the future operations of these guaranteed trust accounts.



# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (h) Loans related to Financially Troubled Companies

As of December 31, 2003, Shinhan Bank and Chohung Bank are holding loans (including guarantees and acceptances) provided to and securities issued by SK Networks Co., Ltd. (formerly SK Global Co., Ltd.), amounting to ₩396,058 million and ₩303,011 million, respectively. As regards to those loans and securities, Shinhan Bank provides ₩110,982 million of allowance for loan losses and recorded ₩1,178 million of impairment loss on available-for-sale securities, and Chohung Bank provides ₩93,784 million of allowance for loan losses, as of December 31, 2003. Actual losses on those loans and securities may differ materially from the management's assessments and the accompanying consolidated financial statements do not reflect the impact of the uncertainty on the financial position of the Company and its subsidiaries.

As of December 31, 2003, Shinhan Bank, Chohung Bank and Goodmorning Shinhan Securities Co., Ltd. are holding loans provided to and securities issued by LG Card Co., Ltd., which has been controlled by creditor banks due to its liquidity crisis, amounting to ₩189.3 billion, ₩172.9 billion and ₩22.6 billion, respectively. Actual losses on those loans and securities may differ materially from the management's assessments and the accompanying consolidated financial statements do not reflect the impact of the uncertainty on the financial position of the Company and its subsidiaries. Additionally, Shinhan Bank and Chohung Bank have agreed with creditor banks to provide additional capital, amounting to ₩81.3 billion and ₩73.4 billion, respectively.

## (30) Significant Transactions among Consolidated Companies

### (a) Significant transactions

Significant transactions among consolidated companies for the years ended December 31, 2003 and 2002 are as follows:

			In Millions of Korean Won	
Revenue earned	Expense incurred	Account	2003	2002
Controlling company and subsidiaries included in consolidation:				
The Company	Shinhan Bank	Interest income	₩ 4,340	5,581
"	Goodmorning Shinhan Securities	Interest income	8,099	2,158
"	Shinhan Card	Interest income	54,006	925
"	Shinhan Capital	Interest income	29,714	15,006
"	Jeju Bank	Interest income	1,628	1,000
Shinhan Bank	Chohung Bank	Gain on derivatives	1,838	-
"	Goodmorning Shinhan Securities	Interest income	3,121	1,414
"	"	Rental income	29	21
Shinhan Bank	Shinhan Card	Interest income	4,445	786
"	"	Fees and commission income	57,941	55,271
"	"	Rental income	859	468
Shinhan Bank	Shinhan Capital	Interest income	3,136	6,055
"	"	Gain on derivatives	361	64
"	"	Rental income	309	271
"	Jeju Bank	Interest income	237	258
"	SH&C Life Insurance	Fees and commission income	2,723	-
"	Shinhan Bank (Trust)	Trust management income	51,695	82,270
"	Shinhan Finance	Interest income	3,136	6,055
"	"	Gain on derivatives	1,261	-
Shinhan Bank (Trust)	Shinhan Bank	Due from banking account	2,022	-
Shinhan Finance	Shinhan Bank	Interest income	827	2,224
"	"	Gain on derivatives	5	-

(Continued)

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

Revenue earned	Expense incurred	Account	2003	2002
Chohung Bank	Shinhan Bank	Interest income	996	-
"	"	Gain on derivatives	139	-
"	Goodmorning Shinhan Securities	Interest income	26	-
"	SH&C Life Insurance	Fees and commission income	744	-
"	Chohung Bank (Trust)	Trust management income	8,814	-
"	"	Interest income	4,163	-
"	Chohung ITMC	Interest income	947	-
"	Chohung Deutschland	Interest income	3,000	-
Chohung Bank (Trust)	Chohung Bank	Due from banking account	2,554	-
Chohung Finance	Chohung Bank	Interest income	161	-
Goodmorning	Shinhan Bank	Interest income	1,391	257
Shinhan Securities	"	Fees and commission income	466	-
"	Chohung Bank	Interest income	136	-
"	Shinhan Card	Rental income	242	5
"	Shinhan BNPP ITMC	Rental income	201	-
Good Morning USA	Goodmorning Shinhan Securities	Fees and commission income	4,113	-
Good Morning Europe	"	Fees and commission income	2,230	-
Shinhan Card	Shinhan Bank	Interest income	7	491
"	Shinhan Bank	Fees and commission income	29	-
"	Goodmorning Shinhan Securities	Interest income	-	106
"	Jeju Bank	Fees and commission income	81	-
"	SH&C Life Insurance	Fees and commission income	338	-
Shinhan Capital	Shinhan Bank	Interest income	437	150
"	"	Gain on derivatives	1,111	2,468
"	Chohung Bank	Interest income	690	-
Shinhan BNPP ITMC	Shinhan Bank	Interest income	393	380
"	"	Fees and commission income	-	41
Jeju Bank	Shinhan Bank	Interest income	99	83
"	Jeju Bank (Trust)	Trust management income	927	1,322
Jeju Bank (Trust)	Jeju Bank	Due from banking account	296	-
SH&C Life Insurance	Shinhan Bank	Interest income	498	180
"	"	Insurance income	514	-
			267,475	185,310
Subsidiaries accounted for by the equity method:				
Shinhan Bank	Shinhan Macquarie	Rental income	-	100
"	Shinhan Data System	Rental income	43	-
e-Shinhan	Shinhan Bank	Interest income	132	-
"	Shinhan Card	Fees and commission income	22	-
"	The Company	Fees and commission income	62	-
Shinhan Macquarie	Shinhan Bank	Interest income	-	15

(Continued)

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

Revenue earned	Expense incurred	Account	2003	2002
Shinhan Credit	Shinhan Bank	Fees and commission income	2,614	772
Information	"	Interest income	35	-
"	Goodmorning Shinhan Securities	Fees and commission income	31	-
"	Shinhan Card	Fees and commission income	8,646	2,289
"	Shinhan Capital	Fees and commission income	61	-
"	Jeju Bank	Fees and commission income	623	42
Shinhan Data System	Shinhan Bank	Interest income	69	64
"	"	Other income	3,526	3,162
			₩ 15,864	6,444
			₩ 283,339	191,754

## (b) Account balances

Significant account balances among consolidated companies as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won

Creditor	Debtor	Account	2003	2002
Controlling company and subsidiaries included in consolidation:				
The Company	Shinhan Bank	Bank deposits	₩ 5,327	10,613
"	"	Loans	50,000	50,000
"	"	Other assets	14,644	9,196
"	Goodmorning Shinhan Securities	Loans	130,000	130,000
"	"	Other assets	134	134
"	Shinhan Card	Loans	1,100,000	200,000
"	"	Other assets	6,541	925
"	Shinhan Capital	Loans	644,905	369,127
"	"	Other assets	5,066	3,155
The Company	Jeju Bank	Loans	20,000	20,000
"	"	Other assets	186	186
Shinhan Bank	Chohung Bank	Securities	132,708	-
"	"	Other assets	797	-
"	Goodmorning Shinhan Securities	Loans	30,000	70,000
"	"	Other assets	4,418	1,577
"	Shinhan Card	Loans	28,500	7,500
"	"	Other assets	87	-
"	Shinhan Capital	Loans	75,933	37,959
"	"	Other assets	233	133
"	Jeju Bank	Loans	3,140	3,140
"	"	Other assets	561	-
"	SH&C Life Insurance	Other assets	1,455	-
"	Shinhan Bank (Trust)	Other assets	100,194	120,927
"	Shinhan Finance	Due from bank	16,965	7,995
"	"	Loans	280,287	316,332
"	"	Other assets	1,261	20,407
Shinhan Bank (Trust)	Shinhan Bank	Due from banking accounts	224,387	82,179

(Continued)

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

Creditor	Debtor	Account	2003	2002
Shinhan Finance	Shinhan Bank	Loans	230,636	277,907
"	"	Other assets	5	-
Chohung Bank	Shinhan Bank	Securities	96,515	-
"	"	Other assets	4,324	-
"	Shinhan Capital	Loans	392	-
"	Chohung Bank (Trust)	Other assets	104,227	-
"	Chohung Finance	Due from bank	651	-
"	"	Loans	61,088	-
"	Chohung America	Due from bank	1,067	-
"	"	Loans	17,967	-
"	Chohung Deutschland	Due from bank	1,197	-
"	"	Loans	107,576	-
Chohung Bank (Trust)	Chohung Bank	Due from banking accounts	31,893	-
Chohung ITMC	Chohung Bank	Due from bank	50,397	-
"	"	Other assets	1,199	-
Shinhan Finance	Chohung Bank	Due from bank	10,696	-
"	"	Loans	80,958	-
Chohung Deutschland	Chohung Bank	Loans	105,539	-
Goodmorning Shinhan	Shinhan Bank	Due from bank	53,064	11,908
Securities	"	Other assets	6,791	5,778
"	Chohung Bank	Due from bank	2,011	-
"	"	Other assets	8	-
Good Morning USA	Goodmorning Shinhan Securities	Other assets	1,117	-
Good Morning Europe	Goodmorning Shinhan Securities	Other assets	908	-
Shinhan Card	The Company	Other assets	906	-
"	Shinhan Bank	Due from bank	102	-
"	"	Other assets	1,189	387
"	Goodmorning Shinhan Securities	Other assets	4,635	3,289
"	SH&C Life Insurance	Other assets	338	-
Shinhan Capital	The Company	Other assets	773	-
"	Shinhan Bank	Short-term financial instruments	58,231	16,666
"	"	Other assets	108	-
"	"	Currency swap	1,941	2,000
Shinhan Capital	Shinhan Bank	Other assets	292	418
"	Chohung Bank	Securities	6,714	-
"	"	Other assets	173	-
Shinhan BNPP ITMC	Shinhan Bank	Cash and due from bank	4,436	8,985
"	"	Other assets	105	-
"	Goodmorning Shinhan Securities	Other assets	3,496	850
"	Shinhan Bank	Loans	-	4,922
"	"	Other assets	561	-
Jeju Bank	Jeju Bank (Trust)	Other assets	798	-
Jeju Bank (Trust)	Jeju Bank	Due from banking accounts	4,382	36,262
SH&C Life Insurance	Shinhan Bank	Cash and cash equivalents	33,563	12,327
"	"	Other assets	46	-
			<b>3,970,744</b>	<b>1,843,184</b>

(Continued)

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

Creditor	Debtor	Account	2003	2002
Subsidiaries accounted for by the equity method:				
The Company	Sinhan Credit Information	Other assets	38	-
e-Shinhan	Shinhan Bank	Cash and cash equivalents	2,158	3,718
Shinhan Macquarie	Shinhan Bank	Cash and cash equivalents	1,187	168
Shinhan Credit Information	Shinhan Bank	Cash and cash equivalents	1,686	1,395
"	"	Other assets	1,146	-
"	Shinhan Card	Other assets	892	-
"	Jeju Bank	Other assets	101	-
"	"	Other assets	60	-
Shinhan Data System	Shinhan Bank	Due from bank	2,404	2,175
"	"	Other assets	185	-
Chohung Vina	Chohung Bank	Loans	16,769	-
			26,626	7,456
			₩ 3,997,370	1,850,640

## (c) Guarantees and acceptances

Guarantees and acceptances as of December 31, 2003 are as follows:

In Millions of Korean Won			
Guarantor	Guarantee	Guarantees and acceptances provided on	Amount of guarantees and acceptances
The Company	Goodmorning Shinhan Securities	Lease guarantee deposits (*)	₩ 50,000
Shinhan Bank	Shinhan Capital	Letter of credit	30,547
	Shinhan Finance	Loans	11,025
Chohung Bank	Chohung Finance	Letter of credit	240
Goodmorning Shinhan Securities	Good Morning USA	Guarantees on operation	14,374
			₩ 106,186

(\*) Interest expense incurred on lease contract is separately guaranteed.

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (31) Condensed Financial Statements of Consolidated Companies

### (a) Balance sheets

Condensed balance sheets of the Company and its subsidiaries as of December 31, 2003 and 2002 are as follows:

In Millions of Korean Won

Subsidiaries	2003		
	Total assets	Total liabilities	Total stockholders' equity
Controlling company and subsidiaries included in consolidation:			
The Company	₩ 8,294,430	2,176,875	6,117,555
Shinhan Bank	70,066,189	66,550,821	3,515,368
Shinhan Bank (Trust)	1,768,128	1,768,128	-
Shinhan Finance	524,180	459,598	64,582
Chohung Bank	59,227,864	57,289,224	1,938,640
Chohung Bank (Trust)	1,345,158	1,345,158	-
Chohung ITMC	69,636	1,495	68,141
Chohung Finance	144,708	109,947	34,761
Chohung America	386,498	322,274	64,224
Chohung Deutschland	204,071	171,002	33,069
Goodmorning Shinhan Securities	2,928,017	2,290,044	637,973
Good Morning Europe	7,364	60	7,304
Good Morning USA	5,981	198	5,783
Shinhan Card	1,778,191	1,620,555	157,636
Shinhan Capital	1,153,907	1,051,683	102,224
Shinhan BNPP ITMC	47,461	2,489	44,972
Jeju Bank	1,785,961	1,682,328	103,633
Jeju Bank (Trust)	14,958	14,958	-
SH&C Life Insurance	114,012	87,970	26,042
	149,866,714	136,944,807	12,921,907
Subsidiaries accounted for by the equity method:			
e-Shinhan	3,924	225	3,699
Shinhan Macquarie	11,255	7,642	3,613
Shinhan Credit Information	13,588	9,726	3,862
Shinhan Data System	2,697	532	2,165
Chohung Vina	149,347	126,849	22,498
	180,811	144,974	35,837
	₩ 150,047,525	137,089,781	12,957,744

(Continued)

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

Subsidiaries	2002		
	Total assets	Total liabilities	Total stockholders' equity
Controlling company and subsidiaries included in consolidation:			
The Company	₩ 4,784,979	774,759	4,010,220
Shinhan Bank	58,889,402	56,028,924	2,860,478
Shinhan Bank (Trust)	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 Europe	3,942	56	3,886
Good Morning 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 BNPP ITMC	47,081	1,918	45,163
Jeju Bank	1,800,648	1,699,577	101,071
Jeju Bank (Trust)	16,045	16,045	-
SH&C Life Insurance	29,738	478	29,260
	72,841,326	64,797,815	8,043,511
Subsidiaries accounted for by the equity method:			
e-Shinhan	5,758	475	5,283
Shinhan Macquarie	3,503	2,675	828
Shinhan Credit Information	3,931	810	3,121
Shinhan System	2,108	229	1,879
	15,300	4,189	11,111
	₩ 72,856,626	64,802,004	8,054,622

# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

## (b) Statements of earnings

Condensed statements of earnings of the Company and its subsidiaries for the years ended December 31, 2003 and 2002 are as follows:

In Millions of Korean Won					
Year ended December 31, 2003					
Subsidiaries	Operating revenue	Operating expense	Operating income (loss)	Ordinary income (loss)	Net earnings (losses)
Controlling company and subsidiaries included in consolidation:					
The Company	₩ 486,428	121,480	364,948	362,227	362,227
Shinhan Bank	4,851,995	4,180,640	671,355	685,756	476,023
Shinhan Bank (Trust)	118,533	114,349	4,184	-	-
Shinhan Finance	16,868	19,440	(2,572)	(2,114)	(2,114)
Chohung Bank	5,425,189	6,107,050	(681,861)	(915,775)	(965,951)
Chohung Bank (Trust)	128,692	128,758	(66)	-	-
Chohung ITMC	13,630	6,104	7,526	6,274	4,411
Chohung Finance	10,296	21,796	(11,500)	(11,392)	(11,392)
Chohung America	22,313	18,615	3,698	3,937	2,280
Chohung Deutschland	12,370	13,959	(1,589)	(1,362)	(1,130)
Goodmorning Shinhan Securities	649,701	619,693	30,008	68,616	35,813
Good Morning Europe	2,546	2,723	(177)	(177)	(177)
Good Morning USA	2,782	4,129	(1,347)	(2,044)	(1,728)
Shinhan Card	431,863	506,606	(74,743)	(90,063)	(89,824)
Shinhan Capital	145,355	116,084	29,271	22,565	15,755
Shinhan BNPP ITMC	12,728	10,604	2,124	2,629	1,834
Jeju Bank	137,162	137,005	157	727	4,751
Jeju Bank (Trust)	1,703	1,703	-	-	-
SH&C Life Insurance	44,986	47,478	(2,492)	(3,369)	(3,369)
	12,515,140	12,178,216	336,924	126,435	(172,591)
Subsidiaries accounted for by the equity method:					
e-Shinhan	1,714	3,361	(1,647)	(1,583)	(1,583)
Shinhan Macquarie	11,454	7,816	3,638	3,804	2,559
Shinhan Credit Information	25,557	24,309	1,248	1,096	741
Shinhan Data System	4,264	4,143	121	204	163
Chohung Vina	8,254	5,645	2,609	3,762	3,762
	51,243	45,274	5,969	7,283	5,642
	₩ 12,566,383	12,223,490	343,893	133,718	(166,949)



# Notes to Consolidated Financial Statements

December 31, 2003 and 2002

In Millions of Korean Won

Year ended December 31, 2002					
Subsidiaries	Operating revenue	Operating expense	Operating income (loss)	Ordinary income (loss)	Net earnings (losses)
Controlling company and subsidiaries included in consolidation:					
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)	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
Good Morning Europe (*)	703	1,544	(841)	(849)	(849)
Good Morning 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 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)	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
Subsidiaries accounted for by the equity method:					
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
Shinhan System	2,905	2,795	110	145	145
	13,697	14,977	(1,280)	(1,529)	(547)
	₩ 6,668,276	5,081,777	1,586,499	1,495,527	1,264,053

(\*) Operating results from April 1, 2002 to December 31, 2002 are reflected.

## (32) Financial Performance

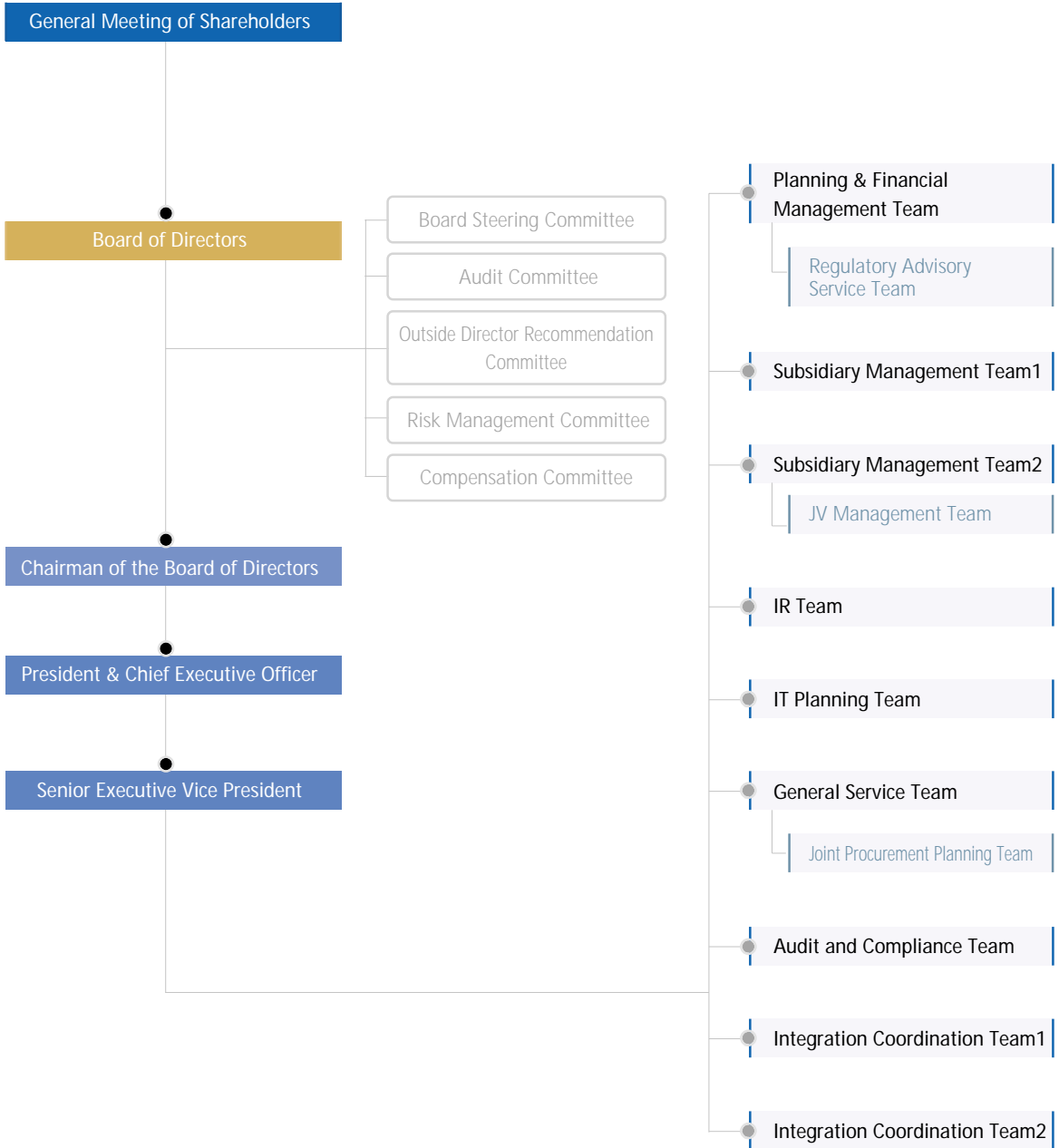
Financial performance for the quarters ended December 31, 2003 and 2002 are as follows:

	Quarter ended December 31, 2003	Quarter ended December 31, 2002 (Unaudited)
Operating revenue	₩ 3,078,037	1,536,457
Operating income	401,326	270,996
Net earnings	104,756	167,605
Net earnings per share in Won	181	638

## (33) Economic Environment

In common with other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement structural reforms to historical business practices including corporate governance. The Company may be either directly or indirectly affected by these 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 environment on the financial position and results of operations of the Company. Actual results may differ materially from management's current assessment.

# Organization Chart (Shinhan Financial Group)



# Directory

## SHINHAN FINANCIAL GROUP

### Head Office

120, 2-Ga, Taepyung-Ro, Jung-Gu, Seoul, 100-102, Korea  
 • Tel: 82-2-6360-3000 • Fax: 82-2-777-1883  
 • <http://www.shinhangroup.com>

## SHINHAN BANK

### Head Office

120, 2-Ga, Taepyeong-Ro, Jung-Gu, Seoul, 100-12, Korea  
 • Tel: + 82-2-756-0505 • Fax: + 82-2-774-7013  
 • <http://www.shinhan.com>

### Overseas Network

#### U.S.A.

##### New York Branch

32nd Fl., 800 3rd Ave, New York, NY 10022, U.S.A..  
 • Tel: + 1-212-371-8000 • Fax: + 1-212-371-8875  
 • SWIFT: SHBKUS33  
 • Suk-Jin Koh (General Manager)

#### United Kingdom

##### London Branch

3rd Fl., 51/55 Gresham St., London EC2V 7HB, United Kingdom  
 • Tel: + 44-207-600-0606 • Fax: + 44-207-600-1826  
 • Han-Eung Lee (General Manager)

#### Japan

##### Tokyo Branch

9th Fl., Shiroyama JT Mori Bldg., 3-1, Toranomom, 4-Chome, Minato-Ku, Tokyo, Japan  
 • Tel: + 81- 3-3578-9321 • Fax: + 81- 3-3578-9355  
 • SWIFT: SHBKJPJXTOK  
 • Sang-Bok Lee (General Manager)

##### Osaka Branch

4-21, Minami-Semba, 4-Chome, Chuo-Ku, Osaka, Japan  
 • Tel: + 81-6-6243-2341 • Fax: + 81-6-6243-2346  
 • SWIFT: SHBKJPJPJX  
 • Young-Jin Lim (General Manager)

##### Fukuoka Branch

8th Fl., Tenjin Mitsui Bldg. 14-13, Tenjin, 2-Chome, Chuo-Ku, Fukuoka, Japan  
 • Tel: + 81-9-2724-7004 • Fax: + 81-9-2724-7003  
 • SWIFT: SHBKJPJPJX  
 • Il-Jo Kim (General Manager)

#### China

##### Shanghai Branch

22nd Fl., HSBC Tower, 101, YIN Cheng East Road, Pudong New Area, Shanghai  
 • Tel: + 86-21-6841-2100 • Fax: + 86-21-6841-2108  
 • SWIFT: SHBKCN5H  
 • Kwang-Ho Yu (General Manager)

##### Tianjin Branch

Room 507, Tianjin Int'l Bldg., 75, Nanjing Road, Tianjin 300050, China  
 • Tel: + 86-22-2339-3002 • Fax: + 86-22-2339-3009  
 • SWIFT: SHBKCNBX  
 • Man-Ki Hong (General Manager)

#### Hong Kong

##### Shinhan Finance Ltd.

Room 3401, Gloucester Tower, The Landmark, 11 Pedder St., Central, Hong Kong  
 • Tel: + 852-2877-3121 • Fax: + 852-2877-2460  
 • SWIFT: SHBKHKHX  
 • Hee-Seung Lee (Managing Director)

#### Vietnam

##### Ho Chi Minh City Branch

41, Nguyen Thi Minh Khai St., District 1, Ho Chi Minh City, Vietnam  
 • Tel: + 84-8-823-0012 • Fax: + 84-8-829-9386  
 • SWIFT: SHBKVN5X  
 • Young-Oh Seol (General Manager)

**CHOHUNG BANK****Head Office**

4, 1-Ga, Namdaemun-Ro, Jung-Gu, Seoul 100-757, Korea  
 C.P.O. Box 2997, Seoul, 100-629, Korea  
 • Tel: + 82-2-2010-2114 • Fax: + 82-2-3700-4971  
 • <http://www.chb.co.kr>

**Overseas Network****Asia**

## Tokyo Branch

8-6, Nishi-Shimbashi, 2-Chome, Minato-Ku Tokyo 105, Japan  
 • Phone: + 81-3-3595-1341/5 • Fax: + 81-3-3595-1349  
 • Telex: J22555 CHOBANK • SWIFT: CHOH JP JT  
 • <http://www.chbtk.co.jp>  
 • E-Mail: [korea@chbtk.co.jp](mailto:korea@chbtk.co.jp)  
 • Hyeong Jin KIM (General Manager)

## Singapore Branch

50 Raffles Place, #40-02/03, Singapore, Land Tower  
 Singapore, 048623  
 • Phone: + 65-6536-1144 • Fax: + 65-6533-1244  
 • Telex: 25049 CHOBANK • SWIFT: CHOH SG SG  
 • E-Mail: [chohsgem@singnet.com.sg](mailto:chohsgem@singnet.com.sg)  
 • Heong Min CHOI (General Manager)

## Tianjin Branch

Room 1901/6, Tianjin International Building  
 75 Nanjing Road, Tianjin, China  
 • Phone: + 86-22-2339-4070, 4077 • Fax: + 86-22-2339,4043  
 • Telex: 234190 CHBTJ • SWIFT: CHOH CN BT  
 • E-Mail: [chbchina@chb.co.kr](mailto:chbchina@chb.co.kr)  
 • Yong-Kil KIM (General Manager)

## Mumbai Branch

42, Jolly Maker Chambers II, 4th Fl., 225, Nariman Point  
 Mumbai, 400-021, India  
 • Phone: + 91-22-2282,2200 • Fax: + 91-22-2282,4277  
 • SWIFT: CHOH IN BB  
 • E-Mail: [chbmb@vsnl.com](mailto:chbmb@vsnl.com)  
 • Seong-Ho KUK (General Manager)

## Chohung Finance Ltd.

Suites 3507-3580, 35/F, Two Exchange Square  
 8 Connaught Place, Central, Hong Kong  
 • Phone: + 852-2523-6143,4 • Fax: + 852-2810-1426,1928  
 • Telex: 63016 CHOBK HX • SWIFT: CHOH HK HH  
 • E-Mail: [hongkong@chb.co.kr](mailto:hongkong@chb.co.kr)  
 • Yung-Pyo JUN (Managing Director)

**Chohung Vina Bank**

## Head Office

3-5 Ho Tung Mau Street, District 1,  
 Ho Chi Minh City, Vietnam  
 • Phone: + 84-8-829-1575 • Fax: + 84-8-821-3923  
 • Telex: 813123 FVBANKVT • SWIFT: FIRV VN VN  
 • E-Mail: [hcmc.fvb@hcm.vnn.vn](mailto:hcmc.fvb@hcm.vnn.vn)  
 • Sung-Ho NOH (General Director)

**Chohung Vina Bank**

## Hanoi Branch

2nd Fl., Dae Ha Business Center,  
 360 Kim Ma St., Ba Dinh Distrct, Hanoi, Vietnam  
 • Phone: + 84-8-831-5205 • Fax: + 84-4-831-5134

**North America**

## New York Branch

320 Park Avenue, 27th Fl., New York,  
 NY, 10022-6815, U.S.A.  
 • Phone: + 1-212-935-3500 • Fax: + 1-212-355-2231/3360  
 • Telex: 662314/5 CHBK UW • SWIFT: CHOH US 33  
 • <http://www.chbglobal.com>  
 • Nam-Soo HEO (General Manager)

**CHB America Bank**

## Head Office &amp; Manhattan Branch

241 Fifth Avenue, New York, NY, 10016, U.S.A.  
 • Phone: + 1-212-679-7900 • Fax: + 1-212-447-7477  
 • Telex: 6730116 CHBONY • SWIFT: CCHO US 6L  
 • E-Mail: [chbnymain@aol.com](mailto:chbnymain@aol.com)  
 • Chang Eul JUN (President & CEO)

**CHB America Bank**

## Flushing Branch

136-68, Roosevelt Avenue, Flushing, NY 11354, U.S.A.

- Phone: + 1-718-939-9595
- Fax: + 1-718-939-3229, 886-9157
- Telex: 6732491 CHBNFL • SWIF: CCHO US 6L
- E-Mail: chbnyflu@aol.com
- Mi Hwa KANG (General Manager)

**CHB America Bank**

## Olympic Branch

3000 West Olympic Boulevard, Los Angeles, CA 90006, U.S.A.

- Phone: + 1-213-380-8300 Fax: + 1-213-386-7208
- Telex: 188486 CCHB • SWIFT: CCHO US 6L
- E-Mail: cchbla@cchbla.com
- Soo-Hwan CHO (General Manager)

**Europe**

## London Branch

1 Minster Court, Mincing Lane,  
London EC3R 7AA, United Kingdom

- Phone: + 44-20-7623-7791 • Fax: + 44-20-7648-1421
- Telex: 8951125 CHOBNK G • SWIFT: CHOH GB 2L
- E-Mail: mail@chohungbank.co.uk
- Jung Kee MIN (General Manager)

## Chohung Bank (Deutschland) GmbH

MesseTurm, Friedrich-Ebert-Anlage 49  
60327 Frankfurt Am Main, Germany

- Phone: + 49-69-975-7130 • Fax: + 49-69-741-0506
- Telex: 410181 CHOHFMD • SWIFT: CHOH DE FF
- E-Mail: chb@euko.de
- Yong Jin YOON (Managing Director)
- Ernst-Direter Kircher (Managing Director)

**GOODMORNING SHINHAN SECURITIES Co., Ltd.****Head Office**

23-2, Yoido-Dong, Youngdungpo-Gu, Seoul, 150-712, Korea

- Tel: + 82-2-3772,2025 • Fax: + 82-2-761-2802
- <http://www.gmsh.co.kr>

**Overseas Network****United Kingdom**

Good Morning Securities Europe Limited

- 7th Fl., 52 Cornhill, London, EC3V 3PD
- Tel: + 44-20-7283-4900 • Fax: + 44-20-7238-5678

**U.S.A.**

Good Morning Shinhan Securities USA Inc.

- 1325 6th Avenue, #702, New York, NY, 10019, U.S.A.
- Tel: + 1-212-397-4000 • Fax: + 1-212-397-0031

# Share and Shareholder Information

## Number of Shares Issued

Type	No. of shares	Par Value (KRW)
Common stock	294,401,300	1,472.0 billion
Redeemable preferred stock	52,583,961	262.9 billion
Convertible redeemable preferred stock	44,720,603	223.6 billion
Total	391,705,864	1,958.5 billion

## Share Ownership

### Common Stocks

Shareholder	No. of shares held	Ownership
Shinhan Bank <sup>1)</sup>	29,873,342	10.15%
BNP PARIBAS	13,557,832	4.61%
Emerging Markets Growth	13,470,110	4.58%
National Pension Fund	13,328,358	4.53%
EURO-Pacific Growth Fund	11,402,270	3.87%
CITIBANK, N.A (ADR DEPT)	7,193,600	2.44%
Government of Singapore	6,010,284	2.04%
Other	199,565,487	67.79%
Total	294,401,300	100%

1) Shinhan Bank sold all of its stake to SFG on March 3, 2004.

### Redeemable Preferred Stocks

Shareholder	No. of shares held
Korea Deposit Insurance Corp.	46,583,961
Strider Securitization Specialty Co., Ltd.	6,000,000
Total	52,583,961

### Convertible Redeemable Preferred Stocks

Shareholder	No. of shares held
Korea Deposit Insurance Corp.	44,720,603

## Contact Point

### Investor Relations Team

Shinhan Financial Group  
120, 2-Ga, Taepyung-Ro, Jung-Gu,  
Seoul, 100-102, Korea  
• Tel : 82-2-6360-3000  
• Fax : 82-2-777-1883

### Investor Relations Team Members

In-Cheol Park  
• Tel: 82-2-6360-3071  
• e-mail : icpark@shinhan.com

Sung-Hun Yu  
• Tel : 82-2-6360-3073  
• e-mail : irshy@shinhan.com

Kyoo-Jin Lee  
• Tel : 82-2-6360-3074  
• e-mail : qzhome@shinhan.com

Youn-Bo Sim  
• Tel : 82-2-6360-3072  
• e-mail : ybsim@shinhan.com

Ye-In Kim  
• Tel : 82-2-6360-3075  
• e-mail : yein@shinahn.com

## Financial Calendar

- Annual General Meeting 2004
- First Quarter Results 2004
- Annual Report 2004
- Second Quarter Results 2004
- Third Quarter Results 2004

March 2004  
April 2004  
May 2004  
August 2004  
November 2004





## SHINHAN FINANCIAL GROUP

120, 2-Ga, Taepyung-Ro, Jung-Gu, Seoul, 100-102, Korea

Tel : + 82-2-6360-3000

Fax: + 82-2-777-1883

<http://www.shinhangroup.com>