

# MORE THAN A NEW WAVE

SHINHAN FINANCIAL GROUP ANNUAL REPORT 2005



# THE NEW WAVE BEGINS HERE!!

We are the first company in Korea to realign its businesses into a single financial holding company. We deliver comprehensive financial solutions through a powerful One-Portal network effectively meeting the financial needs of our customers.

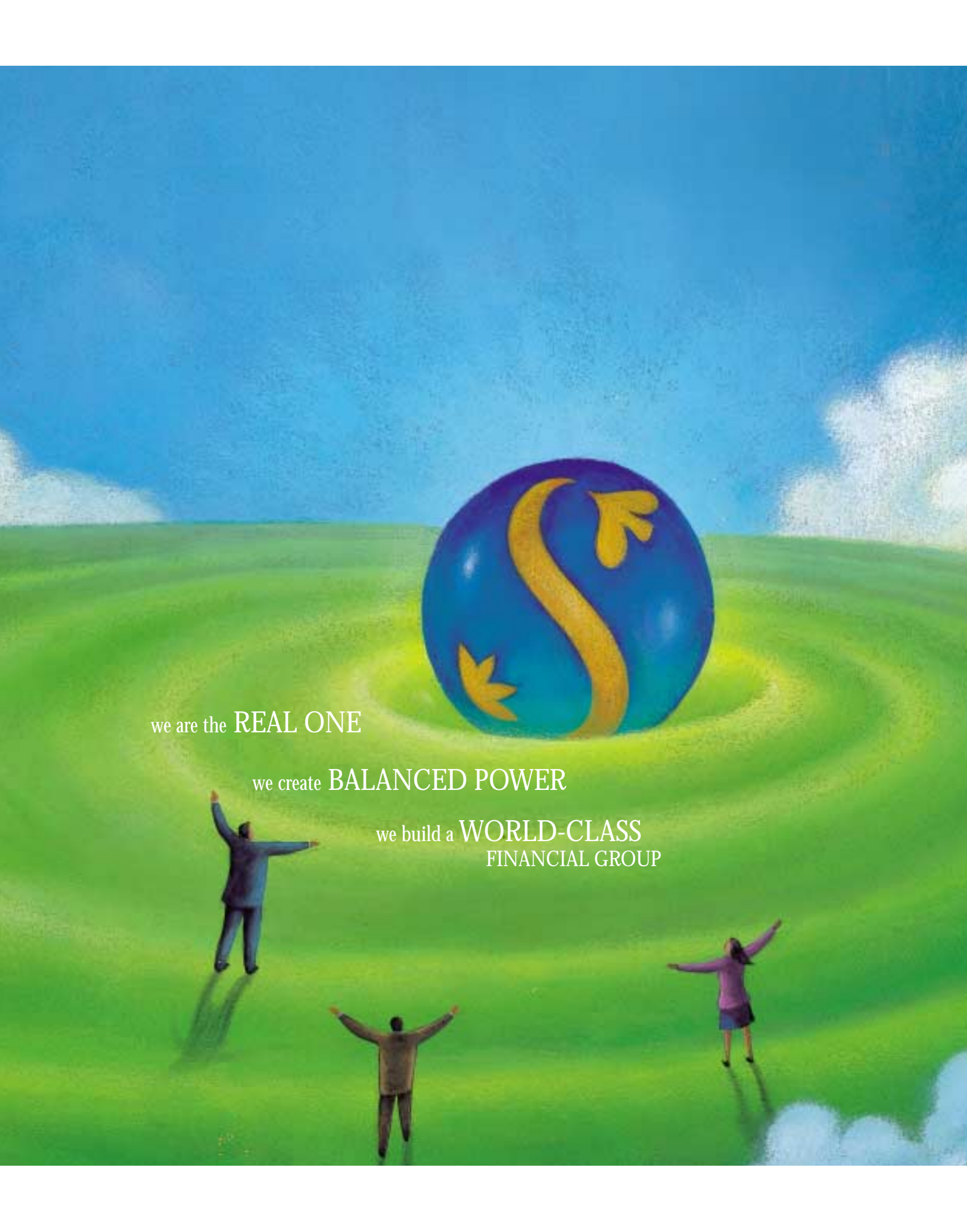
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we are the **REAL ONE**

we create **BALANCED POWER**

we build a **WORLD-CLASS  
FINANCIAL GROUP**

# Group Profile

## We are the standard-setter of Korean financial markets.

Established in September 2001, Shinhan Financial Group was the first financial group in Korea to be capitalized by the private sector. Beginning with Shinhan Bank, Shinhan Securities, Shinhan Capital and Shinhan Investment & Trust Management, we now own twelve subsidiaries. With total assets of KRW194 trillion, we have become the second largest financial institution in Korea.

Shinhan Bank (SHB), the main subsidiary of SFG, began with only four retail branches in 1982. Shinhan Bank introduced innovative systems.

SHB was the first Korean bank to introduce the concept of tailoring services so that customers could conduct most of their financial transactions at a single bank. It was the first among domestic financial institutions to accept utility bill payments and to introduce payroll auto-transfer services, credit card bill settlement accounts, and many other innovative services.

Sensing a paradigm shift in the financial markets from the banking to non-banking sectors, SFG strategically launched a financial group to keep ahead of its competitors.

With "continuous growth and progress" as a slogan, SFG has strategically merged and acquired subsidiaries.

The establishment of the financial group in 2001 paved the way for expansion of the Group's lines of business.

In April, 2002, we acquired Good Morning Securities, and its merger with Shinhan Securities launched a newly-integrated Good Morning Shinhan Securities.

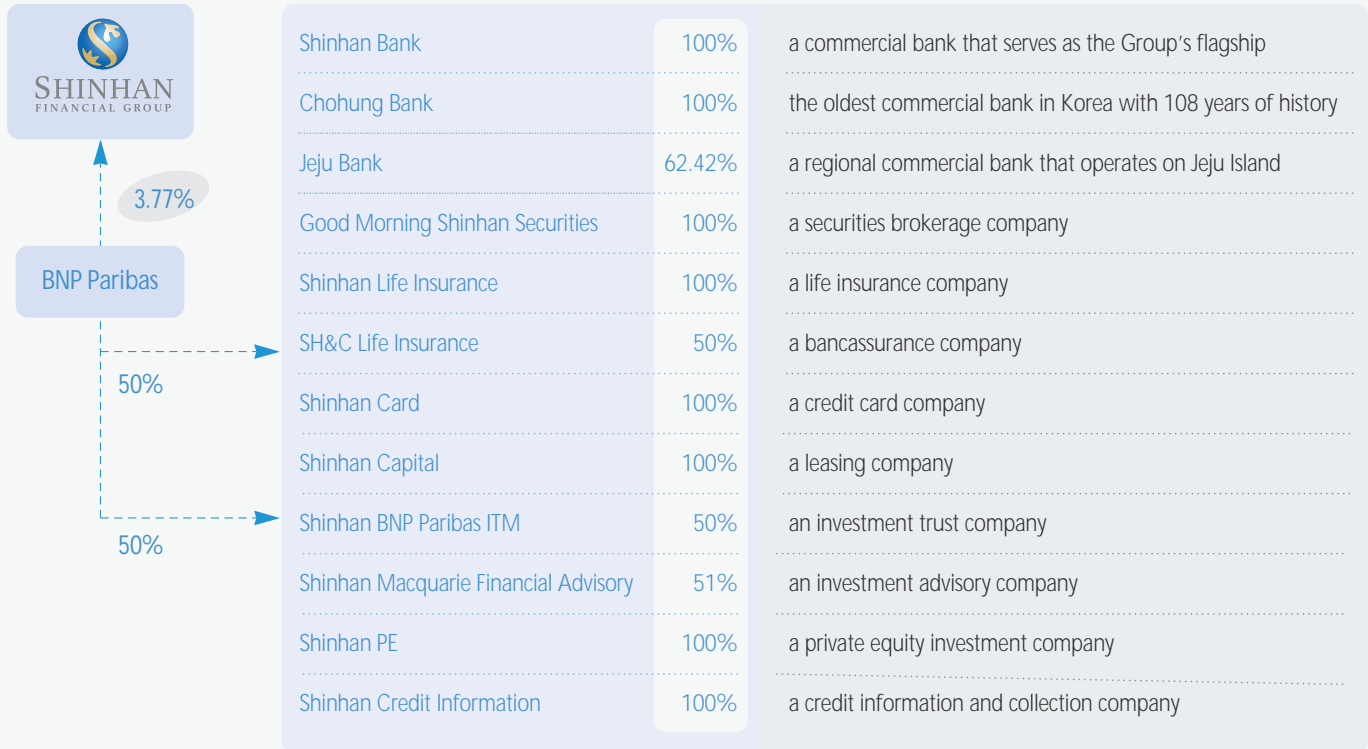
We have also pursued the development of distribution channels so as to create synergies and to enhance sales of hybrid financial instruments. Our efforts paid off in 2003, when we finally acquired Chohung Bank, the oldest commercial bank in Korea. CHB will be fully integrated with SHB in 2006.

SFG's mission also extends to the upgrading of systems and the laying of a solid foundation for sustainable growth.

We will continue to upgrade our corporate governance and risk management systems, and along with our performance-based reward system, these will act as stepping-stones to sustainable growth and further progress in becoming Asia's leading financial group.

## Core Values





\*as of december 2005

### FACTS OF SHINHAN FINANCIAL GROUP

	Subsidiary of SFG as of					Total Assets (KRW Trillion)	Net Income (KRW Billion)	Branches	Employees
	'01	'02	'03	'04	'05				
<b>Banks</b>									
Shinhan Bank	■					90.6	826.1	405	5,202
Chohung Bank			■			72.7	777.9	541	6,146
Jeju Bank		■				2.1	7.8	31	344
<b>Non-Banks</b>									
GMSH Securities		■				3.9	74.7	104	1,645
Shinhan Life Insurance					■	5.1	2.6	113	852
Shinhan Card		■				1.5	52.7	18	214
Shinhan Capital	■					1.4	36.4	4	69
SH BNPP Investment	■					0.1	3.7	1	53
SMFA	■					0.1	2.7	1	46
Shinhan Credit Information		■				0.1	2.4	4	69
SH&C Life		■				0.7	2.7	1	74
Shinhan Private Equity				■		0.1	-1.0	1	11
<b>Total</b>						<b>193.7</b>	<b>1,732.1</b>	<b>1,224</b>	<b>14,725</b>

\*as of december 2005

# Share Information

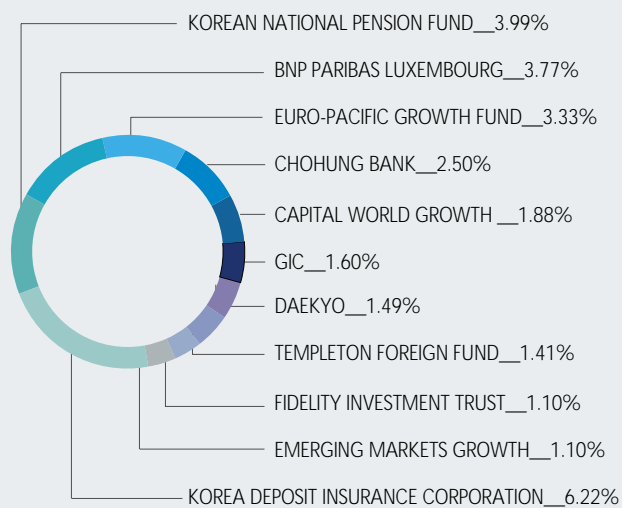
## NUMBER OF SHARES ISSUED

Type	No. of shares	Value (in billions of KRW)
Common stock	359,207,313	1,796
Redeemable preferred stock	52,583,961	263
Convertible redeemable preferred stock	22,360,301	112
<b>Total</b>	<b>434,151,575</b>	<b>2,171</b>

## SHARE OWNERSHIP



## MAJOR SHAREHOLDERS (as of Dec. 2005)



## CREDIT RATINGS

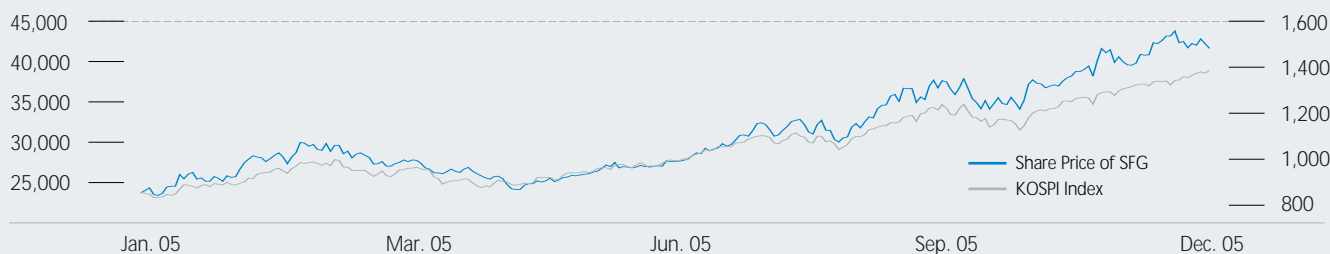
### Domestic Ratings

	National Information & Credit Evaluation, Inc.	Korea Information Service	Korea Ratings
SFG	AAA	AAA	AAA
Shinhan Bank	AAA	AAA	AAA
Chohung Bank	AAA	AAA	AAA

### International ratings

	MOODY's	S&P	FITCH
Shinhan Bank			
Long Term	Baa1	A-	A-
Short Term	P-2	A-2	F2
Chohung Bank			
Long Term	Baa1	A-	A-
Short Term	P-2	A-2	F2

## TREND OF SHARE PRICE vs KOSPI



# Financial Highlights

	(In billions of KRW)		(In millions of USD) <sup>1)</sup>	
	2005	2004	2005	2004
<b>For the Year</b>				
Operating Revenue	1,776	1,361	1,753	1,374
Net Income	1,732	1,050	1,710	1,006
<b>At Year End</b>				
Total Assets <sup>2)</sup>	193,740	174,341	191,254	160,451
Total Loans <sup>2)</sup>	103,348	95,669	102,022	91,655
Total Deposits <sup>2)</sup>	99,534	95,677	98,257	91,662
Total Securities <sup>2)</sup>	36,881	33,179	36,407	31,788
Total Shareholders' Equity	10,137	7,748	10,007	7,423
<b>Key Financial Ratios</b>				
Return on Average Shareholders' Equity	20.97%	15.82%		
Return on Average Assets	1.14%	0.77%		
Cost Income Ratio	47.55%	43.39%		
Substandard & Below Loans Ratio	1.11%	1.71%		
Net Interest Margin-Shinhan Bank	2.13%	2.22%		
Net Interest Spread (won)-Shinhan Bank	2.64%	2.60%		
Net Interest Margin-Chohung Bank	3.75%	3.16%		
Net Interest Spread (won)-Chohung Bank	4.51%	3.96%		
BIS Capital Adequacy Ratio-Shinhan Bank	12.23%	11.94%		
(Tier 1 Capital Ratio)	8.16%	7.45%		
(Tier 2 Capital Ratio)	4.07%	4.49%		
BIS Capital Adequacy Ratio-Chohung Bank	10.94%	9.40%		
(Tier 1 Capital Ratio)	6.52%	4.99%		
(Tier 2 Capital Ratio)	4.42%	4.42%		

Notes: 1) Translated into U.S. dollars at rates of KRW1,013.0 and KRW1,043.8 per US\$1.00, the prevailing rate on December 31, 2005 and 2004, respectively.

2) Calculated based on the sum of all subsidiaries minus intra-group transactions.

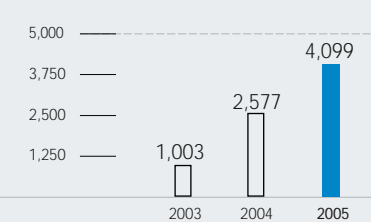
## MARKET CAPITALIZATION

(In billions of KRW)



## Earnings Per Share

(won)



## Book Value Per Share

(won)



## Chairman's Letter



Eung-Chan Ra  
Chairman of Shinhan Financial Group

To our **Constituents,**

**“With the integration of Shinhan Bank and Chohung Bank, we are now ready to launch a brand new bank-Korea’s second largest in size.”**

Shinhan Financial Group took a significant step forward in 2005 toward building a global-leading group that provides comprehensive financial services. We have successfully completed the final stage of integration of our two major banks, Shinhan and Chohung, and we welcomed Shinhan Life as a new member of the Group.

Having successfully concluded two years of preparation for the full integration of our two banks, we are now ready to launch a brand new bank-Korea’s second largest in size-under the name of “Shinhan.” The launch of the new Shinhan Bank signifies a brand new start for SFG. The energy of SHB and the long tradition of CHB were combined to become a new leader of Korea’s financial industry, and this successful integration would have been impossible without the constant support of our shareholders and customers. Therefore, on behalf of the board of directors, I would like to take this opportunity to express our deepest gratitude to the loyal supporters of SFG. Your continuous support and strong encouragement have brought SFG to where it stands now; as a leading financial institution in Korea, and as one that has created a new chapter in the history of Korea’s financial industry.

For the next couple of years, the business environment is predicted to be unfavorable to most Korean businesses, especially to those in the financial industry. The industry, despite experiencing drastic changes and growth at all costs, is still working to meet global standards. Furthermore, the influx of global players due to the collapse of barriers within business sectors and the opening of the local market is adding to the





“We aim to secure the ‘Top Brand Value’ in global markets while contributing to the upgrading of Korea’s financial industry.”

great pressure on domestic players. In the near future, a big bang has been forecasted for Korea’s financial markets, and it may match the painful changes the country experienced in the aftermath of the Asian Financial Crisis of 1997. According to the predictions of market analysts, sales of Korea Exchange Bank and LG Card Co., Ltd. will lead to further change in the landscape of the domestic financial market. Analysts even go so far as to predict that the forthcoming government implementation of the “Capital Market Consolidated Act” may give birth to larger and more fully-integrated financial companies in the securities and investment financing sectors, thus stimulating competition among local financial institutions.

Anticipating further rapid changes to the paradigms underlying Korea’s financial markets, we have devised a blueprint for the balanced growth of our banking and non-banking subsidiaries. Since the launch of Shinhan Bank in 1982, which serves as the nucleus of the Group launched in 2001, we have strived to reach our goal of becoming a global financial leader. To date, we have followed the steps one after another toward attaining this goal. The integration, which will be completed by the time you read this report, will reposition the Group, as Korea’s newest leading financial institution, to better compete with global market players. With the incorporation of Shinhan Life Insurance into the Group in 2005, we further solidified our position as Korea’s leading comprehensive financial group. Our remaining task is to upgrade the competencies of our non-banking businesses to a level commensurate with the Group’s position as Korea’s leading financial group.

At the same time, we plan to expand our global network through business partnerships with top global financial institutions, and to establish a ‘smart’ infrastructure for greater competitiveness. Our plan also includes aggressive investment in the fostering of financial experts fully capable of performing in global markets. By executing these plans, we will secure ‘Top Brand Value’ in global markets while contributing to the upgrading of Korea’s financial industry.

In keeping with this goal, we promise to channel our resources into maximizing shareholder value. While serving as a trustworthy financial partner to customers and corporate clients, we will fulfill our responsibilities as a faithful corporate citizen to communities. As a leading Korean financial group, we aim to lead the nation’s economy, and we seek to create new business models as a standard-setter in the country’s financial industry. As SFG journeys to greater success and grows into a global player, we ask for your undivided support.

In closing, I would like to thank you again for your ongoing support and encouragement, and we look forward to your continuing interest and confidence in SFG.

Sincerely,

Eung-chan Ra

Chairman of Shinhan Financial Group

## CEO's Message



**In-ho Lee**  
President & Chief Executive Officer  
Shinhan Financial Group

To our **Shareholders  
and Customers,**

**“Shinhan Financial  
Group has firmly  
positioned itself as a  
leading integrated  
financial services  
provider.”**

It is my great pleasure to present you with an overview of Shinhan Financial Group's business operations during 2005, our fifth fiscal year. In 2005, Shinhan Financial Group (SFG) firmly positioned itself as a leading integrated financial services provider based on the strongest business results since its foundation in 2001. On behalf of the management and employees of SFG, I would like to extend our most sincere gratitude to our respected shareholders and customers for your unwavering support and encouragement during 2005.

### **Business environment in 2005 - Economy and financial markets**

The year 2005 was marked by uncertainties and challenges from both the domestic and global markets. We were confronted with lackluster domestic demand and challenged by high oil prices and unstable foreign exchange rates from the global market. In addition, customer needs rapidly shifted from bank products to asset management products, intensifying the competition among financial institutions and creating greater possibilities for further mergers and acquisitions.

### **Business performance in 2005**

Despite rapid changes in financial markets and unfavorable economic conditions both at home and abroad, SFG posted its

“In 2005, we posted the strongest earnings since inception, solidifying our position as an undisputed leader in integrated financial services.”



strongest earnings since inception, solidifying its position as an undisputed leader in integrated financial services. For these reasons, 2005 was indeed a very meaningful year for us.

#### Income performance

In 2005, SFG saw its net income increase by 65% from KRW1.1 trillion in 2004 to KRW1.7 trillion. In banking, net income continued to grow at an impressive rate of 41.2% from 2004, to reach KRW1.7 trillion in 2005. In non-banking, net income reached KRW194.8 billion, a remarkable increase of 224.6% from the previous year. In addition, the contributions to the Group's total net income by the non-banking subsidiaries such as securities, credit cards and investment & trust management corporations (ITMC) increased substantially from 5% in 2004 to 11% in 2005.

#### Asset growth

Despite intense competition in Korea's financial markets, we went to great lengths to secure a stable expansion of performing assets in 2005. As a result of such efforts, our assets grew 11% from KRW174 trillion in 2004, to KRW194 trillion in 2005. In particular, our banking business saw loans in Korean won increase by 9.4% while the ITMC business saw its assets under management (AUM) grow by 21%, growth rates above the market average.

#### Asset quality and capital adequacy ratio

The Company's asset quality improved in 2005, as well. We maintained our substandard and below loans ratio, or NPL ratio, a primary indicator of asset quality, at one of the lowest levels in the industry thanks to enhanced credit risk management and sound asset growth. In particular, the Group maintained the ratio at 1.11% while its two banks, Shinhan and Chohung held their ratios at 1.02% and 1.10%, respectively. Moreover, the provisioning coverage ratio to such NPLs was 146.6%, one of the highest in the industry. The Group's requisite capital adequacy ratio, an indicator of asset soundness, improved by 3.4%p from 129.4% in 2004 to 132.8% in 2005 - a level well above the regulatory authority's guideline of 100%.

#### Major achievements in 2005

##### Banking - Completion of preparation for integration

On top of our strong financial results, the year 2005 was favorable to us as we were able to consolidate our standing as a market leader with substantial achievements in non-financial terms as well. In other words, we secured a foundation for balanced growth between our banking and non-banking businesses.

First, we successfully incorporated our new subsidiary, Shinhan

## CEO's Message



Life Insurance, through a share swap method. With the new insurance company joining the Group, we will be able to enhance the competencies of our non-banking subsidiaries.

Second, we successfully completed preparations for launching the integrated bank. The Integration Committee, launched in September 2005, laid the legal grounds for the full integration of the two banks. Currently, senior executives of both SHB and CHB sit on the Integration Preparation Committee to provide interim management before the actual merger and to prepare for the new start. In addition, twenty New Bank initiatives are near completion, and we will be able to put the final touches on our advanced operating system and on one of the most integrated distribution channels in Korea.

In 2006, the New Bank, equipped with an advanced operating system, will offer a more comprehensive range of products and services to its customers.

**Non-banking - Enhancement of the Group's business portfolio**  
With the incorporation of Shinhan Life as a subsidiary of SFG in 2005, the Group has now completed its "One-Portal" business model. Although Shinhan Life was relatively late in joining the Group, it plays a pivotal role in SFG's three main financial businesses of banking, securities and insurance. This

inclusion also provides the Group with an additional source of income while diversifying its business portfolio.

### 2006 Management Plan

Shinhan Financial Group aims to move closer to its vision of becoming a "World-Class Comprehensive Financial Service Provider" through the renewal and innovation of our financial services. Our strategic mission in 2006 is to create a "New SFG through Balanced Growth of Manufacturing and Distribution." Year 2006 is deemed a strategic year in the creation of a New SFG through:

- Successful launch of the integrated bank  
**(Successful Integration):**

Through a successful launch of the newly integrated bank, the New Shinhan Bank will follow a new business model based on new customer segmentations, innovative channel strategies and an advanced customer relationship management (CRM) system built on our next-generation IT system. Shinhan Bank will have the most advanced operating system and the most competitive integrated distribution network in Korea.

- Drastic enhancement of non-banking subsidiaries'  
**competitiveness (Full-scale Competitiveness):**

Our strategic mission in 2006 is to create a  
 “New SFG through Balanced Growth of  
 Manufacturing and Distribution.”

To achieve our goal of becoming a fully integrated financial service provider, one of our core strategies is to make drastic improvements in the non-banking side of our business to balance the newly created competitive distribution channel (i.e. bank). We seek to develop new sources of growth by strengthening our product competitiveness in securities, asset management and insurance, and by improving brand awareness of our non-banking businesses.

- Qualitative growth of Group competencies  
(Global-level Competencies):

Through strong leadership and solid core competencies, we aim to improve the qualitative capabilities of Shinhan Financial Group. In fulfilling our social responsibilities, we aim to live up to our reputation as a leading financial group and as a respected corporate citizen of the community.

Distinguished Stakeholders,

SFG is now greeting the year 2006 with high expectations as the integration of the Shinhan and Chohung Banks opens doors to a new chapter in the history of Korea's financial industry. In this memorable year, we will utilize refreshed efforts to attain our vision of becoming a “World-Class

Comprehensive Financial Service Provider.” As we promise to put forth our finest efforts and resources towards the creation of greater value for all stakeholders, we invite you, our respected shareholders and customers, to an upgraded new bank.

We depend on your continuous support and look forward to another successful year for Shinhan Financial Group and thus, for you and your families, as well.

Thank you.



**In-ho Lee**

President & Chief Executive Officer  
 Shinhan Financial Group

# Corporate Governance

We believe that good relationships among the Board of Directors (BOD), management and shareholders are critical in the pursuit of good corporate governance. A fair and transparent BOD, working in close coordination with a fully accountable management helps to create sustainable long-term value for shareholders as well as employees, customers and communities. Such efforts enable the Company to take further steps towards becoming a world-class financial group.

In order to enhance corporate governance, we simplified ownership structure and consolidated governance practices across the Group and its subsidiaries to enhance transparency in all decision-making processes.

We attach great importance to the professionalism and independence of the BOD. To improve the board's proficiency, we appoint four outsiders with specialized professional expertise as outside directors. To ensure independence, regular meetings are held exclusively for outside directors to discuss matters pertaining to the supervision and support of management.

We support the BOD fully by providing a broad range of transparent information on company management and operations. Such information allows the board to best represent the interest of stakeholders through the effective monitoring of management, while facilitating discussions and suggestions regarding the enhancement of business operations.

## Committees of the BOD

The BOD works through multiple committees, enabling the expertise and capabilities of individual directors to be fully reflected in its activities. The various committees made up of and overseen by the board include the following: a Board Steering Committee, Risk Management Committee, Audit Committee, Outside Director Recommendation Committee and Compensation Committee.

### Board Steering Committee



Comprised of five directors, the committee shall:

- Deliberate on matters relating to the governance structure of the company;
- Recommend members for committees within the BOD;
- Recommend candidates for non-outside director positions;

## COMMITTEES OF THE BOARD OF DIRECTORS

We currently have 5 management committees that serve under the Board.

	Board Steering Committee	Risk Management Committee	Audit Committee	Outside Director Recommendation Committee	Compensation Committee
Eung Chan Ra					
In Ho Lee					
Young Hwi Choi					
Young Seok Choi					
Yong Woong Yang					
Il Sup Kim					
Sang Yoon Lee					

Note :  Chairperson of Committee  Member of committee

\*as of December 2005

- Deliberate on appointments and dismissals of non-executive management; and
- Determine the importance, priority and relevance of matters to the BOD.

**Risk Management Committee**

Comprised of three outside directors, the committee is charged with establishing basic policy for controlling risks consistent with management strategies, and with setting the appropriate investment ceilings or permissible limits of loss for each subsidiary.

**Audit Committee**

Comprised of five directors including four outside directors, one of whom is an accountant, the committee's main duties are to monitor the Company's accounting methods and practices and other business or items related to financial auditing, backed by the auditing team.

**Outside Director Recommendation Committee**

With membership determined when circumstance necessitates, the committee recommends outside director candidates and discusses related matters.





**Compensation Committee**


Comprised of four directors including four outside directors, the committee determines the evaluation and compensation plans for the Group's executive management.

**Disclosure Policy**

We are committed to reinforcing disclosure procedures so that transparent, fair and accurate corporate and financial information can be delivered to investors at home and abroad in a timely manner. We provide regular, detailed and accurate disclosure through quarterly reports and interim reports, and utilize a monitoring system to improve existing procedures and set clearer disclosure rules through our Disclosure Committee.

In addition, we disclose information related to legal obligations and decisions pertaining to important developing matters. To ensure ease of access, all information subject to disclosure is posted in Korean, Japanese and English through our website at [www.shinhangroup.com](http://www.shinhangroup.com).

	Board Steering Committee	Risk Management Committee	Audit Committee	Outside Director Recommendation Committee	Compensation Committee
Yoon Soo Yoon					
Shee Yul Ryoo					
Byung Hun Park					
Young Hoon Choi					
Si Jong Kim					
Dong Hyun Kwon					
Phillipe Reynieix					

Note :  Chairperson of Committee  Member of committee

\*as of December 2005

# Board of Directors & Management (SFG)

## Shinhan Financial Group

### (1) Executive Directors

Name	Date of Birth	Position	Profile
Eung Chan Ra	Nov.25, 1938	- Chairman of BOD - Head of the Board Steering Committee	- Graduate from Seonlin Commercial High School , Korea - President & CEO, Shinhan Bank (1991~1999) - Vice Chairman of BOD (1999~2001)
In Ho Lee	Nov. 2, 1943	- President & CEO - Board Steering Committee member	- BA in Economics, Yonsei University, Korea - Director & Deputy President, Shinhan Bank(1997~1999) - President & CEO, Shinhan Bank (1999~2003) - Outside Director of Shinhan Bank and Chohung Bank (current)
Young Hwi Choi	Oct. 28, 1945	- Executive Director	- BA in Economics, Sung Kyun Kwan University, Korea - Director, Shinhan Bank (1994~1999) - Deputy President, Shinhan Bank (1999~2001)

### (2) Non-Executive Directors

Name	Date of Birth	Position	Profile
Young Seok Choi	Jul. 2, 1929	- Non-Executive Director - Audit Committee member	- BA in Commerce, Meiji University, Japan - Director, Shinhan Bank (1995~2002) - President, C.Y.S. Ltd. (current)
Yong Woong Yang	Aug. 4, 1948	- Non-Executive Director	- BA, Chosen University, Japan - President, Doen (current)
Il Sup Kim	Jul.1, 1946	- Outside Director - Head of Audit Committee	- PhD, Business Administration, Seoul National University, Korea - Vice Chairman of Samil Accounting Corp. (1996~ 1999) - Vice President of Ehwa Women's University (2002~2004)
Sang Yoon Lee	Sep.13, 1942	- Outside Director - Board Steering Committee member - Audit Committee member	- BA in Commerce, Seoul National University, Korea - Non-statutory Vice-Chairman, Korea Food Industry Association (current) - Representative Director and President, Nongsim Ltd. (current)
Yoon Soo Yoon	Mar. 5, 1946	- Outside Director	- BA in Political Science & Diplomacy, Korea University of Foreign Studies - Director of Hanvit Bank (1999~2001) - President of Fila Korea Ltd. (current)
Shee Yul Ryoo	Sep. 5, 1938	- Outside Director - Board Steering Committee member	- LLB, Seoul National University - President, Korea First Bank - Chairman, The Korea Federation of Banks - Advisor, Shin & Kim (current)
Byung Hun Park	Sep. 10, 1928	- Outside Director - Board Steering Committee member	- BA in Economics at Meiji University, Japan - President, HQ of Korean Residents' Union in Japan (1985~1991) - Chairman, Daeseong Electronics Ltd. (current)



Name	Date of Birth	Position	Profile
Young Hoon Choi	Nov. 8, 1928	- Outside Director	- LLB in Law, Ritsumeikan University, Japan - Non Executive Director, Shinhan Bank - Chairman, Eishin Group (current)
Si Jong Kim	Apr. 16, 1937	- Outside Director - Audit Committee member	- Sigaken Yashu High School- Director, Yokohama Shogin - Director, Korea Chamber of Office in Kanagawa, Japan - Standing Advisor, Kanagawa Division, Korean Residents' Union in Japan (current)
Philippe Reynieix	Jun. 24, 1949	- Outside Director	- Master of Business Law, Paris II University, France - Chief Operating Officer BNP Paribas, Singapore (2000~2002) - CEO & GM for Korea BNP Paribas, Seoul (current)
Haeng Nam Chung	Mar. 15, 1941	- Outside Director	- Tomishima Jr. High School - Director, Asuka Credit Union - Advisor, Korean Chamber of Commerce and Industry in Japan
Myoung Soo Choi	August 5, 1957	- Outside Director	- LLB in Economics, Kyonggi University - Auditor, Head of Team, Investigation Dept. 2, Investigation Dept. 3, Korea Deposit Insurance Corporation - Head of Team, Special Investigation Bureau, Korea Deposit Insurance Corporation - Representative Director, Resolution and Finance Corporation - Head of Team, Fund Management and Planning Dept., Korea Deposit Insurance Corporation (current)

### (3) Executive Officers

Name	Date of Birth	Position	Profile
Jae Woo Lee	Jul. 2, 1950	- Managing Director (Chief Operating Officer)	- Executive MBA in Finance, Graduate School, Korea University - Senior Executive Vice President, Shinhan Bank - Deputy President, Shinhan Bank
Byung Jae Cho	Jan. 6, 1951	- Managing Director (Chief Financial Officer)	- Graduate School of Seoul National University, majored in BA - General Manager, Planning & Coordination Department, Chohung Bank
Jin Won Suh	Apr. 20, 1951	- Managing Director (Chief Strategy Officer)	- Korea University, majored in Historical Science - Deputy Head of Retail Banking Division, Shinhan Bank - Deputy President (Chief Information Officer), Shinhan Bank
Jae Woon Yoon	Jul. 22, 1951	- Managing Director (Group Synergy Officer)	- Seoul National University, majored in Education - Division Head, Gangdong Business Division, Chohung Bank - Division Head, Central District Business Division, Chohung Bank

\*as of March 2006

# Board of Directors & Management (Subsidiaries)

## SHINHAN BANK

### Executive Director

*President & CEO*

Sang Hoon Shin

### Director

*Standing Auditor*

Jae Ho Cho

### Outside Directors

*Director*

In Ho Lee

*Director*

Jae Woo Lee

*Director*

Kap Young Jeong

*Director*

Kyung Suh Park

*Director*

Sang Rock Seo

*Director*

Dong Hyun Kwon

*Director*

Dae Sik Kim

*Director*

Chi Ho Kim

### Executive Officers

*Deputy President*

Baek Soon Lee

*Deputy President*

Hong Hee Chae

*Deputy President*

Sang Young Oh

*Deputy President*

Chang Seong Moon

*Deputy President*

Sang Woon Choi

*Deputy President*

Hyu Won Lee

*Deputy President*

Eun Sik Kim

*Deputy President*

Won Suk Choi

*Deputy President*

Yun Seok Kong

*Deputy President*

Shin Seong Kang

*Deputy President*

Nam Lee

*Deputy President*

Chang Ki Hur

## JEJU BANK

### Executive Director

*President & CEO*

Gwang Lim Youn

### Director

*Standing Auditor*

Young Sin Kim

### Outside Directors

*Director*

Boo In Ko

*Director*

Hyang Jin Huh

*Director*

Hyung Joon Song

*Director*

Kang Nam Lee

*Director*

Jae Woo Lee

### Executive Officers

*Deputy President*

Ki Hyung Seong

*Deputy President*

Young Gi Boo

## GOODMORNING SHINHAN SECURITIES

### Executive Directors

*Representative Director, Vice-Chairman*

Woo Keun Lee

*Representative Director,*

*President & CEO*

Dong Girl Lee

*Standing Auditor*

Sung No Lee

### Outside Directors

*Director*

Jae Yoon Woon

*Director*

Jin Won Park

*Director*

Hyoung Tae Kim

*Director*

Kyung Ho Kim

*Director*

Jae Kyu Ahn

### Executive Officers

*Senior Executive Vice President*

Hyeon Jae Han

*Senior Executive Vice President*

Jin Kook Lee

*Senior Executive Vice President*

Yoo Shin Jung

*Senior Executive Vice President*

Chae Young Jung

*Senior Executive Vice President*

Seok Joong Kim

## SHINHAN LIFE INSURANCE

### Executive Directors

*Chief Executive Officer*

Dong Woo Han

*Standing Auditor*

Seung Choo Han

### Outside Director

*Director*

Soon Do Kim

### Non-Executive Directors

*Director*

Jae Geun Yu

*Director*

Dong Girl Lee

*Director*

Jae Woo Lee

### Non-Executive Officers

*Deputy President*

Byung Chan Lee

*Deputy President*

Keun Jong Lee

*Deputy President*

Young Chul Bae

*Deputy President*

Sam Suck Rho

*Deputy President*

Ki Won Kim

## SHINHAN CARD

### Executive Director

*President & CEO*

Sung Kyun Hong

### Directors

*Standing Auditor*

Tae Gyu Lee

*Non-Executive Director*

Sang Woo Kim

**Outside Directors**

*Director*  
Jae Woo Lee

*Director*  
Jae Woon Yoon

*Director*  
Chul Joo Choi

**Executive Officers**

*Executive Deputy CEO*  
Seoun Won Kim

*Executive Deputy CEO*  
Doo Hwan Jun

*Executive Deputy CEO*  
Woo Yeop Shim

*Executive Deputy CEO*  
Hee Geon Kim

**SHINHAN CAPITAL**

**Executive Director**

*President & Chairman*  
Do Heui Han

**Non-Executive Auditor**

*Auditor*  
Wong Man Son

**Non-Executive Directors**

*Director*  
Byung Jae Cho

*Director*  
Jae Woon Yoon

**Executive Officer**

*Executive Vice President*  
Seung Keun Oh

**SHINHAN BNP  
PARIBAS ITMC**

**Executive Director**

*President & CEO*  
Jean Audibert

*Advisor*  
Ki Do Nam

**Non-Executive Directors**

*Director*  
Guy De Froment

*Director*  
Francois Petit-Jean

**Outside Directors**

*Director*  
Jae Woon Yoon

*Director*  
Byung Jae Cho

*Director*  
Jae Woo Lee

*Director*  
Jin Won Seo

**Executive Officers**

*Deputy CEO*  
Seung Tae Kang

*Deputy CEO*  
Ferderic Thomas

*Chief Investment Officer*  
Ho Jin Kwon

**SHINHAN  
MACQUARIE  
FINANCIAL ADVISORY**

**Executive Director**

*President & CEO*  
John William Walker

**Non-Executive Directors**

*Auditor*  
Byung Jae Cho

*Director*  
Simon Clow

*Director*  
Jin Won Seo

*Director*  
Hyu Won Lee

**SHINHAN  
CREDIT INFORMATION**

**Executive Director**

*CEO*  
Pan Am Lee

**Standing Auditor**

*Auditor*  
Kang Mo Lee

**Non-Executive Directors**

*Director*  
Jae Woon Yoon

*Director*  
Woo Yeop Shim

**SH&C LIFE INSURANCE**

**Executive Director**

*Chief Executive Officer*  
Francois Xavier Hussenot

**Standing Auditor**

Oeih Hwan Cha

**Non-Executive Directors**

Gerald Binet

Jin Won Seo

Baek Soon Lee

Nam Lee

**Executive Officers**

*Deputy CEO*  
Jean-Patrick Simon

*Deputy CEO*  
Shin Keun Yang

**SHINHAN  
PRIVATE EQUITY**

**Executive Director**

*Chief Executive Director*  
Jin Yeong Lee

**Non-Executive Directors**

*Auditor*  
Jin Won Seo

*Director*  
Byung Jae Cho

*Director*  
Hyu Won Lee

# Integration



## Introducing the seamless integration of financial services

Since adopting the holding company system, a first for Korea, we have pursued the following long-term growth strategies:

- To classify subsidiaries according to the characteristics of their businesses - distribution channels and production lines;
- To strengthen distribution channels and;
- To upgrade the production capabilities of production lines.

The integration of SHB and CHB was part of a process to extend distribution channels. This integration will also serve our vision of setting a new business model as a comprehensive financial service provider.

The integration of SHB and CHB is significant for the following reasons:

First, a new and upgraded bank is created through the integration. In integrating the two different systems, we upgraded capacities to a level commensurate with global best practices and optimized the system to enhance the creation of synergies.

Second, we employed a 'joint management period' to facilitate the integration, another first for Korea. During the two-year integration period, we closed gaps in the two banks' ways of doing business, in decision making processes, corporate cultures, employee mindsets and other systems.

Third, in the course of integration, we have encouraged our employees to actively participate in the process. Through hundreds of town meetings and a wide range of training programs, we educated our employees on the importance of the integration and on how to take advantage of the new systems to create synergies for better performance.

### Expected Synergies

- Economies of scale: the newly-integrated bank will command the second-largest position in the market, in terms of size.
- Wider customer base: the newly-integrated bank will serve 13 million customers nationwide through 800 branches.
- Customer-oriented network: branch networks differentiated

### Schedule

September 30, 2005:	Integration Promotion Committee launched
December 30, 2005:	Integration agreement approved by the BODs of the two banks
January 20, 2006:	Preliminary approval of the integration obtained
February 15, 2006:	Shareholder Meeting
March 24, 2006:	Approval of the integration obtained
April 1, 2006:	Launch of the New Shinhan Bank

### 1) Resolution Passed by BODs

On December 30, 2005, the boards of directors of the two banks passed a resolution to position CHB as the 'existing entity' and 'Shinhan Bank' as the new name.

“By integrating two different banks, we are creating an upgraded brand new bank.”

according to the needs of customers will reinforce marketing competencies by focusing on customer relationships and cross-selling.

- Realigned organization: teams focused on the creation of synergies both within the Group and at the subsidiary level will enhance, upgrade and systemize the creation of synergies within Company operations.

### Upgrade Projects

In order to upgrade the new bank’s capacities, we devised and put 20 different projects in motion. As part of the upgrades, we segmented our customer base and retail channels into six and five, respectively. The six new customer classifications include retail customers, private banking (PB), small office and home office (SOHO), small-and-medium-sized enterprises (SME), large businesses (LB) and institutional customers. The five new retail channels include standard type, branch in branch (BIB), financial planner (FP), all-in-one and network type. We also developed

improved risk management tools, including retail credit risk management and corporate risk management systems; integrated and developed new IT systems; rearranged our human resources management to optimize employee capabilities; built an integrated customer relationship management (CRM) system for better synergies; and launched a business process reengineering program (BPR) to enhance efficiency in sales and marketing at the branch level.

### 2) Preliminary Approval Obtained

On January 20, 2006, SFG obtained preliminary approval of the integration from the Financial Supervisory Service (FSS) of Korea. A shareholder meeting was scheduled for February 15, 2006 to gain approval of the integration agreement and to name the head and directors of the new bank.

### 3) Official Launch of the New Shinhan Bank

On March 24, 2006, SFG obtained full approval from the FSS and the official launch of the new bank is scheduled for April 1, 2006.

# Vision & Strategies

As a leading “One Portal” provider of comprehensive financial services in Korea, we set a mid-to-long-term goal of maturing into a “world-class financial services group” by 2010. We aim to take the lead in Korea’s financial markets and to emerge as Asia’s leading financial group. To achieve these goals, we seek to grow our core business lines so they rank first, second and third in their respective markets, thus positioning SFG as a comprehensive financial group.

In this context, we formulated a mid-term goal of reinforcing our market positions as a comprehensive financial group by 2007 and devised three missions to achieve this. We will continue to reinforce the competitiveness of each of our business lines and to create synergies between our divisions and subsidiaries so as to build a more balanced and comprehensive financial system.

In order to efficiently cope with changes in business circumstances, we start 2006, the first year of operations as a fully-integrated new bank, with a new mission of “**creating a new SFG through the balanced growth of production lines and distribution channels.**”

**First, we aim to successfully finalize the integration process. Second, we aim to upgrade the competencies of our subsidiaries.**

**Third, we aim to improve the qualitative competencies of the Group.**

In conclusion, financial markets in the future will answer only to those who are capable of providing comprehensive financial services that efficiently and effectively satisfy a wide range of customer needs. Fully aware of this, we will upgrade its internal competencies and successfully conclude the integration of SHB and CHB. With the aim of emerging as a leading comprehensive financial service provider, we will continue to upgrade our systems so as to meet and exceed the expectations of our customers, our shareholders and our communities.

## Successful Integration

### Early Establishment of the Integrated Bank

- Successful “Launching program”
- Enhanced market position through maximized sales capabilities
- Improving brand image (recognition) of the new integrated bank
- Establishing and maximizing the efficiency of the upgraded system

### Successful Management of the Integration Process

- Systematic management of the “New Bank” project
- Integrated risk management & value protection system

## Full-scale Competitiveness

### Enhancing the Capabilities of the Lines of Business

- Reinforcement of the credit card business
- Laying the foundations for a leap forward in brokerage
- Securing the market-leading position in asset management
- Early stabilization and setting of a new vision for the insurance business

### Improving the systems of synergy creation

- Reinforcing the cross-selling system
- Improving the cross-selling system for creating synergies

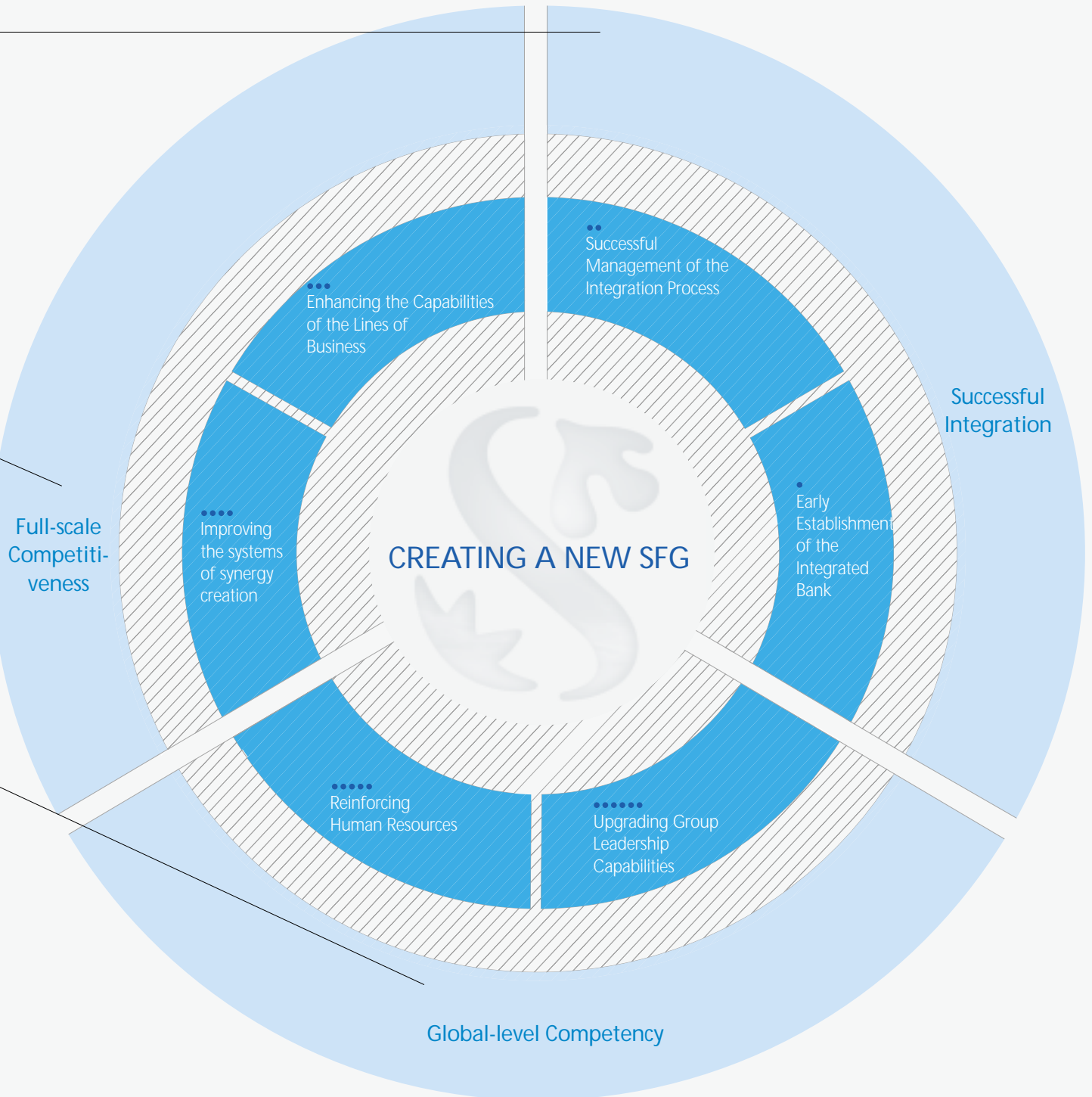
## Global-level Competency

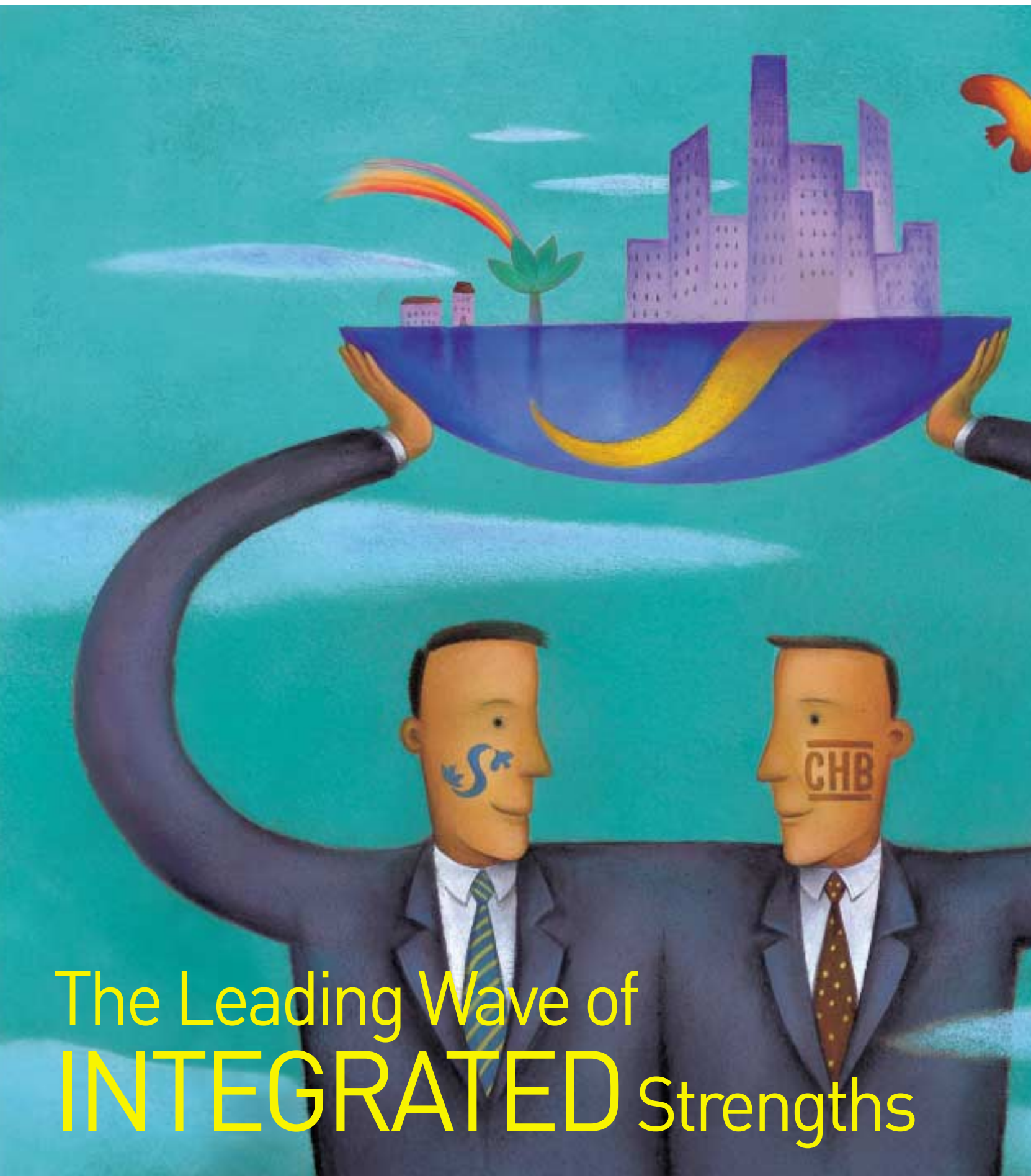
### Reinforcing Human Resources

- Building a Group-wide management system of talented leaders
- Enhancing core competencies
- Building an IT-based strategy-implementation program
- Supporting an education system to foster synergies and a new corporate culture

### Upgrading Group Leadership Capabilities

- Reinforcing internal leadership capabilities
- Reinforcing external leadership capabilities
- Reinforcing preemptive countermeasures against changes in regulations
- Improving shareholder and investor value and reinforcing investor relationships

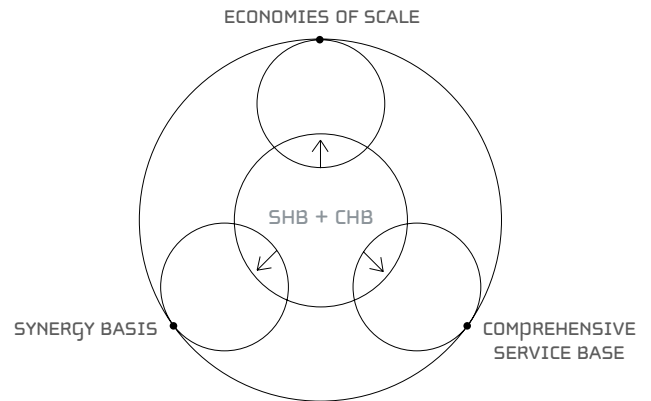




The Leading Wave of  
**INTEGRATED** Strengths



# THE REAL ONE

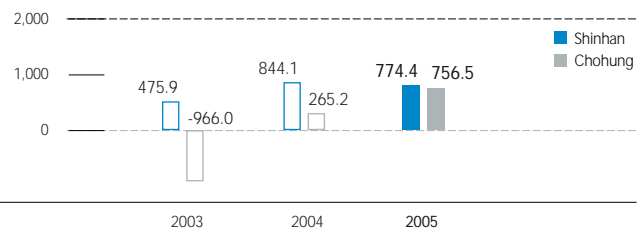


## [ SUCCESSFUL INTEGRATION ]

We will successfully build an integrated infrastructure with new HR management and next-generation IT systems. In order to preserve and reinforce the business capabilities of the integrated bank, we will begin a customer retention program and focus on concerted marketing and promotions. At the same time, we will strive to improve brand awareness of the integrated bank so as to secure a leading position in the market as early as possible.

Net income

(In billions of KRW)



# Commercial Banking



## Successfully building an integrated infrastructure

The commercial banking business of SFG, after the successful integration of Shinhan Bank (CHB) and Chohung Bank (CHB) as scheduled in April 2006, will be an optimal size for realizing economies of scale, and for taking full advantage of the synergies of a mutually complementary customer base and business channel. Coupled with SFG's comprehensive financial service system, these integrated systems will create powerful synergies, which will enable the Group's commercial banking sector to be a leader in Korea's financial markets in the future.

The integration will also combine the business channels of the two banks, amounting to 898 branches spread throughout the country and a vast customer base equal to two-thirds of Korea's economically active population. This enlarged branch and customer base will allow us to secure the second largest share of the market.

With the newly-integrated Shinhan Bank, we will continue to set new standards for banking in Korea, as we have done since the foundation. We will introduce several new business practices in addition to those recently instituted, such as the launch of a pilot branch in April 2005. Taking on a new look, the pilot branch truly embodies the concept of a "New Bank."

### RETAIL BANKING

We offer retail banking services primarily through SHB and CHB, the Group's two largest subsidiaries, and, to a much lesser extent, through the Jeju Bank, a regional commercial bank subsidiary. Retail banking services include mortgage, small business and consumer lending as well as demand, savings and fixed deposit-

taking, checking account services, electronic banking and ATM services, bill paying services, payroll and check-cashing services, currency exchange and wire fund transfers.

SHB's 319 retail branches are principally located in and around Seoul to target and service high net worth individuals. CHB has an extensive nationwide network of 409 retail branches located in all regions of Korea.

With substantial growth in sales in all business sectors, 2005 was a remarkable year for our retail banking business, and this has enabled the Group to accelerate its growth with a goal of becoming the leading bank in the retail banking market.

Amid fierce market competition, SHB's retail loans increased by KRW2,347.0 billion or 11.4% to total KRW22,903.8 billion.

CHB, for its part, put its efforts into improving its asset portfolio. The Bank expanded its low-risk loans such as household loans, and launched new marketing strategies targeted at prime customers in order to steer clear of credit risks in unsecured loans. CHB also saw its won-denominated loans increase by 15.5% to KRW18,220.2 billion from KRW15,781.4 billion in 2004, and mortgage loans grew to KRW10,101.6 billion from KRW7,864.3 billion.

To deal with a slowdown in the overall market due to the placing of government controls on real estate, the two banks developed an assortment of mortgage loan products. Such endeavors bore fruit as mortgage loans grew by KRW3,505.6 billion from the previous year.

**“We will strive to secure a leading position in the market for the new integrated bank as a comprehensive financial distribution channel.”**

Unsecured loans continued to grow as our retail banking sector focused marketing strategies on customers in high-income brackets and on customers in the civil service, and developed products to appeal to these demographics. Unsecured loans and other collateral-backed loans(excluding mortgage) increased KRW1,280.2 billion in 2005.

Total deposits grew by KRW3,028.0 billion or 3.6% to KRW87,273 billion at the end of 2005. Although the year saw flights of capital from the banking sector into booming stock markets, we promoted a balanced sales strategy in its traditional deposit products and introduced a variety of hybrid financial products to achieve substantial growth. As for the traditional deposit products of the banking industry, an increase in payroll accounts and marketing activities resulted in a remarkable KRW3,762.5 billion growth in low-cost deposits from the previous year. At the same time, we continued with efforts to satisfy customers' needs for a diversity of financial products by developing a variety of hybrid financial instruments. As a result, the Bank achieved significant growth in beneficiary certificates, overseas mutual fund sales and bancassurance sales. Beneficiary certificates, including overseas mutual fund sales, amounted to KRW4,861.5 billion, up 76.3% from the previous year.

In preparation for the final integration of the two banks, SHB and CHB, we spent the year 2005 building a sustainable competitive advantage in its core customer markets by making continual upgrades to its customer relationship marketing (CRM).

Through scientific analysis of customer financial needs and potential transactions, we endeavor to improve its operational

systems with differentiated proposal selling in accordance with the investment tendencies of clients. To this end, we continue to build on our employees' marketing and consulting capabilities so as to provide all customers with upgraded and comprehensive financial services.

In coping with the crossover and consolidation trends in Korea's financial markets, we seek to fulfill our role as a leading bank in the retail banking market by focusing on differentiated CRM. This focus will include the rediscovering of customer value, the maximizing of synergies through the cross-selling of multi-purpose financial products in linkage with SFG affiliates, and the building of an efficient marketing infrastructure in tandem with efforts to improve the marketing capabilities of employees.

In 2006, we will continue with efforts to enhance efficiency in our operations by restructuring work processes. We will build a separate "support center" to oversee the back office, and will transfer nearly half of the jobs from the retail branches to the support center, while computerizing and automating trivial jobs, and outsourcing much of the rest. Once the program is finally put in place from March 2007, retail branches are expected to see further improvements in sales.

# Commercial Banking



## Enhancing our operational competencies

### SME BANKING

As of December 31, 2005, we had approximately 119,540 SME loan customers, consisting of approximately 48,698 customers with SHB and 70,842 customers with CHB (not taking into account any overlaps between the two). As of December 31, 2005, our SME banking operation was the largest among Korean banks in terms of the total amount of won-denominated loans to SME customers subject to independent audit, with an approximate 15% share of the market.

Despite unstable economic conditions in the small office and home office (SOHO) sector, our differentiated and specified marketing strategies on professionals and the self-employed scored growth of KRW151.0 billion in loans to SOHO clients over the previous year.

The good performances were the result of our ceaseless efforts to identify customer needs and develop customized products and services to satisfy diversified customer needs. Differentiated market relationships developed by industry-leading RM professionals and continuous efforts to identify new sources of income bore fruit in 2005. We pursued new potential markets in refund guarantees (RG)—a guarantee to insure against loss in the event a shipbuilder fails to perform its contractual obligations, private LC—an alternative settlement to traditional LC, and other financial products that meet the demands of environmental and cultural businesses.

One of the major factors of our differentiated marketing tools was 'target marketing.' Segmenting SME clients by size into two categories, we applied different marketing strategies according to their different financial needs. In particular, focusing on the SMEs subject to independent audits with good credit ratings, we offered

them SME-exclusive IB products and SRM channels. As for SMEs who are not subject to independent audits and SOHOs, we focused on avoiding possible risks by accepting collateral and credit guarantees, while securing appropriate margins through differentiated pricing policies that reflect risk factors. We also channeled our marketing efforts towards building sound assets while targeting businesses with growth potential. We introduced several marketing programs tailored to the needs of each client group. We provided 'Premier Club' memberships to our prime corporate customers and offered a variety of products and services to their CEOs, CFOs and key executives. In addition, we launched 'High-Touch Marketing' to strengthen relationships with HNW corporate customers.

Through the business service center, we assist SME clients in advancing into direct financing markets. In cooperation with other SFG companies, the center provides advisory services on initial public offerings (IPOs), mergers and acquisitions (M&As) and issuance of Asset-Backed Securities (ABS). We also reinforced our leading position in the electronic corporate banking industry. We developed an ERP-linked Biz-BANK, a cash management service (CMS) that supports fund management and put in place a program for Future Bond-Backed Loans on Future Accounts Receivable.

As competition in the financial industry over the corporate banking business is expected to intensify in 2006, we will leverage our competitive edge and years of experience in the industry to develop new products and services while solidifying our stature as the best in corporate banking.

**“We will emerge as a leader in the large corporate banking and investment banking sectors.”**

## LARGE CORPORATE BANKING

We launched the Large Corporate Banking Division in 1999, as one of our long-term strategies to develop and expand new businesses while meeting the diverse financial needs of large corporate customers. In recent years, our Corporate & Investment Banking Group has begun to provide investment banking services. We provide services as an arranger, trustee and liquidity provider for ABS, and participate in and administer syndicated loans and project financing. Our major fields of business for large corporates are M&As, equity and venture financing, real estate financing, and social overhead capital (SOC) projects such as highway, port, power and water, and sewage projects.

Our large corporate customers consist primarily of member companies of chaebols and financial institutions. SHB's total large corporate loans in won amounted to KRW4,125 billion and those of CHB reached KRW3,478 billion as of December 31, 2005. As for SHB, the focus of business in this sector has been on investments in corporate debt securities and fee-based businesses rather than on conventional lending activities. Conversely, CHB has traditionally focused on large corporate customers.

In 2005, the Large Corporate Banking Division aggressively pursued new opportunities in overseas IB markets, expanded the equity investment portfolios and made advanced investments into prospective businesses. In cooperation with other divisions, we developed and sold many hybrid products and actively promoted customer lock-in strategies including CMS and SOW expansion to reinforce the LB sector.

In 2006, we set a goal of emerging as a leader in the large corporate banking and investment banking sectors. To achieve the goal, we will enhance our operational competencies in large-scale SOC projects while maintaining the leading position in ABS issuance and M&As.

Leveraging our stature as an integrated bank, we will solidify our position in the large corporate business sector. While reinforcing our relationships with customers and successfully realigning the LB division, we strive to maximize synergies by pursuing closely connected marketing activities among the Group subsidiaries.

Finally, we will continue to explore a new Blue Ocean Market. By actively pursuing the overseas IB business, we will continue to expand the LB business scope to better meet the changing financial needs of our customers. Building on the above activities, we will strive to emerge as a new leader in large corporate banking and investment banking.

# Investment Banking



## Setting the standards for IB business models

Our Investment Banking (IB) Center, established in 2002, has been setting the standards for IB business models while leading the market. Our IB business is conducted by non-banking subsidiaries: Good Morning Shinhan Securities (GMSH), Shinhan Capital, Shinhan Macquarie Financial Advisory (SMFA), Shinhan Life Insurance, Shinhan BNP Paribas ITMC, Chohung Investment Trust Management and Shinhan PE. Capitalizing on SHB and CHB's vast network of corporate clients, the IB Center coordinates and controls the IB marketing activities of these subsidiaries so as to provide a one-portal customized IB service that caters to a diversity of customer needs.

IB's major areas of business include: venture capital investment in new start-ups, initial public offerings (IPOs), capital increase with consideration, issuance of corporate bonds, grants of credit guarantees, project financing (PF), leasing, M&As and corporate restructuring. Backed by SFG's one-portal services, the IB Center provides a diversity of competitive products available only through a financial services group. Shinhan Financial Group's IB service is widely recognized as a successful model for Korea's IB business sector and this archetype are being followed by other financial holding companies as they develop their own IB businesses.

The investment financing and comprehensive financial market divisions of SHB and CHB, having successfully completed most stages of integration and currently undergoing the final stages in preparation for the launch of the New Bank, recorded remarkable growth of 72.7% in pre-provision income, going from KRW183.7 billion in 2004 to KRW317.2 billion in 2005.

The Social Overhead Capital (SOC) financing business continued to outperform the market in 2005. Through organic cooperation

with Macquarie Shinhan Infrastructure Asset Management, the SMFA team successfully completed a diverse range of structured financings while leading the SOC market. It concluded nine major projects in 2005 worth KRW2,600 billion, the largest share of the domestic market. Among the projects won by this segment were private sector investments in the Seoul Metro line number nine construction project and the highway building project linking West Suwon-Osan and Pyeongtaek.

We also participated in seventy real estate development projects valued at KRW1,900 billion, placing the Group second in market share. In coping with an overall slowdown in Korean real estate markets, we have focused on building sound assets in regions with active condominium construction. The Group's cooperation with its subsidiaries allows the IB Centers to take advantage of methodological diversification in real estate financing, which facilitates the maximization of profitability while improving risk management competency.

Having developed an 'ABCP Conduit,' a first for Korea, SFG led the domestic Asset-Backed Securities (ABS) market in 2005. In addition to the traditional ABS market, the Group developed new markets in ABS for M&As, and the securitization of commercial buildings, as well as the securitization of other real estate development projects. With its active development of new markets, SFG's IB business has grown steadily despite decreases in securitizable assets, taking the largest share of the market as of the end of September 2005.

The M&A sector also performed well in 2005 as it landed eight projects totaling KRW1,900 billion, the largest share of the market. With its holdings in Private Equity Funds (PEFs) such as the Shinhan

**“We will emerge as a leader in the large corporate banking and investment banking sectors.”**

PEF and Bogo PEF, the M&A sector has reinforced its strategic relationships with these partners. Such partnerships also allow the Group's M&A sector to diversify its sources of income through the provision of total financial services such as stock acquisition financing for Korea Electricity Investment, Korea Gas Investment, etc., the offering of building purchase financing for buildings such as the Myeongdong Tower, SK Seorin building, etc., and the marketing of new investment opportunities to large investors.

In the sector for syndicated loans in foreign currency, SFG concluded twenty-one contracts worth US\$386 million in 2005, including project financing, corporate loans, floating rate notes (FRNs), equity investments and object financing. Among the major deals SFG was involved in during 2005 through the expansion of its business scope into international financing was real estate development project financing to build residential-commercial buildings in Kazakhstan and a cross-border tax lease.

Since first investing in the venture capital sector in 1998, SFG has made 135 investments worth KRW93.3 billion to date. SFG continues to solidify its future transactional relationships with companies showing growth potential through cross-support marketing activities in investment and loans, and co-investments with subsidiaries. SFG will continue to serve as a total solutions provider while meeting the financial needs of venture businesses.

In the corporate restructuring business, we secured the leading position in the market with equity investments worth KRW78.0 billion and the extending of credit worth KRW71.0 billion to several companies. The segment also recorded KRW93.6 billion in profit in 2005 through the timely disposal of equity investments and the provision of M&A advisory services. In particular,

Samyang Foods, in which SFG has administered the restructuring process since 2002, saw a profit in 2005. SFG was widely recognized for its successful role in the turn-around, which demonstrated the Group's capabilities in the restructuring business.

To maximize the creation of synergies among subsidiaries, we employ channel unification strategies under which the RM of each branch bolsters the Bank's one-portal service in customer consultations, and each subsidiary acts as a product provider. With this strategy, we can maintain sustainable and profound relationships with its corporate clients while satisfying their diverse financial needs.

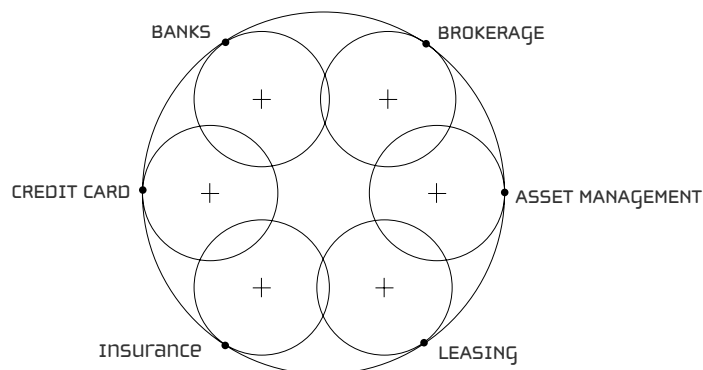
The successful launch of the New Bank earmarked for April of 2006 will stand as the beginning in which SFG will lead Korea's IB market in terms of both profit and size.

We will continue to expand the scope of business while diversifying the sources of income in such fields as SOC, ABS, syndicated loans and corporate restructuring. We will continue to develop a variety of products in the Build-Transfer-Lease (BTL) business and actively participate in SOC project-related securitization and overseas projects while tapping into the market for commercial mortgage-backed securities (CMBS). We also plan to expand our overseas real estate development financing, to coordinate overseas direct investment financing for domestic companies and to invest in many other natural resources development projects abroad. In the business restructuring sector, we will pursue network-building with other major players in the M&A sector. As the Bank now capitalizes on its network in successfully providing financial advisory services to major construction companies, we aim to continue its growth in new





# BALANCED POWER



## [ FULL-SCALE COMPETITIVENESS ]

We aim to boost the competitiveness of our non-banking subsidiaries. We will enhance the market position of each subsidiary in its respective line of business and reinforce the cross-selling system. For the efficient creation of synergies, the Group's corporate governance and management must be organized to function as one firm. To this end, we will focus on improving our metrics for synergy creation through significant improvements in the evaluation and reward systems.



## Securing competencies and fostering core growth engines

**“We will set new standards in Korea’s retail market, so as to emerge as a leader in the IB business.”**

Good Morning Shinhan Securities (GMSH), SFG’s securities brokerage subsidiary, provides a full range of brokerage services, including investment advice and financial planning to retail customers as well as international and institutional brokerage services to corporate customers. As of December 31, 2005, GMSH’s market share was approximately 5.90% of the Korean stock exchange market in brokerage volume.

As of December 31, 2005, GMSH had 111 branches nationwide and two overseas subsidiaries based in New York and London to serve our customers in this business. More than half of GMSH’s branches operate in the Seoul metropolitan area and these branches focus on attracting HNWI customers while taking advantage of synergies arising from cooperation with the banking branch network.

In 2005, GMSH introduced a variety of new products into the market: a financial instruments shopping mall; regular savings funds and theme funds; and equity-linked securities (ELS). As of the end of December 2005, GMSH recorded sales of KRW5,742.3 billion in beneficiary certificates and KRW1,315.5 billion in ELS issuance, an increase of KRW365.2 billion (6.8%) and KRW241.7 billion (22.5%), respectively, from 2004.

GMSH continues to explore new opportunities in the corporate sector through cooperation with other subsidiaries of SFG. To this end, SFG co-located the investment banking divisions of GMSH and SHB to coordinate cooperation in the Group’s overall IB segment. In pursuit of new sources of income, GMSH continues to enhance its sales in real estate, ship investment companies (SICs) and project financing (PF).

Leveraging its competitive edge in the selling of derivatives to overseas clients, GMSH is expanding its business focus to credit derivatives linked to the IB business sector, commodity futures

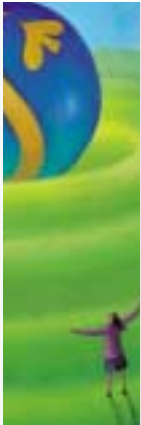
trading, and securitized derivatives. In preparation for new business trends and deregulation in Korea’s financial markets, GMSH has entered a new area of business focused on trusts and annuities and will put efforts into building new infrastructure in preparation for entering into asset management and futures trading in the future.

While opening new BIBs in several retail branches, GMSH also reinforced its online sales channels. The brokerage also launched “New Good i,” adding such features as information on blue chip issues and new methods of trading to “Good i,” the Company’s online home trading system (HTS). GMSH also went so far as to provide information on U.S. stock markets on a real-time basis through its “momento service.” In addition, the firm concluded a strategic business partnership with Yahoo Korea and opened an online branch for its “Good-i” portal on the Yahoo Korea website, enabling the securing of the largest online base to provide real-time trading, new issue research services and other advanced services.

Aiming to be a Korean-style investment banking leader with the second largest market position, GMSH has devised four major strategies for 2006:

- ❖ Improve internal competency by strengthening business portfolios and expanding investments
- ❖ Expand the customer base through enhanced marketing competency
- ❖ Build innovative models for product management and the IB business
- ❖ Actively respond to deregulation and new business opportunities

In addition to fulfilling these strategies, GMSH, while remaining acutely aware of even the slightest changes in the market, will analyze factors influencing such changes and preemptively respond with appropriate measures. GMSH continues to secure its competencies while fostering its core growth engines.



## Actively responding to market demands

“We will maintain close relationships with our customers.”

Under one roof as a holding company, SFG holds two insurance companies: Shinhan Life Insurance and SH&C.

### Shinhan Life Insurance

Established in March 1990, Shinhan Life Insurance provides life and health insurance policies through 112 branches spread throughout the nation and via 4,300 salespersons that operate in the field.

We sell life and health insurance, personal accident insurance, annuities and other investment-oriented products such as variable insurance and retirement annuities through a variety of sales channels including insurance canvassers, telemarketing (TM), branch sales, bancassurance through bank branches and cyber marketing (CM). In employing a wide range of new sales channels, we have focused on diversifying our sales channels to stabilize our profit-to-loss structure.

Having joined SFG at the end of 2005, Shinhan Life Insurance expects to grow into a comprehensive insurance-oriented financial services provider.

With its sales channels producing excellent results in 2005, Shinhan Life Insurance recorded KRW2,143.2 billion in premiums written. In addition, the asset volume grew by KRW1 trillion from the previous year, and total assets amounted to KRW5,129.3 billion, placing the Company as the ninth largest among twenty-two Korean life insurers.

Pretax revenues of CY2005 amounted to KRW102.1 billion and net income after corporate tax reached KRW74.1 billion. As of the end of December 2005, Shinhan Life Insurance's solvency margin ratio reached 232.1%, more than double the standard set by the governing supervisory authority.

Still in our first year since joining the Group, we aim to produce monumental results. In line with the slogan 'New Start 2006,' we set

a series of new strategies for a successful year, including the reinforcement of profitability, differentiation in marketing, and professionalism in the organization. We aim to enhance profitability by developing strategic new products while positively responding to the demands of the market. Capitalizing on the Group's network, we intend to enhance and improve our marketing competencies to take them to a global level.

### SH&C Life Insurance Co., Ltd. (SH&C)

Co-founded by Shinhan Financial Holdings Group and Cardif SA, a life insurance subsidiary of BNP Paribas, one of the most renowned financial institutions in the world, SH&C was the first life insurance company in Korea to offer a bancassurance service. In October 2002, SH&C began operations as a life insurance subsidiary of the Shinhan Financial Group. Since that time, SH&C has established strategic alliances with SFG's subsidiaries and provided bancassurance products and services to customers.

SH&C has played a pioneering role in the Korean bancassurance industry, making significant progress over a short time. SH&C will continue to provide high-quality customer-oriented services to help customers and their families live happier lives.

Taking advantage of its status as a subsidiary of a large financial group, SH&C will focus on reinforcing its strength in variable insurance products. Plus, in preparation for coming changes in regulations in the bancassurance business, the Company will continue to seek more profitable channels. In this context, we will enhance our product development and marketing competencies so as to respond rapidly and effectively to the increasing diversity of demand coming from our sales channels.

# Asset Management



## Satisfying the ever-diversifying financial needs of customers

“We will provide our customers with best-of-breed investment advisory services.”

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

As many foreign asset management companies seek to advance into the Korean market, the ongoing competition in the industry has been forecasted to intensify further in coming years.

Seeking to maintain profitability by providing high quality services to local customers, Shinhan BNP ITMC developed and introduced an assortment of products. Accordingly, the total assets under management (AUM) grew by 21.1% to KRW7,300 billion at the end of 2005 from KRW6,070 billion at the end of 2004. The Firm's market share also grew from 3.25% at the end of 2004 to 3.6% at the end of 2005.

We have continued to garner best practices from BNP Paribas Asset Management, a world-renowned asset management company. With the assistance of this European company, we have continued to develop an assortment of financial instruments that satisfy the ever-diversifying financial needs of customers. In particular, the Group has shifted its focus to overseas stock markets and produced many financial products covering both domestic and overseas stock markets.

In 2006, we will continue to roll out new products that invest in overseas stock markets. In particular, we will focus on the emerging markets of China and the well-established ones of Japan. Through the distribution channels of the newly-integrated bank, we will continue to introduce new products and improve operating profitability. With the aim of leading the asset management market, we will continue to work to build the competencies of our asset managing subsidiaries.

## Credit Card Business

### Expanding and redefining our sales infrastructure

“We will strive to secure industry-leading marketing and risk management competencies.”

Our card business is comprised of two companies: (1) Shinhan Card, a specialized credit card company that was divested from Shinhan Bank in June 2002 and (2) CHB Card, Chohung Bank’s credit card business, which was acquired by the Group in 2003.

The slated merger of CHB Card with Shinhan Card offers potential new opportunities for cost savings. In addition, the merger is expected to reach combined total sales of approximately KRW28 trillion and 6.5 million card users, enabling the new business to secure the fourth largest share of the market.

In 2005, both card businesses obtained strong results. Shinhan Card achieved profitable growth from differentiated marketing strategies focused on prime clients and was recognized for its outstanding risk management capabilities. CHB Card saw its efforts to get back on track bear fruit in 2005 with a turn-around in results.

Shinhan Card generated KRW54.2 billion in net income in 2005, thanks to its innovative marketing strategies, and entered into a number of business partnerships in pursuit of differentiated and customized card services and products.

With the aim of establishing an accessible and user-friendly system of charitable donations, Shinhan Card introduced the “beautiful card,” a credit card that integrates the giving of donations. The card caught the market by surprise after attracting more than 250,000 members in its first year. Shinhan Card also entered into a series of partnerships with several organizations including the

National Election Commission (NEC) to promote a culture of ethical political donations while generating profits for the Company.

As for CHB Card, the unit successfully decreased its holdings of bad debts in 2005. Though the decrease led to a diminished asset volume, the unit’s efforts also served to substantially improve asset quality, thus helping to secure a foundation for stable profitability in the future.

CHB developed and rolled out a variety of new products to meet sophisticated customer needs. The “GS Home Shopping Card” attracted 150,000 new credit cardholders. Sales of low-risk check cards soared to one million membership accounts totaling KRW677.7 billion, a 220% increase in total usage volume.

While preparing for integration in 2006, we will channel resources into customer retention to provide for early stabilization of the new organization. In addition to marketing activities, Shinhan and CHB Cards will pursue efficiency in the risk management system and expand and redefine the sales infrastructure. We will also continue to foster the talents of our employees, while ensuring the successful integration of IT processes and the expansion of investments in infrastructure. Leveraging its advantageous position as subsidiaries of a financial group, the card business units will focus on profitable growth as well as asset growth while targeting its marketing towards prime members. With such efforts, Shinhan and CHB Cards are laying the foundation for a leap forward towards becoming leading credit card companies in Korea.

# Private Banking



## Providing complete financial life advisory services

We provide private banking (PB) services for high net worth (HNW) customers who seek personal advice in complex financial matters. Our aim is to help clients manage their private wealth and raise the financial sophistication of their investments by offering a comprehensive one-stop service in portfolio and fund management, tax consulting and real estate management.

We introduced the PB business in 2002 as a first among domestic banks. We opened our first PB Center in Seoul in 2002 to serve the needs of HNW customers with financial assets of more than KRW1 billion, and we currently have seven PB Centers in the Seoul metropolitan area. In connection with our strategy to target HNW retail customers, we established a separate PB division in 2003 to further develop and improve our services in this area.

Our PB service is not limited to being an asset manager for our customers. We provide a comprehensive range of services including tax consulting, real estate management, and more.

Our strategy is to provide comprehensive financial life advisory services to HNW customers.



## Providing services that improve customer value

“We will continue to invest in e-business so as to develop this area into a major profit-generating business channel in the future.”

e-Banking functions primarily as a cost-saving method, rather than a profit-generating platform. Consistent with the fact that Korea has the highest penetration of the Internet in the world and an active e-business market, Internet banking has continued to grow at a rapid pace.

Since launching Korea's first Internet banking service in July 1999, SHB has been widely acknowledged in the print and electronic media as the Internet banking leader among Korean commercial banks. SHB's Internet banking services are more comprehensive than those available at the counter. CHB launched its electronic banking services in May 1993, allowing customers to transfer funds, make account inquiries and receive account statements by telephone and facsimile.

In 2005, SHB and CHB promoted and launched a variety of new programs to enhance SFG's competitiveness in indirect channels. The “portable certificate” service launched in April 2005 enhances customer convenience as the program allows customers to save Internet banking certificates on a mobile phone, enabling customers to use the certificates at any time. Also added to the Bank's online experience was the “expected waiting time notification” program now available on SFG's website. This service, currently available at a limited number of branches in the Seoul metropolitan area, will gradually be expanded to all SFG branches in the near future. Starting operations in March of 2005, the “escrow service,” a low-fee insurance and security service, acts to steer clients clear of various risks that may be encountered during real estate-related transactions. Additionally, the “Biz Partner”

service, an electronic notes service, was designed to meet the needs of corporate clients for electronic financial services.

Our consistent striving to serve our customers better was recognized in the awarding to SFG of the grand prize in the “Web Awards” and “Korea e-Finance Award” competitions.

As Internet banking has proven to be a successful complement to our direct channels, we believe it will become a major distribution channel in a ubiquitous financial environment in the future. In preparation for this coming new era, SHB's e-business division drew up a strategy, namely “innovation in the Internet channel and introduction of future-oriented new businesses and new channels” for 2006. With this strategy, we will continue to provide differentiated services to customers while developing new businesses so as to lead the financial industry into the future.

With IT developing rapidly, Internet banking is evolving from older systems of Internet banking and mobile banking into newer systems that make use of IC cards and TV banking, and such developments are ushering in a ubiquitous banking era, where people can conduct financial transactions whenever and wherever they may be. In coping with such rapidly evolving financial circumstances, we aim to remain active to preemptively secure the latest innovations. With the aim of providing services that improve customer value, we will continue to invest in e-business so as to develop this area into a major profit-generating business channel in the future.

# Cross-Selling



Concerted efforts to  
better serve  
our customers

“We are focused on  
delivering value  
through one-stop  
services with  
heightened service and  
confidence.”

SFG seeks to profit from the cross-selling of the Group's core products. The focus of cross-selling, one of SFG's more profitable growth engines, is on doing what is in the best interests of customers. Financial institutions need to offer customers differentiated products and services with a range of pricings and must be prepared to guide customers in explaining how a cross-selling system works to their greater benefit. They need to be shown how a system of long-term, comprehensive financial transactions is superior to a series of dispersed transactions through different financial institutions. Cross-selling also offers financial institutions more opportunities to discover and thus meet the financial needs of individual clients.

In an effort to respond effectively to changing financial market conditions in 2005, we implemented Group-wide marketing strategies that aim to maximize customer value through enhanced customer relationships. Through these new strategies, we strive to better understand our customers so as to effectively satisfy customer needs. In turn, such knowledge enables the Company to deliver the best-of-breed products and services to suit the needs of individuals.

As a result of our efforts to focus on our customers, major performance indicators improved. The number of clients conducting transactions through at least two of SFG's subsidiaries grew in 2005 by 10.9% from 2004, while the number of accounts per customer increased by 10.1% from 2004 to 3.16 accounts per person. In addition, the percentage of active clients was recorded at 81% in 2005, a 2%p growth from the same period of the previous year.

These encouraging results can be credited to SFG's active marketing campaigns and to its activities geared towards reinforcing customer relationship management (CRM). As a part of these group-wide CRM activities, each subsidiary analyzes its own database of clients through the Group's Enterprise Data Warehouse (EDW), develops customized marketing algorithms to determine suitable marketing strategies and provides core products customized to the needs of target customers through the most efficient distribution channels available.





## Market-leading hybrid financial instruments

“The sales record of regular saving fund products outperformed the market.”

### [Bank]

#### Market-driven products

- “Start Plan,” “Tops CD-linked Time Deposit,” “Fixed-interest rate loans in foreign currency,” etc.
- The “Fixed-interest rate loans in foreign currency” product was awarded the Grand Prize for financial products by the Financial Supervisory Service (FSS).

#### Products aimed at niche markets

- “Plus Mortgage Loan,” “Safe Auction Loan,” “Rainbow Plan,” “Study-abroad Loan,” etc.

#### Social contribution products

- “Promise with Love” installment savings deposits and time deposits, “I Love Dokdo” time deposit, etc.

In the run up to integration, we amalgamated all liquid deposits and some of the time deposits operated by the two banks.

### [Credit Card]

#### Social contribution products

- Beautiful Card: cardholders can donate mileage points
- I Love Dokdo Card: a card product in response to a social issue

#### Products for prime customers

- ‘Infinite’ Card: a premium card for HNWI customers

#### Differentiated reward products

- Tops Auto Card: discounts on new car prices as well as mileage points
- Public Servant Pension Card: card exclusively made for public servants
- Homeplus Card: in partnership with Home Plus, a local retailer

### [Insurance]

#### Products to meet market demand for variable insurance products

- “Shinhan Midas Variable Universal Life” Nonparticipating Insurance
- Nonparticipating VIP Variable Annuity

#### Products to complement the matured life insurance market

- Nonparticipating Life Plan (Whole Life Insurance with endowment)
- Nonparticipating Shinhan Term Life Insurance (Life-plan type maturity)
- Nonparticipating Plus-Up Term Life Insurance (relatively inexpensive)
- Nonparticipating Life-tech Insurance (endowment insurance)

#### Products to answer social needs for health insurance

- Nonparticipating Sasang Constitutional Medicine Health Insurance (Differential insurance type with exclusive rights of usage)

### [Investment & Trust]

#### Diversified investment portfolios

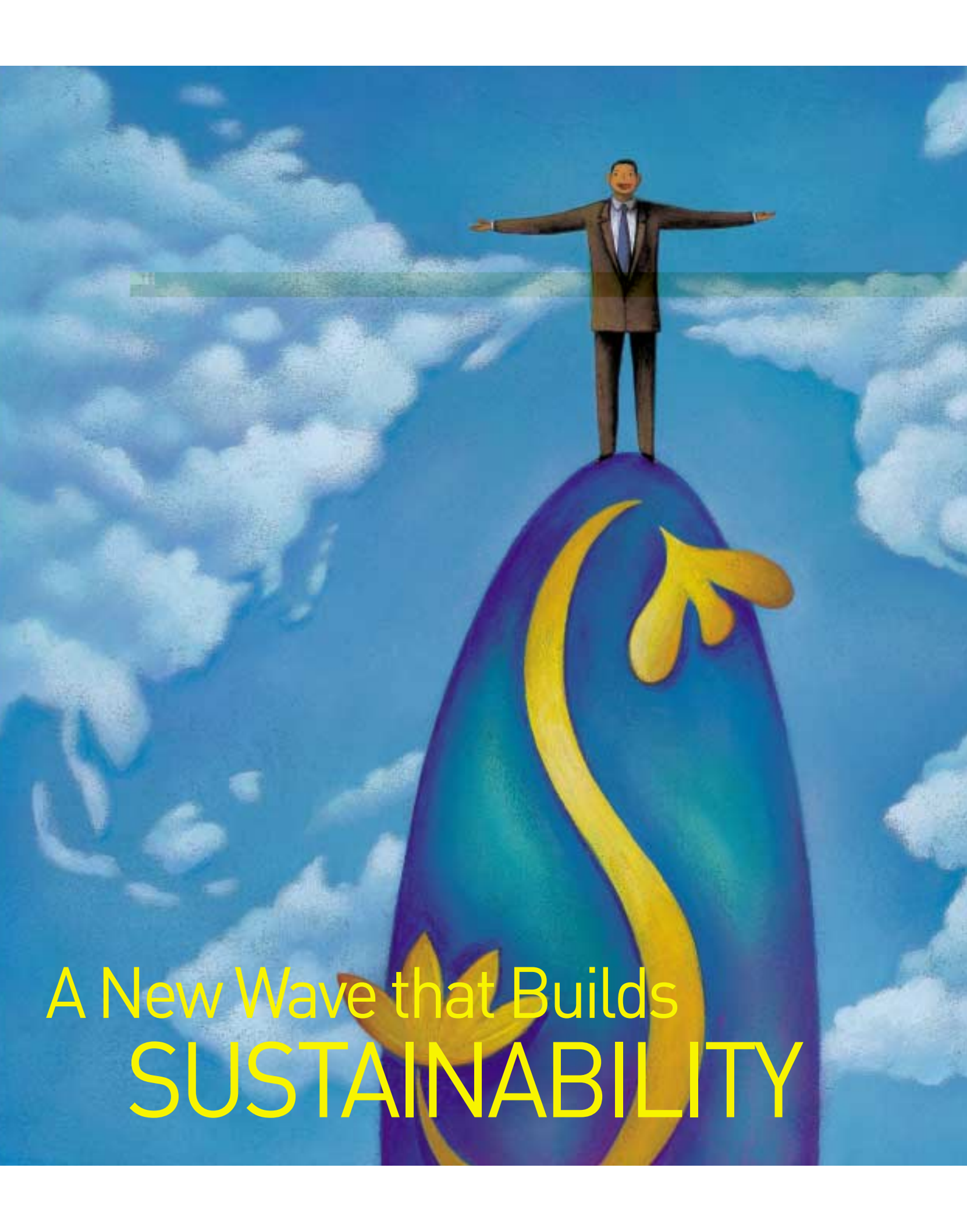
- Shifting the focus of investment portfolios to overseas investment. In particular, hedge funds and funds investing in India, China and Japan

#### Diversified fund scheme

- Many more differentiated products aimed at aging populations

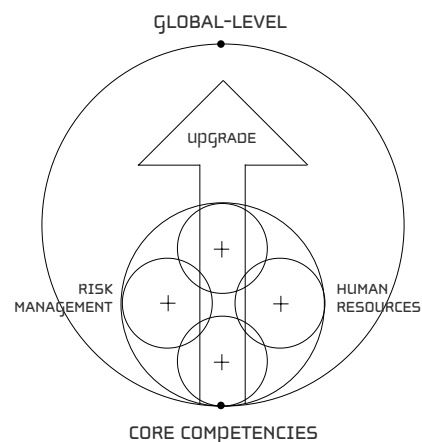
#### Event products

- Hybrid products (bank+card+AM) commemorating 2006 World Cup Soccer Games and the integration of SHB and CHB
- Fundurance (insurance + regular saving funds)



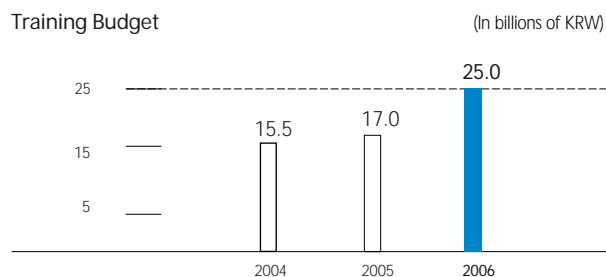
A New Wave that Builds  
**SUSTAINABILITY**

# WORLD CLASS



## [ GLOBAL-LEVEL COMPETENCY ]

We aim to improve the qualitative competency of the Group to the global level. In order to set the standards in new financial business models and cultures, high-caliber human resources are needed. For this reason, we continue to invest a significant amount of resources in training and in rewarding our people. SFG's competitive manpower will be the driving force that enables the Group to take the lead in ever-changing business circumstances.



# Risk Management



## Keeping risk factors under control

### RISK MANAGEMENT ORGANIZATION

#### Group Risk Management Committee

Oversees the whole process of setting group risk management standards from building the risk management framework for the SFG and its subsidiaries to determining and approving Group risk policies and limits.

- ❖ Devising risk management guidelines that correspond to business strategies;
- ❖ Determining the degree of manageable risk for the Group and each subsidiary;
- ❖ Approving appropriate investment limits and permissible loss limits for each subsidiary;
- ❖ Enacting and revising regulations for risk management; and
- ❖ Examining other matters deemed appropriate by the BOD and the committee.

#### Group Risk Management Council

Oversees and discusses the details of overall Group's risk-related issues to ensure consistency in the implementation of all risk policies and strategies within the Group and its subsidiaries.

Issues deliberated on by the council are as follows:

- ❖ Changes in risk policies and strategies of subsidiaries;
- ❖ Matters subject to joint discussion concerning group-wide risk management;
- ❖ Influences of external environments on group risk; and
- ❖ Other matters presented by the council chairman.

#### Senior Management

SFG's senior risk officer supports the GRMC and works with the Group Risk Management Council, comprised of risk officers appointed by each subsidiary, to devise and apply risk policies and strategies for the Group and each of the subsidiaries.

#### Subsidiary Committees

Each subsidiary has its own risk management committee and risk management framework, which is used to implement the Group's risk policies and strategies and to formulate and conduct the risk policies and strategies in accordance with the Group's risk policies.

### Overview

The Shinhan Financial Group maintains a comprehensive risk management system that recognizes the diversity of the Group's business activities to keep risk factors under control. Major risks SFG faces are credit, market, liquidity, and interest-rate risks. SFG follows internal guidelines for identifying, measuring, controlling and reporting these risks.

### Organization

The Group Risk Management Committee (GRMC) develops SFG's basic risk management policies and strategies. SFG's senior risk officer supports the GRMC and works with the Group Risk Management Council, comprised of risk officers appointed by each subsidiary, to devise and apply risk policies and strategies for the Group and each of the subsidiaries. Each subsidiary has its own risk management committee and risk management framework, which is used to implement the Group's risk policies and strategies and to formulate and conduct the risk policies and strategies in accordance with the Group's risk policies.

SFG keeps a hierarchical system of limits to manage risks at a reasonable level. The GRMC sets manageable risk limits for the group and each subsidiary sets and maintains detailed risk limits by division, desk, risk type and product.

### Major Risks

#### Credit Risk Management

Credit risk is the potential for financial loss resulting from the failure of a borrower or counterparty to honor financial or contractual obligations and is the major risk faced by SFG. The majority of the credit risk cases arise largely in the course of lending to and investing in businesses by the Shinhan Bank (SHB) and Chohung Bank (CHB).

**“We keep a hierarchical system of limits to manage risks at a reasonable level.”**

Credit committees within SHB and CHB formulate the basic guidelines of the two bank's credit risk management policies. These committees, consisting of the Head of the Credit Division and the General Manager of the Credit Policy & Risk Management Department, are led by the Chief Credit Officer (CCO). The committees set loan policies for the Group and inspect the provision of loans for amounts that go beyond set limits.

The credit risk management of each loan begins with a credit rating assessment of each borrower. All corporate loan requests undergo a credit analysis, which utilizes assessment models to examine the financial and non-financial factors of the individual corporation, such as industrial risk, operational risk and business risk. The results of a credit analysis provide data for loan approval, loan-limit management, pricing decisions and loan loss provisioning. In preparation for the new capital adequacy accord, known as Basel II, we developed 26 types of loan models covering all loans to borrowers in eleven industrial fields to meet the new approval criteria of the Basel II for internal ratings-based approaches. SFG has developed and applied separate assessment models to determine whether or not to grant appropriate credit to SOHO companies. SFG also employs an exclusive Credit Scoring System (CSS) to inspect personal loans.

SFG employs a group decision-making process for inspecting corporate loans to ensure objective and circumspect decision making. In general, the Relationship Manager (RM) of each branch and the Credit Officer of each division must both agree to a loan approval. Approvals for substantial loans are made by RM councils. As for other substantial loans, in particular, those exceeding the limits set by the RM councils, the highest-level decision-making bodies of each bank - the Credit Committee of SHB and the Loan

Inspection Committee of CHB - take charge of the loan inspection. Inspections of individual loans are made using the Credit Scoring System (CSS), which utilizes objective statistical methods and an automated assessment system based on SFG's credit policies.

SFG also operates a real-time monitoring system for the timely and appropriate management of all loans. Under the system, firms showing signs of insolvency are automatically screened on a weekly basis and referred to RMs and credit officers for loan reviews. The results of a loan review are rendered to an independent credit management division, which judges the appropriateness of a company's current credit rating, and then makes adjusts to the credit rating of the company in question, if deemed necessary. Under the procedure, borrowers are placed in one of three categories – “companies showing signs of insolvency,” “companies to be kept under observation” and “normal companies.” Loans extended to troubled companies are monitored and managed according to risk management guidelines in order to prevent deterioration of a loan to non-performing loan (NPL) status. Loan screening and management operations are supported by the Industrial Information Team, which provides relevant data on industrial trends and companies, and the Financial Analysis Support System in cooperation with outside professional credit rating agencies.

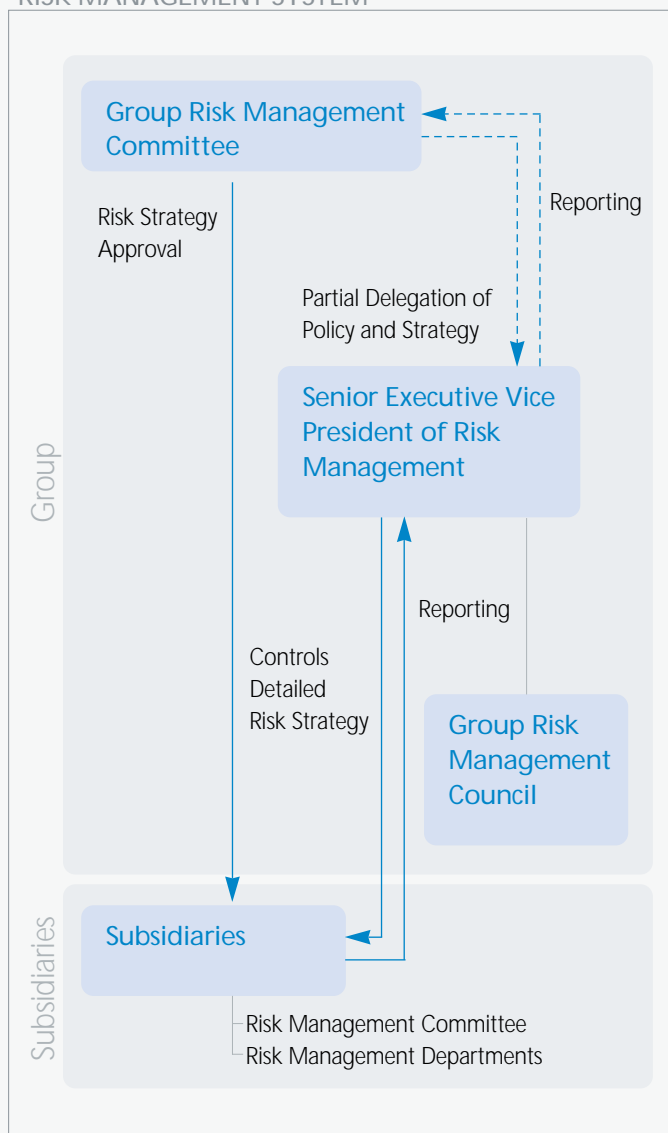
Meanwhile, a separate assessment and management process is applied to cover expected and unexpected losses in credit risk.

Expected losses are calculated based on historic rates of bankruptcy and on recovery ratios as determined by credit ratings. SFG earmarks loan loss provisions based on calculations of expected loan loss amounts. Unexpected loss refers to a situation in which loan-

# Risk Management

## Enhancing the overall risk management system

### RISK MANAGEMENT SYSTEM



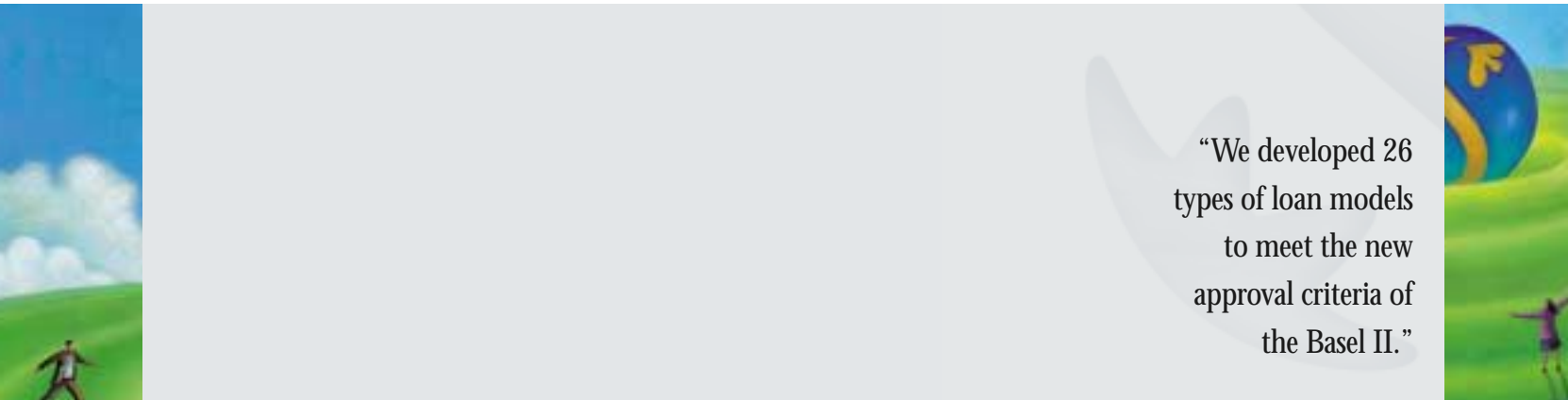
related losses exceed loan loss reserves, such as occurred during the Asian financial crisis of 1997. To minimize and absorb the impact of such an event, the maximum potential amount of loss going forward is estimated and managed.

### Market Risk Management

Market risk is the risk of losses from changes in interest rates, foreign exchange (F/X) rates or the prices of equity shares and indices, commodities, debt securities and other financial contracts, including derivatives. SFG classifies market risks into three categories and maintains different measures of each. These measures include the price volatility risk of the trading portfolio, the interest rate risk on non-trading bank accounts and F/X risk of the foreign exchange position.

Market risk management basically aims to control and maintain the maximum amount of potential loss from market risk within manageable levels. Under this basic rule, SFG uses different risk limits for each party-at-risk, from the portfolio and individual desk, to the dealer, including value-at-risk (VaR) limits, investment limits, position limits, transaction limits, loss limits and stop-loss selling limits. The managing of limits and monitoring of compliance are the responsibility of independent risk management teams and of risk management officers within each business unit.

All new products or transactions of each business sector are subject to an objective analysis and review through a risk assessment process by risk management divisions to determine risk factors before being launched.



“We developed 26 types of loan models to meet the new approval criteria of the Basel II.”

SFG uses a value-at-risk (VaR) model to measure market risk. Value-at-risk estimates the probability of portfolio losses based on a statistical analysis of historical market price trends, correlations and volatilities. SFG’s VaR is based on historical simulation and delta-normal VaR measures at a 99% confidence level. Stress testing is performed, in addition to the statistical risk measurement, to preemptively counter any losses arising from unexpected changes in economic circumstances. SFG also employs interest rate VaR and earnings-at-risk (EaR) to monitor the interest rate risks and the Asset & Liability Management (ALM) committee checks this compliance on a monthly basis. Good Morning Shinhan Securities (GMSH) applies risk-equivalent figures that are determined by its governing supervisory organization, and Delta-Gamma VaR measures are applied to the Company’s stock index futures and options.

For the effective management of market risks, SHB and CHB allow only selected divisions, such as the Securities Investment Department, to trade securities including stocks with a price volatility risk. The process of managing the interest rate risk and F/X risks at bank branches are centralized within the Treasury Division.

#### Liquidity Risk Management

Liquidity risk is the risk that an entity may be unable to meet a financial commitment to a customer, creditor, or investor when payment is due or is the potential exposure that arises when adjustment at a reasonable cost is impaired due to the size of a derivative position in times of high volatility and financial stress. Each subsidiary observes the liquidity ratios set by their own governing supervisory organization and puts in place contingency

plans to guard against unexpected shortages of cash caused by abrupt changes in market environments or monetary policies.

SFG also utilizes a system that monitors the maturities of raised funds and operating funds and schedules the maturity dates of these funds on a daily and monthly basis, with contingency plans for dealing with any liquidity-related situation. SHB and CHB report their liquidity ratios, liquidity gaps and other related indicators to the ALM Committee on a monthly basis.

Simulated stress testing is periodically performed to check if each subsidiary maintains a stable liquidity gap structure in the event of a variety of liquidity and market crises. The scenarios include going concern conditions, bank-specific crises and general market crises. The current status of a liquidity gap reckoned by scenario is reviewed and reported. In particular, a liquidity CaR is introduced to control risk capital in the event of an increase in refinancing costs arising from a depletion of normal reserves due to capital withdrawals by customers.

Apart from the above-stated approaches, SFG disperses the maturity dates of its fund-raising products to avoid the event of liquidity risk, and continues its efforts to secure a stable capital foundation.

#### Interest Rate Risk Management

Interest rate risk refers to the possibility of losses from negative movements of interest rates such as declines in the value of net assets or decreases in net interest revenues. Each subsidiary seeks to contain within affordable levels, the volatilities of losses in net asset value and interest revenue deriving from movements of interest rates

# Risk Management



## Continuing to improve risk management

on all interest-bearing assets and liabilities, and other derivatives.

Interest rate risk can be broken down into three components of yield curve risk, basis risk and options risk, which shall be measured and controlled using the following approaches:

1. Interest rate gap analysis and interest rate VaR analysis to control interest rate mismatch risk
2. NII simulation assuming interest rate scenarios such as parallel shifts, yield curve steepening and yield curve flattening to control yield curve risk
3. EaR analysis that reflects the correlations between the benchmark rate (government bond rate) and other product interest rates to control basis risk that derives from the gap between the benchmark rates of interest income and expense
4. Statistical analysis to control the options risk stemming from customer behavior such as early redemptions and halfway terminations, etc. affected by the fluctuating market interest rates and other market factors

At SHB and CHB, interest rate risk management teams operate independently of front offices and measure, monitor and control risks using an ALM system. The team reports the current status of interest rate risk limit controls to the GRMC and ALM committees on a regular basis.

SFG continues to measure and control the levels of risk using interest rate gap analysis, net interest income (NII) simulations and EaR analysis in earnings perspectives focused on the volatilities of

interest profit over a short period to measure and control the maximum loss potential in the net interest income of banks for a given period. Duration gap analysis and VaR analysis are employed to measure the level of risk in terms of economic value perspectives, which allows the Group to comprehensively assess the long-term effects of interest rate movements and to assess and control the maximum permissible limit of losses in net asset value such as cash flow arising from bank assets, liabilities and off-balance transactions.

Stress testing is periodically performed to measure potential losses in the event of a market crisis and the results are reported to the ALM committee.

Aware of the importance of controlling major interest rate risks in banking activities, SFG strives to diversify the interest rate fluctuation period and develop new interest rate products to fill the gap between raising and operating funds.

### Preparations for the Implementation of Basel II

Basel II is an effort by international banking supervisors to update the original international bank capital accord (Basel I), which has been in effect since 1988. The Basel Committee on Banking Supervision developed the current proposals, which aim to improve the consistency of capital regulations internationally, make regulatory capital more risk sensitive, and promote enhanced risk-management practices among large, internationally active banking organizations.





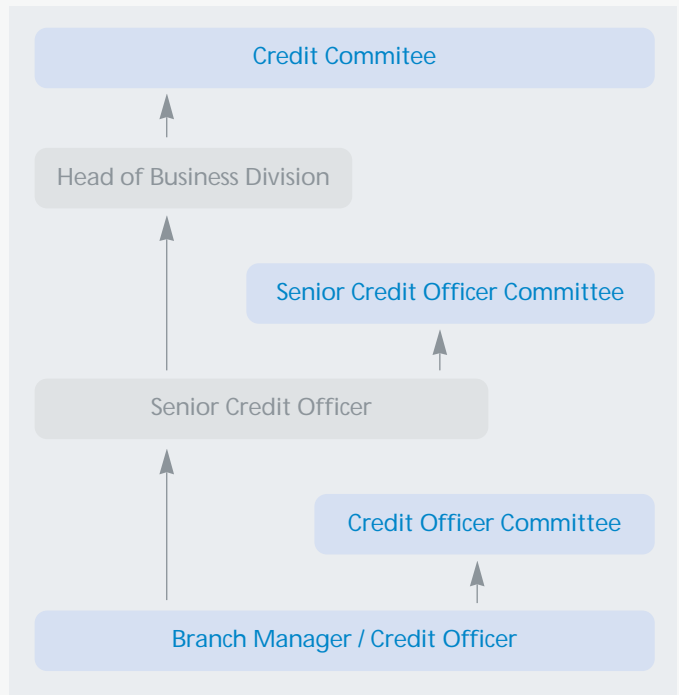
“In the run up to the implementation of the Basel II, we are making thorough preparations.”

Accordingly, since February 2004, SHB and CHB have operated a joint project team to effectively prepare for implementation of the new accord. The Basel II team has completed the first stage of its project, that of analyzing Basel II requirements and establishing detailed policies to meet such requirements. Based on the results of the studies, the team designed related systems for such areas as credit risk, operational risk and capital adequacy evaluations in 2005, and these systems are expected to be in full operation when this report goes to print in March of 2006.

SFG takes different approaches to each risk: an Advanced Internal Rating Based (AIRB) approach to measure credit risk and an Advanced Measurement Approach (AMA) for operational risk. Both approaches are the most highly-developed risk measuring tools recommended in the Basel II. As for the IRB approach, however, the foundational internal rating based approach (FIRB) shall be utilized first, until 2008, when the requirements recommended by Basel II are satisfied for the preliminary operating period before employing the advanced internal rating based approach (AIRB).

SFG will continue its efforts to meet the qualitative requirements of Basel II for overall management and business processes while working intensively to advance its risk management capabilities. To this end, we will reconstruct and secure (1) required equity capital (2) loan interest pricing (3) asset portfolio management policies (4) profit and loss evaluations in consideration of expected losses and (5) expanded Risk Adjusted Performance Measures (RAPMs).

CREDIT APPROVAL PROCESS



# Human Resources Management



## Attracting and building a talented leadership pool

“We are building the foundation for sustained growth in the future.”

Our Human Resources (HR) division attracts and develops talented people, providing the skills and resources necessary to succeed across diverse lines of business, and rewards them with competitive incentives and opportunities to maximize their potential within the Group.

Our HR management focuses on four major areas:

- Reinforcing competencies while enhancing employee capabilities
- Improving systems to strengthen employee capabilities and reinforce education
- Expanding performance-based personnel management
- Placing knowledgeable and skilled employees in all levels and operations

Going forward, SFG HR division will be directed towards managing:

- Differentiated HR support systems for each business unit
- Advanced performance management systems with tailored evaluation and reward schemes
- Diverse programs to foster global-level competitiveness in our talent
- Systematic and individualized Career Management Programs (CDP) and personnel operations

SFG's "ideals of talent" were devised to set out a role model for employees in fulfilling a particular mission in the Company's new business model, which will aid in the accomplishment of SFG's vision. The "ideals of talent" also set forth this new role model to help employees in the practice of Group Core Values, which are: to be a "reliable partner" who uses integrity in making decisions; to be a "top financial expert" who takes ownership of responsibilities; to be a "synergy creator" who makes the best use of teamwork; and to be a "passionate innovator" who embraces "change and challenge."

To assist our people in understanding and effectively realizing

these ideals, we actively promote this concept throughout the HR system. First, in administering a competency-based interview (CBI), we scrutinize applicants for their potential to match our ideals of talent. We also use scorecards reflecting the "Group Core Values" to measure the understanding and practice by our people of the Core Values. In addition to the recruiting and evaluation system, we provide a diversity of training courses to identify and cultivate top talents among our employees.

Aiming to nurture professionals by job and function, our new training programs include:

- Courses to enhance the core competencies of our people, including:
  - an overseas regional expert course, overseas MBA courses, advanced financial courses developed in cooperation with prestigious Korean institutions;
- Courses to nurture our next-generation leaders, including:
  - a global business communications program, marketing colleges and self-guided learning programs;
- And action learning-based strategy CoP programs.

In addition, we utilize advanced educational approaches via the Shinhan HRD Portal System and the Shinhan Game-Based Learning System. The Shinhan HRD Portal system (<http://educast.shinhan.com>) was developed as a total learning architecture for cyber education to provide tools that support active learning, and to meet the need for self-directed learning. We also developed the Shinhan Game-Based Learning System to improve and evaluate capabilities through the accomplishment of challenging and motivating missions. This edutainment (education + entertainment) system provides a user-centered individualized educational service, rather than a supplier-centered packaged educational service.

# Customer Satisfaction



“The goal of our customer satisfaction is to assist customers in finding solutions that meet their complete financial needs.”

# ANew

“A company that customers turn their backs on cannot survive. This truism lies beneath our active and positive marketing activities. From the start, customer satisfaction (CS) has been more than merely a simple service provided by the Group. We have long seen CS as a critical component to the success, and indeed, the very long-term survival of SFG. To reiterate, our concept of customer satisfaction goes beyond the basic idea of mere customer service to providing core values. It must be noted that our concept of customers includes not only those who conduct on-going transactions with SFG, but other interested parties, as well, such as employees, shareholders and local communities.”

**The origins of our Customer Satisfaction Management (CSM)**  
From the time that the Bank first went into operation, SFB sent shockwaves through the Korean financial industry with its focus on providing innovative solutions to the needs of our customers.

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# Social Contributions



## Giving back to communities and society

In a rapidly changing world where the pursuit of speed and efficiency has become all-encompassing, the importance of “humanism” and “sharing” has become ever more apparent. As the largest financial group in Korea with 12 subsidiaries and assets totaling approximately KRW194 trillion, we have participated in a diversity of social activities in our ongoing quest to fulfill our roles and duties as a model corporate citizen. We believe in being a responsible corporate citizen that serves the communities in which we operate, as well as the nation, and to this end, the Group’s ultimate goal is to become an “Enterprise of Community.” Apart from sporadic philanthropic donations, the Group promotes organized social contribution businesses that work to build a better future for people in communities in which the Group operates.

### Education

We provide financial assistance to students in need, enabling them to concentrate on their studies. We also support educational institutions and related organizations in their efforts to further develop and improve Korea’s educational systems.

#### ❖ Organizing a Scholarship Foundation

SFG and all of its subsidiaries joined together to establish a KRW50 billion fund in January 2006. With a goal of improving educational opportunities for students of underprivileged families, the fund will be used to provide scholarships and to subsidize educational institutions.

#### ❖ Broadening the Knowledge and Experience of Children

Since 1983, SFG, in conjunction with city administration, has invited young children from remote islands and communities to visit Seoul City. This annual event aims to extend the knowledge and experience of these young citizens. Usually held over a period

of four days, the program includes field trips to financial institutions, the National Assembly, National Cemetery, and other places of interest. In addition, visiting children are given sports equipment, school supplies and souvenirs.

#### ❖ Chohung Museum of Finance

We will continue to support the Chohung Museum of Finance, which opened in 1997, the 100th or centennial anniversary of the establishment of Chohung Bank in 1897. Exhibiting approximately 3,000 items including documents, publications, securities, pictures and other materials, the museum provides insightful information on the history of Korea’s banking industry for the general public. Recognizing the importance of this information, the Korean government subsidized the establishment of a cyber-museum as part of a project to establish a comprehensive information database and a cyber-museum on national heritage.

#### ❖ Sending Teachers Overseas

Begun in 1988, the “Sending Teachers Overseas” program has enabled dedicated teachers to visit and experience the educational systems of foreign countries. To date over 6,276 teachers have participated in the program.

### Support for Culture & Sports

We founded the Shinhan Donghae Open Golf Championship in 1981 to promote golf as a popular sporting activity in Korea. Among the oldest sponsored golf tournaments in Korea, this event has greatly contributed to the growth and development of the sport.

#### ❖ Support for Sports Teams

In our efforts to promote and develop sports and physical fitness

**“In fulfilling our responsibilities as a corporate citizen, we are growing with the community.”**

activities in Korea, we contribute to the fostering of talented athletes and the activation of regional sports. This includes support for CHB's Track & Field Team and Swimming Team and for SHB's "S-Birds," a professional women's basketball team. CHB has sponsored approximately 15 sporting events including a marathon, bicycle races, a badminton tournament, etc.

#### ❖ Chohung Gallery

Founded in 1997, the Chohung Gallery provides an exhibition space for inspired and prospective artists to use for free. In 2005, we held 22 free exhibitions.

#### ❖ Donation of a Mural of a Historic Work

Chohung Bank donated a mural of a historic work to Seoul City to be placed near the newly restored Cheonggye stream. Called the "The Great King Jeongjo's visit to the royal mausoleum of his father, Crown Prince Sado," the artwork depicts the royal conventions on the organizing of attendants and the ranking of bureaucrats.

### Business-linked Social Contributions

In a bid to actively and systematically fulfill our social responsibilities, we support credit recovery for those with poor credit records, by helping credit delinquents reduce their outstanding debts, albeit with some strings attached. Shinhan Card also offers an "F1 Violet" card to support customers' participation in donations to charitable organizations.

#### ❖ A Beautiful Bank

SHB and CHB jointly founded a cyber bank to promote the giving of donations by customers. The funds raised go to the "beautiful foundation," a philanthropic organization, and other charitable organizations.

#### ❖ Differently-abled Citizens Support Programs & Systems

SFG is active in various businesses that support the disabled. Not only does the Group give corporate donations to such organizations, it also puts into practice its policies of aiding differently-abled people. For instance, we provide special facilities such as automated teller machines (ATM) for the exclusive use and convenience of differently-abled persons in some of our bank branches. We also provide funds for electric wheel chairs for those in need.

#### ❖ Donations

In 2005, through a diverse range of voluntary programs, SFG and its subsidiaries gave philanthropic donations of more than KRW25 billion. Additionally, the Group's employees have donated a fraction of their wages for thirteen consecutive years, and the Company's "Green Trust" is a program set up to divert a percentage of Group sales revenues to charity. Further, we developed and sold "Aiding the Economy Deposits" and "Reviving Nation Deposits" to encourage customers to voluntarily contribute to social causes while helping the national economy.

#### ❖ Community Services

We inaugurated a joint voluntary service group for the two banks, called "Happy Messenger," in November 2003. The goal of this group is to vigorously pursue community service activities through a broad spectrum of social welfare facilities and institutions. All SFG offices participate in the annual Christmas Seal sales drives and community chest campaigns, known as "Fruits of Love" campaigns. We also actively participate in various events to help and share with neighbors in hardship, through such activities as blood donations and volunteer services for families living in agricultural regions who suffer from heavy snowfalls in the winter.

# CREATING A NEW SHINHAN FINANCIAL GROUP

In setting new standards for Korea's financial markets, SFG continues to broaden its scope of activities. Leading a new wave of innovation in Korea's financial markets, SFG will eventually emerge as a leader in global financial markets.





# Management's Discussion & Analysis

## I . Overview

Overall, 2005 was a challenging year in terms of the economic and financial environment due to instability in external factors, especially high oil prices and a strong Korean won, and slow recovery in the domestic economy due to sluggish growth in employment and new investments. Against this backdrop, the Korean financial industry experienced changes of unsurpassed magnitudes in 2005 including the rapid expansion of customers' financial needs from simple deposits to beneficiary certificates, funds and other asset management-type products; and intensified competition in loan products, especially mortgage loans and small and medium enterprise (SME) loans.

Another key development in 2005 was the significant improvement in the asset portfolios of banks and credit card companies, as they reached the final stages of writing-off and selling their non-performing assets and as previous concerns raised in late 2004 regarding the quality of their SME portfolios proved to be unnecessary. The profitability of local banks in particular improved greatly on the back of this general improvement in asset quality as recoveries were made on past loans to financially distressed companies which were previously written-off and as provisioning costs declined.

Shinhan Financial Group posted a net income of KRW1.73 trillion in 2005, up 64.9% from the previous year, recording the best performance since its foundation. Net income of the banking entities generated a solid growth of 41.2% to KRW1.54 trillion, while net income of the non-banking entities increased 225% to KRW194.8 billion. It is especially worth noting that the net income contribution of the securities, card, trust and other non-bank subsidiaries more than doubled from 5% in 2004 to 11% of total group profits in 2005.

This improved performance was a result of the Group's continuous efforts to expand its healthy interest earning asset base, discover new sources of non-interest revenue, and grow its core fee-based earnings. A decline in loan loss provisions (34.8%) at Chohung Bank and other subsidiaries due to the improvement in the asset portfolio also made a significant contribution to the increase of profits. The proportion of substandard and below loans in the total loan portfolio of Shinhan Financial Group, Shinhan Bank, and Chohung Bank in 2005 was 1.11%, 1.02%, and 1.10% respectively, indicating very sound levels of asset quality.

Shinhan Bank and Chohung Bank's loans in Korean won grew a consolidated 9.4% in 2005, setting the base for continuous growth in interest earnings. Fee-based earnings increased 32.6% year-on-year driven by a substantial rise in bancassurance products and fund sales and improved performance in the non-bank subsidiaries. However, operating income was down 5.6% year-on-year due to a drop in market related non-interest earnings associated with losses in marketable securities following a sharp rise in interest rates.

The total assets of Shinhan Financial Group in 2005 were KRW161 trillion, up 9.6% or KRW14.1 trillion from KRW147 trillion in 2004. This growth was achieved despite intense competition, by focusing on maintaining stable growth in profitable assets. Specifically, loans in Korean won grew by KRW9.0 trillion, securities holdings grew by KRW2.7 trillion, fixed assets grew by KRW0.6 trillion, and other assets grew by KRW2.3 trillion. Looking at asset growth by subsidiary, Shinhan Bank assets grew by KRW5.5 trillion, Chohung Bank assets grew by KRW1.2 trillion, and Shinhan Life assets grew by KRW5.1 trillion. Shinhan Life joined Shinhan Financial Group in December 2005 as a 100% owned subsidiary.

Concerning loans in Korean won, the main instrument through which bank assets are managed, a growth in retail loans driven by a rise in mortgage loans was the most noticeable trend in 2005. Most of the growth in retail loans came from mortgage loans, which grew by KRW3.6 trillion, or 16.5%. Loans to large companies also grew 19.7%, driven by higher demand for M&A related financial services from large corporations undergoing restructuring.

In Shinhan Bank, the balance of loans in Korean won for retail and corporate as of the end of 2005 was KRW22.9 trillion and KRW22.2 trillion, respectively, reflecting a well-balanced loan portfolio. The growth rate of retail and corporate loans was also relatively even at 11.4% and 9.8% respectively. On the other hand, for Chohung Bank, the 2005 year-end balance of loans in Korean won for retail and corporate was KRW18.2 trillion and KRW16.4 trillion, respectively, indicating a higher representation of retail loans. This reflects a 0.7% decrease in the balance of corporate loans and a 15.5% increase in retail mortgage loans. Chohung Bank continued to maintain a corporate sector focus on write-off's and recoveries from non-performing loans, while pursuing a retail strategy focused on expanding sound mortgage loans. Note that as of the end of 2005, Chohung Bank's initiatives related to improving the asset quality of its corporate loan portfolio were nearly complete.



Key group level initiatives during 2005 were the upgrading of information technology, risk management, marketing, operations, organization, sales channels, human resource competencies and systems to support the Shinhan-Chohung Bank integration scheduled for 2006 and the successful operation of the integrated bank. 20 or so projects have been carried out not only for this purpose, but with the goal of developing a 'One Portal' financial services network and maximizing group synergies through strengthening group-wide competencies and future growth potential. Shinhan Financial Group is pleased to note that internal targets for year-end 2005 for each of the key project areas have been successfully met.

Interest earnings are expected to increase in 2006 as assets show stable growth and margins remain stable. Assuming no special events or circumstances in 2006, non-interest earnings are also expected to increase based on solid growth in fee-based income.

As the integration process between the Group's two key subsidiaries, Shinhan Bank and Chohung Bank, reaches completion in 2006, integration costs are expected to rise. However, higher costs are expected to be offset by improved systems and increased earnings.

Key initiatives for 2006 include strengthening the earnings potential of the banking entities by leveraging on the carefully planned Shinhan-Chohung integration, expanded networks and systems upgrades; and strengthening the competitiveness of the non-bank subsidiaries in light of the expected slowdown of growth in bank assets. Going forward, the group plans to increase the contribution of non-bank subsidiaries to group performance from the 11% achieved in 2005.

In line with this, Shinhan Life, which joined the group at the end of 2005, is expected to generate continuous growth. The securities and asset management businesses are also expected to experience a positive year in 2006, while the credit card business, whose revenue levels are currently recovering, is also expected to show continuous growth in the coming year.

Competition between banks is expected to intensify even further in 2006, while changes in financial laws and the regulatory environment at large, macroeconomic variables such as interest rates, exchange rates, consumption, and investments, and other uncertainties are expected to pose both opportunities and risks to the Group's operations. Shinhan Financial Group plans to meet its management objectives for 2006 by capitalizing on these opportunities and minimizing the inherent risks.

## II . Analysis of Profit/Loss

### 1. Shinhan Financial Group

Shinhan Financial Group recorded a consolidated net income of KRW1,732.1 billion in 2005, up 64.9% from KRW1,050.3 billion in 2004. Such growth in group earnings is primarily attributable to a large decline of KRW482.1 billion (34.8%) in the Group's loan loss provisions following a marked improvement in the asset quality of Chohung Bank and other subsidiaries, and the continuous improvement in the operational capabilities of the bank and non-bank subsidiaries.

	FY2005	FY2004	Chg Amt	Chg %
Operating Income	2,785.6	2,951.5	-165.9	-5.6%
Interest Income <sup>1)</sup>	4,042.8	3,995.2	47.6	1.2%
Non-interest Income <sup>2)</sup>	1,064.1	1,051.0	13.1	1.2%
G&A Expense <sup>3)</sup>	2,321.3	2,094.7	226.6	10.8%
Non-operating Income	234.9	-139.6	374.5	n.a.
Pre-provision Income	3,020.5	2,811.9	208.6	7.4%
Provision	1,009.3	1,478.0	-468.7	-31.7%
Loan Loss Provision	902.7	1,384.8	-482.1	-34.8%
Taxes	263.6	212.7	50.9	23.9%
Minority Interests	15.5	70.8	-55.3	-78.1%
Net Income	1,732.1	1,050.3	681.8	64.9%

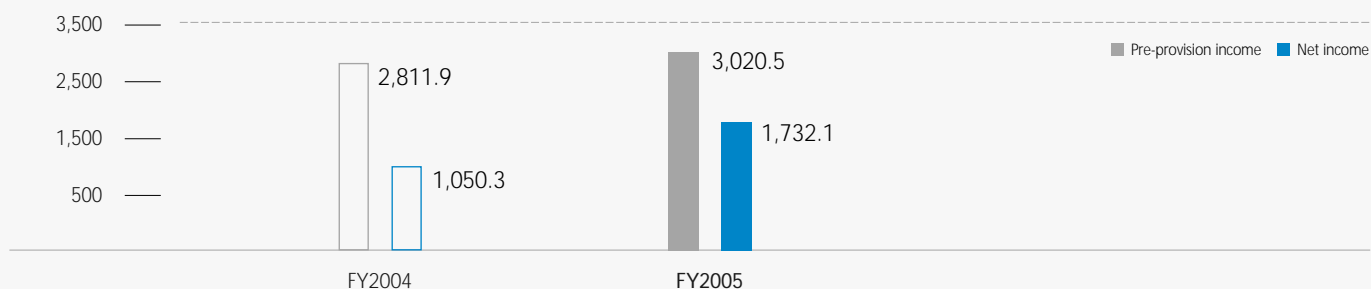
Note 1), 2) Interest Income from Credit Card which had been classified as the commission income from credit card business, were reclassified as interest income.

3) Excluding provision for retirement benefit.

# Management's Discussion & Analysis, Continued

## PRE-PROVISION INCOME & NET INCOME

(In billions of Korean won)



Operating income decreased 5.6% from last year, while pre-provision income increased 7.4%. The drop in operating income reflects the KRW88.3 billion decline in interest income related to the recognition of valuation losses in Shinhan Bank's beneficiary certificates following a sharp rise in market interest rates. Also, extra-ordinary earnings of KRW35.8 billion in non-interest income were recorded in 2004, but no such earnings occurred in 2005. In addition, selling and general administrative expenses (SG&A) and the number of expense items increased significantly with the rise in integration costs related to branch expansion and new hires of employees. However, excluding costs associated with one-time events such as the temporary increase in G&A expenses to support the expansion of interest and non-interest earnings and operational capabilities, the Group's actual operating income continued to grow. The increase in non-operating income can be explained with two main reasons: KRW108.4 billion of gains from disposal of investment securities recorded by Chohung Bank and KRW51.7 billion of the valuation gains on securities associated with the integration of Shinhan Life into the Group.

## Subsidiaries' Contribution to Consolidated Net Income

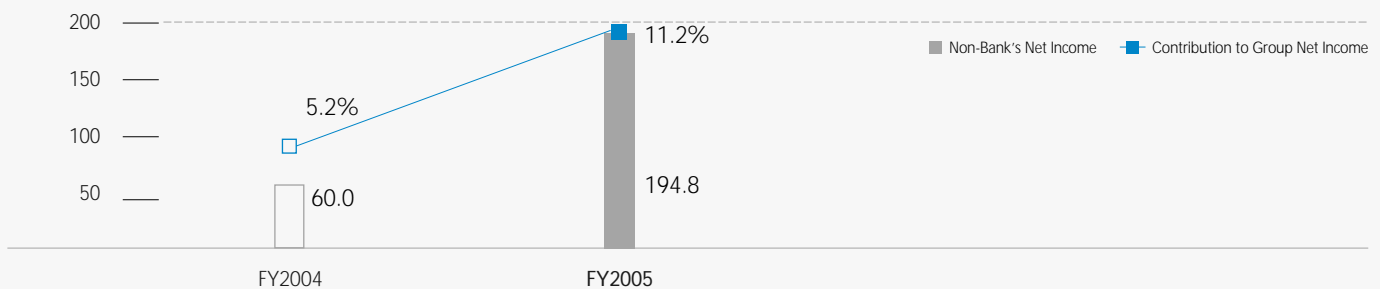
(In billions of Korean won)

	FY2005	FY2004	Chg Amt	Chg %
Banks (A)	1,537.8	1,089.0	448.8	41.2%
Shinhan Bank	774.4	844.1	(69.7)	-8.3%
Chohung Bank	756.5	241.0	515.5	213.9%
Jeju Bank	6.9	3.9	3.0	77.6%
Non-Banks (B)	194.8	59.9	134.9	225.2%
GMSH Securities	87.3	25.9	61.4	237.1%
Shinhan Life Insurance <sup>1)</sup>	6.1	-	6.1	n.a.
Shinhan Card	54.2	5.8	48.4	834.5%
Shinhan Capital	36.7	23.1	13.6	58.9%
Shinhan BNP Investment	3.7	2.3	1.4	60.9%
SH&C	2.7	0.2	2.5	1250.0%
SMFA	2.7	1.0	1.7	170.3%
Shinhan Credit Information	2.4	1.8	0.6	33.3%
Shinhan Private Equity	-1.0	-0.2	(0.8)	n.a.
Consolidated Net Income (A+B)	1,732.6	1,148.9	583.7	50.8%

Note 1) As of December 13, 2005, Shinhan Life Insurance was acquired as a wholly-owned subsidiary of Shinhan Financial Group through share-swap.

## NON-BANK SUBSIDIARIES' CONTRIBUTION TO NET INCOME

(In billions of Korean won)



The banking subsidiaries of Shinhan Bank, Chohung Bank, Jeju Bank, etc. recorded a total net income of KRW1.54 trillion, up 41.2% from the previous year, while the non-banking subsidiaries posted a total net income of KRW194.8 billion, up 225% from the previous year. Shinhan Bank's 2005 net income ended the year lower than that of 2004, primarily due to the expiration of the one-time earnings of KRW228.2 billion in gains from the disposal of treasury shares reflected in 2004 numbers.

Among the non-banking subsidiaries, Good Morning Shinhan Securities (GMSH)'s net income grew 237% from last year, driven by an increase in customer deposits and brokerage earnings in the midst of favorable stock market conditions. Shinhan Card also saw its net income figures improve due to higher credit card sales volumes and lower provisioning costs from enhanced asset quality. The net income of Shinhan Capital improved based on the company's success in diversifying its revenue sources from such segments as corporate restructuring and shipping finance. The net income contribution from Shinhan Life of KRW6.1 billion represents only one month of profits as it was incorporated as a subsidiary in December 2005. However, starting in 2006, its net income will be fully reflected in the Group's consolidated net income.

Going forward, Shinhan Financial Group plans to roll out a CRM platform leveraging and expanding on the bank's distribution networks and targeting the Group's loyal customers. The Group expects to generate continuous earnings growth as it fully leverages group synergies by strengthening the product manufacturing capabilities of the non-banking subsidiaries.

## 2. Shinhan Bank

### (1) Overview

(In billions of Korean won)

	FY2005	FY2004	Chg Amt	Chg %
Operating Income	1,137.7	1,270.6	-132.9	-10.5%
Interest Income	1,513.1	1,517.0	-4.0	-0.3%
Non-interest Income	432.2	463.2	-31.0	-6.7%
G&A Expense <sup>1)</sup>	807.6	709.7	97.9	13.8%
Non-operating Income	113.0	158.1	-45.0	-28.5%
Pre-provision Income	1,250.7	1,428.6	-177.9	-12.5%
Provision	182.6	228.9	-46.3	-20.2%
Loan Loss Provision	153.2	205.5	-52.3	-25.4%
Taxes	293.7	355.6	-61.9	-17.4%
Net Income	774.4	844.1	-69.7	-8.3%

Note 1) Excluding provision for retirement benefit

## Management's Discussion & Analysis, Continued

The operating income of Shinhan Bank, the flagship of the Group, decreased by 10.5%, non-operating income decreased by 28.5% and net income decreased by 8.3%. As mentioned before, the decrease in operating income can be explained by the decrease of interest income from beneficiary certificates following the sudden rise in market interest rates, the non-recurring extraordinary earnings of KRW35.8 billion from collection of charge-offs in trust accounts that the Group benefited from in 2004, and an increase in labor costs attendant upon branch expansion and new hires. Non-operating income also declined because the Group went in 2005 without the non-recurring KRW228.2 billion earnings from the disposal of treasury shares that it benefited from in 2004. Loan loss provisions decreased by KRW52.3 billion, which already takes into account the additional reserves of KRW101.8 billion following the Financial Supervisory Service guidance released in the fourth quarter of 2005 requiring banks to provide against unused credit lines. Shinhan Bank's normalized level of provisioning is very low, not even taking into account non-recurring write-backs, which reflects the Bank's superior risk management of the quality of its assets.

The table below shows a breakdown of Shinhan Bank's profit structure.

### (2) Interest Income

	(In billions of Korean won)			
	FY2005	FY2004	Chg Amt	Chg %
Interest Revenue (A)	3,640.5	3,672.9	-32.5	-0.9%
Interest on Loans	3,064.7	2,935.5	129.2	4.4%
Interest on Securities	528.8	708.4	-179.6	-25.4%
Interest on Due from banks	47.0	29.0	18.0	61.8%
Interest Expense (B)	2,127.4	2,155.9	-28.5	-1.3%
Interest on Deposits	1,289.6	1,326.2	-36.6	-2.8%
Interest on Debentures	521.7	484.8	37.0	7.6%
Interest on Borrowings	316.1	344.9	-28.8	-8.4%
Interest Income (A-B)	1,513.1	1,517.0	-3.9	-0.3%

Interest income declined 0.3% from last year. Interest on loans increased by KRW129.2 billion in 2005 as the average balance of loans increased by KRW2.2 trillion and average yield rose four basis points to 5.54%. However, this was offset by a KRW179.6 billion decline in interest income on securities, reflecting the KRW1.0 trillion decrease in the average balance of securities and the KRW88.3 billion decline in interest income from beneficiary certificates as a result of valuation losses from a sudden rise in market interest rates.

In terms of funding costs, interest on deposits declined by KRW36.6 billion while interest on borrowings declined by KRW28.8 billion, given the generally low interest rate environment. However, interest expenses on financial debentures increased by KRW37.0 billion, due to the KRW0.9 trillion increase in the average balance of financial debentures.

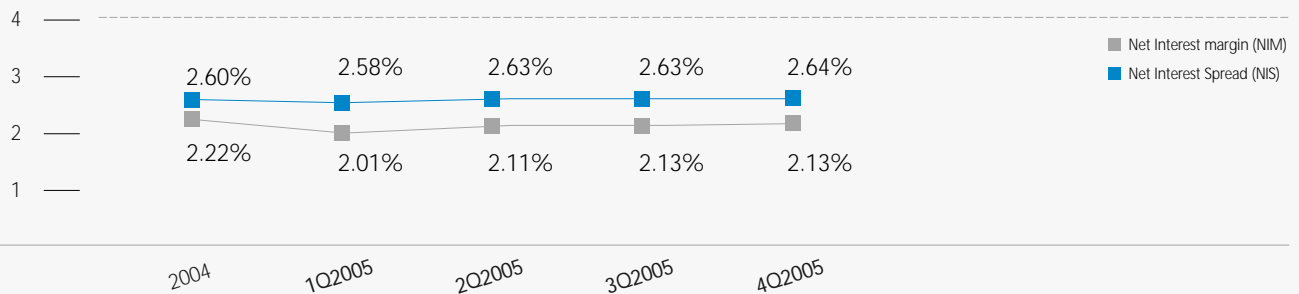
Unlike in the first quarter of 2005, interest rate movements are expected to be stable in 2006. Interest earnings are expected to grow with the continuous inflow of sound interest bearing assets.

### (3) Net Interest Margin

	(In billions of Korean won)				
	Dec. 2004	Mar. 2005	Jun. 2005	Sep. 2005	Dec. 2005
Net Interest Margin (B/A)	2.22%	2.01%	2.11%	2.13%	2.13%
Interest bearing Asset (A)	62,082.0	61,987.8	61,877.7	62,495.7	63,663.2
Interest Income (B)	1,378.1	307.6	646.9	994.3	1,355.6
Net Interest Spread (C-D)	2.60%	2.58%	2.63%	2.63%	2.64%
Interest rate of Won Loans (C)	6.10%	5.75%	5.77%	5.76%	5.79%
Interest rate of Won Deposits (D)	3.50%	3.17%	3.14%	3.13%	3.15%

Note ) Quarterly figures for NIM and NIS are annualized numbers.

## NIS vs NIM



As summarized in the table above, interest-bearing assets continued to show quarterly growth since the end of 2004, while the net interest margin (NIM) dropped significantly in the first quarter of 2005. The decline in the net interest margin in the first quarter of 2005 is attributable to the continuous decline in returns from securities in the midst of the low interest rate environment. High interest bonds have already reached maturity, while bonds recently included in the bank's portfolio have low interest rates, thus explaining the decline in weighted average returns. Also, as mentioned before, valuation losses on beneficiary certificates held by Shinhan Bank (KRW2.7 trillion) rose significantly following the temporary surge in interest rates during the first quarter of 2005. Note that in Korea, the asset composition of beneficiary certificates is largely concentrated on bonds, therefore according to accounting principles, all profits and losses, including valuation gains and losses, are recognized as interest income.

By excluding the returns from securities influenced by interest rates, the won-denominated net interest spread increased by four basis points to 2.64% as shown in the table above. This was a noteworthy performance because it shows that Shinhan Bank was able to grow its interest-bearing assets without sacrificing margins despite severe competition with domestic and foreign banks for better positioning in terms of market share last year.

## (4) Non-interest Income

(In billions of Korean won)

	FY2005	FY2004	Chg Amt	Chg %
Non-interest Income(A)	432.2	463.2	-31.1	-6.7%
Fees & Commissions	357.6	291.5	66.1	22.7%
(Fund)	(47.7)	(20.7)	(27.0)	130.4%
(Bancassurance)	(34.7)	(24.5)	(10.2)	41.6%
Trust Fees & Income	29.1	27.2	1.9	7.1%
FX Commissions & others	45.5	144.6	-99.1	-68.5%

Non-interest income declined by 6.7% from a year ago, because the KRW66.1 billion, or 22.7% increase in fees and commissions was offset by a KRW99.1 billion, or 68.5% decline in gains on valuation of foreign exchange and derivatives, and other gains from marketable securities. As summarized in the table above, income from fund sales grew by KRW27.0 billion (130%), income from bancassurance sales grew by KRW10.2 billion (42%) and investment banking related fees grew a substantial KRW37.8 billion. However, income related to foreign exchange and others declined due to valuation losses in marketable securities following a temporary hike in interest rates and a rise in valuation losses due to changes in the accounting method for derivatives. Note that fees and commissions, showing the actual operational capabilities of a bank, continued to grow.

## (5) Selling, General and Administrative Expenses

(In billions of Korean won)

	FY2005	FY2004	Chg Amt	Chg %
Labor Cost	312.0	248.8	63.2	25.4%
Administrative Expense	399.0	362.5	36.5	10.1%
Depreciation & Amortization Costs	68.8	69.6	-0.8	-1.2%
Taxes & Dues	27.8	28.8	-1.0	-3.4%
Total	807.6	709.7	97.9	13.8%

Note ) Excluding provision for retirement benefit

## Management's Discussion & Analysis, *Continued*

Operating income declined by KRW32.8 billion from 2004 as rises in interest and non-interest income were offset by an increase in G&A expenses. Interest income from loans increased as assets recorded stable growth by 7.2% and the net interest margin remained essentially unchanged. However, total operating income ended the year lower than 2004 due to a decline in the average balances of cash advances and card loans decreased by KRW75.9 billion as compared with 2004. In the case of non-interest income, fees and commissions income rose as bancassurance and fund sales grew by KRW77.6 billion, but total non-interest income ended the year only 7.6% higher due to an increase in losses on valuation of marketable securities following a temporary rise in interest rates and a decline in foreign exchange related gains. G&A expenses rose as Chohung Bank salaries were aligned to Shinhan Bank levels in the course of the bank integration. Such a rise in labor costs is expected to be easily offset by higher net income and productivity.

Non-operating income increased by KRW108.4 billion, due primarily to KRW175.5 billion in gains on sales of investment securities such as Hynix, Ssangyong Motors, and LG Card.

The table below shows a breakdown of Chohung Bank's profits.

## (2) Interest Income

	(In billions of Korean won)			
	FY2005	FY2004	Chg Amt	Chg %
Interest Revenue (A)	3,661.0	3,796.9	-135.9	-3.6%
Interest on Loans	3,168.8	3,308.6	-139.8	-4.2%
Interest on Securities	452.8	469.1	-16.3	-3.5%
Interest on Due from banks	39.4	19.2	20.2	105.1%
Interest Expense (B)	1,544.2	1,706.4	-162.2	-9.5%
Interest on Deposits	1,046.5	1,219.7	-173.2	-14.2%
Interest on Debentures	322.5	335.0	-12.5	-3.7%
Interest on Borrowings	175.3	151.8	23.5	15.5%
Interest Income (A-B)	2,116.8	2,090.5	26.2	1.3%

Note) Figures for FY2004 presented in 100% ownership of CHB instead of actual ownership 81.15%.

Chohung Bank's interest income rose 1.3% in 2005, from the previous year. Although interest income from loans declined by KRW139.8 billion, this decline was smaller than the KRW173.2 billion decline in interest expenses on deposits. Both income and cost were affected by the general decline in the average market interest rates that continued until the third quarter of 2005. The rise in interest income resulting from the KRW1.2 trillion increase in the average balance of borrowings was offset by the KRW617.5 billion decline in card loan and cash advance assets. To save interest expense on deposits, Chohung Bank continued to expand low-cost deposits with its nation-wide branch network.

## (3) Net Interest Margin

	(In billions of Korean won)				
	Dec. 2004	Mar. 2005	Jun. 2005	Sep. 2005	Dec. 2005
Net Interest Margin (B/A)	3.16%	2.99%	3.27%	3.28%	3.75%
Interest bearing Asset (A)	49,482.5	49,099.0	49,070.0	49,506.1	51,405.7
Interest Income (B)	1,564.3	362.3	796.3	1,216.1	1,928.6
Net Interest Spread (C-D)	3.96%	3.89%	4.08%	3.99%	4.51%
Interest rate of Won Loans (C)	7.43%	6.98%	7.13%	7.02%	7.55%
Interest rate of Won Deposits (D)	3.47%	3.09%	3.05%	3.03%	3.04%

Note ) Quarterly figures for NIM and NIS are annualized numbers.

## Management's Discussion & Analysis, *Continued*

Chohung Bank's net interest margin (NIM) in 2005 was 3.75%, up 59 basis points from 3.16% in the previous year. This rise was primarily due to changes in Financial Supervisory Service guidelines on the accounting method for credit card earnings and changes in the calculation of net interest margins. Specifically, credit card lump sum and installment fees, formerly recognized as fee income, are now categorized as interest income. However, by excluding the impact of changes in the accounting method by applying the previous calculation method, the net interest margin (NIM) in 2005 was 3.17%, essentially unchanged from the 3.16% in 2004. Recalculating the net interest spread (NIS) in Korean won results in a net interest spread (NIS) of 3.91% in 2005, down five basis points compared to a year ago.

### (4) Non-interest Income

	(In billions of Korean won)			
	FY2005	FY2004	Chg Amt	Chg %
Non-interest Income (A)	268.5	249.5	19.0	7.6%
Fees & Commissions	296.3	208.6	87.7	42.0%
(Fund)	(42.4)	(14.8)	(27.6)	(186.5%)
(Bancassurance)	(80.2)	(50.2)	(30.0)	(59.8%)
Trust Fees & Income	15.4	14.5	0.8	5.6%
FX Commissions & others	-43.1	26.3	-69.4	n.a.

Note) Figures for FY2004 presented in 100% ownership of CHB instead of actual ownership 81.15%.

Chohung Bank's non-interest income increase 7.6% in 2005, from the previous year. This increase primarily reflects growth in fees and commissions specifically a KR₩27.6 billion (187%) increase in fees from fund sales and a KR₩30.0 billion (60%) increase in fees from bancassurance sales. Foreign exchange commissions and other income declined by KR₩69.4 billion from last year, primarily due to the KR₩92.9 billion losses on valuation of marketable securities following a temporary rise in interest rates, similar to the case of Shinhan Bank. In similar to Shinhan Bank, ordinary fee-based income fees and commissions are expected to continue growing and increase contributions to bank profits.

### (5) Selling, General and Administrative Expenses

	(In billions of Korean won)			
	FY2005	FY2004	Chg Amt	Chg %
Labor Cost	463.7	419.3	44.3	10.6%
Administrative Expense	397.4	350.7	46.7	13.3%
Depreciation & Amortization Costs	95.4	97.5	-2.1	-2.1%
Taxes & Dues	49.7	60.5	-10.9	-17.9%
Total	1,006.1	928.0	78.1	8.4%

Note \* Provision for retirement benefit excluded

\*\* Figures for FY2004 presented in 100% ownership of CHB instead of actual ownership 81.15%.

Chohung Bank's G&A expenses in 2005 were up 8.4% from the previous year, reflecting special bonus in line with the better performance in net income and increased labor costs related to the alignment of Chohung Bank salary levels to those of Shinhan Bank in light of the bank integration. Chohung Bank, along with Shinhan Bank, is one of the most cost efficient banks in Korea. After the integration is complete, the cost ratio is expected to stabilize as increases in productivity offset rises in G&A expenses.



#### 4. Good Morning Shinhan Securities

	(In millions of Korean won)			
	FY2005	FY2004	Chg Amt	Chg %
Operating Revenues	422,062	331,883	90,179	27.2%
Commissions received	342,474	228,113	114,361	50.1%
Net Trading gain	39,015	79,505	(40,490)	-50.9%
Net Interest income	35,861	23,708	12,153	51.3%
Other operating income	4,712	556	4,156	746.8%
Operating Expenses	306,352	288,263	18,089	6.3%
Commissions expense	51,065	43,432	7,634	17.6%
G&A expense	255,287	244,832	10,455	4.3%
Operating Income	115,710	43,619	72,091	165.3%
Non-operating income/loss	5,343	196	5,146	2620.9%
Ordinary Income	121,052	43,816	77,237	176.3%
Extraordinary Gains				
Net Income Before Taxes	121,052	43,816	77,237	176.30%
Income tax	33,812	240	33,572	14012.0%
Net Income/Loss for the Year	87,240	43,576	43,664	100.2%

Good Morning Shinhan Securities generated an operating income of KRW115.7 billion in 2005, up 165.3% from 2004 and a net income of KRW87.2 billion, or 100.2% higher than in 2004. Fees and commissions, which accounted for 81.1% of operating revenues in 2005, grew by 50.1% to KRW342.5 billion. This growth is primarily attributable to a 73% jump in the average daily stock transaction volume, a major revenue sources for securities companies, from KRW2.9 trillion in 2004 to KRW5.0 trillion in 2005.

Net trading gains include trading and valuation gains or losses on short-term trading securities and other trading and valuation gains or losses related to derivatives. Gains on bond trading were KRW22.3 billion in 2005, down 45.6% from the previous year, while gains on stock/derivatives trading were KRW14.6 billion, down 57.4% from 2004. Such performances reflect the relative weakness of the bond market in light of bullish stock markets and the decline in trading gains on derivatives due to a decline in market volatility.

Net interest income, which accounted for 8% of total operating revenues, was KRW35.9 billion in 2005, up 51% from 2004. Growth in net interest income is primarily due to the 41.9% increase in the average loan portfolio balance to KRW183.3 billion in 2005. Within operating expenses, G&A expenses increased 4.3% to KRW255.3 billion in 2005. The following tables give breakdown of commissions income and SG&A expenses.

##### (1) Commissions Income

	(In millions of Korean won)			
	FY2005	FY2004	Chg Amt	Chg %
Commissions Income	342,474	228,113	114,361	50.1%
Equity	278,082	155,943	122,139	78.3%
Futures/Options	28,243	34,342	(6,099)	-17.8%
Beneficiary Certificates	9,330	10,064	(734)	-7.3%
Underwriting	9,330	7,770	1,560	20.1%
M&A	966	918	48	5.2%
Others *	16,523	19,076	(2,553)	-13.4%

\*includes equity-linked securities (ELS) sale commission

## Management's Discussion & Analysis, Continued

### (2) Selling, General and Administrative Expenses

(In millions of Korean won)

	FY2005	FY2004	Chg Amt	Chg %
G&A Expense	255,287	244,832	10,455	4.3%
Labor Cost	162,202	147,198	15,004	10.2%
Administrative Expense	81,927	91,691	(9,764)	-10.6%
Depreciation Cost	9,995	10,082	(87)	-0.9%
Credit Loss Expense	1,162	(4,140)	5,302	-128.1%

### 5. Shinhan Life

(In billions of Korean won)

	FY2005	FY2004	Chg Amt	Chg %
Insurance Operating Net Results	699.9	560.4	139.5	24.9
Premiums Written	1,698.0	1,394.5	303.5	21.8
Claims paid (-)	573.5	482.0	91.5	19.0
Reinsurance Operating Results	(0.5)	(1.5)	1.0	-
Operating expense (-)	424.1	350.6	73.5	21.0
Net Investment Gains	171.0	155.5	15.5	10.0
Others	(11.7)	(3.9)	(7.8)	-
General account operating net results	859.2	712.0	147.2	20.7
Separate account operating net results	61.5	(25.6)	87.1	-
Total operating net results	920.7	686.4	234.3	34.1
Provision of Policy Reserve (-)	818.5	531.0	287.5	54.1
Net income before income taxes	102.2	155.4	(53.2)	(34.2)
Net income	74.1	110.2	(36.1)	(32.8)

Net income of Shinhan Life in 2005 was KRW74.1 billion. Total operating net results increased by 34.1% to KRW920.7 billion, primarily driven by a 21.8% year-on-year growth in insurance premiums written. However, net income ended slightly lower than a year ago. Net income before income tax decreased by KRW53.2 billion from 2004 as policy reserves increased by 54.1% to KRW818.5 billion due to stricter reserving requirements from changes in accounting guidelines. The stricter reserving requirements caused changes in the conventional amortization method of deferred acquisition costs (KRW34.7 billion) and stipulate separate provisions for claims of dormant insurance money (KRW2.9 billion).

Premiums written grew from all channels last year, including the traditional sales force, telemarketers (TM), the agency channel and bancassurance channel. In terms of premiums written, Shinhan Life's TM channel in particular is one of the industry's top performing channels of its kind. In terms of expenses, claims paid rose 19% and operating expenses rose 21%. However, income grew by a larger amount, leading to a rise of 24.9% in insurance operating net results at the end of the year.

Net investment gains from the asset management division increased KRW15.5 billion, or 10%. The KRW7.8 billion year-on-year decline in other gains reflects the channeling of corporate profits to a public welfare foundation and increased donations. Operating cost-to-income ratio is expected to improve as cost reduction is forecasted, especially in labor costs, in 2006, when the removal of the progressive accumulation method from the employee pension system starts to take full effect.

## 6. Shinhan Card

In 2005, the majority of local credit card companies generated positive net income on the back of improved management performance. Their continuous efforts to settle non-performing assets, a decline in loan loss provisions due to declines in new delinquencies, and a revenue structure focused on credit purchases, paid off. The credit card industry in 2005 was marked by successful business rationalization as companies either started to record net income or were able to increase profit levels.

Shinhan Card's pre-provision income in 2005, was KRW146.5 billion, loan loss provisions were KRW86.2 billion, and net income was KRW54.2 billion, a substantial increase from the previous year. The credit card sales volume (excluding card loans and 'corporate purchasing cards') grew 8.6%, surpassing the industry average growth rate of 2.8%, and is continuously gaining market share.

Operating revenues decreased by KRW6.8 billion from last year due to a decline in cash advance volumes. However, this decrease in revenues was also accompanied by a decrease in operating costs, specifically a KRW14.6 billion decline in interest expenses and a KRW89.6 billion decline in provisioning costs. As a result, operating income ended KRW53.7 billion higher than last year. The major reason for the rise in net income for Shinhan Card is the decline in provisions with the asset quality improvement.

The table below summarizes Shinhan Card's FY2005 Income Statement.

	FY2005	FY2004	Chg Amt	Chg %
(In millions of Korean won)				
Operating Revenues	417,071	423,829	-6,758	-1.6%
Credit Card Income	302,138	276,438	25,700	9.3%
Revenue from Securitization	104,248	139,080	-34,832	-25.0%
Interest income	4	1,000	-996	-99.6%
Other operating income	10,681	7,311	3,369	46.1%
Operating Expenses	356,902	417,407	-60,505	-14.5%
Credit card expenses	151,923	117,435	34,488	29.4%
Interest expenses	62,127	76,731	-14,604	-19.0%
G&A expenses	142,632	223,209	-80,577	-36.1%
Other expenses	220	33	187	576.0%
Operating Income	60,169	6,422	53,747	836.9%
Non-Operating Revenues	2,586	870	1,716	197.4%
Non-Operating Expenses	4,339	1,469	2,870	195.3%
Ordinary Income	58,416	5,822	52,594	903.3%
Income Taxes	4,175	0	4,175	-
Net Income for the Year	54,241	5,822	48,419	831.6%

## III . Analysis of Financial Conditions

### 1. Shinhan Financial Group

#### (1) Total Assets

Total group assets in the consolidated balance sheet grew by 9.6%, or KRW14.1 trillion to KRW160.9 trillion as of the end of 2005. This asset growth is primarily attributable to an increase in assets of KRW5.5 trillion held by the Shinhan Bank, KRW1.2 trillion by Chohung Bank, and KRW5.1 trillion by Shinhan Life. By balance sheet item, loans in Korean won increased by KRW9.0 trillion, securities increased by KRW2.7 trillion, fixed assets by KRW0.6 trillion, and other assets by KRW2.3 trillion. Growth in loans in Korean won occurred mostly at Shinhan Bank (KRW4.6 trillion), Chohung Bank (KRW2.4 trillion) and Shinhan Life (KRW1.3 trillion). Credit card assets decreased by 9.0% from the previous year, driven by declines in cash advances and card loan volumes.

## Management's Discussion & Analysis, Continued

In the case of liabilities, deposits in Korean won and borrowings/financial debentures increased to finance the increase in loans. However, deposits in foreign currency, which increased in 2004 due to the tax exemption on interest income, decreased in 2005 as the tax benefits were removed.

### Summary of Group Consolidated Balance Sheet

(In billions of Korean won)

	Dec. 2005	Dec. 2004	Chg Amt	Chg %
Loans in Won	83,204.8	74,243.0	8,961.8	12.1%
Loans in F/C*	7,935.5	7,997.5	-62.0	-0.8%
Trading Securities	30,241.8	27,530.8	2,711.0	9.8%
Credit Card Accounts	3,861.4	4,242.3	-380.9	-9.0%
Fixed assets	3,498.1	2,928.5	569.6	19.4%
Other Assets	32,196.0	29,918.0	2,278.0	7.6%
<b>Total</b>	<b>160,937.5</b>	<b>146,860.1</b>	<b>14,077.4</b>	<b>9.6%</b>
Deposits in Won	87,870.4	82,815.7	5,054.7	6.1%
Deposits in F/C	3,647.3	4,702.4	-1,055.1	-22.4%
Borrowings / Financial debentures	38,756.5	35,009.2	3,747.3	10.7%
Other Liabilities	20,411.6	16,497.6	3,914.0	23.7%
Capital stock	10,251.7	7,835.2	2,416.5	30.8%
<b>Total</b>	<b>160,937.5</b>	<b>146,860.1</b>	<b>14,077.4</b>	<b>9.6%</b>

\* Loans in foreign currency: Loans in foreign currency + off-shore loan in foreign currency + interbank loans in foreign currency + domestic import usance

The Group's 2005 year-end consolidated assets under management, which comprise assets entrusted in the Group's trust and asset management subsidiaries, were KRW193.7 trillion, an increase of KRW19.4 trillion, or 11.1% from 2004. This increase reflects the growth in assets in the consolidated balance sheet, as well as the KRW2.9 trillion increase in assets in the trust account, and the KRW2.6 trillion increase in assets under management (AUM) by Shinhan and Chohung Investment Trusts.

(In billions of Korean won)

	Dec. 2005	Dec. 2004	Chg Amt	Chg %
<b>Total Assets</b>				
SHB	90,556.8	83,811.1	6,745.7	8.0%
B/A	75,642.0	70,125.9	5,516.1	7.9%
T/A	15,385.9	14,098.9	1,287.0	9.1%
CHB	72,731.8	69,843.9	2,887.9	4.1%
B/A	67,102.4	65,890.8	1,211.6	1.8%
T/A	6,289.2	4,634.4	1,654.8	35.7%
GMSH Securities	3,882.5	2,954.9	927.6	31.4%
SHLife	5,129.3		n.a.	n.a.
SHCard	1,532.3	1,469.9	62.4	4.2%
Jeju	2,069.0	1,883.0	186.1	9.9%
SHC	1,400.8	1,320.9	79.9	6.1%
SHITM	53.4	49.5	4.0	8.0%
(AUM)	7,353.0	6,071.4	1,281.6	21.1%
CHITM (AUM)	7,788.0	6,438.0	1,350.0	21.0%
SH&C	708.2	286.3	421.9	147.4%
<b>Total</b>	<b>178,598.8</b>	<b>161,831.5</b>	<b>16,767.3</b>	<b>10.4%</b>
(Including AUM)	<b>193,739.8</b>	<b>174,340.9</b>	<b>19,398.9</b>	<b>11.1%</b>

**(2) Total Deposits**

The Group's total deposits at year-end 2005 were KRW99.5 trillion, an increase of KRW3.9 trillion, or 4.0% from last year. The largest growth came from deposits received in Shinhan Bank at KRW3.4 trillion. GMSH's deposits also grew by KRW0.3 trillion, driven by an increase in customer deposits associated with a strong stock market. Deposits in Chohung Bank increased by a modest KRW7.8 billion, reflecting the Bank's strategy to decrease the proportion of high-cost time deposits and migrate to low-cost deposits. As a result of the bank's efforts, low-cost deposits increased by KRW22.7 trillion, or 15.44% from KRW17.6 trillion in 2004 to KRW20.3 trillion in 2005.

(In billions of Korean won)

	Dec. 2005	Dec. 2004	Chg Amt	Chg %
Total Deposits				
SHB	52,943.8	49,499.0	3,444.8	7.0%
B/A	46,768.4	43,690.6	3,077.8	7.0%
T/A	6,175.3	5,808.4	366.9	6.3%
CHB	44,166.5	44,158.7	7.8	0.0%
B/A	40,504.6	40,554.4	-49.8	-0.1%
T/A	3,661.9	3,604.3	57.6	1.6%
GMSH Securities	913.8	614.5	299.3	48.7%
Jeju	1,697.3	1,542.7	154.6	10.0%
Total	99,533.9	95,676.7	3,857.1	4.0%

**(3) Total Loans**

The Group's total loans at year-end 2005 stood at KRW103.3 trillion, an increase of KRW9.0 trillion, or 9.5% from the previous year. By subsidiary, Shinhan Bank's loans amounted to KRW55.5 trillion, up 8.0% from last year, Chohung Bank's loans grew by KRW2.4 trillion (6.1%) to KRW42.3 trillion, GMSH's loans increased by KRW160.8 billion (113.6%) to KRW302.5 billion, while an additional KRW1.4 trillion in loans were recorded with the inclusion of Shinhan Life into the Group. While Shinhan Bank recorded an even growth in its loans to both households and corporates as well as in secured and unsecured loans, the KRW2.4 trillion increase in mortgage loans was the primary driver in the growth of loans at Chohung Bank.

(In billions of Korean won)

	Dec. 2005	Dec. 2004	Chg Amt	Chg %
Total Loans				
SHB	55,482.0	51,385.4	4,096.6	8.0%
B/A	55,191.0	51,028.8	4,162.3	8.2%
T/A	291.0	356.6	-65.6	-18.4%
CHB	42,261.3	39,816.3	2,445.1	6.1%
B/A	42,175.3	39,757.6	2,417.7	6.1%
T/A	86.0	58.7	27.4	46.7%
GMSH Securities	302.5	141.6	160.8	113.6%
SH Life	1,377.9		1,377.9	n.a.
SHCard	1,479.5	1,429.8	49.7	3.5%
Jeju	1,419.1	1,226.3	192.8	15.7%
SHC	1,062.0	1,001.5	60.5	6.0%
SHITM	0.6	0.5	0.2	36.6%
SH&C	0.4	0.3	0.1	27.0%
Total	103,348.4	94,363.7	8,984.7	9.5%

**(4) Total Securities**

Total securities holdings of the group grew by KRW3.7 trillion from 2004. Securities held by Shinhan Bank increased by KRW2.1 trillion whereas securities held by Chohung Bank decreased by KRW0.6 trillion; Shinhan Life contributed to an increase of KRW2.0 trillion in securities holdings as it joined the Group, while securities held by GMSH increased by KRW0.3 trillion. Shinhan Bank, with high growth in loans, increased the proportion of securities in order to maintain a well-balanced asset management portfolio. On the other hand, Chohung Bank, with comparably less growth in loans, slightly decreased the year-end balance of securities holdings in 2005.

## Management's Discussion & Analysis, Continued

	(In billions of Korean won)			
	Dec. 2005	Dec. 2004	Chg Amt	Chg %
Total Securities				
SHB	18,699.8	16,561.6	2,138.2	12.9%
B/A	13,289.1	11,706.7	1,582.4	13.5%
T/A	5,410.7	4,854.9	555.8	11.4%
CHB	13,925.7	14,534.6	-608.9	-4.2%
B/A	10,470.3	11,173.7	-703.4	-6.3%
T/A	3,455.4	3,360.9	94.5	2.8%
GMSH Securities	2,161.6	1,840.5	321.1	17.4%
SH Life	2,034.4		2,034.4	n.a.
SHCard	0.4	1.6	-1.2	-75.0%
Jeju	357.8	321.7	36.1	11.2%
SHC	131.6	77.5	54.1	69.8%
SHITM	10.3	20.1	-9.8	-48.8%
SH&C	48.0	56.8	-8.8	-15.5%
Total	36,881.0	33,179.9	3,701.1	11.2%

## 2. Shinhan Bank

### (1) Total Loans

	(In billions of Korean won)			
	Dec. 2005	Dec. 2004	Chg Amt	Chg %
Total Loans				
SHB				
B/A	55,191.0	51,028.8	4,162.2	8.2%
Loans in Won	45,769.8	41,153.7	4,616.1	11.2%
Retails	22,903.8	20,556.8	2,347.0	11.4%
Mortgage	15,019.9	13,751.6	1,268.3	9.2%
Others	7,883.9	6,805.2	1,078.7	15.9%
SMEs	18,065.2	16,747.8	1,317.4	7.9%
Large Corporate	4,125.6	3,461.5	664.1	19.2%
Public & Others	675.2	387.6	287.6	74.2%
Loans in FC	3,639.7	3,688.6	-48.9	-1.3%
Credit Card Accounts	-	-	-	n.a.
Bills Bought in FC	1,806.6	2,022.2	-215.6	-10.7%
Call Loans, RPs	1,086.8	1,297.9	-211.1	-16.3%
Others	3,571.7	3,609.9	-38.2	-1.1%
T/A	291.0	356.6	-65.6	-18.4%
Total Loans	55,482.0	51,385.4	4,096.6	8.0%

Total loans at Shinhan Bank grew 8.0% to KRW55.5 trillion in 2005, of which loans in Korean won grew by KRW4.61 trillion and loans in foreign currency decreased by KRW48.9 billion. Within retail loans in Korean won, mortgage loans increased by KRW1.3 trillion (9.2%), and other secured and unsecured loans increased by KRW1.1 trillion (15.9%). Loans in Korean won grew evenly across the various loan categories as loans to small and medium enterprises (SMEs) grew by KRW1.3 trillion, loans to large corporates and public sector institutions grew by KRW0.7 trillion and other loans grew by KRW0.3 trillion.

## (2) Total Deposits

	(In billions of Korean won)			
	Dec. 2005	Dec. 2004	Chg Amt	Chg %
Low Cost Deposit	13,677.7	12,629.1	1,048.6	8.3%
Demand	1,729.4	1,444.7	284.7	19.7%
Savings	11,948.3	11,184.4	763.9	6.8%
Other Savings	20,325.8	20,044.1	281.7	1.4%
Time Deposits	15,800.3	15,288.9	511.4	3.3%
Certificate of Deposits	7,886.8	4,938.2	2,948.6	59.7%
Total	41,890.3	37,611.4	4,278.9	11.4%

Total deposits at Shinhan Bank grew by KRW4.3 trillion, or 11.4% of which low cost deposits accounted for KRW1 trillion in growth and certificates of deposit (CD) accounted for KRW2.9 trillion in growth. Shinhan Bank is striving to expand its base of low cost deposits to improve its funding structure. On that note, the 8.3% growth achieved in demand deposits and other low cost deposits is highly encouraging. However, CDs, which are high cost deposits, also grew substantially, attributable to the special interest rate applied to CDs during the fourth quarter due to intense competition. Because Korea uses the CD interest rate as the benchmark rate for floating rate loans in Korea, a rise in CD rates led to higher funding costs. However, loan interest rates will rise as well, so the overall impact on the net interest margin can be said to be positive.

Shinhan Bank's funding structure in 2005 remained essentially unchanged from 2004, except for a decrease in the proportion of time deposits and an increase in the proportion of CDs. The following table presents a breakdown of the Bank's funding structure.

	Dec. 2005	Dec. 2004
Low-cost Deposits	29%	29%
Demand	4%	3%
Low-cost Saving	26%	26%
Time Deposits	41%	42%
Installment Deposits	2%	4%
CDs	17%	11%
RPs, Bills Sold	6%	7%
Deposits in F/C	4%	7%
Total	100%	100%

# Management's Discussion & Analysis, *Continued*

## 3. Chohung Bank

### (1) Total Loans

	(In billions of Korean won)			
	Dec. 2005	Dec. 2004	Chg Amt	Chg %
CHB				
B/A	42,175.3	39,757.6	2,417.7	6.1%
Loans in Won	35,108.0	32,768.9	2,339.1	7.1%
Retails	18,220.2	15,781.4	2,438.8	15.5%
Mortgage	10,101.6	7,864.3	2,237.3	28.4%
Others	8,118.6	7,917.1	201.5	2.5%
SMEs	12,939.3	13,651.0	-711.7	-5.2%
Large Corporates	3,490.6	2,900.0	590.6	20.4%
Public & Others	457.9	436.5	21.4	4.9%
Loans in FC	1,476.8	1,654.1	-177.3	-10.7%
Credit Card Accounts	2,282.3	2,702.0	-419.7	-15.5%
Bills Bought in FC	1,761.8	1,687.8	74.0	4.4%
Call Loans, RPs	226.8	198.3	28.5	14.4%
Others	2,192.9	1,738.9	454.0	26.1%
T/A	86.0	58.7	27.3	46.6%
<b>Total Loans</b>	<b>42,261.3</b>	<b>39,816.3</b>	<b>2,445.0</b>	<b>6.1%</b>

Chohung Bank's total loans grew by KRW2.4 trillion (6.1%) from 2004, driven by a KRW2.2 trillion increase in mortgage loans in the retail sector. As a result of the Bank's continuous efforts to improve the quality of its asset portfolio, corporate loans experienced a net decline as SME loans in Korean won declined by 5.2% and loans in foreign currency declined by 10.7%. Credit card assets also continued to decline due to a decrease in the volume of card loans and cash advances, which have high interest rates, and the large-scale write-off of non-performing loans.

### (2) Total Deposits

	(In billions of Korean won)			
	Dec. 2005	Dec. 2004	Chg Amt	Chg %
Low Cost Deposit	20,344.7	17,630.7	2,714.0	15.4%
Demand	9,431.4	8,131.8	1,299.6	16.0%
Savings	10,913.3	9,498.9	1,414.4	14.9%
Other Savings	15,082.8	17,566.6	-2,483.8	-14.1%
Time Deposits	11,425.7	13,198.8	-1,773.1	-13.4%
Certificate of Deposits	2,775.2	3,080.8	-305.6	-9.9%
<b>Total</b>	<b>38,202.7</b>	<b>38,278.1</b>	<b>-75.4</b>	<b>-0.2%</b>

Total deposits decreased by KRW75.4 billion, or 0.2%. Demand deposits and other low-cost deposits grew by KRW2.7 trillion (15.4%), but this growth was offset by a KRW2.5 trillion (14.1%) decline in high interest rate savings deposits and a KRW0.3 trillion (9.9%) decline in negotiable CDs. Chohung Bank's funding structure is very robust compared not only to Shinhan Bank's, but to the banking industry as a whole, as can be seen by the rise in the proportion of low cost deposits in the funding portfolio from 43% in 2004 to 50% in 2005.

As mentioned before, the growth rate of loans in Chohung Bank was relatively lower than in Shinhan Bank, which enabled Chohung Bank to focus more on improving the quality of its funding portfolio without any increase in its total funding volumes. Chohung Bank, like Shinhan Bank, is also continuing to broaden its base of low-cost deposits. The following table presents the proportion of each funding source at Chohung Bank.



	Dec. 2005	Dec. 2004
Low-cost Deposits	50%	43%
Demand	23%	20%
Low-cost Saving	27%	23%
Time Deposits	36%	42%
Installment Deposits	1%	2%
CDs	7%	8%
RPs, Bills Sold	3%	2%
Deposits in F/C	2%	3%
Total	100%	100%

#### 4. Good Morning Shinhan Securities (GMSH)

Total assets of GMSH grew 31% from 2004 to KRW3.9 trillion at year-end 2005. The proportion of current assets rose 36% to KRW3.6 trillion, accounting for 91.6% of total assets.

Deposits as of the end of 2005 totaled KRW887.5 billion or 52% higher than the previous year, while loans related to stock transactions were KRW291.3 billion, 128.5% higher than a year ago. Marketable securities increased by 8.1% to KRW1,119.3 billion of which bonds accounted for KRW855.1 billion, or 76.4% of total marketable securities.

The KRW386.8 billion increase in other current assets reflects the increase in assets and loan obligations to hedge the equity-linked securities/warrant (ELS/WRT) issued by the GMSH.

Total liabilities at year-end 2005 were KRW3.1 trillion, up 37.1% from the previous year.

Customer deposits rose KRW299.3 billion, or 48.7% to KRW913.8 billion as of the end of 2005 on the back of strong equity markets. The rise in other current liabilities, an increase of KRW411.4 billion is primarily attributable to the increase in bonds sold with repurchase agreements and growth in ELS/WRT issuance.

Long-term borrowings at year-end 2005 were KRW87.1 billion, an increase of KRW83.7 billion from the previous year. This reflects reclassification of the KRW70.0 billion in borrowings in subordinate loans and KRW13.3 billion of stock options previously classified as a capital adjustment item as other long-term liabilities.

Total stockholders' equity at year-end 2005 was KRW760.4 billion, up 12.1% from the previous year, due to a rise in net income.

#### GMSH's Balance Sheet

(In millions of Korean won)

	Dec. 2005	Dec. 2004	Chg Amt	Chg %
Current assets	3,555,805	2,618,111	937,694	35.8%
Deposits	887,483	583,865	303,618	52.0%
Marketable securities	1,119,289	1,035,878	83,411	8.1%
Loans	291,333	127,489	163,844	128.5%
Others	1,257,700	870,879	386,821	44.4%
Fixed assets	326,908	338,072	(11,164)	-3.3%
Investment assets	127,058	128,656	(1,599)	-1.2%
Tangible assets	199,850	209,416	(9,566)	-4.6%
Total assets	3,882,713	2,956,183	926,530	31.3%

(continued)

# Management's Discussion & Analysis, Continued

(In millions of Korean won)

	Dec. 2005	Dec. 2004	Chg Amt	Chg %
Current liabilities	3,035,277	2,274,535	760,743	33.4%
Call money	274,000	205,000	69,000	33.7%
Short-term borrowings	70,000	89,000	(19,000)	-21.3%
Customers' deposits	913,795	614,473	299,322	48.7%
Others	1,777,483	1,366,062	411,421	30.1%
Long-term liabilities	87,060	3,333	83,727	2512.1%
Total liabilities	3,122,337	2,277,868	844,469	37.1%
Total stockholders' equity	760,376	678,315	82,061	12.1%
Total liabilities & stockholders' equity	3,882,713	2,956,183	926,530	31.3%

GMSH's stock transaction volume was in 2005 KRW146 trillion, up 82% from 2004, representing a market share of 5.90%, 0.29%p higher than in 2004. This performance reflects strong equity markets supported by robust institutional and foreign investor demand accompanied by the continuous flow of money into 'installment type funds'. On the other hand, futures and options transaction volume declined by 37.7% and 31.7% to KRW303 trillion and KRW24 trillion, respectively. Market share for futures and options also dropped in 2005 by 3.20%p and 3.61%p to 4.98% and 8.49%, respectively.

## Market Share

(%)

	Dec. 2005	Dec. 2004	Chg
Stocks	5.90	5.61	0.29
Futures	4.98	8.18	(3.20)
Options	8.49	12.10	(3.61)

## Trade Volume

(In trillions of Korean won)

	Dec. 2005	Dec. 2004	Chg Amt	Chg %
Stocks	146	80	66	81.8%
Futures	303	487	(184)	-37.7%
Options	24	35	(11)	-31.7%

## 5. Shinhan Life

(In billions of Korean won, %)

	Dec. 2005	Dec. 2004	Chg Amt	Chg %
Cash & Deposits	426.8	278.5	148.3	53.2
Marketable securities	2,034.4	1,795.0	239.4	13.3
Loans	1,377.9	1,009.8	368.1	36.5
Fixed assets	15.7	15.4	0.3	1.9
Other assets	834.1	710.0	124.0	17.5
Separate account assets	440.5	246.9	193.6	78.4
Total Assets	5,129.3	4,055.6	1,073.7	26.5
Policy reserve	4,046.7	3,259.6	787.0	24.1
Policyholders equity adjustment	3.8	0.0	3.8	-
Other Liabilities	319.9	241.3	78.5	32.5
Separate account liabilities	440.5	246.9	193.6	78.4
Total liabilities	4,810.8	3,747.9	1,062.9	28.4
Total stockholders' equity	318.5	307.7	10.8	3.5
Total liabilities and stockholders' equity	5,129.3	4,055.6	1,073.7	26.5

Total assets of Shinhan Life grew a substantial 26.5% to KRW5,129.3 billion as of year-end 2005, on the back of continuous growth in insurance premium income. Securities holdings increased by 13.3%, primarily driven by a growth in bonds, while stocks stood at KRW61.3 billion, only KRW24.0 billion higher than in 2004, reflecting the company's focus on stability in the securities asset portfolio. Loan assets, mostly loans to policyholders, grew by KRW368.1 billion, while separate account assets, consisting of mostly pensions and variable insurance products, increased a substantial 78.4% to KRW440.5 billion.

Within liabilities, policy reserves continue to rise reflecting the rise in sales of insurance policies. Total stockholders' equity increased 3.5% to KRW318.5 billion year-on-year following an increase in retained earnings.

## 6. Shinhan Card

Credit card assets of Shinhan Card declined by 3.3% during 2005 compared to the previous year, largely due to a 10.9% drop in cash advance assets. Cash advance services are declining as losses from delinquent customers are being written off and cash advance usage by current customers continues to drop.

Total credit card sales volume in 2005 ended 1.7% lower than the previous year due to a large drop (KRW1,167 billion or down 33.9%) in 'corporate purchasing card' volume. However, excluding 'corporate purchasing cards,' credit card volume increased by 8.6% to KRW11.3 trillion from the previous year. Excluding 'purchasing cards' (KRW2.3 trillion), credit sales (lump-sum + installment) rose 28.8% from 2004 to KRW7.8 trillion, surpassing the industry average growth rate of 16%. The 'corporate purchasing cards' are a form of transaction in which a company's account receivable is discounted through the use of a credit card, and thus is actually a type of corporate loan. Shinhan Card, which was spun-off from Shinhan Bank in June 2002, is reducing the portion of corporate purchasing cards in its business portfolio because as a credit card company its funding costs are higher than that of the bank. On the other hand, lump sum and installment sales, Shinhan Card's key target sectors, are continuing to expand.

The number of subscribed members grew by 465,000 subscribers year-on-year to a total of 3.47 million subscribers in 2005, as a result of active efforts to attract new customers. The number of affiliated merchants also increased by 16.8% to 3 million merchants.

(In billions of Korean won)

	Dec. 2005	Dec. 2004	Chg Amt	Chg %
Assets (Managed)	1,938.4	2,003.8	-65.4	-3.3%
Receivables	1,257.5	1,292.3	-34.8	-2.7%
Cash advances	425.2	477.3	-52.1	-10.9%
Card loans	255.7	234.2	21.5	9.2%
Re-aged loans	4.0	9.9	-5.9	-59.6%
Sales Revenues	13,635.4	13,877.8	-242.4	-1.7%
Lump-sum	8,550.1	8,275.5	274.6	3.3%
Installment	1,581.7	1,246.9	334.8	26.9%
Cash advances	3,503.4	4,355.4	-852.0	-19.6%
Members (thousand)	3,467	3,002	465	15.5%
Merchants (thousand)	2,934	2,513	421	16.8%

\* Sales Revenues include purchasing card revenues.

# Management's Discussion & Analysis, *Continued*

## 6-1. Chohung Bank Credit card business

(In billions of Korean won)

	Dec. 2005	Dec. 2004	Chg Amt	Chg %
Assets (Managed)	2,282.3	2,702.0	-419.7	-15.5%
Receivables	1,282.0	1,317.3	-35.3	-2.7%
Cash advances	710.4	853.7	-143.3	-16.8%
Card loans	289.9	531.0	-241.1	-45.4%
Re-aged loans	270.2	496.7	-226.5	-45.6%
Sales Revenues	27,146.8	26,810.3	336.5	1.3%
Lump-sum	19,580.3	17,836.2	1,744.1	9.8%
Installment	2,002.7	2,098.6	-95.9	-4.6%
Cash advances	5,563.8	6,875.5	-1,311.7	-19.1%
Members (thousand)	4,182	3,802	380	10.0%
Merchants (thousand)	247	249	-2	-0.8%

\* Sales Revenues include purchasing card revenues.

Chohung Bank's credit card assets decreased by 15.5% during 2005 to KRW2.3 trillion for the same reasons as Shinhan Card's, namely the declines in cash advances and card loans. In line with this, KRW235.6 billion of non-performing credit card assets were written-off. Such write-offs and a general decline in cash advances and card loan usage were a general trend in the Korean credit card industry in 2005.

Chohung Bank's credit card sales revenues increased by 1.3% compared to 2004. Unlike Shinhan Card, 'purchasing card' revenues did not decline. Cash advance revenues decreased 19.1% from 2004, but were partly offset by a 9.8% increase in lump-sum sales revenues, resulting in a 1.4% increase in total sales revenues.

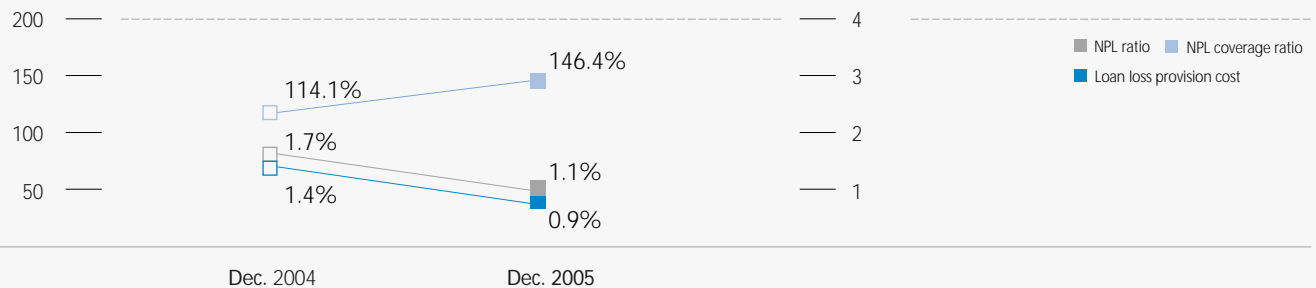
## IV. Asset Quality

### 1. Shinhan Financial Group

(In billions of Korean won)

	Dec. 2005	Dec. 2004	Chg Amt	Chg %
Total	109,005.5	99,665.4	9,340.1	9.4%
Normal	105,645.8	95,535.7	10,110.1	10.6%
Precautionary	2,149.2	2,427.7	-278.5	-11.5%
Substandard	680.4	892.7	-212.3	-23.8%
Doubtful	189.9	420.1	-230.2	-54.8%
Estimated Loss	340.1	389.3	-49.1	-12.6%
Precautionary & Below	3,359.6	4,129.7	-770.1	-18.6%
Ratio	3.08%	4.14%	n.a.	-1.06%p
Substandard & Below	1,210.4	1,702.0	-491.6	-28.9%
Ratio	1.11%	1.71%	n.a.	-0.60%p
Loan Loss Reserve	1,772.4	1,941.7	-169.2	-8.7%
Coverage Ratio				
Precautionary & Below	52.8%	47.0%	n.a.	5.7%p
Substandard & Below	146.4%	114.1%	n.a.	32.3%p

### NPL COVERAGE RATIO & LOAN LOSS PROVISION



Shinhan Financial Group's total loans at year-end 2005 grew 9.4% from a year ago, while the NPL Ratio, a key indicator of asset quality, improved substantially from 1.71% to 1.11%.

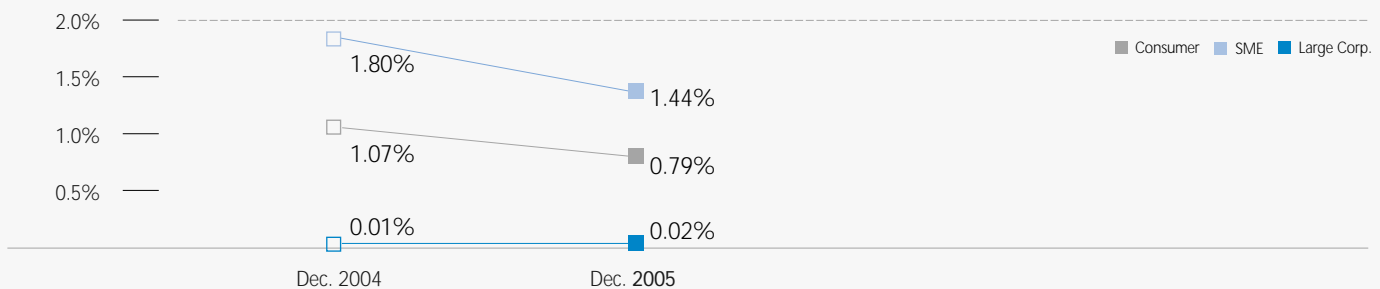
Key factors driving the improvement in the Group's asset quality were large-scale write-offs, three ABS issuances, and preventive measures based on tighter risk management. Shinhan Bank issued KRW205.6 billion in ABS securities in the second quarter, while Chohung Bank issued KRW157.0 billion and KRW114.2 billion in ABS on the NPLs in the third and fourth quarters, respectively. Shinhan Bank, Chohung Bank, and Shinhan Card wrote off a total of KRW797.2 billion in loan assets during 2005.

The large drop in non-performing assets and preventive risk management measures paid off as the Group's loan loss coverage ratio for substandard and below loans at year-end 2005 increased by 32.3%p to 146.4%, indicating a very conservative provisioning policy against credit risk, even compared to other banks in Korea.

Shinhan Financial Group's asset quality measures have always been one of the highest in the industry. The Group seeks to commit the necessary resources into improving its credit risk management capabilities on a continuous basis.



## DELINQUENCY RATIO



### 3. Chohung Bank

#### (1) Asset Classification Table and Loan Loss Coverage Ratio

(In billions of Korean won)

	Dec. 2005	Dec. 2004	Chg Amt	Chg %
Total	46,199.2	43,066.2	3,133.0	7.3%
Normal	44,625.6	41,016.9	3,608.7	8.8%
Precautionary	1,066.6	1,216.2	-149.6	-12.3%
Substandard	213.9	327.9	-114.0	-34.8%
Doubtful	146.0	314.5	-168.5	-53.6%
Estimated Loss	147.1	190.8	-43.7	-22.9%
Substandard & below	507.0	833.2	-326.2	-39.2%
Ratio	1.10%	1.93%	n.a.	-0.84%p
Loan Loss Reserve	928.6	1,053.0	-124.4	-11.8%
NPL Coverage	183.2%	126.4%	n.a.	56.8%p
Write-off (Accumulative)	571.5	1,400.6	n.a.	-829.1

As for Chohung Bank, the total amount of loans classified into the different asset classes was KRW46.2 trillion, up 7.3% (KRW3.1 trillion) from 2004, of which normal loans grew by KRW3.6 trillion (8.8%) and precautionary and below loans decreased by KRW475.8 billion (23.2%). As a result, the NPL Ratio fell to 1.10% in 2005, from 1.93% in 2004. The NPL coverage ratio rose substantially from 126.4% to 183.2%. This rise in the loan loss coverage ratio is primarily attributable to the same reasons as at Shinhan, i.e. large-scale write-offs and ABS issuance, in addition to the very small amount of new non-performing loans.

Chohung Bank's NPL coverage ratio is one of the highest according to both local and global standards. This is because loans to large corporates undergoing restructuring are classified as precautionary loans and thus are not included in the substandard and below loan category, however, provisions set against these loans are included in the calculation of the loan loss coverage ratio for these loans. Also, like Shinhan Bank, Chohung Bank set aside additional reserves of KRW125.9 billion for unused credit lines according to the FSS's Basel II guidelines.

Total loan loss provisions at Chohung Bank during 2005 were KRW660.7 billion, of which ordinary provisions for loan loss in the Bank's portfolio, i.e. excluding the KRW125.9 billion in additional reserves, were KRW534.8 billion. When compared to provisions against the total of KRW46.2 trillion in loans included in the asset classification scheme, Chohung Bank's credit cost is estimated at 1.16%, which is still higher than that of Shinhan Bank. According to the view of management, the Bank's credit cost is not sufficiently low yet and still has further room to decline in 2006. Lower loan loss provisions resulting from rapid improvement in Chohung Bank's asset portfolio and strengthened credit risk management capabilities are expected to contribute to substantial growth in the bottom line of the Chohung Bank and Shinhan Financial Group in 2006 and beyond.

The total amount of write-offs and ABS issuance at Chohung Bank amounted to KRW571.4 billion and KRW271.2 billion, respectively. Such measures contributed to a substantial decline in the ratio of substandard and below loans and an improvement in asset adequacy indicators.

## Management's Discussion & Analysis, Continued

### (2) Delinquency Ratios

	Dec. 2005 (A)	Sep. 2005	Jun. 2005	Mar. 2005	Dec. 2004 (B)	Chg %P (A-B)
Overall	1.00%	1.37%	1.67%	1.95%	1.69%	-0.69%p
Retail	0.73%	0.93%	1.22%	1.37%	1.22%	-0.49%p
Mortgage	0.28%	0.40%	0.60%	0.68%	0.52%	-0.24%p
Others	1.30%	1.56%	1.92%	2.09%	1.92%	-0.62%p
SME	1.70%	2.18%	2.43%	2.80%	2.21%	-0.52%p
SOHO	1.64%	2.17%	2.63%	2.76%	1.99%	-0.36%p
Large Corporate	0.00%	0.16%	0.32%	0.33%	0.35%	-0.35%p

Note: Delinquency rates for retail, SME, large corporate etc. are based on loans in won.

Chohung Bank's overall delinquency ratio in 2005 was 1.00%, the retail delinquency ratio was 0.73%, the SME delinquency ratio was 1.70%, and the large corporate delinquency ratio was 0%. The overall delinquency ratio decreased by 0.69%p year-on-year to levels on par with Shinhan Bank, which has a very sound asset portfolio. Chohung Bank's delinquency ratio in 2005 was highest in the first quarter then started to decline continuously from the second quarter onwards. Chohung Bank's volume of new non-performing loans is expected to remain low, as can be inferred by the very stable trends in delinquency ratios.

### 4. Shinhan Card

Shinhan Card's ratio of non-performing assets showed a continuous downward trend on the back of measures taken to settle bad accounts and attract new customers with good credit profiles. The ratio of substandard and below loans declined 0.10%p to 2.53% and the ratio of precautionary and below loans declined 3.80%p to 5.45%. The coverage ratio against substandard and below loans at year-end 2005 was 136.9%, indicating a very solid buffer to absorb potential loss. Shinhan Card maintained the best asset quality in the industry as of the end of 2005, as the company's continuous efforts to reduce past non-performing assets and tighten provisioning guidelines paid off.

#### Credit Card Asset Classification

	Dec. 2005	Dec. 2004	Chg Amt	Chg %
(In billions of Korean won)				
Assets (Managed)	1,938.5	2,004.0	-65.5	-3.3%
Normal	1,832.8	1,818.6	14.2	0.8%
Precautionary	56.7	132.7	-76.0	-57.3%
Substandard	0.0	0.0	0.0	n.a.
Doubtful	21.4	37.7	-16.3	-43.2%
Estimated Loss	27.5	15.0	12.5	83.7%
Substandard & Below	49.0	52.7	-3.7	-7.1%
Ratio	2.53%	2.63%	-0.10%p	n.a.
Loan Loss Reserve (Managed)	67.0	74.1	-7.1	-9.6%
NPL Coverage	136.9%	140.6%	-3.7%p	n.a.
NPL Sale	0.9	0.0	0.9	n.a.
ABS Issuance	0.0	172.0	-172.0	n.a.
Write-off (Accumulative)	117.6	237.1	-119.5	n.a.

Delinquency ratios at Shinhan Card continued to drop during the past three years. At 2005 year-end, the over-one-month delinquency ratio was 2.31% and the over-one-day delinquency ratio was 3.49%. Loan loss provisions were KRW86.1 billion, down 51% compared to KRW175.8 billion in 2004. Korean credit card companies, including Shinhan Card, were in the final stages of cleaning their asset portfolios as of the end of 2005.



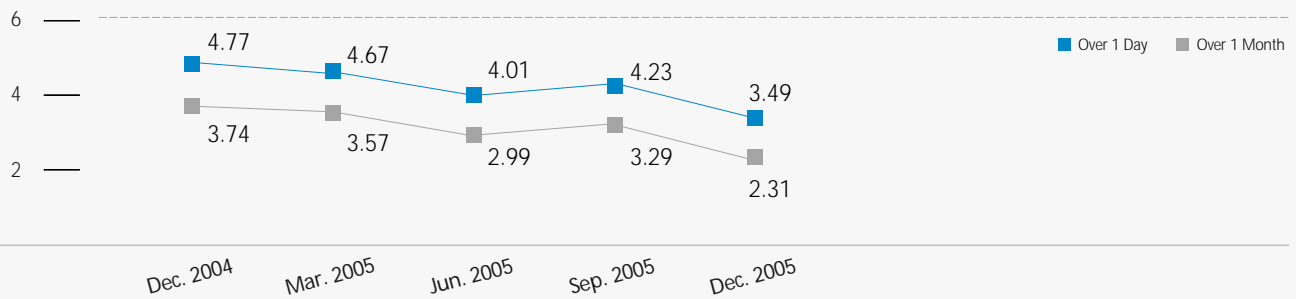
## Shinhan Card Delinquency Ratio

(In billions of Korean won)

	Dec. 2004	Mar. 2005	Jun. 2005	Sep. 2005	Dec. 2005	YTD	
						Chg Amt	Chg %
Total Credit Card Balance	2,035.9	1,815.3	1,796.4	1,784.7	1,938.5	-97.4	-4.8%
Delinquency Amount (Over 1 Day)	97.0	84.7	72.0	75.4	67.6	-29.4	-30.3%
Below 1 Month	20.8	19.8	18.3	16.8	22.9	2.1	10.0%
Over 1 Month	76.2	64.8	53.8	58.6	44.7	-31.5	-41.4%
Delinquency Ratio (Over 1 Day)	4.77%	4.67%	4.01%	4.23%	3.49%	n.a.	-1.28%p
Below 1 Month	1.02%	1.09%	1.02%	0.94%	1.18%	n.a.	0.16%p
Over 1 Month	3.74%	3.57%	2.99%	3.29%	2.31%	n.a.	-1.44%p

## CHANGES IN CREDIT CARD DELINQUENCY RATIOS

(%)



## 4-1. Chohung Bank Credit Card

## (1) Asset Quality

(In billions of Korean won)

	Dec. 2005	Dec. 2004	Chg Amt	Chg %
Assets (Managed)	2,282.3	2,701.9	-419.6	-15.5%
Normal	2,037.0	2,253.0	-216.0	-9.6%
Precautionary	151.8	250.2	-98.4	-39.3%
Substandard	10	1.7	-0.7	n.a.
Doubtful	71.3	134.8	-63.5	-47.1%
Estimated Loss	21.2	62.2	-41.0	-65.9%
Substandard & Below	93.5	198.7	-105.2	-53.0%
Ratio	4.10%	7.35%	-3.26%p	n.a.
Loan Loss Reserve (Managed)	137.2	220.9	-83.7	-37.9%
NPL Coverage	146.8%	111.2%	35.6%p	n.a.
NPL Sale	0.0	0.0	0.0	n.a.
ABS Issuance	0.0	0.0	0.0	n.a.
Write-off (Accumulative)	235.6	660.4	-424.8	n.a.

The NPL ratio of Chohung Bank's card division was 4.10%, down 3.26%p or KRW105.2 billion from the previous year. This dramatic improvement in the asset quality ratio is primarily attributable to the large scale write-off of KRW235.6 billion in non-performing loans. A non-performing loan ratio in the 4% band is not considered high given the characteristics of credit card assets. Chohung Bank's credit card asset portfolio is very stable, especially considering the significant rise in the loan loss coverage ratio to 146.8%.

# Management's Discussion & Analysis, Continued

## (2) Delinquency Ratios

(In billions of Korean won)

	Dec. 2004	Mar. 2005	Jun. 2005	Sep. 2005	Dec. 2005	YTD	
						Chg Amt	Chg %
Total Credit Card Balance	2,701.9	2,551.1	2,484.0	2,362.2	2,282.3	-419.6	-15.5%
Delinquency Amount (Over 1 Day)	150.6	155.6	119.3	102.8	83.0	-67.6	-44.9%
Below 1 Month	52.8	59.2	43.9	37.0	31.6	-21.2	-40.2%
Over 1 Month	97.8	96.4	75.4	65.9	51.4	-46.4	-47.4%
Delinquency Ratio (Over 1 Day)	5.57%	6.10%	4.80%	4.35%	3.64%	n.a.	-1.94%p
Below 1 Month	1.95%	2.32%	1.77%	1.56%	1.38%	n.a.	-0.57%p
Over 1 Month	3.62%	3.78%	3.04%	2.79%	2.25%	n.a.	-1.37%p

The over-one-month delinquency ratio at year-end 2005 fell by 1.37%p to 2.25%, while the over-one-day delinquency ratio fell 1.94% to 3.64%. Similar to delinquency trends in bank loans, the delinquency ratio in the card division also increased slightly at the end of the first quarter, after which it continued to show a downward trend.

## 5. Shinhan Life

### (1) Asset Quality

(In billions of Korean won)

	CY2005			CY2004			Chg %p
	Amt	NPL	proportion	Amt	NPL	proportion	
Normal	3,496.3	0.0	0.0%	2,838.6	0.0	0.0%	0.0%p
Precautionary	14.6	0.0	0.0%	13.9	0.0	0.0%	0.0%p
Substandard	3.8	0.8	10.3%	17.7	3.5	36.8%	-26.5%p
Doubtful	0.2	0.1	1.7%	4.1	2.0	21.1%	-19.4%p
Estimated Loss	6.4	6.4	88.0%	4.1	4.1	42.2%	45.9%p
Total	3,521.4	7.3	0.2%	2,878.4	9.6	0.3%	-0.1%p

Shinhan Life maintains one of the highest quality asset portfolios in the industry, with the ratio of non-performing loans standing at 0.21% as of year-end 2005, down 0.13%p from the previous year. The company's sound asset quality is the result of careful management of first time delinquencies, the growth of sound loans—especially good credit quality policyholder loans, and the improvement of quality in the holdings in LG Card and SK Network.

### (2) Loan Loss Provisions

(In billions of Korean won)

	CY2005	CY2004	Chg Amt
Substandard	3.4	4.2	-0.8
Doubtful	0.0	2.6	-2.6
Estimated Loss	5.3	3.9	1.4
Substandard & Below Loans	8.8	10.7	-2.0
Loan Loss Provision	15.7	14.1	1.7
Provision	179.5%	131.4%	48.1%p

The loan loss coverage ratio at year-end 2005 increased 48.1%p to 179.5%. This rise in coverage ratio, indicating an improvement in asset quality, is the result of tight management of first time delinquencies and the company's focus on expanding high-credit quality policyholder loans.

## V . Capital Adequacy Ratio

	(In billions of Korean won)	
	Dec. 2004	Dec. 2005
SFG	129.4%	132.8%
SHB		
Total Capital	5,802	6,568
Tier I Capital	3,618	4,381
Tier II Capital	2,183	2,187
Risk-weighted Assets	48,579	53,709
BIS Capital Adequacy Ratio	11.9%	12.2%
Tier I	7.4%	8.2%
Tier II	4.5%	4.1%
CHB		
Total Capital	3,816	4,984
Tier I Capital	2,023	2,969
Tier II Capital	1,793	2,016
Risk-weighted Assets	40,581	45,547
BIS Capital Adequacy Ratio	9.40%	10.9%
Tier I	4.99%	6.5%
Tier II	4.42%	4.4%
GMSH Securities	438%	615%
SHLife	266%	232%
SHCard	16.5%	17.7%
SHC	11.7%	12.4%
SHBNPPITM	326%	287%
Jeju Bank	10.9%	11.7%
Tier I	8.4%	8.4%
Tier II	2.5%	3.3%

### Remark )

SFG: (Net Capital/Required Capital) X100, Minimum ratio by FSS: 100%

SHB, CHB, Jeju Bank: BIS Capital Adequacy Ratio

GMSH: (Operational Net Capital/Total Risk) X 100, Minimum ratio by FSS: 150%

SHCard, SHC : (Real Capital/Real Total Assets) X 100, Minimum ratio by FSS: 8%

SHBNPPITM: (Net Capital/Total Risk) X100, Minimum ratio by FSS: 150%

Shinhan Financial Group's minimum capital requirement ratio increased to 132.8%, up 3.4%p from the 129.4% recorded in 2004. This change is due to the gap between the growth rates in the requirements and the actual figure. The equity capital ratio rose by 15.7% while the required minimum capital ratio went up by 13.5% year-on-year. The growth in equity capital surpassed that of the requirement due most of all to the significant rise in return on risk capital in the bank subsidiaries and the large rise in net income of the non-bank subsidiaries, which use only a small amount of risk capital.

# Management's Discussion & Analysis, *Continued*

## 2. Shinhan Bank

Shinhan Bank's BIS capital adequacy ratio as of the end of 2005 was 12.23%, up 0.29%p from last year. The tier 1 capital ratio rose 0.71%p, while the tier 2 capital ratio decreased by 0.42%p. This reflects the Bank's strategy of expanding the core capital base and reducing the portion of supplementary capital, which is a positive move in light of the higher financing costs of supplementary capital.

Total risk-weighted assets amounted to KRW53.7 trillion as of the end of 2005, 10.6% or KRW5.1 trillion higher than in 2004. Equity capital increased by a larger margin to KRW6.6 trillion, 13.2% or KRW766 billion higher than in 2004. This marked increase in capital reflects the KRW774.4 billion growth in net income, the issuance of US\$300 billion in hybrid securities and US\$350 billion in upper tier 2 securities, although the payment of KRW428.4 billion in dividends in 2005 caused a slight decrease in equity capital.

## 3. Chohung Bank

Chohung Bank's BIS capital adequacy ratio was 10.94% as of the end of 2005, up 1.54%p from the previous year. Equity capital increased by 30.6%, or KRW1.2 trillion, while risk-weighted assets grew by only 12.2%, or KRW4.96 trillion, reflecting relatively low growth of risky assets. Chohung Bank's growth in capital occurred mostly in its Tier 1 capital, similar to the case of Shinhan Bank. Specifically, net income grew by KRW756.5 billion, while deferred income tax assets, which are a capital reduction account item, declined by KRW124.9 billion in 2005. Chohung Bank's BIS ratio, which stood at 8.9% right after being acquired at the end of 2003, moved up 2%p to 10.9%, contributing to a solid capital base to support balanced growth in assets. Chohung Bank's equity capital is recovering at a very rapid pace due to the Bank's sound asset portfolio and solid recovery in profitability.

## 4. Shinhan Life

Shinhan Life's solvency margin ratio as of December 2005 was 232.1%, which is twice as high as the regulatory requirement of 100%, indicating a very sound level of capital adequacy.

## 5. Shinhan Card

$$\begin{aligned}\text{Capital Adequacy Ratio} &= \text{Adjusted Capital} / \text{Adjusted Total Assets} \\ &= 294.1 / 1663.7 = 17.7\%\end{aligned}$$

## 6. Shinhan Capital

$$\begin{aligned}\text{Capital Adequacy Ratio} &= \text{Adjusted Capital} / \text{Adjusted Total Assets} \\ &= 171.3 / 1,378.8 = 12.42\%\end{aligned}$$

## 7. Jeju Bank

Total Capital	159.8 billion
Tier 1	114.4 billion
Tier 2	45.2 billion
Risk-weighted Assets	1,365.3 billion

BIS Ratio	11.71%
Tier 1	8.38%
Tier 2	3.33%

## [Note]

## Material Changes in Accounting Method

Revenues (interest income), which had been previously classified as commission income from the credit card business, were reclassified as interest income from 2005 according to FSS accounting rule changes. FSS included revolving card, cash advances and card loans in interest income from the second quarter of 2005, and receivables & others, from the fourth quarter of 2005. For reference and comparison purposes, we have specified, below, the items of the reclassified revenues.

(In Korean won)

FY2004	Chohung Bank	Jeju Bank	Shinhan Card	Sub total
Revolving Card	71,484,665,550	0	6,032,809,686	77,517,475,236
Cash Advances	212,378,287,051	3,402,166,050	35,112,931,017	250,893,384,118
Card Loans	111,045,750,738	711,983,632	35,585,424,381	147,343,158,751
Receivables	286,107,134,278	4,706,508,087	194,801,737,573	485,615,379,938
Others	3,098,127,123	66,639,952	0	3,164,767,075
Total	684,113,964,740	8,887,297,721	271,532,902,657	964,534,165,118

FY2005	Chohung Bank	Jeju Bank	Shinhan Card	Sub total
Revolving Card	48,865,937,200	0	29,019,949,344	77,885,886,544
Cash Advances	181,396,466,585	2,665,250,281	29,340,350,050	213,402,066,916
Card Loans	66,117,882,117	309,174,667	31,980,138,965	98,407,195,749
Receivables	292,989,811,842	7,176,907,232	200,755,616,819	500,922,335,893
Others	2,878,471,232	80,159,191	0	2,958,630,423
Total	592,248,568,976	10,231,491,371	291,096,055,178	893,576,115,525

# Independent Auditors' Report (Non-Consolidated)

Based on a report originally issued in Korean

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



10th Floor, Star Tower, 737 Yeoksam-dong, Gangnam-gu,  
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We have audited the accompanying non-consolidated balance sheets of Shinhan Financial Group Co., Ltd. (the "Company") as of December 31, 2005 and 2004 and the related non-consolidated statements of income, 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.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits 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, 2005 and 2004, and the results of its operations, the changes in its retained earnings, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

The accompanying non-consolidated financial statements as of and for the years ended December 31, 2005 and 2004 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the non-consolidated financial statements expressed in Korean Won have been translated into dollars 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 discussed in Note 1 to the non-consolidated financial statements, on December 30, 2005, Chohung Bank reached an agreement to merge Shinhan Bank with the merge ratio of 1:3.8678. Under the terms of the agreement, the merger will be consummated on April 1, 2006 and the newly merged bank will change its name to Shinhan Bank. Additionally, on December 30, 2005, Chohung Bank entered into an agreement to spin off its credit card operation and merge with Shinhan Card Co., Ltd. Each share of Chohung Bank will be converted into 0.9809 shares of Shinhan Card Co., Ltd. on April 1, 2006.

Furthermore, e-Shinhan Inc. was liquidated at November 24, 2005.

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 discussed in Note 2 (d) to the non-consolidated financial statements, the Company acquired all of the outstanding shares of Shinhan Life Insurance Co., Ltd. in exchange for consideration of 0.4382 shares of common stock of the Company for each outstanding common share of Shinhan Life Insurance Co., Ltd. on December 13, 2005.

As discussed in Note 12 to the non-consolidated financial statements, the Company recorded assets and interest income from related party transactions as of and for the year ended December 31, 2005.

As discussed in Note 14(a) to the non-consolidated financial statements, regarding the acquisition of shares in Chohung Bank in 2003, the Company made an agreement with the Korea Deposit Insurance Corporation (the "KDIC") 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. The Company made adjustments to reflect the General Indemnity Payment of ₩166,516 million in 2004 and the Asset Indemnity Payment of ₩220,714 million as additions to goodwill. Other contingent considerations were not included in the acquisition cost for the amount was not determinable.

*KPMG Samjong Accounting Corp.*

KPMG Samjong Accounting Corp.

Seoul, Korea  
January 26, 2006

This report is effective as of January 26, 2006, 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, 2005 and 2004  
(In millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (note 2)	
	2005	2004	2005	2004
<b>Assets</b>				
Cash and due from banks (note 3)	₩ 64,374	31,145	\$ 63,548	30,745
Securities (notes 4 and 14)	10,882,359	8,262,100	10,742,704	8,156,071
Loans (notes 5 and 13)	1,476,630	1,749,955	1,457,680	1,727,498
Fixed assets (note 6)	2,290	2,164	2,260	2,136
Other assets (notes 7 and 13)	36,478	26,949	36,010	26,603
	<b>₩ 12,462,131</b>	<b>10,072,313</b>	<b>\$ 12,302,202</b>	<b>9,943,053</b>
<b>Liabilities and Stockholders' equity</b>				
<b>Liabilities:</b>				
Borrowings (notes 8 and 13)	₩ 156,098	154,380	\$ 154,095	152,399
Debentures (notes 9 and 13)	2,126,043	1,948,102	2,098,759	1,923,101
Retirement and severance benefits (note 10)	552	224	545	221
Other liabilities (notes 11 and 13)	42,421	222,337	41,877	219,484
Total liabilities	2,325,114	2,325,043	2,295,276	2,295,205
<b>Stockholders' equity:</b>				
Capital stock of ₩5,000 par value (note 15)				
Common stock	1,796,037	1,596,595	1,772,988	1,576,106
Authorized - 1,000,000,000 shares				
Issued and outstanding - 359,207,313 shares in 2005				
Issued and outstanding - 319,319,011 shares in 2004				
Preferred stock	374,721	486,523	369,912	480,279
Issued and outstanding - 74,944,262 shares in 2005				
Issued and outstanding - 97,304,564 shares in 2004				
Capital surplus	4,360,112	3,718,623	4,304,157	3,670,901
Retained earnings (note 16)	2,958,624	1,608,185	2,920,655	1,587,547
Capital adjustments (notes 4, 17 and 18)	647,523	337,345	639,214	333,016
Total stockholders' equity	10,137,017	7,747,271	10,006,926	7,647,849
Commitments and contingencies (note 14)				
	<b>₩ 12,462,131</b>	<b>10,072,313</b>	<b>\$ 12,302,202</b>	<b>9,943,053</b>

See accompanying notes to non-consolidated financial statements.



## Non-Consolidated Statements of Income

For the years ended December 31, 2005 and 2004  
(In millions of Won and thousands of U.S. dollars, except earnings per share)

	Won		U.S. dollars (note 2)	
	2005	2004	2005	2004
<b>Operating revenue:</b>				
Gain from equity method (notes 4 and 27)	₩ 1,789,621	1,108,952	\$ 1,766,654	1,094,721
Interest income	95,812	114,264	94,583	112,798
Other	1,373	931	1,355	919
	1,886,806	1,224,147	1,862,592	1,208,438
<b>Operating expense:</b>				
Loss from equity method (notes 4 and 27)	1,047	212	1,033	209
Interest expense	114,545	122,967	113,075	121,389
Fees and commission	124	235	122	232
General and administrative expenses(note 19)	39,157	24,224	38,655	23,914
	154,873	147,638	152,885	145,744
<b>Operating income</b>	<b>1,731,933</b>	<b>1,076,509</b>	<b>1,709,707</b>	<b>1,062,694</b>
<b>Non-operating income (expense):</b>				
Loss from disposition of equity method investment securities	(845)	-	(834)	-
Other, net	979	(9,182)	966	(9,064)
	134	(9,182)	132	(9,064)
<b>Income before income taxes</b>	<b>1,732,067</b>	<b>1,067,327</b>	<b>1,709,839</b>	<b>1,053,630</b>
Income taxes (note 20)	-	17,032	-	16,814
<b>Net income</b>	<b>₩ 1,732,067</b>	<b>1,050,295</b>	<b>\$ 1,709,839</b>	<b>1,036,816</b>
<b>Ordinary income and net earnings per share</b> in Won and U.S. dollars (note 21)	<b>₩ 4,874</b>	<b>3,197</b>	<b>\$ 4.81</b>	<b>3.16</b>
<b>Diluted ordinary income and net earnings per share</b> in Won and U.S. dollars (note 21)	<b>₩ 4,591</b>	<b>2,820</b>	<b>\$ 4.53</b>	<b>2.78</b>

See accompanying notes to non-consolidated financial statements.

# Non-Consolidated Statements of Appropriation of Retained Earnings

For the years ended December 31, 2005 and 2004 / Date of Appropriation for 2005: March 21, 2006  
Date of Appropriation for 2004: March 30, 2005 (In millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (note 2)	
	2005	2004	2005	2004
<b>Unappropriated retained earnings:</b>				
Balance at beginning of year	₩ 1,036,573	504,585	\$ 1,023,270	498,110
Changes in retained earnings of subsidiaries (note 4)	(33,738)	(65,387)	(33,305)	(64,548)
Net income	1,732,067	1,050,295	1,709,839	1,036,816
	2,734,902	1,489,493	2,699,804	1,470,378
<b>Appropriation of retained earnings:</b>				
Legal reserve	173,207	105,030	170,984	103,682
Redemption of preferred shares (note 15)	697,807	-	688,852	-
Dividends (note 22)	385,049	347,890	380,107	343,425
	1,256,063	452,920	1,239,943	447,107
<b>Unappropriated retained earnings to be carried over to subsequent year</b>	<b>₩ 1,478,839</b>	<b>1,036,573</b>	<b>\$ 1,459,861</b>	<b>1,023,271</b>

See accompanying notes to non-consolidated financial statements.

## Non-Consolidated Statements of Cash Flows

For the years ended December 31, 2005 and 2004  
(In millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (note 2)	
	2005	2004	2005	2004
<b>Cash flows from operating activities:</b>				
Net income	₩ 1,732,067	1,050,295	\$ 1,709,839	1,036,816
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation	652	652	644	644
Amortization	115	111	114	110
Reversal of Allowance for loan losses	(1,373)	(931)	(1,355)	(919)
Provision for retirement and severance benefit	740	505	730	499
Gain from equity method, net	(1,788,574)	(1,108,740)	(1,765,621)	(1,094,512)
Stock compensation costs	7,431	610	7,336	602
Loss from disposition of equity method investment securities	845	-	834	-
Decrease in other assets	869	15,797	857	15,594
Increase (decrease) in other liabilities	(40,947)	24,657	(40,422)	24,341
Retirement and severance benefit paid	(137)	(259)	(135)	(256)
Increase in deposit for severance benefit insurance	(274)	(22)	(270)	(22)
Other, net	2,345	3,088	2,316	3,049
<b>Net cash used in operating activities</b>	<b>(86,241)</b>	<b>(14,237)</b>	<b>(85,133)</b>	<b>(14,054)</b>
<b>Cash flows from investing activities:</b>				
Cash provided by investing activities:				
Decrease in equity method investment securities	381,502	-	376,606	-
Decrease in loans	632,543	214,060	624,425	211,313
Decrease in fixed assets	36	-	36	-
Decrease in other assets	-	8	-	7
Dividends received	4,846	256,536	4,784	253,244
	1,018,927	470,604	1,005,851	464,564
<b>Cash used in investing activities:</b>				
Increase in equity method investment securities	(368,311)	(111,894)	(363,585)	(110,458)
Increase in loans	(360,000)	(46,036)	(355,380)	(45,445)
Purchase of fixed assets	(914)	(915)	(902)	(904)
Increase in other assets	(2,243)	(798)	(2,214)	(787)
	(731,468)	(159,643)	(722,081)	(157,594)
<b>Net cash provided by investing activities</b>	<b>₩ 287,459</b>	<b>310,961</b>	<b>283,770</b>	<b>306,970</b>

# Non-Consolidated Statements of Cash Flows, *Continued*

For the years ended December 31, 2005 and 2004  
(In millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (note 2)	
	2005	2004	2005	2004
<b>Cash flows from financing activities:</b>				
Cash provided by financing activities:				
Increase in borrowings	₩ 409,255	411,036	404,003	405,761
Increase in debentures	780,000	200,000	769,990	197,433
Proceeds from disposition of treasury stock	536	381	529	376
	1,189,791	611,417	1,174,522	603,570
Cash used in financing activities:				
Decrease in borrowings	(405,381)	(409,000)	(400,179)	(403,751)
Decrease in debentures	(601,314)	(230,000)	(593,597)	(227,048)
Debentures issuance cost paid	(2,971)	(921)	(2,933)	(909)
Dividends paid	(347,542)	(242,105)	(343,082)	(238,998)
Acquisition of treasury stock	(474)	(323)	(468)	(319)
Stock issuance cost paid	(98)	-	(97)	-
	(1,357,780)	(882,349)	(1,340,356)	(871,025)
Net cash used in financing activities	(167,989)	(270,932)	(165,834)	(267,455)
Net increase in cash and cash equivalents	33,229	25,792	32,803	25,461
Cash and cash equivalents at beginning of year	31,145	5,353	30,745	5,284
Cash and cash equivalents at end of year	₩ 64,374	31,145	\$ 63,548	30,745

See accompanying notes to non-consolidated financial statements.

# Notes to Non-Consolidated Financial Statements

December 31, 2005 and 2004

## (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 Exchange on September 10, 2001.

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

# Notes to Non-Consolidated Financial Statements, Continued

December 31, 2005 and 2004

## (e) Shinhan Card Co., Ltd.

Shinhan Card Co., Ltd. ("Shinhan Card") was established on June 1, 2002 under the Credit Specialty Finance Business 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, 2005, Shinhan Card holds 2.93 million franchise accounts and 3.47 million credit card holders, and Shinhan Card's capital stock amounts to ₩152,847 million.

## (f) 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. Shinhan Capital's capital stock as of December 31, 2005 amounts to ₩80,000 million.

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

On August 1, 1996, Shinhan BNP Paribas Investment Trust Management Co., Ltd. ("Shinhan BNP Paribas ITMC") was established and obtained a license to engage in the business of investment and trust of securities and advisory services under the Investment and Trust of Securities Law. Shinhan BNP Paribas ITMC's capital stock as of December 31, 2005 amounts to ₩40,000 million.

## (h) 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 Exchange on December 28, 1972. Jeju Bank's capital stock as of December 31, 2005 amounts to ₩77,644 million.

## (i) SH&C Life Insurance Co., Ltd.

SH&C Life Insurance Co., Ltd. ("SH&C Life Insurance") was established on October 1, 2002 to engage in the insurance business and other related business. SH&C Life Insurance's capital stock as of December 31, 2005 amounts to ₩30,000 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. Shinhan Macquarie's capital stock as of December 31, 2005 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 to engage in the business of debt collection services and credit research. Shinhan Credit Information's capital stock as of December 31, 2005 amounts to ₩3,000 million.

## (l) Shinhan Private Equity

Shinhan Private Equity, Inc. ("Shinhan PE") was established on December 16, 2004 to provide financial advisory services and operating assistance to domestic and overseas private equity funds. Shinhan PE's capital stock as of December 31, 2005 amounts to ₩10,000 million.

Ownerships of the Company's subsidiaries as of December 31, 2005 and 2004 are as follows:

Investor	Investee	2005		2004	
		Number of shares	Ownership percentage (%)	Number of shares	Ownership percentage (%)
The Company	Shinhan Bank	214,205,935	100.0	244,806,782	100.0
	Chohung Bank	719,118,429	100.0	719,118,429	100.0
	Good Morning Shinhan Securities	159,399,664	100.0	159,399,664	100.0
	Shinhan Life Insurance	40,000,000	100.0	-	-
	Shinhan Card	30,569,400	100.0	30,569,400	100.0
	Shinhan Capital	12,250,000	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
	Shinhan Macquarie	102,000	51.0	102,000	51.0
	Shinhan Credit Information	600,000	100.0	600,000	100.0
	Shinhan PE	2,000,000	100.0	2,000,000	100.0
Shinhan Bank	The Company	2,420,955	0.7	-	-
Chohung Bank	The Company	8,985,567	2.5	8,985,567	2.8
Good Morning Shinhan Securities	The Company	203,675	0.1	1,444	-

## (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.

Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying non-consolidated 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.

### (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 ₩1,013.0 to US\$1, the basic exchange rate on December 31, 2005. 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, Continued

December 31, 2005 and 2004

## (c) Application of the Statements of Korean Financial Accounting Standards

The Company has adopted Statements of Korea Accounting Standards (the "SKAS") No.16 ("Income Taxes of Accounting") and No.17 ("Provision, Contingent Liabilities and Contingent Assets"), effective from the first fiscal year beginning after December 31, 2004. In addition, the Company has adopted SKAS No.15 ("The Equity Method of Accounting"), with encouraged earlier application at the year ended December 31, 2004. Except for the adoption of aforementioned accounting standards, the same accounting policies are applied for the non-consolidated financial statements both as of and for the years ended December 31, 2005 and 2004.

## (d) Allowance for Loan Losses

Allowance for doubtful accounts is estimated based on an analysis of individual accounts and past experience of collection.

## (e) Equity Method Investment Securities

Equity securities held for investment in companies in which the Company is able to exercise significant control over the investees are accounted for 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 considered as goodwill (negative goodwill) and amortized by the straight-line method over a reasonable period, generally less than 20 years. The amortization of goodwill is recorded against the equity income of affiliates. When events or circumstances indicate that carrying amount may not be recoverable, the Company reviews the goodwill amount for any impairment.

Under the equity method, the Company does not record its share of loss of an affiliate company when such loss would make the Company's investment in such entity less than zero. If the Company holds preferred stock or long-term debt issued by the affiliate, the Company's share of loss of the affiliate remains recorded until such investment is reduced to zero.

## (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	Five 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 five years.

## (g) Income Taxes

Income tax on the income or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of income 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 income will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### **(h) Discount on Debentures**

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

#### **(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 dates, 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 ₩1,013.0 and ₩1,043.80 to US\$1, the rates of exchange on December 31, 2005 and 2004, respectively, that are 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) Provision**

Provisions are recognized when all of the following are met: (1) an entity has a present obligation as a result of a past event, (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation. The Company recognizes the reimbursement as a separate asset when it is virtually certain that reimbursement will be received if the Company settles the obligation. In such cases, the expense relating to a provision is presented net of the amount recognized for a reimbursement.

#### **(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.

# Notes to Non-Consolidated Financial Statements, Continued

December 31, 2005 and 2004

## (3) Cash and Due from Banks

As of December 31, 2005 and 2004, ₩5.5 million and ₩2.5 million of cash and due from banks is restricted for guarantee deposits on bank accounts, respectively.

## (4) Securities

Securities as of December 31, 2005 and 2004 consist solely of equity method investment securities and details are as follows:

(in millions of Won)

Subsidiaries	2005					
	Beginning balance	Acquisition and dividend, net	Equity method gain (loss)	Retained earnings	Capital adjustments	Ending balance
Shinhan Bank	₩ 4,125,253	(367,210)	826,156	(1,590)	(82,638)	4,499,971
Chohung Bank	2,891,019	220,714	777,844	(1,807)	363,775	4,251,545
Good Morning Shinhan Securities	843,500	-	74,629	(30,311)	12,320	900,138
Shinhan Life Insurance	-	730,432	2,565	-	4,791	737,788
Shinhan Card	168,708	-	52,741	-	-	221,449
Shinhan Capital	122,525	(12,000)	36,418	-	4,846	151,789
Shinhan BNP Paribas ITMC	22,810	(2,400)	3,725	-	(32)	24,103
Jeju Bank	53,036	-	7,825	(30)	(61)	60,770
SH&C Life Insurance	14,614	-	2,680	-	(1,781)	15,513
e-Shinhan	2,887	(2,861)	-	-	(23)	-
Shinhan Macquarie	1,098	(2,446)	2,637	-	-	1,289
Shinhan Credit Information	6,862	-	2,401	-	-	9,263
Shinhan PE	9,788	-	(1,047)	-	-	8,741
	<b>₩ 8,262,100</b>	<b>564,229</b>	<b>1,788,574</b>	<b>(33,738)</b>	<b>301,194</b>	<b>10,882,359</b>

Effective year 2005, Shinhan Bank and Chohung Bank have provided an allowance for possible losses on unused loan commitments. Additionally, effective year 2005, Shinhan Bank and Chohung Bank have provided an allowance for possible losses on outstanding guarantees, which are classified as normal and precautionary, and contingent guarantees. As a result of aforementioned accounting changes, other allowance of Shinhan Bank and Chohung Bank increased by ₩99,547 million and ₩107,555 million, respectively, and allowance for guarantees and acceptances of Shinhan Bank and Chohung Bank increased by ₩12,578 million and ₩8,309 million, respectively as of December 31, 2005.

The changes in goodwill (negative goodwill) for the year ended December 31, 2005 are as follows:

(in millions of Won)

	Beginning balance	Increase	Amortization (reversal)	Ending balance
Chohung Bank	₩ 922,468	220,714	77,457	1,065,725
Good Morning Shinhan Securities	127,534	-	17,004	110,530
Shinhan Life Insurance	-	418,029	3,484	414,545
Jeju Bank	(4,970)	-	(685)	(4,285)
	<b>₩ 1,045,032</b>	<b>638,743</b>	<b>97,260</b>	<b>1,586,515</b>

The market values of the shares of Jeju Bank owned by the Company are ₩68,816 million as of December 31, 2005 (₩7,100 per share).

(in millions of Won)

Subsidiaries	2004					
	Beginning balance	Acquisition and dividend, net	Equity method gain (loss)	Retained earnings	Capital adjustments	Ending balance
Shinhan Bank	₩ 2,946,530	(244,807)	683,687	(1,353)	741,196	4,125,253
Chohung Bank	1,861,649	308,202	378,026	(10,204)	353,346	2,891,019
Good Morning Shinhan Securities	546,872	292,116	7,992	(53,800)	50,320	843,500
Shinhan Card	163,136	-	5,572	-	-	168,708
Shinhan Capital	105,448	(8,000)	23,009	-	2,068	122,525
Shinhan BNP Paribas ITMC	22,486	(2,000)	2,279	-	45	22,810
Jeju Bank	48,713	-	5,216	(38)	(855)	53,036
SH&C Life Insurance	13,021	-	187	-	1,406	14,614
e-Shinhan	2,725	-	162	-	-	2,887
Shinhan Macquarie	1,843	(1,730)	977	8	-	1,098
Shinhan Credit Information	1,969	1,529	1,845	-	1,519	6,862
Shinhan PE	-	10,000	(212)	-	-	9,788
	<b>₩ 5,714,392</b>	<b>355,310</b>	<b>1,108,740</b>	<b>(65,387)</b>	<b>1,149,045</b>	<b>8,262,100</b>

The changes in goodwill (negative goodwill) for the year ended December 31, 2004 are as follows:

(in millions of Won)

	Beginning balance	Increase (decrease)	Amortization (reversal)	Ending balance
Chohung Bank	₩ 820,239	166,516	64,287	922,468
Good Morning Shinhan Securities	144,538	-	17,004	127,534
Jeju Bank	(5,655)	-	(685)	(4,970)
	<b>₩ 959,122</b>	<b>166,516</b>	<b>80,606</b>	<b>1,045,032</b>

## (5) Loans

(a) Loans as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Loans in Won	₩ 1,340,000	1,550,000	\$ 1,322,804	1,530,109
Loans in foreign currencies	70,910	135,609	70,000	133,869
Privately placed bonds	73,140	73,140	72,201	72,201
	1,484,050	1,758,749	1,465,005	1,736,179
Less: allowance for loan losses	(7,420)	(8,794)	(7,325)	(8,681)
	<b>₩ 1,476,630</b>	<b>1,749,955</b>	<b>\$ 1,457,680</b>	<b>1,727,498</b>

# Notes to Non-Consolidated Financial Statements, Continued

December 31, 2005 and 2004

(b) Details of loans as of December 31, 2005 and 2004 are as follows:

			(in millions of Won)	
	Borrower	Interest rate (%)	2005	2004
Loans in Won	Shinhan Card	4.49 - 6.28	₩ 750,000	1,050,000
	Shinhan Capital	4.33 - 8.12	500,000	500,000
	Good Morning			
	Shinhan Securities	5.25	70,000	-
	Jeju Bank	6.43	20,000	-
			1,340,000	1,550,000
Loans in foreign currencies	Shinhan Capital	Libor+0.9	70,910	135,609
Privately placed bonds	Shinhan Bank	7.42	50,000	50,000
	Jeju Bank	8.14	23,140	23,140
			73,140	73,140
			₩ 1,484,050	1,758,749

(c) The maturities of loans as of December 31, 2005 and 2004 are as follows:

					(in millions of Won)
At December 31, 2005	Loans in Won	Loans in foreign currencies	Privately placed bonds	Total	
Due in 3 months or less	₩ 270,000	-	-	270,000	
Due after 3 months through 6 months	250,000	-	-	250,000	
Due after 6 months through 12 months	130,000	30,390	-	160,390	
Due after 1 year through 3 years	430,000	40,520	73,140	543,660	
Thereafter	260,000	-	-	260,000	
	₩ 1,340,000	70,910	73,140	1,484,050	

					(in millions of Won)
At December 31, 2005	Loans in Won	Loans in foreign currencies	Privately placed bonds	Total	
Due in 3 months or less	₩ 180,000	31,314	-	211,314	
Due after 3 months through 6 months	160,000	-	-	160,000	
Due after 6 months through 12 months	230,000	31,229	-	261,229	
Due after 1 year through 3 years	760,000	73,066	3,140	836,206	
Thereafter	220,000	-	70,000	290,000	
	₩ 1,550,000	135,609	73,140	1,758,749	

**(6) Fixed Assets**

Fixed assets as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Property and equipment:				
Vehicles	₩ 391	425	\$ 386	420
Furniture and fixtures	1,391	1,168	1,373	1,153
Other	1,704	1,493	1,682	1,473
	3,486	3,086	3,441	3,046
Less: accumulated depreciation	(2,286)	(1,784)	(2,257)	(1,761)
	1,200	1,302	1,184	1,285
Intangible assets:				
Other	1,090	862	1,076	851
	₩ 2,290	2,164	\$ 2,260	2,136

As of December 31, 2005 and 2004, the Company maintains insurance policies covering loss and liability arising from automobile accidents.

**(7) Other Assets**

Other assets as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Guarantee deposits paid	₩ 10,082	7,840	\$ 9,953	7,740
Accounts receivable	14,809	6,234	14,619	6,154
Accrued income	8,466	11,044	8,357	10,902
Prepaid expenses	724	12	715	12
Prepaid income taxes	577	-	570	-
Other	1,820	1,819	1,796	1,795
	₩ 36,478	26,949	\$ 36,010	26,603

**(8) Borrowings**

(a) Borrowings as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Borrowings in Won	₩ 85,188	50,000	\$ 84,095	49,358
Borrowings in foreign currencies	70,910	104,380	70,000	103,041
	₩ 156,098	154,380	\$ 154,095	152,399

# Notes to Non-Consolidated Financial Statements, Continued

December 31, 2005 and 2004

(b) The maturities of borrowings as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

At December 31, 2005	Borrowings in Won	Borrowings in foreign currencies	Total
Due in 3 months or less	₩ 20,188	-	20,188
Due after 3 months through 6 months	65,000	-	65,000
Due after 6 months through 12 months	-	30,390	30,390
Due after 1 year through 3 years	-	40,520	40,520
	<b>₩ 85,188</b>	<b>70,910</b>	<b>156,098</b>

(in millions of Won)

At December 31, 2005	Borrowings in Won	Borrowings in foreign currencies	Total
Due in 3 months or less	₩ -	31,314	31,314
Due after 3 months through 6 months	-	-	-
Due after 6 months through 12 months	50,000	-	50,000
Due after 1 year through 3 years	-	73,066	73,066
	<b>₩ 50,000</b>	<b>104,380</b>	<b>154,380</b>

## (9) Debentures

(a) Debentures as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Debentures in Korean Won	₩ 2,130,000	1,920,000	\$ 2,102,665	1,895,360
Debentures in foreign currencies	-	31,314	-	30,912
	2,130,000	1,951,314	2,102,665	1,926,272
Less: discount on debentures	(3,957)	(3,212)	(3,906)	(3,171)
	<b>₩ 2,126,043</b>	<b>1,948,102</b>	<b>\$ 2,098,759</b>	<b>1,923,101</b>

(b) The maturities of debentures as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

At December 31, 2005	Debentures in Korean Won	Debentures in foreign currencies	Total
Due in 3 months or less	₩ 270,000	-	270,000
Due after 3 months through 6 months	350,000	-	350,000
Due after 6 months through 12 months	380,000	-	380,000
Due after 1 year through 3 years	570,000	-	570,000
Thereafter	560,000	-	560,000
	<b>₩ 2,130,000</b>	<b>-</b>	<b>2,130,000</b>

(in millions of Won)

At December 31, 2004	Debtures in Korean Won	Debtures in foreign currencies	Total
Due in 3 months or less	₩ 180,000	-	180,000
Due after 3 months through 6 months	160,000	-	160,000
Due after 6 months through 12 months	230,000	31,314	261,314
Due after 1 year through 3 years	1,130,000	-	1,130,000
Thereafter	220,000	-	220,000
	₩ 1,920,000	31,314	1,951,314

**(10) Retirement and Severance Benefits**

Changes in retirement and severance benefits for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Estimated severance liability at beginning of year	₩ 776	530	\$ 766	523
Provision	740	505	730	499
Payment	(137)	(259)	(135)	(256)
Estimated severance liability at end of year	1,379	776	1,361	766
Less: deposit for severance benefit insurance	(827)	(552)	(816)	(545)
Net balance at end of year	₩ 552	224	\$ 545	221

**(11) Other Liabilities**

Other liabilities as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Withholding taxes	₩ 491	464	\$ 485	458
Dividends payable	1,284	937	1,267	925
Accounts payable	20,990	180,979	20,721	178,657
Accrued expenses	19,656	14,627	19,404	14,439
Income tax payable	-	25,330	-	25,005
	₩ 42,421	222,337	\$ 41,877	219,484

# Notes to Non-Consolidated Financial Statements, Continued

December 31, 2005 and 2004

## (12) Related Party Transactions

### (a) Details of transactions

Significant transactions with the related parties for the years ended December 31, 2005 and 2004 are as follows:

		(in millions of Won)	
Revenue earned by	Expense incurred by	2005	2004
Shinhan Financial Group	Shinhan Bank	₩ 5,356	4,352
"	Good Morning Shinhan Securities	3,375	5,941
"	Shinhan Card	52,710	63,146
"	Shinhan Capital	32,537	39,066
"	Jeju Bank	1,834	1,759
		95,812	114,264
Shinhan Bank	Shinhan Financial Group	68	32
"	Chohung Bank	17,814	2,390
"	Good Morning Shinhan Securities	444	2,490
"	Shinhan Life Insurance	1,219	-
"	Shinhan Card	37,927	39,862
"	Shinhan Capital	4,350	3,425
"	Jeju Bank	4	75
"	Shinhan Credit Information	270	244
"	SH&C Life Insurance	15,942	12,677
"	Shinhan BNP Paribas ITMC	588	-
Chohung Bank	Shinhan Bank	17,513	7,687
"	Shinhan Life Insurance	1,690	-
Chohung Bank	Shinhan Capital	570	812
"	Shinhan Card	1,571	1,047
"	Good Morning Shinhan Securities	91	51
"	SH&C Life Insurance	26,525	12,565
"	Shinhan Credit Information	3	-
Good Morning Shinhan Securities	Shinhan Bank	583	833
"	Shinhan Life Insurance	5	-
"	Chohung Bank	185	411
"	Shinhan Card	663	866
"	Shinhan BNP Paribas ITMC	212	204
"	SH&C Life Insurance	5	15
Shinhan Life Insurance	Shinhan Bank	695	-
"	Chohung Bank	₩ 159	-

(Continued)



(in millions of Won)

Revenue earned by	Expense incurred by	2005	2004
Shinhan Card	Shinhan Bank	₩ 309	156
"	Chohung Bank	697	-
"	Good Morning Shinhan Securities	-	6
"	Jeju Bank	275	-
"	SH&C Life Insurance	4,902	3,980
"	Shinhan Credit Information	-	35
Shinhan Capital	Shinhan Bank	6,575	3,679
"	Chohung Bank	1,054	4,523
"	Shinhan Card	1	-
Shinhan BNP Paribas ITMC	Shinhan Bank	377	446
"	Chohung Bank	52	-
Jeju Bank	Shinhan Bank	6	3
"	Chohung Bank	16	13
"	Shinhan Life Insurance	25	-
"	SH&C Life Insurance	384	182
SH&C Life Insurance	Shinhan Bank	10	1,227
"	Chohung Bank	2	-
"	Jeju Bank	-	1
Shinhan Macquarie	Shinhan Bank	180	22
e-Shinhan	Shinhan Bank	-	700
"	Shinhan Card	93	-
"	Shinhan Financial Group	63	179
"	Good Morning Shinhan Securities	-	100
"	Chohung Bank	-	600
Shinhan Credit Information	Shinhan Bank	3,134	2,878
"	Chohung Bank	6,968	3,816
"	Good Morning Shinhan Securities	52	13
"	Shinhan Life Insurance	36	-
"	Shinhan Card	7,419	8,333
"	Shinhan Capital	80	113
"	Jeju Bank	101	203
Shinhan PE	Shinhan Bank	199	-
		162,106	116,894
		₩ 257,918	231,158

# Notes to Non-Consolidated Financial Statements, Continued

December 31, 2005 and 2004

## (b) Account balances

Significant balances with the related parties as of December 31, 2005 and 2004 are as follows:

		(in millions of Won)	
Creditor	Debtor	2005	2004
Shinhan Financial Group	Shinhan Bank	₩ 133,982	94,948
"	Chohung Bank	3,494	-
"	Good Morning Shinhan Securities	71,344	-
"	Shinhan Card	755,094	1,056,661
"	Shinhan Capital	574,628	640,348
"	Jeju Bank	43,340	23,326
"	Shinhan Credit Information	112	89
		1,581,994	1,815,372
Shinhan Bank	Chohung Bank	12,913	21,919
"	Good Morning Shinhan Securities	5,223	5,753
"	Shinhan Life Insurance	78,707	-
"	Shinhan Card	42,078	9,974
"	Shinhan Capital	1,271	64,133
"	SH&C Life Insurance	595	1,199
"	Shinhan BNP Paribas ITMC	136	-
Chohung Bank	Shinhan Bank	397	8,373
"	Good Morning Shinhan Securities	6	-
"	Shinhan Life Insurance	37,790	-
"	Shinhan Capital	116	732
"	SH&C Life Insurance	2,719	1,956
Good Morning Shinhan Securities	Shinhan Bank	15,739	13,387
"	Chohung Bank	5,321	9,270
"	Shinhan Life Insurance	268	-
"	SH&C Life Insurance	-	1
"	Shinhan Card	63	-
Shinhan Life Insurance	Shinhan Bank	11,502	-
"	Jeju Bank	14	-
"	Chohung Bank	3,434	-
Shinhan Card	Shinhan Financial Group	309	-
"	Shinhan Bank	12,847	1,616
"	Chohung Bank	-	1
"	Good Morning Shinhan Securities	5,326	4,635
"	Shinhan Life Insurance	₩ 1,016	-

(Continued)

(in millions of Won)

Creditor	Debtor	2005	2004
Shinhan Card	Shinhan BNP Paribas ITMC	₩ 55	-
"	SH&C Life Insurance	508	431
"	Shinhan Credit Information	56	-
"	Shinhan Capital	42	-
Shinhan Capital	Shinhan Bank	81,264	75,398
"	Chohung Bank	3,524	9,320
Shinhan BNP Paribas ITMC	Shinhan Bank	9,207	12,986
"	Shinhan Life Insurance	303	-
"	Good Morning Shinhan Securities	3,496	3,496
Jeju Bank	SH&C Life Insurance	23	26
"	Shinhan Life Insurance	25	-
SH&C Life Insurance	Shinhan Bank	507	856
"	Chohung Bank	562	873
"	Shinhan Life Insurance	130	-
e-Shinhan	Shinhan Bank	-	2,837
Shinhan Macquarie	Shinhan Bank	9,349	4,027
Shinhan Credit Information	Shinhan Bank	4,629	3,341
"	Chohung Bank	661	435
"	Good Morning Shinhan Securities	-	1
"	Shinhan Card	669	702
"	Jeju Bank	74	71
Shinhan PE	Shinhan Bank	6,990	9,412
		359,864	267,161
		₩ 1,941,858	2,082,533

## (c) Guarantees and acceptances

The guarantees and acceptances provided between the related parties as of December 31, 2005 are as follows:

(in millions of Won)

Creditor	Debtor	Account	Amount guaranteed
Shinhan Financial Group	Good Morning Shinhan Securities	Lease guarantee	₩ 50,000
"	SH&C Life Insurance	Guarantees for loans	7,000
Shinhan Bank	Shinhan Capital	Letter of credit	12,880
"	Shinhan Finance	Guarantees for loans	2,238
Chohung Bank	Chohung Finance	Guarantees for letter of credit	3,596
			₩ 75,714

# Notes to Non-Consolidated Financial Statements, Continued

December 31, 2005 and 2004

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

Assets and liabilities denominated in foreign currency as of December 31, 2005 and 2004 are as follows:

(in millions of Won and thousands of U.S. dollars)

	Foreign currency		Won equivalent	
	2005	2004	2005	2004
<b>Assets:</b>				
Loans	\$ 70,000	129,919	₩ 70,910	135,609
Other assets	388	853	393	890
	<b>\$ 70,388</b>	<b>130,772</b>	<b>₩ 71,303</b>	<b>136,499</b>
<b>Liabilities:</b>				
Borrowings	\$ 70,000	100,000	₩ 70,910	104,380
Debentures	-	30,000	-	31,314
Discount on debentures	-	(20)	-	(21)
Other liabilities	371	791	376	825
	<b>\$ 70,371</b>	<b>130,771</b>	<b>₩ 71,286</b>	<b>136,498</b>

## (14) Commitments and Contingencies

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. Additionally, in accordance with the agreement, 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 (may be offset by 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 income 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

The Company made adjustments to reflect the General Indemnity Payment of ₩166,516 million in 2004 and the Asset Indemnity Payment of ₩220,714 million as additions to goodwill. Other contingent considerations were not included in the acquisition cost, for the amount was not determinable.

## (15) Capital Stock

(a) Details of preferred stock issued by the Company 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
	<b>52,583,961</b>		
<b>Redeemable convertible preferred stock:</b>			
Series 9 (**)	22,360,301	2.02	August 19, 2006 - August 18, 2008
	<b>74,944,262</b>		

(\*) Based on issue price

(\*\*) Convertible period : August 19, 2004 - August 18, 2007

Conversion ratio : 1 common share to 1 preferred share

Conversion price in Won : ₩18,086

(b) Details of changes in capital stock for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Won, except shares)

	Number of shares	Capital stock	Preferred stock	Capital surplus
Balance at January 1, 2004	391,705,864	₩ 1,472,007	486,523	3,316,380
Share exchange	24,917,711	124,588	-	402,184
Disposition of treasury stock	-	-	-	59
Balance at December 31, 2004	416,623,575	₩ 1,596,595	486,523	3,718,623
Share exchange	17,528,000	87,640	-	641,427
Preferred stock converted into common stock	-	111,802	(111,802)	-
Disposition of treasury stock	-	-	-	62
Balance at December 31, 2005	434,151,575	₩ 1,796,037	374,721	4,360,112

(c) Details of preferred stock to be redeemed by appropriations of retained earnings

(in millions of Won, except price per share)

	Number of shares	Redemption date	Redemption price per share	Redemption amount
Series 1 redeemable preferred stock	9,316,792	August 18, 2006	₩ 18,544.423	172,774
Series 6 redeemable preferred stock	3,500,000	August 18, 2006	150,009.411	525,033
	<b>12,816,792</b>			<b>₩ 697,807</b>

## (16) Retained Earnings

Retained earnings as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Legal reserve	₩ 223,722	118,692	\$ 220,851	117,169
Retained earnings before appropriation	2,734,902	1,489,493	2,699,804	1,470,378
	<b>₩ 2,958,624</b>	<b>1,608,185</b>	<b>\$ 2,920,655</b>	<b>1,587,547</b>

The Korean Financial Holding Company Act requires the Company to appropriate a minimum of 10% of annual net income as 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.

## (17) Capital Adjustment

Capital adjustments as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Unrealized gain on equity method investment securities	₩ 634,936	383,098	\$ 626,788	378,182
Unrealized loss on equity method investment securities	(4,576)	(53,932)	(4,517)	(53,240)
Stock options (note 18)	17,163	8,179	16,943	8,074
	<b>₩ 647,523</b>	<b>337,345</b>	<b>\$ 639,214</b>	<b>333,016</b>

## (18) Stock Options

(a) Details of stock options as of December 31, 2005 and 2004 are as follows:

Grant date	March 30, 2005	March 25, 2004	May 15, 2003	May 22, 2002
Options granted	2,695,200 options	1,301,600 options	1,156,300 options	1,004,200 options
Options expired to date	690,979 options	52,995 options	344,716 options	309,557 options
Options outstanding	2,004,221 options	1,248,605 options	811,584 options	694,643 options
Type of stock options	Stock grant or price compensation	Stock grant or price compensation	Price compensation	Price compensation
Exercise price in Won	₩28,006	₩21,595	₩11,800	₩18,910
Exercise period	Within four years after three years from grant date	Within three years after two years from grant date	Within four years after two years from grant date	Within four years after two years from grant date
Forfeited period	After seven years from grant date	After five years from grant date	After six years from grant date	After six years from grant date

(Continued)

Grant date	March 30, 2005	March 25, 2004	May 15, 2003	May 22, 2002
Assumptions used to determine the fair value of options:				
Risk-free interest rate	4.07%	4.39%	-	-
Expected exercise period	5 years	3.5 years	-	-
Expected stock price volatility	17.92%	19.85%	-	-
Expected dividend yield	-	-	-	-
Expected ratios of no-exercise	-	-	-	-
Weighted average fair value	₩ 11,201	₩ 7,696	-	-

(b) Changes in stock compensation costs for the year ended December 31, 2005 are as follows:

(in millions of Won)

Grant date	Stock compensation cost	Personnel of		Total
		The Company	Subsidiaries	
March 30, 2005	Recorded at beginning of the period	₩ -	-	-
	Incurred during the period	767	7,858	8,625
	To be recorded in subsequent periods	1,272	12,553	13,825
March 25, 2004	Recorded at beginning of the period	935	2,850	3,785
	Incurred during the period	1,095	3,658	4,753
	To be recorded in subsequent periods	386	685	1,071
May 15, 2003	Recorded at beginning of the period	1,035	3,360	4,395
	Incurred during the period	3,299	15,693	18,992
	To be recorded in subsequent periods	-	-	-
May 22, 2002	Recorded at beginning of the period	664	2,384	3,048
	Incurred during the period	2,270	9,760	12,030
	To be recorded in subsequent periods	-	-	-

For stock options granted at March 30, 2005 and March 25, 2004, 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, stock compensation costs have been recorded as long-term payables by the subsidiaries and as accounts receivable by the Company.

### (19) General and Administrative Expenses

Details of general and administrative expenses for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Salaries	₩ 22,813	13,363	\$ 22,520	13,192
Provision for retirement and severance benefits	740	505	730	499
Other employees benefits	1,607	866	1,587	855
Rental	520	497	513	491
Entertainment	782	663	772	654
Depreciation	652	652	644	644
Amortization	115	111	114	110
Taxes and dues	2,209	835	2,181	824
Advertising	15	28	14	27
Fees and commission	6,034	3,600	5,957	3,554
Other	3,670	3,104	3,623	3,064
	₩ 39,157	24,224	\$ 38,655	23,914

# Notes to Non-Consolidated Financial Statements, Continued

December 31, 2005 and 2004

## (20) Income Taxes

(a) The Company is subject to income taxes based on taxable income, which result in the normal tax rate of 27.5%.

In December 2003, the Korean government reduced the corporate income tax rate (including resident tax) beginning in 2005. Specifically, effective from January 1, 2005, the income tax rate is reduced from 29.7% to 27.5%.

The components of income tax expense for the years ended December 31, 2005 and 2004 are as follows:

	(in millions of Won)	
	2005	2004
Current income tax expense	₩ -	17,032
Changes in deferred tax arising from temporary differences	-	-
Income tax expense	₩ -	17,032

(b) The reconciliation of accounting income and taxable income for the years ended December 31, 2005 and 2004 is as follows:

	(in millions of Won)	
	2005	2004
Net income before income tax expense	₩ 1,732,067	1,067,327
Permanent difference	298,095	696,831
Temporary difference	(2,049,376)	(1,706,751)
Taxable income(loss)	₩ (19,214)	57,407

(c) Changes in significant accumulated temporary differences and tax effects for the years ended December 31, 2005 and 2004 are as follows:

	(in millions of Won)			
	2005			
	Beginning balance (*)	Increase	Decrease	Ending balance
Temporary differences:				
Securities	₩ (1,041,921)	(1,749,990)	5,408	(2,797,319)
Retirement and severance benefits	466	499	137	828
Accrued income	(299)	(299)	(299)	(299)
Deposit for severance benefit insurance	(466)	(509)	(147)	(828)
Other	6	7,269	6	7,269
	(1,042,214)	(1,743,030)	5,105	(2,790,349)
Unrealizable temporary differences on gain from equity method	1,042,173			2,793,626
Net temporary differences	₩ (41)			3,277
Tax effects of temporary differences	(11)			901
Tax effects of tax loss carryforwards	-			5,284
Net tax effects	₩ (11)			6,185
Tax effects recorded in financial statements	₩ -			-



Net tax effects ₩6,185 million as of December 31, 2005 are not recognized as deferred tax assets due to uncertainty of realization.

(in millions of Won)

	Beginning balance (*)	2004		Ending balance
		Increase	Decrease	
Temporary differences:				
Securities	₩ 12,199	91,066	-	103,265
Retirement and severance benefits	251	215	-	466
Gain from equity method	(268,310)	(1,108,740)	(256,536)	(1,120,514)
Accrued income	(11,334)	(299)	(11,334)	(299)
Deposit for severance benefit insurance	(251)	(215)	-	(466)
Other	10	-	6	5
	(267,435)	(1,017,973)	(267,864)	(1,017,543)
Unrealizable temporary differences on gain from equity method	263,171			1,017,503
Net temporary differences	₩ (4,264)			(40)
Tax effects of temporary differences	(1,172)			(11)
Tax effects of tax loss carryforwards	13,706			-
Net tax effects	₩ 12,534			(11)
Tax effects recorded in financial statements	₩ -			-

(\*) Amount resulting from prior year tax return is reflected in the current year.

(d) Effective income tax rate for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Won, except tax rate)

	2005	2004
Net income before income tax expense	₩ 1,732,067	1,067,327
Income tax expense	₩ -	17,032
Effective income tax rate (%)	-	1.60%

## (21) Earnings Per Share

### (a) Earnings per share

Earnings per common share is calculated by dividing net income less preferred stock dividend requirement 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, 2005 and 2004 are computed as follows:

(in millions of Won, except per share)

	2005	2004
Net income for year	₩ 1,732,067	1,050,295
Less: extraordinary gain	-	-
dividends on preferred stock	106,972	115,141
Ordinary income available for common stock	1,625,095	935,154
Weighted average number of common shares outstanding (**)	333,424,457	292,467,357
Ordinary income per share in Won	4,874	3,197
Net earnings per share in Won	₩ 4,874	3,197

(\*\*) Shares held by subsidiaries are considered.

# Notes to Non-Consolidated Financial Statements, Continued

December 31, 2005 and 2004

## (b) Diluted earnings per share

For the year ended December 31, 2005, if convertible preferred stock and stock options were exercised, 25,613,127 shares of common stock would be issued, and if preferred stock were converted into common stock on issue date, weighted average number of common shares outstanding would be 355,784,758.

Details of diluted ordinary/net earnings per share due to dilutive effect for the years ended December 31, 2005 and 2004 are as follows:

	(in millions of Won, except per share)	
	2005	2004
Ordinary income available for common stock	₩ 1,625,095	935,154
Add: dividends on convertible preferred stock	8,169	16,338
stock compensation costs	-	583
Diluted ordinary income/net earnings	1,633,264	952,075
Weighted average number of common shares outstanding	355,784,758	337,600,441
Diluted ordinary income per share in Won	₩ 4,591	2,820
Net earnings per share in Won	₩ 4,591	2,820

## (c) Securities applicable to common shares

	Convertible period	Number of shares to be issued
Redeemable convertible preferred stock	August 19, 2004 - August 18, 2007	22,360,301
Stock options	May 15, 2005 - June 15, 2009	1,248,605
Stock options	March 26, 2006 - March 25, 2009	2,004,221
		25,613,127

## (d) Ordinary income per share and net earnings per share for each quarters ended December 31, 2005 are as follows:

	(in Won)			
	1st quarter	2nd quarter	3rd quarter	4th quarter
Ordinary income and net earnings per share	₩ 1,159	1,423	1,219	1,309
Diluted ordinary income and net earnings per share	1,023	1,257	1,077	1,253

## (22) Dividends

### (a) Dividends for the years ended December 31, 2005 and 2004 are as follow:

	(in millions of Won, except per share)		
	2005		
	Common shares	Preferred shares	Total
Total number of share issued and outstanding	359,207,313	74,944,262	434,151,575
Shares excluded (*)	11,610,197	-	11,610,197
	347,597,116	74,944,262	422,541,378
Face value per share in Won	5,000	5,000	5,000
Dividend per share in Won (rate per share) (**)	₩ 800 (16%)	1,427 (28.55%)	911 (18.23%)
Dividends	₩ 278,077	106,972	385,049

(\*) Dividends on shares held by subsidiaries as of December 31, 2005 are not paid.

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

(in millions of Won, except per share)

	Number of shares	Dividends per share in Won	Dividend rate per share (%)	Dividends
Redeemable preferred stock:				
Series 1	9,316,792	730.67	14.61	6,807
Series 2	9,316,792	"	"	6,807
Series 3	9,316,792	"	"	6,807
Series 4	9,316,792	"	"	6,807
Series 5	9,316,793	"	"	6,808
Series 6	3,500,000	10,500.00	210.00	36,750
Series 7	2,433,334	11,190.00	223.80	27,230
Series 8	66,666	11,790.00	235.80	787
	<b>52,583,961</b>			<b>98,803</b>
Redeemable convertible preferred stock:				
Series 9	22,360,301	365.34	7.31	8,169
	<b>74,944,262</b>			<b>106,972</b>

(in millions of Won, except per share)

	2004		
	Common shares	Preferred shares	Total
Total number of share issued and outstanding	319,319,011	97,304,564	416,623,575
Shares excluded (*)	8,987,011	-	8,987,011
	<b>310,332,000</b>	<b>97,304,564</b>	<b>407,636,564</b>
Face value per share in Won	5,000	5,000	5,000
Dividend per share in Won (rate per share) (**)	₩ 750 (15%)	1,183 (23.66%)	853 (17.06%)
Dividends	₩ 232,749	115,141	347,890

(\*) Dividends on shares held by subsidiaries as of December 31, 2004 are not paid.

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

(in millions of Won, except per share)

	Number of shares	Dividends per share in Won	Dividend rate per share (%)	Dividends
Redeemable preferred stock:				
Series 1	9,316,792	730.67	14.61	6,807
Series 2	9,316,792	"	"	6,807
Series 3	9,316,792	"	"	6,807
Series 4	9,316,792	"	"	6,807
Series 5	9,316,793	"	"	6,808
Series 6	3,500,000	10,500.00	210.00	36,750
Series 7	2,433,334	11,190.00	223.80	27,230
Series 8	66,666	11,790.00	235.80	786
	<b>52,583,961</b>			<b>98,802</b>
Redeemable convertible preferred stock:				
Series 9	44,720,603	365.34	7.31	16,339
	<b>97,304,564</b>			<b>115,141</b>

# Notes to Non-Consolidated Financial Statements, Continued

December 31, 2005 and 2004

(b) Payout ratios for the years ended December 31, 2005 and 2004 are calculated as follows:

(in millions of Won, except payout ratio)

	2005			2004		
	Common shares	Preferred shares	Total	Common shares	Preferred shares	Total
Dividends in Won	₩ 278,077	106,972	385,049	232,749	115,141	347,890
Net earning in Won	₩ 1,625,095	106,972	1,732,067	935,154	115,141	1,050,295
Payout ratios (%)	17.11		22.23	24.89		33.12

(c) Dividend yields on common shares for the years ended December 31, 2005 and 2004 are calculated as follows:

(in Won, except dividends yields)

	2005	2004
Dividends per share in Won	₩ 800	750
Stock price in Won at the balance sheet date	₩ 41,620	22,840
Dividends yields (%)	1.92	3.28

## (23) Statements of Cash Flows

Significant transactions not involving cash inflows or outflows for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Won, except per share)

	2005	2004
Acquisition of equity method investment securities through shares exchange	₩ 730,432	526,798
Contingent consideration recorded as accounts payable	20,596	166,516
Changes in capital adjustments due to application of the equity method	301,194	956,022
Changes in retained earnings due to application of the equity method	33,738	65,387
Stock options recorded as accounts receivable	8,157	1,393

## (24) Condensed Financial Statements of Subsidiaries

(a) Balance sheets

Condensed balance sheets of subsidiaries as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

Subsidiaries	2005		
	Total assets	Total liabilities	Total stockholders' equity
Shinhan Bank	₩ 75,641,968	71,042,501	4,599,467
Chohung Bank	66,609,526	62,783,304	3,826,222
Good Morning Shinhan Securities	3,882,713	3,122,337	760,376
Shinhan Life Insurance	5,129,302	4,810,804	318,498
Shinhan Card	1,532,291	1,314,592	217,699
Shinhan Capital	1,400,829	1,251,895	148,934
Shinhan BNP Paribas ITMC	53,437	5,233	48,204
Jeju Bank	2,051,202	1,931,693	119,509
SH&C Life Insurance	708,175	677,150	31,025
Shinhan Macquarie	11,848	9,320	2,528

(Continued)

(in millions of Won)

Subsidiaries	2005		
	Total assets	Total liabilities	Total stockholders' equity
Shinhan Credit Information	12,073	2,810	9,263
Shinhan PE	8,826	85	8,741
	<b>₩ 157,042,190</b>	<b>146,951,724</b>	<b>10,090,466</b>

(in millions of Won)

Subsidiaries	2004		
	Total assets	Total liabilities	Total stockholders' equity
Shinhan Bank	₩ 70,125,920	66,000,578	4,125,342
Chohung Bank	65,389,100	62,778,172	2,610,928
Good Morning Shinhan Securities	2,956,183	2,277,868	678,315
Shinhan Card	1,469,925	1,306,467	163,458
Shinhan Capital	1,320,929	1,201,582	119,347
Shinhan BNP Paribas ITMC	49,463	3,845	45,618
Jeju Bank	1,872,414	1,763,877	108,537
SH&C Life Insurance	286,304	257,077	29,227
e-Shinhan	4,813	893	3,920
Shinhan Macquarie	11,307	9,154	2,153
Shinhan Credit Information	9,228	2,366	6,862
Shinhan PE	9,844	57	9,787
	<b>₩ 143,505,430</b>	<b>135,601,936</b>	<b>7,903,494</b>

**(b) Statements of Earnings**

Condensed statements of earnings of subsidiaries for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Won)

Subsidiaries	2005				
	Operating revenue	Operating expense	Operating income (loss)	Ordinary income (loss)	Net income (loss)
Shinhan Bank	₩ 6,163,895	5,223,326	940,569	1,065,978	774,422
Chohung Bank	7,310,666	6,667,084	643,582	696,062	756,505
Good Morning Shinhan Securities	901,888	786,179	115,709	121,052	87,240
Shinhan Life Insurance	255,037	242,153	12,884	8,587	6,047
Shinhan Card	417,071	356,902	60,169	58,416	54,241
Shinhan Capital	222,439	166,587	55,852	52,326	36,742
Shinhan BNP Paribas ITMC	19,579	9,442	10,137	10,302	7,450
Jeju Bank	130,394	119,520	10,874	10,800	11,118
SH&C life Insurance (*)	49,150	50,743	(1,593)	6,467	5,359
Shinhan Macquarie	24,490	16,547	7,943	8,152	5,646
Shinhan Credit Information	23,966	20,590	3,376	3,328	2,401
Shinhan PE	880	2,176	(1,296)	(1,147)	(1,047)
	<b>₩ 15,519,455</b>	<b>13,661,249</b>	<b>1,858,206</b>	<b>2,040,323</b>	<b>1,746,124</b>

(\*) For the one month period ended December 31, 2005 reflected.

# Notes to Non-Consolidated Financial Statements, Continued

December 31, 2005 and 2004

(in millions of Won)

Subsidiaries	2004				
	Operating revenue	Operating expense	Operating income (loss)	Ordinary income (loss)	Net income (loss)
Shinhan Bank	₩ 5,917,768	4,881,890	1,035,878	1,201,938	844,113
Chohung Bank	6,782,762	6,459,908	322,854	267,736	265,238
Good Morning Shinhan Securities	658,328	614,709	43,619	44,113	43,576
Shinhan Card	423,829	417,407	6,422	5,822	5,822
Shinhan Capital	221,072	187,764	33,308	32,738	23,056
Shinhan BNP Paribas ITMC	13,950	7,402	6,548	6,551	4,557
Jeju Bank	131,659	123,982	7,676	7,366	6,334
SH&C life Insurance	36,489	37,850	(1,362)	182	373
e-Shinhan	3,487	3,293	194	220	220
Shinhan Macquarie	14,556	11,633	2,923	3,098	1,984
Shinhan Credit Information	29,367	28,972	395	610	3,000
Shinhan PE	-	212	(212)	(212)	(212)
	₩ 14,233,267	12,775,022	1,458,243	1,570,162	1,198,061

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

(a) The financing status of the Company and its subsidiaries as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

	2005			
	Deposits	Borrowings	Debentures (*)	Total
Shinhan Financial Group	₩ -	156,098	2,126,043	2,282,141
Shinhan Bank	43,996,904	9,096,330	12,327,937	65,421,171
Chohung Bank	41,404,815	5,788,793	7,848,891	55,042,499
Good Morning Shinhan Securities	913,795	829,425	-	1,743,220
Shinhan Life Insurance	-	47,000	-	47,000
Shinhan Card	-	1,025,500	179,544	1,205,044
Shinhan Capital	-	721,885	345,201	1,067,086
Jeju Bank	1,681,985	89,689	35,000	1,806,674
	₩ 87,997,499	17,754,720	22,862,616	128,614,835

(\*) Net of discount on debentures

(in millions of Won)

	2004			
	Deposits	Borrowings	Debentures (*)	Total
The Company	₩ -	154,380	1,948,102	2,102,482
Shinhan Bank	40,668,095	9,164,921	10,835,048	60,668,064
Chohung Bank	41,313,073	5,057,559	7,115,575	53,486,207
Good Morning Shinhan Securities	614,473	290,508	-	904,981
Shinhan Card	-	1,232,500	-	1,232,500
Shinhan Capital	-	805,718	195,595	1,001,313
Jeju Bank	1,527,788	83,871	35,000	1,646,659
Shinhan Macquarie	-	6,471	-	6,471
	₩ 84,123,429	16,795,928	20,129,320	121,048,677

(\*) Net of discount on debentures

(b) The operating status of the Company and its subsidiaries as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

	2005			
	Loans (*)	Securities	Cash and due from banks	Total
The Company	₩ 1,476,630	10,882,359	64,374	12,423,363
Shinhan Bank	55,191,023	13,289,065	2,301,465	70,781,553
Chohung Bank	44,648,308	10,644,933	2,171,777	57,465,018
Good Morning Shinhan Securities	302,457	2,161,569	921,164	3,385,190
Shinhan Life Insurance	1,377,904	2,034,360	421,028	3,833,292
Shinhan Card	1,479,533	414	5,876	1,485,823
Shinhan Capital	1,061,971	131,623	115,388	1,308,982
Shinhan BNP Paribas ITMC	620	10,307	34,098	45,025
Jeju Bank	1,416,748	348,658	108,971	1,874,377
SH&C Life Insurance	372	48,023	23,031	71,426
Shinhan Macquarie	-	-	9,318	9,318
Shinhan Credit Information	-	-	6,011	6,011
Shinhan PE	-	846	6,967	7,813
	<b>₩ 106,955,566</b>	<b>39,552,157</b>	<b>6,189,468</b>	<b>152,697,191</b>

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

(in millions of Won)

	2004			
	Loans (*)	Securities	Cash and due from banks	Total
The Company	₩ 1,749,955	8,262,100	31,145	10,043,200
Shinhan Bank	51,028,772	11,706,747	2,386,837	65,122,356
Chohung Bank	41,586,846	11,499,243	1,754,215	54,840,304
Goodmorning Shinhan Securities	141,635	1,852,357	636,049	2,630,041
Shinhan Card	790,320	1,643	880	792,843
Shinhan Capital	993,143	77,548	103,405	1,174,096
Shinhan BNP Paribas ITMC	454	20,101	22,198	42,753
Jeju Bank	1,366,068	303,688	31,574	1,701,330
SH&C Life Insurance	294	56,819	2,704	59,817
e-Shinhan	36	74	2,832	2,942
Shinhan Macquarie	-	-	4,027	4,027
Shinhan Credit Information	-	-	4,213	4,213
Shinhan PE	-	-	9,412	9,412
	<b>₩ 97,657,523</b>	<b>33,780,320</b>	<b>4,989,491</b>	<b>136,427,334</b>

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

# Notes to Non-Consolidated Financial Statements, Continued

December 31, 2005 and 2004

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

Effects under the equity method on the Company's net income for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Won, except ratio)

	2005		2004	
	Amount	Ratio (%)	Amount	Ratio (%)
Gain (loss) from equity method on:				
Shinhan Bank	₩ 826,156	46.19	₩683,687	61.66
Chohung Bank	777,844	43.49	378,026	34.10
Good Morning Shinhan Securities	74,629	4.17	7,992	0.72
Shinhan Life Insurance	2,565	0.14	-	-
Shinhan Card	52,741	2.95	5,572	0.50
Shinhan Capital	36,418	2.04	23,009	2.08
Shinhan BNP Paribas ITMC	3,725	0.21	2,278	0.21
Jeju Bank	7,825	0.44	5,216	0.47
SH&C Life Insurance	2,680	0.15	187	0.02
e-Shinhan	-	-	162	0.01
Shinhan Macquarie	2,637	0.15	977	0.09
Shinhan Credit Information	2,401	0.13	1,846	0.17
Shinhan PE	(1,047)	(0.06)	(212)	(0.02)
	1,788,574	100.00	1,108,740	100.00
Other income	101,629		134,183	
Other expense	(158,136)		(192,628)	
Net income for year	₩ 1,732,067		₩1,050,295	

## (27) 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, 2005 and 2004 are as follows:

(in millions of Won)

	2005		
	Beginning balance	Increase (decrease)	Ending balance
The Company	₩ 8,794	(1,374)	7,420
Shinhan Bank	743,506	(59,949)	683,557
Chohung Bank	1,006,721	(117,449)	889,272
Good Morning Shinhan Securities	29,416	(2,160)	27,256
Shinhan Life Insurance		17,740	17,740
Shinhan Card	47,831	19,569	67,400
Shinhan Capital	27,021	3,352	30,373
Shinhan BNP Paribas ITMC	13	5	18
Jeju Bank	32,145	(6,999)	25,146
SH&C Life Insurance	15	31	46
e-Shinhan	8	12	20
Shinhan Macquarie	53	(50)	3
Shinhan Credit Information	-	1	1
	₩ 1,895,523	(147,271)	1,748,252



(in millions of Won)

	2004		
	Beginning balance	Increase (decrease)	Ending balance
The Company	₩ 9,725	(931)	8,794
Shinhan Bank	866,428	(122,922)	743,506
Chohung Bank	1,686,350	(679,629)	1,006,721
Good Morning Shinhan Securities	43,048	(13,632)	29,416
Shinhan Card	118,609	(70,778)	47,831
Shinhan Capital	17,899	9,122	27,021
Shinhan BNP Paribas ITMC	14	(1)	13
Jeju Bank	35,270	(3,125)	32,145
SH&C Life Insurance	1	14	15
e-Shinhan	8	-	8
Shinhan Macquarie	98	(45)	53
Shinhan Credit Information	36	(36)	-
	<b>₩ 2,777,486</b>	<b>(881,963)</b>	<b>1,895,523</b>

**(28) Financial Performance**

Financial performance for the quarters ended December 31, 2005 and 2004 are as follows:

(in millions of Won, except earnings per share)

	Quarter ended	
	December 31, 2005	December 31, 2004
Operating revenue	₩ 508,957	314,541
Operating income	466,862	282,648
Net income	466,192	255,714
Net earnings per share in Won	1,309	753

**(29) Effective Date for Financial Statements**

The accompanying non-consolidated financial statements are to be approved at the Board of Directors' meeting on February 6, 2006.

# Independent Auditors' Report (Consolidated)

Based on a report originally issued in Korean

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



10th Floor, Star Tower, 737 Yeoksam-dong, Gangnam-gu,  
Seoul 135-984, Republic of Korea  
TEL \_ 82-2-2112-0100 | FAX \_ 82-2-2112-0101  
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We have audited the accompanying consolidated balance sheets of Shinhan Financial Group Co., Ltd. and its subsidiaries (the "Consolidated Company") as of December 31, 2005 and 2004 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of Shinhan Financial Group Co., Ltd. ("Shinhan Financial Group")'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits 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 Consolidated Company as of December 31, 2005 and 2004, and the results of their operations, the changes in their stockholders' equity, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

The accompanying consolidated financial statements as of and for the years ended December 31, 2005 and 2004 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Korean Won have been translated into dollars 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 discussed in Note 1 to the consolidated financial statements, on December 30, 2005, Chohung Bank reached an agreement to merge Shinhan Bank with the merge ratio of 1:3.8678. Under the terms of the agreement, the merger will be consummated on April 1, 2006 and the newly merged bank will change its name to Shinhan Bank. Additionally, on December 30, 2005, Chohung Bank entered into an agreement to spin off its credit card operation and merge with Shinhan Card Co., Ltd. Each share of Chohung Bank will converted into 0.9809 shares of Shinhan Card Co., Ltd. on April 1, 2006. Furthermore, e-Shinhan Inc. was liquidated at November 24, 2005.

As discussed in Note 1 (b) to the consolidated financial statements, Shinhan Financial Group acquired all of the outstanding shares of Shinhan Life Insurance Co., Ltd. in exchange for consideration of 0.4382 shares of common stock of the Shinhan Financial Group for each outstanding common share of Shinhan Life Insurance Co., Ltd. on December 13, 2005.

As discussed in Note 1 (b) to the consolidated financial statements, Shinhan National Pension Service PEF 1st was established in August 18, 2005 and newly included in consolidation scope.

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 discussed in Note 28(a) to the consolidated financial statements, regarding the acquisition of shares in Chohung Bank in 2003, Shinhan Financial Group made an agreement with the Korea Deposit Insurance Corporation (the "KDIC") 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. Shinhan Financial Group made adjustments to reflect the General Indemnity Payment of ₩166,516 million in 2004 and the Asset Indemnity Payment of ₩220,714 million in 2005 as additions to goodwill. Other contingent considerations were not included in the acquisition cost for the amount was not determinable.

*KPMG Samjong Accounting Corp.*

KPMG Samjong Accounting Corp.

Seoul, Korea  
January 26, 2006

This report is effective as of January 26, 2006, 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, 2005 and 2004  
(In millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (note 2)	
	2005	2004	2005	2004
<b>Assets</b>				
Cash and due from banks (notes 4, 15, 16 and 17)	₩ 8,476,370	6,712,719	\$ 8,367,592	6,626,574
Securities (notes 5, 15 and 17)	30,241,807	27,851,320	29,853,709	27,493,899
Loans (notes 6, 17 and 28)	106,649,285	97,198,851	105,280,637	95,951,482
Fixed assets (notes 7, 15 and 16)	3,491,026	2,921,611	3,446,225	2,884,117
Other assets (notes 8, 17 and 26)	12,079,013	12,146,670	11,924,000	11,990,790
	<b>₩ 160,937,501</b>	<b>146,831,171</b>	<b>\$ 158,872,163</b>	<b>144,946,862</b>
<b>Liabilities and Stockholders' equity</b>				
Liabilities:				
Deposits (notes 9 and 17)	₩ 91,520,818	87,528,060	\$ 90,346,316	86,404,798
Borrowings (notes 10 and 17)	15,916,389	14,895,034	15,712,131	14,703,884
Debentures (notes 11 and 17)	22,840,156	20,114,170	22,547,044	19,856,041
Retirement and severance benefits (note 12)	178,069	79,238	175,784	78,221
Other liabilities (notes 13, 17 and 26)	20,230,343	16,379,782	19,970,724	16,169,577
Total liabilities	150,685,775	138,996,284	148,751,999	137,212,521
Stockholders' equity:				
Capital stock of ₩5,000 par value (note 18)				
Common stock	1,796,037	1,596,595	1,772,988	1,576,106
Authorized - 1,000,000,000 shares				
Issued and outstanding - 359,207,313 shares in 2005				
Issued and outstanding - 319,319,011 shares in 2004				
Preferred stock	374,721	486,523	369,912	480,279
Issued and outstanding - 74,944,262 shares in 2005				
Issued and outstanding - 97,304,564 shares in 2004				
Capital surplus	4,395,577	3,775,345	4,339,168	3,726,895
Retained earnings	2,958,624	1,608,185	2,920,656	1,587,547
Capital adjustments (notes 19 and 20)	612,058	280,623	604,203	277,022
Minority interest in consolidated subsidiaries	114,709	87,616	113,237	86,492
Total stockholders' equity	10,251,726	7,834,887	10,120,164	7,734,341
Commitments and contingencies (note 28)				
	<b>₩ 160,937,501</b>	<b>146,831,171</b>	<b>\$ 158,872,163</b>	<b>144,946,862</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Income

For the years ended December 31, 2005 and 2004  
(In millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (note 2)	
	2005	2004	2005	2004
<b>Interest income and dividends:</b>				
Interest on due from banks	₩ 91,368	50,716	\$ 90,196	50,065
Interest and dividends on securities	1,125,638	1,171,089	1,111,193	1,156,060
Interest on loans	6,783,655	6,722,523	6,696,599	6,636,252
Other	40,353	186,489	39,835	184,096
	8,041,014	8,130,817	7,937,823	8,026,473
<b>Interest expense:</b>				
Interest on deposits	2,379,692	2,565,471	2,349,153	2,532,548
Interest on borrowings	487,981	483,078	481,719	476,879
Interest on debentures	936,368	891,013	924,351	879,578
Other	37,886	46,228	37,400	45,635
	3,841,927	3,985,790	3,792,623	3,934,640
<b>Net interest income</b>	4,199,087	4,145,027	4,145,200	4,091,833
Provision for loan losses	649,104	1,401,806	640,774	1,383,816
<b>Net interest income after provision for loan losses</b>	3,549,983	2,743,221	3,504,426	2,708,017
<b>Non-interest income:</b>				
Fees and commission income	1,111,281	831,523	1,097,020	820,852
Insurance income	283,174	32,025	279,540	31,614
Realized gain from sale of trading securities	218,595	234,841	215,790	231,827
Unrealized gain on trading securities	185,361	148,014	182,982	146,115
Realized gain from sale of available-for-sale securities	373,179	102,221	368,390	100,909
Reversal of impairment loss on available-for-sale securities	41,424	6,565	40,892	6,481
Gain from equity method	24,370	1,961	24,057	1,936
Gain from sale of loans	59,786	51,550	59,019	50,888
Gain on foreign currency transactions	895,635	730,054	884,141	720,685
Gain on derivatives	4,508,354	3,928,524	4,450,498	3,878,109
Others	435,707	429,845	430,115	424,328
	8,136,866	6,497,123	8,032,444	6,413,744

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Income, *Continued*

For the years ended December 31, 2005 and 2004  
(In millions of Won and thousands of U.S. dollars, except earnings per share)

	Won		U.S. dollars (note 2)	
	2005	2004	2005	2004
Non-interest expenses:				
Fees and commission expense	₩ 345,379	293,074	\$ 340,947	289,313
Insurance expense	286,803	55,498	283,122	54,786
Realized loss from sale of trading securities	235,025	115,205	232,009	113,727
Unrealized loss on trading securities	115,936	142,975	114,448	141,140
Realized loss from sale of available-for-sale securities	28,509	4,189	28,143	4,135
Impairment loss on available-for-sale securities	218,089	105,411	215,290	104,058
Loss from equity method	845	-	834	-
Loss from sale of loans	784	58,330	774	57,581
General and administrative expenses (note 21)	2,427,988	2,187,887	2,396,830	2,159,810
Loss on foreign currency transactions	842,553	580,739	831,740	573,286
Loss on derivatives	4,408,763	3,794,821	4,352,185	3,746,121
Others	764,952	568,434	755,135	561,140
	9,675,626	7,906,563	9,551,457	7,805,097
Net non-interest loss	(1,538,760)	(1,409,440)	(1,519,013)	(1,391,353)
Ordinary income	2,011,223	1,333,781	1,985,413	1,316,664
Extraordinary gain (loss)	-	-	-	-
Earnings before income taxes	2,011,223	1,333,781	1,985,413	1,316,664
Income taxes (note 22)	263,642	212,652	260,259	209,923
Net income	1,747,581	1,121,129	1,725,154	1,106,741
Net income in minority interest	15,514	70,834	15,315	69,925
Consolidated net income	1,732,067	1,050,295	1,709,839	1,036,816
Ordinary income and net earnings per share in Won and U.S. dollars (note 23)	4,874	3,197	4.81	3.16
Diluted ordinary income and net earnings per share in Won and U.S. dollars (note 23)	4,591	2,820	4.53	2.78

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2005 and 2004  
(In million of Won and thousands of U.S. dollars)

	Won					U.S. dollars (note 2)						
	Capital stock	Capital surplus	Retained earnings	Capital adjustments	Minority interest	Total	Capital stock	Capital surplus	Retained earnings	Capital adjustments	Minority interest	Total
<b>Balance at January 1, 2004</b>	₩ 1,958,530	3,200,950	865,391	(501,461)	595,605	6,119,015	\$ 1,933,396	3,159,872	854,285	(495,026)	587,962	6,040,489
Net income	-	-	1,050,295	-	-	1,050,295	-	-	1,036,816	-	-	1,036,816
Stock issuance of Shinhan Financial Group	124,588	402,183	-	-	-	526,771	122,989	397,022	-	-	-	520,011
Disposition of treasury stock by Shinhan Financial Group	-	59	-	-	-	59	-	58	-	-	-	58
Acquisition of equity in subsidiaries	-	11,727	-	-	-	11,727	-	11,576	-	-	-	11,576
Disposition of treasury stock by a subsidiary	-	160,426	-	-	-	160,426	-	158,367	-	-	-	158,367
Change in retained earnings of subsidiaries	-	-	(65,387)	-	-	(65,387)	-	-	(64,547)	-	-	(64,547)
Dividends paid	-	-	(242,114)	-	-	(242,114)	-	-	(239,007)	-	-	(239,007)
Net income in minority interest	-	-	-	-	70,834	70,834	-	-	-	-	69,925	69,925
Other	-	-	-	782,084	(578,823)	203,261	-	-	-	772,048	(571,395)	200,653
<b>Balance at December 31, 2004</b>	2,083,118	3,775,345	1,608,185	280,623	87,616	7,834,887	2,056,385	3,726,895	1,587,547	277,022	86,492	7,734,341
Net income	-	-	1,732,067	-	-	1,732,067	-	-	1,709,839	-	-	1,709,839
Stock issuance of Shinhan Financial Group	87,640	641,427	-	-	-	729,067	86,515	633,196	-	-	-	719,711
Disposition of treasury stock by Shinhan Financial Group	-	61	-	-	-	61	-	60	-	-	-	60
Disposition of treasury stock by a subsidiary	-	20	-	-	-	20	-	19	-	-	-	19
Change in retained earnings of subsidiaries	-	-	(33,738)	-	-	(33,738)	-	-	(33,305)	-	-	(33,305)
Dividends paid	-	-	(347,890)	-	-	(347,890)	-	-	(343,425)	-	-	(343,425)
Net income in minority interest	-	-	-	-	15,514	15,514	-	-	-	-	15,315	15,315
Other	-	(21,276)	-	331,435	11,579	321,738	-	(21,002)	-	327,181	11,430	317,609
<b>Balance at December 31, 2005</b>	₩ 2,170,758	4,395,577	2,958,624	612,058	114,709	10,251,726	\$ 2,142,900	4,339,168	2,920,656	604,203	113,237	10,120,164

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

For the years ended December 31, 2005 and 2004  
(In millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (note 2)	
	2005	2004	2005	2004
<b>Cash flows from operating activities:</b>				
Net income	₩ 1,732,067	1,050,295	\$ 1,709,839	1,036,816
Adjustments to reconcile net income to net cash provided by or used in operating activities:				
Depreciation and amortization	283,892	270,805	280,249	267,330
Provision for loan losses, net	649,104	1,401,806	640,774	1,383,816
Provision for retirement and severance benefits	106,643	93,231	105,274	92,035
Unrealized gain on trading securities, net	(69,425)	(5,039)	(68,534)	(4,975)
Realized gain from disposition of available-for-sale securities, net	(344,670)	(98,032)	(340,247)	(96,774)
Impairment loss on available-for-sale securities	218,089	105,411	215,290	104,058
Reversal of impairment loss on available-for-sale securities	(41,424)	(6,565)	(40,892)	(6,481)
Gain from equity method	(24,370)	(1,961)	(24,057)	(1,936)
Loss from disposition of equity method investment securities	845	-	834	-
Loss (gain) from disposition of loans, net	(59,002)	6,780	(58,245)	6,693
Gain on foreign currency transactions, net	(180,717)	(129,238)	(178,397)	(127,579)
Gain on derivatives, net	(99,591)	(133,703)	(98,313)	(131,987)
Stock compensation costs	45,009	2,318	44,431	2,288
Net income in minority interest	15,514	70,834	15,315	69,925
Net changes in assets and liabilities:				
Decrease (increase) in trading securities	1,883,672	(2,174,845)	1,859,499	(2,146,935)
Decrease (increase) in other assets	2,234,696	(2,835,029)	2,206,016	(2,798,647)
Increase (decrease) in other liabilities	(3,197,436)	3,046,709	(3,156,402)	3,007,610
Retirement and severance benefits paid	(31,783)	(266,697)	(31,375)	(263,274)
Decrease in deposit for severance benefit insurance	20,627	38,368	20,362	37,876
Decrease in National Pension Fund	1,154	8,207	1,139	8,102
Other, net	404,560	265,672	399,369	262,263
Net cash provided by operating activities	3,547,454	709,327	3,501,929	700,224
<b>Cash flows from investing activities:</b>				
Cash provided by investing activities:				
Decrease in available-for-sale and held-to-maturity securities	20,552,574	12,694,487	20,288,820	12,531,576
Decrease in loans	347,222	2,902,362	342,766	2,865,116
Disposition of fixed assets	73,938	29,908	72,989	29,524
Decrease in other assets	5,229,188	2,731,392	5,162,081	2,696,340
Dividends received	512	-	505	-
Transfer of business segment	-	1,181	-	1,166
	26,203,434	18,359,330	25,867,161	18,123,722

See accompanying notes to consolidated financial statements.



## Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2005 and 2004  
(In millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (note 2)	
	2005	2004	2005	2004
Cash used in investing activities:				
Increase in available-for-sale and held-to-maturity securities	₩ (21,698,958)	(10,979,238)	\$ (21,420,491)	(10,838,340)
Increase in loans	(9,380,714)	(5,014,674)	(9,260,330)	(4,950,320)
Purchases of fixed assets	(272,558)	(197,506)	(269,060)	(194,971)
Increase in other assets	(1,685,427)	(1,268,564)	(1,663,798)	(1,252,284)
Decrease in other liabilities	(5,097,987)	(2,464,272)	(5,032,564)	(2,432,648)
	(38,135,644)	(19,924,254)	(37,646,243)	(19,668,563)
Net cash used in investing activities	(11,932,210)	(1,564,924)	(11,779,082)	(1,544,841)
Cash flows from financing activities:				
Cash provided by financing activities:				
Increase in deposits	5,126,442	932,119	5,060,654	920,157
Increase in borrowings	20,317,830	24,447,528	20,057,087	24,133,789
Increase in debentures	13,682,516	10,859,083	13,506,926	10,719,727
Increase in other liabilities	2,304,577	1,395,251	2,275,003	1,377,345
Disposition of treasury stock	693	619,879	684	611,924
Increase in Minority interest	20,000	-	19,743	-
	41,452,058	38,253,860	40,920,097	37,762,942
Cash used in financing activities:				
Decrease in deposits	(1,107,899)	(963,785)	(1,093,681)	(951,416)
Decrease in borrowings	(19,357,381)	(26,801,189)	(19,108,964)	(26,457,245)
Decrease in debentures	(10,851,012)	(8,533,619)	(10,711,759)	(8,424,106)
Debentures issue cost	(8,515)	(141,488)	(8,406)	(139,672)
Decrease in other liabilities	(57,886)	(117,659)	(57,143)	(116,149)
Stock issuance costs	(98)	-	(97)	-
Dividends paid	(353,323)	(245,835)	(348,789)	(242,680)
Acquisition of treasury stock	(474)	(323)	(468)	(319)
Acquisition of equity in consolidated subsidiaries	(1,267)	(312,804)	(1,251)	(308,790)
	(31,737,855)	(37,116,702)	(31,330,558)	(36,640,377)
Net cash provided by financing activities	9,714,203	1,137,158	9,589,539	1,122,565
Increase in cash and cash equivalents due to consolidation scope change	434,204	12,878	428,632	12,713
Net increase in cash and cash equivalents	1,763,651	294,439	1,741,018	290,661
Cash and cash equivalents at beginning of year	6,712,719	6,418,280	6,626,574	6,335,913
Cash and cash equivalents at end of year	₩ 8,476,370	6,712,719	\$ 8,367,592	6,626,574

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

December 31, 2005 and 2004

## (1) General Description on the Consolidated Company

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

### (a) Controlling Company

Shinhan Financial Group Co., Ltd. ("Shinhan Financial Group") 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 Shinhan Financial Group. Shinhan Financial Group was formed for the purpose of providing management services and financing to subsidiaries with ₩1,461,721 million of initial capital stock and Shinhan Financial Group's shares were listed on the Korea Exchange on September 10, 2001. In addition, on September 16, 2003, Shinhan Financial Group issued American Depository Shares ("ADS"). These ADS are listed on the New York Stock Exchange.

On December 30, 2005, Chohung Bank reached an agreement to merge Shinhan Bank with the merge ratio of 1:3.8678. Under the terms of the agreement, the merger will be consummated on April 1, 2006 and the newly merged bank will change its name to Shinhan Bank. Additionally, on December 30, 2005, Chohung Bank entered into an agreement to spin off its credit card operation and merge with Shinhan Card Co., Ltd. Each share of Chohung Bank will be converted into 0.9809 shares of Shinhan Card Co., Ltd. on April 1, 2006.

Furthermore, e-Shinhan was liquidated at November 24, 2005.

As of December 31, 2005, Shinhan Financial Group has 29 subsidiaries, which are consolidated or accounted for under the equity method, and its capital stock consists of ₩1,796,037 million in common stock and ₩374,721 million in preferred stock.

### (b) Subsidiaries included in consolidation

#### a. Shinhan Bank

Shinhan Bank was established on September 15, 1981 to engage in commercial banking and trust operations. Shinhan Bank operates through 407 branches and 162 automated teller machine locations and its capital stock amounts to ₩1,224,034 million as of December 31, 2005.

#### b. Chohung Bank

Chohung Bank was established on October 1, 1943 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 Exchange on June 3, 1956, and Chohung Bank operates through 453 domestic branches, 84 depository offices and four overseas branches and its capital stock amounts to ₩3,595,592 million as of December 31, 2005. Chohung Bank was delisted from the Korea Exchange on July 2, 2004.

#### c. Good Morning Shinhan Securities Co., Ltd.

Good Morning Shinhan Securities Co., Ltd. ("Good Morning Shinhan Securities") was incorporated on April 2, 1973 to engage in securities trading, underwriting and brokerage services. As of December 31, 2005, it operates through 77 branches and its capital stock amounts to ₩796,998 million (including ₩19,117 million of preferred stock).

#### d. Shinhan Life Insurance Co., Ltd.

Shinhan Life Insurance Co., Ltd. ("Shinhan Life Insurance") was incorporated in January 1990 under the laws of the Republic of Korea to engage in life insurance and related businesses. As of December 31, 2005, it operates through 112 branches and its capital stock amounts to ₩200,000 million.

Shinhan Financial Group acquired all of the outstanding shares of Shinhan Life Insurance in exchange for consideration of 0.4382 shares of common stock of Shinhan Financial Group for each outstanding common share of Shinhan Life Insurance on December 13, 2005.

e. Shinhan Card Co., Ltd.

Shinhan Card Co., Ltd. ("Shinhan Card") was established on June 1, 2002 under the Credit Specialty Finance Business 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, 2005, Shinhan Card holds 2.93 million franchise accounts and 3.47 million credit card holders, and its capital stock amounts to ₩152,847 million.

f. 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, 2005 amounts to ₩80,000 million.

g. 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. Its capital stock as of December 31, 2005 amounts to ₩40,000 million.

h. 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 Exchange on December 28, 1972. Its capital stock as of December 31, 2005 amounts to ₩77,644 million.

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

SH&C Life Insurance Co., Ltd. ("SH&C Life Insurance") was established on October 1, 2002 to engage in the insurance business and other related business. Its capital stock as of December 31, 2005 amounts to ₩30,000 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 stock as of December 31, 2005 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 to engage in the business of debt collection services and credit research. Its capital stock as of December 31, 2005 amounts to ₩3,000 million.

l. Shinhan Private Equity

Shinhan Private Equity, Inc. ("Shinhan PE") was established on December 16, 2004 to provide financial advisory services and operating assistance to domestic and overseas private equity funds. Its capital stock as of December 31, 2005 amounts to ₩10,000 million.

m. Trust accounts of Shinhan, Chohung and Jeju Bank

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

n. 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, 2005 amounts to US\$55,600 thousand.

o. 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. As of December 31, 2005, its capital stock amounts to ₩45,000 million.

# Notes to Consolidated Financial Statements, *Continued*

December 31, 2005 and 2004

p. Chohung Finance Ltd.

Chohung Finance Ltd. ("Chohung Finance") engages in merchant banking activities in Hong Kong. Its capital stock as of December 31, 2005 amounts to US\$15,000 thousand.

q. CHB America Bank

CHB America Bank ("CHB America") was established on March 24, 2003 through the merger of Chohung Bank of New York and California Chohung Bank. As of December 31, 2005, its capital stock amounts to US\$14,000 thousand.

r. Chohung Bank (Deutschland) GmbH

Chohung Bank (Deutschland) GmbH ("Chohung Deutschland") was established in 1994. As of December 31, 2005, its capital stock amounts to EUR 15,339 thousand.

s. Good Morning Shinhan Securities Europe Limited

Good Morning Shinhan Securities Europe Limited ("Good Morning Shinhan 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. As of December 31, 2005, its capital stock amounts to GBP 5,000 thousand.

t. Good Morning Shinhan Securities USA Inc.

Good Morning Shinhan Securities USA Inc. ("Good Morning Shinhan USA") was established in 1993 and has been providing securities trading, underwriting and derivative brokerage services under the Federal Securities Act of USA. As of December 31, 2005, its capital stock amounts to US\$4,200 thousand.

u. Shinhan National Pension Service PEF 1st

Shinhan National Pension Service PEF 1st ("Shinahn PEF 1st") was established in August 18, 2005. As of December 31, 2005, its capital stock amounts to ₩30,000 million.

Ownerships between Shinhan Financial Group and its subsidiaries as of December 31, 2005 and 2004 are as follows:

Investor	Investee	2005		2004	
		Number of shares	Ownership percentage (%)	Number of shares	Ownership percentage (%)
Shinhan Financial Group	Shinhan Bank	214,205,935	100.0	244,806,782	100.0
"	Chohung Bank	719,118,429	100.0	719,118,429	100.0
"	Good Morning Shinhan Securities	159,399,664	100.0	159,399,664	100.0
"	Shinhan Life Insurance	40,000,000	100.0	-	-
"	Shinhan Card	30,569,400	100.0	30,569,400	100.0
"	Shinhan Capital	12,250,000	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
"	Shinhan Macquarie	102,000	51.0	102,000	51.0
"	Shinhan Credit Information	600,000	100.0	600,000	100.0
"	Shinhan PE	2,000,000	100.0	2,000,000	100.0
Shinhan Bank	Shinhan Financial Group	2,420,955	0.7	-	-
"	Shinhan Finance	55,600	100.0	55,600	100.0

(Continued)

Investor	Investee	2005		2004	
		Number of shares	Ownership percentage (%)	Number of shares	Ownership percentage (%)
"	Shinhan PEF 1st	4,000	13.3	-	-
Chohung Bank	Shinhan Financial Group	8,985,567	2.5	8,985,567	2.8
"	Chohung ITMC	7,179,678	79.8	7,179,678	79.8
"	Chohung Finance	149,999	100.0	149,999	100.0
"	CHB America	400,000	100.0	400,000	100.0
"	Chohung Deutschland	-	100.0	-	100.0
"	Shinhan PEF 1st	4,000	13.3	-	-
Good Morning					
Shinhan Securities	Shinhan Financial Group	203,675	0.1	1,444	-
"	Good Morning Shinhan Europe	5,000,000	100.0	5,000,000	100.0
"	Good Morning Shinhan USA	15,000	100.0	15,000	100.0
Jeju Bank	Shinhan PEF 1st	500	1.7	-	-
Shinhan PE	Shinhan PEF 1st	1,500	5.0	-	-

(c) Subsidiaries accounted for under the Equity Method

a. Shinhan Data 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, 2005 amounts to ₩1,000 million.

b. Macquarie Shinhan Infrastructure Management Co., Ltd.

Macquarie Shinhan Infrastructure Management Co., Ltd ("Macquarie Shinhan Management") was established to engage in fund management and asset management and its capital stock as of December 31, 2005 amounts to ₩50 million.

c. Daewoo Capital Co., Ltd.

Daewoo Capital Co., Ltd ("Daewoo Capital") was established on February 21, 1994 to engage in the installment finance and rental business and its capital stock as of December 31, 2005 amounts to ₩90,000 million.

d. Chohung Vina Bank

Chohung Vina Bank ("Chohung Vina") engages in banking activities in Vietnam. As of December 31, 2005, its capital stock amounts to US\$20,000 thousand.

e. Shinhan Corporate Restructuring Fund 3rd

Shinhan Corporate Restructuring Fund 3rd ("Shinhan CRV 3rd") established to invest in corporations under restructuring. As of December 31, 2005, its capital stock amounts to ₩16,000 million.

f. CFAG Corporate Restructuring Fund 8th

CFAG Corporate Restructuring Fund 8th ("CFAG CRV 8th") established to invest in corporations under restructuring. As of December 31, 2005, its capital stock amounts to ₩2,720 million.

# Notes to Consolidated Financial Statements, *Continued*

December 31, 2005 and 2004

Details of ownerships in subsidiaries accounted for under the equity method of accounting as of December 31, 2005 and 2004 are as follows:

Investor	Investee (equity method)	2005		2004		Reason for exclusion from the scope of consolidation
		Number of shares	Ownership (%)	Number of shares	Ownership (%)	
Shinhan Financial Group	e-Shinhan	-	-	415,495	73.7	Liquidation
Shinhan Bank	Shinhan Data System	200,000	100.0	200,000	100.0	Assets under ₩7 billion
"	Macquarie Shinhan Management	140,000	14.0	140,000	14.0	"
"	Daewoo capital	7,395,000	14.8	-	-	Absence of control
Chohung Bank	Chohung Vina	-	50.0	-	50.0	"
Shinhan Life Insurance	Shinhan CRV 3rd	-	10.0	-	-	"
Shinhan Capital	Shinhan CRV 3rd	-	19.0	-	-	"
"	CFAG CRV 8th	-	20.0	-	-	"

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

### (a) Basis of Financial Statements Presentation

Shinhan Financial Group Co. Ltd. and its subsidiaries (the "Consolidated Company") maintain its accounting records in Korean Won and prepare statutory financial statements in the Korean language in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Consolidated 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.

Certain information included in the Korean language financial statements, but not required for a fair presentation of the Consolidated Company's financial position, results of operations or cash flows, is not presented in the accompanying consolidated financial statements.

### (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 ₩1,013.0 to US\$1, the basic exchange rate on December 31, 2005. 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) Application of the Statements of Korean Financial Accounting Standards

The Consolidated Company has adopted Statements of Korea Accounting Standards (the "SKAS") No.16 ("Income Taxes of Accounting") and No. 17 ("Provision, Contingent Liabilities and Contingent Assets"), effective from the first fiscal year beginning after December 31, 2004. In addition, the Consolidated Company has adopted SKAS No.15 ("The Equity Method of Accounting"), with encouraged earlier application at the year ended December 31, 2004. Except for the adoption of aforementioned accounting standards, the same accounting policies are applied for the consolidated financial statements both as of and for the years ended December 31, 2005 and 2004.

### (d) Investments in Securities

Upon acquisition, the Consolidated Company classifies certain debt and equity securities into one of the three categories: held-to-maturity, available-for-sale, or trading securities. Investments in debt securities that the Consolidated 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. All securities are initially recorded at acquisition cost plus incidental expenses determined by the individual moving average method (the specified identification method for debt securities).

Trading securities are carried at fair value, with unrealized holding gains and losses included in income. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a capital adjustment. Investments in equity securities 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. Non-marketable equity securities are stated at acquisition cost on the financial statements if the fair value of the securities is not reliably determinable. Non-marketable beneficiary certificates are recorded at the fair value using the standard trading yield rate determined by fund management companies.

The Consolidated Company recorded all assets and liabilities underlying the investment portfolio comprising wholly-owned beneficiary certificates as its original accounts and all gains and losses from their wholly-owned beneficiary certificates as component of income from the beneficiary certificates through December 31, 2004. However, pursuant to the new interpretation by the Financial Supervisory Service, wholly-owned beneficiary certificates constituting the investment portfolio which the sole investor agrees to exercise no control over and is not practically managing at all are regarded as ordinary beneficiary certificates and recorded as securities. Thus, the Consolidated Company classified these beneficiary certificates as available-for-sale securities, and any gain or loss from operations thereof is recorded as interest income included in interest and dividend income. Due to the aforementioned change, certain accounts in the consolidated financial statements as of and for the year ended December 31, 2004, which were presented for comparative purposes, were reclassified to reflect the changes; however, these reclassifications did not result in any change to reported income of prior year financial statement of the Consolidated Company.

#### **(e) Equity Method Investment Securities**

Equity securities held for investment in companies in which the Consolidated Company is able to exercise significant control over the investees are accounted for using the equity method.

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

Under the equity method, the Consolidated Company does not record its share of loss of an affiliate company when such loss would make the Consolidated Company's investment in such entity less than zero. If the Consolidated Company holds preferred stock or long-term debt issued by the affiliate, the Consolidated Company's share of loss of the affiliate remains recorded until such investment is reduced to 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 stockholders' equity.

# Notes to Consolidated Financial Statements, *Continued*

December 31, 2005 and 2004

## **(f) Allowance for Loan Losses**

The Consolidated 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.

Effective 2005, the Consolidated Company recorded the expected loss on unused loan commitments (including credit card receivables). Provision for unused loan commitments are credited to other allowance account in the balance sheet, as a result of a new application, other allowance increased by ₩99,547 million in Shinhan Bank and ₩107,055 million in Chohung Bank as of December 31, 2005.

## **(g) Troubled Debts Restructuring**

A loan of which contractual terms are modified in a troubled debt restructuring program is accounted for at present value of future cash flows in the modified contract discounted using the effective interest rate in the original contract. If the present value differs from the face value of the loans, the difference is recorded as an allowance for loan losses or provision for loan losses in the current period if additional allowances need to be provided for. The present value discounts are recorded in allowance for loan losses, which is shown as a deduction from nominal value of loans. Allowance for loan losses are amortized using the effective interest method and are recognized as interest income.

## **(h) Fixed Assets**

### **i) Tangible Assets**

Tangible assets are stated at cost, except for the case of revaluation made previously 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.

When the recoverable amount of the intangible assets are substantially below the carrying amount of the assets due to obsolescence and sharp decline in its market value and others, the Consolidated Company reduces its carrying amount to the recoverable amount and the amount impaired is recognized as impairment loss.

## **(i) Discount on Debentures**

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

## **(j) Retirement and Severance Benefits**

Employees who have been with the Consolidated 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 Consolidated Company. The Consolidated 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 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.

## **(k) Allowance for Guarantees and Acceptances**

Until 2004, the Consolidated Company provided an allowance for losses on outstanding guarantees and acceptances classified below substandard in accordance with the same corporate loan classification criteria. However, effective 2005, the Consolidated Company provides an allowance for losses on outstanding and contingent guarantees and acceptances and endorsed bills applying "Credit Conversion Factor" in estimating the expected loss. As the



result of new application, allowance for guarantees and acceptances increased by ₩21,142 million in Shinhan Bank and ₩8,309 million in Chohung Bank, as of December 31, 2005.

#### (l) Stock Options

The employee stock option program allows the Consolidated Company's employees to acquire shares of the Consolidated Company or to be compensated for the market price difference. The option exercise price is generally fixed at below the market price of underlying shares at the date of the grant. The Consolidated Company values equity-settled stock options based upon an option pricing model under the fair value method and recognizes this value as an expense and capital adjustment over the period in which the options vest. When the options are exercised, equity is increased by the amount of the proceeds received which is equal to the exercise price. However, compensation cost for cash-settled stock options shall be measured each period based on the current stock price and is recognized as an expense and a liability over the service period.

#### (m) Leases

The Consolidated Company accounts for and classifies its lease transactions as either an operating or capital lease, depending on the terms of the lease under 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.

- 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 exceeds 90% of the fair value of the leased property.

Otherwise, the lease is classified as an operating lease with lease payments expensed as incurred.

#### (n) Income Taxes

Income tax on the income or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of income 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 income 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.

#### (o) Translation of Foreign Currency Denominated Assets and Liabilities

Assets and liabilities denominated in foreign currencies are translated into Korean Won at the balance sheet dates, 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 ₩1,013.0 and ₩1,043.80 to US\$1, the rates of exchange on December 31, 2005 and 2004, respectively, that are permitted by the Financial Accounting Standards. Financial statements of overseas branches are also translated into Korean Won at the above base rates on the balance sheet date.

#### (p) 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.

However, for derivative instruments with 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 stockholders' equity. The deferred gain or loss will be

# Notes to Consolidated Financial Statements, *Continued*

December 31, 2005 and 2004

adjusted to the related asset or liability resulted from the forecasted transaction, or adjusted to income when the forecasted transaction affects income statement. The ineffective portion of the gain or loss is charged or credited to current results of operations.

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

## **(q) Interest Income Recognition**

Interest income on bank deposits, loans and securities is recognized on an accrual basis, except for interest income on loans having overdue interest and principal and loans to customers that went bankrupt.

## **(r) Provisions, Contingent Assets and Contingent Liabilities**

Prior to 2005, contingent losses were generally recognized as a liability when probable and reasonably estimable. Effective January 1, 2005, the Consolidated Company adopted SKAS No. 17, Provisions, Contingent Liabilities and Contingent Assets. In accordance with the statement, provisions are recognized when all of the following are met: (1) an entity has a present obligation as a result of a past event, (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (3) a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. As the previous policy is similar to the new standard, the adoption of this standard did not have any impact on the accompanying consolidated financial statements.

Where the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset when, and only when, it is virtually certain that reimbursement will be received if the Consolidated Company settles the obligation. The expense relating to a provision is presented net of the amount recognized for a reimbursement.

## **(s) Use of Estimates**

The preparation of consolidated 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 consolidated financial statements and related notes to consolidated financial statements. Actual results could differ from those estimates

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

(a) The investment account of Shinhan Financial Group is offset against the stockholders' equity account of each subsidiary as of the date of acquisition.

(b) The Consolidated 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 regards to the same borrowers' loans with same credit risk, the Consolidated Company applies the same provision policy for the consolidated financial statements.

## (4) Cash and Due from Banks

(a) Cash and due from banks as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Cash on hand in Won	₩ 2,217,134	1,732,631	\$ 2,188,681	1,710,396
Cash on hand in foreign currencies	176,751	174,242	174,483	172,006
	2,393,885	1,906,873	2,363,164	1,882,402
Due from banks in Won	5,439,225	4,076,538	5,369,423	4,024,223
Due from banks in foreign currencies	643,260	729,308	635,005	719,949
	6,082,485	4,805,846	6,004,428	4,744,172
	₩ 8,476,370	6,712,719	\$ 8,367,592	6,626,574

(b) Restricted due from banks as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

	2005	2004	Restrictions
Due from banks in Won:			
Reserve deposits in the Bank of Korea	₩ 2,515,379	2,615,574	General banking act
Due from banks for customers' accounts	887,483	583,859	Reserve for customers' deposits
Other	11,229	8,851	Deposit for severance benefit insurance and other
	3,414,091	3,208,284	
Due from banks in foreign currencies	213,012	30,492	Pledged for contract performance
	₩ 3,627,103	3,238,776	

(c) The maturities of the due from banks by remaining period as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

At December 31, 2005	Due from banks in Won	Due from banks in foreign currencies	Total
Due in 3 months or less	₩ 2,264,999	504,605	2,769,604
Due after 3 months through 6 months	365,906	33,219	399,125
Due after 6 months through 1 year	64,216	3,823	68,039
Due after 1 year through 3 years	959,716	313	960,029
Thereafter	1,784,388	101,300	1,885,688
	₩ 5,439,225	643,260	6,082,485

(in millions of Won)

At December 31, 2004	Due from banks in Won	Due from banks in foreign currencies	Total
Due in 3 months or less	₩ 1,182,636	708,699	1,891,335
Due after 3 months through 6 months	194,495	13,374	207,869
Due after 6 months through 1 year	211,048	-	211,048
Due after 1 year through 3 years	4	-	4
Thereafter	2,488,355	7,235	2,495,590
	₩ 4,076,538	729,308	4,805,846

# Notes to Consolidated Financial Statements, *Continued*

December 31, 2005 and 2004

## (5) Securities

Securities as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Trading securities	₩ 5,495,510	7,065,560	\$ 5,424,985	6,974,887
Available-for-sale securities	21,670,566	17,624,682	21,392,464	17,398,501
Held-to-maturity securities	2,996,243	3,144,662	2,957,792	3,104,306
Equity method investment securities	79,488	16,416	78,468	16,205
	<b>₩ 30,241,807</b>	<b>27,851,320</b>	<b>\$ 29,853,709</b>	<b>27,493,899</b>

### (a) Trading securities

i) Trading securities as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Equity securities:				
Stocks	₩ 302,354	245,184	\$ 298,474	242,038
Debt securities:				
Government bonds	1,748,108	2,554,280	1,725,674	2,521,500
Finance debentures	1,388,328	1,880,829	1,370,511	1,856,692
Corporate bonds	668,750	1,192,995	660,168	1,177,685
	3,805,186	5,628,104	3,756,353	5,555,877
Beneficiary certificates	148,582	20,907	146,675	20,639
Commercial paper	177,611	328,782	175,332	324,563
Securities in foreign currencies	27,576	29,035	27,222	28,662
Other	1,034,201	813,548	1,020,929	803,108
	<b>₩ 5,495,510</b>	<b>7,065,560</b>	<b>\$ 5,424,985</b>	<b>6,974,887</b>

ii) Details of debt securities classified as trading securities as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

	2005			
	Face value	Acquisition cost	Fair value (*)	Book value (**)
Government bonds	₩ 1,764,610	1,753,102	1,763,145	1,748,108
Finance debentures	1,412,502	1,393,347	1,400,451	1,388,328
Corporate bonds	667,548	669,715	669,959	668,750
	<b>₩ 3,844,660</b>	<b>3,816,164</b>	<b>3,833,555</b>	<b>3,805,186</b>

(in millions of Won)

	2004			
	Face value	Acquisition cost	Fair value (*)	Book value (**)
Government bonds	₩ 2,530,110	2,551,241	2,562,017	2,554,280
Finance debentures	1,904,370	1,873,864	1,886,826	1,880,829
Corporate bonds	1,180,504	1,192,457	1,195,248	1,192,995
	<b>₩ 5,614,984</b>	<b>5,617,562</b>	<b>5,644,091</b>	<b>5,628,104</b>

(\*) 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.

## (b) Available-for-sale securities

i) Available-for-sale securities as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Equity securities:				
Stocks	₩ 3,233,798	1,834,135	\$ 3,192,298	1,810,597
Investment in special fund	43,829	31,227	43,267	30,826
	3,277,627	1,865,362	3,235,565	1,841,423
Debt securities:				
Government bonds	2,989,803	2,621,863	2,951,434	2,588,216
Finance debentures	6,051,096	3,487,808	5,973,441	3,443,048
Corporate bonds	5,607,952	6,145,566	5,535,984	6,066,699
	14,648,851	12,255,237	14,460,859	12,097,963
Beneficiary certificates	2,558,692	2,560,021	2,525,856	2,527,168
Securities in foreign currencies	935,999	866,077	923,987	854,963
Other	249,397	77,985	246,196	76,984
	₩ 21,670,566	17,624,682	\$ 21,392,464	17,398,501

ii) Equity securities classified as available-for-sale securities as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

	2005			
	Ownership (%)	Acquisition cost	Net asset/fair value	Book value
Stock:				
Hynix Semiconductor Inc.	7.09	₩ 122,573	1,120,422	1,120,422
LG Card Co., Ltd.	7.14	73,336	327,614	327,614
Hyundai Engineering and Construction Co., Ltd.	5.06	83,013	249,546	249,546
SK Networks Co., Ltd.	9.54	111,988	230,173	230,173
SK Networks Co., Ltd. (Preferred stocks)	-	85,919	118,736	118,736
Ssangyong Cement Co., Ltd.	13.55	95,510	145,866	145,866
SK Corporation	1.94	119,535	130,348	130,348
Daewoo Engineering and Construction Co., Ltd.	2.63	32,968	119,362	119,362
Daewoo International Corp.	1.60	5,186	58,241	58,241
Ssangyong Corporation	70.17	49,225	49,225	49,225
SK Telecom Co., Ltd.	-	21,520	22,390	22,390
Daewoo Electronics Co., Ltd.	5.45	21,528	20,514	20,514
Samsung Electronics Co., Ltd.	-	5,325	6,590	6,590
Samsung Corporation	4.24	110,861	143,038	143,038
Other	7.09	488,670	491,733	491,733
		1,427,157	3,233,798	3,233,798
Investment in special fund:				
Stock Market Stabilization Fund		4,612	9,717	9,717
Korea Asset Management Corp.		6,430	6,430	6,430
Other		27,476	25,451	27,682
		38,518	41,598	43,829
		₩ 1,465,675	3,275,396	3,277,627

# Notes to Consolidated Financial Statements, Continued

December 31, 2005 and 2004

(in millions of Won)

	2004			
	Ownership (%)	Acquisition cost	Net asset/fair value	Book value
Stock:				
Hynix Semiconductor Inc.	10.26	₩ 175,398	529,130	529,130
LG Card Co., Ltd.	9.04	57,695	185,920	185,920
SK Networks Co., Ltd.	9.50	110,450	150,363	150,363
SK Networks Co., Ltd. (Preferred stocks)	-	84,668	103,137	103,137
Hyundai Engineering and Construction Co., Ltd.	6.91	83,013	75,459	75,459
Ssangyong Motors Co., Ltd.	10.10	77,883	73,201	73,201
SK Telecom Co., Ltd.	0.10	13,556	16,332	16,332
Daewoo International Corp.	4.00	5,186	15,835	15,835
Samyang Foods Co., Ltd.	44.81	4,918	13,311	13,311
Other	10.26	679,395	684,984	671,447
		1,292,162	1,847,672	1,834,135
Investment in special fund:				
Stock Market Stabilization Fund		4,612	9,437	9,437
Korea Stock Exchange		2,612	24,015	2,612
Good KDB 2nd Securitization Specialty Co., Ltd.		3,000	2,646	3,000
Other		16,658	16,304	16,178
		26,882	52,402	31,227
		₩ 1,319,044	1,900,074	1,865,362

iii) Details of debt securities classified as available-for-sale securities as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

	2005			
	Face value	Acquisition cost	Fair value (*)	Book value (**)
Government bonds	₩ 3,044,917	3,093,377	3,005,622	2,989,803
Finance debentures	6,149,475	6,082,819	6,091,400	6,051,096
Corporate bonds	6,004,019	5,708,623	5,710,961	5,607,952
	₩ 15,198,411	14,884,819	14,807,983	14,648,851

(in millions of Won)

	2004			
	Face value	Acquisition cost	Fair value (*)	Book value (**)
Government bonds	₩ 2,491,019	2,545,403	2,672,605	2,621,863
Finance debentures	3,480,000	3,454,488	3,516,431	3,487,808
Corporate bonds	6,442,983	6,201,026	6,174,037	6,145,566
	₩ 12,414,002	12,200,917	12,363,073	12,255,237

(\*) 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.

iv) The maturity of available-for-sale securities by remaining period as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

At December 31, 2005	Government bonds	Finance debentures	Corporate bonds	Total
Due in 3 months or less	₩ 75,871	1,094,467	862,138	2,032,476
Due after 3 months through 6 months	34,463	499,740	246,426	780,629
Due after 6 months through 1 year	695,420	1,878,575	1,076,373	3,650,368
Due after 1 year through 3 years	1,131,022	2,491,079	2,371,227	5,993,328
Thereafter	1,053,027	87,235	1,051,788	2,192,050
	₩ 2,989,803	6,051,096	5,607,952	14,648,851

(in millions of Won)

At December 31, 2004	Government bonds	Finance debentures	Corporate bonds	Total
Due in 3 months or less	₩ 89,047	496,082	134,025	719,154
Due after 3 months through 6 months	15,567	313,957	98,310	427,834
Due after 6 months through 1 year	220,305	816,819	400,974	1,438,098
Due after 1 year through 3 years	1,046,435	1,798,523	4,058,976	6,903,934
Thereafter	1,250,509	62,427	1,453,281	2,766,217
	₩ 2,621,863	3,487,808	6,145,566	12,255,237

v) Available-for-sale securities denominated in foreign currencies classified by issuing country as of December 31, 2005 and 2004 are as follows:

(in millions of Won and thousands of U.S. dollars, except ratio)

	2005			2004		
	U.S. dollar	Equivalent Won	Ratio (%)	U.S. dollar	Equivalent Won	Ratio (%)
Korea	\$ 720,217	₩ 729,581	77.95	\$ 670,628	₩ 700,002	80.82
U.S.A.	48,627	49,260	5.26	73,782	77,014	8.89
Malaysia	4,965	5,029	0.54	20,782	21,692	2.50
Philippines	-	-	-	16,607	17,334	2.00
Hong Kong	10,705	10,844	1.16	-	-	-
U.A.E	5,024	5,089	0.54	-	-	-
Japan	3,052	3,091	0.33	8,437	8,807	1.02
Other	131,397	133,105	14.22	39,499	41,228	4.77
	\$ 923,987	₩ 935,999	100.00	\$ 829,735	₩ 866,077	100.00

(c) Held-to-maturity securities

i) Held-to-maturity securities as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Debt securities:				
Government bonds	₩ 612,875	431,651	\$ 605,010	426,112
Finance debentures	1,178,217	1,173,752	1,163,097	1,158,689
Corporate bonds	1,121,169	1,403,050	1,106,781	1,385,044
	2,912,261	3,008,453	2,874,888	2,969,845
Securities in foreign currencies	83,982	136,209	82,904	134,461
	₩ 2,996,243	3,144,662	\$ 2,957,792	3,104,306

# Notes to Consolidated Financial Statements, *Continued*

December 31, 2005 and 2004

ii) Details of debt securities classified as held-to-maturity securities as of December 31, 2005 and 2004 consist of the following:

(in millions of Won)

	2005			
	Face value	Acquisition cost	Fair value (*)	Book value
Government bonds	₩ 611,277	616,645	647,468	612,875
Finance debentures	1,205,000	1,177,898	1,204,390	1,178,217
Corporate bonds	1,120,000	1,120,855	1,147,508	1,121,169
	<b>₩ 2,936,277</b>	<b>2,915,398</b>	<b>2,999,366</b>	<b>2,912,261</b>

(in millions of Won)

	2004			
	Face value	Acquisition cost	Fair value (*)	Book value (**)
Government bonds	₩ 424,352	430,114	481,720	431,651
Finance debentures	1,201,070	1,175,122	1,222,427	1,173,752
Corporate bonds	1,401,046	1,409,387	1,510,981	1,403,050
	<b>₩ 3,026,468</b>	<b>3,014,623</b>	<b>3,215,128</b>	<b>3,008,453</b>

(\*) 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.

iii) The maturity of held-to-maturity securities by remaining periods as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

At December 31, 2005	Government bonds	Finance debentures	Corporate bonds	Total
Due in 3 months or less	₩ 76,118	29,621	140,057	245,796
Due after 3 months through 6 months	14,817	-	20,109	34,926
Due after 6 months through 1 year	66,587	363,003	20,106	449,696
Due after 1 year through 3 years	391,413	745,714	620,182	1,757,309
Thereafter	63,940	39,879	320,715	424,534
	<b>₩ 612,875</b>	<b>1,178,217</b>	<b>1,121,169</b>	<b>2,912,261</b>

(in millions of Won)

At December 31, 2004	Government bonds	Finance debentures	Corporate bonds	Total
Due in 3 months or less	₩ 6,903	548,010	103,807	658,720
Due after 3 months through 6 months	4,232	110,158	-	114,390
Due after 6 months through 1 year	89,912	215,749	197,338	502,999
Due after 1 year through 3 years	196,341	179,982	306,026	682,349
Thereafter	134,263	119,853	795,879	1,049,995
	<b>₩ 431,651</b>	<b>1,173,752</b>	<b>1,403,050</b>	<b>3,008,453</b>



iv) Held-to-maturity securities denominated in foreign currencies classified by issuing country as of December 31, 2005 and 2004 are as follows:

(in millions of Won and thousands of U.S. dollars, except ratio)

	2005			2004		
	U.S. dollar	Equivalent Won	Ratio (%)	U.S. dollar	Equivalent Won	Ratio (%)
Korea	\$ 49,345	₩ 49,987	59.52	\$ 92,434	₩ 96,484	70.84
U.S.A.	30,559	30,956	36.86	32,514	33,938	24.92
Indonesia	-	-	-	2,574	2,687	1.97
Other	3,000	3,039	3.62	2,971	3,100	2.27
	<b>\$ 82,904</b>	<b>₩ 83,982</b>	<b>100.00</b>	<b>\$ 130,493</b>	<b>₩ 136,209</b>	<b>100.00</b>

(d) Equity method investment securities

Details of equity method investment securities as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

Subsidiaries	2005					
	Beginning balance	Acquisition and Dividend	Equity method gain (loss)	Retained earnings	Capital adjustments	Ending Balance
e-Shinhan	₩ 2,887	(2,861)	-	-	(26)	-
Shinhan Data System	2,374	-	245	-	-	2,619
Daewoo Capital	-	36,971	21,620	-	-	58,591
Macquarie Shinhan Management	-	(98)	527	-	-	429
Chohung Vina	11,155	-	1,838	(4)	(329)	12,660
Shinhan CRV 3rd	-	4,526	139	-	(12)	4,653
CFAG CRV 8th	-	537	(1)	-	-	536
	<b>₩ 16,416</b>	<b>39,075</b>	<b>24,368</b>	<b>(4)</b>	<b>(367)</b>	<b>79,488</b>

(in millions of Won)

Subsidiaries	2004					
	Beginning balance	Acquisition and Dividend	Equity method gain (loss)	Retained earnings	Capital adjustments	Ending Balance
e-Shinhan	₩ 2,725	-	162	-	-	2,887
Shinhan Data System	2,153	-	221	-	-	2,374
Macquarie Shinhan Management	7	-	(7)	-	-	-
Chohung Vina	10,940	-	1,585	36	(1,406)	11,155
	<b>₩ 15,825</b>	<b>-</b>	<b>1,961</b>	<b>36</b>	<b>(1,406)</b>	<b>16,416</b>

# Notes to Consolidated Financial Statements, *Continued*

December 31, 2005 and 2004

## (6) Loans

(a) Loans outstanding as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Loans in Won	₩ 83,198,343	75,599,159	\$ 82,130,645	74,628,982
Loans in foreign currencies	5,480,348	5,436,593	5,410,018	5,366,824
Domestic import usance bills	2,455,137	2,560,931	2,423,630	2,528,066
Call loans	1,685,184	1,610,005	1,663,558	1,589,344
Korean Won bills bought	3,380,548	1,936,544	3,337,165	1,911,692
Foreign currency bills bought	3,584,050	3,730,195	3,538,055	3,682,325
Payments on guarantees and acceptances	25,138	30,563	24,815	30,171
Credit card loans	3,861,377	4,248,288	3,811,823	4,193,769
Bonds purchased with resale agreements	139,666	160,000	137,874	157,947
Privately placed bonds	3,176,658	2,543,897	3,135,891	2,511,251
Factoring receivables	184,904	163,775	182,531	161,673
Loans convertible into equity securities	-	11,813	-	11,661
Financing lease receivables	535,015	675,272	528,149	666,606
Cash management account	609,850	314,056	602,024	310,026
Other	17,197	22,233	16,976	21,947
	108,333,415	99,043,324	106,943,154	97,772,284
Less: allowance for loan losses	(1,740,944)	(1,916,982)	(1,718,602)	(1,892,381)
Add: present value premiums	56,814	72,509	56,085	71,579
	₩ 106,649,285	97,198,851	\$ 105,280,637	95,951,482

(b) The maturities of loans by remaining periods as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

At December 31, 2005	Loans in Won	Loans in foreign currencies	Other	Total
Due in 3 months or less	₩ 15,866,895	911,135	11,100,783	27,878,813
Due after 3 months through 6 months	15,382,730	695,548	2,020,240	18,098,518
Due after 6 months through 1 year	23,330,127	1,463,343	1,875,970	26,669,440
Due after 1 year through 3 years	10,730,893	1,418,377	2,187,264	14,336,534
Thereafter	17,887,698	991,945	2,470,467	21,350,110
	₩ 83,198,343	5,480,348	19,654,724	108,333,415

(in millions of Won)

At December 31, 2004	Loans in Won	Loans in foreign currencies	Other	Total
Due in 3 months or less	₩ 13,584,093	1,081,771	10,317,275	24,983,139
Due after 3 months through 6 months	15,996,430	839,399	2,134,719	18,970,548
Due after 6 months through 1 year	24,312,020	1,581,403	1,105,165	26,998,588
Due after 1 year through 3 years	10,415,603	632,997	1,993,425	13,042,025
Thereafter	11,291,013	1,301,023	2,456,987	15,049,023
	₩ 75,599,159	5,436,593	18,007,571	99,043,323

(c) Loans classified by country as of December 31, 2005 and 2004 are as follows:

(in millions of Won, except ratio)

	2005				
	Loans in Won	Loans in foreign Currencies	Other loans	Total	Ratio (%)
Korea	₩ 83,198,343	3,194,707	19,386,635	105,779,685	97.66
U.S.A.	-	597,879	43,455	641,334	0.59
U.K.	-	56,894	153,525	210,419	0.19
Japan	-	739,083	481	739,564	0.68
Germany	-	24,598	28,071	52,669	0.05
Panama	-	71,466	-	71,466	0.07
Indonesia	-	15,195	-	15,195	0.01
Thailand	-	3,240	-	3,240	-
Vietnam	-	77,389	2,788	80,177	0.07
Hong Kong	-	45,174	12,614	57,788	0.05
China	-	282,978	25,870	308,848	0.29
Singapore	-	6,759	-	6,759	0.01
Pakistan	-	4,052	-	4,052	-
Netherlands	-	5,355	-	5,355	-
Other	-	355,579	1,285	356,864	0.33
	<b>₩ 83,198,343</b>	<b>5,480,348</b>	<b>19,654,724</b>	<b>108,333,415</b>	<b>100.00</b>

(in millions of Won, except ratio)

	2004				
	Loans in Won	Loans in foreign Currencies	Other loans	Total	Ratio (%)
Korea	₩ 75,599,159	2,909,436	17,614,467	96,123,062	97.05
U.S.A.	-	625,080	35,489	660,569	0.67
U.K.	-	59,923	109,104	169,027	0.17
Japan	-	932,006	496	932,502	0.94
Germany	-	768	-	768	0.00
Panama	-	81,315	-	81,315	0.08
Indonesia	-	18,888	-	18,888	0.02
Thailand	-	522	-	522	0.00
Vietnam	-	66,421	1,695	68,116	0.07
Hong Kong	-	29,706	8,568	38,274	0.04
China	-	417,302	20,556	437,858	0.44
Other	-	295,226	217,196	512,422	0.52
	<b>₩ 75,599,159</b>	<b>5,436,593</b>	<b>18,007,571</b>	<b>99,043,323</b>	<b>100.00</b>

# Notes to Consolidated Financial Statements, *Continued*

December 31, 2005 and 2004

(d) Loans classified by consumer as of December 31, 2005 and 2004 are as follows:

(in millions of Won, except ratio)

	2005				
	Loans in Won	Loans in foreign Currencies	Other	Total	Ratio (%)
Corporate	₩ 39,016,926	5,343,603	15,572,638	59,933,167	55.32
Household	43,077,328	95,755	1,640,459	44,813,542	41.37
Public and other	1,104,089	40,990	2,441,627	3,586,706	3.31
	<b>₩ 83,198,343</b>	<b>5,480,348</b>	<b>19,654,724</b>	<b>108,333,415</b>	<b>100.00</b>

(in millions of Won, except ratio)

	2004				
	Loans in Won	Loans in foreign Currencies	Other	Total	Ratio (%)
Corporate	₩ 37,647,775	4,667,474	13,051,348	55,366,597	55.90
Household	37,020,155	84,071	3,288,317	40,392,543	40.78
Public and other	931,229	685,048	1,667,906	3,284,183	3.32
	<b>₩ 75,599,159</b>	<b>5,436,593</b>	<b>18,007,571</b>	<b>99,043,323</b>	<b>100.00</b>

(e) Restructured loans due to commencement of bankruptcy proceedings, composition proceedings or workout programs for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Won)

	2005			
	Composition	Workout		Total
		Corporate loans	Individuals loans	
Equity converted from loans	₩ -	11,000	-	11,000
Loans for equity conversion	63	9,444	-	9,507
Reduction in principal	973	-	-	973
Modification of terms	688	23,747	10,688	35,123
Balance before restructuring	1,724	44,191	10,688	56,603
Balance after restructuring	-	16,494	7,229	23,723
Loss resulting from restructuring	<b>₩ 1,724</b>	<b>27,697</b>	<b>3,459</b>	<b>32,880</b>

(in millions of Won)

	2004					
	Creditor banks receivership	Composition	Bankruptcy	Workout		Total
				Corporate loans	Individuals loans	
Equity converted from loans	₩ 117,100	284	7,936	192,100	-	317,420
Reduction in principal	-	-	19,049	-	-	19,049
Reduction in interest rate	-	6,174	4,860	-	11,394	22,428
Balance before restructuring	117,100	6,458	31,845	192,100	11,394	358,897
Balance after restructuring	37,570	6,174	12,796	58,694	6,607	121,841
Loss resulting from restructuring	<b>₩ 79,530</b>	<b>284</b>	<b>19,049</b>	<b>133,406</b>	<b>4,787</b>	<b>237,056</b>

(f) Changes in allowance for losses on loans, accounts receivable and accrued income for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Won)

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# Notes to Consolidated Financial Statements, *Continued*

December 31, 2005 and 2004

(g) As of December 31, 2005 and 2004, details of loan balances and the related allowance for loan losses by asset credit risk classification are as follows:

(in millions of Won, except provision ratio)

	2005			2004		
	Balance	Allowance	Provision ratio (%)	Balance	Allowance	Provision ratio (%)
Corporate loans						
Normal	₩ 56,599,263	399,639	0.71	₩ 52,610,092	384,688	0.73
Precautionary	1,606,110	230,826	14.37	1,647,412	181,937	11.04
Substandard	468,533	103,580	22.11	582,924	156,863	26.91
Doubtful	12,806	12,074	94.28	74,941	70,363	93.89
Estimated loss	209,338	209,338	100.00	193,538	193,538	100.00
	58,896,050	955,457	1.62	55,108,907	987,389	1.79
Household loans						
Normal	42,588,764	336,940	0.79	36,226,793	274,744	0.76
Precautionary	158,938	35,881	22.58	209,884	27,707	13.20
Substandard	220,882	44,826	20.29	325,986	65,405	20.06
Doubtful	83,654	77,898	93.12	158,558	141,093	88.98
Estimated loss	73,241	73,241	100.00	98,934	98,934	100.00
	43,125,479	568,786	1.32	37,020,155	607,883	1.64
Credit card loans						
Normal	3,508,375	49,163	1.40	3,607,750	40,473	1.12
Precautionary	209,702	34,668	16.53	385,369	47,083	12.22
Substandard	995	199	20.00	1,705	340	19.94
Doubtful	93,341	72,515	77.69	174,809	129,978	74.35
Estimated loss	48,964	48,964	100.00	78,655	78,655	100.00
	3,861,377	205,509	5.32	4,248,288	296,529	6.98
Loans convertible into equity securities	-	-	-	11,813	2,263	19.16
Other	1,207,327	27,861	2.31	338,945	20,824	6.14
Present value discount	-	-	-	-	23,784	-
	₩ 107,090,233	1,757,613	1.64	₩ 96,728,108	1,938,672	2.00

(h) Effective 2005, the Consolidated Company reclassifies certain fees and commission income on credit card accounts to interest income. Additionally, gain from disposition of written-off loans which had previously been charged as a reversal of allowance for loan losses is recorded as other non-interest income. Therefore, the aforementioned accounts of the prior year were reclassified to conform to the current year's presentation for comparative purposes; however, reclassifications had no effect on the previously reported prior period net income or shareholders' equity of the Consolidated Company.

## (7) Fixed Assets

Fixed assets as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Tangible assets:				
Land	₩ 989,840	996,790	\$ 977,137	983,998
Buildings	939,631	758,747	927,573	749,010
Other	1,297,903	1,172,142	1,281,247	1,157,100
	3,227,374	2,927,679	3,185,957	2,890,108
Less: accumulated depreciation	(1,340,899)	(1,069,141)	(1,323,691)	(1,055,421)
	₩ 1,886,475	1,858,538	\$ 1,862,266	1,834,687

(Continued)

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Intangible assets:				
Goodwill	₩ 1,590,810	1,050,013	\$ 1,570,395	1,036,538
Negative goodwill	(4,284)	(4,970)	(4,229)	(4,906)
Other	18,025	17,718	17,793	17,490
	1,604,551	1,062,761	1,583,959	1,049,122
Other fixed assets	-	312	-	308
	₩ 3,491,026	2,921,611	\$ 3,446,225	2,884,117

As of December 31, 2005 and 2004, the Consolidated Company maintains insurance policies covering loss and liability arising from automobile accidents.

(in millions of Won)

	Book value		Declared value	
	2005	2004	2005	2004
Land (Domestic only)	₩ 989,241	993,997	1,093,501	1,017,147

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

## (8) Other Assets

Other assets as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Accounts receivable	₩ 2,052,413	4,486,134	\$ 2,026,074	4,428,563
Advance payments	24,354	30,698	24,041	30,304
Prepaid expenses	57,086	32,895	56,353	32,473
Prepaid income taxes	6,326	3,832	6,245	3,783
Accrued interest income	624,732	515,198	616,715	508,587
Operating lease assets	333,201	413,204	328,925	407,901
Less: accumulated depreciation	(178,665)	(213,045)	(176,372)	(210,311)
allowance for loss on disposition of operating lease assets	(478)	(1,729)	(472)	(1,707)
Guarantee deposits paid	1,080,840	960,688	1,066,969	948,359
Deferred tax assets	14,845	251,826	14,654	248,594
Derivative assets	965,980	1,722,518	953,583	1,700,413
Other	7,114,716	3,964,412	7,023,412	3,913,536
	12,095,350	12,166,631	11,940,127	12,010,495
Less: allowance for losses	(16,191)	(19,961)	(15,983)	(19,705)
present value discount	(146)	-	(144)	-
	₩ 12,079,013	12,146,670	\$ 11,924,000	11,990,790

# Notes to Consolidated Financial Statements, *Continued*

December 31, 2005 and 2004

## (9) Deposits

(a) Deposits as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Deposits in Korean Won	₩ 77,187,102	74,764,329	\$ 76,196,547	73,804,866
Deposits in foreign currencies	3,647,265	4,702,413	3,600,459	4,642,066
Negotiable certificates of deposits	10,683,261	8,050,705	10,546,161	7,947,389
	91,517,628	87,517,447	90,343,167	86,394,321
Add: present value premium	3,190	10,613	3,149	10,477
	₩ 91,520,818	87,528,060	\$ 90,346,316	86,404,798

(b) The maturities of deposits by remaining periods as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

At December 31, 2005	Deposits in Korean Won	Deposits in foreign currencies	Negotiable certificates of deposits	Total
Due in 3 months or less	₩ 20,529,031	1,839,779	3,963,745	26,332,555
Due after 3 months through 6 months	5,203,419	362,694	2,391,456	7,957,569
Due after 6 months through 1 year	15,124,076	360,335	3,059,492	18,543,903
Due after 1 year through 3 years	20,910,032	989,497	1,268,400	23,167,929
Thereafter	15,420,544	94,960	168	15,515,672
	₩ 77,187,102	3,647,265	10,683,261	91,517,628

(in millions of Won)

At December 31, 2004	Deposits in Korean Won	Deposits in foreign currencies	Negotiable certificates of deposits	Total
Due in 3 months or less	₩ 16,913,503	3,281,757	3,843,013	24,038,273
Due after 3 months through 6 months	6,200,518	419,208	2,257,692	8,877,418
Due after 6 months through 1 year	17,855,972	318,957	1,758,159	19,933,088
Due after 1 year through 3 years	4,986,553	646,547	191,450	5,824,550
Thereafter	28,807,783	35,944	391	28,844,118
	₩ 74,764,329	4,702,413	8,050,705	87,517,447

## (10) Borrowings

(a) Borrowings as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Borrowings in Won	₩ 3,787,473	3,555,560	\$ 3,738,868	3,509,931
Borrowings in foreign currencies	6,423,574	5,813,467	6,341,139	5,738,862
Bonds sold with repurchase agreements	4,214,206	3,533,025	4,160,124	3,487,685
Bills sold	359,537	722,978	354,923	713,700
Due to the Bank of Korea in foreign currencies	134,921	46,394	133,190	45,799
Call money	996,678	1,223,610	983,887	1,207,907
	₩ 15,916,389	14,895,034	\$ 15,712,131	14,703,884



(b) The maturities of borrowings as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

At December 31, 2005	Borrowings in Won	Borrowings in foreign currencies	Other	Total
Due in 3 months or less	₩ 1,850,841	2,880,865	2,825,311	7,557,017
Due after 3 months through 6 months	113,997	2,018,393	786,450	2,918,840
Due after 6 months through 1 year	86,565	943,935	1,907,897	2,938,397
Due after 1 year through 3 years	593,231	514,312	185,684	1,293,227
Thereafter	1,142,839	66,069	-	1,208,908
	<b>₩ 3,787,473</b>	<b>6,423,574</b>	<b>5,705,342</b>	<b>15,916,389</b>

(in millions of Won)

At December 31, 2004	Borrowings in Won	Borrowings in foreign currencies	Other	Total
Due in 3 months or less	₩ 1,772,092	2,630,376	2,801,386	7,203,854
Due after 3 months through 6 months	59,493	1,532,872	1,283,120	2,875,485
Due after 6 months through 1 year	136,528	1,232,075	1,302,696	2,671,299
Due after 1 year through 3 years	441,868	394,373	138,805	975,046
Thereafter	1,145,579	23,771	-	1,169,350
	<b>₩ 3,555,560</b>	<b>5,813,467</b>	<b>5,526,007</b>	<b>14,895,034</b>

## (11) Debentures

(a) Debentures as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Debentures in Korean Won	₩ 20,561,155	18,020,775	\$ 20,297,290	17,789,511
Debentures in foreign currencies	2,281,747	2,142,441	2,252,465	2,114,947
	22,842,902	20,163,216	22,549,755	19,904,458
Less: discounts	(55,905)	(133,110)	(55,188)	(131,402)
Add: present value premiums	53,159	84,064	52,477	82,985
	<b>₩ 22,840,156</b>	<b>20,114,170</b>	<b>\$ 22,547,044</b>	<b>19,856,041</b>

(b) Details of debentures in Korean Won as of December 31, 2005 and 2004 are as follows:

(in millions of Won, except interest rate)

	2005		2004	
	Face value	Interest rate (%)	Face value	Interest rate (%)
Discounted debentures	₩ 1,780,000	3.25 - 9.92	₩ 6,658,000	3.93 - 6.91
Coupon debentures	14,365,913	1.13 - 8.14	7,608,469	4.17 - 7.47
Subordinated debentures	3,860,182	4.56 - 14.45	3,360,202	5.58 - 14.45
Hybrid securities (*)	272,564	7.80	272,564	7.80
Other	341,700	-	95,480	-
	20,620,359		17,994,715	
Add: loss(gain) on fair value hedge	(59,204)		26,060	
	<b>₩ 20,561,155</b>		<b>₩ 18,020,775</b>	

(\*) Hybrid securities issued by Chohung Bank

Redemption: Redeemable for five years after issuance date

Interest rate: 7.8% for 10 years after issuance date

Thereafter - 50% of the difference between 7.8% and five-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, *Continued*

December 31, 2005 and 2004

(c) Details of debentures in foreign currencies as of December 31, 2005 and 2004 are as follows:

(in millions of Won and thousands of U.S. dollars, except interest rate)

	2005			2004		
	U.S. dollars	Equivalent Won	Interest rate (%)	U.S. dollars	Equivalent Won	Interest rate (%)
MTN (*)	\$ 809,240	₩ 819,760	1.95-6.83	\$ 1,120,792	₩ 1,169,884	1.59 - 6.25
Hybrid securities (**)	300,000	303,900	5.66	-	-	-
Non-guaranteed debentures	110,000	111,430	5.13-6.25	34,061	35,553	Libor+0.85
Subordinated debentures	1,033,225	1,046,657	4.50-11.88	897,685	937,004	11.50-11.88
	<b>\$ 2,252,465</b>	<b>₩ 2,281,747</b>		<b>\$ 2,052,538</b>	<b>₩ 2,142,441</b>	

(\*) Shinhan Bank established a program to issue Euro Medium Term Note (EMTN) on November 9, 1995 and Global Medium Term Note (GMTN). Details of the program are as follows:

Total amount which can be issued: US\$ 3,000,000 thousand  
 Place of trading: Singapore Stock Exchange  
 Issue price: Face value or discounted value  
 Maturity date and interest date: Various depending on date of issuance  
 Redemption: Lump-sum payment at maturity date

(\*\*) Details of hybrid securities issued by Shinhan Bank are as follows:

Maturity date: March 2, 2035  
 First date to exercise option: March 2, 2015  
 Interest payment term: Interest paid at 5.663% from March 2, 2005 to March 2, 2015  
 Interest paid at 3M Libor + 199bp for thereafter

(d) The maturities of debentures as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

At December 31, 2005	Debentures in Korean Won	Debentures in foreign currencies	Total
Due in 3 months or less	₩ 991,956	60,851	1,052,807
Due after 3 months through 6 months	2,127,924	38,293	2,166,217
Due after 6 months through 12 months	3,102,507	195,566	3,298,073
Due after 1 year through 3 years	11,115,253	491,305	11,606,558
Thereafter	3,223,515	1,495,732	4,719,247
	<b>₩ 20,561,155</b>	<b>2,281,747</b>	<b>22,842,902</b>

(in millions of Won)

At December 31, 2004	Debentures in Korean Won	Debentures in foreign currencies	Total
Due in 3 months or less	₩ 2,378,450	104,380	2,482,830
Due after 3 months through 6 months	2,759,009	-	2,759,009
Due after 6 months through 12 months	5,318,130	356,009	5,674,139
Due after 1 year through 3 years	3,843,013	208,760	4,051,773
Thereafter	3,722,173	1,473,292	5,195,465
	<b>₩ 18,020,775</b>	<b>2,142,441</b>	<b>20,163,216</b>

**(12) Retirement and Severance Benefits**

Changes in retirement and severance benefits for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Estimated severance liability at beginning of year	₩ 174,625	347,913	\$ 172,384	343,448
Changes in consolidation scope	2,769	202	2,733	199
Adjustment due to foreign exchange rate	(96)	(69)	(95)	(68)
Payment	(31,783)	(266,697)	(31,375)	(263,274)
Retirement benefit transferred	-	(151)	-	(149)
Provision	107,293	93,427	105,917	92,228
Estimated severance liability at end of year	252,808	174,625	249,564	172,384
Less: deposit for severance benefit insurance contribution to National Pension Fund	(74,649)	(95,277)	(73,691)	(94,054)
	(90)	(110)	(89)	(109)
Net balance at end of year	₩ 178,069	79,238	\$ 175,784	78,221

**(13) Other Liabilities**

Other liabilities as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Allowance for losses on guarantees and acceptances (note 14)	₩ 60,236	36,894	\$ 59,463	36,421
Other allowances	413,270	183,397	407,966	181,043
Borrowings from trust accounts	708,923	547,499	699,825	540,473
Foreign exchange remittances pending	146,823	200,414	144,939	197,842
Securities sold	1,210,559	1,080,355	1,195,024	1,066,491
Accounts payable	1,630,781	4,591,449	1,609,853	4,532,526
Accrued expenses	2,024,573	1,806,144	1,998,591	1,782,965
Income tax payable	170,272	289,242	168,087	285,530
Dividend payable	2,186	1,653	2,158	1,632
Advance receipts	7,858	2,941	7,757	2,903
Unearned revenues	141,546	149,547	139,730	147,628
Taxes withheld	91,676	42,361	90,500	41,817
Guarantee deposits received	277,086	289,281	273,530	285,569
Derivatives liabilities	915,494	1,640,570	903,745	1,619,516
Deferred tax liabilities	190,611	-	188,165	-
Other	12,238,449	5,518,035	12,081,391	5,447,221
	₩ 20,230,343	16,379,782	\$ 19,970,724	16,169,577

# Notes to Consolidated Financial Statements, Continued

December 31, 2005 and 2004

## (14) Guarantees and Acceptances

(a) The guarantees and acceptances as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

	2005	2004
<b>Guarantees and acceptances outstanding</b>		
Guarantees and acceptances in Won:		
Guarantees for contract performance	₩ 118,020	155,786
Guarantees on loan collaterals	97,608	103,718
Guarantees on debentures	793	344
Other	904,523	827,134
	1,120,944	1,086,982
Guarantees and acceptances in foreign currencies:		
Acceptances on letters of credit	316,998	366,215
Acceptances for letters of guarantee for importers	112,807	117,547
Other	866,494	890,145
	1,296,299	1,373,907
<b>Contingent guarantees and acceptances</b>		
Letters of credit	2,585,645	2,913,678
Other	460,070	536,652
	3,045,715	3,450,330
	<b>₩ 5,462,958</b>	<b>5,911,219</b>

(b) The guarantees and acceptances provided by country as of December 31, 2005 and 2004 are as follows:

(in millions of Won, except ratio)

	2005					
	Guarantees and acceptances outstanding in				Contingent guarantees and acceptances	
	Won		Foreign currencies		Balance	Ratio (%)
	Balance	Ratio (%)	Balance	Ratio (%)		
Korea	₩ 1,120,944	100.00	₩ 1,152,140	88.88	₩ 2,936,415	96.41
U.S.A.	-	-	91,353	7.05	58,052	1.91
Japan	-	-	34,404	2.65	25,390	0.83
U.K.	-	-	5,065	0.39	6,980	0.23
China	-	-	3,413	0.26	2,453	0.08
Vietnam	-	-	3,624	0.28	6,819	0.22
Other	-	-	6,300	0.49	9,606	0.32
	<b>₩ 1,120,944</b>	<b>100.00</b>	<b>₩ 1,296,299</b>	<b>100.00</b>	<b>₩ 3,045,715</b>	<b>100.00</b>

(in millions of Won, except ratio)

	2004					
	Guarantees and acceptances outstanding in				Contingent guarantees and acceptances	
	Won		Foreign currencies		Balance	Ratio (%)
	Balance	Ratio (%)	Balance	Ratio (%)		
Korea	₩ 1,086,982	100.00	₩ 1,208,927	87.99	₩ 3,322,834	96.30
U.S.A.	-	-	99,490	7.24	63,987	1.85
Japan	-	-	33,239	2.42	10,673	0.31
U.K.	-	-	13,423	0.98	9,756	0.28
China	-	-	6,730	0.49	22,299	0.65
Vietnam	-	-	2,013	0.15	6,154	0.18
Hong Kong	-	-	9,229	0.67	9,112	0.26
Other	-	-	856	0.06	5,515	0.17
	<b>₩ 1,086,982</b>	<b>100.00</b>	<b>₩ 1,373,907</b>	<b>100.00</b>	<b>₩ 3,450,330</b>	<b>100.00</b>

(c) The guarantees and acceptances provided by consumer as of December 31, 2005 and 2004 are as follows:

(in millions of Won, except ratio)

	2005					
	Guarantees and acceptances outstanding in				Contingent guarantees and acceptances	
	Won		Foreign currencies		Balance	Ratio (%)
	Balance	Ratio (%)	Balance	Ratio (%)		
Corporate	₩ 1,120,077	99.92	₩ 1,295,965	99.97	₩ 2,879,752	94.55
Household	867	0.08	-	-	165,963	5.45
Public and other	-	-	334	0.03	-	-
	₩ 1,120,944	100.00	₩ 1,296,299	100.00	₩ 3,045,715	100.00

(in millions of Won, except ratio)

	2004					
	Guarantees and acceptances outstanding in				Contingent guarantees and acceptances	
	Won		Foreign currencies		Balance	Ratio (%)
	Balance	Ratio (%)	Balance	Ratio (%)		
Corporate	₩ 1,066,835	98.15	₩ 1,372,446	99.89	₩ 3,410,728	98.85
Household	18,726	1.72	1,426	0.11	352	0.01
Public and other	1,421	0.13	35	-	39,250	1.14
	₩ 1,086,982	100.00	₩ 1,373,907	100.00	₩ 3,450,330	100.00

(d) Effective year 2005, the Consolidated Company provides an allowance for losses on outstanding and contingent guarantees and acceptances and endorsed bills applying "Credit Conversion Factor" in estimating the expected loss. As of December 31, 2005 and 2004, details of allowances for loss on guarantees and acceptances are as follows:

(in millions of Won)

	2005					
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
<b>Guarantees and acceptances outstanding:</b>						
Balance	₩ 2,237,353	176,055	1,937	-	1,898	2,417,243
Allowances	10,112	28,768	524	-	1,895	41,299
Ratio (%)	0.45	16.34	27.05	-	99.84	1.71
<b>Contingent guarantees and acceptances:</b>						
Balance	₩ 2,884,867	151,153	3,392	-	6,303	3,045,715
Allowances	6,605	4,228	653	-	6,303	17,789
Ratio (%)	0.23	2.80	19.25	-	100.00	0.58
<b>Total</b>						
Balance	₩ 5,122,220	327,208	5,329	-	8,201	5,462,958
Allowances	16,717	32,996	1,177	-	8,198	59,088
Ratio (%)	0.33	10.08	22.09	-	99.96	1.08

(\*) ₩1,148 million of allowance for endorsed bills excluded.

# Notes to Consolidated Financial Statements, *Continued*

December 31, 2005 and 2004

(in millions of Won)

	2004					
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
<b>Guarantees and acceptances outstanding:</b>						
Guarantees and acceptances outstanding in Won						
Balance	₩ 944,973	141,524	406	39	40	1,086,982
Allowances	-	26,001	81	36	40	26,158
Ratio (%)	-	18.37	19.95	92.31	100.00	2.41
Guarantees and acceptances outstanding in foreign currencies						
Balance	₩ 1,334,119	35,511	2,469	2	1,806	1,373,907
Allowances	-	8,435	493	2	1,806	10,736
Ratio (%)	-	23.75	19.97	100.00	100.00	0.78
<b>Total</b>						
Balance	₩ 2,279,092	177,035	2,875	41	1,846	2,460,889
Allowances	-	34,436	574	38	1,846	36,894
Ratio (%)	-	19.45	19.97	92.68	100.00	1.50

(e) As of December 31, 2005, 2004 and 2003, allowance ratios to guarantees and acceptances are as follows:

(in millions of Won)

	2005	2004	2003
Guarantees and acceptances	₩ 5,462,958	2,460,889	2,275,222
Allowances for loss on guarantees and acceptances	₩ 59,088	36,894	57,398
Ratio (%)	1.08	1.50	2.52

## (15) Pledged assets

Assets pledged as collateral as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

Accounts	2005	2004	Related transactions for
Cash and due from banks	₩ 2,670	5,440	Credit card loans and beneficiary certificates
Securities	10,001,808	6,805,728	Borrowings, derivatives and settlements
Land and buildings	177,749	176,443	Collaterals
	₩ 10,182,227	6,987,611	

## (16) Insured assets

Details of insured assets as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

Assets insured	2005	2004
Cash	₩ 108,930	23,415
Tangible assets used in operations	1,216,508	849,249
Other tangible assets	303,632	140,437
	₩ 1,629,070	1,013,101

In addition, the Consolidated Company maintains fire insurance for its assets, key employees' indemnity insurance, workers' compensation insurance for its employees and other insurance policies covering loss and liability arising from accidents.

**(17) Assets and Liabilities Denominated in Foreign Currency**

Assets and liabilities denominated in foreign currency as of December 31, 2005 and 2004 are as follows:

(in millions of Won and thousands of U.S. dollars)

	Foreign currency		Won equivalent	
	2005	2004	2005	2004
<b>Assets:</b>				
Cash and due from banks	\$ 809,488	852,668	₩ 820,011	903,550
Securities	1,046,610	999,203	1,060,217	1,042,476
Loans	12,697,555	12,217,602	12,862,620	12,755,773
Other assets	51,083	1,637,531	51,746	1,709,260
	<b>\$ 14,604,736</b>	<b>15,707,004</b>	<b>₩ 14,794,594</b>	<b>16,411,059</b>
<b>Liabilities:</b>				
Deposits	\$ 3,600,458	4,493,266	₩ 3,647,265	4,702,413
Borrowings	8,110,639	6,885,843	8,216,074	7,229,151
Debentures	2,252,465	2,052,540	2,281,747	2,142,441
Other liabilities	545,296	1,808,127	552,387	1,887,322
	<b>\$ 14,508,858</b>	<b>15,239,776</b>	<b>₩ 14,697,473</b>	<b>15,961,327</b>

**(18) Capital Stock**

(a) Details of preferred stocks issued as of December 31, 2005 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
	<u>52,583,961</u>		
<b>Redeemable convertible preferred stock:</b>			
Series 9 (**)	22,360,301	2.02	August 19, 2006 - August 18, 2008
	<u>74,944,262</u>		

(\*) Based on initial issuance price

(\*\*) Convertible period: August 19, 2004 - August 18, 2007

Conversion ratio: 1 common share to 1 preferred stock

Conversion price in Won: ₩18,086

22,360,302 shares were converted into common stock in 2005

# Notes to Consolidated Financial Statements, *Continued*

December 31, 2005 and 2004

(b) Details of changes in capital stock for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Won, except shares)

	Number of shares	Common stock	Preferred stock
Balance at January 1, 2004	391,705,864	₩ 1,472,007	486,523
Share exchange	24,917,711	124,588	-
Disposition of treasury stock	-	-	-
Balance at December 31, 2004	416,623,575	₩ 1,596,595	486,523
Share exchange	17,528,000	87,640	-
Preferred stock converted into common stock	-	111,802	(111,802)
Disposition of treasury stock	-	-	-
<b>Balance at December 31, 2005</b>	<b>434,151,575</b>	<b>₩ 1,796,037</b>	<b>374,721</b>

(c) Details of preferred stock to be redeemed by appropriations of retained earnings

(in millions of Won, except price per share)

	Number of shares	Redemption date	Redemption price per share	Redemption amount
Series 1 redeemable preferred stock	9,316,792	August 18, 2006	₩ 18,544.423	172,774
Series 6 redeemable preferred stock	3,500,000	August 18, 2006	150,009.411	525,033
	<b>12,816,792</b>			<b>₩ 697,807</b>

(\*) Redemption amount was calculated assuming that such redeemable preferred stock would be redeemed at the maturity date with agreed dividends yields (4.04% for Series 1 and 0.01% for Series 6); therefore actual amount may be different at the date of actual redemption.

## (19) Capital Adjustments

Capital adjustments as of December 31, 2005 and 2004 consist of the following:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Treasury stock	₩ (312,720)	(203,570)	\$ (308,707)	(200,957)
Unrealized gain (loss) on securities:				
Available-for-sale securities	946,523	497,359	934,376	490,976
Equity method investment securities	(1,005)	(642)	(992)	(634)
	945,518	496,717	933,384	490,342
Stock options: (note 20)				
Options granted by Shinhan Financial Group	17,163	8,179	16,943	8,074
Options granted by the subsidiaries	(8,467)	463	(8,359)	457
	8,696	8,642	8,584	8,531
Valuation gain on derivatives	2,455	95	2,424	94
Cumulative effects on foreign currency translation adjustments	(31,891)	(21,261)	(31,482)	(20,988)
	<b>₩ 612,058</b>	<b>280,623</b>	<b>\$ 604,203</b>	<b>277,022</b>



**(20) Stock Options**

The stock options consist of Shinhan Financial Group's stock options, which were granted to the employees of the Consolidated Company, and the subsidiaries' stock options, which were granted to the employees of the subsidiaries. As of December 31, 2005, details of the stock options granted by Shinhan Financial Group under a resolution at the Board of Directors' meeting are as follows:

**(a) Details of Shinhan Financial Group's stock options**

Grant date	March 30, 2005	March 25, 2004	May 15, 2003	May 22, 2002
Number of options granted	2,695,200 options	1,301,600 options	1,156,300 options	1,004,200 options
Number of options expired to date	670,979 options	52,995 options	344,716 options	309,557 options
Number of options outstanding	2,004,221 options	1,248,605 options	811,584 options	694,643 options
Type of stock options	Cash-settled or equity settled options	Cash-settled or equity settled options	Cash-settled options	Cash-settled options
Exercise price in Won	₩28,006	₩21,595	₩11,800	₩18,910
Vesting period	Within four years after three years from grant date	Within three years after two years from grant date	Within four years after two years from grant date	Within four years after two years from grant date

**(b) The Consolidated Company calculated stock compensation costs using the fair value method for stock grant and details are as follows:**

Grant date	March 30, 2005	March 25, 2004	May 15, 2003	May 22, 2002
Risk-free interest rate	4.07%	4.39%	-	-
Vesting period	5 years	3.5 years	-	-
Expected stock price volatility	17.92%	19.85%	-	-
Expected dividend yield	-	-	-	-
Expected ratios of no-exercise	-	-	-	-
Weighted average fair value in Won	₩ 11,201	₩ 7,696	-	-

**(c) Changes in stock compensation costs for the year ended December 31, 2005 are as follows:**

(in millions of Won)

Grant date	Stock compensation cost	Employees of			
		Shinhan Financial Group	subsidiaries	Total	
March 30, 2005	Recorded at beginning of the year	₩	-	-	-
	Incurred during the year		767	7,858	8,625
	To be recorded in subsequent periods		1,272	12,553	13,825
March 25, 2004	Recorded at beginning of the year		935	2,850	3,785
	Incurred during the year		1,095	3,658	4,753
	To be recorded in subsequent periods		386	685	1,071
May 15, 2003	Recorded at beginning of the year		1,035	3,360	4,395
	Incurred during the year		3,299	15,693	18,992
	To be recorded in subsequent periods		-	-	-
May 22, 2002	Recorded at beginning of the year		664	2,384	3,048
	Incurred during the year		2,270	9,760	12,030
	To be recorded in subsequent periods		-	-	-

# Notes to Consolidated Financial Statements, *Continued*

December 31, 2005 and 2004

## (21) General and Administrative Expenses

Details of general and administrative expenses for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (Note 2)	
	2005	2004	2005	2004
Salaries and wages	₩ 991,908	844,061	\$ 979,179	833,229
Provision for retirement and severance benefits	106,643	93,231	105,274	92,035
Other employees benefits	360,114	312,053	355,493	308,048
Rent	88,058	77,261	86,928	76,270
Entertainment	20,295	20,503	20,035	20,240
Depreciation	178,922	182,349	176,626	180,009
Amortization	104,970	88,456	103,623	87,321
Tax and dues	92,166	100,255	90,983	98,968
Advertising	57,924	62,300	57,181	61,500
Other	426,988	407,418	421,508	402,190
	<b>₩ 2,427,988</b>	<b>2,187,887</b>	<b>\$ 2,396,830</b>	<b>2,159,810</b>

## (22) Income Taxes

(a) The Consolidated Company is subject to income taxes based on taxable income, which result in the normal tax rate of 27.5%.

The components of income tax expense for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Won)

	2005	2004
Current income tax expense	₩ 388,917	386,377
Deferred income tax expense	405,521	(173,725)
Income tax expense added to equity	(530,797)	-
Income tax expense	<b>₩ 263,642</b>	<b>212,652</b>

(b) Reconciliation of accounting income and taxable income for the years ended December 31, 2005 and 2004 are as follows

(in millions of Won)

	2005	2004
Income before income taxes	₩ 2,011,223	1,333,781
Increase (decrease) from temporary difference	(2,006,293)	(203,189)
Increase (decrease) from permanent difference	1,808,065	652,402
Taxable income	<b>₩ 1,868,983</b>	<b>1,782,994</b>

(c) Effective tax rates for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Won)

	2005	2004
Income taxes	₩ 263,642	212,652
Income before income taxes	₩ 2,011,223	1,333,781
Effective income tax rate (%)	<b>13.11</b>	<b>15.94</b>

(d) For the years ended December 31, 2005 and 2004, ₩530,797 million and ₩67,776 million of income tax is reflected in the balance sheet as a deduction from stockholders' equity, respectively, with respect to unrealized gain on available-for-sale securities and gain from disposition of treasury stocks.

(e) Changes in significant accumulated temporary differences and tax effects for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Won)

	2005			
	Beginning balance	Increase	Decrease	Ending balance
Deductible temporary differences:				
Securities	₩ 9,890	879	962	9,807
Impairment loss on securities	1,403,710	-	284,886	1,118,824
Retirement and severance benefits	106,314	45,047	-	151,361
Provision for loan losses	575,418	-	230,400	345,018
Other allowances	216,845	-	302	216,543
Stock compensation costs	8,359	30,855	-	39,214
Restructured loans	439,132	-	108,064	331,068
Allowance for losses on guarantees and acceptances	-	177,303	-	177,303
Other	495,334	756,250	68,049	1,183,535
	3,255,002	1,010,334	692,663	3,572,673
Taxable temporary differences:				
Securities	87,650	1,751,631	-	1,869,134
Unrealized loan on securities	812,114	81,722	147,111	746,725
Accrued income	240,891	-	13,458	227,433
Group retirement and severance benefits	100,428	44,898	-	145,326
Other	137,623	756,131	951	892,803
	1,378,706	2,634,382	161,520	3,851,568
Net (*)	1,876,296			(278,895)
Unrealizable temporary differences (**)	(984,411)			(406,980)
Realizable temporary differences	891,885			(685,275)
Tax effect of cumulative temporary difference	244,568			(188,681)
Tax effect of cumulative temporary differences in overseas subsidiaries	4,641			3,893
Tax credit	942			-
Tax effects of tax loss carryforwards	1,675			9,022
Net deferred tax assets(liability) (***)	₩ 251,826			(175,766)

(\*) ₩8,863 million of difference from tax return for 2004 was adjusted to ₩157,760 million of temporary differences arising from consolidation of Shinhan Life Insurance is included.

(\*\*) Tax effects on temporary differences of ₩3,277 million in Shinhan Financial Group, ₩(-)5,450 million in Shinhan Bank, ₩363,745 million in Chohung Bank, ₩43,987 million in Shinhan Card and ₩1,421 million in Good Morning Shinhan Securities are not recognized due to uncertainty of realization in the near future or offset to tax loss carryforwards.

(\*\*\*) The amount consists of ₩14,845 million of deferred tax asset and ₩(-)190,611 million of deferred tax liabilities.

# Notes to Consolidated Financial Statements, Continued

December 31, 2005 and 2004

(in millions of Won)

	2004			
	Beginning balance	Increase	Decrease	Ending balance
Deductible temporary differences:				
Securities	₩ 431,991	-	422,101	9,890
Impairment loss on securities	791,786	611,924	-	1,403,710
Retirement and severance benefits	93,656	12,658	-	106,314
Provision for loan losses	467,403	108,015	-	575,418
Other allowances	4,621	212,224	-	216,845
Stock compensation costs	7,324	1,035	-	8,359
Restructured loans	262,845	176,287	-	439,132
Allowance for losses on guarantees and acceptances	68,282	-	68,282	-
Other	271,342	245,204	21,212	495,334
	2,399,250	1,367,347	511,595	3,255,002
Taxable temporary differences:				
Securities	22,281	67,246	1,877	87,650
Unrealized loan on securities	422,906	389,208	-	812,114
Accrued income	333,152	-	92,261	240,891
Group retirement and severance benefits	89,572	10,856	-	100,428
Other	84,295	115,048	61,720	137,623
	952,206	582,358	155,858	1,378,706
Net (*)	1,447,044			1,876,296
Unrealizable temporary differences (**)	(1,193,691)			(984,411)
Realizable temporary differences	253,353			891,885
Tax effect of cumulative temporary difference	71,165			244,568
Tax effect of cumulative temporary differences in overseas subsidiaries	5,745			4,641
Donation in excess of deductible limit	93			942
Tax effects of tax loss carryforwards	1,098			1,675
Net deferred tax assets(***)	₩ 78,101			251,826

(\*) ₩1,006 million and ₩132 million of temporary differences arising from consolidation of Shinhan Macquarie and Shinhan Credit Information is included.

(\*\*) Tax effects on temporary differences of ₩(-)40 million in Shinhan Financial Group, ₩(-)77,408 million in Shinhan Bank, ₩1,019,785 million in Chohung Bank, ₩37,035 million in Shinhan Card, ₩6,644 million in Jeju Bank and ₩(-)1,605 million in SH&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 ₩251,826 million of deferred tax asset.

## (23) Earnings Per Share

### (a) Earnings per share

Earnings per common share are calculated by dividing net income by the weighted average number of shares of common stock outstanding. Earnings per share for the years ended December 31, 2005 and 2004 are computed as follows:

(in millions of Won)

	2005	2004
Net income	₩ 1,732,067	1,050,295
Plus: extraordinary loss (gain)	-	-
Less: income taxes on extraordinary loss (gain) dividends on preferred stock	- 106,972	- 115,141
Ordinary income available for common stock	1,625,095	935,154
Weighted average number of shares outstanding	333,424,457	292,467,357
Ordinary income per share in Won and U.S. dollars	₩ 4,874	3,197
Net income per share in Won and U.S. dollars	₩ 4,874	3,197

**(b) Diluted earnings per share**

For the year ended December 31, 2005 and 2004, if convertible preferred stock exercised, 25,613,127 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 355,784,758.

Details of diluted ordinary / net earnings per share due to dilutive effect for the years ended December 31, 2005 and 2004 are as follows:

(in millions of Won)

	2005	2004
Ordinary income available for common stock	₩ 1,625,095	935,154
Plus: dividends on preferred stock	8,169	16,338
stock compensation costs	-	583
Diluted ordinary income and net earnings	1,633,264	952,075
Weighted average number of common shares outstanding	355,784,758	337,600,441
Diluted ordinary income per share in Won	₩ 4,591	2,820
Diluted net income per share in Won	₩ 4,591	2,820

# Notes to Consolidated Financial Statements, Continued

December 31, 2005 and 2004

(in millions of Won, except per share)

	Number of shares	Dividends per share in Won	Dividend rate per share (%)	Dividends
Redeemable preferred stock:				
Series 1	9,316,792	730.67	14.61	6,807
Series 2	9,316,792	"	"	6,807
Series 3	9,316,792	"	"	6,807
Series 4	9,316,792	"	"	6,807
Series 5	9,316,793	"	"	6,808
Series 6	3,500,000	10,500.00	210.00	36,750
Series 7	2,433,334	11,190.00	223.80	27,230
Series 8	66,666	11,790.00	235.80	787
	52,583,961			98,803
Redeemable convertible preferred stock:				
Series 9	22,360,301	365.34	7.31	8,169
	<b>74,944,262</b>			<b>106,972</b>

(in millions of Won, except per share)

	2004		
	Common stocks	Preferred stocks	Total
Total number of share issued and outstanding	319,319,011	97,304,564	416,623,575
Shares excluded (*)	8,987,011	-	8,987,011
	310,332,000	97,304,564	407,636,564
Face value per share in Won	5,000	5,000	5,000
Dividend per share in Won (rate per share) (**)	₩ 750 (15%)	1,183 (23.66%)	853 (17.06%)
Dividends	₩ 232,749	115,141	347,890

(\*) Dividends on shares held by subsidiaries as of December 31, 2004 are not paid.

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

(in millions of Won, except per share)

	Number of shares	Dividends per share in Won	Dividend rate per share (%)	Dividends
Redeemable preferred stock:				
Series 1	9,316,792	730.67	14.61	6,807
Series 2	9,316,792	"	"	6,807
Series 3	9,316,792	"	"	6,807
Series 4	9,316,792	"	"	6,807
Series 5	9,316,793	"	"	6,808
Series 6	3,500,000	10,500.00	210.00	36,750
Series 7	2,433,334	11,190.00	223.80	27,230
Series 8	66,666	11,790.00	235.80	786
	52,583,961			98,802
Redeemable convertible preferred stock:				
Series 9	44,720,603	365.34	7.31	16,339
	<b>97,304,564</b>			<b>115,141</b>

(b) Payout ratios for the years ended December 31, 2005 and 2004 are calculated as follows:

(in millions of Won, except payout ratio)

	2005			2004		
	Common stocks	Preferred stocks	Total	Common stocks	Preferred stocks	Total
Dividends in Won	₩ 278,077	106,972	385,049	232,749	115,141	347,890
Net earning in Won	₩ 1,625,095	106,972	1,732,067	935,154	115,141	1,050,295
Payout ratios (%)	17.11		22.23	24.89		33.12

(c) Dividend yields on common shares for the years ended December 31, 2005 and 2004 are calculated as follows:

(in Won, except dividends yields)

	2005	2004
Dividends per share in Won	₩ 800	750
Stock price in Won at the balance sheet date	₩ 41,620	22,840
Dividends yields (%)	1.92	3.28

## (25) Statements of Cash Flows

(a) Cash and cash equivalents as of December 31, 2005 and 2004 in consolidated 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, 2005 and 2004 are as follows:

(in millions of Won))

	2005	2004
Equity acquisition from subsidiaries through share exchange	₩ 730,432	526,798
Reclassification of available-for-sale securities to held-to-maturity securities	-	25,443
Reclassification from loans to loans to be converted into equity securities	10,244	-
Increase in present value discounts from restructuring of loans	2,833	-
Reclassification of loans to available-for-sale securities	40,184	137,338
Changes in retained earnings of subsidiaries	33,738	65,387
Changes in capital adjustments of subsidiaries	301,194	956,022
Reclassification of advance payments to financing leases	15,255	215,224
Reclassification of advance payments to operating lease assets	397	9,670
Recognition of goodwill related to Asset Indemnity	20,596	166,516
Adjustment to income tax expense	21,277	-

# Notes to Consolidated Financial Statements, *Continued*

December 31, 2005 and 2004

## (26) Derivatives

(a) Details of unsettled derivative instruments as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

		2005		
		Purpose of transactions		
		Trading	Hedge	Total
Currency related	Forwards	₩ 34,007,576	120,922	34,128,498
	Futures	140,048	-	140,048
	Swaps	10,589,165	787,513	11,376,678
	Options bought	4,083,451	-	4,083,451
	Options sold	2,871,034	-	2,871,034
		51,691,274	908,435	52,599,709
Interest rate related	Futures sold	92,729	-	92,729
	Futures bought	10,000	-	10,000
	Swaps	25,884,402	3,195,054	29,079,456
	Government bonds	5,373	-	5,373
		25,992,504	3,195,054	29,187,558
Stock price index related	Futures	312,402	-	312,402
	Options bought	354,242	-	354,242
	Options sold	367,959	-	367,959
	Options bought	585,702	-	585,702
	Options sold	645,584	-	645,584
		2,265,889	-	2,265,889
Other	Bought	102,750	-	102,750
	Sold	102,750	-	102,750
		205,500	-	205,500
		₩ 80,155,167	4,103,489	84,258,656

(in millions of Won)

		2004		
		Purpose of transactions		
		Trading	Hedge	Total
Currency related	Forwards	₩ 29,557,248	1,673,669	31,230,917
	Swap	6,151,203	579,547	6,730,750
	Options bought	2,551,206	-	2,551,206
	Options sold	1,982,251	-	1,982,251
		40,241,908	2,253,216	42,495,124
Interest rate related	Futures bought	167,398	3,131	170,529
	Futures sold	381,979	3,131	385,110
	Options bought	20,000	-	20,000
	Options sold	28,300	-	28,300
	Swap	26,783,764	3,178,188	29,961,952
	Government bonds	56,074	-	56,074
		27,437,515	3,184,450	30,621,965

(Continued)



(in millions of Won)

		2004		
		Purpose of transactions		
		Trading	Hedge	Total
Stock price index related	Futures	103,904	-	103,904
	Options bought	618,883	-	618,883
	Options sold	628,480	-	628,480
	Equity linked securities	266,850	-	266,850
	Warrants	262,943	-	262,943
		1,881,060	-	1,881,060
Other	Bought	152,711	-	152,711
	Sold	160,214	-	160,214
		312,925	-	312,925
		<b>₩ 69,873,408</b>	<b>5,437,666</b>	<b>75,311,074</b>

(b) Valuation on trading and hedging derivative instruments as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

		2005				
		Valuation gain (loss)			Fair value	
		Trading	Hedge	Total	Assets	Liabilities
Currency related:						
	Forwards	₩ 59,492	(310)	59,182	337,620	372,105
	Swaps	(16,919)	(4,638)	(21,557)	349,822	209,172
	Options bought	19,737	-	19,737	30,424	-
	Options sold	(17,307)	-	(17,307)	-	49,636
		45,003	(4,948)	40,055	717,866	630,913
Interest rate related:						
	Swaps	(2,860)	(110,833)	(113,693)	174,705	261,596
	Government bond futures	30	-	30	-	-
		(2,830)	(110,833)	(113,663)	174,705	261,596
Stock related: Stock price futures		(17,456)	-	(17,456)	-	-
	Options related to stock price bought	4,857	-	4,857	11,235	-
	Options related to stock price sold	(1,843)	-	(1,843)	-	6,018
	Options related to stock bought	6,595	-	6,595	51,007	-
	Options related to stock sold	(4,765)	-	(4,765)	-	5,842
		(12,612)	-	(12,612)	62,242	11,860
Other:						
	Bought	833	-	833	11,167	5
	Sold	(785)	-	(785)	-	11,120
		48	-	48	11,167	11,125
		<b>₩ 29,609</b>	<b>(115,781)</b>	<b>(86,172)</b>	<b>965,980</b>	<b>915,494</b>

# Notes to Consolidated Financial Statements, Continued

December 31, 2005 and 2004

(in millions of Won)

	2004				
	Valuation gain (loss)			Fair value	
	Trading	Hedge	Total	Assets	Liabilities
Currency related:					
Forwards	₩ 139,008	-	139,008	991,815	986,718
Swap	26,079	(3,361)	22,718	428,493	360,861
Options bought	(39,183)	-	(39,183)	62,597	-
Options sold	(9,848)	-	(9,848)	-	89,540
	116,056	(3,361)	112,695	1,482,905	1,437,119
Interest rate related:					
Options bought	1,077	-	1,077	99	-
Options sold	(1,113)	-	(1,113)	-	99
Swap	(90,768)	(38,294)	(129,062)	221,415	184,782
Government bonds	56	-	56	-	-
	(90,748)	(38,294)	(129,042)	221,514	184,881
Stock price index related:					
Futures	(6,751)	-	(6,751)	-	-
Options bought	1,722	-	1,722	16,437	-
Options sold	(2,621)	-	(2,621)	-	16,860
Equity linked securities	(4,464)	-	(4,464)	-	-
Warrants	1,996	-	1,996	-	-
	(10,118)	-	(10,118)	16,437	16,860
OtherBought	(1,932)	-	(1,932)	1,662	-
Sold	2,514	-	2,514	-	1,710
	582	-	582	1,662	1,710
	₩ 15,772	(41,655)	(25,883)	1,722,518	1,640,570

## (27) Employee Benefits

As of December 31, 2005 and 2004, the Bank has provided housing loans to employees, amounting to ₩188,510 million and ₩165,856 million, respectively.

## (28) Commitments and Contingencies

### (a) Acquisition of Chohung Bank

On July 9, 2003, Shinhan Financial Group made an agreement with KDIC to acquire 80.04% (543,570,144 shares) of total outstanding shares in Chohung Bank. Additionally, in accordance with the agreement, Shinhan Financial Group would be required to pay contingent consideration to 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 (may be offset by 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 income 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

Shinhan Financial Group made adjustments to reflect the General Indemnity Payment of ₩166,516 million in 2004 and the Asset Indemnity Payment of ₩220,714 million in 2005 as additions to goodwill. Other contingent considerations were not included in the acquisition cost, for the amount was not determinable.

**(b) Guarantees and acceptances and commitments as of December 31, 2005 are as follows:**

	(in millions of Won)
Guarantees and acceptances outstanding	₩ 2,417,243
Contingent guarantees and acceptances	3,045,715
Loan commitments	
Loan commitments in Won	61,017,594
Loan commitments in foreign currencies	7,886,947
Other	128,079
Endorsed bills	5,186,672
Loans sold under repurchase agreements	114,190

**(c) The Consolidated Company pledged their eight notes amounting to ₩120,925 million to financial institutions as collateral for borrowings.**

**(d) Litigation**

As of December 31, 2005, the Consolidated Company has 211 pending lawsuits as a defendant (total amount: ₩947,446 million). It is in the opinion of Shinhan Financial Group's management, based on current knowledge and after consultation with external counsel, that the outcome of such matters will not have a material adverse effect on the Shinhan Financial Group's consolidated financial statements.

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

As of December 31, 2005, the Consolidated Company is holding loans (including guarantees) provided to and securities issued by companies involved in bankruptcy proceedings, composition proceedings or workout programs with creditors amounting to ₩3,377,478 million. The Consolidated Company recorded an allowance for losses on these loans and incurred valuation losses on these securities in accordance with accounting principles generally accepted in the Republic of Korea. 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.

**(f) Loans sold under repurchase agreements to Korea Asset Management Corporation**

As of December 31, 2005, the Consolidated Company 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 ₩21,771 million. Related to these outstanding loans, those subsidiaries established ₩7,791 million of an allowance for loan losses as of December 31, 2005. However, additional gains or losses will be recorded upon repurchase of or settlement for the loans by KAMCO in accordance with the recourse provisions.

# Notes to Consolidated Financial Statements, *Continued*

December 31, 2005 and 2004

## (g) Asset-backed securitization

With respect to the disposition of non-performing loans to SPCs, Chohung Bank has granted ₩90,000 million of the right of recourse for the disposition, and it provides ₩40,000 million of debt securities as collaterals and ₩16,000 million of recourse liabilities to the SPC, as of December 31, 2005. In accordance with those asset-backed securitization plans, additional losses may be recorded upon exercising reselling rights.

## (h) Subsidy for trust accounts

As of December 31, 2005, Shinhan Bank, Chohung Bank and Jeju Bank guarantee repayment of principal and, in certain cases, minimum interest earnings on trust account assets in total amount of ₩32,165 billion. Additional losses will be recorded based upon the results of the future operations of these guaranteed trust accounts.

## (i) Loans related to financially troubled companies

As of December 31, 2005, Shinhan Bank and Chohung Bank had loans receivable (including securities) in the total amounts of ₩241,546 million and ₩165,276 million, respectively, which had been provided to LG Card Co., Ltd., an entity that has been under control by creditor banks due to its liquidity crisis. For those loans, Shinhan Bank and Chohung Bank provided ₩12,112 million and ₩13,718 million, respectively, of allowance for loan losses as of December 31, 2005. Actual losses on those loans might differ materially from management's assessment. The accompanying consolidated financial statements do not reflect the impact of the uncertainty on the financial position of the Consolidated Company. For the year ended December 31, 2005, Shinhan Bank and Chohung Bank additionally loaned ₩14,300 million and ₩13,000 million, respectively, to LG Card Co., Ltd. and converted ₩11,000 million and ₩10,000 million of their respective loans to equity securities.

As of December 31, 2005, Shinhan Bank and Chohung Bank had loans receivable (including securities, guarantees and acceptances) amounting to ₩475,901 million and ₩261,503 million, respectively, which had been provided to SK Networks Co., Ltd. (including its subsidiaries), an entity that has been under control by creditor banks in accordance with the Corporate Restructuring Promotion Act of the Republic of Korea. For those loans, Shinhan Bank and Chohung Bank provided ₩33,368 million and ₩17,081 million, respectively, of allowance for loan losses as of December 31, 2005. Actual losses on those loans might differ materially from management's assessment. The accompanying consolidated financial statements do not reflect the impact of the uncertainty on the financial position of the Consolidated Company.

## (29) Related Party Transactions

### (a) Details of transactions

Significant transactions with the related parties for the years ended December 31, 2005 and 2004 are as follows:

		(in millions of Won)	
Revenue earned by	Expense incurred by	2005	2004
Controlling company and subsidiaries included in consolidation:			
Shinhan Financial Group	Shinhan Bank	₩ 5,356	4,352
"	Good Morning Shinhan Securities	3,375	5,941
"	Shinhan Card	52,710	63,146
"	Shinhan Capital	32,537	39,066
"	Jeju Bank	1,833	1,759
Shinhan Bank	Shinhan Financial Group	68	32
"	Chohung Bank	17,814	2,390
"	Good Morning Shinhan Securities	444	2,490
"	Shinhan Life Insurance	1,219	-
"	Shinhan Card	37,927	39,862

(Continued)

(in millions of Won)

Revenue earned by	Expense incurred by	2005	2004
Shinhan Bank	Shinhan Capital	₩ 4,350	3,425
"	Jeju Bank	4	75
"	Shinhan Credit Information	270	244
"	SH&C Life Insurance	15,942	12,677
"	Shinhan Bank (Trust)	39,730	44,662
"	Shinhan Finance	6,410	4,254
"	Shinhan BNP Paribas ITMC	588	-
Shinhan Bank (Trust)	Shinhan Bank	1,969	2,408
Shinhan Finance	Shinhan Bank	2,984	1,916
Chohung Bank	Shinhan Bank	17,513	7,687
"	Shinhan Life Insurance	1,690	-
"	Shinhan Capital	570	812
"	Shinhan Card	1,571	1,047
"	Good Morning Shinhan Securities	91	51
"	SH&C Life Insurance	26,525	12,565
"	Chohung Bank (Trust)	26,381	34,525
"	Chohung ITMC	2	2
"	Chohung Finance	2,451	720
"	CHB America	1,106	487
"	Shinhan Credit Information	3	-
"	Chohung Deutschland	3,911	1,974
Chohung ITMC	Chohung Bank	1,629	2,027
Chohung Bank (Trust)	Chohung Bank	1,755	-
Chohung Finance	Chohung Bank	6,240	2,259
Chohung Deutschland	Chohung Bank	4,962	2,806
Good Morning Shinhan Securities	Shinhan Bank	583	833
"	Chohung Bank	185	411
"	Shinhan Life Insurance	5	-
"	Shinhan Card	663	866
"	Shinhan BNP Paribas ITMC	212	204
"	SH&C Life Insurance	5	15
Good Morning USA	Good Morning Shinhan Securities	2,991	2,134
Good Morning Europe	Good Morning Shinhan Securities	1,228	1,429
Shinhan Life Insurance	Shinhan Bank	695	-
"	Chohung Bank	159	-
Shinhan Card	Shinhan Bank	309	156
"	Chohung Bank	697	-
"	Good Morning Shinhan Securities	-	6
"	Jeju Bank	275	-
"	SH&C Life Insurance	4,902	3,980
"	Shinhan Credit Information	-	35
Shinhan Capital	Shinhan Bank	6,575	3,679
"	Chohung Bank	1,054	4,523
"	Shinhan Card	1	-

(Continued)

# Notes to Consolidated Financial Statements, Continued

December 31, 2005 and 2004

(in millions of Won)

Revenue earned by	Expense incurred by	2005	2004
Shinhan BNP Paribas ITMC	Shinhan Bank	₩ 377	446
"	Chohung Bank	52	-
Jeju Bank	Shinhan Bank	6	3
"	Chohung Bank	16	13
"	Shinhan Life Insurance	25	-
"	SH&C Life Insurance	384	182
"	Jeju Bank (Trust)	1,012	967
Jeju Bank (Trust)	Jeju Bank	220	199
SH&C Life Insurance	Shinhan Bank	10	1,227
"	Chohung Bank	2	-
"	Jeju Bank	-	1
Shinhan Macquarie	Shinhan Bank	180	22
Shinhan Credit Information	Shinhan Bank	3,134	2,878
"	Chohung Bank	6,968	3,816
"	Good Morning Shinhan Securities	52	13
"	Shinhan Life Insurance	36	-
"	Shinhan Card	7,419	8,333
"	Shinhan Capital	80	113
"	Jeju Bank	101	203
Shinhan PE	Shinhan Bank	199	-
"	Shinhan PEF 1st	822	-
		363,564	332,348
Subsidiaries accounted for under the equity method:			
Shinhan Bank	Shinhan Data System	49	-
"	Daewoo Capital	29	-
e-Shinhan	Shinhan Bank	-	700
"	Shinhan Card	93	-
"	Shinhan Financial Group	63	179
"	Good Morning Shinhan Securities	-	100
"	Chohung Bank	-	600
Shinhan Data System	Shinhan Bank	7,170	5,066
Chohung Vina	Chohung Bank	-	99
Macquarie Shinhan Management	Shinhan Bank	100	-
Daewoo Capital	Shinhan Bank	1	-
		7,505	6,744
		₩ 371,069	339,092

## (b) Account balances

Significant balances with the related parties as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

Creditor	Debtor	2005	2004
Controlling company and subsidiaries included in consolidation:			
Shinhan Financial Group	Shinhan Bank	₩ 133,982	94,948
"	Chohung Bank	3,494	-
"	Good Morning Shinhan Securities	71,344	-

(Continued)

(in millions of Won)

Creditor	Debtor		2005	2004
Shinhan Financial Group	Shinhan Card	₩	755,094	1,056,661
"	Shinhan Capital		574,628	640,348
"	Jeju Bank		43,340	23,326
"	Shinhan Credit Information		112	89
Shinhan Bank	Chohung Bank		12,913	21,919
"	Good Morning Shinhan Securities		5,223	5,753
"	Shinhan Life Insurance		78,707	-
"	Shinhan Card		42,078	9,974
"	Shinhan Capital		1,271	64,133
"	SH&C Life Insurance		595	1,199
"	Shinhan BNP Paribas ITMC		136	-
"	Shinhan Bank (Trust)		46,346	64,462
"	Shinhan Finance		147,985	249,278
Shinhan Bank (Trust)	Shinhan Bank		106,030	105,403
Shinhan Finance	Shinhan Bank		150,053	255,649
Chohung Bank	Shinhan Bank		397	8,373
"	Good Morning Shinhan Securities		6	-
"	Shinhan Life Insurance		37,790	-
"	Shinhan Capital		116	732
"	SH&C Life Insurance		2,719	1,956
"	Chohung Finance		66,023	44,343
"	CHB America		24,035	32,797
"	Chohung Deutschland		160,056	134,191
Chohung Bank (Trust)	Chohung Bank		78,786	-
Chohung ITMC	Chohung Bank		31,061	43,999
Chohung Finance	Chohung Bank		158,598	91,632
Chohung Deutschland	Chohung Bank		152,292	128,854
Good Morning Shinhan Securities	Shinhan Bank		15,739	13,387
"	Chohung Bank		5,321	9,270
"	Shinhan Life Insurance		268	-
"	Shinhan Card		63	-
"	SH&C Life Insurance		-	1
Good Morning USA	Good Morning Shinhan Securities		690	1,023
Good Morning Europe	Good Morning Shinhan Securities		279	851
Shinhan Life Insurance	Shinhan Bank		11,502	-
"	Chohung Bank		3,434	-
"	Jeju Bank		14	-
Shinhan Card	Shinhan Financial Group		309	-
"	Shinhan Bank		12,847	1,616
"	Chohung Bank		-	1
"	Good Morning Shinhan Securities		5,326	4,635
"	Shinhan Life Insurance		1,016	-
"	Shinhan BNP Paribas ITMC		55	-
"	SH&C Life Insurance		508	431
"	Shinhan Credit Information		56	-
"	Shinhan Capital		42	-

(Continued)

# Notes to Consolidated Financial Statements, Continued

December 31, 2005 and 2004

(in millions of Won)

Creditor	Debtor	2005	2004
Shinhan Capital	Shinhan Bank	₩ 81,264	75,398
"	Chohung Bank	3,524	9,320
Shinhan BNP Paribas ITMC	Shinhan Bank	9,207	12,986
"	Good Morning Shinhan Securities	3,496	3,496
"	Shinhan Life Insurance	303	-
Jeju Bank	SH&C Life Insurance	23	26
"	Shinhan Life Insurance	25	-
"	Jeju Bank (Trust)	860	831
Jeju Bank (Trust)	Jeju Bank	4,901	5,589
SH&C Life Insurance	Shinhan Bank	507	856
"	Chohung Bank	562	873
"	Shinhan Life Insurance	130	-
Shinhan Macquarie	Shinhan Bank	9,349	4,027
Shinhan Credit Information	Shinhan Bank	4,629	3,341
"	Chohung Bank	661	435
"	Good Morning Shinhan Securities	-	1
"	Shinhan Card	669	702
"	Jeju Bank	74	71
Shinhan PE	Shinhan Bank	6,990	9,412
	Shinhan PEF 1st	8	-
		3,069,861	3,238,598
Subsidiaries accounted for under the equity method:			
e-Shinhan	Shinhan Bank	-	2,837
Shinhan Data System	Shinhan Bank	3,304	2,327
Macquarie Shinhan Management	Shinhan Bank	8,377	-
Daewoo Capital	Shinhan Bank	83	-
		11,764	5,164
		₩ 3,081,625	3,243,762

## (c) Guarantees and acceptances

The guarantees and acceptances provided between the related parties as of December 31, 2005 are as follows:

(in millions of Won)

Creditor	Debtor	Account	Amount guaranteed
Shinhan Financial Group	Good Morning Shinhan Securities	Lease guarantee	₩ 50,000
"	SH&C Life Insurance	Guarantees for loans	7,000
Shinhan Bank	Shinhan Capital	Letter of credit	12,880
"	Shinhan Finance	Guarantees for loans	2,238
Chohung Bank	Chohung Finance	Guarantees for letter of credit	3,596
			₩ 75,714



## (30) Condensed Financial Statements of the Consolidated Company

## (a) Balance sheets

Condensed balance sheets of the consolidated company as of December 31, 2005 and 2004 are as follows:

(in millions of Won)

Subsidiaries	2005		
	Total assets	Total liabilities	Total stockholders' equity
Shinhan Financial Group	₩ 12,462,131	2,325,114	10,137,017
Shinhan Bank	75,641,968	71,042,501	4,599,467
Shinhan Bank (Trust)	1,902,831	1,902,831	-
Shinhan Finance	453,094	381,288	71,806
Chohung Bank	66,609,526	62,783,304	3,826,222
Chohung Bank (Trust)	1,343,340	1,343,340	-
Chohung ITMC	83,651	5,476	78,175
Chohung Finance	216,488	179,173	37,315
CHB America	467,872	405,560	62,312
Chohung Deutschland	239,814	209,152	30,662
Good Morning Shinhan Securities	3,882,713	3,122,337	760,376
Good Morning Shinhan Europe	6,853	34	6,819
Good Morning Shinhan USA	5,526	755	4,771
Shinhan Life Insurance	5,129,302	4,810,804	318,498
Shinhan Card	1,532,291	1,314,592	217,699
Shinhan Capital	1,400,829	1,251,895	148,934
Shinhan BNPP ITMC	53,437	5,233	48,204
Jeju Bank	2,051,202	1,931,693	119,509
Jeju Bank (Trust)	16,599	16,599	-
SH&C Life Insurance	708,175	677,150	31,025
Shinhan Macquarie	11,848	9,320	2,528
Shinhan Credit Information	12,073	2,810	9,263
Shinhan PE	8,826	85	8,741
Shinhan PEF 1st	29,358	12	29,346
	₩ 174,269,747	153,721,058	20,548,689

(in millions of Won)

	2004		
	Total assets	Total liabilities	Total stockholders' equity
Shinhan Financial Group	₩ 10,072,313	2,325,042	7,747,271
Shinhan Bank	70,125,920	66,000,578	4,125,342
Shinhan Bank (Trust)	1,860,160	1,860,160	-
Shinhan Finance	512,585	447,408	65,177
Chohung Bank	65,389,100	62,778,172	2,610,928
Chohung Bank (Trust)	1,454,318	1,454,318	-
Chohung ITMC	71,949	1,354	70,595
Chohung Finance	126,403	91,447	34,956
CHB America	367,480	308,490	58,990
Chohung Deutschland	238,226	204,221	34,005

(Continued)

(in millions of Won)

	2004		
	Total assets	Total liabilities	Total stockholders' equity
Good Morning Shinhan Securities	2,956,183	2,277,868	678,315
Good Morning Shinhan Europe	7,352	38	7,314

(in millions of Won)

Subsidiaries	2004				
	Operating revenue	Operating expense	Operating income (loss)	Ordinary income (loss)	Net income (loss)
Shinhan Financial Group	₩ 1,224,147	147,638	1,076,509	1,067,327	1,050,295
Shinhan Bank	5,917,768	4,881,890	1,035,878	1,201,938	844,113
Shinhan Bank (Trust)	111,045	113,609	(2,564)	-	-
Shinhan Finance	15,965	9,455	6,510	6,762	6,762
Chohung Bank	6,782,761	6,459,908	322,853	267,735	265,238
Chohung Bank (Trust)	111,428	110,187	1,241	-	-
Chohung ITMC	14,035	6,183	7,852	8,646	6,252
Chohung Finance	4,613	3,010	1,603	1,874	1,874
CHB America	21,188	16,971	4,217	4,384	3,191
Chohung Deutschland	9,613	6,058	3,555	3,559	2,698
Good Morning Shinhan Securities	658,328	614,709	43,619	43,816	43,576
Good Morning Shinhan Europe	2,557	2,099	458	416	416
Good Morning Shinhan USA	5,245	6,247	(1,002)	(938)	(547)
Shinhan Card	423,829	417,407	6,422	5,822	5,822
Shinhan Capital	221,072	187,764	33,308	32,738	23,056
Shinhan BNPP ITMC	13,950	7,402	6,548	6,551	4,557
Jeju Bank	131,659	123,982	7,677	7,366	6,334
Jeju Bank (Trust)	1,678	1,678	-	-	-
SH&C Life Insurance	36,489	37,850	(1,362)	182	373
Shinhan Macquarie	14,556	11,633	2,923	3,098	1,984
Shinhan Credit Information	29,367	28,972	395	610	3,000
Shinhan PE	-	212	(212)	(212)	(212)
	₩ 15,751,293	13,194,864	2,556,428	2,661,674	2,268,782

**(31) Financial Performance**

Financial performance for the fourth quarters ended December 31, 2005 and 2004 are as follows:

(in millions of Won, except earnings per share)

	Fourth quarter ended December 31, 2005	Fourth quarter ended December 31, 2004
Operating revenue	₩ 3,953,191	4,912,437
Operating income	420,860	331,647
Net income	466,192	255,714
Net earnings per share in Won	1,309	753

# Directory

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## SHINHAN BANK

Office	Address	TEL/FAX	SWIFT
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U.S.A. New York Branch	32Fl., 800 3rd-Avenue, New York, NY10022, U.S.A.	Tel: 65-6536-1144 Fax: 65-6533-1244	SHBKUS33
U.S.A. Shinhan Bank America	330 5th Avenue 4th Floor New York, NY 10001, U.S.A.	Tel: 1-646-843-7300 Fax: 1-212-447-7477	CCHOUS6LNYX
U.S.A. Shinhan Bank America California Regional Office	3000 West Olympic Boulevard, Los Angeles, CA 90006, U.S.A.	Tel: 1-213-380-8300 Fax: 1-213-386-2170	CCHOUS6LCAX
United Kingdom London Branch	3rd Fl.,511 Gresham St.,London EC2V,United Kingdom	Tel: 44-207-600-0606 Fax: 44-207-600-1826	
Germany Shinhan Bank Europe GmbH	Neue Mainzer Strasse 75 60311 Frankfurt am Main, Germany	Tel: 49-69-975-7130 Fax: 49-69-741-0506	CHOHDEFF
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 Exchange Booth: 700-251	SHBKJPJTOK
Japan Osaka Branch	4-21, Minami-semba, 4-chome, Chuo-ku, Osaka, Japan	Tel: 81-6-6243-2341 Fax: 81-6-6243-2346	SHBKJPJPJX
Japan Fukuoka Branch	8th Fl., Tenjin Mitsui Bldg. 14-13, Tenjin 2-chome Chuo-ku, Fukuoka, Japan	Tel: 81-92-724-7004 Fax: 81-92-724-7003	SHBKJPJPJX
China Tianjin Branch	Room 1901/6, Tianjin International Building, 75 Nanjing Road, Tianjin, China	Tel: 86-22-2339-4070 Fax: 86-22-2339-4043	CHOHCNBT
China Shanghai Branch	22nd Floor, HSBC Tower, 101 Yin Cheng East Road Pudong New Area, Shanghai, China	Tel: 86-21-6841-2108 Fax: 86-21-6841-2100	SHBKCNSH
China Qingdao Branch	4F, CITIC WT Securities Co.,Ltd. Bldg. No.28 Donghai West Road, Qingdao 266071, China	Tel: 86-532-8502-5500 Fax: 86-532-8502-5566	

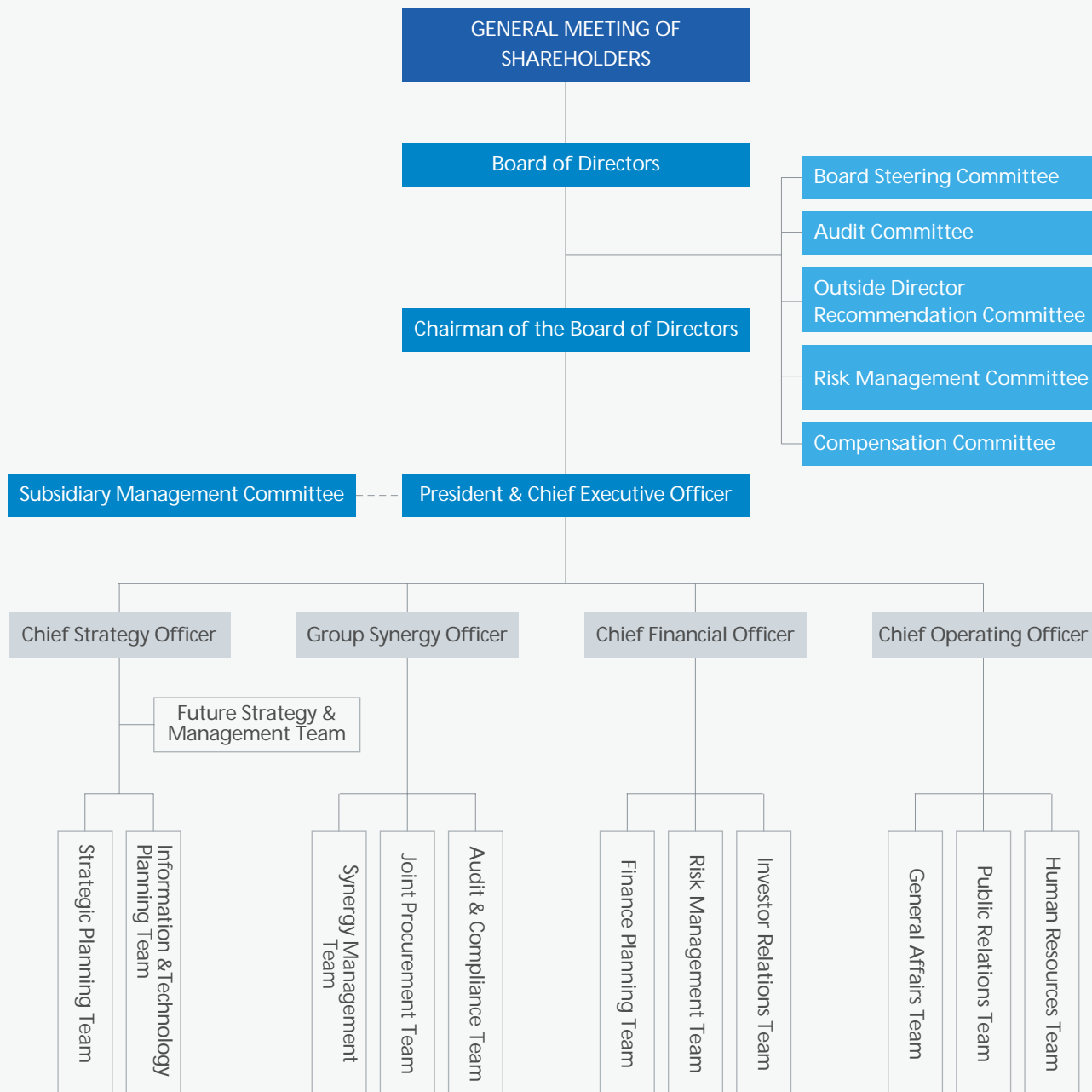
## SHINHAN BANK

Office	Address	TEL/FAX	SWIFT
<b>Hong Kong</b> Hong Kong Branch	Room 3401, Gloucester Tower, The Landmark, 11 Pedder St., Central, Hong Kong	Tel: 852-2877-3121 Fax: 852-2877-2460	SHBKHKHX
<b>Hong Kong</b> Shinhan Asia Limited	Suites 3507-3508, 35/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	Tel: 852-2523-6143 (6144) Fax: 852-2810-1426 (1928)	CHOHKKHH
<b>Singapore</b> Singapore Branch	50 Raffles Place #40-02/03, Singapore Land Tower, Singapore 048623	Tel: 65-6536-1144 Fax: 65-6533-1244	CHOH SG SG
<b>India</b> Mumbai Branch	42, Jolly Maker Chambers II, 4th Fl., 225, Nariman Point, Mumbai, 400-021. India	Tel: 91-22-2282-2200 Fax: 91-22-2288-4277	CHOH IN BB
<b>Vietnam</b> Hochiminh Branch	7th Fl., Yoco Bldg., 41, Nguyen Thi Minh Khai St., District 1, Ho Chi Minh City, Vietnam	Tel: 84-8-823-0012 Fax: 84-8-829-9386	SHBKVNXX
<b>Vietnam</b> SHINHANVINA Bank	3-5 Ho Tung Mau Street, District 1, HCMC, Vietnam	Tel: 848-823-0012 Fax: 848-829-9386	FIRVVNVN
<b>Vietnam</b> SHINHANVINA Bank Hanoi Branch	2 <sup>nd</sup> Fl., Dae Ha Business Center, 360 Kim Ma St., Ba Dinh District, Hanoi, Vietnam	Tel: 84-4-831-5205 Fax: 84-4-831-5134	FIRVVNVN
<b>Vietnam</b> SHINHANVINA Bank Binduong Branch	No.1, Truong Son Road, Binh An Ward, Di An District, Binh Duong Province, Vietnam	Tel: 84-8-724-2791	FIRVVNVN

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<b>Head Office</b> <a href="http://www.goodi.com">http://www.goodi.com</a>	23-2 Yoido-Dong, Youngdungpo-Gu, Seoul, 150-712, Korea	Tel: 82-2-3772-3131 Fax: 82-2-761-2802
<b>United Kingdom</b> Good Morning Securities Europe Limited	7 <sup>th</sup> Fl., 52 Cornhill, London, EC3V 3PD	Tel: 44-20-7283-4900 Fax: 44-20-7238-5678
<b>U.S.A.</b> Good Morning Shinhan Securities USA Inc.	1325 6 <sup>th</sup> Avenue, #702, New York, NY, 10019	Tel: 1-212-397-4000 Fax: 1-212-397-0031

# SFG Organization Chart



## CONTACT POINT

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### FINANCIAL CALENDAR

Annual General Shareholder's Meeting FY2005	March-06
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Second Quarter Results 2006	August-06
Third Quarter Results 2006	November-06

### INTERNET HOMEPAGE

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