

# BEYOND YOUR VISION

SHINHAN FINANCIAL GROUP ANNUAL REPORT 2006



# BEYOND YOUR VISION







Since establishment, Shinhan Financial Group has pursued customer satisfaction. In doing so, SFG has taken on the role of a reliable partner, synergy partner, responsible partner and value partner to its customers.

Following the launch of the new Shinhan Bank and acquisition of LG Card, SFG is now faced with higher expectations and greater opportunities. The title of this annual report, "Beyond Your Vision" reflects the potentialities, inherent energy, and imminent opportunities of Shinhan Financial Group.

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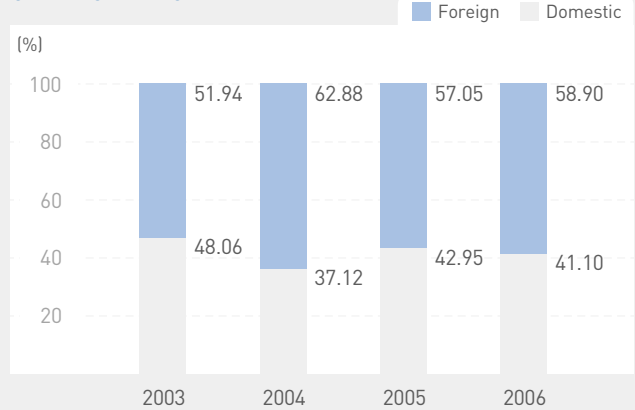
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# Share Information

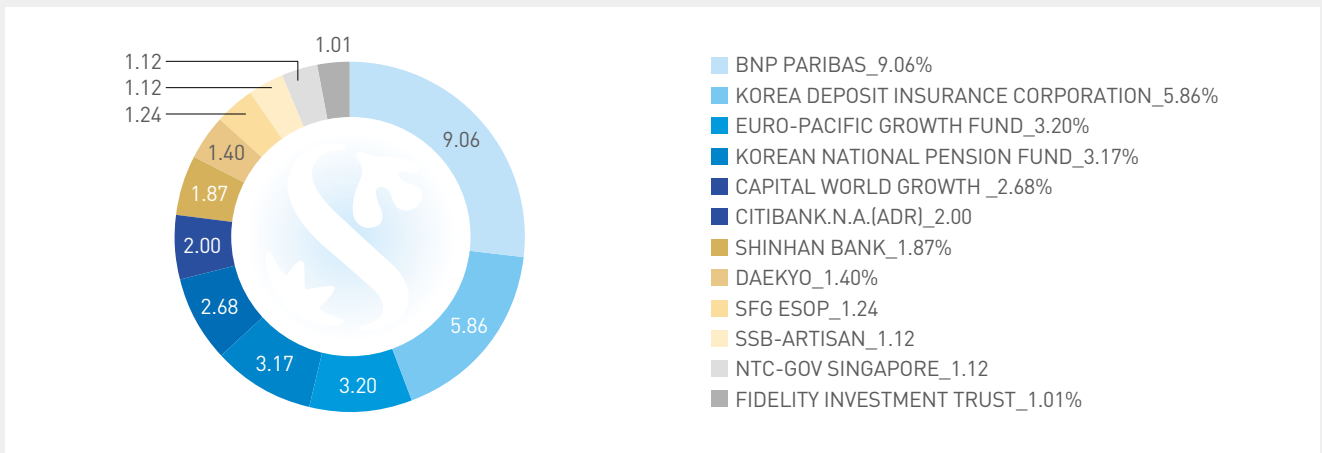
## NUMBER OF SHARES ISSUED (as of Dec. 2006)

Type	No. of shares	Value (KRW billion)
Common stock	381,567,614	1,908
Redeemable preferred stock	39,767,169	263
<b>Total</b>	<b>421,334,783</b>	<b>2,171</b>

## SHARE OWNERSHIP



## MAJOR SHAREHOLDERS (as of Dec. 2006)



## CREDIT RATINGS

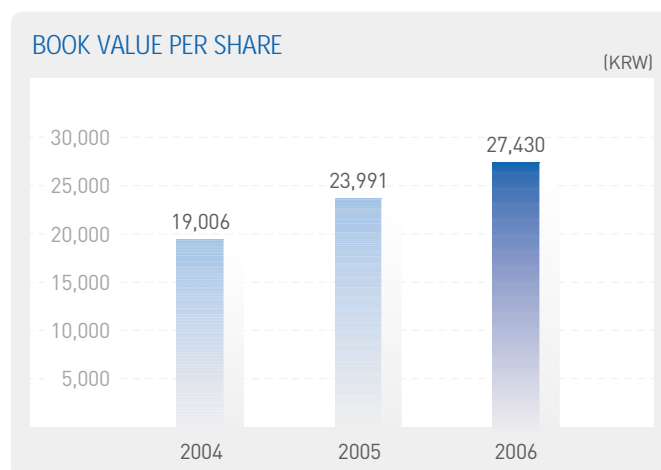
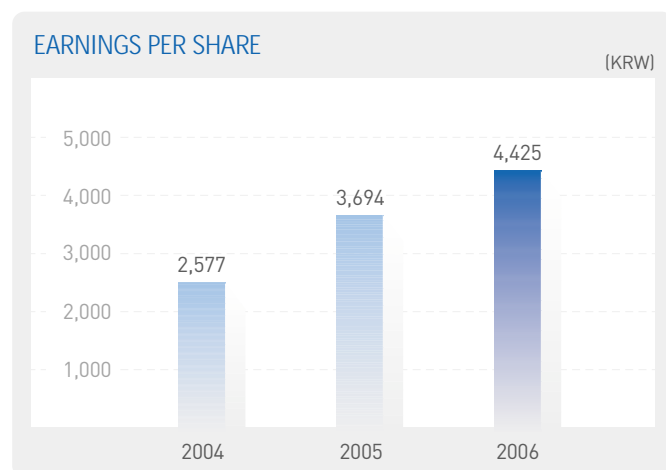
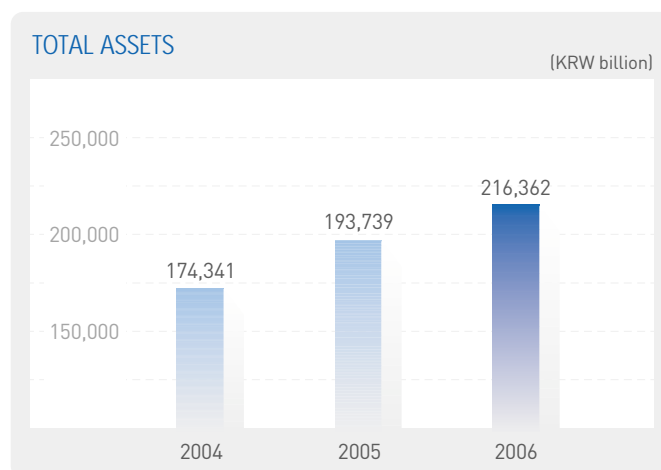
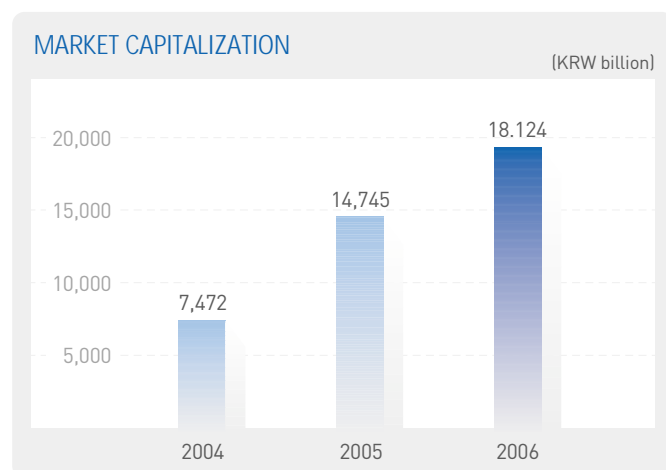
	MOODY's	S&P	FITCH
Shinhan Bank			
Long Term	A3	A-	A-
Short Term	P-1	A-2	F2

## TREND OF SHARE PRICE vs KOSPI



# Financial Highlights

(KRW billion)	2006	2005	YoY
Total Revenue	5,454.1	5,107.0	6.8%
Operating Income Before Provisioning	2,614.6	2,679.0	-2.4%
Net Income	1,832.7	1,560.8	17.4%
Total Assets	216,362	193,739	11.7%
Total Loans	118,071	103,348	14.2%
Total Deposits	108,914	99,534	9.4%
Shareholders' Equity	11,362	10,137	12.1%
BIS Capital Ratio (Shinhan Bank)	12.0%	11.6%	0.4%p
(Tier 1 ratio)	7.8%	7.4%	0.4%p
NPL (Substandard and Below Loans) Ratio	0.85%	1.11%	-0.26%p
NPL Coverage Ratio	180.1%	146.4%	33.7%p
Return on Asset	1.08%	1.03%	0.05%p
Return on Equity	17.66%	18.90%	-1.24%p
Net Interest Margin (Shinhan Bank)	2.38%	2.41%	-0.03%p
Cost/Income Ratio	52.1%	47.6%	4.5%p
Cost/Income Ratio Excluding Goodwill Amortization	49.3%	45.6%	3.7%p
BPS (won)	27,430	23,991	14.3%
EPS (won)	4,425	3,694	19.8%



# Group Profile

Shinhan Financial Group is the first private-sector financial group to be established in Korea. The Group's history can be traced back to September 2001 when it started off with only five subsidiaries, Shinhan Bank, Shinhan Securities, Shinhan Capital, Shinhan Investment & Trust Management, and Shinhan Macquarie Financial Advisory. Since establishment, SFG has spearheaded change in the domestic financial industry through constant innovation. As a result, Shinhan has grown into the second largest financial institution in Korea, with eleven subsidiaries, total assets of KRW216 trillion and market capitalization of KRW18 trillion as of the end of December 2006.

The international financial markets have undergone rapid change in recent years, the most notable trends being the shift toward mega-banks, universal banking and globalization. SFG has been keeping pace with these developments with a forward-looking approach.

To achieve economies of scale, we acquired Jeju Bank and Good Morning Securities (later re-launched as Good Morning Shinhan Securities) in 2002. In the same year, we sold a 50% stake in Shinhan ITMC to transform it into Shinhan BNP Paribas ITMC. Subsequently, we spun off Shinhan Bank's credit card division to create Shinhan Card.

Korea's oldest commercial bank, Chohung Bank, became a member of the Group in 2003. After a three-year process of integrating Chohung Bank and Shinhan Bank, the new Shinhan Bank was launched in April 2006.

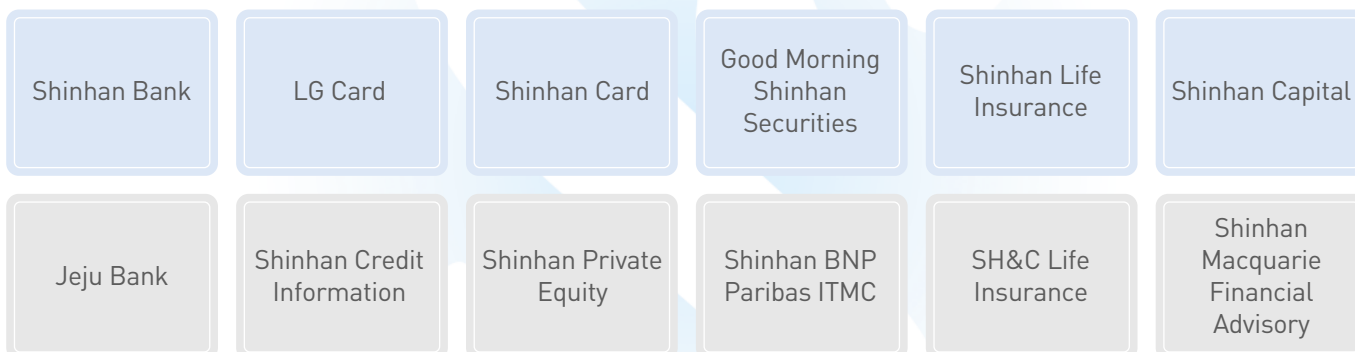
Our acquisitions not only led to an expansion in size, but also diversified our business portfolio. We established SH&C Life Insurance, a bancassurance specialist, in 2002. Moreover, our insurance line was further strengthened with the incorporation of Shinhan Life Insurance into the Group in 2005.

Korea's largest credit card company, LG Card, is set to become a member of SFG in March 2007. With the addition of LG Card, SFG will become the leading credit card operator in Korea and our credit card division will become the 10<sup>th</sup> largest in the world.






The acquisition of LG Card will further strengthen our non-banking businesses and complete the foundation for growth in our banking, securities, insurance and credit card businesses. We are now in a stronger position to uphold our status as the leading financial services provider in the face of impending changes in the domestic capital market.

Moving forward, the Group strategy will be to separate the distribution (banking) and production (non-banking) operations to provide diverse and convenient financial services and deliver the highest level of customer satisfaction. At the same time, we will continue with efforts to further diversify our business lines and enhance our expertise to grow into a leading global financial institution.

## REFERENCE SUBSIDIARIES (March 2007)



## CORE VALUES












				
CUSTOMER VALUE CREATION	CHANGE AND CHALLENGE	OWNERSHIP	TEAMWORK	INTEGRITY
"We focus on creating value while acting as a reliable partner for customer success."	"We focus on establishing world-class standards through infinite changes and challenges."	"We focus on fulfilling our duties while taking full responsibility for our actions."	"We focus on delivering best-of-breed services using teamwork driven by our comprehensive financial network."	"We focus on building honest and reliable relationships with our stakeholders and communities."



Shinhan Bank	100%	a commercial bank
LG Card	85.7%	a credit card company
Shinhan Card	100%	a credit card company
Good Morning Shinhan Securities	100%	a securities brokerage company
Shinhan Life Insurance	100%	a life insurance company
Shinhan Capital	100%	a leasing company
Jeju Bank	62.4%	a regional commercial bank (that operates on Jeju Island)
Shinhan Credit Information	100%	a credit information and collection company
Shinhan Private Equity	100%	a private equity investment company
Shinhan BNP Paribas ITMC	50%	an investment trust company
SH&C Life Insurance	50%	a bancassurance company
Shinhan Macquarie Financial Advisory	51%	an investment advisory company

\*as of March 2007

## FACTS OF SHINHAN FINANCIAL GROUP

	Subsidiary of SFG as of						Total Assets (KRW Trillion)	Net Income (KRW Billion)	Branches	Employees
	2001	2002	2003	2004	2005	2006				
<b>Banks</b>										
Shinhan Bank							177.0	1,659.2	1,022	10,736
Jeju Bank							2.5	14.2	36	338
<b>Non-Banks</b>										
Shinhan Card							3.6	232.1	34	334
GMSH Securities							4.1	96.2	116	1,771
Shinhan Life Insurance							6.2	121.5	120	886
Shinhan Capital							1.9	48.3	5	74
Shinhan Credit Information							0.1	2.8	6	65
Shinhan Private Equity							0.1	1.8	1	10
SH BNPP ITMC							8.5	8.6	1	64
SH&C Life Insurance							1.0	9.3	1	104
SMFA							0.1	1.6	1	32
<b>Total</b>							<b>216.4</b>	<b>1,832.7</b>	<b>1,343</b>	<b>14,414</b>

\*as of December 2006



### The incorporation of LG Card into the Shinhan family represents a major step in achieving a balanced portfolio of banking and non-banking businesses

To our esteemed stakeholders,

In 2006, we opened a new chapter in Korean financial history with the birth of the new Shinhan Bank, the second largest bank in Korea. The event marked the culmination of a demanding integration process that lasted over two years. We are particularly pleased with the successful IT integration, a bold endeavor which involved upgrading to a completely new system. Equally noteworthy was our acquisition of Korea's largest credit card company, LG Card. The incorporation of LG Card into the Shinhan family represents a major step in achieving a balanced portfolio of banking and non-banking businesses which will be crucial in sustaining growth over the long run. The new system and organizational culture of Shinhan Bank combined with LG Card's 10 million customers have given Shinhan Financial Group added strength to counter challenges from strong market competition and reinforce our position as the leading financial institution in Korea.

Shinhan has continued to reinvent itself to adapt to changing market conditions. Along with that relentless pursuit, the wholehearted support of our stakeholders has held the key to staying ahead in a dynamic marketplace. I extend my sincere appreciation to all our stakeholders for steadfastly standing beside us and supporting us as we progressed over the years.

The Asian foreign exchange crisis triggered a wave of restructuring and brought dramatic changes to the Korean financial industry. We are now at the juncture of another sweeping change. The emphasis on banks is set to diminish, while non-banking institutions are likely to experience a major shift. Our competition is no longer confined to other banks; the battleground is expanding to include all segments of the





**Faithful to our position as the market leader, we will implement a unique business model shaped on the basis of a premium brand.**

financial industry. Moreover, the pending adoption of the Capital Market Consolidation Act will have a far-reaching impact on all participants of the financial market. To prepare for a new industry landscape, financial institutions are engaged in a heated race to innovate and overhaul their business models. Many are seeking new opportunities in areas such as investment banking and private banking.

Over the past decade, Shinhan Financial Group has consistently upgraded its operations while maintaining the highest levels of financial soundness. We have built a new business model and enhanced our business portfolio with the introduction of a holding company framework. The experience and know-how we gained as the market leader has equipped us with the competency and momentum to make further strides as a provider of total financial solutions.

We continue to develop and adopt advanced systems. In 2006, we fine-tuned our operations across all business segments, from banking and credit card to securities brokerage and insurance. The launch of the integrated Shinhan Bank with its new IT system and the boost to our retail business following acquisition of LG Card has given us new impetus for growth. With respect to the securities business, we carried out a large-scale capital increase, recognizing that size will become increasingly important in the changing market. In asset management, Shinhan managed to outpace the market thanks to the concentrated efforts of the entire Group.

Looking ahead at 2007, I am confident that we will make further advances in our ongoing pursuit to become a world-class financial services provider. We are aiming to outperform the market in retail banking while maintaining stable growth in our

wholesale operations. We will upgrade the Group's information system to produce greater synergies and bolster the non-banking side of our business. We will also keep up our efforts to promote a cohesive Group culture to narrow possible discrepancies between subsidiaries. Swift and flexible response to changes in the capital market should keep us on the path to sustained growth.

Faithful to our position as the market leader, we will implement a unique business model shaped on the basis of a premium brand. Our aspiration is not simply to be the best in Korea; rather, we are striving to build competency and systems that will put us on par with world-leading financial institutions. With a strong sense of integrity, teamwork and ownership, Shinhan Financial Group will embrace change and challenge to create value for our customers and investors as their reliable partner.

Sincerely,

Eung-chan Ra  
Chairman of Shinhan Financial Group



### Shinhan Financial Group was able to record business results that exceeded both our internal targets and market expectations in all performance aspects

Dear Shareholders,

I am very pleased to present to you an overview of Shinhan Financial Group's business results during the 6<sup>th</sup> fiscal year, 2006.

On behalf of the Group's management team and all employees, I wish to express our sincere gratitude for your constant trust and support for Shinhan Financial Group. As a result, we were able to achieve the most profitable results for the past two consecutive years, firmly establishing the grounds as a leading integrated financial institution in Korea.

#### Business Environment of 2006 - Economy and Financial Market

In 2006, the growth of the Korean economy decelerated since the start of the second half due to unfavorable domestic and overseas economic conditions such as sluggish domestic consumption, appreciation of the Korean Won, and contraction of the global economy. Furthermore, despite moderating demand for retail and corporate loans, competition for loan growth amongst banks intensified, resulting in a drastic contraction of net interest margin.



**The integrated Shinhan Bank provides not only enhanced profitability but also strengthened competency, as the Group's main distribution channel.**

On the other hand, demand for non-bank products and services including installment-type funds and variable insurance continually increased in connection with the consistent development of the Korean capital market, stimulating rapid growth in non-banking sectors such as securities, insurance, and asset management.

#### Business Results of 2006

Efficiently and swiftly responding to such internal and external challenges in the financial market, Shinhan Financial Group was able to record business results that exceeded both our internal targets and market expectations in all performance aspects including net income, asset growth, asset quality, and capital adequacy ratio.

#### Profitability

Net income of Shinhan Financial Group in 2006 totaled KRW 1.83tril., a 17.4% increase from KRW1.56tril. in 2005. In the banking operation, net income reached KRW 1.67tril., an 8.5% increase from 2005. In the non-banking operation, net income rose by 163% YoY to KRW 512.4bil. Net Income contributions of non-bank subsidiaries including securities, life insurance, credit card, ITMC and others more than doubled from 11% in 2005 to 24% in 2006, shaping Shinhan Financial Group as a more balanced financial institution.

#### Asset Growth

SFG's total assets reached KRW 216tril. as of 2006 year end, a 12% increase from KRW 194tril. in year end 2005. Especially, total bank loans increased by 14.9%, life insurance assets by 21.4%, and ITMC's asset under management by 15.8%, showing steady asset growth not only in the banking sector, but also in core financial areas of the non-banking sector.

#### Asset Quality

The Group's substandard and below ratio, a primary indicator of asset quality, has been maintained at 0.85% the lowest since the establishment of SFG in 2001. Such was the result driven by strenuous efforts to improve credit risk management and execute asset growth based on quality assets. NPL coverage ratio also increased to 180.1%, well exceeding the industry average.

#### Capital Adequacy Ratio

The Group's Required Capital Ratio rose by 4.5%p YoY to 137.3%, based on prudent management of risk assets and efficient capital management policies. Shinhan Bank's BIS ratio rose from 11.6% to 12%, further enhancing the capital base of the bank.

## The acquisition of LG Card will help to diversify our profit source and formulate a more balanced business portfolio as a comprehensive financial group.

### Major Strategic Achievements in 2006

#### Successful integration of Shinhan & Chohung Bank

With the launching of the integrated Shinhan Bank in April 2006 and the implementation of the next generation IT system in October, the three year integration process was successfully finalized. In addition, twenty upgraded management systems, developed during the integration process, were successively applied to the next generation IT system. The integrated Shinhan Bank provides not only enhanced profitability but also strengthened competency, as the Group's main distribution channel.

#### Acquisition of LG Card: strengthening competency of non-bank sector

As the integration process of the two banks served to strengthen the competitiveness of Shinhan Bank as the Group's distribution channel, the acquisition of LG Card will help to diversify our profit source and formulate a more balanced business portfolio as a comprehensive financial group. With LG Card joining the Group, the profit contribution of the non-bank sector is expected to exceed 40%, and synergy creation to greatly expand once the database of LG Card's ten million customers is merged into that of the Group.

### Primary Strategic Tasks for 2007

In 2007, competition will continue among banks in traditional core markets such as loans, credit cards and etc. Furthermore alleviation of restrictions related to non-banking businesses is expected along with the implementation of the Capital Market Integration Act. In order to fully prepare and better respond to such environmental changes, as well as to strengthen our position as a leading integrated financial institution, we will pursue the following four strategic tasks in 2007.

- 1. Fortify market share in core business:** Equipped with differentiated competency after the successful integration, SFG will further strengthen its market position in the banking sector.
- 2. Strengthen flexibility to accommodate changes in capital market:** To better respond to changes in the capital market, SFG will strengthen product development and management capabilities in securities brokerage, life insurance and asset management, as well as substantial enhancement in development capabilities of complex financial products.



**3. Maximize benefits from LG Card acquisition:** We will put forth our efforts to maximize benefits from acquisition of LG Card by merging its strengths as a mono-line credit card company with SFG's comprehensive group infrastructure. Once LG Card joins the Group as a subsidiary, performance measures such as NIM and ROA will substantially improve and platforms for synergy creation within the Group will be further strengthened, based on expanded customer base.

**4. Enhance cost control and efficiency:** By minimizing expenses through economy of scale, boldly rearranging overlapping functions, and further eliminating overlapping investment factors, we will enhance cost control and efficiency of the Group.

Dear respected Shareholders!

In privilege of your sincere support and trust, all of us at Shinhan Financial Group will continue to strive for excellence and enhancement of our shareholders' value in 2007.

We are looking forward to your continuing support and wish the very best for you and your family.

Thank you.

In-Ho Lee  
President & CEO  
Shinhan Financial Group







# Your Reliable Partner & Beyond

Reliable

Synergy

Responsible

Value



## Upgrading business model and strengthening competency

Financial leaders need to fulfill their expanded role and meet heightened expectations. Having an innovative mindset, Shinhan Financial Group welcomes changes and challenges. Currently, SFG is pooling the strengths of all group members to open new chapters and become competitive on the world stage.

## Strengthening our non-banking competitiveness and innovating our business model will give us new impetus for growth over the long run.

Shinhan aims to secure its position as Asia's leading financial service provider by attaining its mid-to-long term vision of maturing into a world-class financial group by 2010. To this end, we will channel our resources to maximize competitiveness across all our business sectors, from banking and securities to credit card and insurance. In this context, we set "Strengthen market position through growth and balance" as our strategic goal for 2007. We will build up our competency and systems to not only meet but exceed global standards by implementing the following four key missions.

### Reinforce market position through growth

In the retail business, our focus is now on laying the foundation to integrate our credit card businesses, Shinhan Card and LG Card. We will also reinforce marketing activities to expand our customer base and boost profits. On the wholesale side, we will prudently manage risk to pursue stable growth in corporate lending alongside marketing based on customer relationship management. Additionally, we will seek strategic alliances to uphold our market leadership and support long-term growth.

### Respond effectively to changes in the capital market

We are placing greater emphasis on growing our investment banking (IB) and asset management businesses to better prepare for changes brought on by implementation of the Capital Market Consolidation Act. We will invigorate our IB culture and enhance product development and management capabilities. Furthermore, to preempt the fast growing retirement pension market, we will review related policies on advertising and promotional activities. The aging society implies new challenges and opportunities. We plan to overhaul our long-term roadmap for successful penetration of the silver market.

### Upgrade Group information system

We will upgrade our current information management system and integrate accounting functions. Integration is also an important theme regarding customer information. At present, each subsidiary manages its respective customer data separately. We aim to consolidate customer information at the Group level to enhance the gathering and utilization process. At the same time, we will devise strategies to maximize efficiency of Group channels and review diverse models to promote interactive synergies among subsidiaries

### Resolve gaps in capabilities

We will hone our non-banking policies and systems, establish the basis for "One-Shinhan" by extending the Group culture, and reinforce our framework for managing key personnel. Strengthening our non-banking competitiveness and innovating our business model will give us new impetus for growth over the long run. Another task for 2007 is promoting a cohesive organizational culture that supports the sharing of best practices. Moreover, we plan to revamp our social contribution activities to fulfill our responsibilities to society as a reliable corporate citizen.

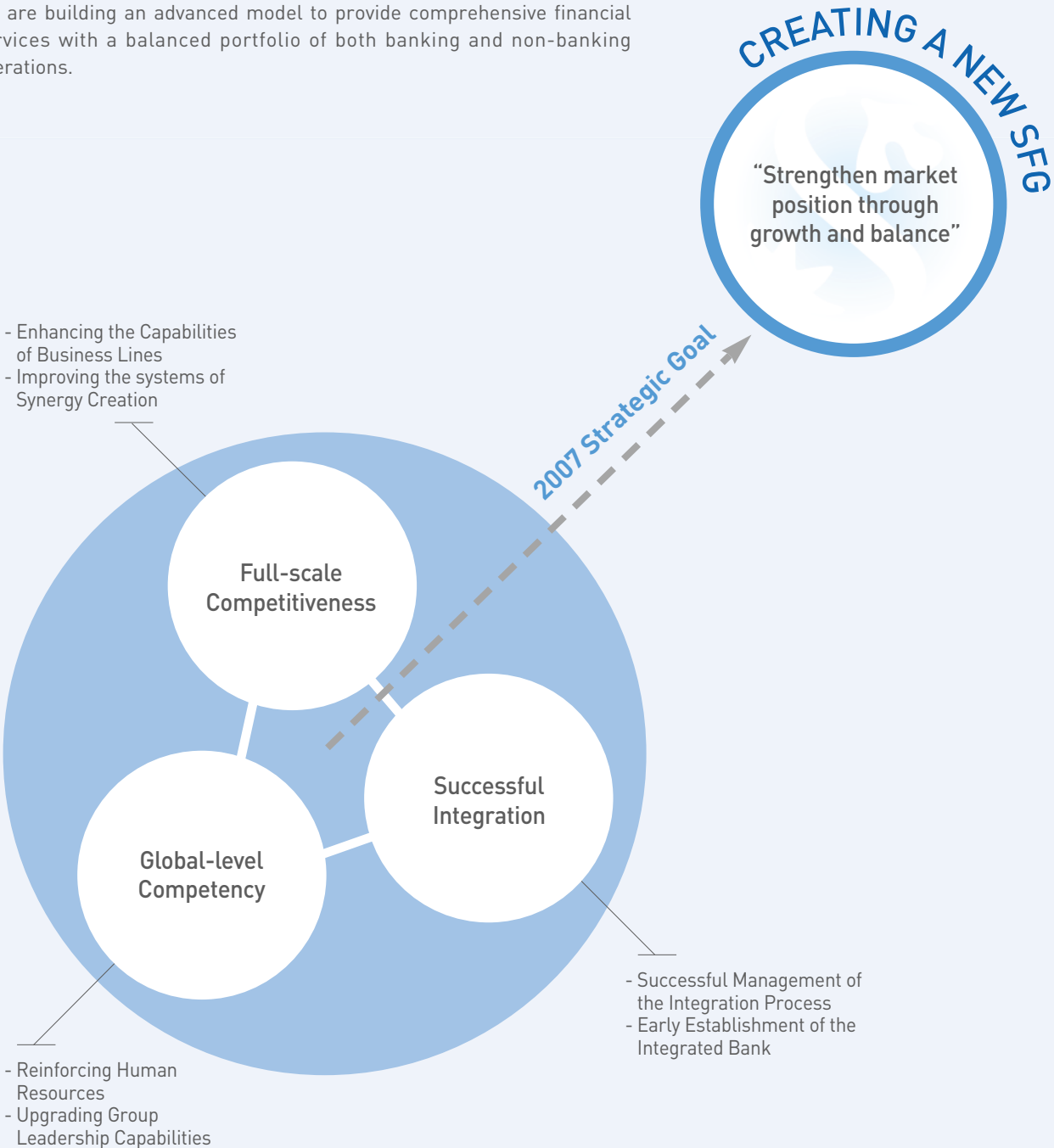
The pursuit of excellence and innovative thinking were the driving forces behind Shinhan Financial Group's resounding success in the domestic market. We will continue to pursue growth, in both quality and quantity, backed by strong pride as Korea's premier financial group, and chart a new course in banking with our innovative mindset. We are confident that by raising the bar in the standards we set for ourselves, Shinhan Financial Group will fulfill its vision to emerge as a world-class comprehensive financial service provider.



# VISION 2010

## “A World-Class Financial Group”

We are building an advanced model to provide comprehensive financial services with a balanced portfolio of both banking and non-banking operations.



# Board of Directors & Management (Shinhan Financial Group)

## I. EXECUTIVE DIRECTORS

Name	Date of Birth	Current Position	Education	Prior Affiliation
<b>Eung Chan Ra</b> Board Steering Committee member	November 25, 1938	- Chairman of Board of Directors, Shinhan Financial Group	- Seonlin Commercial High School, Seoul, Korea - Korea University Executive Business School, Korea	1977 - Director, Jaeil Investment & Finance Corp., Seoul 1999 - President & CEO, Shinhan Bank 2001 - Chairman of the Board of Directors, Shinhan Financial Group
<b>In Ho Lee</b> Board Steering Committee member	November 2, 1943	- CEO & President, Shinhan Financial Group	- BA in Economics, Yonsei University, Seoul, Korea	1999 - President & CEO, Shinhan Bank 2003 - Vice-Chairman, Shinhan Bank 2005 - CEO & President, Shinhan Financial Group
<b>Sang Hoon Shin</b>	July 1, 1948	- President & CEO, Shinhan Bank	- BA in Business Administration, Sungkyunkwan University, Seoul, Korea - MBA, Yonsei University	1998 - Director, Shinhan Bank 2001 - Senior Executive Vice President, Shinhan Bank 2003 - President & CEO, Shinhan Bank

## II. NON EXECUTIVE DIRECTORS

Name	Date of Birth	Current Position	Education	Prior Affiliation
<b>Si Jong Kim</b>	April 16, 1937	- Standing Advisor, Kanagawa Division, Korean Residents' Union in Japan	- Sigaken Yas High School	1982 - Director, Yokohama Shogin 1987 - Director, Korea Chamber of Office in Kanagawa, Japan 1991 - Vice president, Korean Residents' Union in Japan
<b>Young Woo Kim</b> Audit Committee member	May 1, 1952	- CEO of Hanil Electronic - CEO of New Hanil Electronic	- BA in Political Economy, Waseda University	1990 - CEO, Hanbaek Precision Co. 2007 - CEO of Hanil Electronic, CEO of New Hanil Electronic
<b>Byung Hun Park</b> Board Steering Committee member	September 10, 1928	- Chairman, Daeseong Precisions Ltd (current)	- BA in Economics at Meiji University, Japan	1989 - Chairman, Daeseong Electronics Ltd (current) 1990 - Standing Advisor, HQ of Korean Residents' Union in Japan (current) 1990 - Honorary Chairman, Overseas Korean Representatives (current)
<b>Yong Woong Yang</b>	August 4, 1948	- Chairman, Investment Associations for Koreans in Japan	- BA, Chosen University, Japan	1990 - CEO, Doen in Japan (current) 2006 - Non-executive Director, Shinhan Financial Group
<b>Haeng Nam Chung</b>	March 15, 1941	- Advisor, Korea Chamber of Commerce & Industry in Japan	- Tomishima Middle School	2001 - Chairman, ABIC Group (current) 2001 - Director, Asuka Credit Cooperative (current) 2005 - Advisor, Korea Chamber of Commerce & Industry in Japan (current)
<b>Young Hoon Choi</b>	November 8, 1928	- Chairman, EISHIN Group	- LLB in Law, Ritsumeikan University, Japan	1953 - CEO, New Metro, Japan 1982 - Non Executive Director, Shinhan Bank
<b>Philippe Reynieix</b> Risk Management Committee member	June 24, 1949	- CEO & GM for Korea, BNP Paribas, Seoul	- Master of Business Law (with award), Paris II University	1994 - Regional Head of Corporate Banking for S.E. and India, Paribas, Singapore 1999 - Country Manager, Paribas Singapore 2000 - Chief Operating Officer BNP Paribas, Singapore 2002 - CEO & GM for Korea BNP Paribas, Seoul (current)

Name	Date of Birth	Current Position	Education	Prior Affiliation
<b>Pyung Joo Kim</b> Board Steering, Risk Management, Compensation Committee member	February 6, 1939	<ul style="list-style-type: none"> <li>- Honorary professor, Sogang University</li> <li>- Professor, KDI School of Public Policy and Management</li> <li>- CEO, Korean Investor Education Foundation</li> </ul>	- Ph.D in Economics, Princeton University, USA	1983 - Dean, College of Commerce, Sogang University 1990 - Dean, Graduate School of Economics and Policies, Sogang University 1999 - Dean, Graduate School of International Studies, Sogang University
<b>Shee Yul Ryoo</b> Board Steering, Risk Management, Compensation Committee member	September 6, 1938	- Advisor, Shin & Kim	- LLB, Seoul National University	1997 - President, Korea First Bank 1999 - Chairman, Korea Federation of Banks 2001 - Steering Committee Member, Korea Center for International Finance (current)
<b>Yoon Soo Yoon</b> Audit, Compensation Committee member	March 5, 1946	- Chairman & CEO of FILA Korea Ltd.	- BA in Political Science & Diplomacy, Korea University of Foreign Studies	1984 - President of Daewoo Trading Co., 1985 - President of Care Line Corp. (current) 1991 - Non-executive Director, Hanvit Bank
<b>Sang Yoon Lee</b> Audit, Compensation Committee member	September 13, 1942	- Representative Director and President, Nongsim Ltd.	- BA in Commerce, Seoul National University	1997 - Representative Director & Vice Chairman, Nongsim Ltd. 2001 - Representative Director and President, Nongsim Ltd. (current) 2001 - Non-statutory Vice-Chairman, Korea Food Industry Association (current)
<b>Sung Bin Chun</b> Audit, Compensation Committee member	January 21, 1953	- Professor of Business Administration, Sogang University	<ul style="list-style-type: none"> <li>- BA in English Literature, Sogang University, Seoul</li> <li>- Ph.D. in Accounting at Berkeley University, USA</li> </ul>	1999 - Director, Vice President of Korean Accounting Association 2003 - Director, Business Administration Research Center, Sogang University 2004 - Director, Financial Supervisory Commission

### III. EXECUTIVE OFFICER

Name	Date of Birth	Current Position	Education	Prior Affiliation
<b>Jae Woo Lee</b> COO	July 2, 1950	- Managing Director (Chief Operating Officer)	- Executive MBA in Finance, Graduate School, Korea University	<ul style="list-style-type: none"> <li>- Senior Executive Vice President, Shinhan Bank</li> <li>- Deputy President, Shinhan Bank</li> <li>- Managing Director (Chief Operating Officer), Shinhan Financial Group (current)</li> </ul>
<b>Byung Jae Cho</b> CFO	January 6, 1951	- Managing Director (Chief Financial Officer)	- Graduate School of Seoul National University, majored in BA	<ul style="list-style-type: none"> <li>- General Manager, Planning &amp; Coordination Department in Chohung Bank</li> <li>- Managing Director (Chief Financial Officer), Shinhan Financial Group (current)</li> </ul>
<b>Jin Won Suh</b> CSO	April 20, 1951	- Managing Director (Chief Strategy Officer)	- Korea University, majored in Historical science	<ul style="list-style-type: none"> <li>- Deputy Head of Retail Banking Division, Shinhan Bank</li> <li>- Deputy President (Chief Information Officer), Shinhan Bank</li> <li>- Managing Director (Chief Strategy Officer), Shinhan Financial Group (current)</li> </ul>
<b>Jae Woon Yoon</b> GSO	July 22, 1951	- Managing Director (Group Synergy Officer)	- Seoul National University, majored in Education	<ul style="list-style-type: none"> <li>- Division Head, Gangdong Business Division, Chohung Bank</li> <li>- Division Head, Central District Business Division, Chohung Bank</li> <li>- Managing Director (Group Synergy Officer), Shinhan Financial Group (current)</li> </ul>

# Board of Directors & Management (Subsidiaries)

<b>Shinhan Financial Group</b>	<b>Shinhan Bank</b>	<b>LG Card</b>	<b>Good Morning Shinhan Securities</b>
<p><b>Chairman</b> Eung Chan Ra</p> <p><b>President &amp; CEO</b> In Ho Lee</p> <p><b>Non-Executive Director</b> Sang Hoon Shin</p> <p><b>Outside Director</b> Si Jong Kim Young Woo Kim Byung Hun Park Yong Woong Yang Haeng Nam Chung Young Hoon Choi Philippe Reynieix Pyung Joo Kim Shee Yul Ryoo Yoon Soo Yoon Sang Yoon Lee Sung Bin Chun</p> <p><b>Managing Director</b> Jae Woo Lee Byung Jae Cho Jin Won Suh Jae Woon Yoon</p>	<p><b>CEO</b> Sang Hoon Shin</p> <p><b>Standing Auditor</b> Jae Ho Cho</p> <p><b>Outside Director</b> In Ho Lee Jae Woo Lee Kap Young Jeong Kyung Suh Park Sang Rock Seo Jae Ha Park</p> <p><b>Executive Vice President</b> Hong Hee Chae Baek Soon Lee Sang Young Oh Chang Seong Moon Hyu Won Lee Sang Woon Choi Eun Sik Kim Won Suck Choi Shin Seong Kang Yun Seok Kong Nam Lee Chang Kee Hur Jeum Joo Gweon</p>	<p><b>Representative Director</b> Jong-Ho Lee</p> <p><b>Vice President</b> Hong-Gyu Kang Soo Ik Park</p> <p><b>Outside Director</b> In Ho Lee Jae Woon Yoon Young Il Cho Sang Yong Park Sang-Ho Sohn</p>	<p><b>Vice Chairman</b> Woo Keun Lee</p> <p><b>CEO</b> Dong Girl Lee</p> <p><b>Chief Auditor</b> Ki Seung Jung</p> <p><b>Outside Director</b> Jae Woon Yoon Hyoung Tae Kim Kyung Ho Kim Jae Kyu Ahn</p> <p><b>Vice President</b> Seok Joong Kim Jin Kook Lee Yoo Shin Jung Seung Hee Hyun</p>
		<b>Shinhan Card</b>	<b>Shinhan Life Insurance</b>
		<p><b>CEO</b> Sung Kyun Hong</p> <p><b>Chief Auditor</b> In Sup Kim</p> <p><b>Outside Director</b> Jae Woo Lee Jae Woon Yoon Taek Soo Han Sang Woo Kim</p> <p><b>Deputy CEO</b> Seong Won Kim Doo Hwan Jun Hee Geon Kim Chun Kuk Lee</p>	<p><b>CEO</b> Dong Woo Han</p> <p><b>Chief Auditor</b> Seung Choo Han</p>

## 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					
Sang Hoon Shin					
Si Jong Kim					
Young Woo Kim					
Byung Hun Park					
Young Woong Yang					

Note:  Member of Committee

\*Every year, members of the Outside Director Recommendation Committee are appointed when deemed necessary. The service term of appointee ends with the appointment of outside directors for the year.

\*as of March 2007

**Outside Director**

Jae Woo Lee  
Hwa Nam Kim  
Sang Kyun Lee  
Jung Bo Lee

**Deputy President**

Byung Chan Lee  
Keun Jong Lee  
Young Chul Bae  
Sam Suck Rho  
Ki Won Kim

**Shinhan Capital****CEO**

Do Heui Han

**Deputy President**

Seung Keun Oh

**Auditor**

Young Soo Paek

**Deputy President**

Byung Jae Cho  
Jae Woon Yoon

**Jeju Bank****President & CEO**

Gwang Lim Youn

**Full-time Auditor**

Young Gil Kim

**Outside Director**

Jae Woo Lee  
Boo In Ko  
Hyang Jin Huh  
Dong Yul Kim  
Kang Nam Lee

**Deputy President**

Ki Hyung Seong  
Young Gi Boo

**Shinhan Credit Information****CEO**

Pan Am Lee

**Auditor**

Kang Mo Lee

**Non-Executive Director**

Jae Woon Yoon  
Hee Geon Kim

**Shinhan Private Equity****CEO**

Jin Yeong Lee

**Non-Executive Auditor**

Jin Won Suh

**Non-Executive Director**

Byung Jae Cho  
Hyu Won Lee

**Shinhan BNP Paribas ITMC****CEO**

Jean Audibert

**Director**

Guy De Froment  
Max Diulus

**Outside Director**

Jae Woo Lee  
Byung Jae Cho  
Jae Woon Yoon  
Jin Won Suh

**Advisor**

Ki Do Nam

**Deputy CEO**

Seung Tae Kang  
Ferderic Thomas

**Chief Investment Officer**

Ho Jin Kwon

**SH&C Life Insurance****CEO**

Herve Giraudon

**Standing Auditor**

Jin Ho Lee

**Non-Executive Director**

Vincent Pacaud  
Gerald Binet  
Byung Jae Cho  
Jin Won Suh  
Baek Soon Lee  
Nam Lee

**Deputy CEO**

Shin Keun Yang

**Shinhan Macquarie Financial Advisory****President & CEO**

John William Walker

**Non-Executive Auditor**

Byung Jae Cho

**Non-Executive Director**

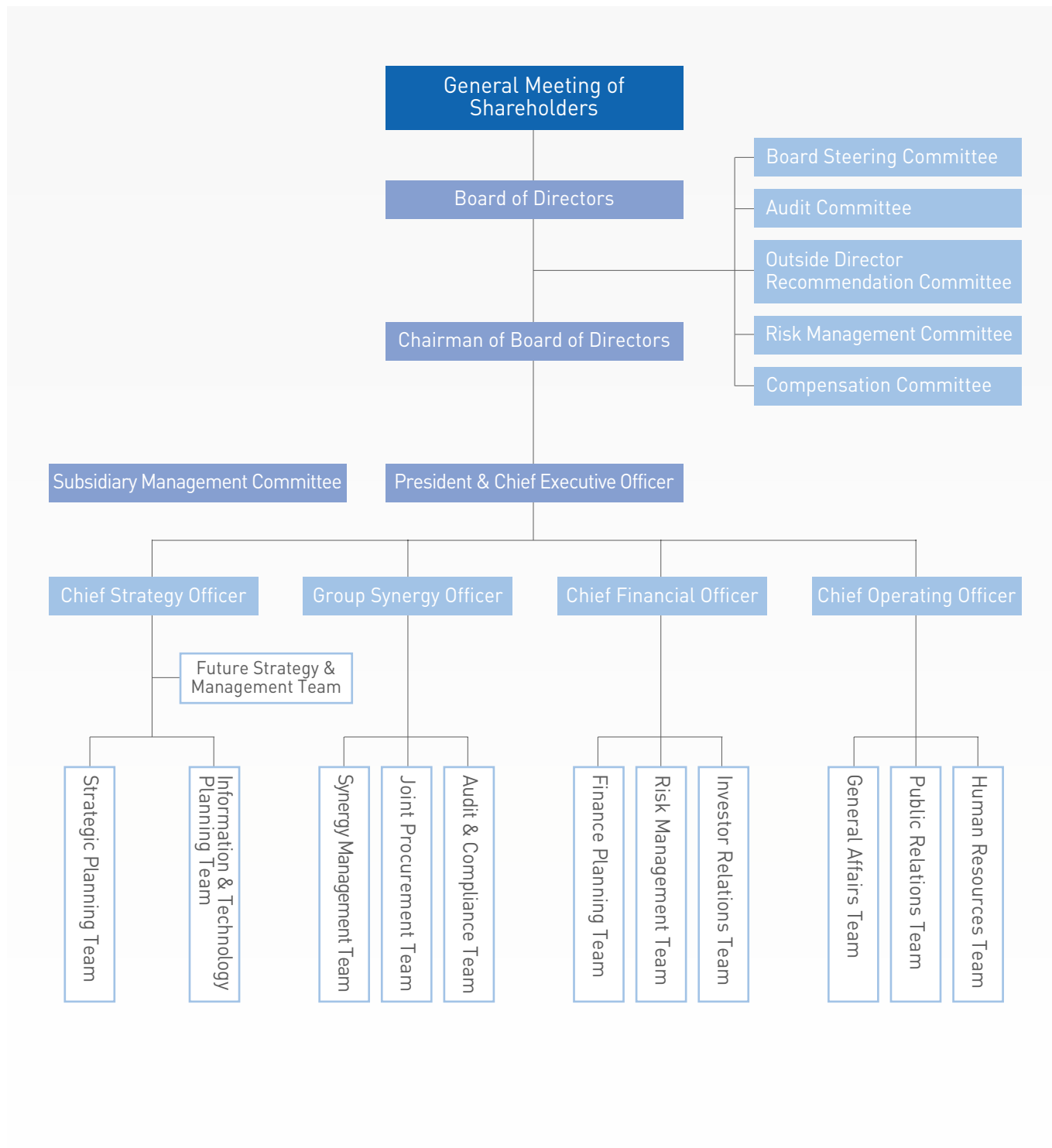
Jin Won Suh  
Hyu Won Lee  
Yong Kyun Park

	Board Steering Committee	Risk Management Committee	Audit Committee	Outside Director Recommendation Committee	Compensation Committee
Haeng Nam Chung					
Young Hoon Choi					
Philippe Reyneix					
Pyung Joo Kim					
Shee Yul Ryoo					
Yoon Soo Yoon					
Sang Yoon Lee					
Sung Bin Chun					

Note:  Member of Committee

\*as of March 2007

# SFG Organization Chart



# Corporate Governance

Shinhan Financial Group is committed to the highest standards of corporate governance. Our fair and transparent Board of Directors (BOD) is working closely with fully accountable management to ensure that they meet the best long-term interests of our shareholders. We are confident that our core principles of integrity and respect will help us take the next leap forward as a world-class financial group.

We place high priority on simplifying ownership structure and consolidating governance practices across all subsidiaries to enhance transparency in all decision-making processes.

## BOD Composition & Committees

Shinhan has an independent Board comprised of directors with the necessary professional experience and expertise. We appointed four experts as outside directors to enhance the board's professionalism. Exclusive meetings of outside directors are held regularly to ensure their independence and reinforce their ability to oversee management.

The following committees of the Board enable individual directors to fully exercise their capabilities in BOD activities.

- Board Steering Committee
- Risk Management Committee
- Audit Committee
- Outside Director Recommendation Committee
- Compensation Committee

We fully support the BOD by providing a broad range of information on company management and operations. The complete access allows directors to best represent the interest of stakeholders as well as oversee and challenge management. Other forms of support include making the BOD agenda available in advance.

## Board Steering Committee

The Board Steering Committee is responsible for deliberating on matters relating to the governance structure of the company, recommending members for committees within the BOD and candidates for non-outside director positions, reviewing appointments and dismissals of executive officers who do not serve as directors, and determining other matters pertaining to BOD operation. The committee is comprised of five members.

## Risk Management Committee

The Risk Management Committee is composed of three outside directors. Its primary role is to implement basic policy for controlling risks in line with management strategies, and to set the appropriate investment ceilings or permissible loss limits of each subsidiary.

## Audit Committee

The Audit Committee is made up of four directors. Three members are outside directors, one of whom is an expert in accounting. Backed by the auditing team, the committee oversees the integrity of Shinhan's accounting and financial reporting.

## Outside Director Recommendation Committee

The committee, assembled when circumstance necessitates, recommends candidates for outside director and determines other related matters.

## Compensation Committee

Comprised of four outside directors, the committee's role is to determine matters on the evaluation and compensation for the Group's executive management. It also assesses individual executives' compensation and benefits.

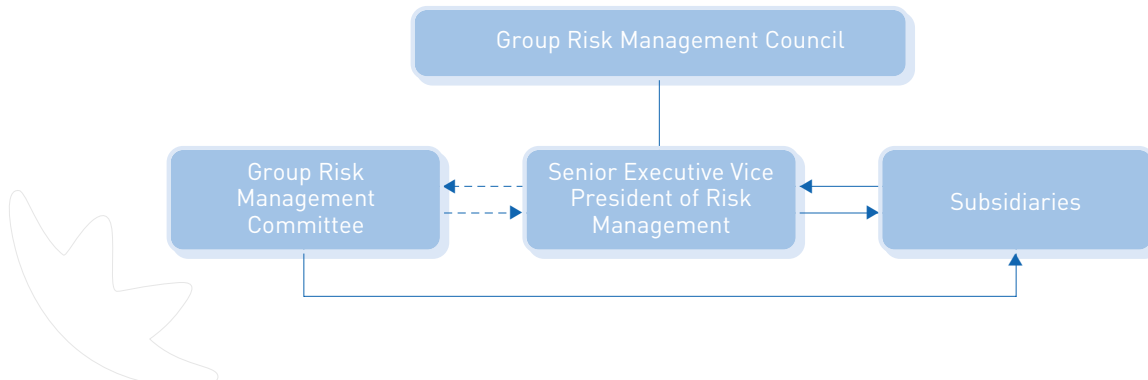
## Disclosure Policy

Shinhan Financial Group is committed to reinforcing disclosure procedures in order to fairly and transparently deliver corporate and financial information to domestic and overseas investors. We provide detailed and accurate disclosure of our operations with integrity and in a timely manner through annual, interim and quarterly reports. We have also set forth clear guidelines and rules governing disclosures. In addition, the Disclosure Committee meets regularly to review the appropriateness of related materials as well as evaluate and monitor disclosure controls and procedures.

All information on SFG's corporate governance, financial statements, company profile and operations are available in Korean, Japanese and English on our website, [www.shinhangroup.com](http://www.shinhangroup.com).



# Risk Management



## Risk Management Organization

### Group risk management committee

Oversees the whole process of setting group risk management standards from building the risk management framework for 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

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, interest-rate and operational risks. SFG follows internal guidelines for identifying, measuring, controlling and reporting such 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, 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 Shinhan Bank.





**SFG maintains a comprehensive risk management system that recognizes the diversity of the Group's business activities to keep risk factors under control.**



At Shinhan Bank, the basic policy on credit risk management is determined by the Credit Policy Committee. Chaired by the Chief Risk Officer (CRO), the committee is comprised of the Chief Credit Officer (CCO), deputy presidents of the related business groups and the general manager of the Credit Planning Department. The committee makes decisions regarding the bank's overall credit policy and loan portfolio. To separate credit policy decisions from the loan review process, Shinhan Bank has set up the Credit Review Committee, which is chaired by the CCO. The seats on the Credit Review Committee are filled by deputy presidents of credit-related business groups, general manager of the Credit Planning Department, and designated examiners. This committee deliberates on loan applications for amounts that exceed the authority of the examiners council, with the basic emphasis on maintaining healthy asset quality and enhancing profitability.

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 the 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 sectors 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 retail loans.

SFG employs a group decision-making process for inspecting corporate loans to ensure objective and circumspect decision making. In general, the relationship manager 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 body takes charge of the loan inspection. Inspections of retail 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 review department, which judges the appropriateness of a company's current credit rating, and then makes adjustments 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 a non-performing loan (NPL) status. Loan analysis, assessment and management 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 external credit assessment institutes.

# Risk Management



Meanwhile, a separate assessment and management process is applied to cover expected and unexpected loss in credit risk. Expected loss is calculated based on probability of default by credit rating, loss given default and exposure at default. SFG earmarks loan loss provisions based on calculations of expected losses. Unexpected loss refers to a situation in which loan-related losses exceed loan loss provisions, such as that which 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 loss 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 risk into three categories and applies different measures for each. These measures include price volatility risk of the trading portfolio, interest rate risk on trading account 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, trading limits, loss limits and stop-loss limits. The managing of limits and monitoring of compliance are the responsibility of an independent risk management department and of risk management officers within each business unit. All new products of each business sector are subject to an objective



analysis and review through a risk assessment process by a risk management department to determine risk factors before being launched.

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 Monte-Carlo simulation 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. Good Morning Shinhan Securities measures and manages market risk based on VaR. It applies risk weightings set by the Financial Supervisory Service (FSS) to meet pertinent regulations.

For the effective management of market risks, SHB allows only selected divisions, such as the Financial Market Trading Department, to trade securities including stocks with a price volatility risk. Among the components of market risk, foreign exchange risk is managed by the Capital Market 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.



## The GRMC sets manageable risk limits for the group and each subsidiary sets and maintains detailed risk limits by division, risk type and product.

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 reports their liquidity ratios, liquidity gap 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 liquidity risk, and continues its efforts to secure a stable capital foundation.

### Interest rate risk management

Interest rate risk refers to the possibility of loss 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 on all interest-bearing assets and liabilities, and other derivatives and non-trading accounts.

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, 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 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 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 assets, liabilities and off-balance transactions.

**SFG's VaR is based on Monte-Carlo simulation at a 99% confidence level. Stress testing is performed, in addition to the statistical risk measurement.**



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.

#### Operational risk management

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk but excludes business risk. As SFG is exposed to operational risk across all of its business activities, such risk cannot be completely eliminated. The purpose of managing operational risk is to keep risk at a manageable level, taking into account the costs and benefits.

The initial responsibility of managing risk is with each business unit and division, so that risk is managed in everyday activities. Departments with supporting functions, such as HR, IT and legal departments, are charged with lending their expertise with respect to operational risk related to their duties. At the subsidiary level, the risk department of each entity oversees overall management of operational risk, while the auditing department checks for the appropriateness of risk management. Shinhan Bank has completed the installment of a risk management framework to prepare for the implementation of Basel II. This includes the related systems and documentation processes. The framework covers recognizing and assessing risk, evaluating control measures, managing KRI and loss data, analyzing scenarios, measuring risk and distributing profit.

Among the Basic Indicator Approach, Standard Approach, and Advanced Measurement Approach, SFG ultimately aspires to adopting the third method for measuring operational risk. However, different methods are used at each of our subsidiary, taking into consideration each subsidiary's risk management level and applicable FSS regulations.

#### 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.

Accordingly, since February 2004, Shinhan Bank operated a project team to effectively prepare for the implementation of the new accord. The Basel II team has completed 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 completed installing the systems to prepare for Basel II at the end of 2006. The systems will be in operation and continue to be tested in 2007.

Currently, the Financial Supervisory Service is applying the new accord only to banking institutions. Accordingly, SFG has been making the necessary preparations for Shinhan Bank and Jeju Bank. Our plans for the non-banking subsidiaries are yet undecided. We will expand preparation efforts to the entire

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.

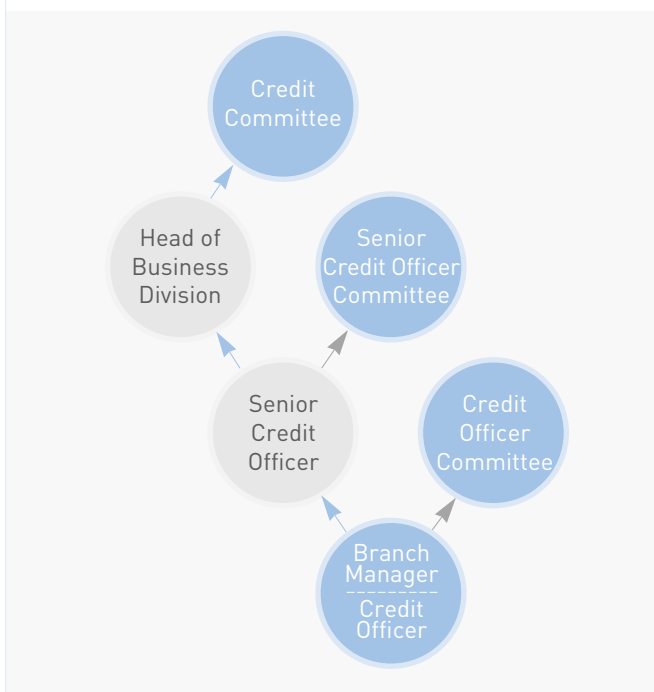


Group depending on the authorities' position on the non-banking sector.

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 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



## Shinhan Financial Group implemented BPR to secure a competitive infrastructure for the new Shinhan Bank.



### Business Process Reengineering

Business process reengineering (BPR) refers to process innovation that combines business process redesign and information technology in order to dramatically enhance performance. Financial institutions have been actively pursuing BPR, mainly to centralize the back office operations of branches, to more effectively respond to the changing business climate. The objective is to maximize branch's sales performance by separating the back office functions from duties involving direct customer contact through the utilization of IT systems.

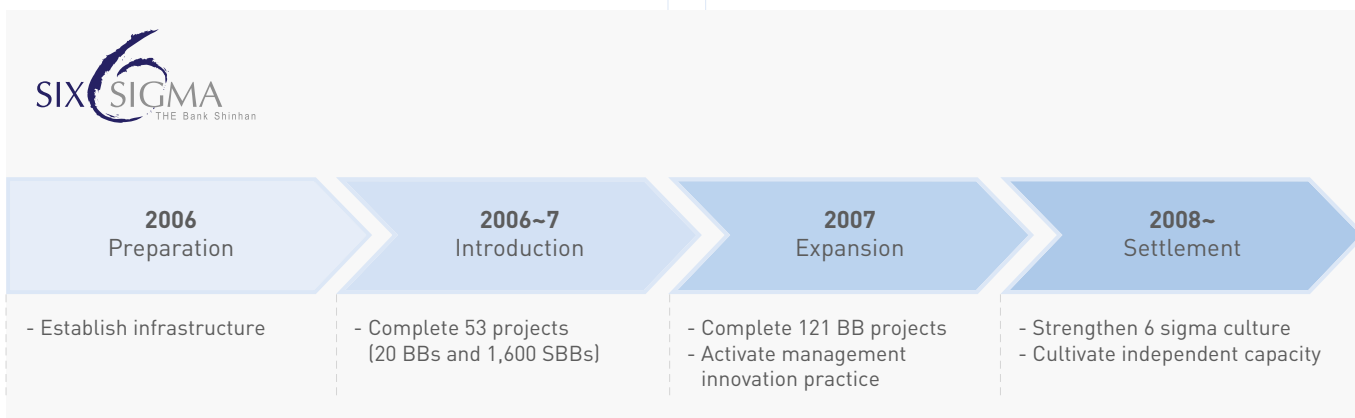
In 2006, Shinhan Financial Group implemented BPR for the successful integration and stable operation of the new integrated bank. The purpose was to seek differentiation and innovation to secure a competitive infrastructure for the new Shinhan Bank. To coincide with the launch of the new bank in April 2006, we set up an integrated logistics system and centralized the back office operations of Shinhan Card.

The success with BPR for integration laid the foundation for

centralizing back office operations. To reinforce marketing, Shinhan will centralize branch activities such as deposit, lending and foreign exchange transactions in 2007. The process, to be carried out in phases from September, will separate the marketing and back office tasks. It will reduce back office workload, meaning that more time can be devoted to marketing. The anticipated benefits include more competitive services for high net worth clients, expansion of customer base through new marketing opportunities, and efficient allocation of resources. We also expect a boost in customer satisfaction and increased cross-selling activities.

### Internal Control

In accordance with the Financial Holding Company Act, an Audit Committee has been established under the Board of Directors, but we have not appointed a compliance officer. As stipulated under the law, one of the four members of the Audit Committee (three outside directors, one non-executive director) is an expert in accounting and finance. The committee selects the committee chair from among the outside directors.



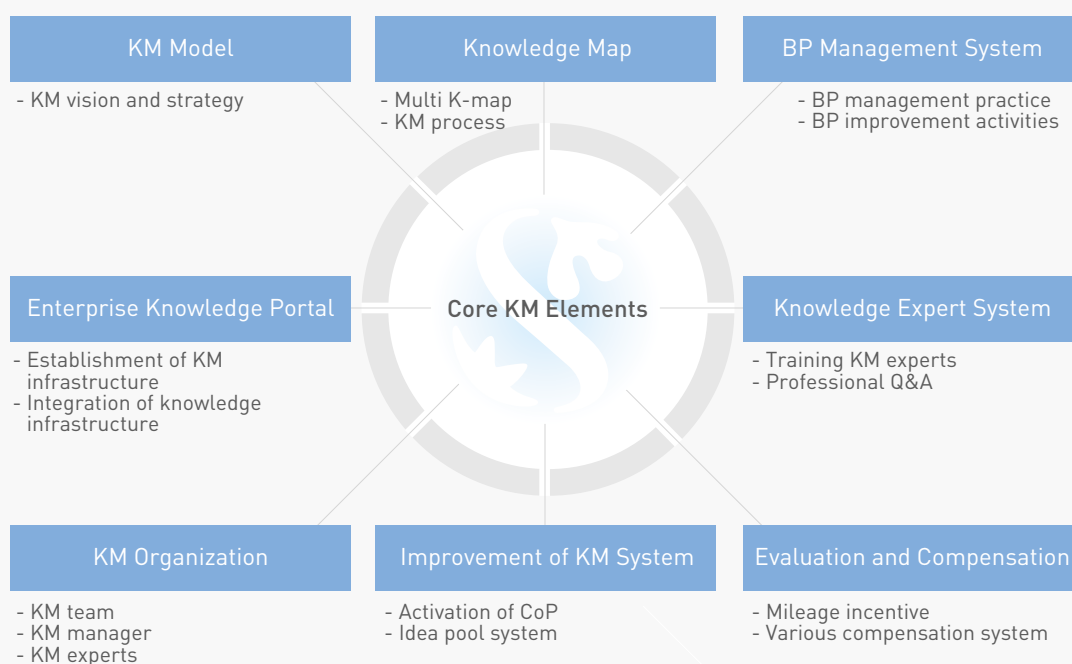
## SFG has adopted guidelines to evaluate the internal control system for financial reporting at the Group level.



The Audit Committee monitors accounting and financial matters. It has the authority to request directors to report on the company's activities and assess the company's assets and financial conditions at any time. The committee also reviews all agendas and documents to be presented at the shareholders' meeting to check whether they violate any laws or the articles of incorporation. As of the end of 2006, SFG has adopted guidelines to evaluate the internal control system for financial reporting at the Group level. The internal control measures are intended to reinforce the roles and responsibilities of the Audit Committee.

In addition, SFG has set up an internal accounting control system to comply with the Sarbanes-Oxley Act and the Korean government's enactment of a law on outside auditors of corporations. The Internal Accounting Management Committee decides on policy and compliance matters regarding internal accounting control, while a designated internal accounting manager oversees the control process. A separate body has been set up to evaluate the internal control system. We also developed the Financial Reporting Internal Control System (FRICS), which is jointly utilized by all Group subsidiaries.

### KNOWLEDGE MANAGEMENT SYSTEM







# Your Synergy Partner & **Beyond**

## New era of **opportunities** and **growth**

The group's management structure and operations will be organically linked to enhance synergies, and the compensation scheme, revamped. Further, we will pursue integration of group-wide customer data and adopt systems and measures to actively utilize customer information.



Reliable

Synergy

Responsible

Value

32\_Opportunities to Start Anew 34\_One-Portal Financial Services 36\_Commercial Banking  
39\_Credit Card 40\_Brokerage 41\_Insurance 42\_Private Banking 44\_Asset Management  
45\_e-Business 46\_Investment Banking 48\_Cross-Selling 49\_Products







We plan to leverage these achievements as a springboard for another **giant success.**

## Opportunities to

The year 2006 left an indelible mark in the history of Shinhan Financial Group. Staying true to our unwavering spirit of embracing challenge and innovation, SFG launched the new Shinhan Bank in April, was selected as the preferred bidder for Korea's number one credit card company, LG Card, in August, and then concluded the integration of Shinhan and Chohung banks' IT system in October, which marked the completion of the integration process.

At SFG, we plan to leverage these achievements as a springboard for another giant success. We were able to solidify our position as a comprehensive financial group through the seamless takeover and integration of Chohung Bank, which expanded our distribution channel. The acquisition of LG Card also served as an opportunity to extend our customer base, enhance synergy effects and diversify our earnings base. Now, we are one step closer to perfecting our business model of providing total financial solutions to our customers.

### New Shinhan Bank

Shinhan Financial Group successfully followed through on a novel approach to mergers & acquisitions in the domestic financial sector, namely the concept of "integration first, merger later" for Chohung Bank, which joined the Shinhan family in September 2003. Although it was a new concept, we believed it was the most appropriate method and boldly moved forward.

Under a joint management scheme, Shinhan and Chohung unified their standards, performed system upgrades, and revamped the organizational structure. A variety of programs were introduced to break down cultural and psychological barriers between the two banks. These efforts instilled a sense of unity and quelled fears about the negative repercussions and conflict that often ensue from corporate mergers.

Shinhan Bank boasting assets of  
**KRW 177** trillion, **1,022** branches,  
**14,000** employees and  
**15** million customers

# Start Anew

Going beyond mere integration, the objective was to expand the distribution channels and set up new infrastructure. The result was a progressive organization that focused on the needs of diverse customer segments and a new order in human resources management, along with the adoption of next-generation IT systems. The integration process gave birth to a newly integrated Shinhan Bank boasting assets of KRW 177 trillion, 1,022 branches, 14,000 employees and 15 million customers.

The successful integration does not mark an end. Rather, it signals a new era of opportunities and growth. Customer demands are becoming increasingly complex and diverse. Rising personal income levels and the accumulation of financial assets are driving up demand for wealth management. We are also seeing a shift in capital from conventional products toward more sophisticated financial vehicles. Corporate clients are seeking more comprehensive services such as financial consulting, rather than just intermediary services. These changes point to the need for new business models, enhanced competencies, and more advanced systems.

The New Shinhan Bank represents the marriage of two renowned entities in Korea's banking circle. Over its vast 109-year history, Chohung had spearheaded the local banking industry, while Shinhan had presented new standards in banking with its pioneering spirit and innovation. Their union is expected to create substantial synergies in terms of the customer base, distribution channel and financial strength. Combining the traditional and the dynamic, the New Shinhan Bank is a prominent symbol of Korea's financial industry. Leveraging the new entity's stable operation and economies of scale, Shinhan will pursue a strategy of balanced growth.

## Acquisition of LG Card

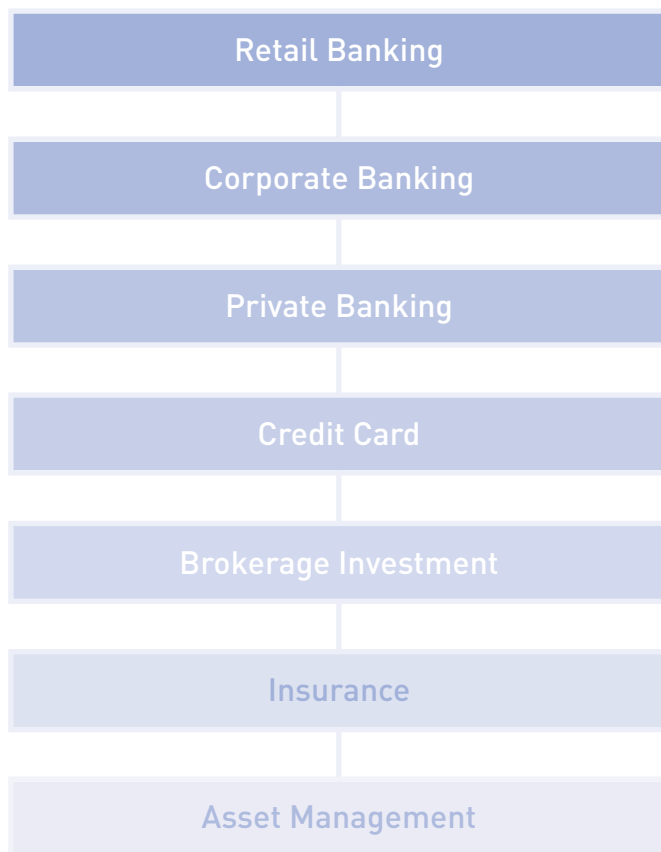
Shinhan Financial Group was selected as the preferred bidder for the largest credit card company in Korea, LG Card, in August 2006. The incorporation of LG Card into the Group in March 2007 not only catapulted Shinhan to the top of the domestic credit card industry, but also placed it among the top-10 credit card companies in the world.

Back in 2002, SFG spun off Shinhan Bank's credit card division and established Shinhan Card. The event was followed by the integration of Shinhan Card with Chohung Bank's credit card division in 2006 and the subsequent takeover of LG Card. The acquisition of LG Card completed our framework for balanced growth of the banking, securities, insurance and credit card businesses. It should also lead to more efficient utilization of our distribution channels and increase synergies. While the expanded customer base should bolster synergy marketing for the entire Group, we expect a marked improvement in profitability indicators such as the net interest margin and return on assets. Consequently, we are better prepared to face the anticipated changes in the domestic capital market and uphold our leadership in a new environment.

In 2007, SFG will prepare the foundation to integrate Shinhan Card and LG Card. We aim to combine the strengths of LG Card, a sole provider of credit card services, and the comprehensive infrastructure of Shinhan to create the undisputed leader in the domestic credit card industry. Further, the inclusion of LG Card's 10 million cardholders into the Group's customer database will increase synergy marketing and cross-selling opportunities, which in turn will promote sustained growth of our non-banking businesses.



# One-Portal Financial Services



Since our transition to a holding company structure, Shinhan has been reinforcing the non-banking side of our operations. As a leading "One Portal" provider of comprehensive financial services, Shinhan's enhanced program will offer higher levels of services to our key customers and help improve cross-selling and enhance synergy effects among our subsidiaries.







## The new Shinhan Bank will create powerful synergies, enabling the Group's commercial banking sector to be a leader in Korea's financial market.



The birth of the newly integrated Shinhan Bank boasts 1,022 branches and 15 million customers, securing the second largest share of the market. In the first half of 2006, the Group pursued a systematic roadmap to prevent customer defection following the system integration of SHB and CHB. Customer base expansion and asset growth efforts kicked into full swing in the second half.

This enhanced distribution channel and customer base will solidify our position as a comprehensive financial services provider. Combined with SFG's one-portal financial service system, the new Shinhan Bank will create powerful synergies, enabling the Group's commercial banking sector to be a leader in Korea's financial market.

### Retail Banking

2006 was a year of turbulence in retail banking. Externally, the market was hit by intensified competition among leading banks, tougher real-estate regulations and a slowdown in domestic consumption. Internally, the launch of the new Shinhan Bank and integration of Shinhan and Chohung's IT systems posed a challenge.

In a bid to head off internal and external risks and secure leadership in retail banking, Shinhan Bank pursued a number of forward-looking measures in 2006. The measures included 1) setting up a new customer management system by redefining the concept of customer value, 2) reinforcing product competitiveness and strengthening cross-selling activities, and 3) stabilizing the integrated network and improving risk management. Specifically, the expansion of customer base and aggressive growth strategy centered on strategic products were the two contributing factors to the substantial growth in asset size and increase in the number of customers.

Securing an additional one million bank customers and 200,000 active customers was the key in attaining our goal. We exceeded our goal by 20%, with new customers standing at 1,200,628 as of the end of 2006. New active customers also numbered 239,378, surpassing the target by 19%. Including the new customers, Shinhan Bank's total number of customers reached 15.3 million as of year end 2006. We also made significant progress in consumer-centered management and other related areas during the year. We successfully designed, executed, and established the CRP strategy system based on customer value and needs, discovered potential high-value customers, built a foundation for long-term growth through value proposal, and upgraded the support system (MIDAS) to strengthen target customer analysis and ensure proactive marketing.

Despite intensified competition as banks raced to expand high quality assets, our household loans reached 47.9 trillion, rising 16.6% (or KRW6.8 trillion) from the previous year due to high growth in home equity loans and mass loans. Unsecured loans recorded 9.3% y-y growth centered on lending to customers with good credit standings.

SOHO loans increased by KRW1.6 trillion, boosted by our efforts to develop a CRM system to assist SOHO customers with their marketing activities. The CRM system provides customer management, analysis, and consultation services. Our innovative products specifically designed for SOHO customers were also a huge success.

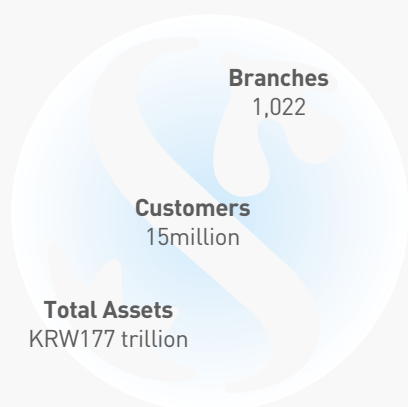
The retail banking sector is maintaining outstanding asset quality as a result of rigorous management of overdue loans from the early stage and strengthened risk management. Thus, the delinquency ratio was maintained at 0.61%.



The retail banking sector is maintaining outstanding asset quality as a result of rigorous management of overdue loans.



#### NEW SHINHAN BANK NETWORK



One of our priorities in 2006 was building a profit-oriented deposit base and improving our funding portfolio through strengthened synergy marketing. We concentrated our efforts in expanding low-cost deposits and improving the deposit maturity structure by increasing active customers. We also worked to raise the share of household deposits and bolster installment-type deposits and funds. As a result, total deposits grew by KRW5.5 trillion and low-cost deposits by KRW3.2 trillion (9.6%) from the previous year. Moreover, our efforts to increase household deposits paid off.

Tougher competition for market leadership is expected in 2007. To achieve a triple crown in assets/customer base/profitability in a fierce market, the retail banking sector is determined to capture the top position in strategic product growth, increase the number of active customers, and step up cross-selling efforts.

#### Corporate Banking

The lending business in 2006 was centered on small and medium enterprises (SMEs) amid weak demand for loans from large businesses coupled with government measures to curb retail loans, mainly residential mortgages. The corporate banking market last year was worth KRW392.4 trillion, expanding by an impressive 22.7% over 2005 (an increase of KRW73 trillion: KRW37 trillion to firms not subject to external audits, KRW26 trillion to firms subject to external audits, and KRW9 trillion to affiliates of major business groups). Despite market expansion, banks engaged in fierce competition to attract healthy corporate customers away from their rivals as high oil prices and the strong Korean currency triggered worries over a possible downturn in corporate earnings. Banks tried to top their competitors by offering more attractive interest rates and implementing various marketing campaigns.

Although market conditions were tough, Shinhan Bank's combined amount of loans to and deposits from corporate customers amounted to KRW75.5 trillion. Total corporate loans increased by 12.7% to KRW48.7 trillion (SME: KRW32.0 trillion, large corporations: KRW16.7 trillion), giving Shinhan an 12.4% share of the corporate loan market.

Loan growth was propelled by enterprises other than large corporations, which showed relatively weak demand. The larger enterprises had abundant internal reserves and raised funds through alternative means such as bond issuance. On the other hand, demand for credit increased from healthy SMEs as a strengthening economy reduced uncertainties. Moreover, demand from SMEs rose as banks relaxed the lending criteria amid a race to expand market share.

## Synergies created from applying an integrated approach to large corporations and SMEs will help sharpen our competitive advantage.



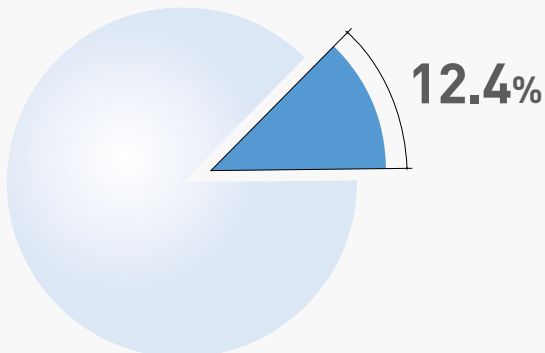
Over the past year, we achieved solid asset growth and retained our leadership status in loans to companies required to undergo an external audit. We also put much effort into reinforcing our earning structure to ensure stable income streams and creating new markets with innovative value-added products. We endeavored to take advantage of synergies to develop future growth drivers and sharpen our edge in terms of non-price factors. Process and IT integration enhanced synergies and we continued to build on our foundation for long-term growth. However, greater competitive pressure lowered margins and eroded earning power.

Our strategic objective for 2007 is to firmly establish Shinhan as the leading brand in corporate banking. Synergies created from applying an integrated approach to large corporations and SMEs will help sharpen our competitive advantage. We will conduct marketing that jointly targets a large corporation and its business partners, develop products tailored to the business

partners, and more aggressively market electronic payment solutions to suppliers.

At the same time, we will employ accumulated know-how to rediscover our customers, providing services and products that best satisfy their needs. We aim to increase active customers, secure long-term customers with our cash management service, and strengthen branch operations. In addition, we will improve internal processes, as part of our Six Sigma initiative, by redesigning the RM processes at branches and operate a team in charge of RM training.

CORPORATE LOAN MARKET SHARE



## We remain ever resolute in pursuing the goal of growing into one of the top five leaders in the global credit card market.



With total assets of KRW3.9trillion and total sales of KRW26.8 trillion, Shinhan Card is the 5<sup>th</sup> largest credit card company in Korea. The merger between Shinhan Card and Chohung Bank's credit card division in 2006 expanded Shinhan Card's customer base and business scale, giving new momentum to Shinhan Financial Group's credit card business. The successful union facilitated early organizational stability, enabling us to concentrate efforts on VIP marketing by building on the expanded distribution network and strengthened market position. As a result, the number of high-spending, loyal customers surged 14.5 % y-y to 6.5 million. In the latter half of 2006, the Group triumphed in the bidding war for LG Card. The acquisition has boosted Shinhan's standing in Korea as well as in the world. We are not only a dominant force in the domestic credit card market but also one of the world's top ten credit card companies.

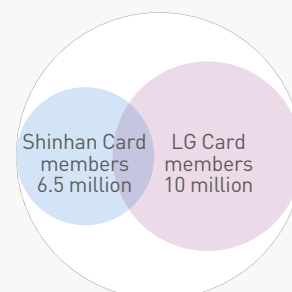
Shinhan Card attained economies of scale through the merger in 2006. It also gained reputation as an industry trendsetter with the launching of a wide range of innovative products and services in the same year. Most notably in February 2006, we launched "Shinhan Manchester United Card" in partnership with England's premier football club Manchester United and Barclays Credit Card. It attracted over 450,000 new customers, becoming the most popular product for the year in Korea. Our diverse events targeting the 2006 World Cup in Germany also drew overwhelming customer response.

Shinhan Card was the first in Korea to service MasterCard's Paypass contactless payment cards using secure radio frequency technology to transmit payment details wirelessly between the PayPass device and the merchant's terminal. It also introduced a device with the ability to process payments by IC cards from brands such as Visa, Master and JCB, thus

contributing to the popularization of IC cards in Korea. Moreover, Shinhan is committed to social contribution activities. The "Beautiful Card" launched in 2005 continues to help solidify our image as a company that embraces the spirit of giving as well as focusing on profit generation.

On the back of an extended distribution network, Shinhan Card plans to launch special marketing events in 2007. Our strategy is to play up our strength as Korea's only bank-affiliated credit card company. We will also provide upgraded services to our customers through various projects with LG Card which will officially join Shinhan Financial Group in the first quarter of 2007. Our plan is to step up marketing towards VIP customers for greater customer loyalty. At the same time, we will reinforce marketing efforts targeting non-Group clients with a good credit history to encourage these customers to use the financial services of the entire Group for improved synergies among Group companies.

The credit card unit is expected to contribute to improving the Group's future profitability, playing a crucial role befitting its enhanced status as a result of merging with LG Card. We remain ever resolute in pursuing the goal of growing into one of the top five leaders in the global credit card market.



**GMSH, as one of the major securities firms in Korea, captured a 5.67% share in equity brokerage and a 6.62% share in the futures market in 2006.**



Good Morning Shinhan Securities (GMSH) combines sound corporate governance and financial health with advanced management techniques to provide a wide range of services. GMSH's service lineup includes brokerage, securities savings products, derivatives, M&A advisory, investment trust, and securities underwriting. As one of the major securities firms in Korea, GMSH captured a 5.67% share in equity brokerage and a 6.62% share in the futures market as of the end of 2006.

Shinhan's holding company framework enables one-stop services encompassing banking, securities, credit card and insurance. The ability to transcend barriers separating the different financial segments broadens GMSH's horizon, giving it an edge over its peers. The one-portal service harnesses the Group's customer base and network. Through FNA (Financial Network Account), customers can access banking services from Shinhan Bank and take care of securities related transactions via GMSH with a single account. Our BIBs (branch in branch), which are securities counters placed within a bank branch, are also drawing a warm response. Representing a shift from conventional channels, BIBs offer greater convenience to existing customers while helping to secure new customers.

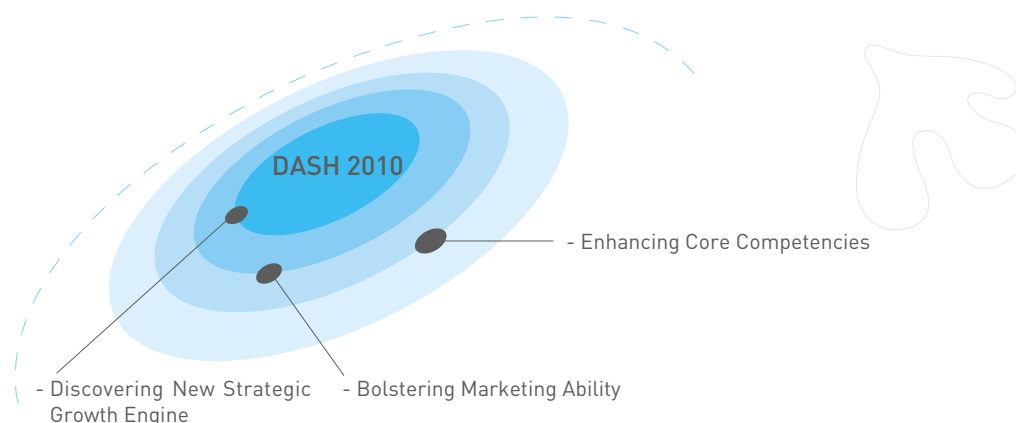
The Korean stock market continues to grow, propelled by the boost in liquidity prompted by low interest rates, emergence of new demand sources, and improving corporate profitability and dividend payout. Rising demand for indirect investment products led by installment-type funds is also fueling the expansion. Moreover, ongoing deregulation coupled with diversification of indirect investments, such as ELS and funds engineered to invest in real assets, are expanding the market for brokerage and wealth management. Against this setting,

GMSH is strengthening efforts to increase customer wealth and offer more advanced services.

With respect to investment banking services for institutional clients, GMSH is widening the scope of investment targets and investment limits. The company is building on accumulated know-how and sharing the customer network with other Group subsidiaries to aggressively expand the corporate client base. In conjunction with Shinhan Bank's corporate finance division, GMSH operates a corporate finance center, thereby securing an advanced synergy business model. GMSH is also diversifying earnings through expansion of real estate funds, ship funds and project financing.

The main strategies in 2007 will be exploring new markets and diversifying earnings streams. We plan to capitalize on business opportunities in overseas markets, including China, Hong Kong and Japan, to secure new sources of earnings. To this end, we will cooperate with overseas securities firms that have already forged strategic ties with GMSH. Additionally, we will seek PI (Principal Investment) opportunities in Korea and abroad and develop alternative investments funds that are linked with investment banking.

The pending adoption of the Capital Market Consolidation Act in Korea will require securities firms to reexamine their roles. They will have to shift away from simple brokerage activities and reinvent themselves as providers of comprehensive investment and financial services. Moving forward, securities firms should cultivate the expertise to offer more sophisticated wealth management and investment services to enhance customer value.



Shinhan Financial Group offers tailored insurance products and services to different customer segments through Shinhan Life Insurance and SH&C Life Insurance.

### Shinhan Life Insurance

Since launching its operations in March 1990, Shinhan Life has grown into a sizeable presence in the life insurance industry, with 886 employees and a distribution network spanning 120 branches and some 4,800 salespersons as of the end of 2006. Last December, which marked the 16th anniversary, total assets exceeded KRW 6 trillion, demonstrating the rising prominence of Shinhan Life Insurance in Shinhan Financial Group.

Shinhan Life offers a wide array of products, from personal accident insurance to investment-oriented products leveraging our strengths as a member of a financial group including those addressing the needs of an aging society. Our sales channels include the traditional network of salespeople, telemarketing, cyber-marketing, bancassurance, and branch operations. Balanced growth among the diverse sales channels provides a stable base for earnings. Meanwhile, the sales force is enhancing their ability to provide financial consulting services in response to a changing business climate. Our multifaceted efforts have enabled us to generate stable annual profits exceeding KRW100 billion since 2001.

Shinhan Life made meaningful strides in 2006, the first full year of operation as a subsidiary of Shinhan Financial Group. Thanks to balanced growth across all business segments and stable asset management, premiums written recorded KRW2,134.3 billion while total assets exceeded KRW6 trillion. Pre-tax income amounted to KRW165.8 billion and net income reached

KRW121.5 billion. As of end-December, 2006, the solvency margin ratio stood at 232.6%, which is more than double the standard set by the supervisory authorities.

In 2006, we adopted "DASH 2010" which sets our vision for the year 2010. In line with that vision, our management target for 2007 is "preparing the foundation for DASH 2010." This involves bolstering our marketing ability, discovering new strategic growth engines and raising our competencies. Additionally, we aim to complete our new insurance system by 2008 which will revamp our infrastructure for enhanced competitiveness.

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

As a life insurance subsidiary of Shinhan Financial Group, SH&C began operations in October 2002 to offer bancassurance services, the first in Korea. Co-founded by Shinhan Financial Group and Cardif SA, a life insurance subsidiary of BNP Paribas, SH&C has played a pioneering role in the Korean bancassurance industry. The Company has established strategic alliances with SFG's subsidiaries and provided bancassurance products and services to customers, making significant progress over a short time.

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. In addition, the company will enhance product development and marketing competencies so as to respond rapidly and effectively to the increasing diversity of demand and coming regulatory changes in the bancassurance business.

## As a leader of Korea's PB market, Shinhan is expanding customer contact channels, launching a diverse lineup of innovative products and services and thus improving customer value.



Shinhan Private Bank provides a broad range of financial services, such as comprehensive investment and tax advisory, tailored to the sophisticated needs of high-net-worth individuals. Services encompass both financial and non-financial areas including savings, stocks, insurance, investment trust, real estate, tax/legal consultations and will/inheritance advice. The Private Bank also offers a life care service that sees to clients' health, travel, shopping, golf and other personal needs.

At Shinhan Private Bank, our top priority is protecting customer assets. To this end, we have in place a strict PB compliance program designed to gain customer confidence. All Shinhan PB employees present a written pledge once every quarter to adhere to the Code of Conduct focusing on ethics, confidentiality, customer-first approach, risk management, integrity and professionalism. We also operate rigorous processes for detecting potential violations and protecting customers, including a monthly compliance report and inspections by center heads and team leaders. We take pride in our compliance program as the best in Korea that fully meets international standards.

2006 was a year of remarkable growth for Shinhan PB, building on the expanded Shinhan Financial Group network with the launch of the new integrated bank. As of the end of 2006, the number of customers grew 7% and assets under management, 65% to KRW7.9 trillion y-y.

For improved customer convenience, Shinhan Private Bank added three more branches in Daegu, Daejeon and Ilsan in 2006. We are currently running a nationwide network comprising 12 PB centers (the largest number of branches in Korea in terms of customers with financial assets of KRW1 billion or over), including the Seoul Channel Center completed in 2006. All our PB centers are located in each region's landmark building in an area where high-net-worth individuals conduct most of their business. Proximity to the PB center means easy and convenient access for customers and at the same time allows us to pursue a strategy tailored to the specific regional characteristics.

The operating margin has held steady at levels similar to that of leading overseas private banks and profits doubled over the year. Those achievements showcase a successful PB business facilitated by wealth management that focuses on non-interest income, especially considering the domestic environment where banks cannot receive commission for wealth management. Our expert team of PM (Portfolio Management) offers market-leading PB products such as Global Multi-assets and Global Alpha funds to satisfy customers pursuing high returns. Moreover, Shinhan Private Bank has a team of professional consultants in various fields. Our highly qualified

### Challenge 111-PB Project

1. Attract new assets of KRW1 trillion
2. Attain total assets of KRW10 trillion
3. Improve operating margin by 100bp



**We advise our customers from the perspective of building a balanced portfolio and securing a stable income source.**

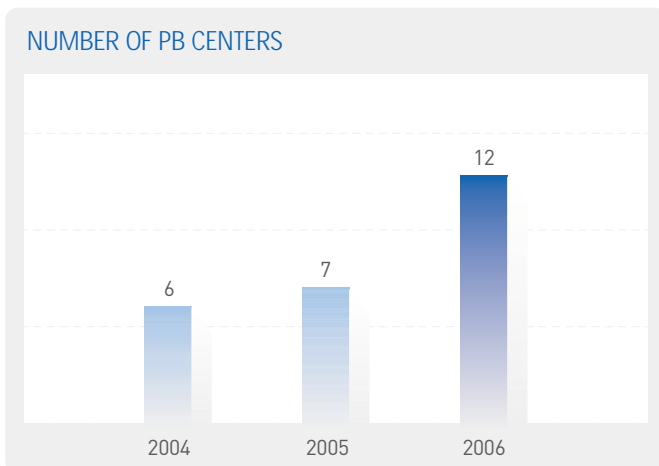


accountants, lawyers, real estate experts and private bankers provide comprehensive advice on a multitude of areas. We also offer unique events for PB customers' children to raise their value. The events include "Falling in Love Party," one-of-a-kind concierge service, Pro-Am golf tournament, temple stay and farm stay for special cultural experiences.

Success we have achieved in 2006 will not make us complacent. Rather, we plan to step up our aggressive strategy in the PB market which is showing double digit growth every year to solidify our leadership. To this end, we will carry out diverse projects mapped out under the Challenge 111-PB Project (attract new assets of KRW1 trillion, attain total assets of KRW 10 trillion, improve operating margin by 100bp).

We believe a good system and good people are essential in building the best private bank in Korea. As the leader of Korea's PB market, Shinhan Private Bank is expanding customer contact channels, launching a diverse lineup of innovative

products and services and thus improving customer value. We will also continue our efforts to recruit and train the best people in the industry and strengthen compliance efforts. Moreover, we hope to create a systematic organization more attuned to the lifestyle of our PB customers by enhancing various events designed to raise their sophistication and value.



◀ Shinhan operates the largest number of branches in Korea in terms of customers with KRW1 billion or over. All our PB centers are located in each region's landmark building in an area where high-net-worth individuals conduct most of their business.

## The Group has shifted its focus to overseas stock markets and developed many financial products covering both domestic and overseas stock markets.



Shinhan Financial Group provides a broad range of asset management products and services such as beneficiary certificates, mutual funds, closed-end funds, and separately managed accounts for domestic institutional, high net worth and retail clients through Shinhan BNP Paribas Investment Trust Management Co., Ltd. (ITMC) and SH Asset Management Co., Ltd.

As a joint venture with BNP Paribas Asset Management, Shinhan BNP Paribas ITMC focuses on providing products using the expertise and wide international network of BNP Paribas, while SH Asset Management primarily offers local market products. We have also continued to introduce 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.

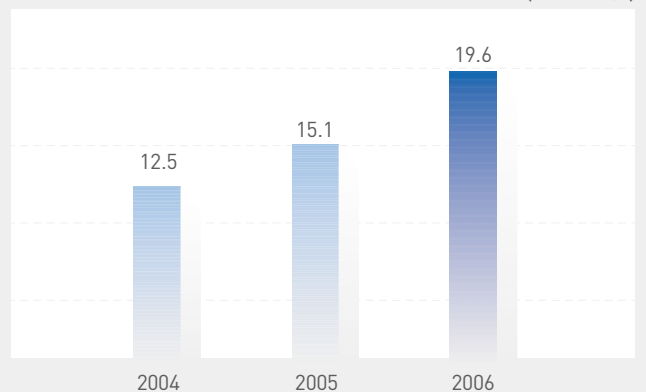
Seeking to improve its profitability by providing high quality services to local customers, Shinhan BNP Paribas ITMC developed and successfully introduced an assortment of products. In particular, the Group has shifted its focus to overseas stock markets and developed many financial products covering both domestic and overseas stock markets. In 2006 the best performance in Korea was delivered by Shinhan BNP Paribas ITMC's flagship fund, Bonjour China, evidencing the success of the partnership between Shinhan Group and BNP Paribas in the asset management business. Accordingly, total assets under management (AUM) grew by 15.8% to KRW 8,512 billion at the end of 2006 from KRW 7,352 billion at the end of 2005 with a market share of 3.64%. Including that of SH Asset Management, AUM in a combined basis totals KRW19.6 trillion.

Thus as of year end 2006, SFG prides an 8.3% market share in asset management.

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. In 2007 through the distribution channels of the new bank, we will continue to roll out new products that invest in overseas stock markets, rebalancing the product mix towards well-developed markets such as the US, Europe or Japan. Innovation and quality will be our mainstay to further strengthen brand recognition and keep improving operating profitability. Keeping the objective of becoming a clear leader in the local asset management industry, we will continue to upgrade the competencies of our asset management subsidiaries.

ASSETS UNDER MANAGEMENT (AUM)

(KRW trillion)



**The excellence of Shinhan's innovative e-banking has been recognized with such prestigious awards as "2006 Best Internet Banking Prize" and "Best Web Awards."**



Shinhan Bank has been leading the e-banking revolution in Korea. Since launching Korea's first Internet banking service in July 1999, we have been spearheading the field with such innovations as Internet loans and proprietary Internet banking system. Now, e-banking is evolving from Internet and mobile-based to include the use of IC Cards and TVs, ushering in the ubiquitous age which allows bank transactions anytime, anywhere. To respond to the rapidly changing IT environment and provide optimal value to our customers, Shinhan Bank plans to step up investment in the electronic banking business to develop it as the key growth driver of tomorrow.

Successful system integration of Shinhan Bank and Chohung Bank made 2006 a ground-breaking year in the bank's e-business history. As Korea's largest e-banking service, it facilitates more convenient and upgraded services. At the same time, the integrated banking system helped raise Shinhan's domestic and global profile as the pioneer in e-banking.

In addition to traditional online transactions, the upgraded internet banking system features a shopping mall where customers can purchase various products such as deposits, loans and funds. The system also offers tailored services to meet the various needs of corporate clients. It includes a full lineup of services from corporate Internet banking to BizSweeper, BizPartner and Neo-bank.

Other milestones we achieved in 2006 included discovering new channels for future growth and spearheading a new market attuned to the ubiquitous environment. We created "Shinhan Bank Star League," the banking sector's first e-Sports game league. The league was an instant hit among existing and potential customers and received the media spotlight at home

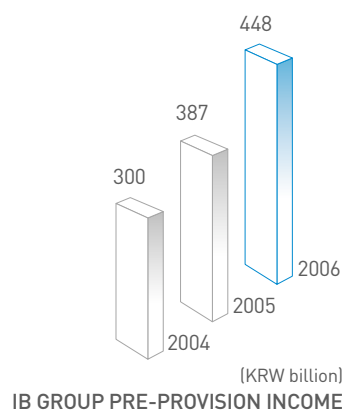
and abroad. Explosive popularity of e-Sports led to a number of related products such as Star League Mania Installment Deposit and Star League Mania Savings. We also opened "the Bank Zone" providing a virtual banking experience to customers. As the first of its kind, "the Bank Zone" is used to promote the convenience and excellence of Shinhan's online banking services. We are also attracting new customers by providing an eco-friendly resting area with differentiated services.

Customer needs are diversifying as the result of the fast changing IT environment and emergence of diverse channels. Shinhan Bank has always been the innovator in customer satisfaction using new technologies. We were the first to test interactive TV banking services using digital IP-TV banking and cable TV banking services.

e-Banking started as a way of complementing services offered at bank counters. Now, e-banking has overtaken the traditional bank counters as a primary channel for bank transactions. However in the ubiquitous banking environment, customers are anticipating more diverse personalized online services. Therefore, e-banking is expected to evolve from the current transaction-centered role to play a major role in product and information distribution.

In line with such changes, Shinhan Bank's e-business team has chosen as its core task to aggressively discover new businesses and channels and raise service quality. The Bank will continue to pioneer the online banking sector offering differentiated services. Our future oriented services include online messenger banking and tailored financial services for the staff of corporate clients. We also plan to pave the way for new e-payment services such as medical and apartment bills and build a Fun&Info site to increase interaction with customers.

# Investment Banking



The introduction of the Capital Market Consolidation Act portends a big bang in the Korean financial industry, which has traditionally been led by banks. Deregulation will tear down barriers between different financial segments and facilitate the rise of mega investment banks.

As the first domestic financial holding company to open an Investment Banking (IB) Center in 2002, Shinhan Financial Group has integrated the IB marketing activities of all our subsidiaries. The IB Center covers Shinhan Bank and its network of branches, Good Morning Shinhan Securities, Shinhan Capital, Shinhan Macquarie Financial Advisory (SMFA), Shinhan Life Insurance, Shinhan BNP Paribas ITMC, SH Asset Management, Shinhan PE and Jeju Bank. In October 2006, we established the Hong Kong IB center, which offers various banking and financial advisory services to Korean companies entering overseas markets. We also launched full-scale IB services in China and Southeast Asia.

Shinhan Bank's IB group (IB and derivatives), the flagship of SFG's IB center, provides a one portal service that delivers total financial solutions. We established Korea's largest corporate dealing team with the purpose of providing diverse products that best serve our customer needs. Drawing on its expertise, SFG offers innovative financial solutions that help improve our profits while presenting customers with effective tools for hedging purposes. This has greatly improved customer satisfaction and formed a stable foundation for our earnings growth through continuous expansion of our customer base.

Shinhan Bank's IB group showed remarkable growth in the past three years, with pre-provision income of KRW 300.1 billion in 2004, KRW 387.2 billion in 2005 and KRW 447.9 billion

in 2006. Along with quantitative growth, the bank also attained excellent results in terms of quality through earnings diversification.

We are the undisputed market leader in real estate financing. In 2006, we financed a total of 61 real estate development projects valued at KRW 2.9 trillion. We also made KRW 6 billion in equity investments in six PFVs (Project Financing Vehicle). Amid tougher government real estate regulations, we have managed to make progress and build up healthy assets by focusing on regions with active potential based on meticulous project analysis and proactive risk management.

Moreover, we are a major player in SOC financing through cooperation with SMFA, a joint venture between SFG and Macquarie Bank, and Macquarie Shinhan Infrastructure Asset Management. The SMFA team is spearheading the domestic SOC market by engaging in a diverse range of structured financing activities. Following the conclusion of nine large SOC projects in 2005, the team successfully brokered various private sector investments including the Gimhae light rail project and other BTL projects in 2006. Its innovative infrastructure fund and financial advisory services are also helping the team take leadership in the SOC market.

Shinhan also funds large overseas development projects which attract domestic investors. Seeking new opportunities, we turned our attention to overseas resource development and invested in the Uzbekistan offshore gas field development in partnership with Korea's leading energy firms Korea National Oil Corporation and SK.

**Shinhan Financial Group has integrated the IB marketing activities of its subsidiaries to provide a one portal service that delivers total financial solutions.**



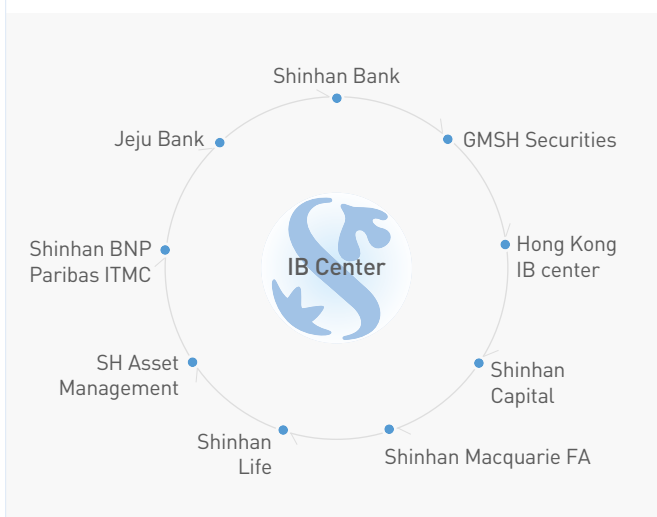
In won-denominated syndicated loans, SFG concluded deals worth KRW 3 trillion in 2006 and was involved in projects valued at KRW 1.5 trillion. They included M&A deals, equity underwriting, project financing, refinancing and facility investment. In foreign currency syndicated loans, we brokered a total of 24 deals worth USD 3.6 billion in project financing, corporate loans, FRN, object financing and overseas M&As. Of those deals, we actively took part in contracts totaling USD 1 billion.

Furthermore, we are well positioned in strategic investments including M&A advisory, equity investment, NPL investment and venture investment. In 2006, we invested approximately KRW 170 billion in Daewoo Construction, Hu-Chems and Daewoo Electronics Component. In particular, we succeeded in entering Korea's bad debt market and purchasing China's non-performing loans, proving our expertise in corporate restructuring.

SFG has been spearheading Korea's asset-backed securities (ABS) market with the development of ABCP Conduit. Along with the traditional ABS market, we are at the forefront of exploring new opportunities such as securitization of M&A deals, commercial buildings, real estate and overseas trade receivables. Our efforts have resulted in steady growth despite the shrinking conventional securitization market.

In derivatives products, we solidified our market leadership in currency options, IRS and CRS, and became the first domestic commercial bank to succeed in crude oil swap transactions to hedge against risks from fluctuating commodity prices. Capitalizing on accumulated structuring capabilities, we managed to record KRW 4,385 billion in issuance of structured notes, gaining over 50% market share.

In the year ahead, SFG plans to pioneer new markets and create value by further expanding its integrated investment banking and derivatives operation. Providing customized services to our corporate clients and creating a new model for domestic IB will help us reassert our leadership. In addition, our focus is on reinforcing our global business by tapping into emerging markets through strategic alliances with global IB service providers. As our corporate clients' dependable partner, we will strive to produce a solid performance across the full spectrum of IB services as well as derivatives such as marketable securities and forex trading.



## Shinhan Financial Group plans to overhaul customer data for greater marketing success and create more cross-selling opportunities.



A financial holding company with an extensive business lineup will enjoy an advantage amid the fast changing environment. Shinhan has been making constant efforts to provide comprehensive services to our clients. Since our transition to a holding company structure, Shinhan has been reinforcing the non-banking side of our operations. Moreover, business diversification and the bank merger have expanded our distribution channel. Consequently, we now stand as a leading financial group engaged in all segments of the industry with a nationwide distribution channel. The earnings contribution of non-banking subsidiaries has increased markedly due to synergy maximization via cross-selling.

Cross-selling is Shinhan Financial Group's future growth engine. Increased customer gains are vital in order to achieve success in cross-selling. Differentiated price and service policies are essential for customers to believe it is more advantageous to build a long-term relationship with a single financial institution to manage all their financial needs rather than seek different organizations for different transaction purposes. Shinhan Financial Group has pursued an integrated group-wide marketing strategy directed toward maximizing customer relationship and customer value. Our efforts have translated into a steady improvement in related indicators. In 2006, the number of customers conducting business with two or more of our subsidiaries surged 13% y-y, or by 245,000, while the number of accounts per customer climbed 7% y-y to 3.38. The ratio of active Group customers also rose 2.1%p from the previous year to 83.1%.

Aggressive marketing campaigns to create synergies using the integrated CRM system and strengthened customer management activities were the two key factors in our success.

In particular, we benefited greatly from the CRM system. Each of our subsidiaries analyzed the shared customer information through EDW (Enterprise Data Warehouse) to develop various marketing algorithms and provide the Group's core products to target customers through the channel that best suits their needs.

Going forward, Shinhan Financial Group plans to overhaul customer data for greater marketing success and create more cross-selling opportunities through active customer information sharing among Group companies. In addition, securing high value customers and discovering potential customers will continue to be a group-wide initiative. As a leading "One Portal" provider of comprehensive financial services, Shinhan's enhanced program will offer higher levels of services to our key customers and help improve cross-selling and enhance synergy effects among our subsidiaries.

CROSS-SELLING INDEX

(Number of Accounts per Customer)





## SFG offers diverse hybrid products that combine the capabilities of the various Group affiliates.



Shinhan provides customers with total financial solutions, offering products and services in all financial segments from banking and securities to credit card, insurance and investment products. Last year, we completed our product lineup by integrating the banking and credit card sectors.

### BANK

#### Groundwork for integrated operations

- Completed integration of product lineup (Tops Variable Rate Deposit, Tops Installment Savings)
- Launched products to mark integration (Hanmaeum/One Family/Goldroad Time Deposit)

#### Launch of market-oriented products

- Completed lineup of financial planning products with the launch of products tailored to different customer segments (Tops Salaried Worker Plan, Tops Ladies Plan, Tops Senior Plan, Tops Campus Plan, Rainbow Plan)
- Introduced new structured products (PGA Derivative Time Deposit, Tops CD-linked Installment Savings, Customized ELD)

#### Product-aligned social contribution activities

- Socially responsible management loan, filial piety installment savings, time deposit to benefit people who suffered for a cause, Salvation Army's Christmas kettle time deposit

#### Others

- Conducted research into future growth drivers (senior citizen survey, etc.)
- Fixed-rate foreign-currency loan (received Innovation Award from MoneyToday)

### CREDIT CARD

#### Cultivation of premium image

- Launch of Shinhan Amex Card, Shinhan Premium Amex Card, SK Amex Card

- Renewal of Infinite Card/New Platinum Pro Card
- Expansion of Prime Card Building Shinhan Card identity
- Promotion of Shinhan "Beautiful Card"
- Received brand award from Korea Management Association (for "Beautiful Card")

#### Products tailored to different customer segments

- Manchester United Card, Hello Kitty Card, Tops Biz Card

#### Products targeting rational consumers

- Tops Check Card, Tops Power Card, Freeform Gift Card

### INSURANCE

#### Expanded lineup of variable insurance and enhanced functions

- Launched variable universal insurance with monthly premium payment plan
- Launched modified variable annuity product

#### New products for the growing variable insurance market

- Variable annuity insurance
- Variable universal insurance

#### Competitive products through specialized brands

- Long-term casualty/children/silver/health insurance

### INVESTMENT & TRUST

#### Product diversification (overseas funds, fund of funds)

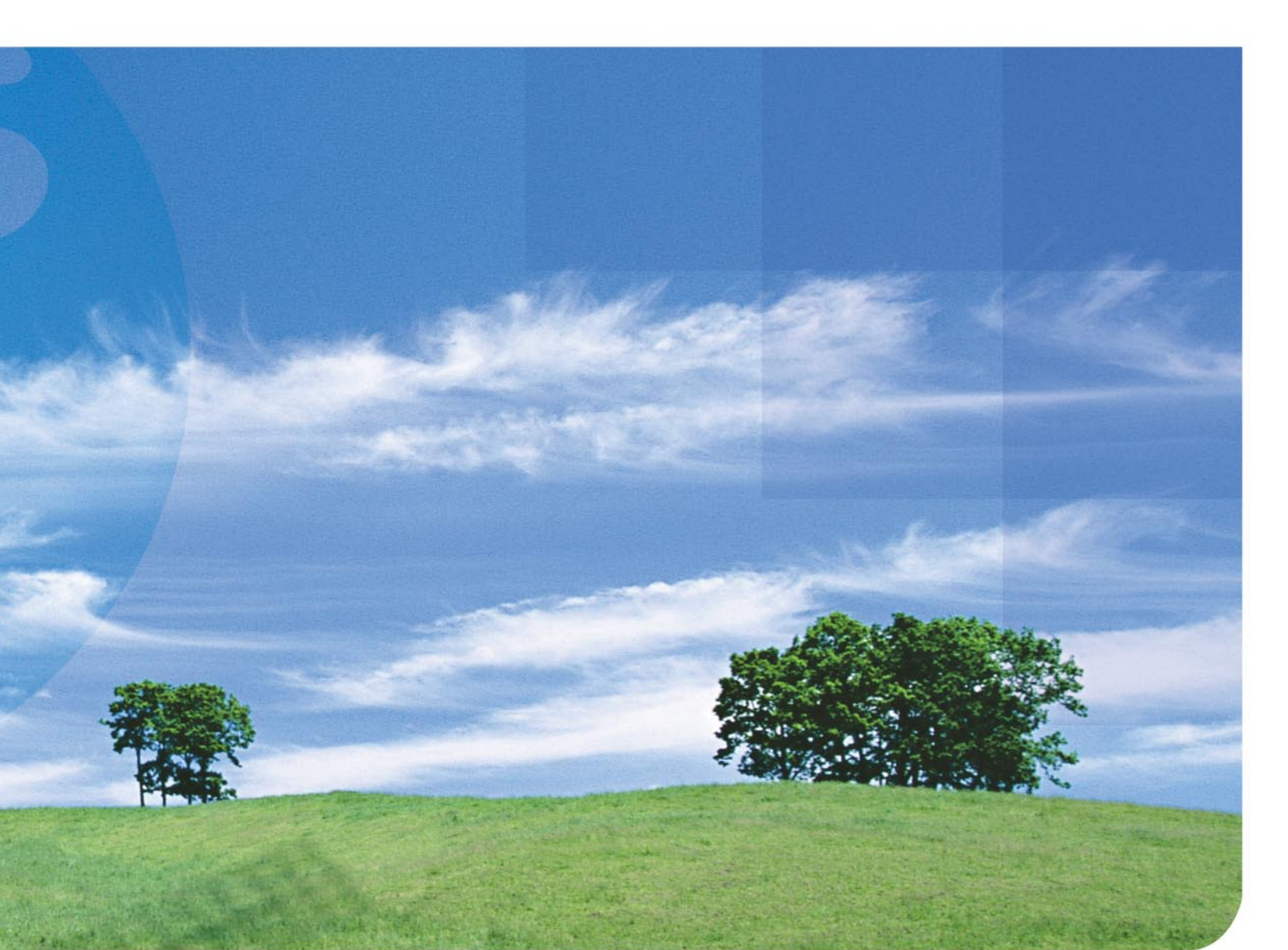
- Absolute return fund (Tops Global Alpha Fund of Funds No. 1)
- Asian market fund (Tops Japan Fund of Funds No. 1)
- SH overseas private placement fund of funds

In 2007, we will focus on developing strategic products for insurance and investment that proactively responds to customer needs. These efforts will help us lead market trends and reinforce our market presence.









# Your Responsible Partner & Beyond

Reliable

Synergy

Responsible

Value



Serving the society and the nation as a responsible **corporate citizen**.

More than ever, the society today is in pursuit of mutual prosperity where all members of society are offered access to improved quality of life and equal opportunities. Since our foundation, Shinhan Financial Group's guiding principle has been "Enterprise of Community". More recently, our goal has shifted to making more meaningful impacts on our community.

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52\_Customer Satisfaction 54\_Corporate Social Responsibility  
56\_Ethical Management 57\_Human Resources Management

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# Customer Satisfaction

**True customer satisfaction is realized when the happy smile of an employee is relayed to the customer.**



Shinhan is doing its utmost to serve as a sturdy pillar of the Korean economy, earn the respect of the public, and open the road towards a “global leading bank.” Following the successful integration of Shinhan Bank and Chohung Bank in 2006, we now have an expanded customer network and state-of-the-art integrated IT systems. We aspire to be the “most convenient bank” and raise the bar in domestic financial services.

### Pioneer of customer satisfaction management

From the very start, Shinhan Bank has sparked a fresh wave of innovation with its distinctive services that were unprecedented in the banking industry. Shinhan Bank’s unique principle of conduct, “moving the customer,” and novel approach to banking counter services have been benchmarked by other financial institutions and planted a new financial culture in Korea. Shinhan was the first in the banking sector to conduct customer satisfaction surveys at branches to raise bank-wide service quality. In 1993, we were the first Korean bank to open a “customer satisfaction center” for integrated management of related activities. Customer satisfaction surveys are conducted at regular intervals, the results being factored into how we manage our business. We have worked consistently to maintain high quality services in our role of spearheading financial services in Korea.

### Core values of customer satisfaction management

Our customer satisfaction policy is aimed at minimizing complaints and preventing customer defection through a preventive approach. We carry out various activities to ensure accurate identification and problem-solving at customer contact points. We believe that “true customer satisfaction is realized when the happy smile of an employee is relayed to the customer.” With that in mind, the customer satisfaction center

organizes a wide range of activities to create a fun working environment and foster smooth communication. Our aim is to create an atmosphere in which employees can work to their full potential.

### Customer satisfaction strategy and activities

Furthermore, beyond satisfying the customer, we pursue customer satisfaction management through social contribution and volunteer activities. Our concept of customer is not confined to people doing business with Shinhan Bank. We define customers as all stakeholders including employees, shareholders and the community at large. We are at the forefront of efforts to build a “beautiful society” and “community of hope.” Shinhan was the first domestic bank to serve our neighbors via a volunteer group led by the bank’s CEO. Instead of focusing on our own prosperity, we aspire to be a generous and worthwhile organization that embraces the shadows and pains of society.

### INTERNAL EVALUATION

(Points)



**Our concept of customer is not confined to people doing business with Shinhan.  
We define customers as all stakeholders including employees, shareholders and the community at large.**



Our customer satisfaction activities have been highly recognized in external evaluations. Shinhan Bank ranked first in the Korean Standard Service Quality Index for five consecutive years, first in the Korean Customer Satisfaction Index (KCSI) for two years in a row, and first in the Global Customer Satisfaction Index (GCSI) also for two straight years. We were also awarded at the Korea Service Grand Prix for three years in a row and placed first among banks in the Financial Supervisory Service's customer complaint survey index.

#### **New phase in customer satisfaction management**

We have reinforced our commitment to customer satisfaction. To reinvent Shinhan Bank as "the bank most trusted by customers" and "the bank that customers most want to do business with," the customer satisfaction center has now been placed directly under the CEO. Our energy will be directed toward building an integrated, customer-centric culture as well as an advanced CSI survey and evaluation system for enhanced performance. We will also improve service at customer contact

points. We promise to create value for our patrons through greater customer satisfaction.

Our past achievements are the building blocks for our future. With a basic principle of putting the customer first, we will continuously create blue oceans in the area of customer satisfaction management and always stand by our customers to serve their best interests.

#### **External Evaluation**



- Korean Standard Service Quality Index  
[ranked first for five straight years](#)
- Korean Customer Satisfaction Index  
[ranked first for two years in a row](#)
- Global Customer Satisfaction Index  
[placed first for two consecutive years](#)
- Korea Service Grand Prix  
[awarded for three years in a row](#)



## Shinhan Financial Group's guiding principle is "Enterprise of Community," as stipulated in our mission statement.



More than ever, the society today is in pursuit of mutual prosperity where all members of society are offered access to improved quality of life and equal opportunities. Amid such changes in social views, active corporate involvement in communities is perceived as one of the key factors contributing to mutual prosperity and happiness. However, the true value of a company's social contribution cannot be measured by the number of short-term projects. Rather, it depends on the continuity of a company's meaningful contributions through long-term community building programs.

Since our foundation, Shinhan Financial Group's guiding principle has been "Enterprise of Community" as stipulated in our mission statement. More recently, our goal has shifted to making more meaningful impacts on our community. To that end, we have been pursuing future-oriented initiatives to give back our profits to society, rather than focusing on short-term, sporadic contributions or volunteer works.

### Scholarship program

In January 2006, we set up a KRW 50 billion scholarship foundation. The foundation is dedicated to discovering talented but underprivileged children to inspire and nurture them into future leaders. It will also provide various grants to finance underfunded schools and other academic and research pursuits.

### Donations to neighbors in need

To inspire hope, opportunity and warmth in our communities, Shinhan Financial Group has provided over KRW 60 billion in donations to various charitable endeavors. For the past 13 years, our employees have voluntarily donated a portion of their monthly paychecks to help children-headed households. We have also carried out an online fund-raising initiative called

"Click of Love." In order to encourage our customers to share in the spirit of giving, we have developed innovative products such as "Green Compound Interest Trust," "Revive the Economy Savings," and "Revive the Nation Savings."

### Proactive volunteerism

SFG employees volunteer at social welfare facilities such as orphanages and nursing homes. They also visit disadvantaged neighborhoods to deliver financial donations and gifts such as rice, while taking part in other volunteer works such as making kimchi for the needy. Every year we actively support the Christmas Seal campaign and make donations to the Community Chest of Korea. We are also deeply involved in supporting our men and women serving in Iraq, holding blood donation drives and helping farming communities hit by floods or heavy snow.

### Support for the disabled

Shinhan Financial Group is committed to helping the physically and mentally challenged. We go beyond just giving financial support. We want their use of banking services to be as easy as possible by making our branches wheelchair accessible and providing ATMs developed specifically for their use. We also sponsor production of power driven wheelchairs and provide overseas training opportunities to promising youth with disabilities in partnership with the Korean Society for Persons with Disabilities. As a major driving force in improving welfare of the physically challenged in Korea, we sponsor the "Wheelchair Marathon Competition," Korea's only international event for the disabled in partnership with the Korea Association of Persons with Physical Disabilities. We also organize the annual "Wheelchair Walking Event" in which SFG employees and the disabled enjoy a fun-filled day out.



**We are fully committed to serving the society  
and the nation as a responsible corporate citizen.**



#### Education initiatives

Shinhan Financial Group's education initiatives deliver dreams and opportunities to our youth. We have been an active partner of a program inviting children from remote villages and islands to Seoul. The event, designed to give children a chance to broaden their horizon, has been organized by the Seoul Association of Workplace Saemaul (New Village) Campaign since 1983. Also in partnership with the daily Chosun Ilbo since 1988, we have sent a total of 5,000 teachers to explore the Korean heritage in Japan. The program gives a chance for participants to rediscover the greatness of the Korean culture.

SFG also provides grants and scholarships to the Korean Society of Scholarship, Education Authority of South Jeolla Province, Education Authority of the City of Ulsan, leading domestic colleges and Korean students studying in China and Russia. Our commitment to help children learn and thrive extends to other projects including the operation of "Shinhan Museum," established to help improve public understanding of Korea's banking history. Our staff also dedicate their time to teach children who attend "Economy Classroom for Children" operated by J.A. Korea, a non-profit organization dedicated to education on the economy.

#### Environmental affairs

SFG is committed to minimizing our environmental impacts by conserving energy and other natural resources. The sustainable environmental stewardship is one of our guiding principles and it is part of the way we conduct business. SFG's various projects to minimize our environmental footprint include the 'Preserve nature' campaign conducted since 1993 at 18 national parks around the country. To promote the importance of environmental preservation, we hold an annual "Environmental Photo Contest" sponsored by the Ministry of Environment. In

addition, we have developed various eco-friendly products such as "Green Compound Interest Trust" and "Save Nakdong River Savings." The proceeds from the sales of these products are used to help various environmental initiatives. We also examine a company's environmental management practices when conducting credit assessment.

#### Sports/cultural activities

In 1981, we organized "Shinhan Donghae Open" to promote golf in Korea. The competition is one of the oldest and most prestigious sponsored golf competitions in Korea and has played a key role in the development of golf in the nation. Our track and field and swimming teams as well as the women's basketball team, S-birds, all contribute in promoting sound sportsmanship while Shinhan Bank's "One Mind League," the nationwide badminton league, is aimed at enhancing health through exercise, fitness and sports.

#### Social contribution aligned with business

To help erase bad credit, which has been pointed out as one of the causes of social polarization, Shinhan Bank has launched various credit restoration programs that excuse records of delayed loans for bad creditors who participate in community services. The program received a special prize from the government. The Group's subsidiary Shinhan Card is issuing "Beautiful Card," specifically designed to spread the spirit of giving.

Encouragement and support from our communities has been the main driver of our success as we emerged as Korea's leading comprehensive financial services provider. As a responsible corporate citizen, giving back has become a major part of our corporate culture and the way we do business. We are more committed than ever to positively impact our communities and build an enriching society.

**Grounded on our core values of “integrity and trust,” we have established ethical standards and programs to address diverse ethical issues.**



Shinhan Financial Group is committed to the highest levels of integrity and ethics. We have implemented internal control measures in accordance with domestic and international laws and regulations to maintain the trust and respect of society. Grounded on our core values of “integrity and trust,” we have established ethical standards and programs to address the diverse ethical issues that arise in the course of our business activities, and these programs are overseen by our compliance office. We have also drawn up a code of ethics, code of employee conduct, compliance and ethics guide, and guidelines on reporting financial crime. These materials are intended to help employees uphold Shinhan’s ethical principles while carrying out their duties. The code of ethics sets forth the basic moral standards of a responsible corporate citizen while outlining ethical values that our employees should embrace as professionals serving in the financial sector.

Various steps are taken to raise ethical awareness among employees. We invite outside experts to conduct seminars and place a strong emphasis on ethics in educational programs such as cyber training, training for managers, and new recruit training. A handbook on ethical standards and a guidebook titled “Understanding ethics and compliance” are distributed to all employees. These materials serve as practical reference that employees can turn to when faced with an ethical dilemma.

Additionally, we have introduced internal standards for managing customer information. Our internal control system ensures that employees access customer data only when necessary in the course of their work and prevents possible leakage of data. Alongside recent advances in information technology, there has been a rise in computer hacking, viruses, and information leaks. As part of efforts to prevent such

incidents, we acquired BS7799 certification for information security management systems in September 2003. All employees receive regular training so they fully comprehend the information security guidelines. The training focuses on how to respond in the event of a security breach and ways to protect credit information.

To convey our commitment to ethical management to all internal and external stakeholders, we opened an ethical management homepage. SFG is also an active participant in the Ethical Management Forum, a group that promotes research and diffusion of ethical management in Korea, and the Korea Chamber of Commerce & Industry’s Ethical Management Commission.

## Shinhan Financial Group practices sound human resources management and promotes transparency to cultivate a culture in which employees can work to their full potential.



Skilled human resources are the driving force of growth at a financial institution. Bearing that in mind, Shinhan Financial Group practices sound human resources management and promotes transparency to cultivate a culture in which employees can work to their full potential. We prohibit any form of irregularity regarding personnel decisions and denounce the formation of cliques based on academic or regional background. All personnel decisions are based on an individual's capability and performance. In addition, our collective agreement stipulates granting equal opportunities to people with disabilities and women. As a result, there has been no report of unfair labor action at SFG since its establishment.

SFG regards employees as the most valued assets; therefore, we are expanding investment in education and training to further develop the skills of our workers. We also continue to enhance our HR management system. Our HR framework is designed to help employees realize their dreams and vision. Programs are continuously updated to reflect the opinions of all Shinhan people. In 2006, as Shinhan Bank and Chohung Bank integrated, the total budget for employee education/training reached KRW25 billion, more than triple the amount in 2005. Education spending per employee rose to KRW2.3 million, up from KRW1.4 million in 2005. Education hours per employee went up to 100, versus 90 in the previous year.

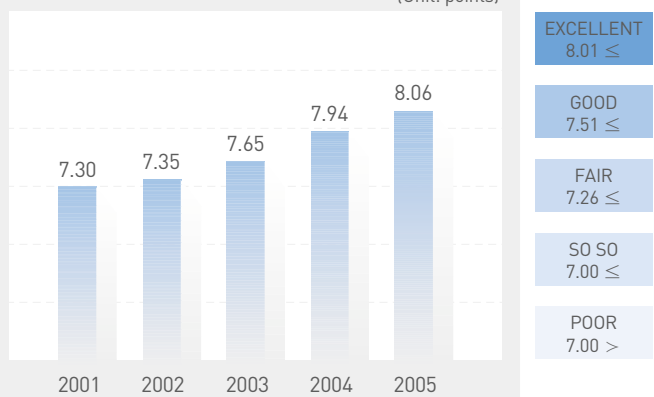
We carry out fair and objective performance evaluations and distribute compensation commensurate to individual performance. Our goal-oriented evaluation procedures are intended to motivate our employees while promoting the long-term growth of SFG. Individual performance targets are set in line with organizational goals, and transparent disclosures are made of whether the targets are met. Regarding employee

welfare, our emphasis is on identifying the diverse needs of our workforce to enhance their quality of life. We offer a wide range of welfare programs including housing support, an internal employee welfare fund, and medical and healthcare assistance.

Following the acquisition of LG Card, SFG's workforce swelled to approximately 23,000 persons serving in 12 subsidiaries. While respecting the cultures of each business line, we also foster Group-wide unity under the belief of "One Shinhan." We set up the company intranet, i-Bank, to facilitate communication through forums such as "Hot News," "Grievance Corner," "Guest Room," and "VOC." Our aim is to promote an open culture and active exchange among Shinhan people. We believe greater interaction will lessen any discrepancy among subsidiaries and build a system whereby all units cooperate organically for the advancement of the entire Group.

EMPLOYEE SATISFACTION INDEX

(Unit: points)







# Your Value Partner & Beyond

Boasting consolidated assets of  
KRW 216 trillion and 16 million customers

A financial holding company with an extensive business lineup will enjoy an advantage amid the fast changing environment. Shinhan has been making constant efforts to provide comprehensive services to our clients. Since our transition to a holding company structure, Shinhan has been reinforcing the non-banking side of our operations.



Reliable

Synergy

Responsible

Value







# Management's Discussion & Analysis

## I. Overview

Rising oil prices and interest rates, appreciation of the Korean won, and the North Korean nuclear threat have added greater tension to the receding Korean economy. Shinhan Financial Group has not been alone amidst the increasingly challenging environment as exports continued to drive the economy and domestic consumption and new investments declined to cause adverse effects. Financial markets in 2006 were also plagued by the negative prospects of the economy's future performance, further resulting in the fall of longer term interest rates. While hiking real estate prices have helped to expand the mortgage loan market over the past years, the industry underwent extremely severe competitions and as a result, net interest margin fell to a large extent. All in all, consumer preferences have shifted towards more diversified financial instruments including equity-type deposits and funds, leading to great expansion of both domestic and overseas funds.

The Group's net income for 2006 increased 17.4% YoY to KRW1.83 trillion, marking the best achievement since its inception. Net income from banking businesses consistently improved by 8.5% YoY to record KRW1.67 trillion, while non-bank businesses recorded KRW512.4 billion of net income reflecting a 163% growth YoY. Of the latter, securities, credit card, life insurance, and investment trust, among other non-bank business subsidiaries have increasingly contributed 24% to total group profits, demonstrating more than a two fold growth from 11% in 2005.

Reflected within these remarkable achievements are the Group's continuing efforts to expand its quality interest earning assets and stabilize net interest margin, while discovering new sources of non-interest income and nurturing the core fee-based earnings drivers. Most notably, non-bank businesses excelled as pre-merger Chohung Bank's credit card division was spun off and Shinhan Life's performance improved by large. Shinhan Bank's commissions and fees on fund sales have also significantly increased by 76.4% YoY as the investors adhere to their new preference for the capital market products. The Group's extended efforts to improve its asset quality by reducing provisioning costs have provided another strong basis to make strides in achieving exceptional Group wide performance since 2004.

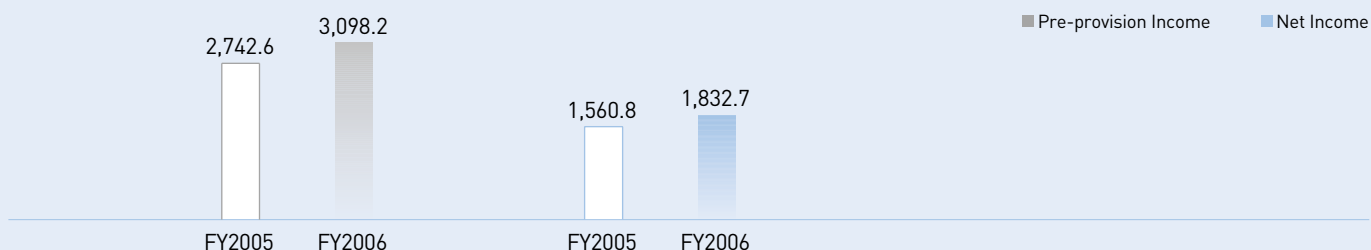
Despite severe competitions and averting from an aggressive growth strategy, the Group's 2006 year-end consolidated assets under management, which comprise of assets entrusted in the trust and asset management subsidiaries, recorded KRW216 trillion reflecting a strong 11.7% growth YoY from KRW194 trillion in 2005. As for the Group's subsidiaries, Shinhan Bank increased its assets by KRW13.7 trillion, Shinhan Life by KRW1.1 trillion, Shinhan Card by KRW2.0 trillion, and Shinhan BNPP ITMC by KRW4.4 trillion including assets under management, of which growths for Shinhan Bank and asset management were most pronounced.

Shinhan Bank's assets grew as the loans were increasingly made, of which those extended in Korean won rose by 12.8% or KRW10.1 trillion YoY. Most conspicuous within the increases were 21.2% or KRW5.3 trillion of growth in mortgage loans, attributing to the housing price hike and active transactions, and 12.3% or KRW3.8 trillion of growth in SME loans YoY. As of end 2006, retail and corporate loans contributed 53.5% and 46.5% each to the total loans extended in Korean won.

Thanks to its enduring growth strategy seeking to raise healthier assets and successfully control credit risks, the Group's asset quality has been at the finest level since its creation. As of end 2006, the ratios of substandard and below loans for the Group, Shinhan Bank, and Shinhan Card were 0.85%, 0.75%, and 3.16%, each demonstrating significant improvements YoY and strong competency compared to other financial institutions. The coverage ratios for the same also recorded 180.1%, 184.2%, and 171.1%, each well above the industry average and prepared against potential risks and deteriorations.

## Pre-provision Income and Net Income

(KRW billion)



## II. Analysis of Profit/Loss

### 1. Shinhan Financial Group

The Group's consolidated net income for 2006 recorded KRW1,832.7 billion reflecting 17.4% or KRW271.9 billion of growth YoY, continuing its success since 2004 well above KRW1 trillion in net income. The Group's essential growth drivers include its core business competencies strengthened by its nationwide channel and customer base realigned by the newly integrated bank and non-bank business lines under the holding company structure, increased business transactions with existing and new customers, and consistently growing cross-selling products by and among the Group's subsidiaries.

The Group's operating income declined by 2.4% or KRW64.4 billion YoY. While interest income largely improved by 10.5% or KRW426.4 billion YoY due to the steady asset growth achieved and net interest margins successfully managed, changes in the accounting principles for a joint venture from consolidation to equity method have caused non-interest income to decrease. SG&A expenses have temporarily increased by 16.9% or KRW411.5 billion YoY due to the merger costs.

Non-operating income has significantly increased primarily attributing to the reversal of previous NPL-ABS impairment losses and sales gains on disposal of investment securities such as Daewoo Engineering & Construction, Hyundai Engineering & Construction, and Hynix. Even after meeting the regulatory requirements, the Group's loan loss provisions have greatly fallen by 35.2% or KRW318.1 billion YoY as pre-merger Chohung Bank's non-performing corporate exposures were resolved and relatively high quality loan assets such as the low risk mortgage loans have continued to increase over the past years.

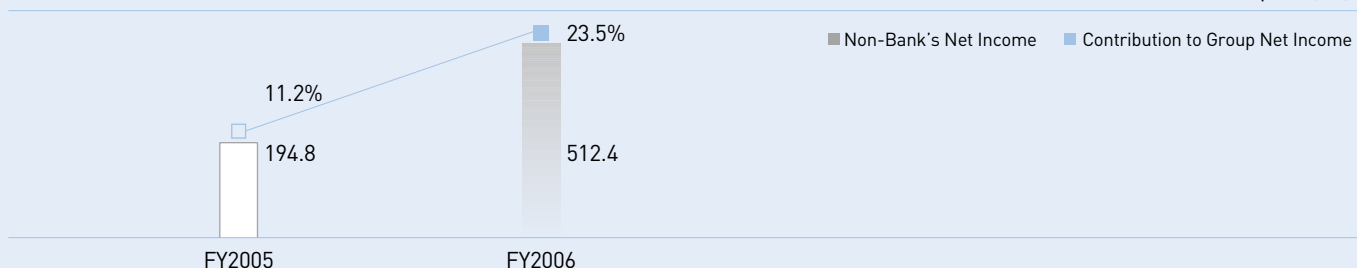
(KRW billion)

	FY2006	FY2005	Chg Amt	Chg %
Total Income (a=b+c)	5,454.1	5,107.0	347.1	6.8
Interest Income (b)	4,469.2	4,042.8	426.4	10.5
Non-interest Income (c)	984.9	1,064.1	-79.2	-7.4
SG&A Expense (d)	2,839.5	2,428.0	411.5	16.9
Operating Income (e=a-d)	2,614.6	2,679.0	-64.4	-2.4
Non-operating Income (f)	483.6	63.6	420.0	659.9
Pre-provision Income (g=e+f)	3,098.2	2,742.6	355.6	13.0
Loan Loss Provision (h)	584.6	902.7	-318.1	-35.2
Pre-tax Income (i=g-h)	2,513.7	1,839.9	673.8	36.6
Net Income	<b>1,832.7</b>	<b>1,560.8</b>	<b>271.9</b>	<b>17.4</b>

# Management's Discussion & Analysis

## NON-BANK SUBSIDIARIES' CONTRIBUTION TO NET INCOME

(KRW billion)



Of the Group's subsidiaries, Shinhan Bank has made the largest contribution of KRW1,659.2 billion to the Group's net income, reflecting an 8.4% growth YoY. Among non-bank subsidiaries, Shinhan Card, Shinhan Life, Good Morning Shinhan Securities, and Shinhan Capital were the larger contributors. Of these, Shinhan Card's net income significantly improved as it successfully merged with pre-merger Chohung Bank's credit card division. Shinhan Life has achieved over KRW120 billion of net income in 2006, the first full year of operation as a subsidiary of SFG, due to the increased insurance premium income by channel diversification. The net income of Good Morning Shinhan Securities also improved along with fine performance from investment banking, derivatives and trusts, in addition to the recovery of propriety accounts.

(KRW billion)

	FY2006	FY2005	Chg Amt	Chg %
<b>Banks (a)</b>	<b>1,668.0</b>	<b>1,537.8</b>	<b>130.1</b>	<b>8.5</b>
Shinhan Bank	1,659.2 <sup>1)</sup>	1,530.9	128.3	8.4
Jeju Bank	8.8	6.9	1.8	26.5
<b>Non-Banks (b)</b>	<b>512.4</b>	<b>194.8</b>	<b>317.6</b>	<b>163.0</b>
Good Morning Shinhan Securities	96.2	87.3	8.9	10.2
Shinhan Life Insurance	121.5	6.1	115.4	n.a.
Shinhan Card	232.1	54.2	177.9	328.2
Shinhan Capital	48.3	36.7	11.6	31.6
Shinhan BNPP ITMC	4.3	3.7	0.6	16.2
SH&C Life Insurance	4.6	2.7	1.9	68.5
Shinhan Macquarie Financial Advisory	0.8	2.7	-1.9	-69.8
Shinhan Credit Information	2.8	2.4	0.4	16.7
Shinhan Private Equity	1.8	-1.0	2.8	n.a.
<b>Total Net Income of Subsidiaries (c=a+b)</b>	<b>2,180.4</b>	<b>1,732.6</b>	<b>447.8</b>	<b>25.8</b>
<b>Consolidated Net Income</b>	<b>1,832.7</b>	<b>1,560.8</b>	<b>271.9</b>	<b>17.4</b>

Note 1) Including 1Q net income of pre-merger Shinhan Bank.



## 2. Shinhan Bank

### (1) Overview

Shinhan Bank achieved KRW1,626.1 billion of net income in 2006 reflecting a 25.7% or KRW332.7 billion of growth YoY. Its interest income and non-interest income combined rose by 9.7% or KRW381.7 billion to KRW4,335.2 billion YoY. The growth in its interest income equivalent to 8.8% or KRW274.8 billion resulting in a total of KRW3,404.9 billion was attributed to Shinhan Bank's asset growth strategy and pricing policy to minimize margin erosion. Since its successful merger with Chohung Bank consummated on April 1, 2006, Shinhan Bank was able to add greater strengths to its business undertakings while consolidating a larger customer base against challenges presented by its peers. Its non-interest income increased by 13.0% or KRW106.8 billion to KRW930.3 billion as fees on beneficiary certificates grew by KRW68.2 billion and dividend income by KRW20.1 billion.

SG&A expenses jumped by 19.0% or KRW346.7 billion YoY to KRW2,172.1 billion. However, excluding approximately KRW150 billion of merger costs, the actual growth rate should remain within 10%. Loan loss provisions dropped by 34.8% to record KRW448.2 billion. As Shinhan Bank has written off pre-merger Chohung's bad assets and focused on healthy assets such as mortgage loans, loan loss provisions is expected to decline on a continuing basis.

	(KRW billion)			
	FY2006	FY2005	Chg Amt	Chg %
Total Income (a=b+c)	4,335.2	3,953.6	381.7	9.7
Interest Income (b)	3,404.9	3,130.1	274.8	8.8
Non-interest Income (c)	930.3	823.5	106.8	13.0
SG&A Expenses (d)	2,172.1	1,825.4	346.7	19.0
Operating Income (e=a-d)	2,163.2	2,128.2	34.9	1.6
Non-operating Income (f)	569.2	117.0	452.2	386.6
Pre-provision Income (g=e+f)	2,732.3	2,245.2	487.1	21.7
Loan Loss Provision (h)	448.2	687.2	-239.0	-34.8
Pre-tax income (i=g-h)	2,284.1	1,558.0	726.2	46.6
Net income	<b>1,626.1</b>	<b>1,293.5</b>	<b>332.7</b>	<b>25.7</b>

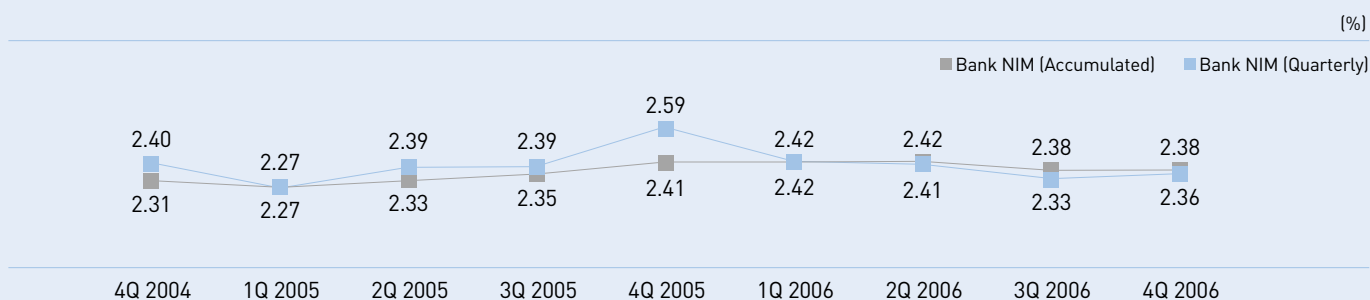
Note) Pro Forma based : The above figures assume that the integration of SHB + CHB and spin off of credit card operations of CHB have occurred.

### (2) Interest Income & NIM

Shinhan Bank's interest income grew by 8.8% or KRW274.8 billion YoY to KRW3,404.9 billion. Interest revenue increased by 16.9% or KRW1,135.1 billion to KRW7,847.2 billion in 2006 due to the growth of KRW7.5 trillion in its interest bearing assets and a 0.42%p improvement in the average yield. Of interest income on securities, interest income from beneficiary certificates soared by KRW78.7 billion to KRW108.9 billion in 2006 from KRW30.2 billion in 2005, resulting from the gradual fall in long-term interest rates. Interest expenses increased by 24.0% or KRW860.3 billion to KRW4,442.3 billion as funding costs went up in line with interest rate rise and due to a shift of funding sources to financial debentures.

# Management's Discussion & Analysis

## NET INTEREST MARGIN



	(KRW billion)			
	FY2006	FY2005	Chg Amt	Chg %
Interest Revenue (a)	7,847.2	6,712.1	1,135.1	16.9
Interest on Loans	6,599.7	5,644.1	955.6	16.9
Interest on Securities/Others	1,247.5	1,068.0	179.5	16.8
Interest Expense (b)	4,442.3	3,582.0	860.3	24.0
Interest on Deposits	2,707.0	2,336.1	370.9	15.9
Interest on Financial Debentures/Borrowings	1,735.3	1,245.9	489.4	39.3
Interest Income (a-b)	<b>3,404.9</b>	<b>3,130.1</b>	<b>274.8</b>	<b>8.8</b>

Note) Pro Forma based

The net interest margin (NIM) in 2006 edged down by 3bp to 2.38% from 2.41% in 2005. This fall was minimal relative to Shinhan Bank's peers because the yield on loans expanded due to call rate hikes by 1.25%p over five occasions from October 2005 and low cost deposits such as court escrow deposits increased to improve the funding cost efficiency. Shinhan Bank also opted for an appropriate asset growth strategy to minimize the fall unlike its peers' in pursuing aggressive expansions.

### (3) Non-interest Income

Shinhan Bank's non-interest income increased by 13.0% or KRW106.8 billion YoY to KRW930.3 billion. As high-yield financial instruments have gained increasing attention from investors, commissions on fund sales surged by 76.4% or KRW68.2 billion YoY. On the other hand, Bancassurance related commissions declined by 15.3% or KRW17.6 billion YoY, following a delay in regulatory overhaul on automotive and life insurances to April 2008, and market saturation limiting promotion of new subscriptions.

Excluding fund and Bancassurance commissions, total fee income declined by approximately KRW30 billion YoY reflecting the changes made to accounting principles for IB related fees and commissions, and approximately KRW37 billion of fee income carried over to the fiscal year 2007 as a result. Foreign exchange and other fees skyrocketed by KRW96.7 billion YoY due to the retrieval of KRW43.2 billion of the losses incurred in 2005 and dividend proceeds of KRW64 billion from the NPL-ABS issued in 2006.

(KRW billion)

	FY2006	FY2005	Chg Amt	Chg %
Non-interest Income (A)	<b>930.3</b>	<b>823.5</b>	<b>106.8</b>	<b>13.0</b>
Fees & Commissions	743.3	733.4	9.9	1.4
Funds	157.5	89.3	68.2	76.4
Bancassurance	97.3	114.9	-17.6	-15.3
Trust Fees & Income	44.6	44.5	0.1	0.3
FX Commissions & Others	142.4	45.7	96.7	211.6

Note) Pro Forma based

#### (4) SG&A Expenses

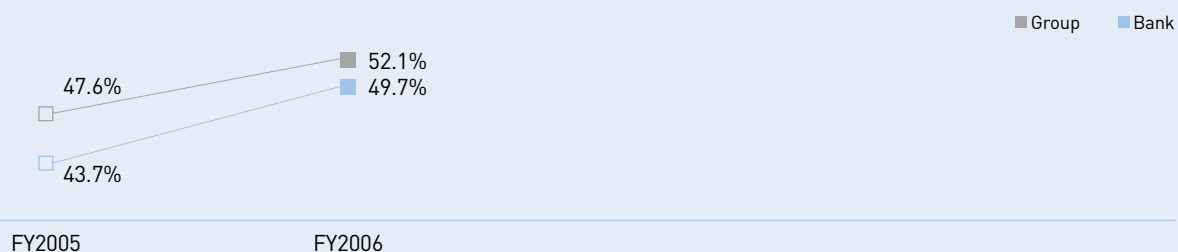
SG&A expenses in 2006 increased by 19.0% or KRW346.7 billion YoY, mostly due to approximately KRW150 billion of the merger costs including KRW90 billion for integration bonuses, KRW20 billion for IT upgrades and depreciation, KRW20 billion for brand replacement, and KRW20 billion for increased rents to expand business channels. All of these expenses are one off charges made with the exclusion of IT upgrading and depreciation costs. The cost income ratio has also risen, but may still improve by 2 - 3%p if the costs including goodwill amortization, IT upgrades, and merger expenses were deducted herefrom.

(KRW billion)

	FY2006	FY2005	Chg Amt	Chg %
Total	<b>2,172.1</b>	<b>1,825.4</b>	<b>346.7</b>	<b>19.0</b>
Labor Cost	905.3	825.1	80.2	9.7
Administrative Expense	1,015.3	769.1	246.2	32.0
Depreciation & Amortization Expenses	180.7	156.7	24.0	15.3
Taxes & Dues	70.8	74.5	-3.7	-5.0

Note) Pro Forma based

#### COST-TO-INCOME RATIO



# Management's Discussion & Analysis

## 3. Shinhan Card

For 2006, Shinhan Card achieved KRW232.1 billion of net income reflecting KRW177.9 billion of increase YoY. Its net income more than quadrupled because the credit card business of pre-merger Chohung Bank spun off and merged into Shinhan Card on April 1, 2006, and its income generated over the preceding nine month period was included. Successfully integrating both Chohung's credit card customer base and business network into Shinhan's, Shinhan Card has enjoyed marketing new clients of a broader spectrum and its operating revenues have substantially increased. Among the operating expenses, loan loss provisions have significantly increased relative to the preceding year to cover potential delinquencies expected to arise from Chohung's re-aged loans. These provisions were also made in advance conservatively to ensure that they are in line with industry requirements. Income taxes reflect KRW82.3 billion of the deferred income tax benefits carried over by Chohung as recognized within its spin off process.

	(KRW billion)			
	FY2006	FY2005	Chg Amt	Chg %
Operating Revenue	<b>831.9</b>	<b>417.1</b>	<b>414.8</b>	<b>99.5</b>
Credit Card Revenue	734.2	302.1	432.0	143.0
Revenue from Securitization	84.5	104.2	-19.7	-18.9
Interest Revenue	0.2	0.0	0.2	n.a.
Other Operating Revenue	13.0	10.7	2.3	21.5
Operating Expense	<b>639.1</b>	<b>356.9</b>	<b>282.2</b>	<b>79.1</b>
Credit Card Expense	311.8	151.9	159.9	105.2
Interest Expense	117.4	62.1	55.3	89.0
Bad Debt Expense	92.0	86.2	5.8	6.8
Selling and administrative Expense	117.7	56.5	61.2	108.5
Other Expense	0.2	0.2	-	-
Operating Income	<b>192.8</b>	<b>60.2</b>	<b>132.6</b>	<b>220.4</b>
Non-Operating Income	-8.5	-1.8	-6.8	387.6
Ordinary Income	<b>184.3</b>	<b>58.4</b>	<b>125.8</b>	<b>215.4</b>
Income Tax Expense	-47.8	4.2	-52.0	n.a.
Net Income	<b>232.1</b>	<b>54.2</b>	<b>177.9</b>	<b>327.9</b>

Note) FY2006 figures include 9 months of income from pre-merger Chohung Bank's credit card operation, after merging into Shinhan Card on April 1, 2006.

## 4. Good Morning Shinhan Securities

Good Morning Shinhan Securities achieved KRW116.9 billion of operating income in 2006 reflecting a 1.0% growth YoY and KRW96.2 billion of net income reflecting a 10.3% growth YoY. Comprising 76.0% of the total operating revenue, the commissions declined by 3.3% YoY to record KRW331.1 billion, which is primarily attributed to the proportion of stock transaction volume by individual investors declining to 65.1% in 2006 from 72.8% in 2005 and the average daily trading volume of individual investors falling to KRW3.36 trillion on a daily average from KRW3.61 trillion in 2005.

Comprised of gains on short-term trading securities and other derivatives, net trading gains surged by 90.5% to KRW74.3 billion in 2006 from KRW39 billion in 2005. This positive result is attributed to GMSH's consistent performance in trading bonds and other derivatives, each of which skyrocketed by 112.6% YoY to record KRW47.3 billion in 2006 and by 151.9% YoY to record KRW33.6 billion in 2006, respectively.

The net interest income dropped by 10.4% YoY to KRW32.1 billion, comprising 7.4% of the total operating income, mainly due to the increased interest expenses incurred by the growing RP demand. Of the operating expenses, SG&A expenses increased by 5.2% YoY to KRW268.6 billion in 2006, whose details are provided as follows.



(KRW billion)

	CY2006	CY2005	Chg Amt	Chg %
Operating revenue	<b>435.8</b>	<b>422.1</b>	<b>13.8</b>	<b>3.3</b>
Commissions received	331.1	342.5	-11.3	-3.3
Net Trading gain	74.3	39.0	35.3	90.5
Net Interest income	32.1	35.9	-3.7	-10.4
Other operating income	-1.7	4.7	-6.5	-137.0
Operating Expenses	<b>318.8</b>	<b>306.4</b>	<b>12.5</b>	<b>4.1</b>
Commission expense	50.2	51.1	-0.9	-1.7
SG&A expense	268.6	255.3	13.4	5.2
Operating Income	<b>116.9</b>	<b>115.7</b>	<b>1.1</b>	<b>1.0</b>
Non-operating income(loss)	17.3	5.3	11.9	222.9
Ordinary Income	<b>134.1</b>	<b>121.1</b>	<b>13.1</b>	<b>10.8</b>
Net Income Before Taxes	<b>134.1</b>	<b>121.1</b>	<b>13.1</b>	<b>10.8</b>
Income tax	37.9	33.8	4.1	12.1
Net Income(Loss) for the Year	<b>96.2</b>	<b>87.2</b>	<b>9.0</b>	<b>10.3</b>

## (1) Commissions

(KRW billion)

	CY2006	CY2005	Chg Amt	Chg %
Commissions received	<b>331.1</b>	<b>342.5</b>	<b>-11.3</b>	<b>-3.3</b>
Brokerage commissions	279.9	306.3	-26.5	-8.6
Underwriting commissions	9.4	9.3	0.0	0.4
Brokerage commissions on beneficial certificate	11.8	9.3	2.5	26.9
Consulting fee	0.9	1.0	-0.1	-7.0
Others*	29.2	16.5	12.6	76.5

\*including ELS sales commissions

## (2) SG&amp;A Expenses

(KRW billion)

	CY2006	CY2005	Chg Amt	Chg %
SG&A expenses	<b>268.6</b>	<b>255.3</b>	<b>13.4</b>	<b>5.2</b>
Salary	171.8	162.2	9.6	5.9
Other General Expense	84.8	81.9	2.8	3.5
Depreciation	11.3	10.0	1.3	12.9
Credit loss expenses	0.8	1.2	-0.3	-28.3

# Management's Discussion & Analysis

## 5. Shinhan Life

	(KRW billion)			
	CY2006	CY2005	Chg Amt	Chg %
Insurance Operating Net Results	<b>882.1</b>	<b>699.9</b>	<b>182.2</b>	<b>26.0</b>
Premiums written	2,034.5	1,698.0	336.5	19.8
Claims paid (-)	686.1	573.5	112.6	19.6
Reinsurance operating results	-0.9	-0.5	-0.4	87.0
Operating expenses (-)	465.4	424.1	41.3	9.7
Net Investment Gains	253.8	171.0	82.8	48.4
Others	-6.9	-11.7	4.8	-41.4
General Account Operating Net Results	1,129.0	859.2	269.8	31.4
Separate Account Operating Net Results	59.0	61.5	-2.5	-4.1
Total Operating Net Results	<b>1,188.0</b>	<b>920.7</b>	<b>267.3</b>	<b>29.0</b>
Provision of Policy Reserve (-)	1,022.2	818.5	203.7	24.9
Net Income Before Taxes	165.8	102.2	63.6	62.2
Net Income	<b>121.5</b>	<b>74.1</b>	<b>47.4</b>	<b>64.0</b>

Shinhan Life achieved KRW121.5 billion of net income in 2006 reflecting a 64.0% growth YoY. Its total operating net results recorded KRW1,188.0 billion, which demonstrates 29.0% of increase YoY resulting from the continued growth in insurance premiums written and net investment gains contributing KRW82.8 billion. While provision of policy reserves increased by 24.9%, its net income improved by 64.0% YoY.

Shinhan Life's premiums written steadily grew as it expanded business capacities including consultants, telemarketing channels, branch offices and Bancassurance channels, of which the telemarketing channels in particular currently maintain industry leading performance. Of the expenses, claims paid increased by 19.6% YoY and operating expenses by 9.7%. Overall, Shinhan Life's total operating net results increased by 29.0% YoY because the income growth rate remained higher than that of expenses.

Net investment gains from asset management also improved by 48.4% or KRW82.8 billion as Shinhan Life proactively managed its asset portfolios to realize KRW24.4 billion of gains on the disposition of securities and increased hold-to-maturity bonds by KRW545.5 billion, thereby reflecting additional KRW48.4 billion of interest income in 2006.

## III. Analysis of Financial Conditions

### 1. Shinhan Financial Group

#### (1) Total Assets

The Group's total assets as of end 2006 recorded KRW177.7 trillion reflecting 10.9% or KRW17.5 trillion YoY according to the consolidated financial statements. Of the Group's subsidiaries, Shinhan Bank, Shinhan Card, and Shinhan Life have increased their assets by KRW11.5 trillion, KRW2 trillion, and KRW1 trillion each most notably. Within these achievements, the loans extended in Korean won increased by KRW11.4 trillion, loans in foreign currencies by KRW2.1 trillion, securities by KRW1 trillion, and other assets increased by KRW3 trillion, respectively. Shinhan Bank and Jeju Bank contributed KRW8.7 trillion and KRW0.3 trillion each to the increases in the loans in Korean won. Shinhan Card's assets also increased by approximately KRW2 trillion because pre-merger Chohung Bank's credit card business was spun off and merged into Shinhan Card on April 1, 2006. Shinhan Life's assets increased by KRW1 trillion as policy premiums received significantly increased alongside other assets under management such as marketable securities and loans.

Deposits, borrowings and financial debenture issues were used to cover the increased loan extensions, of which deposits increased by KRW7.6 trillion and borrowings and financial debentures by KRW7.6 trillion YoY.

Summary of Group Consolidated Balance Sheet

(KRW billion)

	Dec. 2006	Dec. 2005	Chg Amt	Chg %
Loans in Won	94,643.7	83,197.9	11,445.8	13.8
Loans in FC*	10,070.2	7,935.5	2,134.7	26.9
Trading Securities	31,284.4	30,224.4	1,060.0	3.5
Credit Card Accounts	3,518.1	3,861.5	-343.4	-8.9
Fixed Assets	3,683.8	3,486.8	197.0	5.7
Other Assets	34,525.0	31,511.8	3,013.2	9.6
<b>Total</b>	<b>177,725.2</b>	<b>160,217.9</b>	<b>17,507.3</b>	<b>10.9</b>
Deposits in Won	95,507.9	87,888.0	7,619.9	8.7
Deposits in FC	4,250.5	3,647.3	603.2	16.5
Borrowings/Financial Debentures	46,376.9	38,756.5	7,620.4	19.7
Other Liabilities	20,077.7	19,715.3	362.5	1.8
Capital Stock	11,512.1	10,210.9	1,301.2	12.7
<b>Total</b>	<b>177,725.2</b>	<b>160,217.9</b>	<b>17,507.3</b>	<b>10.9</b>

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

The Group's consolidated assets under management combining assets entrusted in trust and asset management subsidiaries recorded KRW216.4 trillion as of end 2006, demonstrating 11.7% or KRW22.6 trillion of growth YoY attributing to KRW2 trillion of increase in trust accounts on top of the asset growth reflected within the consolidated financial statements and KRW4.4 trillion of increase in assets under management from Shinhan BNP Paribas ITMC and SH Asset Management.

(KRW billion)

	Dec. 2006	Dec. 2005	Chg Amt	Chg %
<b>Total Assets</b>				
New SHB	177,007.6	163,288.6	13,719.1	8.4
Bank Account	154,240.5	142,744.4	11,496.1	8.1
Trust Account	23,750.1	21,675.1	2,074.9	9.6
GMSH	4,126.8	3,882.5	244.2	6.3
SH Life	6,225.9	5,129.3	1,096.6	21.4
SH Card	3,558.4	1,532.3	2,026.1	132.2
Jeju Bank	2,481.6	2,069.0	412.6	19.9
SH Capital	1,948.5	1,400.8	547.7	39.1
SH BNPP ITMC (AUM)	8,511.0	7,352.8	1,158.2	15.8
SH Asset Mgmt. (AUM)	11,041.0	7,787.5	3,253.5	41.8
<b>Total</b>	<b>196,809.8</b>	<b>178,598.8</b>	<b>18,211.0</b>	<b>10.2</b>
(Including AUM)	216,361.8	193,739.1	22,622.7	11.7

## Management's Discussion & Analysis

### (2) Total Deposits

The Group's total deposits as of end 2006 increased by 9.4% or approximately KRW9.4 trillion to KRW108.9 trillion. Of the Group's subsidiaries, Shinhan Bank and Jeju Bank's deposits increased by KRW9.1 trillion and KRW0.4 trillion respectively, while Good Morning Shinhan Securities' relatively declined by KRW0.2 trillion YoY. Overall, however, the Group's banks were able to increase their deposits due to broader nationwide network and increased customer base following the launch of the new Shinhan Bank.

	(KRW billion)			
	Dec. 2006	Dec. 2005	Chg Amt	Chg %
Total Deposits				
New SHB	106,240.2	97,110.3	9,129.9	9.4
Bank Account	94,048.6	87,273.0	6,775.6	7.8
Trust Account	12,191.5	9,837.3	2,354.3	23.9
GMSH	696.4	913.8	-217.4	-23.8
Jeju Bank	2,060.4	1,697.3	363.1	21.4
Total	<b>108,914.1</b>	<b>99,533.9</b>	<b>9,380.2</b>	<b>9.4</b>

### (3) Total Loans

As of end 2006, the Group's total loans increased by 14.2% or KRW14.7 trillion YoY to KRW118.1 trillion. Contributing to these increases were Shinhan Bank's KRW11.8 trillion, Shinhan Card's KRW1.5 trillion, Shinhan Capital's KRW0.6 trillion, and Jeju Bank's KRW0.3 trillion. In particular, mortgage loans jumped by KRW5.3 trillion, SME loans increased by KRW3.8 trillion, and loans in foreign currencies rose by KRW2.3 trillion. The growth in mortgage loans was attributable to a real estate market boom as well as domestic banks' efforts to expand safe and secured loan assets. SME loans also increased by large as the non-performing loans carried by pre-merger Chohung Bank were fully resolved and the new Shinhan Bank has won new businesses from quality SME subject to independent audits.

	(KRW billion)			
	Dec. 2006	Dec. 2005	Chg Amt	Chg %
Total Loans				
New SHB	109,543.1	97,743.3	11,799.8	12.1
Bank Account	109,152.2	97,366.3	11,785.9	12.1
Trust Account	391.0	377.0	13.9	3.7
GMSH	518.0	302.5	215.5	71.3
SH Life	1,553.9	1,377.9	176.0	12.8
SH Card	3,037.7	1,479.5	1,558.2	105.3
Jeju Bank	1,747.1	1,419.1	328.0	23.1
SH Capital	1,666.5	1,062.0	604.5	56.9
Total	<b>118,070.6</b>	<b>103,348.4</b>	<b>14,722.2</b>	<b>14.2</b>

### (4) Total Securities

The Group's total securities holdings increased by KRW1.8 trillion YoY, of which approximately KRW1 trillion and KRW0.6 trillion came from Shinhan Bank and Shinhan life respectively. While relatively reducing its marketable securities investment, Shinhan Bank has significantly increased its trust investment. Shinhan Life has also increased its marketable securities investment as it expanded asset management in light of the consistently increasing policy premiums received.

(KRW billion)

	Dec. 2006	Dec. 2005	Chg Amt	Chg %
Total Securities				
New SHB	33,623.4	32,625.5	997.9	13.1
Bank Account	23,493.2	23,759.4	-266.2	-1.1
Trust Account	10,130.2	8,866.1	1,264.1	14.3
GMSH	2,248.9	2,161.6	87.3	4.0
SH Life	2,657.8	2,034.4	623.4	30.6
SH Card	27.2	0.4	26.8	n.a.
Jeju Bank	390.5	357.8	32.7	9.1
SH Capital	155.1	131.6	23.5	17.9
Total	<b>38,678.5</b>	<b>36,880.8</b>	<b>1,797.7</b>	<b>4.9</b>

## 2. Shinhan Bank

### (1) Total Loans

Shinhan Bank's total loans have increased by 14.9% or KRW12.5 trillion YoY. Of the total loans in Korean won, retail loans contributed KRW6.8 trillion and corporate loans KRW3.3 trillion, while loans in foreign currencies were largely driven by those extended in the Japanese Yen to increase by approximately KRW2.4 trillion YoY.

Retail loans soared as the real estate market took off, whereby mortgage loans jumped by KRW5.3 trillion as well as group loans and unsecured loans were extended in large volumes. For corporate lending, large business exposures declined by KRW500 billion; however, SME loans grew by KRW3.8 trillion including SOHOs. Shinhan Bank's SOHO loans have increased by approximately KRW1.6 trillion YoY to serve real estate leasing, manufacturing, wholesale and retail industries.

(KRW billion)

	Dec. 2006	Dec. 2005	Chg Amt	Chg %
Loans in Won (A)	89,592.0	79,452.3	10,139.7	12.8
Retail	47,943.0	41,124.2	6,818.8	16.6
Mortgage	30,451.9	25,126.1	5,325.8	21.2
Others	17,491.1	15,998.1	1,493.0	9.3
Corporate	41,649.0	38,328.1	3,320.9	8.7
SME	34,865.5	31,054.8	3,810.7	12.3
SOHO	13,022.5	11,449.4	1,573.1	13.7
Large Corporate & Others	6,783.5	7,273.3	-489.8	-6.7
Loans in Foreign Currency (B)	7,070.1	4,699.4	2,370.7	50.4
Total Loans (A+B)	<b>96,662.1</b>	<b>84,151.7</b>	<b>12,510.4</b>	<b>14.9</b>

Note) Pro Forma based



# Management's Discussion & Analysis

## (2) Total Deposits

Shinhan Bank's total deposits in Korean won increased by 6.8% or KRW5.5 trillion YoY, particularly due to the increase of KRW3.3 trillion in low cost deposits and KRW2.3 trillion in certificates of deposit. Low cost deposits have grown because Shinhan Bank has successfully expanded the base for low cost deposits through its nationwide channels and customer base. Its demand deposits base also increased by KRW1.3 trillion YoY, of which approximately KRW600 billion was contributed by the court escrow accounts.

Despite intense competition, Shinhan Bank has increased its time deposits by KRW1.2 trillion YoY. Customers, however, have incrementally turned away towards high-yield financial instruments such as beneficiary certificates to move their capital elsewhere from their banking accounts. As a result, the funding costs for the banking industry would likely increase going forward as CDs and financial debentures would bear higher costs.

	(KRW billion)			
	Dec. 2006	Dec. 2005	Chg Amt	Chg %
Deposits in Won	<b>85,562.0</b>	<b>80,093.0</b>	<b>5,469.0</b>	<b>6.8</b>
Low Cost Deposit	37,289.9	34,022.4	3,267.5	9.6
Demand	12,481.4	11,160.8	1,320.6	11.8
Savings	24,808.5	22,861.6	1,946.9	8.5
Other Savings	35,305.2	35,408.6	-103.4	-0.3
Time Deposits	28,394.1	27,226.0	1,168.1	4.3
Installment/Others	6,911.1	8,182.6	-1,271.5	-15.5
Certificate of Deposits	12,966.9	10,662.0	2,304.9	21.6
Financial Debentures in Won	<b>21,703.5</b>	<b>18,056.8</b>	<b>3,646.7</b>	<b>20.2</b>

Note) Pro Forma based

In terms of funding structure, Shinhan Bank's portfolio in 2006 does not render significant changes since the end of 2005, but demonstrates that time deposits have edged down and low cost deposits and CDs have gained relatively. Of the latter, low cost deposits have apparently continued to successfully maintain a solid funding structure compared to its peers'.

## Deposit Compositions (New Shinhan Bank)

	Dec. 2006	Dec. 2005
Low Cost Deposits	40%	39%
Demand	13%	13%
Low Cost Saving	26%	26%
Time Deposits	37%	39%
Installment Deposits	1%	2%
Certificate of Deposits	14%	12%
RPs, Bills Sold	5%	5%
Deposits in FC	4%	3%
Total	100%	100%

### 3. Shinhan Card

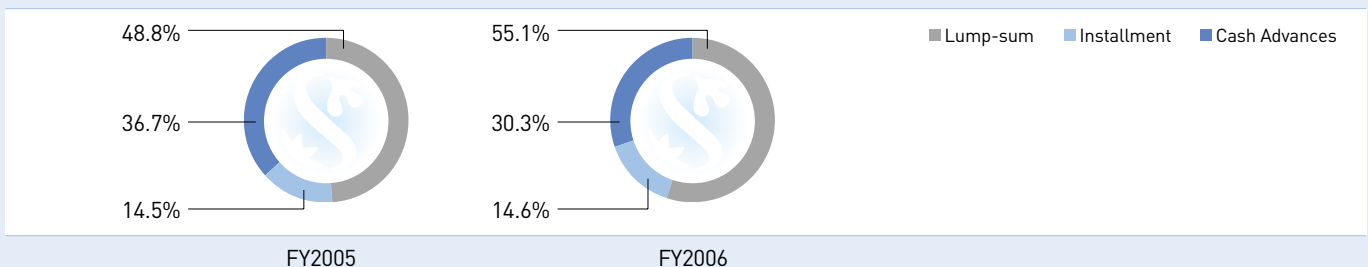
As of end 2006, Shinhan Card's total assets under management recorded approximately KRW3.9 trillion reflecting a negative growth of 7.6% YoY. Its receivables declined by 5.9% YoY as the receivables for purchasing cards slowed down in growth. With the latter excluded, however, receivables have increased by 5%, or approximately KRW120 billion, YoY. Cash advances and card loans have also recorded negative growths of 13.3% and 3.4% each due to declining usage. Shinhan Card has continually managed risks and reduced credit limits to control pre-merger Chohung's re-aged loans, which have significantly declined YoY as a result.

Total credit card usage amounted to KRW26.8 trillion reflecting a 4.7% growth YoY. Installment charges consistently increased, but cash advances have continued to decrease. Shinhan Card's membership increased by half a million YoY based upon active customer base, while the number of affiliated merchant has remained practically the same.

	(KRW billion)			
	Dec. 2006	Dec. 2005	Chg Amt	Chg %
Assets (Managed)	<b>3,900.5</b>	<b>4,222.7</b>	<b>-320.3</b>	<b>-7.6</b>
Receivables	2,389.4	2,539.5	-150.1	-5.9
(Purchasing cards)	193.9	462.5	-268.5	-58.1
Cash Advances	984.2	1,135.6	-151.4	-13.3
Card Loans	526.9	545.7	-18.8	-3.4
(Re-aged loans)	99.3	274.2	-174.9	-63.8
Annual Total Usage	<b>26,825.9</b>	<b>25,624.3</b>	<b>1,201.5</b>	<b>4.7</b>
Lump-sum	15,364.5	12,972.7	2,391.9	18.4
(Check cards)	1,310.2	930.2	379.9	40.8
Installment	3,720.8	3,584.4	136.4	3.8
Cash Advances	7,740.5	9,067.3	-1,326.7	-14.6
Members (thousand)	4,625	4,117	508	12.3
Merchants (thousand)	3,107	3,181	-74	-2.3

Note) Pro Forma based: Pre-merger Shinhan Card + Pre-merger Chohung Bank's credit card operation  
Composition of Shinhan Card's Tptal Usage ex. Check cards

#### COMPOSITION OF SHINHAN CARD'S TOTAL USAGE



# Management's Discussion & Analysis

## 4. Good Morning Shinhan Securities

GMSH's total assets increased by 6.3% YoY to KRW4.1 trillion as of end 2006, of which 91.9% or KRW3.8 trillion are current assets reflecting a 6.6% growth YoY. Deposits as of end 2006 fell by 17.8% YoY to KRW729.2 billion, while stock related loans jumped by 74.9% YoY to KRW509.5 billion. Current securities have also increased by 29.7% YoY to KRW1.4522 trillion, 63.4% or KRW921 billion of which are bonds. Other current assets declined by 12.6% YoY to KRW1.1 trillion as of end 2006 due to the decreased Back-to-Back ELS volume. Total liabilities increased by 5.0% YoY to KRW3.3 trillion as of end 2006 as others among the current liabilities have increased by RP sales and ELS and ELW issues. Long term liabilities swelled by KRW103.5 billion YoY to KRW190.5 billion as of end 2006, which is a result of borrowing KRW100 billion in July 2006 as subordinated debts.

Total shareholders' equity grew by 11.6% YoY to KRW848.6 billion as of end 2006 reflecting the increased net income, among others.

While GMSH's stock transaction volume rose by 3.4% YoY to KRW151 trillion, its market share edged down by 0.23%p to 5.67% in 2006. Its futures market share, however, climbed up by 1.64%p to 6.62% in 2006, as the futures transaction volume jumped by 77.6% to KRW539 trillion in 2006. The options transaction volume declined by 36.9% YoY to KRW15 trillion in 2006, and GMSH's market share also declined by 3.27%p to 5.22%.

	(KRW billion)			
	Dec. 2006	Dec. 2005	Chg Amt	Chg %
Current assets	3,790.7	3,555.8	234.9	6.6
Deposits	729.2	887.5	-158.3	-17.8
Current Securities	1,452.2	1,119.3	332.9	29.7
Loans	509.5	291.3	218.2	74.9
Others	1,099.8	1,257.7	-157.9	-12.6
Non-current assets	336.2	326.9	9.3	2.8
Non-current securities & Investment	139.5	127.1	12.4	9.8
Tangible fixed assets & Others	196.7	199.9	-3.2	1.6
<b>Total Assets</b>	<b>4,126.9</b>	<b>3,882.7</b>	<b>244.2</b>	<b>5.8</b>
Current liabilities	3,087.8	3,035.3	52.5	1.7
Call money	186.3	274.0	-87.7	-32.0
Short-term borrowings	0	70.0	-70.0	-100.0
Customers' deposits	696.4	913.8	-217.4	-23.8
Others	2,205.1	1,777.5	427.6	24.1
Long-term liabilities	190.5	87.1	103.4	118.7
<b>Total liabilities</b>	<b>3,278.3</b>	<b>3,122.3</b>	<b>156.0</b>	<b>5.0</b>
Total stockholder's equity	848.6	760.4	88.2	11.6
<b>Total liabilities &amp; shareholders' equity</b>	<b>4,126.9</b>	<b>3,882.7</b>	<b>244.2</b>	<b>6.3</b>

## Market Share

	(%)		
	Dec. 2006	Dec. 2005	Chg %
Stocks	5.67	5.90	-0.23
Futures	6.62	4.98	1.64
Options	5.22	8.49	-3.27

## Trade Volume

	(KRW trillion)			
	Dec. 2006	Dec. 2005	Chg Amt	Chg %
Stocks	151	146	5	3.4
Futures	539	303	236	77.9
Options	15	24	-9	-37.5

## 5. Shinhan Life

As the insurance premium income continued to increase, Shinhan Life achieved KRW6,225.9 billion of total assets as of end December 2006 reflecting a 21.4% growth YoY. Its maturity matching between assets and liabilities has further improved as securities holdings rose by KR 623.4 billion, primarily driven by KRW545.5 billion increase in hold-to-maturity bonds. Shinhan Life increased its loan assets by KRW176.0 billion by extending credits to its policyholders, while separate account assets comprising pension and variable insurance products jumped by 50.3% or KRW221.5 billion to record a total of KRW662.0 billion.

As for liabilities, Shinhan Life has increased its policy reserve in line with the growth in sales of insurance policies. Total shareholders' equity rose by 35.2% YoY to record KRW430.5 billion due to the increase in retained earnings, among others.

	(KRW billion)			
	Dec. 2006	Dec. 2005	Chg Amt	Chg %
Cash & deposits	403.0	426.8	-23.8	-5.6
Marketable securities	2,657.8	2,034.4	623.4	30.6
Loans	1,553.9	1,377.9	176.0	12.8
Fixed assets	20.1	15.7	4.4	28.4
Other assets	929.2	834.1	95.1	11.4
Separate account assets	662.0	440.5	221.5	50.3
<b>Total Assets</b>	<b>6,225.9</b>	<b>5,129.3</b>	<b>1,096.6</b>	<b>21.4</b>
Policy reserve	4,873.5	4,046.7	826.9	20.4
Policyholders equity adjustment	6.0	3.8	2.3	61.0
Other liabilities	253.8	319.9	-66.0	-20.6
Separate account liabilities	662.0	440.5	221.5	50.3
<b>Total liabilities</b>	<b>5,795.4</b>	<b>4,810.8</b>	<b>984.6</b>	<b>20.5</b>
Total shareholders' equity	430.5	318.5	112.0	35.2
<b>Total liabilities &amp; shareholders' equity</b>	<b>6,225.9</b>	<b>5,129.3</b>	<b>1,096.6</b>	<b>21.4</b>



# Management's Discussion & Analysis

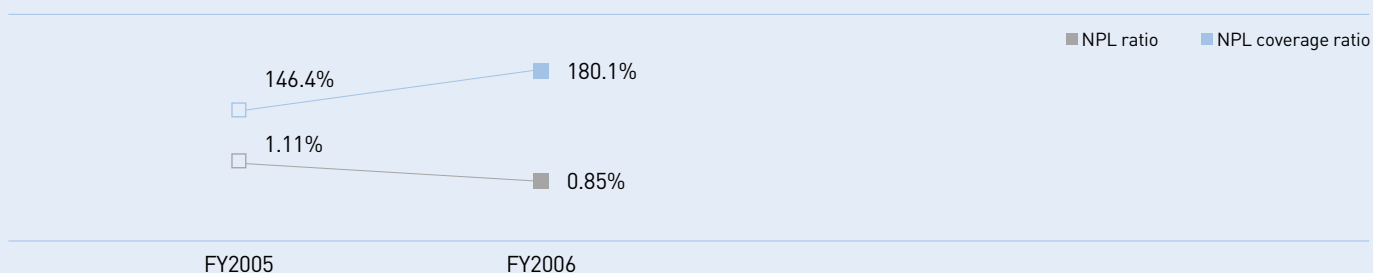
## IV. Asset Quality

### 1. Shinhan Financial Group

	Dec. 2006	Dec. 2005	Chg Amt	Chg %
	(KRW billion)			
Total	127,095.4	109,005.5	18,089.9	16.6
Normal	124,424.2	105,645.8	18,778.4	17.8
Precautionary	1,592.7	2,149.2	-556.5	-25.9
Substandard	492.4	680.4	-188.0	-27.6
Doubtful	200.0	189.9	10.1	5.3
Estimated Loss	386.2	340.1	46.0	13.5
Precautionary & Below	2,671.2	3,359.6	-668.4	-20.5
Ratio	2.10%	3.08%	n.a.	-1.0%p
Substandard & Below	1,078.5	1,210.4	-131.9	-10.9
Ratio	0.85%	1.11%	n.a.	-2.26%p
Loan Loss Reserve	1,942.2	1,772.4	169.8	9.6
Coverage Ratio				
Precautionary & Below	72.7%	52.8%	n.a.	20.0%p
Substandard & Below	180.1%	146.4%	n.a.	33.7%p

\*Combining Shinhan/Jeju Bank, Good Morning Shinhan Securities, Shinhan Card, and Shinhan Capital's loan assets subject to classification.

### NPL RATIO & COVERAGE RATIO



The Group's asset quality has taken on a more stable path. Out of total loans of KRW127 trillion subject to provisioning, Shinhan Bank carries 92% or KRW117 trillion and Shinhan Card 3% or KRW3.9 trillion, respectively. On the back of the Group's relentless efforts to focus upon mortgage loans and increase the healthier business client base, loan assets classified as normal grew by 17.8% or KRW18.7 trillion YoY and those classified as precautionary and below declined by 20.5% or KRW688.4 billion as a result of its successful risk management.

The Group proudly maintains 2.10% the precautionary and below ratio and 0.85% for substandard and below ratio, which are the industry best. The substandard and below coverage ratio in particular recorded 180.1%, marking the highest since its inception and well cushioned against any future shocks. Attributing to this achievement in part was approximately KRW160 billion of additional provisions the Group made in line with the regulatory mandate raising the minimum ratios for retail, corporate and credit card assets classified as normal and precautionary during the 4th quarter of 2006.

## 2. Shinhan Bank

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

	(KRW billion)			
	Dec. 2006	Dec. 2005	Chg Amt	Chg %
Total	<b>117,551.9</b>	<b>100,333.7</b>	<b>17,218.2</b>	<b>17.2</b>
Normal	115,253.4	97,466.5	17,786.9	18.2
Precautionary	1,415.8	1,878.2	-462.4	-24.6
Substandard	471.2	662.4	-191.2	-28.9
Doubtful	126.2	86.6	39.6	45.7
Estimated Loss	285.3	240.0	45.3	18.9
Substandard & Below Loans	882.7	989.0	-106.3	-10.8
Ratio	<b>0.75%</b>	<b>0.99%</b>		<b>-0.23%p</b>
Loan Loss Reserve	1,626.2	1,471.6	154.6	10.5
NPL Coverage	<b>184.2%</b>	<b>148.8%</b>		<b>35.4%p</b>
Write-off (accumulated)	52.3	75.0	-22.7	-30.3

As of end 2006, Shinhan Bank's ratio of substandard and below loans has declined by 0.23%p to the 0.75%, the industry lowest. The ratio has improved for the past three consecutive years thanks to Shinhan Bank's strenuous efforts to expand long-term mortgage loans and flawless control of loans in arrears during the merger process. Most notable is the NPL coverage ratio that has improved by 35.4%p YoY to 184.2%, marking the highest within the industry. Reflected within this remarkable achievement are Shinhan Bank's preemptive adjustments made to raise the lowest ceilings for the normal and precautionary loans in the 4th quarter of 2006 and approximately KRW160 billion of additional loan loss provisions made.

The delinquency ratio as of end 2006 also declined by 0.27%p YoY to 0.65% demonstrating exceptional quality. While the delinquency ratios for retail and corporate loans posted 0.61% and 0.98% each, the large corporate delinquency ratio jumped by 1.81%p YoY to 1.82%, attributing to HK(former Hankook Textile Co.) and Pantech affiliates undergoing court receivership. Once the court authorizes their receivership, their exposures are expected to be restored to normal.

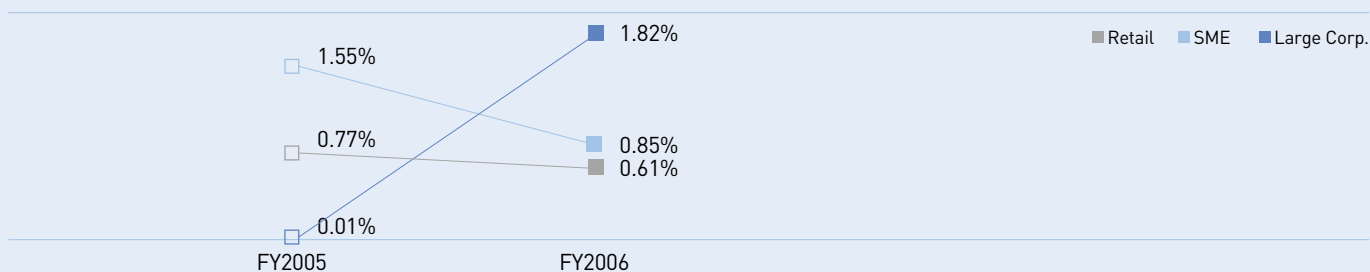
### (2) Delinquency Ratio

	Dec. 2006	Dec. 2005	Chg %p
Overall	<b>0.65%</b>	<b>0.92%</b>	<b>-0.27</b>
Retail	<b>0.61%</b>	<b>0.77%</b>	<b>-0.16</b>
Mortgages	0.32%	0.35%	-0.03
Others	1.55%	1.40%	0.15
Corporate	<b>0.98%</b>	<b>1.29%</b>	<b>-0.31</b>
SMEs	0.85%	1.55%	-0.70
SOHO	0.99%	1.53%	-0.54
Large Corporate	1.82%	0.01%	1.81

Note) Pro Forma based

# Management's Discussion & Analysis

## DELINQUENCY RATIO



### 3. Shinhan Card

Shinhan Card's NPL ratio as of end 2006 recorded 3.16% falling by 21bps YoY. While its asset quality has relatively deteriorated after integrating with Chohung Bank's credit card division, the ratio of substandard and below loans remains at 1.52% with the exclusion of Chohung's re-aged loans.

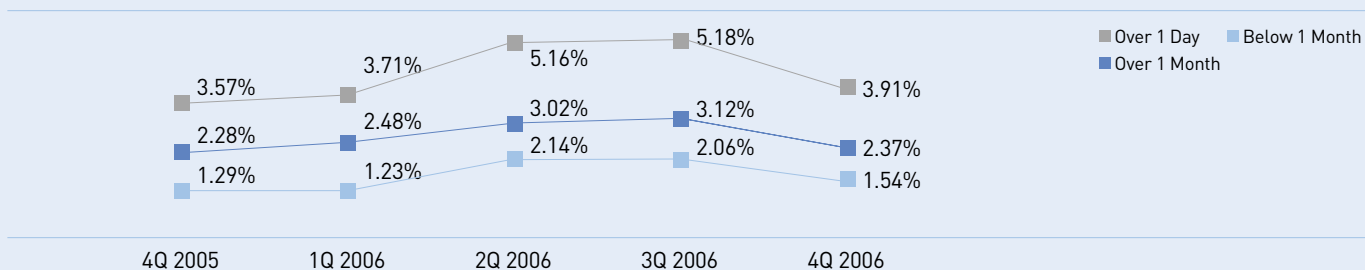
The NPL coverage ratio improved by 27.7%p to record 171.1% as of end 2006, which is attributed to the additional provisions Shinhan Card made in advance of the strengthening regulations against the bank-affiliated credit card company. Shinhan Card has successfully maintained the delinquency ratio for one month overdue or longer at 2.37% as of end 2006.

#### Credit Card Asset Classification

	Dec. 2006	Dec. 2005	Chg Amt	Chg %
	(KRW billion)			
Assets (Managed)	<b>3,900.5</b>	<b>4,220.7</b>	<b>-320.3</b>	<b>-7.6</b>
Normal	3,668.4	3,869.8	-201.4	-5.2
Precautionary	108.7	208.5	-99.8	-47.9
Substandard	0.0	1.0	-1.0	n.a.
Doubtful	67.3	92.7	-25.4	-27.4
Estimated Loss	56.0	48.8	7.3	14.9
Substandard & Below	123.3	142.4	-19.1	-13.4
Ratio	<b>3.16%<sup>1)</sup></b>	<b>3.37%</b>	<b>n.a.</b>	<b>-0.2%p</b>
Loan loss reserve (Managed)	211.1	204.2	6.8	3.3
NPL coverage	<b>171.1%</b>	<b>143.4%</b>	<b>n.a.</b>	<b>27.7%p</b>
NPL sales	0.8	0.0	0.8	n.a.
ABS issuance	0.0	0.0	0.0	n.a.
Write-off	62.7	74.8	-12.1	n.a.

Note 1) 1.52%, excluding Chohung's re-aged loans.

## CHANGES IN CREDIT CARD DELINQUENCY RATIOS



### Shinhan Card Delinquent Ratio

	(KRW billion)			
	Dec. 2006	Dec. 2005	Chg Amt	Chg %
Total credit card balance	<b>3,900.5</b>	<b>4,220.7</b>	<b>-320.3</b>	<b>-7.6</b>
Delinquent Amount (Over 1 day)	152.4	150.6	1.8	1.2
Below 1 month	60.1	54.5	5.6	10.3
Over 1 month	92.3	96.1	-3.8	-3.9
Delinquency Ratio (Over 1 day)	3.91%	3.57%	n.a.	0.34%p
Below 1 month	1.54%	1.29%	n.a.	0.25%p
Over 1 month	2.37%	2.28%	n.a.	0.09%p

Note) Pro Forma based: Pre-merger Shinhan Card + Pre-merger Chohung Bank's credit card operation

## 4. Shinhan Life

### (1) Asset Quality

Shinhan Life's ratio of NPLs weighted against its total assets edged down by 0.01%p YoY to 0.2%, reflecting an industry highest asset quality thanks to its successful short-term delinquencies management and holdings of high quality bonds.

	(KRW billion)						
	Dec. 2006			Dec. 2005			Change
	Amount	NPL	Ratio	Amount	NPL	Ratio	
Normal	4,319.6	0.0	0.0%	3,496.3	0.0	0.0%	0.0%p
Precautionary	14.3	0.0	0.0%	14.6	0.0	0.0%	0.0%p
Substandard	2.5	0.5	5.6%	3.8	0.8	10.3%	-4.7%p
Doubtful	0.3	0.2	1.8%	0.2	0.1	1.7%	0.1%p
Estimated Loss	8.1	8.1	92.6%	6.4	6.4	88.0%	4.6%p
<b>Total</b>	<b>4,344.8</b>	<b>8.8</b>	<b>0.2%</b>	<b>3,521.4</b>	<b>7.3</b>	<b>0.2%</b>	<b>-0.01%p</b>

# Management's Discussion & Analysis

## (2) Loan Loss Provisions

The loan loss coverage ratio as of end 2006 has increased by 20.5%p to 200.0%. Shinhan Life has continued to enhance its asset quality by proactively managing short-term delinquencies and focusing on credit extensions to high-credit quality policyholders.

	(KRW billion)		
	Dec. 2006	Dec. 2005	Chg Amt
Substandard	2.2	3.4	-1.2
Doubtful	0.0	0.0	0.0
Estimated Loss	6.7	5.3	1.3
Substandard & Below Loans	8.8	8.8	0.1
Loan Loss Provisions	17.7	15.7	2.0
Provision	<b>200.0%</b>	<b>179.5%</b>	<b>20.5%p</b>

## V. Capital Adequacy Ratio

### 1. Shinhan Financial Group

As of end 2006, the Group's minimum capital requirement ratio has increased by 4.5%p YoY to record 137.3% well above the regulatory requirement of 100%, as the equity capital increased by 22.1% while the required minimum capital increased by 18.1%. Equity capital increased mainly due to the rise in return on risk capital and the steep growth in net income of the Group's subsidiaries such as securities, credit card, capital, and insurance that require a small amount of risk capital.

	(KRW billion)			
	Dec. 2006	Dec. 2005	Chg Amt	Chg %
Equity Capital (a)	13,961.2	11,434.0	2,527.2	22.1
Required Minimum Capital (b)	10,165.7	8,609.1	1,556.6	18.1
Minimum Capital Requirement Ratio (a/b)	<b>137.3%</b>	<b>132.8%</b>	<b>n.a.</b>	<b>4.5%p</b>

Note) Under the holding company regulations, more than 100% is required for the minimum capital requirement ratio.

### 2. Shinhan Bank

Shinhan Bank's BIS capital adequacy ratio as of end 2006 improved by a 0.4%p to 12.0% YoY. Its Tier I capital ratio has recorded 7.8% reflecting a 0.4%p increase YoY due to the steady growth in core capital base and net income. Its risk-weighted assets have also increased by 14.4% YoY to KRW113.6 billion, which Shinhan Bank continues to manage proactively.

	(KRW billion)			
	FY2006	FY2005	Chg Amt	Chg %
Risk Weighted Assets	113,557.5	99,255.3	14,302.2	14.4
Tier I Capital	8,869.6	7,349.6	1,520.0	20.7
Tier II Capital	4,770.1	4,202.3	567.9	13.5
BIS Ratios	<b>12.0%</b>	<b>11.6%</b>	<b>n.a.</b>	<b>0.4%p</b>
Tier I capital ratio	7.8%	7.4%	n.a.	0.4%p
Tier II capital ratio	4.2%	4.2%	n.a.	-



### 3. Shinhan Card

As of end 2006, Shinhan Card maintains 17.5% of adjusted capital adequacy ratio, which does not significantly vary from 17.7% of the preceding year, due to the increased risk weighted assets and net income.

Capital Adequacy Ratio = Adjusted Capital / Adjusted Total Assets  
= ₩643.7 billion / ₩3,683.7 billion

### 4. Shinhan Life

Shinhan Life maintains 232.6% of solvency margin as of end December 2006 even after servicing KRW47 billion of subordinated debts which is well beyond the 100% requirement set forth by The Financial Supervisory Service. Shinhan Life's high solvency margin is mainly due to the constant growth of retained earnings.

# 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,  
Seoul 135-984, Republic of Korea  
TEL \_ 82-2-2112-0100 | FAX \_ 82-2-2112-0101  
www.kr.kpmg.com

We have audited the accompanying non-consolidated balance sheets of Shinhan Financial Group Co., Ltd. (the "Company") as of December 31, 2006 and 2005 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, 2006 and 2005, and the results of its operations, appropriation of 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, 2006 and 2005 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, the credit card division of Chohung Bank was merged with Shinhan Card Co., Ltd. on April 1, 2006. Additionally, on April 1, 2006, Shinhan Bank merged with Chohung Bank (excluding the card division of Chohung Bank). Chohung Bank was the surviving legal entity. After the merger, Chohung Bank changed its name to Shinhan Bank.

As discussed in note 1 to the non-consolidated financial statements, on December 20, 2006, the Company entered into an agreement to acquire 78.6% of the outstanding shares of LG Card at ₩ 67,770 per share through a tender offer.

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 intended solely for use by those knowledgeable in Korean accounting principles and auditing standards and their application in practice.

As discussed in note 12 to the non-consolidated financial statements, the Company recorded assets and interest income resulting from related party transactions as of December 31, 2006 and 2005 and for the years then ended.

*KPMG Samjong Accounting Corp.*

KPMG Samjong Accounting Corp.

Seoul, Korea  
February 15, 2007

This report is effective as of February 15, 2007, 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, 2006 and 2005  
(In millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (note 2)	
	2006	2005	2006	2005
<b>Assets</b>				
Cash and due from banks (notes 3 and 12)	₩ 468,561	64,374	\$ 504,046	69,249
Equity method investment securities (notes 4 and 23)	12,775,892	10,882,359	13,743,429	11,706,496
Loans, net of allowance for loan losses (notes 5, 12 and 13)	1,179,147	1,476,630	1,268,445	1,588,457
Fixed assets (note 6)	1,686	2,290	1,814	2,464
Other assets (notes 7, 12 and 13)	578,345	36,478	622,144	39,240
<b>Total assets</b>	<b>₩ 15,003,631</b>	<b>12,462,131</b>	<b>\$ 16,139,878</b>	<b>13,405,906</b>
<b>Liabilities and Stockholders' equity</b>				
<b>Liabilities:</b>				
Borrowings (notes 8 and 13)	₩ 185,072	156,098	\$ 199,088	167,919
Debentures (note 9)	3,421,826	2,126,043	3,680,966	2,287,051
Retirement and severance benefits (notes 10 and 12)	783	552	843	593
Other liabilities (notes 11, 12 and 13)	34,424	42,421	37,030	45,634
<b>Total liabilities</b>	<b>3,642,105</b>	<b>2,325,114</b>	<b>3,917,927</b>	<b>2,501,197</b>
<b>Stockholders' equity:</b>				
Capital stock of ₩5,000 par value (note 14)				
Common stock	1,907,838	1,796,037	2,052,321	1,932,054
Authorized - 1,000,000,000 shares				
Issued and outstanding - 381,567,614 shares in 2006				
Issued and outstanding - 359,207,313 shares in 2005				
Preferred stock	262,920	374,721	282,831	403,099
Issued and outstanding - 39,767,169 shares in 2006				
Issued and outstanding - 74,944,262 shares in 2005				
Capital surplus	4,360,082	4,360,112	4,690,278	4,690,310
Retained earnings (note 15)	3,387,960	2,743,192	3,644,535	2,950,938
Capital adjustments (notes 4, 16 and 17)	1,442,726	862,955	1,551,986	928,308
<b>Total stockholders' equity</b>	<b>11,361,526</b>	<b>10,137,017</b>	<b>12,221,951</b>	<b>10,904,709</b>
<b>₩ 15,003,631</b>	<b>12,462,131</b>	<b>\$ 16,139,878</b>	<b>13,405,906</b>	

See accompanying notes to non-consolidated financial statements.

# Non-Consolidated Statements of Income

For the years ended December 31, 2006 and 2005  
(In millions of Won and thousands of U.S. dollars, except earnings per share)

	Won		U.S. dollars (note 2)	
	2006	2005	2006	2005
Operating revenue:				
Gain from equity method investment securities (notes 4 and 25)	₩ 1,917,268	1,618,314	\$ 2,062,466	1,740,871
Interest income (note 12)	79,151	95,812	85,145	103,069
Other	1,495	1,373	1,608	1,477
Total operating revenue	1,997,914	1,715,499	2,149,219	1,845,417
Operating expense:				
Loss from equity method investment securities (notes 4 and 25)	-	1,047	-	1,126
Interest expense	129,644	114,544	139,462	123,218
Fees and commission (note 12)	269	124	289	133
General and administrative expenses (notes 12 and 18)	47,138	39,157	50,708	42,122
Total operating expense	177,051	154,872	190,459	166,599
Operating income	1,820,863	1,560,627	1,958,760	1,678,818
Non-operating income, net	11,855	133	12,752	141
Income before income taxes	1,832,718	1,560,760	1,971,512	1,678,959
Income taxes (note 19)	-	-	-	-
Net income	₩ 1,832,718	1,560,760	\$ 1,971,512	1,678,959
Earnings per share in Won and U.S. dollars (note 20)	₩ 4,776	4,360	\$ 5.14	4.69
Diluted earnings per share in Won and U.S. dollars (note 20)	₩ 4,776	4,109	\$ 5.14	4.42

See accompanying notes to non-consolidated financial statements.



# Non-Consolidated Statements of Appropriation of Retained Earnings

For the years ended December 31, 2006 and 2005 / Date of Appropriation for 2006: March 20, 2007  
Date of Appropriation for 2005: March 21, 2006 (In millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (note 2)	
	2006	2005	2006	2005
Unappropriated retained earnings:				
Balance at beginning of year	₩ 1,263,407	1,036,573	\$ 1,359,087	1,115,075
Changes in retained earnings of equity method investments (note 4)	(105,037)	(77,863)	(112,992)	(83,760)
Redemption of preferred shares (note 14)	(56)	-	(60)	-
Net income	1,832,718	1,560,760	1,971,512	1,678,959
	2,991,032	2,519,470	3,217,547	2,710,274
Appropriation of retained earnings:				
Legal reserve (note 15)	183,272	173,208	197,151	186,325
Redemption of preferred shares (note 14)	172,812	697,807	185,899	750,653
Dividends (note 21)	392,239	385,049	421,944	414,209
	748,323	1,256,064	804,994	1,351,187
Unappropriated retained earnings to be carried over to subsequent year	₩ 2,242,709	1,263,407	\$ 2,412,553	1,359,087

See accompanying notes to non-consolidated financial statements.

# Non-Consolidated Statements of Cash Flows

For the years ended December 31, 2006 and 2005  
(In millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (note 2)	
	2006	2005	2006	2005
Cash flows from operating activities:				
Net income	₩ 1,832,718	1,560,760	\$ 1,971,513	1,678,963
Adjustments to reconcile net income to net cash (used in) operating activities:				
Depreciation	562	652	605	701
Amortization	295	115	317	124
Reversal of allowance for loan losses	(1,495)	(1,373)	(1,608)	(1,477)
Provision for retirement and severance benefits	973	740	1,047	796
Gain from equity method investment securities, net	(1,917,268)	(1,617,267)	(2,062,466)	(1,739,745)
Stock compensation costs	12,670	7,431	13,630	7,994
Loss from disposition of equity method investment securities	-	845	-	909
Other, net	2,410	2,345	2,593	2,523
Changes in assets and liabilities:				
Decrease in other assets	825	869	887	935
Increase (decrease) in other liabilities	3,381	(40,947)	3,638	(44,047)
Retirement and severance benefits paid	(337)	(137)	(363)	(147)
Increase in deposit for severance benefit insurance	(405)	(274)	(435)	(295)
Net cash used in operating activities	(65,671)	(86,241)	(70,642)	(92,766)
Cash flows from investing activities:				
Cash provided by investing activities:				
Disposition of equity method investment securities	-	381,502	-	410,393
Collection of loans	743,140	632,543	799,419	680,446
Proceeds from disposal of fixed assets	69	36	75	39
Refund of security deposits	167	-	177	-
Dividends received from equity method investment securities	471,142	4,846	506,822	5,213
	1,214,518	1,018,927	1,306,493	1,096,091
Cash used in investing activities:				
Purchase of equity method investment securities	-	(368,311)	-	(396,204)
Loan originations	(450,000)	(360,000)	(484,079)	(387,264)
Purchase of fixed assets	(323)	(914)	(348)	(983)
Increase in other assets	(519,318)	(2)	(558,647)	(2)
Decrease in other liabilities	(20,596)	(2,241)	(22,156)	(2,411)
	(990,237)	(731,468)	(1,065,230)	(786,864)
Net cash provided by investing activities	224,281	287,459	241,263	309,227

(Continued)

# Non-Consolidated Statements of Cash Flows

For the years ended December 31, 2006 and 2005  
(In millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (note 2)	
	2006	2005	2006	2005
Cash flows from financing activities:				
Cash provided by financing activities:				
Proceeds from borrowings	702,000	409,255	755,164	440,248
Proceeds from debentures	2,300,000	780,000	2,474,182	839,071
Proceeds from disposition of treasury stock	-	536	-	577
	3,002,000	1,189,791	3,229,346	1,279,896
Cash used in financing activities:				
Repayment of borrowings	(667,188)	(405,381)	(717,715)	(436,081)
Repayment of debentures	(1,000,000)	(601,314)	(1,075,731)	(646,851)
Debentures issuance cost paid	(6,627)	(2,971)	(7,129)	(3,196)
Dividends paid	(384,715)	(347,542)	(413,850)	(373,862)
Acquisition of treasury stock	-	(474)	-	(517)
Stock issuance cost paid	(29)	(98)	(31)	(105)
Redemption of preferred shares	(697,864)	-	(750,714)	-
	(2,756,423)	(1,357,780)	(2,965,170)	(1,460,612)
Net cash provided by (used in) financing activities	245,577	(167,989)	264,176	(180,716)
Net increase in cash and due from banks	404,187	33,229	434,797	35,745
Cash and due from banks at beginning of year	64,374	31,145	69,249	33,504
Cash and due from banks at end of year	<b>₩ 468,561</b>	<b>64,374</b>	<b>\$ 504,046</b>	<b>69,249</b>

See accompanying notes to non-consolidated financial statements.

# Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

## (1) General Description of the Company

Shinhan Financial Group Co., Ltd. (the "Company") was incorporated on September 1, 2001 through a business combination involving exchange of the Company's common stock with the former shareholders of Shinhan Bank, Shinhan Securities Co., Ltd., Shinhan Capital Co., Ltd. and Shinhan BNP Paribas Investment Trust Management Co., Ltd. The Company was formed with ₩1,461,721 million of initial capital stock for the purpose of providing management services and financing to affiliate companies. 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.

As of December 31, 2006, the Company had eight subsidiaries and three joint ventures, and its capital stock consisted of ₩1,907,838 million in common stock and ₩262,920 million in preferred stock.

On December 20, 2006, the Company entered into an agreement to acquire 78.6% of the outstanding shares of LG Card at ₩67,770 per share through a tender offer. The Company provided ₩518,300 million of deposits to secure the agreement.

Details of its subsidiaries and joint ventures were as follows:

### a. Subsidiaries

#### (a) Shinhan Bank (formerly Chohung Bank)

Chohung Bank was established on October 1, 1943 through the merger of Han Sung Bank, established on February 19, 1897, and Dong Il Bank, established on August 8, 1906, to engage in commercial banking and trust operations.

The credit card division of Chohung Bank was merged with Shinhan Card Co., Ltd. on April 1, 2006. Shinhan Card Co., Ltd. issued 41,207,856 shares of common stock in consideration. Additionally, on April 1, 2006, Shinhan Bank merged with Chohung Bank (excluding the card division of Chohung Bank) through acquisition of the remaining 20% equity interest. Chohung Bank was the surviving legal entity. In connection with the merger, Chohung Bank issued 828,505,540 shares of common stock in consideration. After the merger, Chohung Bank changed its name to Shinhan Bank.

As of December 31, 2006, Shinhan Bank operated through 917 domestic branches, 87 depository offices and 13 overseas branches, and its capital stock amounted to ₩7,528,078 million.

#### (b) 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 and became a wholly owned subsidiary in August 17, 2004 through a tender offer and share exchange. As of December 31, 2006, it operated through 80 branches and its capital stock amounted to ₩796,998 million (including ₩19,117 million of preferred stock).

#### (c) 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 and became a wholly owned subsidiary as of December 31, 2005. As of December 31, 2006, Shinhan Life Insurance operated through 120 branches and its capital stock amounted to ₩200,000 million.

# Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

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

Shinhan Card Co., Ltd. ("Shinhan Card") was established on June 1, 2002 under the Specialized Credit Financial Business Act through the spin-off of the credit card division of Shinhan Bank. Shinhan Card is principally engaged in credit card services, factoring, consumer loans and installment financing. As of December 31, 2006, Shinhan Card had 3.11 million franchise accounts and 7.16 million credit card holders, and its capital stock amounted to ₩358,886 million.

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

Shinhan Capital Co., Ltd. ("Shinhan Capital") was incorporated on April 19, 1991 to engage in the leasing and rental business. 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, 2006 amounted to ₩80,000 million.

## (f) Jeju Bank

Jeju Bank was incorporated on March 18, 1969 under the General Banking Act of the Republic of Korea to engage in commercial banking and the trust business and listed its shares on the Korea Exchange on December 28, 1972. Jeju Bank's capital stock as of December 31, 2006 amounted to ₩77,644 million.

## (g) 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, 2006 amounts to ₩3,000 million.

## (h) Shinhan Private Equity, Inc.

Shinhan Private Equity, Inc. ("Shinhan PE") was established on December 8, 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, 2006 amounts to ₩10,000 million.

## **b. Joint Ventures**

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

On August 1, 1996, Shinhan Investment Trust Management Co., Ltd. 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. Under the joint venture agreement on October 2002, with BNP Paribas Asset Management Group, Shinhan Investment Trust Management Co., Ltd. was renamed Shinhan BNP Paribas Investment Trust Management Co., Ltd. ("Shinhan BNP Paribas ITMC"). Shinhan BNP Paribas ITMC's capital stock as of December 31, 2006 amounted to ₩40,000 million.

### (b) 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 under the joint venture agreement with Cardif SA. SH&C Life Insurance's capital stock as of December 31, 2006 amounted to ₩30,000 million.



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

On August 1, 2001, Shinhan Macquarie Financial Advisory Co., Ltd. ("Shinhan Macquarie") was incorporated to engage in the business of financial advisory services and cross border leasing under the joint venture agreement with Macquarie International Holdings Ltd. Shinhan Macquarie's capital stock as of December 31, 2006 amounted to ₩1,000 million.

Details of ownership as of December 31, 2006 and 2005 were as follows:

Investor	Investee	2006		2005		
		Number of shares	Ownership percentage(%)	Number of shares	Ownership percentage(%)	
<b>Subsidiaries:</b>						
Shinhan Financial Group	Shinhan Bank	1,505,615,506	100.00	933,324,364	100.00	
	Good Morning Shinhan Securities	159,399,664	100.00	159,399,664	100.00	
	Shinhan Life Insurance	40,000,000	100.00	40,000,000	100.00	
	Shinhan Card	71,777,256	100.00	30,569,400	100.00	
	Shinhan Capital	12,250,000	100.00	12,250,000	100.00	
	Jeju Bank	9,692,369	62.40	9,692,369	62.40	
	Shinhan Credit Information	600,000	100.00	600,000	100.00	
	Shinhan PE	2,000,000	100.00	2,000,000	100.00	
	Shinhan Bank	Shinhan Financial Group	7,129,967	(*)1.90	11,406,522	(*)3.20
	Good Morning Shinhan Securities	Shinhan Financial Group	-	-	203,675	(*)0.10
<b>Joint ventures:</b>						
Shinhan Financial Group	Shinhan BNP Paribas ITMC	4,000,001	50.00	4,000,001	50.00	
	SH&C Life Insurance	3,000,001	50.00	3,000,001	50.00	
	Shinhan Macquarie	102,000	51.00	102,000	51.00	

(\*) ownership percentage of common stock

## (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 in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these non-consolidated financial statements are intended solely for use by those who are informed in Korean accounting principles and practices. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements.

Certain information included in the Korean language non-consolidated 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.

# Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

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 ₩929.60 to US\$1, the basic exchange rate on December 31, 2006. 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

Effective January 1, 2006, the Company has adopted Statements of Korea Accounting Standards (the "SKAS") No. 18 "Interests in Joint Ventures", No. 19 "Leases" and No. 20 "Related Party Disclosures". In addition, according to application of an interpretation in 2006, valuation gain (loss) on available-for-sale securities which was recorded in subsidiaries' capital adjustment account at the time of acquisition is transferred to valuation gain (loss) of equity method investment securities in the statement of income at the time the available-for-sale securities are sold. Except for the adoption of the aforementioned accounting standards, the accounting policies were consistently applied for the non-consolidated financial statements as of and for the years ended December 31, 2006 and 2005. Certain accounts of the non-consolidated financial statements as of and for the year ended December 31, 2005 were reclassified to conform to the current period's presentation for comparative purposes, resulting in a decrease in retained earnings and an increase in unrealized gain on equity method investment securities by ₩215,432 million, respectively.

## (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 or decreased to reflect the Company's share of the net asset of investee. 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 the carrying amount may not be recoverable, the Company reviews goodwill for impairment.

Under the equity method, the Company does not record its share of loss of the investee 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 investee, the Company's share of loss of the investee is recorded until such investment is reduced to zero.

Investments are reduced when dividends are declared by shareholders' meeting of the respective investee companies.

## (f) Interests in Joint Ventures

Investments in jointly controlled entities are accounted for using the equity method.

(g) Fixed Assets

i) Property and equipment

Property and equipment are stated at cost. Assets acquired through exchange, investment in kind or donation are recorded at their fair value.

Depreciation is computed by the declining-balance method using rates based on the useful lives of the respective assets or using the straight-line method over the estimated useful lives of the assets as follows:

Descriptions	Depreciation method	Useful lives
Vehicles	Declining-balance	Five years
Furniture, fixtures and other	"	"
Leasehold improvement	Straight-line	"

Significant additions or improvements extending useful lives of assets are capitalized. However, normal maintenance and repairs are charged to expense as incurred.

ii) Intangible Assets

Intangible assets comprised of software and development costs are stated at cost less accumulated amortization and impairment losses. Intangible assets are amortized using the straight-line method over five years.

(h) Income Taxes

Income tax on the income includes both current and deferred taxes. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date. Deferred tax is recognized in the statement of income except to the extent that it relates to items recognized directly in 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 in which the carrying amount of assets and liabilities will be realized or settled, 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.

(i) Discount (Premium) on Debentures

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

# Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

## (j) Retirement and Severance Benefits

Employees who have been with the Company for more than one year are entitled to lump-sum payments based on current salary rates 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 benefits trust where the employees have a vested interest in the deposit with the insurance company (or the bank) in trust. The deposit for severance benefits held in trust is, therefore, reflected in the accompanying non-consolidated balance sheets as a reduction of the liability for retirement and severance benefits.

## (k) 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 ₩929.60 and ₩1,013.0 to US\$1, the rates of exchange on December 31, 2006 and 2005, respectively, that are permitted by 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.

## (l) Stock Options

The stock option program allows the Company's employees to acquire Company shares for a specified price at specified times. The option exercise price is generally fixed at below the market price of the underlying shares at the grant date. The Company values equity-settled stock options based upon an option pricing model under the fair value method and recognizes 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 equal to the exercise price. However, compensation cost for cash-settled stock options is measured at market price of the Company stock as of each period end and is recognized as an expense and a liability over the service period.

## (m) Provision, Contingent Assets and Contingent Liabilities

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, a provision is recorded at the present value of the expenditures expected to be required to settle the obligation.

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 Company settles the obligation. The expense relating to a provision is presented net of the amount recognized for a reimbursement.

## (n) Use of Estimates

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

### (3) Cash and Due from Banks

As of December 31, 2006 and 2005, ₩5.5 million of cash and due from banks was restricted for guarantee deposits on bank accounts.

### (4) Equity Method Investment Securities

Detail of equity method investment securities as of December 31, 2006 and 2005 are as follows:

Investees	2006					
	Beginning balance	Acquisition and dividend, net	Equity method gain	Retained earnings	Capital adjustments	Ending balance
(in millions of Won)						
<b>Subsidiaries:</b>						
Shinhan Bank	₩ 8,751,516	(955,218)	1,500,460	(3,278)	431,249	9,724,729
Good Morning Shinhan Securities	900,138	-	74,753	(101,458)	106,420	979,853
Shinhan Life Insurance	737,788	(20,000)	64,980	(301)	10,737	793,204
Shinhan Card	221,449	526,806	208,052	-	1,523	957,830
Shinhan Capital	151,789	(15,313)	48,255	-	3,051	187,782
Jeju Bank	60,770	-	9,405	-	(859)	69,316
Shinhan Credit Information	9,263	(1,800)	2,792	-	-	10,255
Shinhan PE	8,741	-	1,751	-	-	10,492
	10,841,454	(465,525)	1,910,448	(105,037)	552,121	12,733,461
<b>Joint venture companies:</b>						
Shinhan BNP Paribas ITMC	24,103	(3,600)	4,288	-	(1)	24,790
SH&C Life Insurance	15,513	-	1,776	-	323	17,612
Shinhan Macquarie	1,289	(2,016)	756	-	-	29
	40,905	(5,616)	6,820	-	322	42,431
	₩ 10,882,359	(471,141)	1,917,268	(105,037)	552,443	12,775,892

Changes in goodwill (negative goodwill) for the year ended December 31, 2006 were as follows:

	(in millions of Won)			
	Beginning balance	Increase (decrease)	Amortization (reversal)	Ending balance
Shinhan Bank	₩ 1,065,725	(343,112)	68,808	653,805
Good Morning Shinhan Securities	110,530	-	17,004	93,526
Shinhan Life Insurance	414,545	-	41,803	372,742
Shinhan Card	-	343,112	22,540	320,572
Jeju Bank	(4,285)	-	(685)	(3,600)
	₩ 1,586,515	-	149,470	1,437,045

The market value of Jeju Bank shares owned by the Company was ₩73,274 million as of December 31, 2006 using the quoted market price (₩7,560 per share) at that date.



# Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

Investees	2005					
	Beginning balance	Acquisition and dividend, net	Equity method gain (loss)	Retained Earnings	Capital Adjustments	Ending balance
(in millions of Won)						
<b>Subsidiaries:</b>						
Shinhan Bank	₩ 4,125,253	(367,210)	826,156	(1,590)	(82,638)	4,499,971
Chohung Bank	2,891,019	220,714	606,537	(47,663)	580,938	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
Jeju Bank	53,036	-	7,825	(30)	(61)	60,770
e-Shinhan(*)	2,887	(2,861)	-	-	(26)	-
Shinhan Credit Information	6,862	-	2,401	-	-	9,263
Shinhan PE	9,788	-	(1,047)	-	-	8,741
	8,223,578	569,075	1,608,225	(79,594)	520,170	10,841,454
<b>Joint ventures:</b>						
Shinhan BNP Paribas ITMC	22,810	(2,400)	3,725	1,732	(1,764)	24,103
SH&C Life Insurance	14,614	-	2,680	-	(1,781)	15,513
Shinhan Macquarie	1,098	(2,446)	2,637	-	-	1,289
	38,522	(4,846)	9,042	1,732	(3,545)	40,905
	<b>₩ 8,262,100</b>	<b>564,229</b>	<b>1,617,267</b>	<b>(77,862)</b>	<b>516,625</b>	<b>10,882,359</b>

(\*) E-shinhan was liquidated at November 24, 2005.

Changes in goodwill (negative goodwill) for the year ended December 31, 2005 were as follows:

	(in millions of Won)			
	Beginning balance	Increase (decrease)	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 value of Jeju Bank shares owned by the Company was ₩68,816 million as of December 31, 2005 using the quoted market price (₩7,100 per share) at that date.

## (5) Loans

(a) Loans as of December 31, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Loans in Won	₩ 1,120,000	1,340,000
Loans in foreign currencies	65,072	70,910
Privately placed bonds	-	73,140
	1,185,072	1,484,050
Less: allowance for loan losses	(5,925)	(7,420)
	<b>₩ 1,179,147</b>	<b>1,476,630</b>

(b) Details of loans as of December 31, 2006 and 2005 were as follows:

		2006		2005	
		Interest rate (%)	Amount	Interest rate (%)	Amount
Loans in Won	Shinhan Card	4.49~6.28	₩ 450,000	4.49~6.28	₩ 750,000
	Shinhan Capital	4.33~8.12	500,000	4.33~8.12	500,000
	Good Morning				
	Shinhan Securities	5.25~5.64	170,000	5.25	70,000
	Jeju Bak		-	6.43	20,000
			1,120,000		1,340,000
Loans in foreign currencies	Shinhan Capital	3M Libor+0.38	65,072	3M Libor+0.38	70,910
Privately placed bonds	Shinhan Bank		-	7.42	50,000
	Jeju Bank		-	8.14	23,140
			-		73,140
			₩ 1,185,072		₩ 1,484,050
Allowance for loan losses			(5,925)		(7,420)
			<b>₩ 1,179,147</b>		<b>₩ 1,476,630</b>

(c) The maturities of loans as of December 31, 2006 and 2005 were as follows:

At December 31, 2006	(in millions of Won)		
	Loans in Won	Loans in foreign currencies	Total
Due in 3 months or less	₩ 130,000	-	130,000
Due after 3 months through 6 months	20,000	37,184	57,184
Due after 6 months through 12 months	60,000	-	60,000
Due after 1 year through 3 years	690,000	27,888	717,888
Thereafter	220,000	-	220,000
	<b>₩ 1,120,000</b>	<b>65,072</b>	<b>1,185,072</b>

# Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

(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
	<b>₩ 1,340,000</b>	<b>70,910</b>	<b>73,140</b>	<b>1,484,050</b>

## (6) Fixed Assets

Fixed assets as of December 31, 2006 and 2005 consisted of the following:

(in millions of Won)

	2006	2005
Property and equipment:		
Vehicles	₩ 261	391
Furniture and fixtures	1,416	1,391
Leasehold improvements	1,728	1,704
	3,405	3,486
Less: accumulated depreciation	(2,629)	(2,286)
	776	1,200
Intangible assets	910	1,090
	<b>₩ 1,686</b>	<b>2,290</b>

## (7) Other Assets

Other assets as of December 31, 2006 and 2005 consisted of the following:

(in millions of Won)

	2006	2005
Security deposits paid	₩ 9,915	10,082
Accounts receivable (note 12)	37,907	14,809
Accrued income (note 12)	8,016	8,466
Advance payments	519,328	10
Prepaid expenses	1,023	724
Prepaid income taxes	346	577
Other	1,810	1,810
	<b>₩ 578,345</b>	<b>36,478</b>

## (8) Borrowings

(a) Borrowings as of December 31, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Borrowings in Won	₩ 120,000	85,188
Borrowings in foreign currencies	65,072	70,910
	<b>₩ 185,072</b>	<b>156,098</b>

(b) Details of borrowings as of December 31, 2006 and 2005 were as follows:

Issue date	Maturity date	Interest rate (%)	(in millions of Won)	
			2006	2005
<b>Borrowings in Won:</b>				
September 30, 2005	January 03, 2006	4.18	₩ -	20,000
December 28, 2005	April 03, 2006	4.31	-	65,000
March 23, 2005	March 23, 2006	6M +1.05	-	188
December 21, 2006	March 30, 2009	5.34	36,000	-
December 26, 2006	March 29, 2007	4.92	84,000	-
			<b>120,000</b>	<b>85,188</b>
<b>Borrowings in foreign currencies:</b>				
December 30, 2003	December 30, 2006	3M Libor+0.7	-	30,390
July 15, 2004	June 15, 2007	3M Libor+0.7	37,184	40,520
December 29, 2006	December 29, 2009	3M Libor+0.25	27,888	-
			65,072	70,910
			<b>₩ 185,072</b>	<b>156,098</b>

(c) The maturities of borrowings as of December 31, 2006 and 2005 were as follows:

At December 31, 2006	(in millions of Won)		
	Borrowings in Won	Borrowings in foreign currencies	Total
Due in 3 months or less	₩ 84,000	-	84,000
Due after 3 months through 6 months	-	37,184	37,184
Due after 6 months through 12 months	-	-	-
Due after 1 year through 3 years	36,000	27,888	63,888
	<b>₩ 120,000</b>	<b>65,072</b>	<b>185,072</b>

At December 31, 2005	(in millions of Won)		
	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>

# Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

## (9) Debentures

(a) Debentures as of December 31, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Debentures in Won	₩ 3,430,000	2,130,000
Less: discount on debentures	(8,174)	(3,957)
	<b>₩ 3,421,826</b>	<b>2,126,043</b>

(b) Details of debentures as of December 31, 2006 and 2005 were as follows:

Issue date	Maturity date	Interest rate (%)	(in millions of Won)	
			2006	2005
Unsecured debentures in Won:				
December 21, 2001	December 21, 2006	7.12	₩ -	50,000
April 04, 2002	April 04, 2007	7.47	20,000	20,000
May 20, 2002	May 20, 2007	7.25	20,000	20,000
July 29, 2002	July 29, 2007	6.30	20,000	20,000
November 21, 2002	November 21, 2007	5.88	20,000	20,000
December 16, 2002	December 16, 2007	5.96	20,000	20,000
January 24, 2003	January 24, 2006	5.19	-	70,000
February 26, 2003	February 26, 2006	4.99	-	200,000
April 23, 2003	April 23, 2006	5.47	-	100,000
May 23, 2003	May 23, 2006	5.29	-	100,000
June 24, 2003	June 24, 2006	5.43	-	150,000
June 24, 2003	June 24, 2008	5.69	30,000	30,000
July 24, 2003	July 24, 2006	5.55	-	30,000
July 24, 2003	July 24, 2008	5.87	20,000	20,000
October 24, 2003	October 24, 2006	4.63	-	100,000
December 23, 2003	December 23, 2006	5.35	-	200,000
March 24, 2004	March 24, 2007	4.76	30,000	30,000
March 24, 2004	March 24, 2009	5.11	20,000	20,000
June 25, 2004	June 25, 2009	4.93	50,000	50,000
July 08, 2004	July 08, 2009	4.81	100,000	100,000
January 31, 2005	January 31, 2008	4.21	30,000	30,000
January 31, 2005	January 31, 2010	4.59	70,000	70,000
March 18, 2005	March 18, 2007	4.13	100,000	100,000
March 18, 2005	March 18, 2008	4.23	50,000	50,000
May 09, 2005	May 09, 2008	3.99	50,000	50,000
June 29, 2005	June 29, 2008	4.01	50,000	50,000
June 29, 2005	June 29, 2010	4.28	150,000	150,000
September 14, 2005	September 14, 2008	4.77	70,000	70,000
September 14, 2005	September 14, 2010	5.18	110,000	110,000
December 16, 2005	December 16, 2008	5.48	40,000	40,000
December 16, 2005	December 16, 2010	5.74	60,000	60,000
January 24, 2006	January 24, 2009	5.24	100,000	-
February 27, 2006	February 27, 2009	5.07	100,000	-
April 24, 2006	April 24, 2009	5.09	200,000	-
June 28, 2006	June 28, 2009	5.25	220,000	-

(Continued)



Issue date	Maturity date	Interest rate (%)	(in millions of Won)	
			2006	2005
June 28, 2006	June 28, 2011	5.42	130,000	-
June 28, 2006	June 28, 2013	5.52	50,000	-
June 29, 2006	September 29, 2009	5.24	100,000	-
June 29, 2006	September 29, 2009	5.32	100,000	-
July 31, 2006	July 31, 2011	5.16	100,000	-
September 26, 2006	September 26, 2009	4.81	50,000	-
September 26, 2006	September 26, 2011	4.91	50,000	-
November 29, 2006	November 29, 2009	4.99	250,000	-
November 29, 2006	November 29, 2011	5.06	100,000	-
November 29, 2006	November 29, 2013	5.16	150,000	-
December 22, 2006	December 22, 2008	5.35	100,000	-
December 27, 2006	December 27, 2009	5.05	250,000	-
December 27, 2006	December 27, 2011	5.17	100,000	-
December 27, 2006	December 27, 2013	5.24	150,000	-
			3,430,000	2,130,000
Discount on debentures			(8,174)	(3,957)
			<b>₩ 3,421,826</b>	<b>2,126,043</b>

(c) The maturities of debentures as of December 31, 2006 and 2005 were as follows:

	(in millions of Won)	
	2006	2005
Due in 3 months or less	₩ 130,000	270,000
Due after 3 months through 6 months	40,000	350,000
Due after 6 months through 12 months	60,000	380,000
Due after 1 year through 3 years	1,980,000	570,000
Thereafter	1,220,000	560,000
	<b>₩ 3,430,000</b>	<b>2,130,000</b>

## (10) Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2006 and 2005 were as follows:

	(in millions of Won)	
	2006	2005
Estimated severance liability at beginning of year	₩ 1,379	776
Provision	973	740
Payment	(337)	(137)
Estimated severance liability at end of year	2,015	1,379
Less: deposit for severance benefit insurance (note 12)	(1,232)	(827)
Net balance at end of year	<b>₩ 783</b>	<b>552</b>

# Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

## (11) Other Liabilities

Other liabilities as of December 31, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Withholding taxes	₩ 561	491
Dividends payable	1,619	1,284
Accounts payable	329	20,990
Accrued expenses	31,915	19,656
	<b>₩ 34,424</b>	<b>42,421</b>

## (12) Related Party Transactions

### (a) Details of transactions

Significant transactions with the related parties for the years ended December 31, 2006 and 2005 were as follows:

			(in millions of Won)	
Revenue earned	Expense incurred	Account	2006	2005
Shinhan Financial Group	Shinhan Bank	Interest income	₩ 3,019	5,356
"	Good Morning Shinhan Securities	Interest income	6,035	3,375
"	Shinhan Card	Interest income	32,103	52,710
"	Shinhan Capital	Interest income	31,273	32,537
"	Jeju Bank	Interest income	999	1,834
			<b>₩ 73,429</b>	<b>95,812</b>
Shinhan Bank	Shinhan Financial Group	Rental income	₩ 33	68
"	Good Morning Shinhan Securities	Interest income	728	191
"	"	Fee and commission income	-	21
"	"	Rental income	799	323
"	Shinhan Life Insurance	Gain on derivatives	394	188
"	"	Rental income	2,490	150
"	"	Interest income	5,005	265
"	"	Fee and commission income	518	2,306
"	Shinhan Card	Interest income	1,922	3,046
"	"	Fee and commission income	80,384	35,557
"	"	Rental income	1,948	895
"	"	Gain on derivatives	1,634	-
"	Shinhan Capital	Interest income	46	1,297
"	"	Gain on redemption of debentures	-	476
"	"	Rental income	489	336
"	"	Gain on derivatives	1,449	2,811
"	Jeju Bank	Interest income	130	4
"	Shinhan Credit Information	Rental income	134	273
"	SH&C Life Insurance	Fee and commission income	15,847	42,467
"	Shinhan BNP Paribas ITMC	Fee and commission income	679	588

(Continued)

(in millions of Won)

Revenue earned	Expense incurred	Account	2006	2005
Good Morning	Shinhan Bank	Interest income	₩ 315	467
Shinhan Securities	"	Rental income	129	301
"	Shinhan Life Insurance	Rental income	28	5
"	"	Fee and commission income	57	-
"	Shinhan Card	Rental income	435	313
"	"	Fee and commission income	106	350
"	Shinhan BNP	Rental income	255	212
"	Paribas ITMC			
"	SH&C Life Insurance	Fee and commission income	-	5
Shinhan Life Insurance	Shinhan Bank	Insurance income	221	245
"	"	Gain on derivatives	3,980	595
"	"	Interest income	941	14
"	"	Fee and commission income	365	-
"	Good Morning	Insurance income	14	-
"	Shinhan Securities			
"	"	Fee and commission income	4	-
"	SH&C Life Insurance	Fee and commission income	1	-
Shinhan Card	Shinhan Bank	Interest income	197	2
"	"	Fee and commission income	755	1,004
"	Good Morning	Interest income	4	-
"	Shinhan Securities			
"	Jeju Bank	Fee and commission income	335	275
"	"	Interest income	3	-
"	SH&C Life Insurance	Fee and commission income	5,023	4,902
"	Shinhan Life Insurance	Fee and commission income	363	-
Shinhan Capital	Shinhan Bank	Interest income	3,935	3,300
"	"	Gain on derivatives	1,020	4,329
"	Shinhan Card	Fee and commission income	-	1
Shinhan BNP	Shinhan Bank	Interest income	195	429
Paribas ITMC				
"	Shinhan Life Insurance	Interest income	31	-
"	Jeju Bank	Interest income	28	-
Jeju Bank	Shinhan Bank	Interest income	5	22
"	Shinhan Life Insurance	Fee and commission income	6	25
"	"	Rental Income	6	-
"	SH&C Life Insurance	Fee and commission income	119	384
SH&C Life Insurance	Shinhan Bank	Interest income	5	12
"	Shinhan Life Insurance	Interest income	6	-
e-Shinhan	Shinhan Card	Fee and commission income	-	93
"	Shinhan Financial Group	Fee and commission income	-	63
Shinhan Macquarie	Shinhan Bank	Interest income	297	180
Shinhan Credit Information	Shinhan Bank	Fee and commission income	7,173	10,035
"	"	Interest income	134	67
"	Good Morning Shinhan Securities	Fee and commission income	41	52

(Continued)

# Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

Revenue earned	Expense incurred	Account	(in millions of Won)	
			2006	2005
Shinhan Credit Information	Shinhan Life Insurance	Fee and commission income	42	36
"	Shinhan Card	Fee and commission income	12,888	7,419
"	Shinhan Capital	Fee and commission income	54	80
"	Jeju Bank	Fee and commission income	140	101
"	Shinhan Financial Group	Fee and commission income	4	-
Shinhan PE	Shinhan Bank	Interest income	828	199
			155,117	126,779
			<b>₩ 228,546</b>	<b>222,591</b>

## (b) Account balances

Significant balances with the related parties as of December 31, 2006 and 2005 were as follows:

Creditor	Debtor	Account	(in millions of Won)	
			2006	2005
Shinhan Financial Group	Shinhan Bank	Due from banks	₩ 2,627	64,371
"	"	Security deposits	9,915	9,915
"	"	Privately Placed bonds	-	50,000
"	"	Account receivables	28,675	12,208
"	"	Accrued income	171	155
"	"	Deposit for severance benefit	1,232	827
"	Good Morning	Loans in Won	170,000	70,000
"	Shinhan Securities	Account receivables	4,581	725
"	"	Accrued income	1,569	619
"	Shinhan Card	Loans in Won	450,000	750,000
"	"	Account receivables	2,043	758
"	"	Accrued income	3,285	4,336
"	Shinhan Capital	Loans in Won	500,000	500,000
"	"	Loans in foreign currency	65,072	70,910
"	"	Account receivables	1,102	562
"	"	Accrued income	2,990	3,156
"	Jeju Bank	Privately placed bonds	-	23,140
"	"	Loans in Won	-	20,000
"	"	Accrued income	-	200
"	Shinhan Credit Information	Account receivables	251	112
"	Shinhan Life Insurance	Account receivables	1,159	-
			<b>₩ 1,244,672</b>	<b>1,581,994</b>
Shinhan Bank	Good Morning	Accrued income	₩ -	6
"	Shinhan Securities	Guarantee deposits	8,562	5,223
"	Shinhan Life Insurance	Accrued income	1,105	2,299
"	"	Loans	-	47,000
"	"	Deposits for severance benefits	103,531	66,921
"	"	Derivative assets	360	277
"	Shinhan Card	Accrued income	31	6,578
"	"	Call loan	10,800	35,500
"	"	Derivative assets	1,676	-

(Continued)

(in millions of Won)

Creditor	Debtor	Account	2006	2005
Shinhan Bank	Shinhan Capital	Loans	₩ -	1,271
"	"	Derivative assets	1,494	116
"	Shinhan BNP Paribas ITMC	Account receivables	133	136
"	SH&C Life Insurance	Accrued income	396	3,314
"	Jeju Bank	Loans	13,575	-
"	"	Accrued income	87	-
Good Morning	Shinhan Bank	Due from banks	8,339	8,947
Shinhan Securities	"	Guarantee deposits	20,573	11,968
"	"	Accrued income	114	145
"	Shinhan Life Insurance	Deposits for severance benefits	481	268
"	"	Accrued income	1	-
"	Shinhan Card	Account receivables	-	63
Shinhan Life Insurance	Shinhan Bank	Due from banks	2,947	3,749
"	"	Prepaid expense	-	56
"	"	Derivative assets	7	50
"	"	Retirement trust	5,123	1,127
"	"	Guarantee deposits	8,320	7,472
"	"	Securities	54,738	2,479
"	"	Accrued income	789	3
Shinhan Life Insurance	Jeju Bank	Due from banks	22	14
"	Good Morning	Guarantee deposits	173	-
"	Shinhan Securities			
Shinhan Card	Shinhan Financial Group	Account receivables	209	309
"	Shinhan Bank	Cash and due from banks	2,237	5,080
"	"	Guarantee deposits	3,306	1,189
"	"	Account receivables	6,574	6,578
"	"	Derivative assets	42	-
"	"	Deposits for severance benefits	3,513	-
"	Good Morning	Guarantee deposits	5,911	4,635
"	Shinhan Securities			
"	"	Account receivables	824	691
"	Shinhan Life Insurance	Deposits for severance benefits	1,717	1,016
"	Shinhan BNP Paribas ITMC	Account receivables	66	55
"	SH&C Life Insurance	Account receivables	60	100
"	"	Accrued income	394	408
"	Shinhan Credit Information	Account receivables	81	56
"	Shinhan Capital	Account receivables	52	42
Shinhan Capital	Shinhan Bank	Short-term financial instruments	51,260	79,985
"	"	Derivative assets	45	3,524
"	"	Account receivables	216	370
"	"	Guarantee deposits	508	292
"	"	Securities	-	3
"	"	Deposits for severance benefits	977	614
Shinhan BNP Paribas ITMC	Shinhan Bank	Cash and due from banks	4,732	9,020
"	"	Accrued income	57	187

(Continued)

# Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

Creditor	Debtor	Account	(in millions of Won)	
			2006	2005
Shinhan BNP Paribas ITMC	Shinhan Life Insurance	Deposits for severance benefits	404	303
"	Good Morning Shinhan Securities	Guarantee deposits	4,976	3,496
Jeju Bank	SH&C Life Insurance	Accrued income	2	23
"	Shinhan Life Insurance	Accrued income	15	25
SH&C Life Insurance	Shinhan Bank	Cash and cash equivalents	2,091	1,067
"	"	Accrued income	-	2
"	Shinhan Life Insurance	Deposits for severance benefits	139	130
"	Jeju Bank	Cash and cash equivalents	2	-
Shinhan Macquarie	Shinhan Bank	Cash and cash equivalents	8,510	9,318
"	"	Accrued income	26	31
Shinhan Credit Information	Shinhan Bank	Cash and cash equivalents	2,674	2,034
"	"	Bond purchased under resale agreement	2,032	1,000
"	"	Account receivables	613	936
"	"	Guarantee deposits	822	1,320
"	Good Morning Shinhan Securities	Account receivables	2	-
"	Shinhan Card	Account receivables	1,411	669
"	Jeju Bank	Account receivables	23	14
"	"	Guarantee deposits	60	60
"	Shinhan Life Insurance	Accrued income	1	1
Shinhan PE	Shinhan Bank	Cash and cash equivalents	3,071	6,967
"	"	Accrued income	-	7
"	"	Deposits for severance benefits	-	16
			353,032	346,554
			<b>₩ 1,597,704</b>	<b>1,928,548</b>

(c) The guarantees and acceptances provided between the related parties as of December 31, 2006 were as follows:

Creditor	Debtor	Account	(in millions of Won)	
			Amount guaranteed	
Shinhan Financial Group	SH&C Life Insurance	Guarantees for loans	₩	3,500
Shinhan Bank	Shinhan Card	Guarantees in foreign currencies		465
"	Shinhan Capital	Guarantees for Letter of credit		3,017
			<b>₩</b>	<b>6,982</b>

(d) Compensation of key management personnel for the year ended December 31, 2006 was as follows:

	(in millions of Won)	
	Total compensation	
Short-term salaries	₩	6,138
Share-based benefits		12,242
		<b>₩ 18,380</b>



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

Assets and liabilities denominated in foreign currency as of December 31, 2006 and 2005 were as follows:

	(in millions of Won and thousands of U.S. dollars)			
	Foreign currency		Won equivalent	
	2006	2005	2006	2005
<b>Assets:</b>				
Loans	\$ 70,000	70,000	₩ 65,072	70,910
Other assets	551	388	513	393
	<b>\$ 70,551</b>	<b>70,388</b>	<b>₩ 65,585</b>	<b>71,303</b>
<b>Liabilities:</b>				
Borrowings	\$ 70,000	70,000	₩ 65,072	70,910
Other liabilities	534	371	496	376
	<b>\$ 70,534</b>	<b>70,371</b>	<b>₩ 65,568</b>	<b>71,286</b>

### (14) Capital Stock

(a) As of December 31, 2006 and 2005, details of preferred stock issued by the Company were as follows:

	Number of shares	Predetermined dividend rate (%) [*]	Redeemable period
<b>Redeemable preferred stock:</b>			
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 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>39,767,169</b>		

[\*] Based on issue price

Series 1 and Series 6 of redeemable preferred stocks of 9,316,792 shares and 3,500,000 shares, respectively, were redeemed on August 21, 2006 for ₩ 172,831 million and ₩ 525,033 million, respectively. Therefore, capital stock amount differs from the total par value of outstanding capital stocks.

# Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

(b) Details of changes in capital stock for the years ended December 31, 2006 and 2005 were as follows:

	(in millions of Won, except shares)			
	Number of shares	Capital stock	Preferred stock	Capital surplus
Balance at January 1, 2005	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
Preferred stock converted into common stock	-	111,801	(111,801)	(30)
Redemption of preferred stock	(12,816,792)	-	-	-
Balance at December 31, 2006	421,334,783	₩ 1,907,838	262,920	4,360,082

(c) Details of preferred stock redeemed (to be redeemed) by appropriations of retained earnings as of December 31, 2006 and 2005 were as follows:

	(in millions of Won, except shares and price per share)			
At December 31, 2006	Number of shares	Redemption date	Redemption price per share	Redemption amount
Series 2 redeemable preferred stock	9,316,792	August 18, 2007	₩ 18,548	₩ 172,812

	(in millions of Won, except price per share)			
At December 31, 2005	Number of shares	Redemption date	Redemption price per share	Redemption amount
Series 1 redeemable preferred stock	9,316,792	August 21, 2006	₩ 18,550	₩ 172,831
Series 6 redeemable preferred stock	3,500,000	August 21, 2006	150,009	525,033
	<b>12,816,792</b>			<b>₩ 697,864</b>

## (15) Retained Earnings

Retained earnings as of December 31, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Legal reserve	₩ 396,928	223,722
Retained earnings before appropriation	2,991,032	2,519,470
	<b>₩ 3,387,960</b>	<b>2,743,192</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.

## (16) Capital Adjustment

Capital adjustments as of December 31, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Unrealized gain on equity method investment securities	₩ 1,403,453	850,368
Unrealized loss on equity method investment securities	(5,218)	(4,576)
Stock options (note 17)	44,491	17,163
	<b>₩ 1,442,726</b>	<b>862,955</b>

## (17) Stock Options

(a) Details of stock options granted as of December 31, 2006 were as follows:

	1st grant	2nd grant	3rd grant	4th grant	5th grant
Grant date	May 22, 2002	May 15, 2003	March 25, 2004	March 30, 2005	March 21, 2006
Options granted	1,004,200	1,156,300	1,301,600	2,695,200	3,296,200
Options forfeited or exercised	379,135	432,687	160,177	314,110	198,131
Options outstanding	625,065	723,613	1,141,423	2,381,090	3,098,069
Type of stock options	Cash-settled options	Cash-settled options	Cash-settled options	Cash-settled or equity-settled options	Cash-settled or equity-settled options
Exercise price in Won	₩ 18,910	₩ 11,800	₩ 21,595	₩ 28,006	₩ 38,829
Vesting period	Within four years after two years from grant date	Within four years after two years from grant date	Within three years after two years from grant date	Within four years after three years from grant date	Within four years after three years from grant date
Forfeited period	After six years from grant date	After six years from grant date	After five years from grant date	After seven years from grant date	After seven years from grant date
Assumptions used to determine the fair value of options:					
Risk-free interest rate	-	-	-	4.07%	5.02%
Expected exercise period	-	-	-	5 years	5 years
Expected stock price volatility	-	-	-	17.92%	13.43%
Expected dividend yield	-	-	-	-	-
Weighted average fair value	-	-	-	₩ 11,201	₩ 16,668

With respect to the stock options granted on March 25, 2004, the Company decided to pay the difference between the market price and the exercise price in cash for the year ended December 31, 2006 and determined to apply the intrinsic value method to those stock options. As a result, stock options compensation cost included in capital adjustment decreased by ₩8,538 million (decrease in accounts receivable of ₩6,508 million and increase in accrued expenses of ₩2,030 million).

# Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

(b) Changes in stock compensation costs for the year ended December 31, 2006 were as follows:

Stock options granted	Stock compensation cost	Employee of		(in millions of Won)
		Shinhan Financial Group	Subsidiaries	Total
1st	Recorded at beginning of the period	₩ 2,934	12,144	15,078
	Incurred during the period	713	1,122	1,835
	To be recorded in subsequent periods	-	-	-
2nd	Recorded at beginning of the period	4,334	19,053	23,387
	Incurred during the period	899	1,019	1,918
	To be recorded in subsequent periods	-	-	-
3rd	Recorded at beginning of the period	2,030	6,508	8,538
	Incurred during the period	5,241	14,957	20,198
	To be recorded in subsequent periods	-	-	-
4th	Recorded at beginning of the period	767	7,858	8,625
	Incurred during the period	2,781	12,425	15,206
	To be recorded in subsequent periods	423	2,417	2,840
5th	Recorded at beginning of the period	-	-	-
	Incurred during the period	3,036	17,624	20,660
	To be recorded in subsequent periods	4,552	26,427	30,979

For the 4th and 5th stock options granted, 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 in the amount of ₩37,811 million and ₩14,365 million as of December 31, 2006 and 2005, respectively.

## (18) General and Administrative Expenses

Details of general and administrative expenses for the years ended December 31, 2006 and 2005 were as follows:

	(in millions of Won)	
	2006	2005
Salaries	₩ 29,133	22,813
Provision for retirement and severance benefits	973	740
Other employees benefits	1,202	1,607
Rental	568	520
Entertainment	939	782
Depreciation	562	652
Amortization	295	115
Taxes and dues	2,453	2,209
Advertising	44	15
Fees and commission	8,484	6,034
Other	2,485	3,670
	<b>₩ 47,138</b>	<b>39,157</b>

## (19) Income Taxes

(a) The Company is subject to income taxes based on taxable income, which result in a normal tax rate of 27.5%. For the years ended December 31, 2006 and 2005, the Company recognized no income tax expense.

(b) The reconciliation of income for financial reporting purposes and taxable income for the years ended December 31, 2006 and 2005 was as follows:

	(in millions of Won)	
	2006	2005
Net income before income tax expense	₩ 1,832,718	1,560,760
Permanent difference	(1,499,672)	298,095
Temporary difference	(365,330)	(1,878,068)
Taxable income (loss)	<b>₩ (32,284)</b>	<b>(19,213)</b>

(c) Changes in significant accumulated temporary differences and tax effects for the years ended December 31, 2006 and 2005 were as follows:

	2006			(in millions of Won)
	Beginning balance (*1)	Increase	Decrease	Ending balance
Temporary differences:				
Equity method investment securities	₩ (3,427,679)	(2,469,710)	(2,091,411)	(3,805,978)
Retirement and severance benefits	828	544	163	1,209
Accrued income	(299)	-	(299)	-
Deposit for severance benefit insurance	(828)	(544)	(163)	(1,209)
Stock options	17,163	35,866	8,538	44,491
Other	(7,098)	(21,166)	(6,508)	(21,756)
Total temporary differences	<b>(3,417,913)</b>	<b>(2,455,010)</b>	<b>(2,089,680)</b>	<b>(3,783,243)</b>
Unrealizable temporary differences (*2)	3,421,190			3,794,238
Net temporary differences	<b>₩ 3,277</b>			<b>10,995</b>
Tax effects of temporary differences	901			3,024
Tax effects of tax loss carryforwards	5,133			14,011
Net tax effects	<b>₩ 6,034</b>			<b>17,035</b>
Tax effects recorded in financial statements	<b>₩ -</b>			<b>-</b>

(\*1) Amount resulting from prior year tax return is reflected in the current period.

(\*2) Unrealizable temporary differences as of December 31, 2006 were comprised of ₩3,800,822 million related to equity method income less ₩6,584 million related to stock options.

The net tax effects of ₩17,035 million as of December 31, 2006 were not recognized as deferred tax assets due to uncertainty of realization.

# Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

	2005			(in millions of Won)
	Beginning balance (*1)	Increase	Decrease	Ending balance
Temporary differences:				
Equity method investment securities	₩ (1,371,425)	(2,050,871)	5,383	(3,427,679)
Retirement and severance benefits	466	499	137	828
Accrued income	(299)	(299)	(299)	(299)
Deposit for severance benefit insurance	(466)	(509)	(147)	(828)
Stock option	8,842	12,715	4,942	16,615
Other	(6,204)	(4,249)	(3,355)	(7,098)
Total temporary differences	(1,369,086)	(2,042,714)	6,661	(3,418,461)
Unrealizable temporary differences(*2)	1,369,044			3,421,737
Net temporary differences	₩ (42)			3,276
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	₩ -			-

(\*1) Amount resulting from prior year tax return is reflected in the current period.

(\*2) Unrealizable temporary differences as of December 31, 2005 were comprised of ₩3,423,986 million related to equity method income less ₩2,249 million related to stock options.

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

(d) Effective income tax rate for the years ended December 31, 2006 and 2005 were as follows:

	(in millions of Won, except tax rate)	
	2006	2005
Net income before income tax expense	₩ 1,832,718	1,560,760
Income tax expense	-	-
Effective income tax rate (%)	-	-

## (20) 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 earnings per share for the years ended December 31, 2006 and 2005 were as follows:

	(in millions of Won, except per share)	
	2006	2005
Net income for year	₩ 1,832,718	1,560,760
Less: extraordinary gain	-	-
dividends on preferred stock	55,245	106,972
Net income available for common stock	1,777,473	1,453,788
Weighted average number of common shares outstanding	372,168,522	333,424,457
Earnings per share in Won	₩ 4,776	4,360



(b) Diluted earnings per share

Details of diluted earnings per share due to dilutive effect for the years ended December 31, 2006 and 2005 were as follows:

	(in millions of Won, except per share)	
	2006	2005
Net income available for common stock	₩ 1,777,473	1,453,788
Add: dividends on convertible preferred stock	-	8,169
Diluted net earnings	1,777,473	1,461,957
Weighted average number of common shares outstanding	372,168,522	355,784,758
Diluted earnings per share in Won	₩ 4,776	4,109

(c) Securities applicable to common shares

	Convertible period	Number of shares to be issued
Stock options	March 30, 2008 - March 30, 2012	2,381,090
Stock options	March 21, 2009 - March 21, 2013	3,098,069
		<b>5,479,159</b>

(d) Earnings per share for each quarters ended December 31, 2006 were as follows:

	(in Won)			
	1st quarter	2nd quarter	3rd quarter	4th quarter
Earnings per share	₩ 1,286	1,586	1,331	681
Diluted earnings per share	1,212	1,496	1,331	681

(21) Dividends

(a) Dividends for the years ended December 31, 2006 and 2005 were as follows:

	(in millions of Won, except per share)		
	2006		
	Common shares	Preferred shares	Total
Total number of share issued and outstanding	381,567,614	39,767,169	421,334,783
Shares excluded (*)	7,129,967	-	7,129,967
	374,437,647	39,767,169	414,204,816
Face value per share in Won	5,000	5,000	5,000
Dividend per share in Won (rate per share) (**)	₩ 900(8%)	1,389(27.78%)	947(18.94%)
Dividends	₩ 336,994	55,245	392,239

(\*) Dividends on shares held by subsidiaries as of December 31, 2006 are not paid.

(\*\*) A weighted average amount was applied for dividends per share on preferred stock as follows:

# Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

	(in millions of Won, except per share)			
	Number of shares	Dividends per share in Won	Dividend rate per share (%)	Dividends
Redeemable preferred stock:				
Series 2	9,316,792	730.67	14.61	6,807
Series 3	9,316,792	"	"	6,807
Series 4	9,316,792	"	"	6,807
Series 5	9,316,793	"	"	6,808
Series 7	2,433,334	11,190.00	223.80	27,230
Series 8	66,666	11,790.00	235.80	786
	<b>39,767,169</b>			<b>55,245</b>

	(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.

(\*\*) A weighted average amount was applied for dividends per share on preferred stock 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
	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>

(b) Payout ratios for the years ended December 31, 2006 and 2005 were calculated as follows:

	2006			2005		
	Common Shares	Preferred shares	Total	Common Shares	Preferred shares	Total
Dividends in Won	₩ 336,994	55,245	392,239	278,077	106,972	385,049
Net earning in Won	1,777,473	55,245	1,832,718	1,453,788	106,972	1,560,760
Payout ratios (%)	<b>18.96</b>		<b>21.40</b>	<b>19.13</b>		<b>24.67</b>

(in millions of Won, except payout ratio)

(c) Dividend yields on common shares for the years ended December 31, 2006 and 2005 were calculated as follows:

	2006		2005	
	₩			
Dividends per share in Won	900		800	
Average stock price in Won	47,900		41,620	
Dividends yields (%)	<b>1.88</b>		<b>1.92</b>	

(in Won, except dividends yields)

## (22) Statements of Cash Flows

Significant transactions not involving cash inflows or outflows for the years ended December 31, 2006 and 2005 were as follows:

	2006		2005	
	₩			
Acquisition of equity method investment securities through shares exchange	-		730,432	
Contingent consideration recorded as accounts payable	-		20,596	
Changes in capital adjustments due to application of the equity method	552,443		561,625	
Changes in retained earnings due to application of the equity method	105,037		77,862	
Stock options recorded as accounts receivable	27,328		8,157	

(in millions of Won, except per share)

# Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

## (23) Condensed Financial Statements of Subsidiaries and Joint Ventures

### (a) Balance sheets

The condensed balance sheets of subsidiaries and joint ventures as of December 31, 2006 and 2005 were as follows:

Subsidiaries	2006		(in millions of Won)
	Total assets	Total liabilities	Total stockholders' equity
Shinhan Bank	₩ 154,207,060	144,539,692	9,667,368
Good Morning Shinhan Securities	4,126,940	3,278,324	848,616
Shinhan Life Insurance	6,225,865	5,795,398	430,467
Shinhan Card	3,558,415	2,923,408	635,007
Shinhan Capital	1,948,495	1,763,537	184,958
Shinhan BNP Paribas ITMC	60,227	10,650	49,577
Jeju Bank	2,470,751	2,338,463	132,288
SH&C Life Insurance	991,359	950,396	40,963
Shinhan Macquarie	11,500	11,444	56
Shinhan Credit Information	13,372	3,117	10,255
Shinhan PE	10,813	319	10,494
	<b>₩ 173,624,797</b>	<b>161,614,748</b>	<b>12,010,049</b>

Subsidiaries	2005		(in millions of Won)
	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
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>

(b) Statements of Income

Condensed statements of income of subsidiaries and joint ventures for the years ended December 31, 2006 and 2005 were as follows:

Subsidiaries	2006					(in millions of Won)
	Operating revenue	Operating expense	Operating income (loss)	Ordinary income	Net income	
Shinhan Bank	₩ 14,868,003	13,160,836	1,707,167	2,309,904	1,659,246	
Good Morning Shinhan Securities	1,255,573	1,138,720	116,853	134,102	96,190	
Shinhan Life Insurance	2,323,355	2,172,054	151,301	165,798	121,534	
Shinhan Card	831,888	639,083	192,805	184,258	232,092	
Shinhan Capital	199,615	165,783	33,832	62,571	48,284	
Shinhan BNP Paribas ITMC	26,189	13,456	12,733	12,123	8,576	
Jeju Bank	147,339	133,560	13,779	15,305	14,155	
SH&C Life Insurance	52,964	59,128	(6,164)	9,793	9,295	
Shinhan Macquarie	17,782	16,068	1,714	2,388	1,562	
Shinhan Credit Information	26,587	23,057	3,530	3,860	2,810	
Shinhan PE	3,729	1,906	1,823	2,072	1,676	
	<b>₩ 19,753,024</b>	<b>17,523,651</b>	<b>2,229,373</b>	<b>2,902,174</b>	<b>2,195,420</b>	

Subsidiaries	2005					(in millions of Won)
	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.

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December 31, 2006 and 2005

## (24) Financing and Operating Status of the Company, Subsidiaries and Joint Ventures

(a) The financing status of the Company and its subsidiaries as of December 31, 2006 and 2005 were as follows:

	2006			(in millions of Won)
	Deposits	Borrowings	Debentures (*)	Total
Shinhan Financial Group	₩ -	185,072	3,421,826	3,606,898
Shinhan Bank	93,202,495	14,578,285	24,212,505	131,993,285
Good Morning Shinhan Securities	696,417	1,004,364	-	1,700,781
Shinhan Card	-	1,340,800	1,282,370	2,623,170
Shinhan Capital	-	1,065,250	535,351	1,600,601
Jeju Bank	2,044,629	76,357	55,260	2,176,246
	<b>₩ 95,943,541</b>	<b>18,250,128</b>	<b>29,507,312</b>	<b>143,700,981</b>

	2005			(in millions of Won)
	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
	<b>₩ 87,997,499</b>	<b>17,754,720</b>	<b>22,862,616</b>	<b>128,614,835</b>

(\*) Net of discount on debentures

(b) The operating status of the Company, subsidiaries and joint ventures as of December 31, 2006 and 2005 were as follows:

	2006			(in millions of Won)
	Loans (*)	Securities	Cash and due from banks	Total
Shinhan Financial Group	₩ 1,179,147	12,775,892	468,561	14,423,600
Shinhan Bank	112,715,269	23,660,184	6,300,607	142,676,060
Good Morning Shinhan Securities	517,973	2,261,021	850,853	3,629,847
Shinhan Life Insurance	1,553,913	2,657,757	394,052	4,605,722
Shinhan Card	3,037,672	27,165	3,553	3,068,390
Shinhan Capital	1,571,532	201,995	70,060	1,843,587
Shinhan BNP Paribas ITMC	81	5,230	53,331	58,642
Jeju Bank	1,743,811	391,312	85,177	2,220,300
SH&C Life Insurance	16,751	49,260	1,675	67,686
Shinhan Macquarie	-	-	8,510	8,510
Shinhan Credit Information	-	-	7,315	7,315
Shinhan PE	-	6,975	3,527	10,502
	<b>₩ 122,336,149</b>	<b>42,036,791</b>	<b>8,247,221</b>	<b>172,620,161</b>



	2005			(in millions of Won)
	Loans (*)	Securities	Cash and due from banks	Total
Shinhan Financial Group	₩ 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

## (25) Contribution by Subsidiaries and Joint Ventures to the Company's Net Income

Effects under the equity method on the Company's net income for the years ended December 31, 2006 and 2005 were as follows:

	2006		2005	
	Amount	Ratio (%)	Amount	Ratio (%)
Gain (loss) from equity method on:				
Shinhan Bank	₩ 1,500,460	78.26	₩ 606,537	37.50
Shinhan Bank (formerly)	-	-	826,156	51.08
Good Morning Shinhan Securities	74,753	3.90	74,629	4.61
Shinhan Life Insurance	64,980	3.39	2,565	0.16
Shinhan Card	208,052	10.85	52,741	3.26
Shinhan Capital	48,255	2.52	36,418	2.25
Shinhan BNP Paribas ITMC	4,288	0.22	3,725	0.23
Jeju Bank	9,405	0.49	7,825	0.48
SH&C Life Insurance	1,776	0.09	2,680	0.17
Shinhan Macquarie	756	0.04	2,637	0.16
Shinhan Credit Information	2,792	0.15	2,401	0.15
Shinhan PE	1,751	0.09	(1,047)	(0.06)
	<b>1,917,268</b>	<b>100.00</b>	<b>1,617,267</b>	<b>100.00</b>
Other income	98,339		101,628	
Other expense	(182,889)		(158,135)	
Net income for year	<b>₩ 1,832,718</b>		<b>₩ 1,560,760</b>	

# Notes to Non-Consolidated Financial Statements

December 31, 2006 and 2005

## (26) Allowance for Loan Losses of the Company, Subsidiaries and Joint Ventures

Changes in the allowance for loan losses of the Company, its subsidiaries and joint ventures for the years ended December 31, 2006 and 2005 were as follows:

	2006			(in millions of Won)
	Beginning balance	Increase (decrease)	Ending balance	
Shinhan Financial Group	₩ 7,420	(1,495)	5,925	
Shinhan Bank	1,572,829	133,901	1,706,730	
Good Morning Shinhan Securities	27,256	2,254	29,510	
Shinhan Life Insurance	17,740	2,077	19,817	
Shinhan Card	67,400	80,673	148,073	
Shinhan Capital	30,373	967	31,340	
Shinhan BNP Paribas ITMC	18	6	24	
Jeju Bank	25,146	1,167	26,313	
SH&C Life Insurance	46	(2)	44	
Shinhan Macquarie	3	(2)	1	
Shinhan Credit Information	1	(1)	-	
	<b>₩ 1,748,232</b>	<b>219,545</b>	<b>1,967,777</b>	

	2005			(in millions of Won)
	Beginning balance	Increase (decrease)	Ending balance	
Shinhan Financial Group	₩ 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	
Shinhan Macquarie	53	(50)	3	
Shinhan Credit Information	-	1	1	
	<b>₩ 1,895,515</b>	<b>(147,283)</b>	<b>1,748,232</b>	

## (27) Financial Performance

Financial performance for the quarters ended December 31, 2006 and 2005 were as follows:

(in millions of Won, except earnings per share)

	Quarter ended December 31, 2006	Quarter ended December 31, 2005
Operating revenue	₩ 321,231	491,922
Operating income	268,744	449,827
Net income	268,916	449,157
Net earnings per share in Won	681	1,258

# Independent Accountants' Review Report on Internal Accounting Control System

English translation of a Report Originally Issued in Korean

To the President of  
Shinhan Financial Group Co., Ltd.:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Shinhan Financial Group Co., Ltd (the "Company") as of December 31, 2006. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2006, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2006 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2006. We did not review the Company's IACS subsequent to December 31, 2006. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

KPMG Samjong Accounting Corp.

Seoul, Korea  
February 15, 2007

#### Notice to Readers

This report is annexed in relation to the audit of the non-consolidated financial statements as of and for the year ended December 31, 2006 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

# Report on the Operations of Internal Accounting Control System

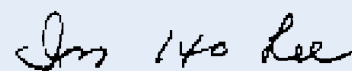
English translation of a Report Originally Issued in Korean

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


I, as the Internal Accounting Control Officer ("IACO") of Shinhan Financial Group Co., Ltd. (the "Company"), have assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2006.

The Company's management including IACO is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS Framework for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2006, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.



Lee, In Ho, Chief Executive Officer



Cho, Byung Jae, Internal Accounting Control Officer

February 9, 2007

This report has been translated into English from Korean language report enclosed.

# 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  
www.kr.kpmg.com

We have audited the accompanying consolidated balance sheets of Shinhan Financial Group Co., Ltd. and its subsidiaries (collectively the "Consolidated Company") as of December 31, 2006 and 2005 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.'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, 2006 and 2005, 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, 2006 and 2005 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, the credit card division of Chohung Bank merged with Shinhan Card Co., Ltd. on April 1, 2006. Additionally, on April 1, 2006, Shinhan Bank merged with Chohung Bank (excluding the card division of Chohung Bank). Chohung Bank was the surviving legal entity. After the merger, Chohung Bank changed its name to Shinhan Bank.

As discussed in note 1 to the consolidated financial statements, on December 20, 2006, the Consolidated Company entered into an agreement to acquire 78.6% of the outstanding shares of LG Card at ₩ 67,770 per share through a tender offer.



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 intended solely for use by those knowledgeable in Korean accounting principles and auditing standards and their application in practice.

*KPMG Samjong Accounting Corp.*

KPMG Samjong Accounting Corp.

Seoul, Korea  
February 15, 2007

This report is effective as of February 15, 2007, 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, 2006 and 2005  
(In millions of Won and thousands of U.S. dollars, except share data)

	Won		U.S. dollars (note 2(b))	
	2006	2005	2006	2005
<b>Assets</b>				
Cash and due from banks (notes 4, 17, 18 and 19)	₩ 11,273,500	8,429,328	\$ 12,127,260	9,067,694
Securities (notes 5, 17 and 19)	31,284,402	30,224,383	33,653,619	32,513,322
Loans, net of allowance for loan losses (notes 6, 19 and 29)	122,301,730	106,648,448	131,563,824	114,725,095
Fixed assets (notes 7, 17 and 18)	3,683,848	3,486,803	3,962,830	3,750,863
Other assets (notes 8, 19 and 28)	9,181,689	11,428,939	9,877,032	12,294,470
<b>Total assets</b>	<b>₩ 177,725,169</b>	<b>160,217,901</b>	<b>\$ 191,184,565</b>	<b>172,351,444</b>
<b>Liabilities and Stockholders' equity</b>				
<b>Liabilities:</b>				
Deposits (notes 10 and 19)	₩ 99,759,523	91,538,441	\$ 107,314,461	98,470,784
Borrowings (notes 11 and 19)	16,892,153	15,916,389	18,171,421	17,121,761
Debentures (notes 12 and 19)	29,484,758	22,840,156	31,717,684	24,569,875
Retirement and severance benefits (note 13)	241,189	176,353	259,455	189,708
Other liabilities (notes 14, 19 and 28)	19,835,441	19,535,689	21,337,608	21,015,156
<b>Total liabilities</b>	<b>166,213,064</b>	<b>150,007,028</b>	<b>178,800,629</b>	<b>161,367,284</b>
<b>Stockholders' equity:</b>				
Capital stock of ₩5,000 par value (note 20)				
Common stock	1,907,838	1,796,037	2,052,321	1,932,054
Authorized - 1,000,000,000 shares				
Issued and outstanding:				
381,567,614 shares issued and 374,437,647 shares outstanding in 2006				
359,207,313 shares issued and 347,597,116 shares outstanding in 2005				
Preferred stock	262,920	374,721	282,831	403,099
Issued and outstanding:				
39,767,169 shares in 2006 74,944,262 shares in 2005				
Consolidated capital surplus	4,411,506	4,393,846	4,745,596	4,726,599
Consolidated retained earnings	3,387,960	2,743,192	3,644,536	2,950,938
Consolidated capital adjustments (notes 21 and 22)	1,391,302	829,221	1,496,669	892,020
Minority interest in consolidated subsidiaries	150,579	73,856	161,983	79,450
<b>Total stockholders' equity</b>	<b>11,512,105</b>	<b>10,210,873</b>	<b>12,383,936</b>	<b>10,984,160</b>
<b>Commitments and contingencies (note 29)</b>				
<b>Total liabilities and stockholders' equity</b>	<b>₩ 177,725,169</b>	<b>160,217,901</b>	<b>\$ 191,184,565</b>	<b>172,351,444</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Income

For the years ended December 31, 2006 and 2005  
(In millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (note 2(b))	
	2006	2005	2006	2005
Interest income and dividends:				
Interest on due from banks	₩ 115,416	90,496	\$ 124,158	97,349
Interest and dividends on securities	1,404,239	1,122,561	1,510,584	1,207,574
Interest on loans	7,792,842	6,727,935	8,383,006	7,237,453
Other	71,477	40,351	76,890	43,408
Total interest income and dividends	9,383,974	7,981,343	10,094,638	8,585,784
Interest expense:				
Interest on deposits	2,767,329	2,380,313	2,976,903	2,560,578
Interest on borrowings	628,024	487,981	675,585	524,937
Interest on debentures	1,329,293	936,368	1,429,962	1,007,281
Other	57,521	37,887	61,878	40,757
Total interest expense	4,782,167	3,842,549	5,144,328	4,133,553
Net interest income	4,601,807	4,138,794	4,950,310	4,452,231
Provision for loan losses	574,652	649,116	618,171	698,274
Net interest income after provision for loan losses	4,027,155	3,489,678	4,332,139	3,753,957
Non-interest income:				
Fees and commission income	1,156,947	1,190,815	1,244,564	1,280,997
Insurance income	2,058,226	236,784	2,214,099	254,716
Realized gain from sale of trading securities	458,984	218,595	493,744	235,150
Unrealized gain on trading securities	264,053	185,361	284,050	199,399
Realized gain from sale of available-for-sale securities	339,021	201,065	364,696	216,292
Reversal of impairment loss on available-for-sale securities	309,342	41,424	332,769	44,561
Gain from equity method investment securities	79,823	33,411	85,868	35,941
Gain from sale of loans	37,847	59,786	40,713	64,313
Gain on foreign currency transactions	1,834,739	895,545	1,973,687	963,366
Gain on derivatives	4,452,341	4,508,354	4,789,523	4,849,778
Others	331,852	408,759	356,985	439,715
Total non-interest income	11,323,175	7,979,899	12,180,698	8,584,228

(Continued)

# Consolidated Statements of Income

For the years ended December 31, 2006 and 2005  
(In millions of Won and thousands of U.S. dollars, except earnings per share)

	Won		U.S. dollars (note 2(b))	
	2006	2005	2006	2005
Non-interest expense:				
Fees and commission expense	461,204	389,556	496,132	419,058
Insurance expense	2,145,302	238,399	2,307,769	256,453
Realized loss from sale of trading securities	357,615	235,025	384,698	252,824
Unrealized loss on trading securities	196,130	115,936	210,983	124,716
Realized loss from sale of available-for-sale securities	46,873	28,445	50,423	30,599
Impairment loss on available-for-sale securities	108,586	218,089	116,809	234,605
Loss from equity method investment securities	1,380	845	1,485	909
Loss from sale of loans	3,067	784	3,299	843
General and administrative expenses (note 23)	2,839,476	2,404,144	3,054,514	2,586,215
Loss on foreign currency transactions	1,710,427	842,382	1,839,960	906,177
Loss on derivatives	4,355,289	4,408,763	4,685,122	4,742,645
Others	611,304	762,559	657,600	820,310
Total non-interest expense	12,836,653	9,644,927	13,808,794	10,375,354
Net non-interest expense	(1,513,478)	(1,665,028)	(1,628,096)	(1,791,126)
Earnings before income taxes	2,513,677	1,824,650	2,704,043	1,962,831
Income taxes (note 24)	671,164	257,410	721,992	276,904
Net income	1,842,513	1,567,240	1,982,051	1,685,927
Net income in minority interest	9,795	6,480	10,537	6,971
Consolidated net income	<b>₩ 1,832,718</b>	<b>₩ 1,560,760</b>	<b>\$ 1,971,514</b>	<b>\$ 1,678,956</b>
Earnings per share in Won and U.S. dollars (note 25)	<b>₩ 4,776</b>	<b>₩ 4,360</b>	<b>\$ 5.14</b>	<b>\$ 4.69</b>
Diluted earnings per share in Won and U.S. dollars (note 25)	<b>₩ 4,776</b>	<b>₩ 4,109</b>	<b>\$ 5.14</b>	<b>\$ 4.42</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2006 and 2005  
(In millions of Won and thousands of U.S. dollars)

	Won					U.S. dollars (note 2(b))						
	Capital stock	Capital surplus	Retained earnings	Capital adjustments	Minority interest	Total	Capital stock	Capital surplus	Retained earnings	Capital adjustments	Minority interest	Total
Balance at January 1, 2005	₩ 2,083,118	3,775,345	1,608,185	280,622	87,616	7,894,886	\$ 2,240,876	4,061,258	1,729,975	301,874	94,251	8,428,234
Net income	-	-	1,560,760	-	-	1,560,760	-	-	1,678,959	-	-	1,687,959
Stock issuance of Shinhan Financial Group	87,640	641,427	-	-	-	729,067	94,276	690,003	-	-	-	784,280
Disposition of treasury stock	-	82	-	-	-	82	-	89	-	-	-	89
Change in retained earnings of subsidiaries	-	-	(77,863)	-	-	(77,863)	-	-	(83,760)	-	-	(83,760)
Dividends paid	-	-	(347,890)	-	-	(347,890)	-	-	(374,236)	-	-	(374,236)
Net income in minority interest	-	-	-	-	6,480	6,480	-	-	-	-	6,971	6,971
Other	-	(23,008)	-	548,599	(20,240)	505,351	-	(24,751)	-	590,146	(21,772)	543,623
Balance at December 31, 2005	2,170,758	4,393,846	2,743,192	829,221	73,856	10,210,873	2,335,152	4,726,599	2,950,938	892,020	79,450	10,984,160
Net income	-	-	1,832,718	-	-	1,832,718	-	-	1,971,514	-	-	1,971,514
Disposition of treasury stock	-	17,687	-	-	-	17,687	-	19,026	-	-	-	19,026
Change in retained earnings of subsidiaries	-	-	(105,037)	-	-	(105,037)	-	-	(112,992)	-	-	(112,992)
Dividends paid	-	-	(385,049)	-	-	(385,049)	-	-	(414,209)	-	-	(414,209)
Redemption of preferred stocks	-	-	(697,864)	-	-	(697,864)	-	-	(750,715)	-	-	(750,715)
Net income in minority interest	-	-	-	-	9,795	9,795	-	-	-	-	10,537	10,537
Other	-	(27)	-	562,081	66,928	628,982	-	(29)	-	604,649	71,996	676,616
Balance at December 31, 2006	₩ 2,170,758	4,411,506	3,387,960	1,391,302	150,579	11,512,105	\$ 2,335,152	4,745,596	3,644,536	1,496,669	161,983	12,383,936

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

For the years December 31, 2006 and 2005  
(In millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (note 2(b))	
	2006	2005	2006	2005
Cash flows from operating activities:				
Net income	₩ 1,832,718	1,560,760	\$ 1,971,514	1,678,956
Adjustments to reconcile consolidated net income to net cash provided by operating activities:				
Depreciation and amortization	367,019	282,472	394,814	303,864
Provision for loan losses	574,652	649,116	618,171	698,274
Provision for retirement and severance benefits	129,089	106,241	138,865	114,287
Unrealized gain on trading securities, net	(67,923)	(69,425)	(73,067)	(74,683)
Realized gain from sale of available-for-sale securities, net	(292,148)	(172,620)	(314,273)	(185,693)
Impairment loss on available-for-sale securities	108,586	218,089	116,809	234,605
Reversal of impairment loss on available-for-sale securities	(309,342)	(41,424)	(332,769)	(44,561)
Income from equity method investment securities, net	(78,443)	(33,411)	(84,383)	(35,941)
Loss from sale of equity method investment securities	-	845	-	909
Gain from sale of loans, net	(34,780)	(59,002)	(37,414)	(63,470)
Gain on foreign currency transactions, net	(279,519)	(180,694)	(300,688)	(194,379)
Gain on derivatives, net	(97,052)	(99,591)	(104,401)	(107,132)
Stock compensation costs	58,352	45,009	62,771	48,418
Net income in minority interest	9,795	6,480	10,537	6,971
Policy reserves and other insurance expense	1,103,756	70,586	1,187,345	75,932
Other, net	106,286	313,598	114,333	337,346
Changes in assets and liabilities:				
Decrease (increase) in trading securities	(33,267)	1,883,672	(35,786)	2,026,325
Decrease (increase) in other assets	(2,065,968)	2,232,414	(2,222,427)	2,401,478
Increase (decrease) in other liabilities	2,237,741	(3,213,110)	2,407,208	(3,456,443)
Retirement and severance benefits paid	(29,816)	(31,294)	(32,074)	(33,664)
Other, net	26,015	30,699	27,984	33,023
Net cash provided by operating activities	3,265,751	3,499,410	3,513,069	3,764,422
Cash flows from investing activities:				
Cash provided by investing activities:				
Disposition of available-for-sale and held-to-maturity securities	17,628,333	20,474,921	18,963,353	22,025,517
Collection of loans	2,426,550	347,222	2,610,316	373,516
Proceeds from disposal of fixed assets	99,873	73,908	107,437	79,504
Decrease in other assets	7,926,880	5,224,612	8,527,195	5,620,279
Dividends received from equity method investment securities	20,278	5,358	21,814	5,764
	28,101,914	26,126,021	30,230,115	28,104,580

(Continued)



# Consolidated Statements of Cash Flows

For the years December 31, 2006 and 2005  
(In millions of Won and thousands of U.S. dollars)

	Won		U.S. dollars (note 2(b))	
	2006	2005	2006	2005
<b>Cash used in investing activities:</b>				
Purchase of available-for-sale and held-to-maturity securities	(17,709,654)	(21,637,475)	(19,050,831)	(23,276,113)
Loan originations	(18,977,306)	(9,375,837)	(20,414,485)	(10,085,882)
Purchases of fixed assets	(591,905)	(270,540)	(636,731)	(291,027)
Increase in other assets	(258,238)	(1,643,074)	(277,795)	(1,767,504)
Decrease in other liabilities	(3,540,056)	(5,100,228)	(3,808,150)	(5,486,476)
	(41,077,159)	(38,027,154)	(44,187,992)	(40,907,002)
Net cash used in investing activities	(12,975,245)	(11,901,133)	(13,957,877)	(12,802,422)
<b>Cash flows from financing activities:</b>				
<b>Cash provided by financing activities:</b>				
Increase in deposits	8,450,709	5,125,818	9,090,693	5,514,004
Proceeds from borrowings	31,593,855	20,317,457	33,986,505	21,856,128
Proceeds from debentures	14,473,208	13,682,516	15,569,286	14,718,714
Increase in other liabilities	340,073	2,275,230	365,828	2,447,535
Disposition of treasury stock	120,817	693	129,967	746
Increase in Minority interest	72,000	20,000	77,453	21,515
	55,050,662	41,421,714	59,219,732	44,558,642
<b>Cash used in financing activities:</b>				
Decrease in deposits	-	(1,107,899)	-	(1,191,801)
Repayment of borrowings	(31,018,875)	(19,351,408)	(33,367,981)	(20,816,917)
Repayment of debentures	(6,863,208)	(10,851,012)	(7,382,968)	(11,672,775)
Debentures issue cost paid	(97,028)	(8,515)	(104,376)	(9,160)
Decrease in other liabilities	(3,431,599)	(57,886)	(3,691,481)	(62,270)
Stock issuance costs paid	(29)	(98)	(31)	(105)
Dividends paid	(385,727)	(348,477)	(414,939)	(374,868)
Redemption of preferred stocks	(697,864)	-	(750,714)	-
Acquisition of treasury stock	-	(474)	-	(510)
Acquisition of equity in consolidated subsidiaries	-	(1,267)	-	(1,363)
	(42,494,330)	(31,727,036)	(45,712,490)	(34,129,769)
Net cash provided by financing activities	12,556,332	9,694,678	13,507,242	10,428,873
<b>Increase in cash and due from banks due to consolidation scope change</b>				
	(2,666)	434,204	(2,868)	467,087
Net increase in cash and due from banks	2,844,172	1,727,159	3,059,566	1,857,960
Cash and due from banks at beginning of year	8,429,328	6,702,169	9,067,694	7,209,734
Cash and due from banks at end of year	<b>₩ 11,273,500</b>	<b>8,429,328</b>	<b>\$ 12,127,260</b>	<b>9,067,694</b>

See accompanying notes to non-consolidated financial statements.

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

## (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 summarized as follows:

### a. Controlling Company

Shinhan Financial Group Co., Ltd. (the "Shinhan Financial Group") was incorporated on September 1, 2001 through a business combination involving exchange of Shinhan Financial Group's common stock with the former 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.). Shinhan Financial Group was formed with ₩1,461,721 million of initial capital stock for the purpose of providing management services and financing to affiliated companies 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's American Depository Shares were listed on the New York Stock Exchange.

As of December 31, 2006, Shinhan Financial Group has 34 subsidiaries, which are consolidated or accounted for under the equity method, and its capital stock amounted to ₩1,796,037 million in common stock and ₩374,721 million in preferred stock, respectively.

On December 20, 2006, the Company entered into an agreement to acquire 78.6% of the outstanding shares of LG Card at ₩67,770 per share through a tender offer. The Company provided ₩518,300 million of deposits to secure the contract included in advance payments as of December 31, 2006.

### b. Subsidiaries included in consolidation

#### (a) Shinhan Bank (formerly Chohung Bank)

Chohung Bank was established on October 1, 1943 through the merger of Han Sung Bank, established on February 19, 1897, and Dong Il Bank, established on August 8, 1906, to engage in commercial banking and trust operations.

The credit card division of Chohung Bank was merged with Shinhan Card Co., Ltd. on April 1, 2006. Shinhan Card Co., Ltd. issued 41,207,856 shares of common stock in consideration. Additionally, on April 1, 2006, Shinhan Bank merged with Chohung Bank (excluding the card division of Chohung Bank). Chohung Bank was the surviving legal entity. In connection with the merger, Chohung Bank issued 828,505,540 shares of common stock in consideration. After the merger, Chohung Bank changed its name to Shinhan Bank.

As of December 31, 2006, Shinhan Bank operated through 917 domestic branches, 87 depository offices and 13 overseas branches, and its capital stock amounted to ₩7,528,078 million.

#### (b) 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 and became a wholly owned subsidiary in August 17, 2004 through a tender offer and share exchange. As of December 31, 2006, it operated through 80 branches and its capital stock amounted to ₩796,998 million (including ₩19,117 million of preferred stock).

#### (c) 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 and became a wholly owned subsidiary as of December 31, 2005. As of December 31, 2006, Shinhan Life Insurance operated through 120 branches and its capital stock amounted to ₩200,000 million.

(d) Shinhan Card Co., Ltd.

Shinhan Card Co., Ltd. ("Shinhan Card") was established on June 1, 2002 under the Specialized Credit Financial Business Act 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, 2006, Shinhan Card had 3.11 million franchise accounts and 7.16 million credit card holders, and its capital stock amounted to ₩358,886 million.

(e) Shinhan Capital Co., Ltd.

Shinhan Capital Co., Ltd. ("Shinhan Capital") was incorporated on April 19, 1991 to engage in the leasing and rental business. 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, 2006 amounted to ₩80,000 million.

(f) Jeju Bank

Jeju Bank was incorporated on March 18, 1969 under the General Banking Act of the Republic of Korea to engage in commercial banking and the trust business and listed its shares on the Korea Exchange on December 28, 1972. Jeju Bank's capital stock as of December 31, 2006 amounted to ₩77,644 million.

(g) 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, 2006 amounts to ₩3,000 million.

(h) Shinhan Private Equity, Inc.

Shinhan Private Equity, Inc. ("Shinhan PE") was established on December 8, 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, 2006 amounts to ₩10,000 million.

(i) Trust accounts of Shinhan and Jeju Bank

Trust accounts are accounted for separately from its bank accounts under the Trust Business Act. Accordingly, funds transferred between a bank account and a trust account are recognized as assets and liabilities, as appropriate, and commissions are recognized as revenue. Furthermore, in cases where trust accounts in which Shinhan Bank and Jeju Bank guarantees repayment of principal and, in certain cases, minimum interest earnings are in the accompanying consolidated financial statements.

(j) SH Asset Management Co., Ltd. (formerly Chohung Investment Trust Management Co., Ltd.)

SH Asset Management Co., Ltd. ("SH Asset Management") was established in 1988 and engages in securities management services and conducts surveys of the economic and capital markets. As of December 31, 2006, SH Asset Management's capital stock amounted to ₩45,000 million.

(k) Shinhan Asia Ltd.

Shinhan Asia Ltd. ("Shinhan Asia") engages in merchant banking activities in Hong Kong. As of December 31, 2006, Shinhan Asia's capital stock amounted to US\$15,000 thousand.

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

## (l) Shinhan Bank America

Shinhan Bank America was established on March 24, 2003 through the merger of Chohung Bank of New York and California Chohung Bank. As of December 31, 2006, Shinhan Bank America's capital stock amounted to US\$14,000 thousand.

## (m) Shinhan Bank Europe GmbH

Shinhan Bank Europe GmbH ("Shinhan Europe") was established in 1994. As of December 31, 2006, Shinhan Europe's capital stock amounted to EUR 15,339 thousand.

## (n) Good Morning Shinhan Securities Europe Limited

Good Morning Shinhan Securities Europe Limited ("Good Morning Shinhan Europe") was established in 1991 and provides securities trading, underwriting and derivative brokerage services in Europe under the Securities and Futures Authority of UK. As of December 31, 2006, Good Morning Shinhan Europe's capital stock amounted to GBP 5,000 thousand.

## (o) Good Morning Shinhan Securities USA Inc.

Good Morning Shinhan Securities USA Inc. ("Good Morning Shinhan USA") was established in 1993 and provides securities trading, underwriting and derivative brokerage services under the Federal Securities Act of USA. As of December 31, 2006, Good Morning Shinhan USA's capital stock amounted to US\$4,200 thousand.

## (p) Shinhan National Pension Service PEF 1st

Shinhan National Pension Service PEF 1st ("Shinhan PEF 1st") was established in August 18, 2005. As of December 31, 2006, its capital stock amounted to ₩138,000 million.

Ownership between Shinhan Financial Group and its subsidiaries included in consolidation as of December 31, 2006 and 2005 were as follows:

Investor	Investee	2006		2005	
		Number of shares	Ownership (%)	Number of shares	Ownership (%)
Shinhan Financial Group	Shinhan Bank	1,505,615,506	100.0	933,324,364	100.0
"	Good Morning Shinhan Securities	159,399,664	100.0	159,399,664	100.0
"	Shinhan Life Insurance	40,000,000	100.0	40,000,000	100.0
"	Shinhan Card	71,777,256	100.0	30,569,400	100.0
"	Shinhan Capital	12,250,000	100.0	12,250,000	100.0
"	Jeju Bank	9,692,369	62.4	9,692,369	62.4
"	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	7,129,967	1.9	11,406,522	3.2
"	SH Asset Management	7,179,678	79.8	7,179,678	79.8
"	Shinhan Asia	149,999	100.0	149,999	100.0
"	Shinhan Bank America	400,000	100.0	400,000	100.0
"	Shinhan Bank Europe Limited	Limited	100.0	Limited	100.0
"	Shinhan PEF 1st	368	26.7	80	26.7

(Continued)

Investor	Investee	2006		2005	
		Number of shares	Ownership (%)	Number of shares	Ownership (%)
Good Morning Shinhan Securities	Shinhan Financial Group	-	-	203,675	0.1
"	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
Shinhan Life Insurance	Shinhan PEF 1st	46	3.3	10	3.3
Jeju Bank	Shinhan PEF 1st	23	1.7	5	1.7
Shinhan PE	Shinhan PEF 1st	69	5.0	15	5.0

### c. Joint venture investees

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

On August 1, 1996, Shinhan Investment Trust Management Co., Ltd. was established and obtained a license to engage in investment and trust of securities and advisory services under the Investment and Trust of Securities Law. Under the joint venture agreement on October 2002 with BNP Paribas Asset Management Group, Shinhan Investment Trust Management Co., Ltd. was renamed Shinhan BNP Paribas Investment Trust Management Co., Ltd. ("Shinhan BNP Paribas ITMC"). Shinhan BNP Paribas ITMC's capital stock as of December 31, 2006 amounted to ₩40,000 million.

#### (b) 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 insurance and related businesses under the joint venture agreement with Cardif SA. SH&C Life Insurance's capital stock as of December 31, 2006 amounted to ₩30,000 million.

#### (c) Shinhan Macquarie Financial Advisory Co., Ltd.

On August 1, 2001, Shinhan Macquarie Financial Advisory Co., Ltd. ("Shinhan Macquarie") was incorporated to engage in financial advisory services and cross border leasing under the joint venture agreement with Macquarie International Holdings Ltd. Shinhan Macquarie's capital stock as of December 31, 2006 amounted to ₩1,000 million.

Details of ownerships in joint venture investees as of December 31, 2006 and 2005 were as follows:

Investor	Investee	2006		2005	
		Number of shares	Ownership (%)	Number of shares	Ownership (%)
Joint venture investment:					
Shinhan Financial Group	Shinhan BNP Paribas ITMC	4,000,001	50.0	4,000,001	50.0
"	SH&C Life Insurance	3,000,001	50.0	3,000,001	50.0
"	Shinhan Macquarie	102,000	51.0	102,000	51.0

# Notes to Consolidated Financial Statements, *continued*

December 31, 2006 and 2005

## d. Other equity method investees

Details of ownerships in subsidiaries accounted for under the equity method of accounting as of December 31, 2006 and 2005 were as follows:

Investor	Investee	Ownership (%)	
		2006	2005
Shinhan Bank	Shinhan Data System Co.,Ltd.	100.0	100.0
"	Shinhan Corporate Restructuring Fund 6 th	60.0	-
"	Shinhan Corporate Restructuring Fund 7 th	58.8	-
"	Shinhan Corporate Restructuring Fund 8 th	14.5	-
"	Macquarie Shinhan Infrastructure Management Co.,Ltd.	35.2	35.2
"	Daewoo Capital Co.,Ltd.	14.8	14.8
"	Shinhan Vina Bank	50.0	50.0
Shinhan Life Insurance	Shinhan Corporate Restructuring Fund 3 rd	10.0	10.0
"	Shinhan Corporate Restructuring Fund 6 th	10.0	-
Shinhan Capital	Shinhan Corporate Restructuring Fund 3 rd	19.0	19.0
"	KTB Corporate Restructuring Fund 18 th	47.2	-
"	Macquarie Shinhan Infrastructure Management Co.,Ltd.	14.8	14.8
"	Now Corporate Restructuring Fund 2 nd	25.0	-
"	CFAG Corporate Restructuring Fund 8 th	20.0	20.0
"	Shinhan Corporate Restructuring Fund 5 th	45.0	-
"	Shinhan Corporate Restructuring Fund 6 th	20.0	-
"	Shinhan Corporate Restructuring Fund 7 th	29.4	-
"	Shinhan Corporate Restructuring Fund 8 th	29.4	-
"	YCC Corporate Restructuring Fund 1st	24.1	-
Jeju Bank	Shinhan Corporate Restructuring Fund 7 th	4.9	-

## (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 (collectively 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 solely for use by those who are informed in 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 consolidated financial statements.

Certain information included in the Korean language consolidated 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 ₩929.60 to US\$1, the basic exchange rate on December 31, 2006. 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

Effective January 1, 2006, the Consolidated Company has adopted Statements of Korea Accounting Standards (the "SKAS") No.18 Interests in Joint Ventures, No.19 Leases and No.20 Related Party Disclosures. In addition, in applying an interpretation, valuation gain (loss) on available-for-sale securities which was recorded in subsidiaries' capital adjustment account at the time of acquisition is included in valuation gain (loss) of equity method at the time of sale of the available-for-sale securities. Except for the adoption of the aforementioned accounting standards, the same accounting policies were applied for the consolidated financial statements both as of and for the years ended December 31, 2006 and 2005. Certain accounts of the consolidated financial statements as of and for the year ended December 31, 2005, which are presented for comparative purposes, were reclassified to conform to the current period's presentation, which resulted in a decrease in stockholders' equity, total assets and total liabilities by ₩40,853 million, ₩719,600 million and ₩678,747million, respectively, and a decrease in consolidated retained earnings and increase in unrealized gain on available-for-sale securities by ₩215,432 million, respectively.

(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 in the near term (thus held for only a short period of time) are classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used to generate profit on short-term differences in price. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale securities.

Trading securities are carried at fair value, with unrealized holding gains and losses included in current income. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported as a capital adjustment, net of tax. Investments in equity securities that do not have readily determinable fair values are stated at cost. 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.

The fair value of marketable securities is determined using 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 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.

A decline in market value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value and the impairment loss is charged to current results of operations.

(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.

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

Under the equity method, the Consolidated Company's initial investment is recorded at cost and is subsequently increased or decreased to reflect the Consolidated Company's share of the net asset of investee. 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 has guaranteed obligations of the investee or is otherwise committed to provide additional financial support, the Consolidated Company's share of loss of the affiliate remains recorded until such investment is reduced to zero.

When translating financial statements of equity method investees denominated in foreign currencies, 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.

Investments in affiliated companies are reduced when dividends are declared by the shareholders' meeting of the respective affiliated companies.

## (f) Interests in Joint Ventures

Investments in jointly controlled entities are accounted for using the equity method.

## (g) Allowance for Loan Losses

Prior to 2006, the Consolidated Company classified corporate loans based on the ability of the borrowers to repay considering the borrowers' business operations, financial position and future cash flows (Forward Looking Criteria) as well as past due period and status of any bankruptcy proceedings (Historical Repayment Criteria), while household loans are classified by evaluating the ability of a borrower to repay debt. Based on the aforementioned method, the Consolidated Company classified corporate and household loans into ten credit rating categories, 1-6 (normal), 7 (precautionary), 8 (sub-standard), 9 (doubtful) and 10 (estimated loss), respectively. An allowance for loan losses was calculated based on each classification as follows: for corporate loans a minimum of 0.5% for normal, 2% for precautionary, 20% for substandard, 50% for doubtful and 100% for estimated loss, respectively; and for household and credit card loans a minimum of 0.75% or 1% for normal, 8% or 12% for precautionary, 20% for substandard, 55% or 60% for doubtful and 100% for estimated loss, respectively.

For household loans which were provided after September 9, 2002, which were secured by real estate and for which the ratio of loans to collateral value exceeds 60%, the Consolidated Company provided an allowance for loan losses of 1% or more and 10% or more for those classified as normal and precautionary, respectively. Additionally, for certain high-risk household loans and credit card loans, the Consolidated Company provided an allowance of 50% and 19% for those classified into precautionary and 100% or 95% for estimated loss, respectively.

In 2006, the Consolidated Company changed the method of estimating the allowance for loan losses and records the greater amount of:

i) Expected Loss Method

The Consolidated Company estimates the allowance for loan losses by applying the expected loss method, which analyzes factors of estimated loss based on probability of default ("PD") and loss given default ("LGD"). This credit method considers both financial and non-financial factors of borrowers to assess the PD. LGD is determined by the type of loan and collateral, based on historical data for the past five years or three years and seven months for corporate loans and two years and eight months or four years for household loans, respectively. The allowance for loan losses is calculated using the PD and LGD to estimate the potential credit exposure on the borrower at the time of default ("EAD").

ii) Financial Supervisory Service ("FSS")'s Guideline

The Consolidated Company applies the FSS guidelines for corporate and household loans in accordance with the Regulations for the Supervision of Banks.

Additionally, the Consolidated Company considers the borrower's ability to repay and the recovery value of collateral in estimating expected loss on high-risk loans or large volumes of loans.

(h) Troubled Loans Restructuring

A loan the contractual terms of which are modified in a troubled debt restructuring program is accounted for at the 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 and provision for loan losses in the current period. The present value discounts are recorded in allowance for loan losses, which is shown as a deduction from the nominal value of the loans. Allowance for loan losses are amortized using the effective interest method and are recognized as interest income.

(i) Deferred Loan Origination Fee

Fees associated with origination of loans are deferred and recognized over the life of the loan as an adjustment to the loan balance and interest income.

(j) Fixed Assets

i) Property and equipment

Property and equipment are stated at cost, less accumulated depreciation, except for assets acquired through exchange, investment in kind or donation, which are recorded at their fair value.

Depreciation is computed by the declining-balance method using rates based on the useful lives of the respective assets or using the straight-line method over the estimated useful lives of the assets as follows:

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40~60 years
Vehicles	Declining-balance	Five years
Furniture, fixtures and other	"	"
Leasehold improvement	Straight-line	"

Significant additions or improvements extending useful lives of assets are capitalized. However, normal maintenance and repairs are charged to expense as incurred.

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

## ii) Intangible assets

Intangible assets are stated at acquisition cost less accumulated amortization computed using the straight-line method over useful lives of related intangible assets or within twenty years, which is shorter.

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

## (k) Deferred Acquisition Costs

Policy acquisition costs, which include commissions, certain underwriting and agency expenses associated with acquiring businesses, are deferred and amortized using the straight-line method over the contract period, up to 7 years. Actual acquisition costs incurred in excess of estimated acquisition costs are expensed.

## (l) 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.

## (m) Policy Reserves

The Consolidated Company accounts for policy reserves based on the Insurance Business Law and other related Insurance Supervisory Regulation. These policy reserves are calculated based on insurance terms and premium and policy reserves approved by the Financial Supervisory Commission of the Republic of Korea and details are as follows:

### i) Premium reserve

Provision is made for premium payable based on assumptions that all policies are surrendered immediately after fiscal year.

### ii) Unearned premium reserve

Unearned premium reserve refers to premium to be charged during subsequent periods, and for premiums collected before the balance sheet date.

### iii) Reserve for outstanding claims

Reserve for outstanding claims is an estimate for losses for insured events that have occurred prior to the balance sheet date but for which an actual claim have not yet been settled or determined.

### iv) Reserve for participating policyholders' dividends

Reserve for participating policyholder's dividends are recorded to account for the difference in actual investment yields, mortality rates or morbidity rates and operating expense rates from the initial rates in each policy payable to participating policyholders. In addition, it includes a reserve for long-term maintenance dividends to discourage cancellations.

v) Dividend reserve for policyholders' income participation

Dividend reserve for policyholders' income participation refers to the amount reserved depending on the business performance for the purpose of appropriating it for future dividends to policyholders.

vi) Reserve for reinsurance premium

If the Consolidated Company reinsures its insurance contracts, the recoverable amount from the reinsurance company is recorded as a deduction against the policy reserves.

(n) 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 salary rates 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 consolidated balance sheets as a deduction from the liability for retirement and severance benefits.

Through March 1999, under the National Pension Scheme of Korea, the Consolidated Company transferred a certain portion of retirement allowances for employees to the National Pension Fund. The amount transferred reduces the retirement and severance benefit amount payable to employees when they leave the Consolidated Company and is accordingly reflected in the accompanying consolidated balance sheets as a reduction of the retirement and severance benefits liability.

(o) Allowance for Unused Loan Commitments

Prior to 2006, the Consolidated Company applied the "Credit Conversion Factor" method in estimating the expected loss on unused loan commitments classified as normal. In applying this method, credits are classified reflecting credit conversion ratios, and provisions were made for unused corporate and household loan commitments at a minimum of 0.5% and 0.75%, respectively.

In 2006, the Consolidated Company changed the method of estimating the allowance for unused loan commitments and records the greater amount of :

i) Expected Loss Method

The Consolidated Company estimates the allowance for unused loan commitments using the same method applied for allowance for loan losses.

ii) FSS's Guideline

The Consolidated Company estimates the allowance for unused loan commitments based on each classification as follows: for unused corporate loan commitments a minimum of 0.7% for normal, 7% for precautionary, 20% for substandard, 50% for doubtful and 100% for estimated loss, respectively; and for unused household loan commitments a minimum of 1.0% for normal, 10% for precautionary, 20% for substandard, 55% for doubtful and 100% for estimated loss, respectively.

The allowance for unused loan commitments is included in other liabilities in the accompanying consolidated balance sheets

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

## (p) Allowance for Guarantees and Acceptances

Prior to 2006, the Consolidated Company provided an allowance for losses on guarantees and acceptances considering "Credit Conversion Factor" and credit rating categories as follows: for guarantees and acceptances at a minimum of 0.5% for normal, 2% for precautionary, 20% for substandard, 95% for doubtful, 100% for estimated loss, respectively.

In 2006, the Consolidated Company records the greater amount calculated from the Expected Loss Method or per the FSS's guideline. The allowance for losses on contingent guarantees and acceptances, endorsed bills and outstanding guarantees and acceptances are included in other liabilities in the accompanying consolidated balance sheets.

## (q) Bonds under Resale or Repurchase Agreements

Bonds purchased under resale agreements are recorded as loans and bonds sold under repurchase agreements are recorded as borrowings when the Consolidated Company purchases or sells securities under resale or repurchase agreements.

## (r) 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 grant date. 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 is measured using the market price as of each period end and is recognized as an expense and a liability over the service periods.

## (s) Interest Income

Interest income on bank deposits, loans and securities is recognized on an accrual basis, except for interest income on loans that are overdue and loans to bankrupt customers. Any unpaid interest previously accrued on such loans is reversed from income, and thereafter interest is recognized only to the extent payments are received. Payments on delinquent loans are first applied to delinquent interest, to normal interest, and then to the principal balance.

## (t) Leases

Prior to 2006, the Company accounted for and classified its lease transactions as either an operating or capital lease, depending on the terms of the lease under the Statement of Korea Accounting Standards ("SKAS"). When a lease was substantially noncancelable and met one or more of the criteria listed below, it was classified as a capital lease.

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

Otherwise, the lease was classified as an operating lease and recognized in income on a straight-line basis over the lease term.



Effective January 1, 2006, the Company adopted SKAS No.19, Leases. Under this standard, the above capital lease criteria have been amended. Specifically, the premise of a substantially noncancelable lease was removed and the criterion for a bargain purchase option has been modified to include a reasonable certainty, at the inception of the lease, that the option will be exercised. In addition, if the leased property is specialized to the extent that only the lessee can use it without any major modification, it would be considered a capital lease.

SFAS No.19 also requires recognition of initial direct costs incurred in negotiating and arranging an operating lease as a separate asset and expensed as commission and fee in non-interest expense over the lease term on the same basis in which the lease income is recognized.

(u) Income Taxes

Income tax on the income or loss for the period consists of the corporate income tax and resident tax surcharges currently payable, and the changes in deferred income tax assets and liabilities during the period. .

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 in which the carrying amount of assets and liabilities will be realized or settled, 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.

(v) 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 ₩929.60 and ₩1,013.0 to US\$1, the rates of exchange on December 31, 2006 and 2005, 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.

(w) Derivatives

Where a derivative instrument which meets certain criteria is used for hedging the exposure to changes in the fair value of a recognized asset, liability or firm commitment, it is designated as a fair value hedge. Where a derivative instrument which meets certain criteria is used for hedging the exposure to the variability of future cash flows of a forecasted transaction, it is designated as a cash flow hedge.

Derivative instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of derivative instruments that are not designated as fair value or cash flow hedges are recognized immediately in the consolidated statement of income.

Changes in the fair value of derivative instruments that are designated and qualify as fair value hedges are recorded in the consolidated statements of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The effective portion of changes in the fair value of derivative instruments that are designated and qualify as cash flow hedges are recognized in stockholders' equity, net of tax. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of income. Accumulated gain or loss in stockholders' equity is recorded in the income statement in the periods in which the hedged item will affect profit or loss.

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated statements of income. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statements of income.

## (x) Provisions, Contingent Assets and Contingent Liabilities

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.

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.

## (y) 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 equity method investment securities account of Shinhan Financial Group is eliminated 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) which are amortized over certain periods, not to exceed 20 years.
- (c) All significant inter-company transactions and account balances among the consolidated companies are 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, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Cash on hand in Won	₩ 2,544,156	2,217,132
Cash on hand in foreign currencies	226,812	176,751
	2,770,968	2,393,883
Due from banks in Won	7,827,992	5,392,754
Due from banks in foreign currencies	674,540	642,691
	8,502,532	6,035,445
	<b>₩ 11,273,500</b>	<b>8,429,328</b>

(b) Restricted due from banks as of December 31, 2006 and 2005 were as follows:

	(in millions of Won)		
	2006	2005	Restrictions
Due from banks in Won:			
Reserve deposits in the Bank of Korea	₩ 5,644,469	2,515,379	General banking account
Due from banks for customers' accounts	716,507	887,483	Reserve for customers' deposits
Guarantee deposits for futures and options	12,679	-	"
Other	15,708	11,229	Deposit for severance benefit insurance and security deposit
	6,389,363	3,414,091	
Due from banks in foreign currencies	372,516	213,012	General banking account
	<b>₩ 6,761,879</b>	<b>3,627,103</b>	

(c) The maturities of due from banks as of December 31, 2006 and 2005 were as follows:

		(in millions of Won)		
At December 31, 2006		Due from banks in Won	Due from banks in foreign currencies	Total
Due in 3 months or less		₩ 7,203,585	462,374	7,665,959
Due after 3 months through 6 months		80,438	10,673	91,111
Due after 6 months through 1 year		223,612	73,006	296,618
Due after 1 year through 3 years		146,092	26,441	172,533
Thereafter		174,265	102,046	276,311
		<b>₩ 7,827,992</b>	<b>674,540</b>	<b>8,502,532</b>

		(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		1,737,917	100,731	1,838,648
		<b>₩ 5,392,754</b>	<b>642,691</b>	<b>6,035,445</b>

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

## (5) Securities

Securities as of December 31, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Trading securities	₩ 5,516,622	5,495,510
Available-for-sale securities	17,978,765	21,612,238
Held-to-maturity securities	7,558,816	2,996,243
Equity method investment securities	230,199	120,392
Total securities	<b>₩ 31,284,402</b>	<b>30,224,383</b>

### (a) Trading securities

i) Trading securities as of December 31, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Equity securities:		
Stocks	₩ 442,470	302,354
Debt securities:		
Government bonds	1,782,150	1,748,108
Finance debentures	1,324,468	1,388,328
Corporate bonds	664,946	668,750
	3,771,564	3,805,186
Beneficiary certificates	267,673	148,582
Commercial paper	102,994	177,611
Securities in foreign currencies	13,617	27,576
Other	918,304	1,034,201
	<b>₩ 5,516,622</b>	<b>5,495,510</b>

ii) Details of debt securities classified as trading securities as of December 31, 2006 and 2005 were as follows:

	2006			(in millions of Won)
	Face value	Acquisition cost	Fair value (*)	Book value (**)
Government bonds	₩ 1,806,891	1,782,227	1,798,619	1,782,150
Finance debentures	1,352,293	1,326,593	1,342,537	1,324,468
Corporate bonds	1,169,113	665,417	683,149	664,946
	<b>₩ 4,328,297</b>	<b>3,774,237</b>	<b>3,824,305</b>	<b>3,771,564</b>

	2005			(in millions of Won)
	Face value	Acquisition cost	Fair value (*)	Book value (**)
Government bonds	₩ 1,764,610	1,753,012	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>

(\*) Fair value of debt securities is measured by applying the average base prices of the latest trading day from the balance sheet date, provided by the bond pricing institutions.

(\*\*) 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, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Equity securities:		
Stocks	₩ 3,964,409	3,233,798
Investment in special funds	123,409	43,525
	4,087,818	3,277,323
Debt securities:		
Government bonds	1,440,814	2,941,997
Finance debentures	5,208,043	6,041,094
Corporate bonds	3,589,085	5,607,952
	10,237,942	14,591,043
Beneficiary certificates	2,418,722	2,558,692
Securities in foreign currencies	1,111,819	935,999
Other	122,464	249,181
	<b>₩ 17,978,765</b>	<b>21,612,238</b>

ii) Equity securities classified as available-for-sale securities as of December 31, 2006 and 2005 were as follows:

	2006					(in millions of Won)
	Number of Shares (thousand)	Ownership (%)	Acquisition Cost	Net asset or fair value	Book value	
Marketable and Nonmarketable Stock:						
LG Card Co., Ltd.	8,960	7.15	₩ 88,769	521,517	521,517	
SK Networks Co., Ltd.	22,908	9.57	114,971	527,853	527,853	
SK Networks Co., Ltd. (Preferred stocks)	1,398	-	63,866	94,688	94,688	
POSCO	740	0.85	196,124	228,547	228,547	
Macquarie Infra	36,333	11.23	191,033	243,432	243,432	
Hynix Semiconductor Inc.	28,192	6.12	112,930	899,750	899,750	
Hyundai Engineering and Construction Co., Ltd.	5,527	5.00	153,265	272,472	272,472	
SK Corporation	1,991	1.55	101,330	145,325	145,325	
Ssangyong Cement Industrial Co., Ltd.	10,000	13.39	95,200	108,370	108,370	
Daewoo Engineering and Construction Co., Ltd.	4,570	1.34	120,000	132,097	132,097	
Daewoo International Corporation	1,523	1.60	5,186	51,096	51,096	
Daewoo Electronics Co., Ltd.	6,125	5.75	23,080	7,179	7,179	
Samsung Electronics Co., Ltd.	7	-	4,511	4,291	4,291	
Samsung Corporation	6,622	4.24	152,754	202,968	202,968	
Other	-	-	547,410	524,824	524,824	
			1,970,429	3,964,409	3,964,409	

(Continued)

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

	2006				(in millions of Won)
	Number of Shares (thousand)	Ownership (%)	Acquisition Cost	Net asset or fair value	Book value
Investment in special funds:					
Korea Asset Management Corp.			180	218	180
Macquarie Korea Opportunity Fund			54,762	62,697	62,697
Bogo PEF			20,540	20,540	20,540
Consus Investment 3rd			16,217	15,286	15,286
KTB 2005 PEF			12,496	10,697	10,697
Other			14,347	14,008	14,009
			118,542	123,446	123,409
			<b>₩ 2,088,971</b>	<b>4,087,855</b>	<b>4,087,818</b>

	2005				(in millions of Won)
	Number of Shares (thousand)	Ownership (%)	Acquisition Cost	Net asset or fair value	Book value
Marketable and Nonmarketable Stock:					
LG Card Co., Ltd.	8,960	7.14	₩ 73,336	327,614	327,614
SK Networks Co., Ltd.	22,615	9.54	111,988	230,173	230,173
SK Networks Co., Ltd. (Preferred stocks)	1,890	-	85,919	118,736	118,736
Hynix Semiconductor Inc.	31,740	7.09	122,573	1,120,422	1,120,422
Hyundai Engineering and Construction Co., Ltd.	5,527	5.06	83,013	249,546	249,546
SK Corporation	2,502	1.94	119,535	130,348	130,348
SK Telecom Co., Ltd.	124	-	21,520	22,390	22,390
Ssangyong Cement Industrial Co., Ltd.	10,109	13.55	95,510	145,866	145,866
Ssangyong Corporation	23,757	70.17	49,225	49,225	49,225
Daewoo Engineering and Construction Co., Ltd.	8,908	2.63	32,968	119,362	119,362
Daewoo International Corp.	1,523	1.60	5,186	58,241	58,241
Daewoo Electronics Co., Ltd.	5,795	5.45	21,528	20,514	20,514
Samsung Electronics Co., Ltd.	10	-	5,325	6,590	6,590
Samsung Corporation.	6,622	4.24	110,861	143,038	143,038
Other			488,670	491,733	491,733
			1,427,157	3,233,798	3,233,798

Investment in special funds:					
Stock Market Stabilization Fund			4,612	9,717	9,717
Korea Asset Management Corp.			6,430	6,430	6,430
Other			27,172	25,147	27,682
			38,214	41,294	43,525
			<b>₩ 1,465,371</b>	<b>3,275,092</b>	<b>3,277,323</b>

iii) Details of debt securities classified as available-for-sale securities as of December 31, 2006 and 2005 were as follows:

	2006			(in millions of Won)
	Face value	Acquisition cost	Fair value (*)	Book value (**)
Government bonds	₩ 1,482,978	1,457,791	1,474,501	1,440,814
Finance debentures	5,256,830	5,213,114	5,249,424	5,208,043
Corporate bonds	3,828,440	3,639,405	3,553,278	3,589,085
	<b>₩ 10,568,248</b>	<b>10,310,310</b>	<b>10,277,203</b>	<b>10,237,942</b>

	2005			(in millions of Won)
	Face value	Acquisition cost	Fair value (*)	Book value (**)
Government bonds	₩ 2,994,917	3,046,377	2,957,816	2,941,997
Finance debentures	6,139,475	6,072,819	6,081,400	6,041,094
Corporate bonds	6,004,019	5,708,623	5,710,961	5,607,952
	<b>₩ 15,138,411</b>	<b>14,827,819</b>	<b>14,750,177</b>	<b>14,591,043</b>

(\*) Fair value of debt securities is measured by applying the average base prices of the latest trading day from the balance sheet date, provided by the bond pricing institutions.

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

iv) The maturity of available-for-sale debt securities as of December 31, 2006 and 2005 were as follows:

At December 31, 2006	(in millions of Won)			
	Government bonds	Finance debentures	Corporate bonds	Total
Due in 3 months or less	₩ 45,048	1,286,549	132,814	1,464,411
Due after 3 months through 6 months	40,322	963,958	159,077	1,163,357
Due after 6 months through 1 year	251,660	1,542,405	720,785	2,514,850
Due after 1 year through 3 years	738,451	1,302,157	2,222,045	4,262,653
Thereafter	365,333	112,974	354,364	832,671
	<b>₩ 1,440,814</b>	<b>5,208,043</b>	<b>3,589,085</b>	<b>10,237,942</b>

At December 31, 2005	(in millions of Won)			
	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	1,005,221	77,233	1,051,788	2,134,242
	<b>₩ 2,941,997</b>	<b>6,041,094</b>	<b>5,607,952</b>	<b>14,591,043</b>



# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

v) Available-for-sale securities denominated in foreign currencies classified by issuing country as of December 31, 2006 and 2005 were as follows:

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

	2006			2005		
	U.S. dollar	Equivalent Won	Ratio (%)	U.S. dollar	Equivalent Won	Ratio (%)
Korea	\$ 768,528	₩ 714,424	64.26	\$ 720,217	₩ 729,581	77.95
U.S.A.	231,710	215,394	19.37	48,627	49,260	5.26
Malaysia	4,968	4,618	0.42	4,965	5,029	0.54
Hong Kong	11,378	10,577	0.95	10,705	10,844	1.16
U.A.E	5,026	4,672	0.42	5,024	5,089	0.54
Japan	7,187	6,681	0.60	3,052	3,091	0.33
Other	167,225	155,453	13.98	131,397	133,105	14.22
	<b>\$ 1,196,022</b>	<b>₩ 1,111,819</b>	<b>100.00</b>	<b>\$ 923,987</b>	<b>₩ 935,999</b>	<b>100.00</b>

## (c) Held-to-maturity securities

i) Held-to-maturity securities as of December 31, 2006 and 2005 consisted of the following:

(in millions of Won)

	2006	2005
Government bonds	₩ 1,201,254	612,875
Finance debentures	4,960,892	1,178,217
Corporate bonds	1,328,867	1,121,169
Securities in foreign currencies	67,803	83,982
	<b>₩ 7,558,816</b>	<b>2,996,243</b>

ii) Details of debt securities classified as held-to-maturity securities as of December 31, 2006 and 2005 consisted of the following:

(in millions of Won)

	2006			
	Face value	Acquisition cost	Fair value (*)	Book value
Government bonds	₩ 1,202,019	1,204,267	1,222,292	1,201,254
Finance debentures	4,992,000	4,959,859	5,028,697	4,960,892
Corporate bonds	1,325,000	1,330,228	1,339,036	1,328,867
	<b>₩ 7,519,019</b>	<b>7,494,354</b>	<b>7,590,025</b>	<b>7,491,013</b>

	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>

(\*) Fair value of debt securities is measured by applying the average base prices of the latest trading day from the balance sheet date, provided by the bond pricing institutions.

iii) The maturity of held-to-maturity securities as of December 31, 2006 and 2005 were as follows:

(in millions of Won)

At December 31, 2006	Government bonds	Finance debentures	Corporate bonds	Total
Due in 3 months or less	₩ 5,881	99,923	30,011	135,815
Due after 3 months through 6 months	53,420	421,922	4,999	480,341
Due after 6 months through 1 year	92,568	1,078,157	150,178	1,320,903
Due after 1 year through 3 years	951,070	2,888,217	1,029,627	4,868,914
Thereafter	98,315	472,673	114,052	685,040
	<b>₩ 1,201,254</b>	<b>4,960,892</b>	<b>1,328,867</b>	<b>7,491,013</b>

(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>

iv) Held-to-maturity securities denominated in foreign currencies classified by issuing country as of December 31, 2006 and 2005 were as follows:

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

	2006			2005		
	U.S. dollar	Equivalent Won	Ratio (%)	U.S. dollar	Equivalent Won	Ratio (%)
Korea	\$ 41,903	₩ 38,953	57.45	\$ 49,344	₩ 49,987	59.52
U.S.A.	24,308	22,597	33.33	30,558	30,956	36.86
Other	6,728	6,253	9.22	3,000	3,039	3.62
	<b>\$ 72,939</b>	<b>₩ 67,803</b>	<b>100.00</b>	<b>\$ 82,902</b>	<b>₩ 83,982</b>	<b>100.00</b>

# Notes to Consolidated Financial Statements, *continued*

December 31, 2006 and 2005

## (d) Equity Method Investment Securities

Details of equity method investment securities as of December 31, 2006 and 2005 were as follows:

Subsidiaries	2006					(in millions of Won)
	Beginning balance	Acquisition and (Dividend), net	Equity method income(loss)	Capital adjustments	Ending Balance	
Shinhan BNP Paribas ITMC	₩ 24,103	(3,600)	4,288	(1)	24,790	
SH&C Life Insurance	15,513	-	1,776	323	17,612	
Shinhan Macquarie	1,289	(2,016)	756	-	29	
Shinhan Data System Co., Ltd.	2,619	-	409	-	3,028	
Shinhan Finance Ltd.	-	73,508	8,066	(3,403)	78,171	
Daewoo Capital Co., Ltd.	58,591	-	16,898	(29,652)	45,837	
Macquarie Shinhan Infrastructure Management Co., Ltd.	429	(38,660)	40,760	(27)	2,502	
Shinhan Vina Bank	12,660	-	2,264	(1,042)	13,882	
CFAG Corporate Restructuring Fund 8th	536	-	(4)	-	533	
Shinhan Corporate Restructuring Fund 3rd	4,652	(1,740)	482	298	3,692	
Shinhan Corporate Restructuring Fund 5th	-	450	(94)	-	356	
Shinhan Corporate Restructuring Fund 6th	-	1,081	(20)	-	1,061	
Shinhan Corporate Restructuring Fund 7th	-	4,750	2,755	686	8,191	
Shinhan Corporate Restructuring Fund 8th	-	20,100	(38)	-	20,062	
YCC Corporate Restructuring Fund 1st	-	3,500	47	-	3,547	
Now Corporate Restructuring Fund 2nd	-	1,808	266	-	2,074	
KTB Corporate Restructuring Fund 18th	-	5,000	(168)	-	4,832	
	<b>₩ 120,393</b>	<b>64,181</b>	<b>78,443</b>	<b>(32,818)</b>	<b>230,199</b>	

Subsidiaries	2005						(in millions of Won)
	Beginning balance	Acquisition and (Dividend), net	Equity method income(loss)	Retained earnings	Capital adjustments	Ending Balance	
Shinhan BNPP ITMC	₩ 22,810	(2,400)	3,725	-	(32)	24,103	
SH&C Life Insurance	14,614	-	2,680	-	(1,781)	15,513	
Shinhan Macquarie	1,098	(2,446)	2,637	-	-	1,289	
e-Shinhan	2,887	(2,861)	-	-	(26)	-	
Shinhan Data System Co.,Ltd.	2,374	-	245	-	-	2,619	
Daewoo Capital Co.,Ltd.	-	36,971	21,620	-	-	58,591	
Macquarie Shinhan Infrastructure Management Co.,Ltd.	-	(98)	527	-	-	429	
Shinhan Vina Bank	11,155	-	1,838	(4)	(329)	12,660	
Shinhan Corporate Restructuring Fund 3rd	-	4,526	139	-	(12)	4,653	
CFAG Corporate Restructuring Fund 8th	-	537	(1)	-	-	536	
	<b>₩ 54,938</b>	<b>34,229</b>	<b>33,410</b>	<b>(4)</b>	<b>(2,180)</b>	<b>120,393</b>	

## (6) Loans

(a) Loans outstanding as of December 31, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Loans in Won	₩ 94,651,652	83,202,730
Loans in foreign currencies	8,012,288	5,480,348
Domestic import usance bills	2,057,881	2,455,137
Call loans	342,147	1,685,184
Bills bought in Won	5,610,130	3,380,548
Bills bought in foreign currency	3,237,204	3,584,050
Advances to customers	21,412	25,138
Credit card accounts	3,518,137	3,863,609
Bonds purchased under resale agreement	785,468	139,666
Privately placed bonds	4,770,208	3,176,658
Factoring receivables	157,999	184,904
Financing leases (note 9)	401,527	535,015
CMA assets	606,559	609,850
Other	14,933	16,574
	<b>124,187,545</b>	<b>108,339,411</b>
Add: present value premium	40,005	56,814
Less: allowance for loan losses	(1,880,902)	(1,740,938)
deferred loan origination fees	(44,918)	(6,839)
	<b>₩ 122,301,730</b>	<b>106,648,448</b>

(b) Loan maturities as of December 31, 2006 and 2005 were as follows:

	(in millions of Won)			
At December 31, 2006	Loans in Won	Loans in foreign currencies	Other loans	Total
Due in 3 months or less	₩ 17,737,615	1,213,990	14,378,585	33,330,190
Due after 3 months through 6 months	12,939,516	1,692,192	1,838,018	16,469,726
Due after 6 months through 1 year	24,006,547	1,831,170	1,999,246	27,836,963
Due after 1 year through 3 years	14,811,079	2,066,337	2,799,002	19,676,418
Thereafter	25,156,895	1,208,599	508,754	26,874,248
	<b>₩ 94,651,652</b>	<b>8,012,288</b>	<b>21,523,605</b>	<b>124,187,545</b>

	(in millions of Won)			
At December 31, 2005	Loans in Won	Loans in foreign currencies	Other loans	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	10,735,655	1,418,377	2,189,341	14,343,373
Thereafter	17,887,323	991,945	2,469,999	21,349,267
	<b>₩ 83,202,730</b>	<b>5,480,348</b>	<b>19,656,333</b>	<b>108,339,411</b>

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(c) Loans classified by issuing country as of December 31, 2006 and 2005 were as follows:

	2006				
	Loans in Won	Loans in foreign Currencies	Other loans	Total	Ratio (%)
	(in millions of Won, except ratio)				
Korea	₩ 94,651,652	5,989,569	21,302,939	121,558,101	97.88
U.S.A.	-	741,627	33,015	823,444	0.66
U.K.	-	73,750	13,245	87,377	0.07
Japan	-	657,284	16,535	692,970	0.56
Germany	-	-	71,916	71,916	0.06
Vietnam	-	80,570	11,645	93,635	0.08
China	-	316,333	41,254	359,379	0.29
Other	-	153,156	33,055	500,723	0.40
	<b>₩ 94,651,652</b>	<b>8,012,289</b>	<b>21,523,604</b>	<b>124,187,545</b>	<b>100.00</b>

	2005				
	Loans in Won	Loans in foreign Currencies	Other loans	Total	Ratio (%)
	(in millions of Won, except ratio)				
Korea	₩ 83,202,730	3,194,707	19,388,245	105,785,682	97.64
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
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
Other	-	461,646	1,284	462,930	0.43
	<b>₩ 83,202,730</b>	<b>5,480,348</b>	<b>19,656,333</b>	<b>108,339,411</b>	<b>100.00</b>

(d) Loans classified by consumer as of December 31, 2006 and 2005 were as follows:

	2006				
	Loans in Won	Loans in foreign Currencies	Other loans	Total	Ratio (%)
	(in millions of Won, except ratio)				
Corporate	₩ 42,652,467	7,896,547	16,197,972	66,746,986	53.74
Household	50,343,316	10,449	5,252,133	55,605,898	44.78
Public and other	1,655,869	105,294	73,498	1,834,661	1.48
	<b>₩ 94,651,652</b>	<b>8,012,290</b>	<b>21,523,603</b>	<b>124,187,545</b>	<b>100.00</b>

	2005				
	Loans in Won	Loans in foreign Currencies	Other loans	Total	Ratio (%)
	(in millions of Won, except ratio)				
Corporate	₩ 39,021,313	5,343,603	15,572,170	59,937,086	55.32
Household	43,077,328	95,755	1,642,536	44,815,619	41.37
Public and other	1,104,089	40,990	2,441,627	3,586,706	3.31
	<b>₩ 83,202,730</b>	<b>5,480,348</b>	<b>19,656,333</b>	<b>108,339,411</b>	<b>100.00</b>

(e) Restructured loans due to commencement of bankruptcy proceedings, debt restructuring proceedings by creditors or workout programs for the years ended December 31, 2006 and 2005 were as follows:

	2006			(in millions of Won)
	Workout		Total	
	Corporate loans	Household loans		
Modification of terms	₩ 45,101	39,497	84,598	
Balance before restructuring	45,101	39,497	84,598	
Balance after restructuring	42,542	28,008	70,550	
Loss resulting from restructuring	₩ 2,559	11,489	14,048	

	2005			(in millions of Won)
	Debt Restructuring	Workout		Total
		Corporate loans	Household loans	
Equity to loan conversion	₩ -	11,000	-	11,000
Loan to 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	₩ 1,724	27,697	3,459	32,880

(f) Changes in allowance for losses on loans, accounts receivable and accrued income for the years ended December 31, 2006 and 2005 were as follows:

	2006			(in millions of Won)
	Beginning balance	Increase (Decrease)	Ending balance	
Shinhan Bank	₩ 1,572,832	134,190	1,707,022	
Shinhan Bank (Trust account)	7,836	1,217	9,053	
Shinhan Finance	1,265	(1,265)	-	
SH Asset Management	19	10	29	
Shinhan Asia	3,882	(3,043)	839	
Shinhan Bank America	2,833	(574)	2,259	
Shinhan Europe	781	15	796	
Good Morning Shinhan Securities	27,256	2,254	29,510	
Shinhan Life Insurance	17,740	2,077	19,817	
Shinhan Card	67,400	80,387	147,787	
Shinhan Capital	30,373	967	31,340	
Jeju Bank	25,329	984	26,313	
	₩ 1,757,546	217,219	1,974,765	

Allowance for losses on other assets and allowance for disposition of operating lease assets are included.

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

	2005		(in millions of Won)
	Beginning balance	Increase (Decrease)	Ending balance
(formerly)Shinhan Bank	₩ 745,759	(62,202)	683,556
(formerly)Shinhan Bank (Trust account)	10,752	(4,624)	6,128
Shinhan Finance	1,533	(268)	1,265
(formerly)Chohung Bank	1,014,729	(125,454)	889,275
(formerly)Chohung Bank (Trust account)	3,087	(1,379)	1,708
SH Asset Management	11	8	19
Shinhan Asia	3,998	(116)	3,882
Shinhan Bank America	2,608	225	2,833
Shinhan Europe	1,079	(298)	781
Good Morning Shinhan Securities	21,676	5,580	27,256
Shinhan Life Insurance	-	17,740	17,740
Shinhan Card	74,193	(6,793)	67,400
Shinhan Capital	27,022	3,351	30,373
Jeju Bank	32,145	(6,816)	25,329
	<b>₩ 1,938,592</b>	<b>(181,046)</b>	<b>1,757,546</b>

Allowance for losses on other assets and allowance for disposition of operating lease assets are included.

(g) As of December 31, 2006 and 2005, details of loan balances exclude bonds bought under repurchase agreements, call loans and loans to other banks, and include other accounts receivable and other suspense receivable and the related allowance for loan losses by asset credit risk classification were as follows:

		(in millions of Won, except provision ratio)		
		2006		
		Balance	Allowance	Provision ratio(%)
Corporate loans	Normal	₩ 68,463,503	538,855	0.79
	Precautionary	1,147,126	114,803	10.01
	Substandard	309,807	101,394	32.73
	Doubtful	7,288	5,469	75.04
	Estimated loss	266,626	266,626	100.00
			70,194,350	1,027,147
Household loans	Normal	49,880,118	464,746	0.99
	Precautionary	184,488	18,398	9.97
	Substandard	185,413	39,932	21.54
	Doubtful	124,819	76,414	61.22
	Estimated loss	57,762	57,762	100.00
			50,432,600	687,212
Credit card loans	Normal	3,308,011	46,415	1.40
	Precautionary	97,893	14,685	15.00
	Substandard	26	8	30.77
	Doubtful	61,729	37,038	60.00
	Estimated loss	50,478	50,478	100.00
			3,518,137	148,624
Other		424,456	111,782	26.34
		<b>₩ 124,569,543</b>	<b>1,974,765</b>	<b>1.59</b>



		(in millions of Won, except provision ratio)		
		2005		
		Balance	Allowance	Provision ratio(%)
Corporate loans	Normal	₩ 56,599,263	399,639	0.71
	Precautionary	1,606,110	230,826	14.37
	Substandard	468,533	103,580	22.11
	Doubtful	12,806	12,074	94.28
	Estimated loss	209,338	209,338	100.00
		58,896,050	955,457	1.62
Household loans	Normal	42,588,764	336,940	0.79
	Precautionary	158,938	35,881	22.58
	Substandard	220,882	44,826	20.29
	Doubtful	83,654	77,898	93.12
	Estimated loss	73,241	73,241	100.00
		43,125,479	568,786	1.32
Credit card loans	Normal	3,508,375	49,163	1.40
	Precautionary	209,702	34,668	16.53
	Substandard	995	199	20.00
	Doubtful	93,341	72,515	77.69
	Estimated loss	48,964	48,964	100.00
		3,861,377	205,509	5.32
Other		1,206,329	27,794	2.30
		<b>₩ 107,089,235</b>	<b>1,757,546</b>	<b>1.64</b>

## (7) Fixed Assets

Fixed assets as of December 31, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Tangible assets:		
Land	₩ 1,038,113	989,840
Buildings	982,284	939,631
Other	1,578,029	1,293,087
	3,598,426	3,222,558
Less: accumulated depreciation	(1,380,587)	(1,337,548)
accumulated impaired losses	(5,453)	-
	2,212,386	1,885,010
Intangible assets, net of accumulated amortization:		
Goodwill	1,440,644	1,590,810
Negative goodwill	(3,599)	(4,284)
Other	34,417	15,267
	1,471,462	1,601,793
	<b>₩ 3,683,848</b>	<b>3,486,803</b>

As of December 31, 2006 and 2005, the Consolidated Company maintains insurance policies covering loss and liability arising from automobile accidents.

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

The officially declared value of land used in domestic branches at December 31, 2006 and 2005, as announced by the Minister of Construction and Transportation, was as follows:

	Book value		Declared value	
	2006(*)	2005	2006	2005
Land (domestic only)	₩ 1,046,585	989,241	1,210,176	1,093,501

(in millions of Won)

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

(\*) The amount includes ₩9,528 million to be disposed of.

## (8) Other Assets

Other assets as of December 31, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Accounts receivable	₩ 3,177,288	2,046,369
Advance payments	563,602	24,349
Prepaid expenses	67,596	56,173
Prepaid income taxes	436	5,898
Accrued interest income	919,117	625,267
Operating lease assets	278,910	333,201
Less: accumulated depreciation	(165,304)	(178,665)
allowance for loss on disposition		
of operating lease assets	(464)	(478)
Security deposits paid	1,087,946	1,078,021
Derivative assets (note 28)	1,432,863	965,980
Special account assets	1,395,487	1,116,493
Uncollected domestic exchange receivable	314,503	5,197,544
Other	203,254	175,063
	9,275,234	11,445,215
Less: allowance for losses	(93,399)	(16,130)
present value discount	(146)	(146)
	₩ 9,181,689	11,428,939

## (9) Lease Assets

The collection schedule of future lease receivables as of December 31, 2006 was as follows:

	(in millions of Won)		
	Operating lease	Financing lease	Total
January 1, 2007 - December 31, 2007	₩ 28,795	201,565	230,360
January 1, 2008 - December 31, 2008	21,277	116,356	137,633
January 1, 2009 - December 31, 2009	17,880	63,636	81,516
January 1, 2010 - December 31, 2010	65	30,380	30,445
Thereafter	58,510	31,771	90,281
	126,527	443,708	570,235
Unrealized interest income on financing leases	-	(42,181)	(42,181)
	<b>₩ 126,527</b>	<b>401,527</b>	<b>528,054</b>

## (10) Deposits

(a) Deposits as of December 31, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Deposits in Korean Won	₩ 82,270,616	77,204,725
Deposits in foreign currencies	4,250,525	3,647,265
Negotiable certificates of deposits	13,237,299	10,683,261
	99,758,440	91,535,251
Add: present value premium	1,083	3,190
	<b>₩ 99,759,523</b>	<b>91,538,441</b>

(b) The maturities of deposits as of December 31, 2006 and 2005 were as follows:

	(in millions of Won)			
At December 31, 2006	Deposits in Korean Won	Deposits in foreign currencies	Negotiable certificates of deposits	Total
Due in 3 months or less	₩ 20,767,662	1,842,457	4,138,700	26,748,819
Due after 3 months through 6 months	5,215,453	552,693	1,605,080	7,373,226
Due after 6 months through 1 year	17,128,287	387,823	4,427,192	21,943,302
Due after 1 year through 3 years	4,757,663	257,433	3,019,755	8,034,851
Thereafter	34,401,551	1,210,119	46,572	35,658,242
	<b>₩ 82,270,616</b>	<b>4,250,525</b>	<b>13,237,299</b>	<b>99,758,440</b>

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(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	₩ 20,546,654	1,839,779	3,963,745	26,350,178
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
	<b>₩ 77,204,725</b>	<b>3,647,265</b>	<b>10,683,261</b>	<b>91,535,251</b>

## (11) Borrowings

(a) Borrowings as of December 31, 2006 and 2005 consisted of the following:

(in millions of Won)

	2006	2005
Borrowings in Won	₩ 4,347,416	3,787,473
Borrowings in foreign currencies	5,275,611	6,423,574
Bonds sold with repurchase agreements	5,068,221	4,214,206
Bills sold	392,315	359,537
Due to the Bank of Korea in foreign currencies	122,327	134,921
Call money	1,686,263	996,678
	<b>₩ 16,892,153</b>	<b>15,916,389</b>

(b) The maturities of borrowings as of December 31, 2006 and 2005 were as follows:

(in millions of Won)

At December 31, 2006	Borrowings in Won	Borrowings in foreign currencies	Other	Total
Due in 3 months or less	₩ 1,571,198	2,339,919	3,791,335	7,702,452
Due after 3 months through 6 months	617,757	1,395,978	850,120	2,863,855
Due after 6 months through 1 year	437,983	893,497	2,548,163	3,879,643
Due after 1 year through 3 years	482,100	589,950	79,508	1,151,558
Thereafter	1,238,378	56,267	-	1,294,645
	<b>₩ 4,347,416</b>	<b>5,275,611</b>	<b>7,269,126</b>	<b>16,892,153</b>

(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>

## (12) Debentures

(a) Debentures as of December 31, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Debentures in Won	₩ 26,683,979	20,561,155
Debentures in foreign currencies	2,848,143	2,281,747
	29,532,122	22,842,902
Add: present value premium	32,185	53,159
Less: discounts	(79,549)	(55,905)
	<b>₩ 29,484,758</b>	<b>22,840,156</b>

(b) Details of debentures in Won as of December 31, 2006 and 2005 were as follows:

	(in millions of Won, except interest rate)			
	2006		2005	
	Face value	Interest rate (%)	Face value	Interest rate (%)
Discounted debentures	₩ 2,160,000	4.43 - 7.47	₩ 1,780,000	3.25 - 9.92
Coupon debentures	19,140,262	3.50 - 7.60	14,143,444	1.13 - 8.14
Subordinated debentures	4,043,657	5.10 - 7.75	3,860,182	4.56 - 14.45
Hybrid securities(*)	495,033	5.70 - 7.80	495,033	5.70 - 7.80
Other	944,003		341,700	
	26,782,955		20,620,359	
Add: loss on fair value hedge	(98,976)		(59,204)	
	<b>₩ 26,683,979</b>		<b>₩ 20,561,155</b>	

(\*) The details of hybrid securities were summarized as follows :

i) Hybrid bond issued on June 28, 2003

(in millions of Won, except interest rate)					
Maturity	Face amount	Interest period	Interest rate (%)	First put option date	Exerciser
June 28, 2033	₩ 272,564	June 28, 2003- June 28, 2013	7.80	June 28, 2008	Shinhan Bank
		June 28, 2003- June 28, 2013	7.80+(7.8-yield of Treasury Agencies Bonds with maturity of 5 years)*50%		

ii) Hybrid bond issued on October 28, 2004

(in millions of Won, except interest rate)					
Maturity	Face amount	Interest period	Interest rate (%)	First put option date	Exerciser
Oct. 28, 2034	₩ 222,469	October 28, 2004- October 28, 2014	5.70	Oct. 28, 2009	Shinhan Bank
		October 28, 2004- October 28, 2014	6.70		

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(c) Details of debentures in foreign currencies as of December 31, 2006 and 2005 were as follows:

(in millions of Won)

	2006			2005		
	U.S. dollars	Equivalent Won	Interest rate (%)	U.S. dollars	Equivalent Won	Interest rate (%)
MTN (*)	\$ 1,823,837	₩ 1,695,439	2.50 - 6.83	\$ 809,240	₩ 819,760	1.95 - 6.83
Hybrid securities(**)	650,000	604,240	5.66 - 6.82	300,000	303,900	5.66
Non-guaranteed debentures	190,000	176,624	4.27 - 5.90	110,000	111,430	Libor+0.5~ Libor+1.2
Subordinated debentures	400,000	371,840	4.50 - 6.25	1,033,225	1,046,657	4.50-11.88
	<b>\$ 3,063,837</b>	<b>₩ 2,848,143</b>		<b>\$ 2,252,465</b>	<b>₩ 2,281,747</b>	

(\*) Shinhan Bank established a program to issue Euro Medium Term Note (EMTN) and Global Medium Term Note (GMTN) on November 9, 1995.

Details of the program were as follows:

Total amount which can be issued: US\$ 3,000,000 thousand  
 Place of trading: Singapore Stock Exchange  
 Issue price: Face value, discounted value or premium value  
 Maturity date and interest date: Various depending on date of issuance  
 Redemption: Lump-sum payment at maturity date

(\*\*) Shinhan Bank issued hybrid securities on March 2, 2005. Details were as follows:

Maturity date: March 2, 2035  
 Exercise date: From March 2, 2015 to Maturity date  
 Interest payment: From March 2, 2005 to March 2, 2015 (5.663%)  
 From March 2, 2015 to March 2, 2035 (3M Libor + 199 bp)  
 First put option date: March 2, 2015

Shinhan Bank issued hybrid securities on September 20, 2006. Details were as follows:

Maturity date: September 20, 2036  
 Exercise date: From September 20, 2016 to Maturity date  
 Interest payment: From September 20, 2006 to September 20, 2016 (6.819%)  
 From September 20, 2016 to September 20, 2036  
 (3M Libor + 252 bp)  
 First put option date: September 20, 2016

(d) The maturities of debentures as of December 31, 2006 and 2005 were as follows:

(in millions of Won)

At December 31, 2006	Debentures in Korean Won	Debentures in foreign currencies	Total
Due in 3 months or less	₩ 1,787,524	-	1,787,524
Due after 3 months through 6 months	1,412,010	74,368	1,486,378
Due after 6 months through 12 months	4,711,795	259,633	4,971,428
Due after 1 year through 3 years	11,368,801	563,840	11,932,641
Thereafter	7,403,849	1,950,302	9,354,151
	<b>₩ 26,683,979</b>	<b>2,848,143</b>	<b>29,532,122</b>

(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>

### (13) Retirement and Severance Benefits

Changes in retirement and severance benefits for the years ended December 31, 2006 and 2005 were as follows:

(in millions of Won)

	2006	2005
Estimated liability at beginning of year	₩ 251,102	174,625
Changes in consolidation scope	-	1,309
Adjustment due to foreign exchange rate	(49)	(96)
Payment	(29,815)	(31,294)
Retirement benefit payable	(21,052)	-
Provision (*)	132,787	106,558
Estimated liability at end of year	332,973	251,102
Less: deposit for severance benefit insurance	(91,708)	(74,663)
Less: contribution to National Pension Fund	(76)	(86)
Ending balance	<b>₩ 241,189</b>	<b>176,353</b>

(\*) Includes retirement benefit payment recorded as insurance expense of Shinhan Life Insurance (₩3,698 million in 2006 and ₩364 million in 2005).



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## (14) Other Liabilities

Other liabilities as of December 31, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Allowance for losses on guarantees and acceptances (note 15)	₩ 51,812	60,236
Other allowances*	424,930	413,270
Borrowings from trust accounts	820,027	708,923
Foreign exchange remittances pending	157,258	146,823
Securities sold	1,352,334	1,210,559
Accounts payable	3,280,490	1,624,788
Accrued expenses	2,384,623	2,021,434
Income tax payable	342,742	169,017
Dividend payable	2,414	2,186
Advance receipts	4,687	3,686
Unearned revenues	169,080	141,544
Taxes withheld	115,159	90,664
Security deposits received	235,245	280,581
Policy reserves (note 16)	4,873,536	4,046,681
Derivatives liabilities (note 28)	1,312,251	915,494
Deferred tax liabilities, net (note 24)	195,684	175,464
Domestic exchange remittances pending	2,229,242	5,458,999
Other	1,883,927	2,065,340
	<b>₩ 19,835,441</b>	<b>19,535,689</b>

\* Mainly consists of allowance for unused loan commitments, allowance for bonus card points program and legal provision.

## (15) Guarantees and Acceptances

(a) The guarantees and acceptances as of December 31, 2006 and 2005 were as follows:

	(in millions of Won)	
	2006	2005
Guarantees and acceptances outstanding		
Guarantees and acceptances in Won:		
Guarantees on loan collaterals	₩ 119,874	97,608
Guarantees on debentures	978	793
Guarantees for contract performance	12,950	118,020
Other	2,166,283	904,523
	2,300,085	1,120,944
Guarantees and acceptances in foreign currencies:		
Acceptances on letters of credit	256,736	316,998
Acceptances for letters of guarantee for importers	145,750	112,807
Other	1,224,443	866,494
	1,626,929	1,296,299
Contingent guarantees and acceptances		
Letters of credit	2,960,628	2,585,645
Other	951	460,070
	2,961,579	3,045,715
	<b>₩ 6,888,593</b>	<b>5,462,958</b>

(b) The guarantees and acceptances provided by country as of December 31, 2006 and 2005 were as follows:

	2006				(in millions of Won, except ratio)	
	Guarantees and acceptances outstanding in				Contingent guarantees and acceptances	
	Won		Foreign currencies		Balance	Ratio (%)
	Balance	Ratio (%)	Balance	Ratio (%)		
Korea	₩ 2,293,626	99.7	₩ 1,309,319	80.48	₩ 2,823,927	95.35
U.S.A.	-	-	76,879	4.73	38,726	1.31
Japan	6,459	0.28	25,683	1.58	6,034	0.20
U.K.	-	-	32,536	2.00	5,002	0.17
China	-	-	29,588	1.82	4,196	0.14
Vietnam	-	-	11,280	0.69	11,405	0.39
Other	-	-	141,644	8.71	72,289	2.44
	<b>₩ 2,300,085</b>	<b>100.00</b>	<b>₩ 1,626,929</b>	<b>100.00</b>	<b>₩ 2,961,579</b>	<b>100.00</b>

	2005				(in millions of Won, except ratio)	
	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>

(c) The guarantees and acceptances provided by consumer as of December 31, 2006 and 2005 were as follows:

	2006				(in millions of Won, except ratio)	
	Guarantees and acceptances outstanding in				Contingent guarantees and acceptances	
	Won		Foreign currencies		Balance	Ratio (%)
	Balance	Ratio (%)	Balance	Ratio (%)		
Corporate	₩ 2,300,085	100.00	₩ 1,626,729	99.99	₩ 2,961,579	100.00
Household	-	-	200	0.01	-	-
	<b>₩ 2,300,085</b>	<b>100.00</b>	<b>₩ 1,626,929</b>	<b>100.00</b>	<b>₩ 2,961,579</b>	<b>100.00</b>

	2005				(in millions of Won, except ratio)	
	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	-	-	334	0.03	-	-
Public and other	867	0.08	-	-	165,963	5.45
	<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>

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(d) The allowance for losses on guarantees and acceptances as of December 31, 2006 and 2005 were as follows:

	2006					(in millions of Won)
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Guarantees and acceptances outstanding:						
Balance	₩ 3,772,056	152,962	225	29	1,742	3,927,014
Allowances	20,226	15,580	45	12	1,742	37,605
Ratio [%]	<b>0.54</b>	<b>10.19</b>	<b>20.00</b>	<b>41.37</b>	<b>100.00</b>	<b>0.96</b>
Contingent guarantees and acceptances:						
Balance	₩ 2,858,539	93,998	1,086	1,911	6,045	2,961,579
Allowances	4,547	3,127	116	191	6,045	14,026
Ratio [%]	<b>0.16</b>	<b>3.33</b>	<b>10.68</b>	<b>9.99</b>	<b>100.00</b>	<b>0.47</b>
Total						
Balance	₩ 6,630,595	246,960	1,311	1,940	7,787	6,888,593
Allowances	24,773	18,707	161	203	7,787	51,631
Ratio [%]	<b>0.37</b>	<b>7.57</b>	<b>12.28</b>	<b>10.46</b>	<b>100.00</b>	<b>0.75</b>

(\*) ₩181 million of allowance for endorsed bills excluded.

	2005					(in millions of Won)
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Guarantees and acceptances outstanding:						
Balance	₩ 2,237,353	176,055	1,937	-	1,898	2,417,243
Allowances	10,112	28,768	524	-	1,895	41,299
Ratio [%]	<b>0.45</b>	<b>16.34</b>	<b>27.05</b>	-	<b>99.84</b>	<b>1.71</b>
Contingent guarantees and acceptances:						
Balance	₩ 2,884,867	151,153	3,392	-	6,303	3,045,715
Allowances	6,605	4,228	653	-	6,303	17,789
Ratio [%]	<b>0.23</b>	<b>2.80</b>	<b>19.25</b>	-	<b>100.00</b>	<b>0.58</b>
Total						
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 [%]	<b>0.33</b>	<b>10.08</b>	<b>22.09</b>	-	<b>99.96</b>	<b>1.08</b>

(\*) ₩1,148 million of allowance for endorsed bills excluded.

(e) As of December 31, 2006, 2005 and 2004, allowance ratios to guarantees and acceptances were as follows:

	(in millions of Won)		
	2006	2005	2004
Guarantees and acceptances	₩ 6,888,593	5,462,958	2,460,889
Allowances for loss on guarantees and acceptances	₩ 51,631	59,088	36,894
Ratio [%]	<b>0.75</b>	<b>1.08</b>	<b>1.50</b>

## (16) Policy Reserves

As of December 31, 2006 and 2005, details of policy reserves provided by insurance type were as follows:

(in millions of Won)

	2006			2005		
	Individual	Group	Total	Individual	Group	Total
Premium reserve	4,563,356	71,129	4,634,485	3,768,369	71,941	3,840,310
Unearned premium reserve	2,568	428	2,996	2,585	105	2,690
Reserve for outstanding claims	189,174	27,093	216,267	164,525	20,663	185,188
Reserve for participating policyholders' dividends	20,577	172	20,749	19,159	323	19,482
Dividend reserve for policyholders' income participation	109	-	109	109	-	109
Reserve for reinsurance premium	(1,070)	-	(1,070)	(1,098)	-	(1,098)
	<b>4,774,714</b>	<b>98,822</b>	<b>4,873,536</b>	<b>3,953,649</b>	<b>93,032</b>	<b>4,046,681</b>

## (17) Pledged assets

Assets pledged as collateral as of December 31, 2006 and 2005 were as follows:

(in millions of Won)

Accounts	2006	2005	Related transactions for
Cash and due from banks	₩ 2,745	2,670	Credit card loans and beneficiary certificates
Available-for-sale securities	8,736,293	10,001,808	Borrowings, derivatives and settlements
Land and buildings	123,536	177,749	Borrowings
	<b>₩ 8,862,574</b>	<b>10,182,227</b>	

## (18) Insured assets

Details of insured assets as of December 31, 2006 and 2005 were as follows:

(in millions of Won)

	2006	2005
Cash	₩ 9,149	108,930
Fixed assets used in operations	1,357,261	1,216,508
Other fixed assets	10,589	303,632
	<b>₩ 1,376,999</b>	<b>1,629,070</b>

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.

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

Assets and liabilities denominated in foreign currency as of December 31, 2006 and 2005 were as follows:

	(in millions of Won and thousands of U.S. dollars)			
	Foreign currency		Won equivalent	
	2006	2005	2006	2005
<b>Assets:</b>				
Cash and due from banks	\$ 969,613	808,926	₩ 901,352	819,442
Securities	1,382,632	1,046,610	1,285,292	1,060,217
Loans	15,084,066	12,697,555	14,022,148	12,862,620
Other assets	2,183,225	51,083	2,029,526	51,746
	<b>\$ 19,619,536</b>	<b>14,604,174</b>	<b>₩ 18,238,318</b>	<b>14,794,025</b>
<b>Liabilities:</b>				
Deposits	\$ 4,572,422	3,600,458	₩ 4,250,525	3,647,265
Borrowings	8,011,870	8,110,639	7,447,833	8,216,075
Debentures	3,063,837	2,252,465	2,848,143	2,281,747
Other liabilities	2,579,972	545,296	2,398,341	552,387
	<b>\$ 18,228,101</b>	<b>14,508,858</b>	<b>₩ 16,944,842</b>	<b>14,697,474</b>

## (20) Capital Stock

(a) Details of preferred stocks issued as of December 31, 2006 were as follows:

	Number of shares	Predetermined dividend rate (%) [*]	Redeemable period
<b>Redeemable preferred stock:</b>			
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 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>39,767,169</b>		

[\*] Based on initial issuance price

Series 1 and Series 6 of redeemable preferred stocks of 9,316,792 shares and 3,500,000 shares, respectively, were redeemed on August 21, 2006 for ₩172,831 million and ₩525,033 million, respectively. Therefore, capital stock amount differs from the total par value of outstanding capital stocks.

(b) Details of changes in capital stock for the years ended December 31, 2006 and 2005 were as follows:

	(in millions of Won, except shares)		
	Number of shares	Common stock	Preferred stock
Balance at January 1, 2005	416,623,575	₩ 1,596,595	486,523
Preferred stock converted to common stock	-	111,802	(111,802)
Share exchange	17,528,000	87,640	-
Balance at December 31, 2005	<b>434,151,575</b>	<b>₩ 1,796,037</b>	<b>374,721</b>
Preferred stock converted to common stock	-	111,801	(111,801)
Redemption of preferred stocks	(12,816,792)	-	-
Balance at December 31, 2006	<b>421,334,783</b>	<b>₩ 1,907,838</b>	<b>262,920</b>

(c) Details of preferred stock to be redeemed by appropriations of retained earnings as of December 31, 2006 and 2005 were as follows:

	(in millions of Won, except shares and price per share)			
	2006			
At December 31, 2006	Number of shares	Redemption date	Redemption price per share	Redemption amount
Series 2 redeemable preferred stock	9,316,792	August 18, 2007	₩ 18,548	₩ 172,812

	(in millions of Won, except shares and price per share)			
	2005			
At December 31, 2005	Number of shares	Redemption date	Redemption price per share	Redemption amount
Series 1 redeemable preferred stock	9,316,792	August 21, 2006	₩ 18,550	₩ 172,831
Series 6 redeemable preferred stock	3,500,000	August 21, 2006	150,009	525,033
	<b>12,816,792</b>			<b>₩ 697,864</b>

## (21) Consolidated Capital Adjustments

Consolidated capital adjustments as of December 31, 2006 and 2005 consisted of the following:

	(in millions of Won)	
	2006	2005
Treasury stock	₩ (161,504)	(312,720)
Unrealized gain (loss) on securities:		
Available-for-sale securities	1,587,029	1,163,828
Equity method investment securities	(33,310)	(1,147)
	1,553,719	1,162,681
Stock options: (note22)		
Options granted by Shinhan Financial Group	44,491	17,163
Options granted by subsidiaries	(13,486)	(8,467)
	31,005	8,696
Valuation gain on derivatives	(526)	2,455
Cumulative effects on foreign currency translation adjustments	(31,392)	(31,891)
	<b>₩ 1,391,302</b>	<b>829,221</b>

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December 31, 2006 and 2005

## (22) Stock Options

The stock options consisted of the Consolidated Company's stock options, which were granted to employees of the Consolidated Company, and the subsidiaries' stock options, which were granted to employees of the subsidiaries. As of December 31, 2006, details of stock options granted by Shinhan Financial Group under a resolution by the Board of Directors were as follows:

### (a) Details of Shinhan Financial Group's stock options

	1st grant	2nd grant	3rd grant	4th grant	5th grant
Grant date	May 22, 2002	May 15, 2003	March 25, 2004	March 30, 2005	March 21, 2006
Options granted	1,004,200	1,156,300	1,301,600	2,695,200	3,296,200
Options forfeited or exercised	379,135	432,687	160,177	314,110	198,131
Options outstanding	625,065	723,613	1,141,423	2,381,090	3,098,069
Type of stock options	Cash-settled options	Cash-settled options	Cash-settled options	Cash-settled or equity-settled options	Cash-settled or equity-settled options
Exercise price in Won	₩ 18,910	₩ 11,800	₩ 21,595	₩ 28,006	₩ 38,829
Vesting period	Within four 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	Within four years after three years from grant date	Within four years after three years from grant date
Forfeited period	After six years from grant date	After six years from grant date	After five years from grant date	After seven years from grant date	After seven years from grant date

### Assumptions used to determine the fair value of options:

Risk-free interest rate	-	-	-	4.07%	5.02%
Expected exercise period	-	-	-	5 years	5 years
Expected stock price volatility	-	-	-	17.92%	13.43%
Expected dividend yield	-	-	-	-	-
Expected ratios of no-exercise	-	-	-	-	-
Weighted average fair value	-	-	-	₩ 11,201	₩ 16,668

With respect to the stock options granted on March 25, 2004, Shinhan Financial Group decided to pay the difference between the market price and the exercise price in cash for year ended December 31, 2006 and determined to apply the intrinsic value method to those stock options. As a result, stock options decreased by ₩8,538 million (decrease in accounts receivable of ₩6,508 million and increase in accrued expenses of ₩2,030 million).



(b) Changes in stock compensation costs for year ended December 31, 2006 were as follows:

Stock options granted	Stock compensation cost	Employee of		(in millions of Won)
		Shinhan Financial Group	Subsidiaries	Total
1st	Recorded at beginning of the period	₩ 2,934	12,144	15,087
	Incurred during the period	713	1,122	1,835
	To be recorded in subsequent periods	-	-	-
2nd	Recorded at beginning of the period	4,334	19,053	23,387
	Incurred during the period	899	1,019	1,918
	To be recorded in subsequent periods	-	-	-
3rd	Recorded at beginning of the period	2,030	6,508	8,538
	Incurred during the period	5,241	14,957	20,198
	To be recorded in subsequent periods	-	-	-
4th	Recorded at beginning of the period	767	7,858	8,625
	Incurred during the period	2,781	12,425	15,206
	To be recorded in subsequent periods	423	2,417	2,840
5th	Recorded at beginning of the period	-	-	-
	Incurred during the period	3,036	17,624	20,660
	To be recorded in subsequent periods	4,552	26,427	30,979

For the 4th and 5th stock options granted, the difference between the exercise price and the fair value on the date of exercise would be assumed by the subsidiaries of Shinhan Financial Group. 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 Shinhan Financial Group in the amount of ₩37,811 million and ₩14,365 million as of December 31, 2006 and 2005, respectively.

### (23) General and Administrative Expenses

Details of general and administrative expenses for the years ended December 31, 2006 and 2005 were as follows:

	(in millions of Won)	
	2006	2005
Salaries and wages	₩ 1,040,073	977,465
Provision for retirement and severance benefits	129,089	106,241
Other employees benefits	535,955	358,503
Rent	117,727	87,422
Entertainment	18,654	19,554
Depreciation	207,527	178,169
Amortization	159,492	104,303
Tax and dues	92,343	91,245
Advertising	74,127	57,812
Other	464,489	423,430
	<b>₩ 2,839,476</b>	<b>2,404,144</b>

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

## (24) Income Taxes

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

The components of income tax expense for the years ended December 31, 2006 and 2005 were as follows:

	(in millions of Won)	
	2006	2005
Current income tax expense	₩ 650,944	383,649
Change in temporary difference	98,031	404,722
Change in net operating loss	(307)	-
Income tax expense included in stockholders' equity	(77,504)	(530,961)
	<b>₩ 671,164</b>	<b>257,410</b>

(b) Reconciliation of income before income taxes for financial reporting purposes and taxable income for the years ended December 31, 2006 and 2005 are as follows

	(in millions of Won)	
	2006	2005
Income before income taxes	₩ 2,513,677	1,824,650
Increase (decrease) from permanent difference	(101,706)	1,810,261
Increase (decrease) from temporary difference	215,624	(1,972,830)
Taxable income	<b>₩ 2,627,595</b>	<b>1,662,081</b>

(c) Effective tax rates for the years ended December 31, 2006 and 2005 were as follows:

	(in millions of Won)	
	2006	2005
Income taxes	₩ 671,164	257,410
Income before income taxes	₩ 2,513,677	1,824,650
Effective income tax rate (%)	<b>26.70</b>	<b>14.11</b>

(d) Changes in significant accumulated temporary differences and tax effects for the years ended December 31, 2006 and 2005 were as follows:

	2006			(in millions of Won)
	Beginning balance(*)	Increase	Decrease	
<b>Deductible temporary differences:</b>				
Securities	₩ 9,807	4,908	-	14,715
Impairment loss on securities	1,118,824	-	896,071	222,753
Retirement and severance benefits	151,361	49,772	-	201,133
Provision for loan losses	345,018	-	317,954	27,064
Other allowances	216,543	112,409	-	328,952
Stock compensation costs	39,214	-	29,154	10,060
Restructured loans	331,068	-	330,281	787
Allowance for losses on guarantees and acceptances	177,303	-	125,478	51,825
Other	1,183,535	1,982,236	27,255	3,138,516
	3,572,673	2,149,325	1,726,193	3,995,805
<b>Taxable temporary differences:</b>				
Securities	1,839,281	309,189	-	2,148,470
Unrealized loan on securities	746,725	-	706,420	40,305
Accrued income	227,433	80,960	-	308,393
Group retirement and severance benefits	145,326	-	139,828	5,498
Other	892,803	1,274,066	9,806	2,157,063
	3,851,568	1,664,215	856,054	4,659,729
<b>Net</b>	(278,895)	-	-	(663,924)
Unrealizable temporary differences (**)	(406,980)			(53,857)
Temporary difference of joint venture companies	33,261			-
Realizable temporary differences	(652,614)			(717,781)
Tax effect of cumulative temporary difference	(179,534)			(197,390)
Tax effect of cumulative temporary differences in overseas subsidiaries	3,893			1,399
Tax effects of tax loss carryforwards	177			307
<b>Net deferred tax assets(liability)</b>	<b>₩ (175,464)</b>			<b>(195,684)</b>

(\*) Includes the difference between estimated taxes and the actual 2005 tax return.

(\*\*) Tax effects on temporary differences of ₩10,995 million in Shinhan Financial Group, ₩669,581 million in Shinhan Bank, ₩(368) million in Shinhan Capital and ₩979 million in Good Morning Shinhan Securities are not recognized due to uncertainty of realization in the near future or offset to tax loss carryforwards.

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

	2005			(in millions of Won)
	Beginning balance(*)	Increase	Decrease	Ending balance
<b>Deductible temporary differences:</b>				
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
	<b>3,255,002</b>	<b>1,010,334</b>	<b>692,663</b>	<b>3,572,673</b>
<b>Taxable temporary differences:</b>				
Securities	87,650	1,751,631	-	1,839,281
Unrealized gain 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
	<b>1,378,706</b>	<b>2,634,382</b>	<b>161,520</b>	<b>3,851,568</b>
<b>Net (*)</b>	<b>1,876,296</b>			<b>(278,895)</b>
Unrealizable temporary differences (**)	(984,411)			(406,980)
Temporary difference of Joint venture companies	-			33,261
Realizable temporary differences	891,885			(652,614)
Tax effect of cumulative temporary difference	244,568			(179,534)
Tax effect of cumulative temporary differences in overseas subsidiaries	4,641			3,893
Tax credit	942			-
Tax effects of tax loss carryforwards	1,675			177
<b>Net deferred tax assets(liability)</b>	<b>₩ 251,826</b>			<b>(175,464)</b>

(\*) Includes ₩8,863 million of difference between estimated taxes and actual 2004 tax return offset against ₩157,760 million of temporary differences arising from consolidation of Shinhan Life Insurance.

(\*\*) 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.

## (25) Earnings Per Share

### (a) Basic Earnings per Share

Earnings per common share were 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, 2006 and 2005 were computed as follows:

	(in millions of Won)	
	2006	2005
Net income	₩ 1,832,718	1,560,760
Dividends on preferred stock	(55,245)	(106,972)
Ordinary income available for common stock	1,777,473	1,453,788
Weighted average number of shares outstanding in million shares	372,168,522	333,424,457
Earnings per share in Won	<b>₩ 4,776</b>	<b>4,360</b>

### (b) Diluted Earnings per Share

Details of diluted ordinary / net earnings per share due to dilutive effect for the years ended December 31, 2006 and 2005 were as follows:

	(in millions of Won, except shares)	
	2006	2005
Ordinary income available for common stock	₩ 1,777,473	1,453,788
Plus: dividends on redeemable convertible preferred stock	-	8,169
Diluted ordinary income and net earnings	1,777,473	1,461,957
Weighted average number of common shares outstanding in million shares	372,168,522	355,784,758
Diluted earnings per share in Won	<b>₩ 4,776</b>	<b>4,109</b>

### (c) Securities Applicable to Common Shares

	Convertible (exercisable) period	Number of shares to be issued
Stock options	March 30, 2008 - March 30, 2012	2,381,090
"	March 21, 2009 - March 21, 2013	3,098,069
		<b>5,479,159</b>

### (d) Earnings per share and diluted earnings per share for each quarters ended December 31, 2006 were as follows:

	(in Won)			
	1st quarter	2nd quarter	3rd quarter	4th quarter
Earnings per share	₩ 1,286	1,586	1,331	681
Diluted earnings per share	1,212	1,496	1,331	681

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

## (26) Dividends

(a) Dividends for the years ended December 31, 2006 and 2005 were as follow:

	(in millions of Won, except per share)		
	2006		
	Common stocks	Preferred stocks	Total
Total number of shares issued	381,567,614	39,767,169	421,334,783
Shares excluded (*)	7,129,967	-	7,129,967
Total number of shares outstanding	374,437,647	39,767,169	414,204,816
Par value per share in Won	5,000	5,000	5,000
Dividend per share in Won (rate per share) (**)	₩ 900(18%)	1,389(27.78%)	947(18.94%)
Dividends	₩ 336,994	55,245	392,239

(\*) Dividends on shares held by subsidiaries as of December 31, 2006 were not paid.

(\*\*) A weighted average amount was applied for dividends per share on preferred stock 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 2	9,316,792	730.674	14.61	6,807
Series 3	9,316,792	"	"	6,807
Series 4	9,316,792	"	"	6,807
Series 5	9,316,793	"	"	6,808
Series 7	2,433,334	11,190.00	223.80	27,230
Series 8	66,666	11,790.00	235.80	786
	<b>39,767,169</b>			<b>55,245</b>

	(in millions of Won, except per share)		
	2005		
	Common stocks	Preferred stocks	Total
Total number of shares issued	359,207,313	74,944,262	434,151,575
Shares excluded (*)	11,610,197	-	11,610,197
Total number of shares outstanding	347,597,116	74,944,262	422,541,378
Par 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 were not paid.

(\*\*) A weighted average amount is applied for dividends per share on preferred stock 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
	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>

(b) Payout ratios for the years ended December 31, 2006 and 2005 were calculated as follows:

	2006			2005		
	Common stocks	Preferred stocks	Total	Common stocks	Preferred stocks	Total
Dividends in Won	₩ 336,994	55,245	392,239	278,077	106,972	385,049
Net earnings in Won	₩ 1,777,473	55,245	1,832,718	1,453,788	106,972	1,560,760
Payout ratios (%)	18.96		21.40	19.13		24.67

(c) Dividend yields on common shares for the years ended December 31, 2006 and 2005 were calculated as follows:

	(in Won, except dividends yields)	
	2006	2005
Dividends per share in Won	₩ 900	800
Average stock price in Won at the balance sheet date	₩ 47,900	41,620
Dividends yields (%)	1.88	1.92



# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

## (27) Statements of Cash Flows

(a) Significant transactions not involving cash inflows or outflows for the years ended December 31, 2006 and 2005 were as follows:

	(in millions of Won)	
	2006	2005
Recognition of goodwill related to Asset Indemnity related to merger with Chohung bank	₩ -	20,596
Equity acquisition from subsidiaries through share exchange	-	730,432
Changes in capital adjustments of subsidiaries	552,443	301,194
Changes in retained earnings of subsidiaries	105,037	33,738
Reclassification from loans to loans to be converted into equity securities	-	10,244
Increase in present value discounts from restructuring of loans	-	2,833
Available-for-sale securities related to troubled loan restructuring	2,366	40,184
Loan write-offs	459,490	182,860
Adjustment to income tax expense	-	21,277
Recognition of accounts payable related to retirement and severance benefit	21,052	-

## (28) Derivatives

(a) Details of unsettled derivative instruments as of December 31, 2006 and 2005 were as follows:

		(in millions of Won)		
		Trading	Hedge	Total
Currency related	Forwards	₩ 22,220,412	155,376	22,375,788
	Futures	19,057	-	19,057
	Swap	14,875,474	92,960	14,968,434
	Options bought	4,690,519	-	4,690,519
	Options sold	2,906,867	-	2,906,867
		44,712,329	248,336	44,960,665
Interest rate related	Futures sold	792,319	-	792,319
	Futures bought	72,387	-	72,387
	Options bought	957,982	-	957,982
	Swap	46,137,524	9,569,661	55,707,185
	Interest futures	35,723	-	35,723
		47,995,935	9,569,661	57,565,596
Stock price index related	Futures	127,304	-	127,304
	Options bought	307,440	-	307,440
	Options sold	49,785	-	49,785
	Swap	48,413	-	48,413
		532,942	-	532,942
Stock related	Bought	1,987,293	-	1,987,293
	Sold	2,498,565	-	2,498,565
		4,485,858	-	4,485,858
Commodity related	Swap	35,152	-	35,152
		₩ 97,762,216	9,817,997	107,580,213

		2005		(in millions of Won)
		Trading	Hedge	Total
Currency related	Forwards	₩ 34,007,576	120,922	34,128,498
	Futures	140,048	-	140,048
	Swap	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
	Swap	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
		1,034,603	-	1,034,603
Stock related	Options bought	585,702	-	585,702
	Options sold	645,584	-	645,584
		1,231,286	-	1,231,286
Other	Bought	102,750	-	102,750
	Sold	102,750	-	102,750
		205,500	-	205,500
		₩ 80,155,167	4,103,489	84,258,656

(b) Valuation on trading and hedging derivative instruments as of December 31, 2006 and 2005 were as follows:

		2006			(in millions of Won)	
		Valuation gain (losses)			Fair value	
		Trading	Hedge	Total	Assets	Liabilities
Currency related:						
	Forwards	₩ (158,643)	4,893	(153,750)	233,634	394,204
	Swap	182,079	(3,614)	178,465	658,966	314,765
	Options bought	9,440	-	9,440	32,839	64,634
		32,876	1,279	34,155	925,439	773,603
Interest rate related:						
	Options bought	185	-	185	2,809	3,345
	Swap	(56,229)	(42,150)	(98,379)	290,006	468,938
	Futures	125	-	125	-	-
		(55,919)	(42,150)	(98,069)	292,815	472,283
Stock price index related:						
	Futures	2,241	-	2,241	-	-
	Options bought	1,104	-	1,104	56,334	56,212
	Options sold	31	-	31	-	3
	Swap	(517)	-	(517)	1,444	2,609
		2,859	-	2,859	57,778	58,824

(Continued)

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

	2006			(in millions of Won)	
	Valuation gain (losses)			Fair value	
	Trading	Hedge	Total	Assets	Liabilities
Stock related					
Bought	(8,879)	-	(8,879)	156,745	-
Sold	2,344	-	2,344	-	7,356
	6,535	-	6,535	156,745	7,356
Other					
Commodity related	27	-	27	86	185
	<b>₩ (26,692)</b>	<b>(40,871)</b>	<b>(67,563)</b>	<b>1,432,863</b>	<b>1,312,251</b>

	2005			(in millions of Won)	
	Valuation gain (losses)			Fair value	
	Trading	Hedge	Total	Assets	Liabilities
Currency related:					
Forwards	₩ 59,492	(310)	59,182	337,620	372,105
Swap	(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:					
Swap	(2,860)	(110,833)	(113,693)	174,705	261,596
Government bonds	30	-	30	-	-
	(2,830)	(110,833)	(113,663)	174,705	261,596
Stock price index related:					
Futures	(17,456)	-	(17,456)	-	-
Options bought	4,857	-	4,857	11,235	-
Options sold	(1,843)	-	(1,843)	-	6,018
	(14,442)	-	(14,442)	11,235	6,018
Stock related					
Options bought	6,595	-	6,595	51,007	-
Options sold	(4,765)	-	(4,765)	-	5,842
	1,830	-	1,830	51,007	5,842
Others					
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>

## (29) Commitments and Contingencies

### (a) Acquisition of (formerly) Chohung Bank

On July 9, 2003, Shinhan Financial Group made an agreement with the Korea Depository Insurance Corporation (“KDIC”) to acquire 80.04% (543,570,144 shares) of total outstanding shares in Chohung Bank. Pursuant to the agreement, Shinhan Financial Group would be required to pay contingent consideration (“Earn-out payment Agreement”) to the KDIC in relation to the earnings of Chohung Bank in the future as follows:

- Amount: 20% of the total 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 that the above amount is determined for the fiscal year of 2006

The contingent considerations was not included in the acquisition cost, because the amount was not determinable. And as of December 31, 2006, financial effects in respect of the acquisition of Chohung Bank are immaterial.

### (b) Guarantees and acceptances and commitments as of December 31, 2006 were as follows:

	(in millions of Won)
Guarantees and acceptances outstanding	₩ 3,927,014
Contingent guarantees and acceptances	2,961,579
Commitments	65,827,282
Endorsed bills	7,279,473
Insurance contracts	49,726,018

(c) The Consolidated Company pledged two notes amounting to ₩921 million to financial institutions as collateral for borrowings.

(d) As of December 31, 2006, the Consolidated Company had 258 pending lawsuits as defendant (total claim amount: ₩252,761 million) of which a legal provision of ₩24,251 is included in other allowances in the accompanying balance sheet.

(e) As of December 31, 2006, the Consolidated Company had outstanding loans, which were sold to the Korea Asset Management Corporation (“KAMCO”) with recourse when certain conditions are met, amounting to ₩13,787 million. Related to these outstanding loans, the subsidiaries established ₩268 million of allowance for loan losses as of December 31, 2006. However, additional gains or losses might be recorded upon repurchase of or settlement of the loans by KAMCO in accordance with the recourse provisions.

(f) With respect to the disposition of non-performing loans to the Special Purpose Companies (“SPC”), Shinhan Bank granted an aggregate of ₩106,000 million subject to recourse and provided ₩40,000 million of debt securities as collateral as of December 31, 2006. In accordance with these asset-backed securitizations, additional losses might be recorded upon exercise of reselling rights.

(g) As of December 31, 2006, Shinhan Bank and Jeju Bank guaranteed repayment of principal and, in certain cases, minimum interest earnings on trust account assets for a total amount of ₩3,334 billion. Additional losses might be recorded based upon the results of future operations of these guaranteed trust accounts.

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(h) As of December 31, 2006, credit-linked derivatives sold by Shinhan Bank were as follows:

	(in millions of Won)	
	Credit Sold	Credit Bought
Credit Linked Notes	₩ 18,592	-
Debt Obligation+First To Default Credit Default Swap	9,296	-
Synthetic Collateralized Debt Obligation	65,072	-
Credit Default Swap	18,592	278,880
KTB Swap	765,755	-
Credit Default Swap on Collateralized Debt Obligation	18,592	-
	<b>₩ 895,899</b>	<b>278,880</b>

## (30) Related Party Transactions

(a) Details of transactions

Significant transactions with the related parties for the years ended December 31, 2006 and 2005 were as follows:

			(in millions of Won)	
Revenue earned	Expense incurred	Account	2006	2005
Controlling company and subsidiaries included in consolidation:				
Shinhan Financial Group	Shinhan Bank	Interest income	₩ 3,019	5,356
"	Good Morning Shinhan Securities	Interest income	6,035	3,375
"	Shinhan Card	Interest income	32,103	52,710
"	Shinhan Capital	Interest income	31,273	32,537
"	Jeju Bank	Interest income	999	1,834
Shinhan Bank	Shinhan Financial Group	Rental income	33	68
"	Good Morning Shinhan Securities	Interest income	728	191
"	"	Fee and commission income	-	21
"	"	Rental income	799	323
"	Shinhan Life Insurance	Gain on derivatives	394	188
"	"	Rental income	2,490	150
"	"	Interest income	5,005	265
"	"	Fee and commission income	518	2,306
"	Shinhan Card	Interest income	1,922	3,046
"	"	Fee and commission income	80,384	35,557
"	"	Rental income	1,948	895
"	"	Gain on derivatives	1,634	-
"	Shinhan Capital	Interest income	46	1,297
"	"	Gain on redemption of debentures	-	476
"	"	Rental income	489	336
"	"	Gain on derivatives	1,449	2,811
"	Jeju Bank	Interest income	130	4
"	Shinhan Credit Information	Rental income	134	273
"	Shinhan Bank(Trust)	Fees and commission from trust account	36,012	66,111

(Continued)

(in millions of Won)

Revenue earned	Expense incurred	Account	2006	2005
Shinhan Bank	Shinhan Finance	Interest income	₩ -	6,410
"	SH Asset management	Interest income	2	2
"	Shinhan Asia	Interest income	796	2,451
"	Shinhan Bank America	Interest income	796	1,106
"	Shinhan Bank Europe	Interest income	3,642	3,911
Shinhan Bank(Trust)	Shinhan Bank	Interest income	4,824	3,724
Shinhan Finance	Shinhan Bank	Interest income	-	1,407
"	"	Gain on derivatives	-	1,577
SH Asset management	Shinhan Bank	Interest income	1,143	1,629
Shinhan Asia	"	Interest income	8,016	6,240
Shinhan Bank Europe	"	Interest income	6,068	4,962
Good Morning Shinhan Securities	"	Interest income	315	467
"	"	Rental income	129	301
"	Shinhan Life Insurance	Rental income	28	5
"	"	Fee and commission income	57	-
"	Shinhan Card	Rental income	435	313
"	"	Fee and commission income	106	350
Good Morning USA	Good Morning Shinhan Securities	Fee and commission income	2,988	2,991
Good Morning Europe	"	Fee and commission income	1,784	1,228
Shinhan Life Insurance	Shinhan Bank	Insurance income	221	245
"	"	Gain on derivatives	3,980	595
"	"	Interest income	941	14
"	"	Fee and commission income	365	-
"	Good Morning Shinhan Securities	Insurance income	14	-
"	"	Fee and commission income	4	-
Shinhan Card	Shinhan Bank	Interest income	197	2
"	"	Fee and commission income	755	1,004
"	Good Morning Shinhan Securities	Interest income	4	-
"	Jeju Bank	Fee and commission income	335	275
"	"	Interest income	3	-
"	Shinhan Life Insurance	Fee and commission income	363	-
Shinhan Capital	Shinhan Bank	Interest income	3,935	3,300
"	"	Gain on derivatives	1,020	4,329
"	Shinhan Card	Fee and commission income	-	1
Jeju Bank	Shinhan Bank	Interest income	5	22
"	Shinhan Life Insurance	Fee and commission income	6	25
"	"	Rental income	6	-
"	Jeju Bank	Fees and commissions from trust account	1,054	1,012
Jeju Bank(Trust)	"	Interest income	240	220

(Continued)

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

			(in millions of Won)	
Revenue earned	Expense incurred	Account	2006	2005
Shinhan Credit Information	Shinhan Bank	Fee and commission income	7,173	10,035
"	"	Interest income	134	67
"	Good Morning Shinhan Securities	Fee and commission income	41	52
"	Shinhan Life Insurance	Fee and commission income	42	36
"	Shinhan Card	Fee and commission income	12,888	7,419
"	Shinhan Capital	Fee and commission income	54	80
"	Jeju Bank	Fee and commission income	140	101
"	Shinhan Financial Group	Fee and commission income	4	-
Shinhan PE	Shinhan Bank	Interest income	828	199
"	Shinhan PEF 1st	Fee and commission income	3,000	822
			276,425	279,059
Joint venture investees:				
Shinhan Macquarie	Shinhan Bank	Interest income	297	180
Shinhan Bank	Shinhan BNP Paribas ITMC	Fee and commission income	679	588
"	SH&C Life Insurance	Fee and commission income	15,847	42,467
Good Morning Shinhan Securities	Shinhan BNP Paribas ITMC	Rental income	255	212
"	SH&C Life Insurance	Fee and commission income	-	5
Shinhan Life Insurance	"	Fee and commission income	1	-
Shinhan Card	"	Fee and commission income	5,023	4,902
Shinhan BNP Paribas ITMC	Shinhan Bank	Interest income	195	429
"	Shinhan Life Insurance	Interest income	31	-
"	Jeju Bank	Interest income	28	-
Jeju Bank	SH&C Life Insurance	Fee and commission income	119	384
SH&C Life Insurance	Shinhan Bank	Interest income	5	12
"	"	Insurance income	6	-
			22,486	49,179
Subsidiaries accounted for under the equity method:				
Shinhan Bank	Shinhan Data System	Rental income	118	49
"	Daewoo Capital	Fee and commission income	-	29
"	Shinhan Finance	Interest income	3,858	-
"	"	Gain on derivatives	202	-
Shinhan Finance	Shinhan Bank	Interest income	386	-
"	"	Gain on derivatives	381	-
e-Shinhan	Shinhan Bank	Interest income	-	54
"	Shinhan Card	Fee and commission income	-	93
"	Shinhan Financial Group	Fee and commission income	-	63
Shinhan Data System	Shinhan Bank	Interest income	42	57
"	Shinhan Bank	Fee and commission income	10,834	7,113
Macquarie Shinhan Infrastructure	"	Interest income	32	100
Shinhan Corporate Restructuring Fund 6th	"	Interest income	1	-
Daewoo Capital	"	Interest income	-	1
			15,854	7,559
			<b>₩ 314,765</b>	<b>335,797</b>



(b) Account balances

Significant balances with the related parties as of December 31, 2006 and 2005 were as follows:

			(in millions of Won)	
Creditor	Debtor	Account	2006	2005
Subsidiaries accounted for under the equity method:				
Shinhan Financial Group	Shinhan Bank	Due from banks	₩ 2,627	64,371
"	"	Security deposits	9,915	9,915
"	"	Privately placed bonds	-	50,000
"	"	Accounts receivable	28,675	12,208
"	"	Accrued interest income	171	155
"	"	Deposit for severance benefit insurance	1,233	827
"	Good Morning	Loans in Won	170,000	70,000
"	Shinhan Securities	Accounts receivable	4,581	725
"	"	Accrued interest income	1,569	619
"	Shinhan Card	Loans in Won	450,000	750,000
"	"	Accounts receivable	2,043	758
"	"	Accrued interest income	3,285	4,336
"	Shinhan Capital	Loans in Won	500,000	500,000
"	"	Loans in foreign currency	65,072	70,910
"	"	Accounts receivable	1,102	562
"	"	Accrued interest income	2,990	3,156
"	Jeju Bank	Privately placed bonds	-	23,140
"	"	Loans in Won	-	20,000
"	"	Accrued interest income	-	200
"	Shinhan Credit Information	Accounts receivable	251	112
"	Shinhan Life Insurance	Accounts receivable	1,159	-
Shinhan Bank	Good Morning	Accrued interest income	-	6
"	Shinhan Securities	Security deposits	8,562	5,223
"	Shinhan Life Insurance	Accrued interest income	1,105	2,299
"	"	Loans in Won	-	47,000
"	"	Deposit for severance benefit insurance	103,531	66,921
"	"	Derivative assets	360	277
"	Shinhan Card	Accrued interest income	31	6,578
"	"	Call loan	10,800	35,500
"	"	Derivative assets	1,676	-
"	Shinhan Capital	Loans	-	1,271
"	"	Derivative assets	1,494	116

(Continued)

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

			(in millions of Won)	
Creditor	Debtor	Account	2006	2005
Shinhan Bank	Jeju Bank	Loans	₩ 13,575	-
"	"	Accrued interest income	87	-
"	Shinhan Bank(Trust)	Accounts receivable	71,459	46,346
"	Shinhan Finance	Due from banks	-	9,052
"	"	Loans in foreign currency	-	136,604
"	"	Call loan	-	2,185
"	"	Derivative assets	-	144
"	Shinhan Asia	Due from banks	14,267	986
"	"	Loans in foreign currency	28,352	63,819
"	"	Accrued interest income	564	421
"	"	Call loan	19,546	-
"	"	Prepaid expenses	87	797
"	Shinhan Bank America	Due from banks	2,551	8,840
"	"	Loans in foreign currency	-	15,195
"	Shinhan Bank Europe	Due from banks	15,718	4,682
"	"	Loans in foreign currency	47,261	128,569
"	"	Call loan	61,313	26,805
Shinhan Bank(Trust)	Shinhan Bank	Due from bank account	329,210	173,076
"	"	Accrued interest income	-	11,740
Shinhan Finance	Shinhan Bank	Loans in foreign currency	-	148,816
"	"	Derivative assets	-	1,237
SH Asset management	Shinhan Bank	Due from banks	43,172	30,775
"	"	Accrued interest income	409	286
Shinhan Asia	Shinhan Bank	Due from banks	12	226
"	"	Loans in foreign currency	45,180	157,415
"	"	Call loan	8,645	-
"	"	Accrued interest income	564	957
Shinhan Bank Europe	Shinhan Bank	Loans in foreign currency	117,823	152,292
Good Morning Shinhan Securities	Shinhan Bank	Due from banks	8,339	8,947
"	"	Security deposits	20,573	11,968
"	"	Accrued interest income	114	145
"	Shinhan Life Insurance	Deposit for severance benefit insurance	483	268
"	"	Accrued interest income	1	-
"	Shinhan Card	Accounts receivable	-	63
Good Morning USA	Good Morning Shinhan Securities	Accrued interest income	360	690
Good Morning Europe	Good Morning Shinhan Securities	Accrued interest income	154	279

(Continued)

(in millions of Won)

Creditor	Debtor	Account	2006	2005
Shinhan Life Insurance	Shinhan Bank	Due from banks	₩ 2,947	3,749
"	"	Prepaid expenses	-	56
"	"	Derivative assets	7	50
"	"	Deposit for severance benefit insurance	5,123	1,127
"	"	Security deposits	8,320	7,472
"	"	Available-for-sale securities	9,738	2,479
"	"	Accrued interest income	789	3
"	"	Held-to-maturity securities	45,000	-
Shinhan Life Insurance	Good Morning Shinhan Securities	Security deposits	173	-
"	Jeju Bank	Due from banks	22	14
Shinhan Card	Shinhan Financial Group	Accounts receivable	209	309
"	Shinhan Bank	Cash and cash equivalents	2,237	5,080
"	"	Security deposits	3,306	1,189
"	"	Accounts receivable	6,574	6,578
"	"	Derivative assets	42	-
"	"	Deposit for severance benefit insurance	3,513	-
Shinhan Card	Good Morning Shinhan Securities	Security deposits	5,911	4,635
"	"	Accounts receivable	824	691
Shinhan Card	Shinhan Life Insurance	Deposit for severance benefit Insurance	1,717	1,016
"	Shinhan Credit Information	Accounts receivable	81	56
"	Shinhan Capital	Accounts receivable	52	42
Shinhan Capital	Shinhan Bank	Cash and cash equivalents	51,260	79,985
"	"	Accounts receivable	216	370
"	"	Security deposits	508	292
"	"	Available-for-sale securities	-	3
"	"	Deposit for severance benefit insurance	977	614
"	"	Derivative assets	45	3,524
Jeju Bank	Shinhan Life Insurance	Accrued interest income	15	25
"	Jeju Bank(Trust)	Accrued interest income	890	860
Jeju Bank(Trust)	Jeju Bank	Due from bank account	6,185	4,901
Shinhan Credit Information	Shinhan Bank	Cash and cash equivalents	2,674	2,034
"	"	Securities under repurchase agreement	2,032	1,000
"	"	Accounts receivable	613	936
"	"	Security deposits	822	1,320
"	Shinhan Card	Accounts receivable	1,411	669
"	Good Morning Shinhan Securities	Accounts receivable	2	-

(Continued)

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

			(in millions of Won)	
Creditor	Debtor	Account	2006	2005
Shinhan Credit Information	Jeju Bank	Accounts receivable	23	14
"	"	Security deposits	60	60
"	Shinhan Life Insurance	Accrued interest income	1	-
Shinhan PE	Shinhan Bank	Cash and cash equivalents	3,071	6,967
"	"	Accrued interest income	-	7
"	"	Deposit for severance benefit insurance	-	16
"	Shinhan PEF 1st	Accrued interest income	-	8
"	"		2,389,441	3,028,961
Joint venture investees:				
Shinhan BNP Paribas ITMC	Shinhan Bank	Cash and cash equivalents	4,732	9,020
"	"	Accrued interest income	57	187
"	Shinhan Life Insurance	Deposit for severance benefit insurance	404	303
"	Good Morning Shinhan Securities	Security deposits	4,976	3,496
Shinhan Bank	Shinhan BNP Paribas ITMC	Accounts receivable	133	136
Shinhan Card	Shinhan BNP Paribas ITMC	Accounts receivable	66	55
Jeju Bank	SH&C Life Insurance	Accrued interest income	2	23
SH&C Life Insurance	Shinhan Bank	Cash and cash equivalents	2,091	1,067
"	"	Accrued interest income	-	2
"	Shinhan Life Insurance	Deposit for severance benefit insurance	139	130
"	Jeju Bank	Cash and cash equivalents	2	-
Shinhan Bank	SH&C Life Insurance	Accrued interest income	396	3,314
Shinhan Card	SH&C Life Insurance	Accounts receivable	60	100
"	"	Accrued interest income	394	408
Shinhan Macquarie	Shinhan Bank	Cash and cash equivalents	8,510	9,318
"	"	Accrued interest income	26	31
			21,988	27,590
Subsidiaries accounted for under the equity method:				
Shinhan Data System	Shinhan Bank	Due from banks	3,770	3,119
"	"	Security deposits	112	185
Shinhan Macquarie	Shinhan Bank	Due from banks	4,324	8,347
"	"	Other assets	-	30
Shinhan Card	Shinhan Data System	Accounts receivable	17	-
Shinhan Corporate Restructuring Fund 6th	Shinhan Bank	Due from banks	162	-
Shinhan Corporate Restructuring Fund 8th	Shinhan Bank	Due from banks	9,404	-
Daewoo Capital	Shinhan Bank	Due from banks	2,577	83
			20,366	11,764
			<b>₩ 2,431,795</b>	<b>3,068,315</b>

(c) Guarantees and acceptances

The guarantees and acceptances provided between the related parties as of December 31, 2006 were as follows:

(in millions of Won)

Creditor	Debtor	Account	Amount of guarantees and acceptances
Shinhan Financial Group	SH&C Life Insurance	Guarantee for loans	₩ 3,500
Shinhan Bank	Shinhan Card	Guarantee for foreign currency	3,017
"	Shinhan Capital	Letter of credit	465
			<b>₩ 6,982</b>

(31) Condensed Financial Statements of the Consolidated Company

(a) Balance sheets

Condensed balance sheets of the consolidated company as of December 31, 2006 and 2005 were as follows:

	2006		(in millions of Won)
	Total assets	Total liabilities	Total stockholders' equity
Controlling company and subsidiaries included in consolidation:			
Shinhan Financial Group	₩ 15,003,631	3,642,105	11,361,526
Shinhan Bank	154,207,060	144,539,692	9,667,368
Shinhan Bank (Trust)	3,498,916	3,498,916	-
SH Asset Management	99,028	8,463	90,565
Shinhan Asia	165,618	122,605	43,013
Shinhan Bank America	556,760	495,999	60,761
Shinhan Europe	255,870	220,637	35,233
Good Morning Shinhan Securities	4,126,940	3,278,324	848,616
Good Morning Shinhan Europe	7,898	45	7,853
Good Morning Shinhan USA	4,590	246	4,344
Shinhan Life Insurance	6,225,865	5,795,398	430,467
Shinhan Card	3,558,415	2,923,408	635,007
Shinhan Capital	1,948,495	1,763,537	184,958
Jeju Bank	2,470,751	2,338,463	132,288
Jeju Bank (Trust)	17,918	17,918	-
Shinhan Credit Information	13,372	3,117	10,255
Shinhan PE	10,813	319	10,494
Shinhan PEF 1st	139,875	370	139,505
	<b>192,311,815</b>	<b>168,649,562</b>	<b>23,662,253</b>
Joint venture investees:			
Shinhan BNP Paribas ITMC	60,227	10,650	49,577
SH&C Life Insurance	991,359	950,396	40,963
Shinhan Macquarie	11,500	11,444	56
	<b>1,063,086</b>	<b>972,490</b>	<b>90,596</b>
	<b>₩ 193,374,901</b>	<b>169,622,052</b>	<b>23,752,849</b>

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

	2005		(in millions of Won)
	Total assets	Total liabilities	Total stockholders' equity
Controlling company and subsidiaries included in consolidation:			
Shinhan Financial Group	₩ 12,462,131	2,325,114	10,137,017
(formerly)Shinhan Bank	75,641,968	71,042,501	4,599,467
(formerly)Shinhan Bank (Trust)	1,902,831	1,902,831	-
Shinhan Finance	453,094	381,288	71,806
Shinhan Bank	66,609,526	62,783,304	3,826,222
Shinhan Bank (Trust)	1,343,340	1,343,340	-
SH Asset Management	83,651	5,476	78,175
Shinhan Asia	216,488	179,173	37,315
Shinhan Bank America	467,872	405,560	62,312
Shinhan Europe	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
Jeju Bank	2,051,202	1,931,693	119,509
Jeju Bank (Trust)	16,599	16,599	-
Shinhan Credit Information	12,073	2,810	9,263
Shinhan PE	8,826	85	8,741
Shinhan PEF 1st	29,358	12	29,346
	<b>173,496,287</b>	<b>153,029,355</b>	<b>20,466,932</b>
Joint Venture Investees:			
Shinhan BNP Paribas ITMC	53,437	5,233	48,204
SH&C Life Insurance	708,175	677,150	31,025
Shinhan Macquarie	11,848	9,320	2,528
	<b>773,460</b>	<b>691,703</b>	<b>81,757</b>
	<b>₩ 174,269,747</b>	<b>153,721,058</b>	<b>20,548,689</b>

(b) Statements of Income

Condensed statements of income of the Consolidated Company for the years ended December 31, 2006 and 2005 were as follows:

Subsidiaries	2006				
	Operating revenue	Operating expense	Operating income (loss)	Ordinary income (loss)	Net income (loss)
Controlling company and subsidiaries included in consolidation:					
Shinhan Financial Group	₩ 1,997,914	177,051	1,820,863	1,832,718	1,832,718
Shinhan Bank	14,868,003	13,160,836	1,707,167	2,309,904	1,659,246
Shinhan Bank (Trust)	147,816	147,811	5	-	-
SH Asset Management	34,082	10,177	23,905	23,893	17,112
Shinhan Asia	17,528	8,594	8,934	8,940	8,940
Shinhan Bank America	42,368	36,454	5,914	5,922	3,561
Shinhan Europe	16,218	9,478	6,740	6,739	3,986
Good Morning Shinhan Securities	1,255,573	1,138,720	116,853	134,102	96,190
Good Morning Shinhan Europe	1,816	1,134	682	706	706
Good Morning Shinhan USA	2,235	2,127	108	162	(37)
Shinhan Life Insurance	2,323,355	2,172,054	151,301	165,798	121,534
Shinhan Card	831,888	639,083	192,805	184,258	232,092
Shinhan Capital	199,615	165,783	33,832	62,571	48,284
Jeju Bank	147,339	133,560	13,779	15,305	14,155
Jeju Bank (Trust)	1,656	1,656	-	-	-
Shinhan Credit Information	26,587	23,057	3,530	3,860	2,810
Shinhan PE	3,729	1,906	1,823	2,072	1,676
Shinhan PEF 1st	5,364	3,205	2,159	2,159	2,159
	21,923,086	17,832,686	4,090,400	4,759,109	4,045,132
Joint Venture Investees:					
Shinhan BNPP ITMC	26,189	13,456	12,733	12,123	8,576
SH&C Life Insurance	52,964	59,128	(6,164)	9,793	9,295
Shinhan Macquarie	17,782	16,068	1,714	2,388	1,562
	96,935	88,652	8,283	24,304	19,433
	₩ 22,020,021	17,921,338	4,098,683	4,783,413	4,064,565



# Notes to Consolidated Financial Statements

December 31, 2006 and 2005

Subsidiaries	2005				
	Operating revenue	Operating expense	Operating income (loss)	Ordinary income (loss)	Net income (loss)
(in millions of Won)					
Controlling company and subsidiaries included in consolidation:					
Shinhan Financial Group	₩ 1,715,499	154,872	1,560,627	1,560,760	1,560,760
Shinhan Bank	6,163,895	5,223,326	940,569	1,065,978	774,422
Shinhan Bank (Trust)	85,824	88,260	(2,436)	-	-
Shinhan Finance	24,082	13,658	10,424	10,183	9,083
Chohung Bank	7,310,666	6,667,084	643,582	696,062	756,505
Chohung Bank (Trust)	80,804	80,907	(103)	-	-
Chohung ITMC	22,067	8,855	13,212	15,857	11,079
Chohung Finance	10,377	7,249	3,128	3,095	3,095
CHB America	30,251	25,746	4,505	9,023	5,256
Chohung Deutschland	10,528	7,373	3,155	3,155	2,001
Good Morning Shinhan Securities	901,888	786,179	115,709	121,052	87,240
Good Morning Shinhan Europe	1,639	1,165	474	504	504
Good Morning Shinhan USA	3,643	3,119	524	517	333
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
Jeju Bank	130,394	119,520	10,874	10,800	11,118
Jeju Bank (Trust)	1,679	1,679	-	-	-
Shinhan Credit Information	23,966	20,590	3,376	3,328	2,401
Shinhan PE	880	2,176	(1,296)	(1,147)	(1,047)
Shinhan PEF 1st	257	911	(654)	(654)	(654)
	17,412,886	13,978,311	3,434,575	3,617,842	3,319,126
Joint Venture Investees:					
Shinhan BNPP ITMC	19,579	9,442	10,137	10,302	7,450
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
	93,219	76,732	16,487	24,921	18,455
	₩ 17,506,105	14,055,044	3,451,061	3,642,763	3,337,581

## (32) Financial Performance

Financial performance for the fourth quarters ended December 31, 2006 and 2005 were as follows:

	(in millions of Won, except earning per share)	
	Fourth quarter ended December 31, 2006	Fourth quarter ended December 31, 2005
Interest income and dividends	₩ 2,517,512	2,158,608
Net income	250,493	294,885
Earnings per share in Won	681	1,268

# Directory

## SHINHAN FINANCIAL GROUP

Office	Address	Tel/Fax
<b>Head Office</b> <a href="http://www.shinhangroup.com">http://www.shinhangroup.com</a>	120, 2-Ga, Taepyung-Ro, Jung-Gu, Seoul, 100-102, Korea	Tel: +82-2-6360-3000 Fax: +82-2-777-1883

## SHINHAN BANK

Office	Address	Tel/Fax	Swift
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<b>TOKYO BRANCH</b> General Manager Lee, Shin-Kee	9th FL., Shiroyama Trust Tower, 3-1 Toranomom 4-chome, Minato-ku, Tokyo, Japan	Tel: +81-3-3578-9321 Fax: +81-3-3578-9355	SHBKJPJTOK
<b>OSAKA BRANCH</b> General Manager Lim, Young-Jin	3rd FL., Resona Semba Bldg. 4-21, Minami-Semba, 4-Chome, Chuo-ku, Osaka, Japan	Tel: +81-6-6243-2341 Fax: +81-6-6243-2346	SHBKJPJX
<b>FUKUOKA BRANCH</b> General Manager Kim, Jae-Woo	8th FL., Tenjin Mitsui Bldg. 14-13, Tenjin 2-chome, Chuo-ku, Fukuoka, Japan	Tel: +81-92-724-7004 Fax: +81-92-724-7003	SHBKJPJXFUK
<b>NEW YORK BRANCH</b> General Manager Cho, Yong-Byoung	32nd FL., 800 3rd Ave, New York, NY10022, USA	Tel: +1-212-371-8000 Fax: +1-212-371-8875	SHBKUS33
<b>LONDON BRANCH</b> General Manager Lee, Han-Eung	3rd FL., 51-55 Gresham St., London EC2V 7HB, UK	Tel: +44-207-600-0606 Fax: +44-207-600-1826	SHBKGB2L
<b>SINGAPORE BRANCH</b> General Manager Suh, Dae-Won	50 Raffles Place #40-02/03, Singapore Land Tower, Singapore 048623	Tel: +65-6536-1144 Fax: +65-6533-1244	SHBKSGSG
<b>MUMBAI BRANCH</b> General Manager Kuk, Seong-Ho	42, Jolly Maker Chambers II, 4th FL., 225, Nariman Point, Mumbai, 400-021, India	Tel: +91-22-2282-2200 Fax: +91-22-2288-4277	SHBKINBB
<b>NEW DELHI BRANCH</b> General Manager Heo, Young-Taeg	Upper Ground Floor, Mercantile House, 15, Kasturba Gandhi Marg, New Delhi-110001, India	Tel: +91-11-2370-6040 Fax: +91-11-2370-6044	SHBKINBB
<b>HO CHI MINH CITY BRANCH</b> General Manager Park, In-Ho	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>TIANJIN BRANCH</b> General Manager Park, Sung-Geun	Room 1901/6, Tianjin International Building, 75 Nanjing Road, Tianjin, China	Tel: +86-22-2339-4070 Fax: +86-22-2339-4043	SHBKCNBT
<b>SHANGHAI BRANCH</b> General Manager Kim, Hae-Soo	22nd FL., HSBC Tower, 1000 Lujiazui Ring Road, Pudong New Area, Shanghai, China	Tel: +86-21-6841-2100 Fax: +86-21-6841-2108	SHBKCNBH
<b>QINGDAO BRANCH</b> General Manager Kim, Joon-Hee	4th FL., CITIC WT Securities Co.,Ltd, Bldg., No.28 Donghai West Road, Qingdao 266071, China	Tel: +86-532-8502-5500 Fax: +86-532-8502-5566	SHBKCNBQ
<b>HONGKONG BRANCH</b> General Manager Jo, Yee-Yong	Room 3401, Gloucester Tower, The Landmark, 15 Queen's Road, Central, Hong Kong	Tel: +852-2877-3121 Fax: +852-2877-2460	SHBKHKHX

## SHINHAN BANK

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<b>SHINHAN ASIA LIMITED</b> Managing Director Yu, Kwang-Ho	Suites 3507-3508, 35th Fl., Two Exchange Square, 8 Connaught Place, Central, Hong Kong	Tel: +852-2523-6143 Fax: +852-2810-1426	SHBKHKHH
<b>SHINHAN BANK EUROPE GmbH</b> Managing Director Park, Yo-Sub	Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany	Tel: +49-69-975-7130 Fax: +49-69-741-0506	SHBKDEFF
<b>SHINHAN BANK AMERICA</b> [Head Office/ NY Regional Office] President & CEO Lee, Jeffrey J.	330 5th Avenue 4th Fl., New York, NY 10001, USA	Tel: +1-646-843-7300 Fax: +1-212-447-7477	SHBKUS6LNYX
[CA Regional Office] Regional Manager Song, Gu-Seon	3000 West Olympic Blvd. Los Angeles, CA 90006, USA	Tel: +1-213-380-8300 Fax: +1-213-386-7208	SHBKUS6LCAX
<b>SHINHANVINA BANK</b> (Head Office) General Director Noh, Sung-Ho	3-5 Ho Tung Mau Str., Dist. 1, Ho Chi Minh City, Vietnam	Tel: +84-8-829-1581 Fax: +84-8-914-2635	SHBKVNVN

## GOODMORNING SHINHAN SECURITIES Co., Ltd.

Office	Address	Tel/Fax
<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	7th 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 6th Avenue, #702, New York, NY, 10019	Tel: +1-212-397-4000 Fax: +1-212-397-0031

# Contact Information

## INVESTOR RELATIONS TEAM

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## FINANCIAL CALENDAR

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Annual General Shareholder's Meeting FY2006	March-07
First Quarter Results 2007	May-07
Annual Report (20-F)	June-07
Second Quarter Results 2007	August-07
Third Quarter Results 2007	November-07

## INTERNET HOMEPAGE

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<http://www.shinhangroup.com>





#### **FORWARD-LOOKING STATEMENTS**

Shinhan Financial Group's 2006 Annual Report may contain forward-looking statements to provide value-added account of Shinhan Financial Group's businesses and results of operations. These forward-looking statements reflect our current views with respect to future events and performance, and are generally identified by the use of forward-looking terminology, such as "expect", "plan", "intend", and similar expressions. You are cautioned not to place undue reliance in these forward-looking statements, which reflect management's current analysis of future events. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.



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