http://www.chb.co.kr

2004

THE YEAR 2004 IN REVIEW

Creating New Value from a Successful Turnaround

CHOHUNG BANK

Adding Value to Your Future

With over a century of building customer relationships, Chohung Bank is one of the most trusted names in the Korean banking industry. We provide comprehensive retail and corporate banking, securities, credit card, insurance and investment trust services. We have concentrated on improving profitability and asset quality through stringent risk management and diversification of our revenue sources through alliance with our Shinhan Financial Group partners.

We are now in the process of creating a "New Bank", a new type of comprehensive financial institution that will provide universal banking services to meet the needs of our customers.

Going forward, we remain devoted to the maximization of value under management that prioritizes customer needs, innovation, and people. Ultimately, we are committed to providing high value-added financial services.

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Financial Highlights

→ CHB Credit Rating

International Rating

Moody's		S & P		Fitch	
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term
Baa1	P-2	BBB	A-2	BBB	F3

Domestic Rating

Korea Investors Service	National Information & Credit Evaluation	Korea Ratings
AAA	AAA	AAA

→ Financial Data

	Millions of Korean Won		Thousands of U.S. Dollars[1]
	2003	2004	2004
Consolidated Basis			
For the Year			
Net interest income	₩ 1,846,758	₩ 1,741,347	$ 1,668,276
Provision for loan losses	2,198,645	940,152	900,701
Ordinary income	(913,861)	273,448	261,973
Income taxes	53,806	7,070	6,773
Net Income (Loss)	(968,215)	265,238	254,108
At Year-End			
Loans	₩ 43,096,897	₩ 41,870,135	$ 40,113,178
Securities	10,195,981	12,621,625	12,091,996
Total assets	60,601,599	66,896,234	64,089,130
Deposits	41,579,591	43,010,099	41,205,306
Total stockholders' equity	1,961,374	2,653,939	2,542,574

Financial Ratios (%)[2]	2003	2004
Return on Assets (ROA)	(1.48)%	0.41%
Return on Stockholders' Equity (ROE)	(46.28)	11.01
Net Interest Margin	3.04	3.16
NPL ratio	4.82	1.93
BIS Capital Ratio	8.87	9.40

Notes:

1) The Korean Won amounts are translated into U.S. dollars solely for the convenience of the reader at the exchange rate of ₩1,043.80 to US$1.00, the prevailing rate on December 31, 2004.

2) Financial ratio calculations are based on FSS standards.

“Growing in competitiveness and reliability”

Dong-Soo CHOI
President and CEO

It is my great pleasure to highlight Chohung Bank's (CHB) achievements and major objectives going forward. The year 2004 showed positive and impressive results for Chohung Bank (CHB). After suffering a deficit in the previous two years, we returned to profit in 2004, despite overall economic uncertainties marked by continued sluggish domestic demand, high oil prices and appreciation of the Korean Won.

Under those circumstances, we placed the highest priority on risk management with the aim of turning around to profitability through the recovery of asset quality. We were able to do so primarily through preemptive risk analysis and the subsequent establishment of processes to cope with risk in a timely manner.

As a result, we recorded ₩265.2 billion in net income in 2004, a strong recovery from the net loss of ₩986.0 billion a year earlier. Mainly due to improved asset quality, we posted an impressive year-on-year rise of ₩1,231.2 billion in earnings. Our NPL ratio fell 2.89 percentage points over the year to 1.93% at year-end, down from 4.82% in 2003 and achieving our 3% target earlier than expected. Our NPL coverage ratio was also strengthened to over 126.4% from 81.7% in the previous year, providing a foundation for sound management. In addition, total loan delinquency ratios continued moving downward, falling 1.55 percentage points over the year to 1.69%, from 3.24% at the end of 2003.

The year 2004 brought the opportunity to regain our former stature and confirm our potential. Despite various difficulties, we succeeded in laying a solid platform for future growth. In recognition of the Bank's improved financial status and successful incorporation into the Shinhan Financial Group (SFG), our domestic and foreign credit rating improved significantly. The international credit rating agency S&P adjusted our credit ranking up one notch in April 2004 to "BBB", while in May three major domestic agencies upgraded our credit standing to the highest quality "AAA" rating. In addition, we successfully issued US$400 million worth of subordinated debt with the tightest spread among recent issues by Korean banks, reflecting investors' positive evaluation of the Bank.

Another positive outcome has been greatly improved staff confidence and morale. The results were spawned by newly activated internal communications comprising diverse programs and increased education and training opportunities.

We continued strengthening our community activities on a broad scale in diverse fields, embracing the environment, educational scholarships and the arts and sciences. All officers and employees at CHB strive continuously to fulfill their duties as corporate citizens, participating in a wide array of activities in the community, particularly through "Beautiful Bank", inaugurated jointly with Shinhan Bank (SHB) in July. Through the online "Beautiful Bank", customers can contribute to our "Beautiful Sharing Programs", in which a portion of proceeds from sales is donated to charities, including the Beautiful Foundation, which promotes a donation culture in Korea.

One of the major challenges facing us in 2004 was the implementation of our "One Bank–New Bank" strategy ahead of our planned integration with Shinhan Bank in 2006. The “One Bank” theme refers to the gradual assimilation of the two banks before the merger. In 2004, we launched a variety of initiatives and successfully accomplished tasks facilitating the convergence of our systems and cultures. We also collaborated in providing products and services to customers, thus preparing the market for the eventual launch of the "New Bank". The “New Bank” will be a major force in the domestic financial industry—the second-largest domestic bank by asset size—and is expected to develop into a world-class financial services provider.

2005 Management Strategies

With our 2004 results as a starting point, we are well prepared to achieve our performance goals for 2005. The business climate is expected to be tough with ongoing low interest rates and rising credit risk amid a downturn in the domestic economy. Competition for market dominance will likely intensify further with growing advances by global banks into domestic financial markets.

Anticipating the rapid changes, we have formulated strategies and policies to stay ahead of the competition in the new financial environment. We have set "Challenge 2005, A Successful Take-off for a New Bank" as a key management goal for the year.

Our domestic and foreign credit rating improved significantly, in recognition of our improved financial status and successful incorporation into SFG.

To achieve our goal, we will devote our energies to securing a firm business foundation through strengthened preemptive risk management and an expansion of quality lending assets. Additionally, we will increase our customer share of wallet by tailored marketing, and maximize fee-based income through cross-selling diverse financial products, including bancassurance and beneficiary certificates, offered by our affiliates within SFG.

To fully achieve world-class capabilities, we will enhance business efficiency by activating our information and knowledge sharing system, further advancing our preemptive and speedy business support. We will reinforce our organizational capabilities and human resources to implement these strategies, cultivating financial specialists skilled to meet the diverse needs of our customers. Further, we will ensure a performance-based compensation culture that upholds transparent and fair personnel management.

We will continue to prepare a solid foundation in 2005 for the successful launch of the "New Bank" scheduled for 2006. Our major tasks will include repositioning our brand and establishing best practices for the development of an efficient organizational structure and a unified corporate culture. In the second half of the year 2005, we intend to establish an integration committee that will be responsible for finalizing preparations for the official launch of the "New Bank".

In 2005, we pledge to accomplish our management goals while successfully managing our integration in order to retain our position as a leading financial institution and the trust of our customers.

In closing, I would like to express gratitude to each of you for your continued support, encouragement, and confidence in Chohung Bank.

Thank you.

Dong-Soo CHOI
President and CEO

Staying Ahead with Leadership

→ Going Forward: One & New

Chohung Bank was incorporated into the Shinhan Financial Group (SFG) as a subsidiary on September 5, 2003. An integration committee, to be established in the second half of 2005, will carry forward concrete procedures for the merger of CHB and Shinhan Bank, SFG's two banking subsidiaries, which is scheduled to take place in 2006. Before the merger, SFG presented a new integration model in the domestic financial sector wherein the Group established a "dual bank" period to avoid unnecessary competition and focus on the creation of synergies through fine tuning and sharing. Currently, the two banks are working together with the Group for joint management through the "One Bank-New Bank" strategy.

→ One Bank: Just like One

Our "One Bank" strategy aims to (1) create a "one leading bank" image, (2) prepare a foundation for the creation of the "New Bank" and (3) promote understanding and consensus among the staff of Chohung Bank and Shinhan Bank.

In 2004, we set up 20 initiatives for the "One Bank" strategy—nine for retail operations, two for corporate operations, one for communications, four for collaborative platforms and four for cultural integration. Already, 92% of such tasks have been completed. We specifically unified fee schedules and premium customer management for both banks, standardized phone banking codes, and held joint marketing campaigns, including joint credit cards for retail operations. As for corporate operations, we carried out joint marketing activities for investment banking and overlapping corporate customers, while revising joint operation standards for both banks. In terms of communications, we provided "One Bank/New Bank" workshops. Other major accomplishments include (1) a joint task force team (TFT) established and activated for corporate credit risk management (CCRM) and reliability-centered risk management (RCRM); (2) unified policies established for trust account management and the overseas operation redesigning TFT activated for collaborative platforms; and (3) the activation of joint job training/education programs, joint cultural events, and joint team building events such as "Run Together, Jump Together" for cultural integration.

→ New Bank: **Beyond Banking**

The "New Bank" will align banking, securities, credit cards, investment trust management, insurance services and other new businesses in an optimal manner. Our ultimate goal is to provide comprehensive financial services to a wide range of customer segments.

In 2005, we will carry forward the second stage of the "New Bank" project, moving from the share-oriented first stage of the previous year and beginning to implement changes with a focus on action strategies. Specifically, we will actively participate in and lead the transition while continuing to preserve the culture and values to which the "New Bank" aspires. We plan to cultivate our major strengths for successful integration while meeting the challenge of maintaining a progressive spirit throughout our diverse agendas, including the "New Bank Creator" program.

Developing "sharing-oriented" programs into "action-oriented" programs in 2005.

Stage 1 — Share

Establish and promote the "New Bank" vision
- Establish "New Bank" philosophy/vision/strategy/business models
- Publish related newsletters or booklets and hold related IR sessions

Pursue "One Bank" task & harmonization of corporate cultures
- Joint business/marketing and employee exchanges
- Consolidate standards/systems and share functions/organizations
- Hold events including "Jump Together"

2005

Stage 2 — Act

"New Bank change acceleration" programs
- Expand participation in "New Bank" creation processes
- Strengthen experience and improve concentration on work through early execution of "New Bank"

Continue harmonization of corporate cultures and "New Bank" vision communication programs

Stage 3 — Own

Materialize overall organizational change in line with the "New Bank" vision
(Channel/process/HR/IT/infrastructure/staff consciousness & behavior)

Establish new culture for a "New Bank"
(Openness/capacity/changes and innovations-oriented/ownership)

March 2

CHB Launched CHB M Banking Service

In March, we launched CHB M Banking service. The service is a new wireless Internet banking service using a mobile phone set equipped with a mobile banking IC chip. It is faster, more secure and more economical than the existing WAP mobile banking.

April 16

S&P Raised CHB's Credit Ratings

In April, Standard & Poor's Ratings Services raised its long-term and short-term credit ratings for Chohung Bank (CHB) to BBB from BBB- and A-2 from A-3 respectively. The upgrade reflected CHB's smooth transition into the Shinhan Financial Group and the expected convergence of credit quality ahead of the creation of the "New Bank".

Mar. Apr. May Jun.

May 24

CHB Received Highest Credit Rating from Three Major Domestic Agencies

In May, Korea Investors Service, the National Information & Credit Evaluation and Korea Ratings each assigned Chohung Bank their highest credit rating of AAA. The upgrade reflected CHB's improved profitability, based on its strong network and brand, and the expected creation of synergies with Shinhan Bank after creation of the "New Bank". Heightened management efficiency through continued NPL cleanup and restructuring also contributed to the increased confidence in the Bank.

June 22

Share Swap with SFG Completed

In June, Shinhan Financial Group acquired the remaining 135,553,824 minority shares in the Bank through a tender offer and share exchange. As a result, CHB became a wholly owned subsidiary of the Group and was de-listed from the Korea Stock Exchange on July 2, 2004.

August 14~25

“CHB Challenge! March to Baekdu Mountain”

In August, 279 Bank employees took part in the “CHB Challenge,” an event aimed at teambuilding and boosting corporate morale. Two groups of participants hiked Mount Baekdu, Korea’s highest peak, on August 14-18 and August 21-25. During the event, management and staff had opportunities to deepen mutual understanding and strengthen labor relationships.

Aug. *Nov.*

November 3

$400 million Subordinated Debt Issued

In November, CHB successfully issued US$400 million of subordinated bonds with the tightest spread of any recent sub-debt issued by Korean banks. Keen market interest saw the order book for the issue oversubscribed nine times, reflecting the Bank’s improved financial status and its successful incorporation into the Shinhan Financial Group.

November 4

Chohung CEO Named Chairman of the ABA

Also in November, the Asian Bankers Association inaugurated CHB President & CEO Mr. Dong-Soo Choi as its new chairman at its 21st General Meeting and Seminar, held in Hanoi. Mr. Choi, who will serve a two-year term, pledged his commitment to advancing the aims of the Association, including promoting the growth of Asian bond markets and strengthening cooperation among financial institutions throughout Asia-Pacific. Founded in 1981 and with 110 members from 25 countries across the region, the ABA plays a key role in facilitating the development of the Asian banking industry.

Successful Turnaround

In a challenging year for the domestic banking industry, Chohung Bank concentrated on strengthening asset quality and establishing a strong foundation for profitable growth.

Market Environment

The Korean economy was polarized in 2004, with exports faring well and enjoying a brisker market than ever while domestic demand deteriorated. Uncertainties escalated in the aftermath of soaring oil prices and a plunging exchange rate. Also, competition intensified in the banking industry among peers who sought to extend their reach with expansion and consolidation amid the full-scale advances by global banks into the domestic market, including the acquisition of domestic financial institutions by foreign-based players.

→ Chohung Bank in 2004

In 2004, Chohung Bank (CHB) strove to strengthen its asset quality, which had been the greatest obstacle to increasing profitability, and to maximize low-risk, fee-based earnings by activating bancassurance, beneficiary certificates, foreign exchange and derivatives products.

As a result, the Bank successfully recovered from the deficits it suffered in the previous two years, backed by efforts to expand its capabilities and noticeable improvements in its asset soundness. Market confidence in the Bank also improved significantly with buoyed credit ratings. CHB obtained the highest credit rating "AAA" from domestic credit rating agencies behind the improvement in its financial structure as a subsidiary of Shinhan Financial Group (SFG).

Retail Banking

The retail banking market also suffered from uncertainties amid sluggish domestic demand and a continued trend of low interest rates throughout the year 2004. In this operating environment, CHB focused on risk management and expanded its earning base through bolstered asset soundness and reinforced customer relationships.

→ Customer Base and Consumer Business

At year-end 2004, we had an extensive nationwide branch network comprising 533 branches. We did our utmost to strengthen our branch network and distribution channels, while optimizing existing networks and establishing new branches in such strategic areas as hospitals, schools and courthouses. We provide customers with convenience and efficiency that enables us to secure a significant source of stable funding. We also established the Institutional Banking Group, which was separated from Retail Banking Group, to take charge of institutional business.

Our operations focused on expanding sound assets backed by reinforcement of customer satisfaction and customer relationships. The Bank's high net-worth customers (classified by transaction volume) totaled 144,321 in 2004, up by 9.2% over the previous year. CHB Private Banking has represented the domestic market's only authentic private banking service since its launch 2002. Our professionals, who are among the best in their fields, provide total wealth management solutions tailored to meet the personal financial requirements of clients. Based on long-term relationships, we are safeguarding and enhancing our clients' value. Thanks to our outstanding service, Euromoney magazine selected Chohung as the "Best Specialist Providers, Best Use of Technology in Korea" in January 2005.

Mortgage loans surged 17.5% over the previous year to ₩8,134.8 billion from ₩6,923.1 billion in 2003. In February 2004, together with Shinhan Bank, we began offering long-term mortgage loans with maturity of ten years and beginning in August, we began offering the long-term mortgage loans offered by the Korea Housing Finance Corporation. In October, we also launched unsecured loan products for creditworthy office workers.

In our credit card business, we concentrated on the improvement of asset soundness. We pursued healthy asset-oriented operations and early occupation of the risk-free debit card market. We developed products and services targeting customers with high net worth and good credit standings.

The delinquency ratio for credit card accounts showed a downward movement during 2004 compared to 2002 levels after a surge in 2003. It improved from 11.18% in 2003 to 5.57% in 2004 after a peak of 13.97% in 2002. The Bank continues to monitor delinquent credit card accounts closely and has enhanced its review process for new and extended credit card loans.

The Bank's debit card usage in 2004 soared to ₩211.4 billion from ₩4.0 billion a year ago, recording the highest growth rate among BC Card member banks. Meanwhile, the total number of credit card holders declined 12.0% over the year to 2,819,866 and total card charge volume dropped 28.5% to ₩14,704.5 billion, reflecting both stricter credit assessment and contractions in consumer spending.

→ Cross-selling Business

As a principal banking subsidiary and distribution platform of SFG, Chohung Bank cross-sells a variety of financial products developed by Group affiliates. In July 2004, we integrated the Bancassurance and the Synergy Businesses Division into the Synergy Promotion Division, heightening the efficiency of our operations. This move expanded the sales of synergy products including bancassurance and cross-selling among the Shinhan Financial Group companies.

Since the deregulation of the Korean bancassurance market in September 2003, we have focused on bancassurance as an important source of fee income. We recorded ₩50.2 billion in fee income from bancassurance business, gaining us the second highest market share in the banking industry. Meanwhile, we recorded revenue of ₩49.1 billion from synergy products in 2004, exceeding our original projections of ₩25.3 billion by 94.1%. The notable results in the first year of synergy sales were attributable to SFG affiliated businesses, such as Financial Network Accounts (FNAs), bancassurance, investment trust and securities.

→ e-banking

We provide a wide variety of electronic banking services, including phone banking and Internet banking, which we introduced in 1993 and 1999 respectively. As of the end of 2004, we offered 820 e-banking services to around 3.2 million individual and corporate customers. In March 2004, we launched CHB M Banking. The service enables customers to make speedy, convenient and secure banking transactions using IC chip-installed mobile phones.

The continuing channel shift from offline to online has improved convenience for customers and realized cost savings for the Bank. With the steady increase in the numbers of e-banking customers, the proportion of e-banking transactions to total transactions expanded to 56.4% at the end of 2004 from 52.1% in 2003 and 41.7% in 2002. In 2005, we will continue to promote the use of e-banking services. We will intensify cross selling via e-banking channels and diversify e-banking services, which we plan to promote through telemarketing, e-mail and short message services.

→ Strategies for 2005

Competition for market share between foreign and domestic financial institutions seems sure to intensify, while the retail banking environment is likely to weaken due continued low interest rates and sluggish consumer demand. In 2005, CHB will focus on expansion of sound assets and synergy revenue by upgrading customer relationship management. On this note, we will continue to develop the sales of products and services provided by SFG subsidiaries. We will focus on customer relationships by expanding our Deepening Customer Relationship Branches, remodeled branches focused on customer groups, and attract affluent customers. We will also implement sophisticated marketing strategies targeted at customer segments and strengthen the marketing power of account managers. As such, we will concentrate on confronting the challenges facing financial institutions and on continuously enhancing competitiveness.

Asset quality improved considerably and our market credibility increased significantly.

Corporate Banking

A noticeable economic trend in 2004 was the increasing polarization between large companies and small and medium-sized enterprises (SMEs). SMEs suffered from weakened domestic consumption and rising costs. Accordingly, we strove to enhance asset soundness by focusing risk management and post-management of matured loans. We also strengthened the management of loans to small-office-home-office (SOHO) companies.

To expand sound assets, we focused on marketing to high-credit SMEs and strengthened relationships with promising corporate customers by providing differentiated services. We also established the RM Support Team to strengthen relationships with corporate clients. Meanwhile, in order to address changes in the corporate banking environment and for large corporate customers, we strove to provide universal financial services through our "One-Portal" network and implement team-based marketing. Teams comprising a relationship manager (RM), a specialist investment banker, and a credit officer pursued corporate banking businesses based on relationships with corporate customers.

At the end of 2004, loans in won to large corporations climbed 11.9% to ₩2,900.0 billion 2004 from ₩2,591.5 billion in 2003, whereas SME loans fell 5.4% over the year to ₩13,651.0 billion, from ₩14,426.8 billion in 2003, behind sluggish domestic demand and market polarization. Among won-currency loans, the weighting of SME loans to total loans diminished to 41.7% from 43.3% in 2003, and that of large corporate loans rose to 8.8% from 7.8% a year earlier. Foreign trade volume through CHB amounted to US$35,739 million at the end of 2004, from US$32,591 million in 2003, rising 9.7% over the year.

We inaugurated electronic corporate banking services in January 2002 with the launch of e-FNS. The service not only offers cash management, but also B2B settlement and enterprise resources planning. In 2004, 33,499 corporations used e-FNS, up from 24,843 in 2003 and 6,743 in 2002. CHB continues to foster relationships with corporate customers through e-banking infrastructure such as e-FMS, Host Banking and Cash Management Service, and has plans to enter the B2C market.

During the year 2005, we will continue to improve assets soundness and profitability by actively increasing business volume with prime customers based on strengthening relationships. We will step up business support to RMs and foster the highest levels of professionalism. Moreover, taking advantage of our membership of SFG, we will offer a comprehensive range of services in partnership with Group affiliates.

Capital Market

The capital market displayed differentiated trends in 2004: international interest rates were on the rise, while domestic interest rates were kept low to stimulate recovery of demand at home. As for foreign exchange rates, the won currency's revaluation continued due to the expansion of Korea's current account balance and a rise in deficits of the US. CHB was committed to the optimal management of liquidity and interest rate risks, and strove to enhance market competitiveness. In addition, we diversified earnings sources by expanding the development of derivatives-linked hybrid financial instruments.

The average balance of won-currency trading securities in 2004 rose 29.1% to ₩1,816.9 billion from ₩1,407.0 billion in 2003. Net gain on sale of won-denominated trading securities also sharply increased to ₩45.5 billion from ₩8.0 billion in 2003. We secured our position as a market maker through flexible position trading and the activation of non-deliverable forwards. Won/dollar foreign exchange transactions amounted to US$237.3 billion, accounting for 12.7% of market share and maintaining Chohung Bank's market lead. The Bank also activated cross dealing between the won currency and other major Asian currencies.

Meanwhile, we reduced funding costs while controlling liquidity risk through efficient issuance of financial debentures. Funding through the issuance of debentures increased mainly for two reasons: (1) deposits slipped away following falls in domestic interest rates and (2) funding costs were relatively low compared to deposits (no burdens such as required reserves or deposit insurance premiums). Debentures in won issued in 2004 surged 48.9% to ₩3,830.0 billion in contrast to the previous year's total of ₩2,572.6 billion. In November, we successfully issued US$400 million Tier II dual-tranche subordinated debt with the tightest pricing among recent issue by Korean banks on the back of an order book oversubscribed nine times.

To improve the efficiency of our fund management and to maximize earnings generation, we plan to step up our interest rate risk and liquidity risk management. We will improve organic fund management capabilities, expand the issuance of CDs and debentures, and utilize derivative financial products. We will also maintain our market leadership in trading securities and won/dollar exchange. To advance our operations and diversify earnings sources, we will seek the advancement and specialization of exchange techniques and human resources.

Trust Business

Under the Indirect Investment Asset Management Business Act, from January 2004 Korean banks were prohibited from offering unspecified money trust products. As a result, CHB ceased to offer unspecified money trust products other than outstanding balances, which it will continue to manage until the withdrawal of deposits by customers. However, banks may continue to offer specified money trusts, pension trusts and retirement trusts.

Total sales volume of trust products increased due in part to investors seeking higher yields amid low interest rates and a rise in cross selling of investment trust products. Trust products managed by CHB decreased by 8.5% to total ₩3,604.2 billion at the end of 2004 from ₩3,938.7 billion in 2003. However, products cross-sold with investment trust management companies (ITMCs) soared 137.1% over the year to ₩4,333.8 billion from ₩1,827.5 billion in 2003. The portion of products cross-sold to total in 2004 also widened to 54.6% from 31.7% in 2003.

In coping with changes in the trust business environment, CHB will expand cross-sales volume and directly managed trust products. We will cooperate closely with ITMCs and promote cross-sales of installment-type equity funds as strategic products. We will also develop directly managed financial products such as special money trusts, property in trust and retirement trusts based on strengthened risk management.

Merchant Banking

The short-term financial market in 2004 remained bearish, saddled by liquidity problems among credit card issuers and contractions in the commercial paper sector due to problems at LG Card. However, the market recovered slightly due to an increase in the volume of asset-backed commercial paper (ABCP) issuance. The Bank generated new asset-backed commercial paper business and targeted niche markets through the development and application of securitization structured to meet the needs of companies by including diverse underlying assets. As a result, we recorded ₩210.5 billion from three separate ABCP issues.

Total merchant account assets surged 38.7% to reach ₩2,355.7 billion at the end of 2004 from ₩1,697.9 billion in 2003. Merchant account loans in also jumped 63.8% year-on-year to ₩2,091.4 billion from ₩1,276.8 billion, while deposits rose 31.8% to ₩1,767.4 billion from ₩1,341.1 billion in the previous year.

Growth in investment banking was steady if unspectacular. In project financing, we marketed aggressively and focused on project financing based on commission income. We participated in a total of 45 projects including SOC financing, LBO Financing, international financing and real estate development financing. We also participated M&A financing, financial consulting, and structured finance, utilizing NPLs in companies targeted for restructuring. As a result, the Bank lead–managed ₩1 trillion worth of M&A projects.

Meanwhile, the domestic real estate market continued to stagnate, mainly due to government policy aimed at stabilizing the market. In this environment, we concentrated on real estate development financing, averaging between ₩20.0 billion and ₩50.0 billion per project, with a focus on the relatively low-risk apartment construction sector. In 2004, real estate development financing by the Bank amounted to ₩621.3 billion.

In 2005, we will strive to expand our share of the short-term financial market. To this end, we will (1) seek new revenue drivers by developing earnings models for hybrid financial products through affiliated businesses including the activation of ABCP conduit programs and (2) expand our CP market share, based on our expertise and experience in the merchant banking business.

In investment banking, we will bolster our capabilities by strengthening joint marketing with corporate banking relationship managers (RMs), and diversify existing business realms while capturing niche markets. As such we will develop new earnings sources and maximize commission income through product development, combining diverse businesses and exploring new financial markets.

CHB in the Community

Our activities are aimed at increasing customer satisfaction and fulfilling our social responsibilities as a corporate citizen.

Social Welfare

We support all kinds of social welfare programs that inspire strength and courage in our less fortunate and underprivileged neighbors so as to build a world where all community members can lead a happy life together.

→ Support for social welfare facilities

We support social welfare facilities every year with deductions from the salaries of our officers and employees, with a total of 1,384 deductions going towards the Korea Welfare Foundation, Help the Aged Korea and others. In addition, we have operated a service system since 1999 in which we celebrate happy events for our staff such as promotions and advancements by making contributions in their names to charitable organizations.

→ Year-end events to help needy neighbors

We operate events to “share love and kindness” with the intention of helping underprivileged neighbors by creating a sound and frugal year-end culture. Necessary funds are raised by holding a variety of events such as the collection of donations, charity bazaars, concerts and auctions through our intranet.

→ Beautiful Bank

CHB and Shinhan Bank jointly inaugurated the Beautiful Bank, a themed cyber bank, on July 7, 2004 to encourage customers to participate in sharing. The Beautiful Bank enables customers to contribute directly or indirectly by allowing them to allocate 10% of the interest on deposit accounts opened through the Beautiful Bank to the sharing funds. In other words, the Bank contributes a portion of its proceeds from such deposits for sharing with neighbors through the Beautiful Foundation. In addition, customers can join events or programs for social services or donations by the banks. The cyber bank (http://beautiful.chb.co.kr) can be accessed through our homepage.

Education

We are committed to a broad array of educational projects to inspire children to lead the way into the future with hopes and dreams, by fostering their infinite possibilities and potential.

→ Scholarships

We are devoted to cultivating talented individuals who can contribute to national and social development through scholarship funds at home and overseas, and to supporting academic research and arts and culture. We also assist teenage breadwinners and differently-abled students of schools for the handicapped and children of Koreans abroad (China, Kazakhstan, Uzbekistan) with scholarships, educational materials and equipment, and academic research grants. In addition, we provide children living in remote areas, such as islands and the backcountry, with an opportunity to visit Seoul and observe noted places and various educational sites.

→ Chohung Financial Museum

We established a financial history museum, a first among financial institutions, in 1997, in commemoration of our 100th anniversary. The museum provides a historical view of Korea’s financial development at a glance and helps the general public understand finance. On display are a full spectrum of over 3,000 items of financial data and materials, including important documents dating back to the introduction of finance into Korea, as well as books and publications, securities, photographs, and fixtures. Since February 19, 2004, the museum and its valuable historical materials have also been conveniently accessed through the Internet, providing information and knowledge for better understanding during visits to the museum.

CHB runs events to "share love and kindness" with the intention of helping underprivileged neighbors.

Voluntary Support

Chohung Bank’s headquarters and branches across the country have established sibling relationships with welfare facilities. Our employees voluntarily visit these facilities to participate in diverse social service and environmental protection activities. We also joined the “2004 hope campaign to help needy neighbors” hosted by the Community Chest Korea, and provided volunteer work for children’s flea market events to spread a recycling and sharing culture among kids. In addition, we jointly launched a volunteer service group, “Happy Messenger,” with Shinhan Bank in 2003 to engage in diverse public service activities, visiting rehabilitation centers, helping senior citizens living alone and supplying living necessities to families on welfare.

"The Chohung Environmental Photography Contest", inaugurated in 1994, draws attention to the natural environment.

Environmental Contributions

Realizing the significance of the environment, we hold a wide array of environmental preservation events and programs such as posting environmental information and identification plaques at the base of trees, a "love nature" event with each company assigned to cultivate a mountain, and a national environmental photography contest.

→ Posting information and identification plaques at the base of trees

We promote awareness of nature protection by posting information and identification plaques at the base trees in the mountains of major national parks.

→ Nature conservation with each company assigned to cultivate one mountain

Approximately 190 branches participate in this nature conservation activity each year, targeting major mountains across the nation.

→ National environmental photography contest

Since 1994, we have organized a nature photography contest to promote appreciation of our environment and to inspire awareness of the importance of preserving nature.

Support for Culture & Sports

→ Support for Culture

Chohung Gallery was established in 1997, commemorating CHB's 100th anniversary. The gallery provides promising young artists with exhibition spaces free of charge to encourage creativity and extend opportunities for the general public to appreciate the fine arts. In 2004, we facilitated a total of 24 free exhibitions, mainly for up-and-coming young artists, through bank-sponsored contests. We also held a total of 37 events including concerts, regular recitals and a children's creative song contest in 2004.

→ Promotion of Sports

We operate swimming and athletic teams for the development of sports promotion and the expansion of true sportsmanship. We also sponsored a total of 15 events including marathon and cycling races, soccer games and golf tournaments.

Financial Section

Table 1 - Selected Financial Data

(Billions of Korean Won)

	2000	2001	2002	2003	2004
Non-Consolidated Statements of Operations					
Interest income and dividends	₩4,012.2	₩3,962.5	₩3,849.8	₩3,815.1	₩3,362.9
Interest expenses	2,663.4	2,344.1	2,106.2	2,039.6	1,648.9
Net interest income	1,348.8	1,618.4	1,743.7	1,775.5	1,714.1
Provision for loan losses[1)]	848.0	744.6	1,541.4	2,156.5	953.9
Non-interest income	1,485.2	1,476.3	1,605.3	1,876.5	3,515.2
Non-interest expenses	1,899.1	2,013.7	2,418.8	2,414.2	4,007.7
Income (loss) before income taxes	104.6	336.4	(611.2)	(918.8)	267.7
Net income (loss)	101.1	522.5	(586.0)	(968.9)	265.2
Non-Consolidated Balance Sheets					
Loans[1)]	₩29,376.6	₩34,443.0	₩45,328.5	₩42,701.7	₩41,586.8
Allowance for loan losses	1,841.5	1,060.3	1,625.1	1,676.9	1,006.7
Securities	12,858.8	14,076.3	11,072.6	9,206.1	11,499.2
Total assets[1)]	50,331.5	56,026.3	66,196.3	59,225.6	65,389.1
Deposits	34,392.9	38,922.1	45,125.8	40,030.1	41,313.1
Borrowings[1)]	7,327.8	7,429.7	6,843.7	5,711.9	5,057.6
Total liabilities[1)]	48,246.5	53,490.5	63,904.0	57,289.2	62,778.2
Total shareholders' equity	2,084.9	2,535.8	2,292.3	1,936.4	2,610.9
Per Share Data:					
Weighted average number of shares (mil)	679.1	653.8	673.6	679.8	719.1
Net income (loss) per share (Won)	₩149	₩799	₩(870)	₩(1,425)	₩369
Dividends	-	-	-	-	-
Profitability Ratios (%):					
Return on assets	0.21%	1.01%	(0.97)%	(1.48)%	0.42%
Return on shareholders' equity	3.34	22.68	(22.31)	(46.28)	11.01
NIM	3.20	3.59	3.40	3.19	3.27
Korean Won	3.76	3.91	3.65	3.46	3.50
Foreign currencies	0.90	1.80	1.31	0.87	1.27
NIM (FSS standards)	3.18	3.57	3.36	3.04	3.16
Korean Won	3.75	3.81	3.59	3.29	3.36
Foreign currencies	0.96	2.23	1.35	0.98	1.41
Asset Quality Ratios (%):					
- Based on FSS standards[2)]					
NPL (substandard and below) ratio	10.22%	3.28%	3.75%	4.82%	1.93%
Precautionary and below ratio	15.72	9.18	7.59	8.81	4.76
Loan loss reserve/ NPLs	59.80	93.12	96.05	80.86	126.38
Loan loss reserve/ Total credit	6.11	3.06	3.60	3.94	2.44
- Bank account only					
NPL (substandard and below) ratio	10.10	3.25	3.55	4.38	1.98
Precautionary and below ratio	15.09	9.11	7.32	8.32	4.48
Loan loss reserve/ NPLs	60.35	95.27	99.38	87.58	120.90
Loan loss reserve/ Total credit	6.09	3.09	3.53	3.83	2.40
BIS Capital Ratio (%)[3)]	9.78%	10.43%	8.66%	8.87%	9.40%
Tier I	5.24	5.91	4.61	4.47	4.99

* Financial statements were adjusted in line with "Changes in the accounting treatment ın 2004"

1) From 2002, confirmed banker's usance transactions previously accounted as "acceptances" were recorded as "loans and borrowing in foreign currencies". The Bank's balance sheet in 2001 was restated to reflect the changes, while the balance sheet for 2000 was based on the previous accounting treatment.

2) Including guarantees and acceptances on off-balance sheet items and trust accounts.

3) Based on consolidated data.

OVERVIEW

Basis of Presentation

The following financial statement analysis is based on non-consolidated financial statements for Chohung Bank (the Bank). Therefore, the Bank's results of operations should be read in conjunction with the audited non-consolidated financial statements and notes unless otherwise specified. The information with respect to the trust accounts is set forth separately in the section titled "Analysis of Trust Accounts".

Management's discussion and analysis may contain forward-looking statements that are provided to assist in the understanding of anticipated financial performance. Words such as "plans", "anticipates", "expects", "targeted", and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those expressed in such statements.

Changes in Accounting Treatments in 2004

Changes in Audited Financial Statements for 2003

In accordance with changes in accounting treatment recognizing changes in exchange rates for investment equity securities that are accounted using the equity method, certain line items in the Bank's 2003 audited consolidated and non-consolidated financial statement have been restated in order to present a meaningful basis for comparison with the corresponding line items and amounts in the Bank's 2004 audited consolidated and non-consolidated financial statements.

Accounting Treatment of Transfer from Allowance for Loan Losses

Transfer from allowance for loan losses is reflected in "allowance for loan losses". Previously, such amounts were included in "other non-interest income".

Accounting Treatment of Present Value Discounts

Present value discounts on loans are included in "allowance for loan losses". Previously, such amounts were recorded separately as "present value discounts".

Business Highlights

In 2004, the Korean economy witnessed continued low interest rates aimed at stimulating economic recovery amid a deteriorating economic growth rate and ongoing polarization of exports and domestic demand.

Domestic demand continued to be sluggish. However, levels of household debt gradually stabilized, with upward movement significantly weakening from the beginning of the year 2004. The volume of credit card-related non-performing loans (NPLs) also appeared to contract by degrees. While the consumer sector was normalizing, however, small- and medium-sized enterprises (SMEs) suffered from stagnant demand, rising production costs, and financial market instability.

In such an environment, Chohung Bank attempted to maximize its profitability through improving asset quality and strengthening its operational performance. The Bank enhanced its asset quality through pre-management of problem loans and strengthening risk management capabilities. In addition, it devoted itself to eliminating future uncertainties by provisioning sufficient funds for possible future needs, while also striving to diversify earnings sources primarily by carrying forward its bancassurance business and activating cross-selling businesses with Shinhan Financial Group affiliates.

As a result, Chohung Bank successfully recovered from a net loss of ₩968.9 billion a year ago to a net income of ₩265.2 billion at year-end 2004, influenced by a decline in loan loss provisioning based on strengthened risk management and active NPL management. Asset quality also improved remarkably. The NPL ratio in 2004 stood at 1.93%, plunging by 2.89% points year-on-year from 4.82% at 2003-end due to strengthened risk management and write-offs.

The BIS ratio advanced to 9.40%, rising 0.53 percentage points from 8.87% at the end of 2003, behind the realization of surpluses and the successful issue of US$400 million subordinated notes, despite capital deductions in connection with share swap with Shinhan Financial Group.

As such, during the year, the Bank substantially improved its major financial ratios and secured successful a turnaround from deficit to surplus through a profit-oriented management system.

Chart 1 - Net Income

(Billions of Korean Won)

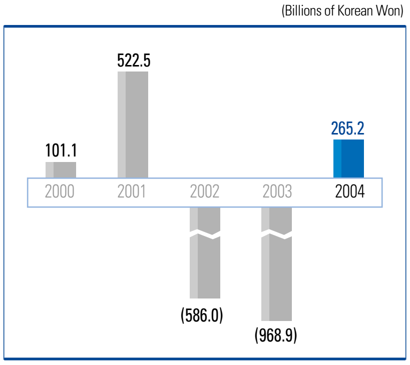


Chart 2 - Total Assets

(Billions of Korean Won)

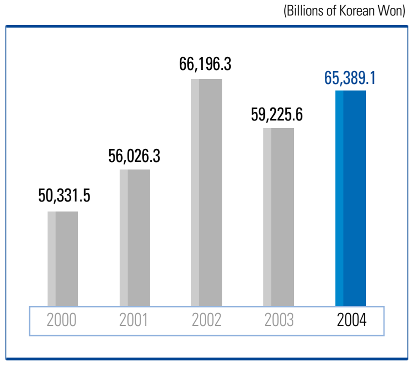
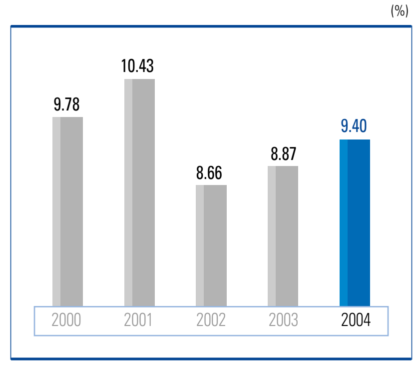


Chart 3 - BIS Ratio

(%)



ANALYSIS OF THE STATEMENTS OF OPERATIONS

Average Balance Sheet and Volume and Rate Analysis

Average Balance Sheet and Related Interest

The following tables show the daily average balances of the Bank's interest-earning assets and interest-bearing liabilities, the interest earned or paid, and the average rate of such interest, as well as the net interest margin and asset liability ratios for the periods indicated.

Table 2 - Average Balance and Related Interest

(Billions of Korean Won)

	2003			2004		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
Interest-Earning Assets						
Loans	**₩45,119.5**	**₩3,263.0**	**7.23%**	**₩42,113.4**	**₩2,922.0**	**6.94%**
Won	39,755.2	3,135.3	7.89	37,381.7	2,781.6	7.44
Credit Card	3,077.4	457.3	14.86	1,861.9	323.4	17.37
Foreign currencies	5,364.3	127.7	2.38	4,731,7	140.4	2.97
Due from banks	**251.4**	**5.3**	**2.11**	**323.8**	**5.4**	**1.67**
Won	83.4	4.3	5.16	41.4	3.3	7.97
Foreign currencies	167.9	1.0	0.60	282.4	2.1	0.74
Securities	**9,968.9**	**520.1**	**5.22**	**9,702.3**	**417.6**	**4.30**
Trading	1,445.9	72.4	5.01	1,834.2	81.4	4.44
Available-for-sale	8,523.0	447.7	5.25	7,868.1	336.2	4.27
Won	9,790.3	511.0	5.22	9,642.9	415.0	4.30
Foreign currencies	178.6	9.1	5.10	59.4	2.6	4.38
Other*	**376.0**	**26.6**	**-**	**267.5**	**17.9**	**-**
Won	131.0	18.3	-	39.6	12.7	-
Foreign currencies	245.1	8.3	-	227.9	5.2	-
Total Interest-Earning Assets	**₩55,715.8**	**₩3,815.1**	**6.85%**	**₩52,406.9**	**₩3,362.9**	**6.42%**
Interest-Bearing Liabilities						
Deposits	**₩43,869.9**	**₩1,409.8**	**3.21%**	**₩41,516.0**	**₩1,154.6**	**2.78%**
Won	42,526.2	1,397.6	3.29	40,234.5	1,144.4	2.84
Demand deposits	7,073.6	81.3	1.15	7,300.6	86.7	1.19
Saving deposits	9,937.4	125.1	1.26	9,671.5	96.6	1.00
Time deposits	19,173.3	909.6	4.74	18,311.5	796.4	4.35
Mutual installments	897.5	45.5	5.07	706.3	29.6	4.19
Certificates of deposits	3,151.2	145.5	4.62	2,379.9	95.1	3.99
Other	2,293.1	90.6	3.95	1,864.7	65.2	3.50
Foreign currencies	1,343.8	12.2	0.91	1,281.5	10.2	0.80
Borrowings	**7,144.2**	**170.9**	**2.39**	**6,345.1**	**130.9**	**2.06**
Won	3,235.1	125.8	3.89	2,978.4	96.5	3.24
Foreign currencies	3,909.1	45.1	1.15	3,366.7	34.4	1.02
Debentures	**6,465.0**	**386.9**	**5.98**	**5,920.0**	**335.0**	**5.66**
Won	5,831.1	350.6	6.01	5,262.4	297.3	5.65
Foreign currencies	633.9	36.3	5.73	657.6	37.7	5.73
Other*	**353.9**	**72.0**	**-**	**319.3**	**28.3**	**-**
Won	353.9	71.1	-	319.3	27.3	-
Foreign currencies	-	0.9	-	-	1.0	-
Total Interest-Bearing Liabilities	**₩57,833.0**	**₩2,039.6**	**3.53%**	**₩54,100.4**	**₩1,648.9**	**3.05%**

* Including miscellaneous expenses recognized as interest expenses without being tied to the corresponding liabilities.

Analysis of Changes in Net Interest Income – Volume and Rate Analysis

The following tables provide analyses of changes in interest income, interest expenses and net interest income between changes in volume and changes in rate for 2004 compared to 2003. Volume and rate variances have been calculated on the movement in average balances and changes in interest rates on average interest-earning assets and average interest-bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to the absolute volume and rate change.

Table 3 - Changes in Net Interest Income – Volume and Rate

(Billions of Korean Won)

	From 2003 to 2004 Interest increase (decrease) due to changes in		
	Volume	Rate	Change
Increase (Decrease) in interest income			
Loans	₩ (212.4)	₩ (128.6)	₩ (341.0)
Won	(182.2)	(171.5)	(353.7)
Credit card	(201.6)	67.7	(133.9)
Foreign currencies	(16.1)	28.8	12.7
Due from banks	1.5	(1.4)	0.1
Won	(3.2)	2.2	(1.0)
Foreign currencies	0.7	0.4	1.1
Securities	(13.9)	(88.6)	(102.5)
Trading	17.4	(8.4)	9.0
Available-for-sale	(32.4)	(79.1)	(111.5)
Won	(7.7)	(88.3)	(96.0)
Foreign currencies	(5.1)	(1.4)	(6.5)
Others	(7.7)	(1.0)	(8.7)
Won	(18.8)	13.2	(5.6)
Foreign currencies	(0.6)	(2.5)	(3.1)
Total interest income	(219.6)	(232.6)	(452.2)
Increase (Decrease) in interest expense			
Deposits	(72.6)	(182.6)	(255.2)
Won	(72.3)	(181.0)	(253.3)
Demand deposits	2.6	2.8	5.4
Time and savings deposits	(39.1)	(127.7)	(166.8)
Mutual installments	(8.7)	(7.2)	(15.9)
Certificates of deposits	(32.6)	(17.9)	(50.5)
Others	(15.9)	(9.5)	(25.4)
Foreign currencies	(0.6)	(1.4)	(2.0)
Borrowings	(18.1)	(21.9)	(40.0)
Won	(9.0)	(20.3)	(29.3)
Foreign currencies	(6.3)	(4.4)	(10.7)
Debentures	(31.6)	(20.3)	(51.9)
Won	(33.2)	(20.1)	(53.3)
Foreign currencies	1.4	0.0	1.4
Other	(6.0)	(37.7)	(43.7)
Won	(6.0)	(37.8)	(43.8)
Foreign currencies			
Total interest expense	(125.6)	(265.1)	(390.7)
Net increase (decrease) in net interest income	₩ (97.9)	₩ 36.5	₩ (61.4)

Net Interest Income

Table 4 - Net Interest Income

(Billions of Korean Won)

	2003	2004
Interest on Loans		
Interest on loans	₩ 3,263.0	₩ 2,922.0
Interest on credit card loans	2,554.7	2,354.1
Interest on bills bought	457.3	323.4
in foreign currency	56.8	53.2
Interest on privately placed bonds	15.2	24.1
Interest on call loans	21.7	26.6
Interest on bills discounted	81.0	60.5
Other	76.3	80.1
Interest on due from banks	5.3	5.4
Interest and dividends on securities	520.1	417.6
Trading securities	72.4	81.4
Available-for-sale securities	447.7	336.2
Other interest income	26.6	18.0
Interest Income and Dividends	3,815.1	3,362.9
Interest on deposits	1,409.8	1,154.6
Interest on borrowings	170.9	130.9
Interest on debentures	386.9	335.0
Other interest expenses	72.0	28.3
Interest Expense	2,039.6	1,648.9
Net Interest Income	₩ 1,775.5	₩ 1,714.1

In 2004, the downward movement of interest rates, aimed at stimulating economic recovery, continued even as domestic consumption remained sluggish.

The Bank's net interest income amounted to ₩1,714.1 billion at the end of 2004, declining ₩61.4 billion from the preceding year's results. Total interest income decreased by 11.9% over the year to ₩3,362.9 billion, while total interest expenses fell further by 19.2% to ₩1,648.9 billion in 2004. By currency, won-currency net interest income amounted to ₩1,647.0 billion, edging down 4.4% from ₩1,723.7 billion in 2003, while foreign-currency net interest income climbed to ₩67.1 billion in 2004 from ₩51.8 billion.

Although interest income decreased due to the low interest-rate trend, the Bank's net interest margin (NIM) rose 8 basis points to 3.27% at 2004 year-end from 3.19% in 2003. This was driven by a wider decline in funding costs, based on the low-cost funding structure, and the improvement of asset structure that followed reductions in non-performing assets.

The FSS-based NIM also rose 12 basis points over the year to 3.16% at the end of 2004 from 3.04%. Specifically, won-currency NIM increased to 3.36% from 3.29% while foreign-currency NIM jumped to 1.41% from 0.98% in 2003 due to the realization of interest income on loans to Russia.

Table 5 - NIM and NIS

(%)

	2003	2004
NIM[1]	**3.19%**	**3.27%**
Korean Won	3.46	3.50
Foreign currencies	0.87	1.27
NIM (FSS standards)[1)2)]	**3.04**	**3.16**
Korean Won	3.29	3.36
Foreign currencies	0.98	1.41
NIS (FSS standards)[2]	**2.87**	**2.97**

1) Net interest margin is computed by dividing net interest income by average interest-earning assets, calculated on a daily-average basis for the period.

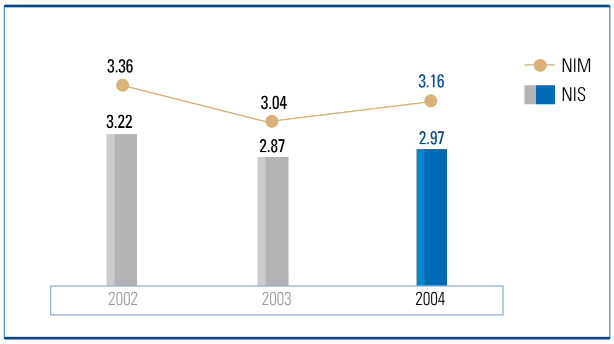
2) Calculating NIM under FSS standards, the amount of contribution to credit guarantee funds is deducted from interest income and insurance fees on deposits are included in interest expenses.

The net interest spread (NIS) based on FSS standards, which is defined as the difference between average interest rates on average interest-earning assets and interest-bearing liabilities, was also buoyed by 10 basis points from 2.87% in 2003 to 2.97% in 2004.

In 2005, Chohung Bank aims to continuously increase its NIM through risk-based pricing and expanding the low cost funding structure.

Chart 4
Net Interest Margin vs Net Interest Spread based on FSS standards

(%)



Interest income

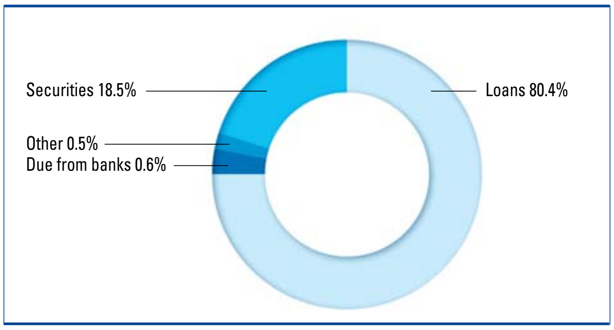
Total interest income decreased by ₩452.2 billion to ₩3,362.9 billion at the end of 2004, from ₩3,815.1 billion in the previous year, mainly led by a 0.43 percentage point decline in the average interest rate for interest-earning assets following downturns in market interest rates.

Average interest-earning assets decreased 5.9% over the year to ₩52,406.9 billion at 2004 year-end, mainly due to a reduction in the average loan balance. With the exception of dues from banks, interest-earning assets in every category declined.

Interest on loans decreased 10.5% over the year to ₩2,922.0 billion following a decline in the average loan balance, in particular a 39.5% drop in credit card accounts. Interest on loans in local currency shrank 11.3% over the year to ₩2,781.6 billion and the average interest rate on loans in won also edged down 45 basis points to 7.44% from 7.89%, reflecting declines in domestic interest rates which more than offset the increase in average interest rates on credit card accounts.

Influenced by improved asset soundness, the average interest rate on credit card accounts rose by 2.51 percentage points to 17.37% in 2004 from 14.86% a year before, although interest on credit card accounts dropped by 29.3% to ₩323.4 billion in 2004 compared with ₩457.3 billion in 2003, affected by a fall in cash advances balance. The average balance of credit card cash advances fell by 51.0% to ₩1,114.7 billion in 2004 from ₩2,272.9 billion a year earlier as a result of efforts to prevent new delinquencies by reducing credit limits on cash advances.

Chart 5 - Average Interest-Earning Assets Mix in 2004



However, interest on loans in foreign currencies increased by 9.9% year over year to ₩140.4 billion, and the average interest rate on loans in foreign currencies moved up 59 basis points to 2.97% from 2.38% in 2003, influenced by a rise in LIBOR and the collection of interest on loans to Russia. The overall interest rate on loans was down from 7.23% in 2003 to 6.94%.

Interest on securities contracted 19.7% to ₩417.6 billion, influenced by downturn in market interest rates. The average interest rate on securities also drifted down 92 basis points to 4.30% from 5.22% in 2003.

The overall average interest-earning rate on total interest-earning assets was recorded at 6.42% in 2004, down 43 basis points from 6.85% in 2003 due to declines in market interest rates. By currency denomination, average interest rate on local currency assets fell to 6.82% in 2004 from 7.37%, while that of foreign-currency edged up to 2.84% from 2.45% a year ago. Won-currency interest-earning assets contracted by 5.3% to ₩47,105.6 billion from ₩49,759.9 billion at 2003 year-end, while foreign-currency interest-earning assets decreased further by 11.0% to ₩5,301.3 billion from ₩5,955.9 billion. As a result, average interest-earning assets in local currency accounted for 89.9% of total average interest-earning assets in 2004, up 6 percentage points from 89.3% a year before.

Table 6 - Credit Card Business

(Billions of Korean Won)

	2003	2004
Cardholders (in thousands)	3,205	2,819
Interest income on credit card	₩457.3	₩323.4
Net commissions from credit card	371.1	277.2
Total charge volume	20,578.5	14,704.5
Purchase charge volume	7,989.1	7,617.6
General purchase	5,484.3	5,519.0
Installment purchase	2,504.8	2,098.6
Cash advance	12,585.4	6,875.5
Check Card	4.0	211.4
Credit card balance	3,698.7	2,702.0
Write-offs	1,360.3	660.4
Allowance for loan losses	378.5	221.0
NPL ratio (%)	11.51%	7.35%
Delinquency ratio (%)*	7.42	3.60
Delinquency ratio (%)**	11.18	5.57

* Balance overdue for more than one month divided by credit card balance
** Balance overdue for more than one day divided by credit card balance

Interest expenses

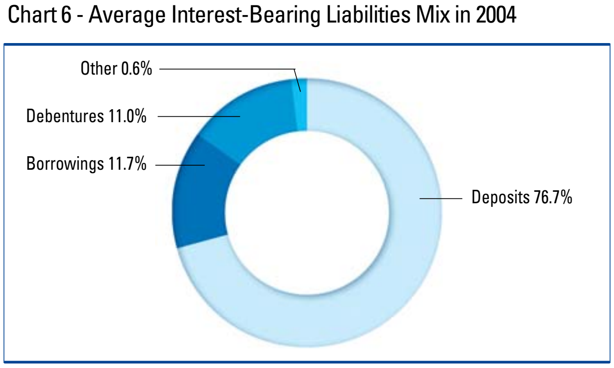
Total interest expenses shrank 19.2% year over year to ₩1,648.9 billion from ₩2,039.6 billion in 2003. Average interest-bearing liabilities also decreased by 6.5% to ₩54,100.4 billion in 2004 from ₩57,833.0 billion. The total average funding cost ratio improved 48 basis points to 3.05% in 2004 from 3.53% amid downturns in all funding cost rates for all funding categories following the decline in market interest rates.

Interest on deposits declined by 18.1% to ₩1,154.6 billion in 2004 compared to ₩1,409.8 billion in 2003 due to interest rate falls. Average balance of deposits decreased by 5.4% to ₩41,516.0 billion from ₩43,869.9 billion, but low cost deposits (such as demand and savings deposits) remained at a similar level compared with ₩17,011.0 billion the previous year, amounting to ₩16,972.1 billion in 2004. Accordingly, the proportion of low cost deposits to total won-currency deposits rose to 42.2% in 2004 from 40.0% in the previous year. The average funding cost ratio on deposits improved by 43 basis points to reach 2.78% in 2004, from 3.21% in 2003, driven by falls in market interest rates and the maintenance of a low cost funding structure. (Refer to 'Funding' in the Analysis of Financial Conditions).

Interest on borrowings fell by 23.4% to ₩130.9 billion in 2004, while the average balance of borrowings declined by 11.2% to ₩6,345.1 billion led by a downturn in foreign-currency borrowing. The funding cost ratio on borrowing improved by 33 basis points over the year to 2.06% from 2.39% in 2003 due to a decline in the funding cost for won-currency borrowings. The volume of won-currency borrowing contracted by 7.9% to ₩2,978.4 billion, while that of foreign-currency borrowing shrank by 13.9% to ₩3,366.7 billion.

Interest expenses on debentures decreased by 13.4% to ₩335.0 billion from ₩386.9 billion in 2003 due to a 9.8% decline in the average balance of won-currency debentures issued coupled with a decline in interest rates. The funding cost ratio on debentures dropped by 32 basis points to 5.66% from 5.98% in 2003, attributable to a favorable primary market and a decrease in market interest rates.

Chart 6 - Average Interest-Bearing Liabilities Mix in 2004



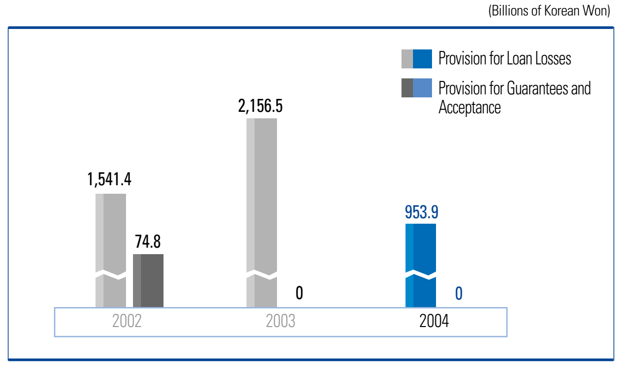
In 2004, the total funding cost ratio stood at 3.05%, an improvement of 48 basis points from 3.53% in 2003 influenced by the downward movement of domestic market interest rates. The won-currency funding cost ratio dropped by 53 basis points to 3.21% in 2004 from 3.74% while the foreign-currency funding cost ratio edged down 3 basis points to 1.57% from 1.60% in 2003.

In terms of currency denomination, average won-currency funding amounted to ₩48,794.6 billion at the end of 2004, down 6.1% from ₩51,946.3 billion in 2003, while average foreign-currency funding fell by 9.9% to ₩5,305.8 billion from ₩5,886.7 billion. The proportion of won-currency funding to total funding climbed slightly to 90.2% in 2004 from 89.8% in the previous year.

Provision for Loan Losses

Chart 7
Provision for Loan Losses and Guarantees & Acceptance

(Billions of Korean Won)



Provisions for loan losses in 2004 decreased by an impressive 55.8% over the year to ₩953.9 billion as compared to ₩2,156.5 billion in 2003 mainly as a result of a decline in loan loss provisions for the credit card sector and a lowering of the provisioning ratio for problem companies due to their improving financial condition. Loan loss provisions for the credit card sector were reduced by a significant 61.9% over the year to ₩514.8 billion from ₩1,350.0 billion in 2003, a drop attributable to the reinforcement of credit risk management, including enhancement of review process for new and extended credit card loans.

From 2004, the Bank included the transfer from allowance for loan loss, previously recorded as other non-operating income, under allowance for loan losses. Therefore, the previous figure has been restated to reflect this change. (Refer to 'Changes in Accounting Treatments in 2004' in the overview)

Non-interest income (loss) – net

Table 7 - Non-interest Income (loss) - net

(Billions of Korean Won)

	2003	2004
Fees and commissions	₩ 543.6	₩ 529.3
Credit cards	371.1	277.2
Guarantees	9.1	7.6
Other fees and commissions	163.4	244.5
Trading securities	4.6	49.1
Foreign currency trading	72.8	115.8
Derivative trading	21.5	(27.6)
Trust operations	47.2	48.4
Sale of loans	(168.2)	(33.2)
Sale of available-for sale securities	164.9	31.0
Impairment loss on available-for sale securities	(213.6)	(52.7)
Other	(102.3)	(191.7)
Sub-total	370.5	468.4
General and administrative expenses	(908.2)	(960.9)
Total	₩ (537.7)	₩ (492.5)

Net non-interest income (net), excluding general and administrative (G&A) expenses, in 2004 reached ₩468.4 billion, an increase of 26.4% from ₩370.5 billion in 2003, due mainly to a drop in the impairment loss on available-for-sale securities and the loss on sale of loans, which were partially offset by a decrease in the net gain from the sale of available-for-sale securities.

Fees and commissions amounted to ₩529.3 billion in 2004, down 2.6% from ₩543.6 billion in 2003 in spite of increased income from bacassurance business and cross-sold products. The drop was due mainly to a decline in income from credit card business as a result of decrease in installment purchases volume, which generates relatively high earnings. The annual charge volume of installment purchases was down 16.2% to ₩2,098.6 billion in 2004 from ₩2,504.8 billion a year ago, affected by sluggish private consumption. As a result of the falling installment purchase charge volume, fee income from credit card business in 2004 fell by 25.3% to ₩277.2 billion from ₩371.1 billion a year earlier.

Meanwhile, backed by an expanding bancassurance business and increasing cross-selling with SFG Group affiliates, other fees and commissions jumped 49.6% year over year to ₩244.5 billion in 2004 from ₩163.4 billion in 2003. Earnings from bancassurance business, which was launched in September 2003, rose steeply to ₩50.2 billion in 2004 from ₩7.2 billion in the previous year.

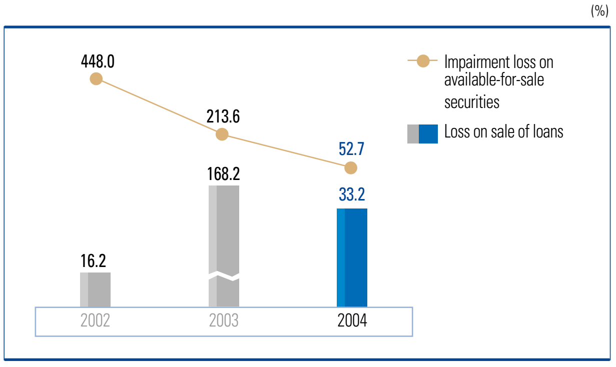
Net gains on trading securities expanded substantially to ₩49.1 billion at 2004 year-end from ₩4.6 billion at the end of 2003 following a rise in net gains from sale of trading securities. Net gains on sale of trading securities increased significantly from ₩8.9 billion in 2003 to ₩46.1 billion in 2004 as a result of timely trading following the Bank's policy of flexible management in accordance with the market forecasts. Net gains on valuation of trading securities also improved, up to ₩3.0 billion in 2004 from a loss of ₩4.3 billion in 2003, influenced by low interest rates.

Foreign exchange-related gains combining foreign currency trading and derivatives trading dropped by 6.5% to ₩88.2 billion from ₩94.3 billion in 2003. However, taking into account a loss of ₩18.2 billion following hedges against government bond futures to reduce risks for from trading securities investment risk, the figure for 2004 improved compared to the previous year.

Net gains on the sale of available-for-sale securities declined from ₩164.9 billion in 2003 to ₩31.0 billion in 2004. In February 2003, the Bank reclassified its hold-to-maturity securities as available-for-sale securities; the subsequent disposition of securities resulted in a realized gain on sale of available-for-sale securities.

The net loss on the sale of loans dropped by 80.3% over the previous year to ₩33.2 billion in 2004, which was related to the issuance of NPL ABS with a book value of ₩527.5 billion. In 2003, the Bank recorded net loss of ₩168.2 billion on the sale of loans as the result of sales of multiple-debtor loans with an aggregate principal amounting to ₩536.4 billion and a book value of ₩368.2 billion.

Chart 8 - Loss on Sale of Loans and Impairment Loss on Available-for-sale Securities



Net impairment loss on available-for-sale securities also decreased significantly by 75.3% to ₩52.7 billion in 2004 from ₩213.6 billion. In 2004, impairment loss on Ssangyong Cement securities stood at ₩22.4 billion and ₩13.1 billion for LG Card. In 2003, impairment loss on securities related to Ssangyong Cement was ₩158.9 billion.

Table 8 - General and Administrative Expenses

(Billions of Korean Won)

	2003	2004
Salaries and wages	₩338.0	₩412.3
Provision for retirement and severance benefits	33.0	54.1
Other employee benefits	81.4	94.2
Rent	31.4	34.4
Depreciation	98.3	96.1
Amortization	112.7	0.6
Taxes and dues	39.1	60.1
Advertising	9.2	19.4
Other	165.1	189.7
	₩908.2	₩960.9

General and administrative expenses increased by 5.8% to ₩960.9 billion in 2004, compared to the previous year's ₩908.2 billion, with the main cause of the increase being a rise in salaries.

Net Income (Loss)

Table 9 - Net Income (Loss)

(Billions of Korean Won)

	2003	2004
Net interest income	₩1,775.5	₩1,714.1
Provision for loan losses	2,156.5	953.9
Non-interest income – net	370.5	468.4
General and administrative expenses	908.2	960.9
Income (Loss) before income tax	(918.7)	267.7
Income tax expenses	50.2	2.5
Net Income (Loss)	₩(968.9)	₩265.2
Pre-provision income*	₩1,250.4	₩1,351.9
Provision for loan losses	2,156.5	953.9
Provision for G&A (less recovery)	(71.9)	(22.5)
Provision for other bad debts	48.6	98.7
Provision for severance benefits	33.0	54.1
Income tax expenses	50.2	2.5
Net Income (Loss)*	₩(966.0)	₩265.2

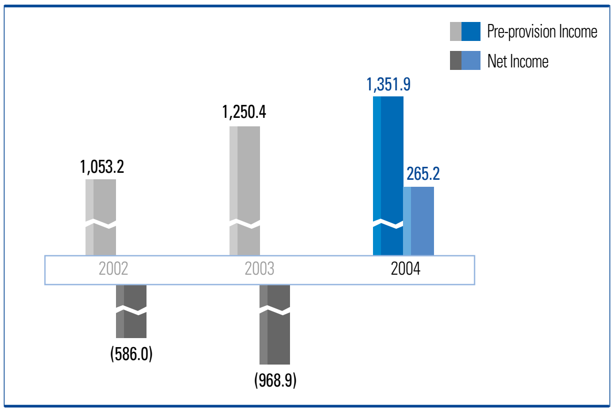
* Pre-provision income for 2003 reported to the FSS was based on the previous financial statements. Refer to 'Changes in Accounting Treatments in 2004' in the overview.

As a result of the foregoing reasons, Chohung Bank's net income surged to ₩265.2 billion, a remarkable turnaround over the previous year's net loss of ₩968.9 billion.

Pre-provision income based on FSS standards rose 8.1% in 2004 from the prior year to ₩1,351.9 billion mainly due to rise in non-interest income backed by a decrease in impairment loss on available-for-sale securities and the loss on sale of loans. Following an increase in pre-provision income, coupled with a decline in provision for loan loss, the Bank recorded net income ₩265.2 billion in 2004.

Chart 9 - Pre-provision Income and Net Income

(Billions of Korean Won)



Major Financial Indicators

Table 10 - Major Financial Indicators

(%, Billions of Korean Won)

	2003	2004
Return on average assets	(1.48)%	0.42%
Return on average equity	(46.28)	11.01
Per capita deposits	₩7.0	₩6.6
Per capita loans	5.6	5.4
Deposits per branch	89.4	87.5
Loans per branch	71.5	71.9

On the back of the Bank's turnaround from deficit to surplus during 2004, profitability ratios improved sharply. ROA and ROE leapt to 0.42% and 11.01%, respectively, from (1.48)% and (46.28)% in 2003. Per capita deposits and loans decreased slightly from ₩7.0 billion and ₩5.6 billion a year ago to ₩6.6 billion and ₩5.4 billion in 2004 respectively.

ANALYSIS OF FINANCIAL CONDITION

Loans

Table 11 - Loans

(Billions of Korean Won)

	2003	2004
Loans in Won[1]	₩33,329.0	₩32,768.9
Loans in foreign currencies	1,974.4	1,654.1
Domestic import usance bills[2]	1,190.9	1,169.1
Bills bought in foreign currencies	1,736.3	1,687.8
Advances to customers	75.0	12.0
Credit card accounts	3,698.7	2,702.0
Call loans	351.0	198.3
Privately placed bonds	355.8	359.1
Bills discounted	962.5	1,356.1
Cash management accounts	186.4	314.1
Financing lease receivables	126.4	77.5
Other	392.2	294.5
	44,378.6	42,593.5
Less: Allowance for loan losses	1,676.9	1,006.7
	₩42,701.7	₩41,586.8

1) Including discounted commercial notes of ₩1,363.3 billion and ₩1,163.8 billion in 2003 and 2004, respectively.
2) Previously included in Loans in foreign currencies.

The outstanding balance of loans in 2004 decreased slightly by 2.6% to ₩41,586.8 billion at 2004 year-end from ₩42,701.7 billion a year ago, affected by a 26.9% decline in credit card accounts.

Loans in won currency narrowed by ₩560.1 billion to ₩32,768.9 billion at the end of 2004 compared with ₩33,329.0 billion in 2003. Loans to small- and medium-sized enterprises shrank by 5.4% to ₩13,651.0 billion from ₩14,426.8 billion in 2003 in the wake of sluggish domestic demand and market polarization.

Table 12 - Loans in Won Portfolio by Type of Borrower

(Billions of Korean Won)

	2003		2004	
Large corporations	₩2,591.5	7.8%	₩2,900.0	8.8%
Small and medium-sized enterprises	14,426.8	43.3	13,651.0	41.7
Public sector enterprises and other	487.5	1.4	436.5	1.3
Consumer	15,823.2	47.5	15,781.4	48.2
Mortgage loans	6,923.1	20.8	8,134.8	24.8
	₩33,329.0	100.0%	₩32,768.9	100.0%

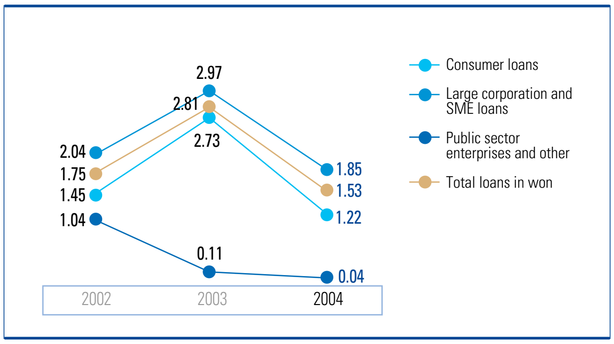
Loans to large companies, however, increased 11.9% year over year to ₩2,900.0 billion from ₩2,591.5 billion in 2003. Consequently, the proportion of loans to SMEs to total loans in won declined to 41.7% in 2004 from 43.3% a year earlier, while the proportion of loans to large companies rose to 8.8% from 7.8% in 2003.

Reflecting the Bank's emphasis on tight credit risk management, consumer loans edged down to ₩15,781.4 billion at 2004 year-end from ₩15,823.2 billion a year before, while lower-risk mortgage loans increased by 17.5% to ₩8,134.8 billion in 2004 from ₩6,923.1 billion.

Credit card balance fell 26.9% to reach ₩2,702.0 billion in 2004, from ₩3,698.7 billion in 2003 reflecting contractions in consumer spending and ₩660.4 billion in write-offs. Following these declines, the proportion of retail loans, including loans in local currency extended to consumers and credit card accounts, to total loans dropped to 44.45% in 2004 from 45.72% a year ago.

Chart 10 - Delinquency Ratio

(%)



Primarily influenced by strengthened risk management and write-offs during the year, the overall delinquency ratio for loans in won, calculated as balance overdue for more than one day, showed a downward movement during 2004 compared to 2002 levels after a surge in 2003. The consumer loan delinquency ratio improved from 2.73% in 2003 to 1.22% in 2004, while the delinquency ratio for credit card accounts gradually improved from 11.18% in 2003 to 5.57% in 2004 as a result of write-offs and strict risk management after a peak of 13.97% in 2002. The Bank continues to monitor credit card delinquent accounts closely and to enhance its review process for new and extended credit card loans.

Meanwhile, the delinquency ratio for loans in won to large corporations and SMEs fell 1.12 percentage points to 1.85% in 2004 from 2.97% in the previous year. The improvement was due in part to the Bank's rigorous loan risk management in industries most affected by domestic economic downturn and with high delinquency ratios.

Companies in Bank-designated "Special Control Industries," such as real estate and restaurants, were subject to stricter approval limits for new loans and reinforced ex post facto management. As a result, the delinquency ratio for loans in won to corporations in the real estate, leasing and service industries, which presented significant growth opportunities in recent years, fell to 2.49% from 3.91% a year before. The delinquency ratio for loans in won to companies in the hotel and restaurant industries also improved to 2.74% in 2004 from 5.06% in 2003.

Table 13 - Secured Loans by Collateral Type

(Billions of Korean Won)

	2003	2004
Real estate	₩12,573.2	₩13,997.1
Deposits	1,483.7	1,361.0
Securities	241.0	342.9
Guarantees*	2,004.4	1,943.0
Other	232.4	219.6
Secured Loans	**16,534.7**	**17,863.6**
Unsecured Loans	16,794.3	14,905.3
Total Loans in local currency	₩33,329.0	₩32,768.9

* Includes certificates issued by Korean Credit Guarantee Fund, Korea Technology Credit Guarantee Fund, and Korea Housing Guarantee Co., Ltd.

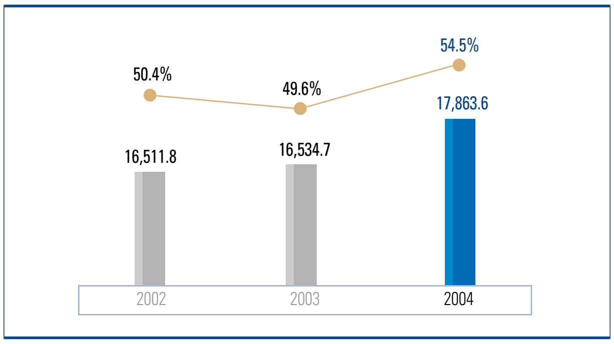
Collateral or credit support includes real estate, payment guarantees from other financial institutions, deposits, and marketable securities. Cross-guarantees by affiliates of the borrowers or officers or shareholders of the borrowers, and guarantees made by merchant banks are not considered guaranteed.

The secured portion of loans in won increased by 8.0% to ₩17,863.6 billion in 2004 from ₩16,534.7 billion in 2003, affected by the Bank's policy of reducing credit risk on loans. The proportion of secured loans in won also rose by 4.9 percentage points to 54.51% in 2004 compared to 49.61% in 2003. Real estate remained the largest portion in 2004, accounting for 78.36% of total collateral, up from 76.04% a year before influenced by the promotion of mortgage loans.

The value of the collateral is reassessed at any time when there is a concern over a possible significant drop in its value. The Bank requires certain borrowers whose collateral shows a significant drop in value to provide additional security (collateral or guarantees).

Chart 11 - Proportion of Secured Loans

(Billions of Korean Won)



Asset Classification

The Korean Financial Supervisory Commission (FSC) requires banks in Korea to analyze and classify their credit into one of five categories. In accordance with the Accounting Standards for the Banking Industry applied from 1999, the Bank assigns loans to corporate borrowers, whose credit limit including that for securities exceeds ₩10 billion, a credit risk rating of 1 to 10 based on past repayment history and future debt repayment capability. Loans to other corporations and individuals are assigned a credit risk rating of 1 to 10 based only on past repayment history. The loans are reclassified into five categories: normal (credit risk rating of 1 to 6), precautionary (credit risk rating of 7), substandard (credit risk rating of 8), doubtful (credit risk rating of 9) and estimated loss (credit risk rating of 10). The criteria for the FSC guidelines are as set forth below:

Normal – Sound credit exposure.

Precautionary – Credit in arrears for more than one month and less than 3 months or credit extended to customers judged to have potential risk with respect to their capability to repay debt in the future.

Substandard – (i) The secured portion of total credit that is in arrears for more than 3 months (ii) Credit extended to customers judged to have incurred considerable default risks as their capability to repay has deteriorated.

Doubtful – The unsecured portion of credit more than 3 months but less than twelve months overdue, or credit extended to customers judged to have incurred serious default risks due to a noticeable deterioration in their capability to repay.

Estimated Loss – The unsecured portion of credit that is in arrears for twelve months or more, or credit extended to customers judged to have to be accounted as a loss as the inability to repay is certain due to serious deterioration in their ability to repay.

In 2002, the FSS increased the minimum-reserve requirement ratio for retail loans and credit card balances, which were previously subject to the same requirement ratios as corporate loans. The ratio for corporate loans was unchanged. The details of the current minimum-reserve requirement by loan types based on FSS standards are as follows:

Table 14 - Minimum-Reserve Requirements

	Corporate	Retail	Credit card
Normal	0.5% or more	0.75% or more	1% or more
Precautionary	2% or more	8% or more	12% or more
Substandard	20% or more	20% or more	20% or more
Doubtful	50% or more*	55% or more	60% or more
Estimated loss	100%	100%	100%

* The Bank's minimum-reserve requirement for corporate loans classified as doubtful was raised to 95% from 2004.

Assets Quality

Table 15 - Asset Classification based on FSS Standards

(Billions of Korean Won)

	2003				2004			
	Bank a/c[1)]	G & A[2)]	Trust a/c[3)]	Total	Bank a/c[1)]	G & A[2)]	Trust a/c[3)]	Total
Normal	₩ 40,103.8	₩ 786.4	₩ 44.3	₩ 40,934.5	₩ 40,122.7	₩ 850.4	₩ 43.8	₩ 41,016.9
Precautionary	1,723.0	50.3	16.2	1,789.5	1,048.9	161.0	6.3	1,216.2
Substandard (a)	692.7	153.7	94.8	941.2	327.7	-	0.2	327.9
Doubtful (b)	814.7	2.0	0.1	816.8	314.3	-	0.1	314.4
Estimated loss (c)	407.3	-	0.5	407.8	190.7	-	0.1	190.8
Total credit	**₩ 43,741.6**	**₩ 992.4**	**₩ 155.9**	**₩ 44,889.8**	**₩ 42,004.3**	**₩ 1,011.4**	**₩ 50.5**	**₩ 43,066.2**
NPLs (a+b+c)	₩ 1,914.7	₩ 155.7	₩ 95.4	₩ 2,165.8	₩ 832.7	-	₩ 0.4	₩ 833.1
Precautionary and below	3,637.7	206.0	111.6	3,955.3	1,881.6	161.0	6.7	2,049.3
Loan loss reserve	**₩ 1,676.9**	**₩ 54.0**	**₩ 38.4**	**₩ 1,769.3**	**₩ 1,006.7**	**₩ 34.4**	**₩ 11.8**	**₩ 1,052.9**
Asset Quality Ratios(%):								
NPL ratio	4.38%	15.68%	61.19%	4.82%	1.98%	n.a.	0.79%	1.93%
Precautionary & below ratio	8.32	20.75	71.58	8.81	4.48	15.92	13.27	4.76
Coverage Ratios(%):								
Loan loss reserve / NPLs	87.58%	34.70%	40.25%	81.69%	120.90%	n.a.	2,975.0%	126.38%
Loan loss reserve / Total credit	3.83	5.44	24.63	3.94	2.40	3.40	23.37	2.44

* This classification of the Bank's credit exposure is based on current FSS standards, in which amounts are the net of present value discounts.

1) "Loans" of ₩41,586.8 billion appearing on non-consolidated balance sheets in 2004 included ₩386.8 billion of inter-bank loans, ₩198.3 billion of call loans and ₩11.8 billion of present value discounts. It excluded ₩1,006.7 billion of allowance for loan losses, ₩6.0 billion of accounts receivables and suspense receivables that have credit attribution and are subject to asset classification, and ₩1.7 billion in present value discounts with respect to sundry receivables that are not included in the total credit under FSS standards. Present value discounts are included in the allowance for loan losses. For assets classification purposes, however, present value discounts are separately reflected. "Loans" of ₩42,701.7 billion appearing on non-consolidated balance sheets in 2003 included ₩294.4 billion of inter-bank loans, ₩351.0 billion of call loans and ₩18.0 billion of present value discounts, and excluded ₩1,676.9 billion of allowance for loan losses, ₩24.5 billion of accounts receivables and suspense receivables that have credit attribution and are subject to asset classification, and ₩1.8 billion in present value discounts with respect to sundry receivables that are not included in the total credit under FSS standards.

2) Includes confirmed guarantees and acceptance in off-balance sheet items, which consist of guarantees and acceptances relating to various payments, note issuances and trade-related guarantees.

3) Credit extended from principal or return-guaranteed trust accounts.

The ratio of non-performing loans (NPLs), which are substandard and below loans, in bank accounts improved 2.40 percentage points to 1.98% as of 2004 year-end from 4.38% in the previous year. This was mainly due to reinforced credit risk management, including strengthened pre-management of loans considered a credit risk and full activation of a taskforce to handle credit management, write-offs and asset backed securitization of NPLs. The ratio of loans classified as precautionary and below also improved 3.84 percentage points over the year to 4.48% in 2004 from 8.32% in 2003.

The NPL ratio for credit card accounts also improved significantly from 11.51% a year earlier to 7.35% in 2004. The NPLs for credit card accounts reached ₩425.8 billion in 2003 and ₩198.7 billion in 2004, against which the Bank made allowance of ₩280.4 billion in 2003 and ₩168.5 billion in 2004. In recent years, credit card business has experienced significant growth. This growth, however, has led to industry-wide declines in overall credit quality, with increased delinquencies affected by weak economic conditions as well as an increase in unemployment since 2002. The Bank is currently focusing on credit quality rather than volume growth.

In Korea, the general terms "total credit" and "NPL ratio" mean those conforming to FSS standards. The FSS standards include on-balance items in bank accounts, confirmed guarantees & acceptances in off-balance items as well as trust accounts credits.

The ratio of total NPLs including trusts and guarantees & acceptances to total loans also improved 2.89 percentage points over the year to 1.93% at year-end from 4.82% in 2003. In 2004, the Bank enhanced its asset quality through write-offs of ₩1,400.2 billion in NPLs and the reduction of ₩527.5 billion through the issue of NPL ABS.

The Bank constructed infrastructure to meet the advanced standards for improvement of asset quality in 2004, and its risk management will be concentrated on the minimization of NPLs by even more rigorously managing the quality of loans in 2005.

Allowance for Loan Losses

Table 16 - Allowance for Loan Losses

(Billions of Korean Won)

	2003	2004
Balance at beginning of year	₩ 1,604.6	₩ 1,676.9
Provision for loan losses	2,156.5	953.9
Write-offs	(1,780.6)	(1,390.0)
Other changes*	(303.6)	(234.1)
Balance at end of year	₩ 1,676.9	₩ 1,006.7

* Includes changes in allowances resulting from debt restructuring, debt relief and foreign exchange rate effect.

From 2004, due to a change in our accounting methods, present value discounts are included in allowance for possible loan losses. The outstanding balance of allowance for loan losses in 2003 has been restated to reflect this change.

Following improvements in asset quality, the allowance for loan losses declined by ₩670.2 billion to ₩1,006.7 billion at 2004 year-end from ₩1,676.9 billion in the preceding year. The coverage ratio for NPLs leapt to 120.90% in 2004 from 87.58%. To eliminate future financial uncertainty, the Bank's increased provisioning ratio for corporate loans classified as doubtful, for which the minimum requirement ratio is 50%, was raised to 95% from 2004.

Table 17 - Details of allowance for loan losses by asset classification

(Billions of Korean Won)

	2003		2004	
	Balance	Allowance	Balance	Allowance
Corporate loans				
Normal	₩ 22,510.4	₩138.3	₩ 22,345.2	₩ 154.6
Precautionary	656.0	116.4	925.3	197.6
Substandard	226.9	75.6	515.8	160.6
Doubtful	41.4	39.3	104.4	63.1
Estimated loss	74.3	74.3	286.5	286.5
	23,509.1	444.0	24,177.3	862.4
Consumer loans				
Normal	15,359.2	115.7	15,080.2	113.7
Precautionary	132.6	10.6	203.2	16.3
Substandard	97.4	19.5	135.9	27.2
Doubtful	138.2	127.8	348.4	191.6
Estimated loss	54.1	54.1	55.4	55.4
	15,781.4	327.7	15,823.2	404.2
Credit card accounts				
Normal	2,253.1	22.5	2,678.3	26.8
Precautionary	250.2	30.0	594.5	71.3
Substandard	1.7	0.3	0.9	0.2
Doubtful	134.8	105.9	361.8	217.1
Estimated loss	62.3	62.3	63.1	63.1
	2,702.0	221.0	3,698.7	378.5
Loans to be converted into equity securities	11.8	2.3	42.4	13.8
Present value discount	-	11.8	-	18.0
	₩ 42,004.3	₩ 1,006.7	₩ 43,741.6	₩ 1,676.9

Total loan loss reserves, including trusts and guarantees & acceptances, amounted to ₩1,052.9 billion at the end of 2004, as the Bank set aside allowance of ₩11.8 billion in trust accounts and guarantees & acceptances of ₩34.4 billion. The overall coverage ratio for NPLs, total loan loss reserve as a percentage of NPLs, rose 44.69 percentage points from 81.69% in the previous year to reach 126.38% at the end of 2004.

Securities

Table 18 - Securities Portfolio

(Billions of Korean Won)

	2003		2004	
	Amount	% of Total	Amount	% of Total
Trading securities	₩ 1,124.6	12.2%	₩ 2,237.9	19.5%
Available-for-sale securities	7,884.8	85.6	9,065.9	78.8
Investment securities accounted by equity method	196.7	2.2	195.4	1.7
	₩ 9,206.1	100.0%	₩ 11,499.2	100.0%

	2003		2004	
	Amount	% of Total	Amount	% of Total
Securities denominated in won:				
Government bonds	₩ 1,718.3	18.7%	₩ 2,927.1	25.4%
Finance debentures	1,918.6	20.9	1,742.7	15.2
Corporate bonds	4,409.9	47.9	4,836.2	42.1
Stocks*	767.9	8.3	1,352.7	11.7
Others	185.8	2.0	459.4	4.0
Sub-total	9,000.5	97.8	11,318.1	98.4
Securities denominated in foreign currencies	205.6	2.2	181.1	1.6
	₩ 9,206.1	100.0%	₩11,499.2	100.0%

* Excluding investment equity securities accounted by equity method.

Chohung Bank's investments in debt securities include primarily government bonds and corporate bonds guaranteed by banks, government-related funds, or privately capitalized funds that the Bank considers to have low credit risk.

Outstanding balance of securities in 2004 expanded by 24.9% to ₩11,499.2 billion from ₩9,206.1 billion in 2003. By type, government bonds sharply increased by 70.3% to ₩2,927.1 billion in 2004 from ₩1,718.3 billion. The portion of stocks also surged by 76.2% to ₩1,352.7 billion from ₩767.9 billion in 2003, influenced by bullish stock market conditions. The Bank has discontinued stock trading since October 2000. The outstanding balance of stock was classified as available-for-sale securities and included stocks that the Bank received in its equity conversions, which amounted ₩1,043.5 billion at the end of 2004.

Investment in corporate bonds grew by 9.7% to ₩4,836.2 billion in 2004 from ₩4,409.9 billion in 2003, while the proportion of corporate bonds to total securities declined by 5.8 percentage points to 42.1% in 2004 from 47.9% a year ago.

A significant portion of corporate bonds included government-related companies such as Korea Deposit Insurance Company (KDIC) and Korea Asset Management Corporation. Among corporate bonds, KDIC bonds amounted to ₩3,038.4 billion at the end of 2004 and constituted 62.8% of total investments in corporate bonds. Investments in securities denominated in foreign currencies are subject to certain limits and restrictions specified in Chohung Bank's internal guidelines relating to country, single issuer, and the type of security exposure and total investment by a branch.

Funding

Deposits, which are the Bank's major source of funding, accounted for 65.8% of total funding at the end of 2004. Of these, won-currency deposits increased by 3.3% to ₩40,045.6 billion in 2004 compared with ₩38,781.6 billion in the previous year.

Low cost deposits, including demand deposits and savings deposits, increased by 2.5% to ₩17,630.8 billion at the end of 2004, from ₩17,192.8 billion in 2003, while the proportion of these deposits to total won-currency deposits declined slightly from 44.3% in 2003 to 44.0% in 2004. Of note, Chohung Bank enjoys a stable funding structure with one of the highest ratios of low-cost deposits in the industry.

Table 19 - Funding

(Billions of Korean Won)

	2003		2004	
Deposits	**₩ 40,030.1**	**69.9%**	**₩ 41,313.1**	**65.8%**
Won	38,781.6	67.7	40,045.6	63.8
Foreign currencies	1,248.5	2.2	1,267.5	2.0
Borrowings	**5,711.9**	**10.0**	**5,057.5**	**8.1**
Won	1,961.6	3.4	1,620.2	2.6
Foreign currencies	3,750.3	6.6	3,437.3	5.5
Debentures	**6,424.2**	**11.2**	**7,115.6**	**11.3**
Won	5,799.4	10.1	6,186.2	9.9
Foreign currencies	624.8	1.1	929.4	1.4
Other	**5,123.0**	**8.9**	**9,292.0**	**14.8**
Won	4,842.2	8.4	7,580.6	12.1
Foreign currencies	280.8	0.5	1,711.4	2.7
	₩ 57,289.2	**100.0%**	**₩ 62,778.2**	**100.0%**

Funds connected to litigation in Korean courts accounted for a notable portion of such deposits. Interest rates on court deposits are generally lower than market rates, carrying rates up to approximately 2%. At the end of the year 2004, court deposits totaled ₩4,329.2 billion, representing 10.8% of total deposits in won, compared with ₩4,205.2 billion in 2003.

Borrowings decreased by 11.5% to ₩5,057.5 billion at the end of 2004, from ₩5,711.9 billion in 2003 and accounted for 8.1% of the Bank's total funding, down 1.9 percentage points over the prior year.

However, funding through issue of debentures climbed by 10.8% over the year to ₩7,115.6 billion in 2004 from ₩6,424.2 billion in the previous year due to the favorable domestic market conditions as well as the issue of subordinated debt. The Bank issued $400 million of subordinated debt on November 2004 for the early redemption of high-cost subordinated debt issued in March 2000.

Table 20 - Breakdown of customer deposits

(Billions of Korean Won)

	2000	2001	2002	2003	2004
Deposit in Won	₩ 29,817.7	₩ 33,276.2	₩ 38,538.3	₩ 35,540.3	₩ 35,197.4
Low cost deposits (B=a+b)	**14,011.6**	**17,044.9**	**17,447.1**	**17,192.8**	**17,630.8**
Demand deposits (a)	5,968.6	7,158.2	7,845.9	7,836.9	8,131.9
Savings deposits (b)	8,043.0	9,886.7	9,601.2	9,355.9	9,498.9
Time deposits	15,245.6	15,745.1	20,411.7	17,463.3	16,923.0
Mutual installment deposits	560.5	486.2	679.5	884.2	643.6
CDs	1,452.1	2,320.5	4,151.9	1,900.2	3,080.8
Others	1,456.6	1,467.6	1,240.4	1,341.1	1,767.4
Total Deposits in Won (A)	**32,726.4**	**37,064.3**	**43,930.5**	**38,781.6**	**40,045.6**
Low-cost deposit ratio (B/A)	42.8%	46.0%	39.7%	44.3%	44.0%
Deposit in foreign currencies	1,666.5	1,857.8	1,195.3	1,248.5	1,267.5
Total Deposit on B/S	**₩ 34,392.9**	**₩ 38,922.1**	**₩ 45,125.8**	**₩ 40,030.1**	**₩ 41,313.1**
Bonds sold with repurchase agreements	₩ 1,342.9	₩ 1,817.0	₩ 995.3	₩ 1,221.9	₩ 966.5
Bills sold	699.0	492.7	900.5	45.8	42.3

* RP and Bills sold were classified as borrowings based on current Korean GAAP.

Shareholders' Equity

Total shareholders' equity amounted to ₩2,610.9 billion at 2004 year-end, a jump of 34.8% from ₩1,936.4 billion in 2003. This impressive growth was led by the realization of net income of ₩265.2 billion and a rise in valuation gains on available-for-sale securities in 2004. Gains on the valuation of available-for-sale securities expanded by ₩479.6 billion to ₩683.8 billion at 2004 year-end from ₩204.2 billion in 2003 following the upward movement of debt-for-equity swap stock prices.

However, gains were partially offset by the loss on disposal of treasury shares of ₩59.3 billion in 2004 as a result of a share swap with Shinhan Financial Group. Upon finalization of the share swap on June 22, 2004, the Bank received 8,985,567 shares in Shinhan Financial Group in exchange for treasury shares acquired through the exercise of rights by dissenting shareholders in connection with a small-scale share swap undertaken by Shinhan Financial Group to acquire the remaining minority interest in the Bank.

Capital Adequacy (Consolidated basis)

Capital strength for Korean banks is regulated pursuant to guidelines issued by the Financial Supervisory Committee and based on standards issued by the Bank for International Settlements (BIS). The FSC regulates capital ratios on a consolidated basis. Therefore, capital ratios should be read in conjunction with audited, consolidated financial statements.

Beginning in 2002, the FSC adopted revisions for calculating the capital adequacy ratio outlined by the BIS, which take into account market risks relating to trading securities and derivative transactions. Risk weightings for such assets were calculated in accordance with a formula based on market risk.

Chart 12 - BIS Capital Ratio

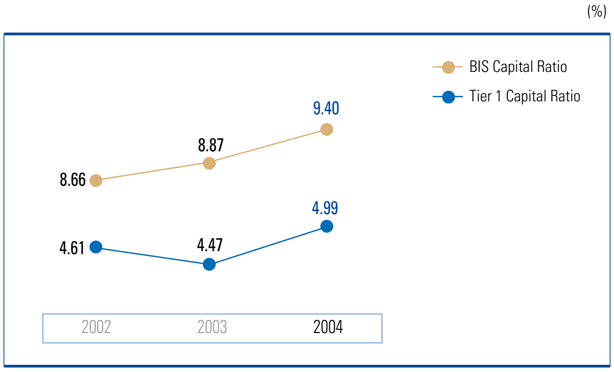


Table 21 - Capital Adequacy

(Billions of Korean Won)

	2003	2004
Paid-in capital	₩ 3,595.6	₩ 3,595.6
Capital surplus	-	-
Retained earnings	(1,854.5)	(1,603.1)
Hybrid debt	234.9	263.9
Other	(175.1)	(233.3)
Tier 1 Capital	**1,800.9**	**2,023.1**
Allowance for loan losses	516.6	409.8
Valuation gain on available-for-sale securities	92.2	265.4
Upper Tier 2 subordinated debt	235.4	412.3
Subordinated debt	900.5	1,011.5
Hybrid debt	37.7	8.7
Tier 2 Capital	**1,782.4**	**2,023.1**
Deduction*	(10.9)	(230.4)
Total Qualifying Capital	**₩ 3,572.4**	**₩ 3,815.7**
Balance sheet assets	₩ 38,921.5	₩ 38,784.1
Off-balance sheet assets	1,339.4	1,796.8
Total Risk-Weighted Assets	**₩ 40,260.9**	**₩ 40,580.9**
BIS Capital Ratio (%)	**8.87%**	**9.40%**
Tier 1 capital ratio (%)	4.47	4.99

* Includes the mutual holding of shares with the holding company SFG, the retention of a subordinated tranche from NPL ABS debt issue, and non-consolidated investment in subsidiary (Chohung Vina Bank).

The Bank's BIS capital adequacy ratio in 2004 edged up 0.53 percentage points to 9.40% from 8.87% a year before. Total qualifying capital increased 6.8% over the year to ₩3,815.7 billion, while risk-weighted assets slightly expanded by 0.8% to ₩40,580.9 billion, contributing to the improvement of the BIS ratio.

Tier 1 capital increased by 12.3% to ₩2,023.1 billion at the end of 2004 from ₩1,800.9 billion due to the realization of net income of ₩265.2 billion on a consolidated basis, despite a loss of ₩59.3 billion from the disposal of treasury stocks. The Tier 1 capital ratio also rose to 4.99% in 2004 from 4.47%.

Tier 2 capital climbed 13.5% over the year to ₩2,023.1 billion in 2004 from ₩1,782.4 billion in the previous year, mainly influenced by the issuance of US$400 million worth of foreign-currency subordinated debt and an increase in valuation gains on available-for-sale securities. The rise in Tier 2 capital in 2004 was restricted by the limit for Tier 2 capital, which cannot exceed Tier 1 capital. (Under the BIS Accord, the total of Tier 2 capital elements is limited to a maximum of 100% of the total of Tier 1 capital elements.)

Deductions from capital increased sharply to ₩230.4 billion at year-end 2004 from ₩10.9 billion in 2003. This was led by ₩144.2 billion of shares held mutually between the holding company and its subsidiary resulting from the share swap with SFG and ₩75.0 billion from the retention of a subordinated tranche relating to NPL securitization.

ANALYSIS OF TRUST ACCOUNTS

Table 22 - Schedule of trust assets and liabilities

(Billions of Korean Won)

	2003	2004
Assets		
Loans and discounts	₩ 150.4	₩ 58.7
Call loans	180.0	200.0
Securities	3,745.5	3,360.9
Loans to bank accounts	77.4	179.6
Money receivables	66.2	766.8
Other	80.9	80.2
Allowance for valuation of receivables	(38.4)	(11.8)
	₩ 4,262.0	₩ 4,634.4
Liabilities		
Money trusts	₩ 3,938.7	₩ 3,604.3
Property in trusts	102.4	874.0
Borrowings	80.4	-
Special reserve	25.1	29.4
Other	115.4	126.7
	₩ 4,262.0	₩ 4,634.4

Under Korean law, assets held in trust by a bank are segregated from other assets and are not available to satisfy the claims of depositors or other creditors of the bank. Accordingly, trust accounts are accounted for and reported separately from bank accounts.

Under the Indirect Investment Asset Management Business Act, which took effect on January 5, 2004, all Banks engaged in the money trust business are prohibited from offering unspecified money trust products after such date except for specified money trust, pension trust and retirement trust business. As a result, the Bank ceased to offer unspecified money trust products other than outstanding balances, which it will continue to manage until the withdrawal of the relevant money trust deposits by customers.

Trust assets as of the end of 2004 amounted to ₩4,634.4 billion, up 8.7% from ₩4,262.0 billion in 2003. The largest portion of trust assets was securities investments of ₩3,360.9 billion in 2004. Securities investments comprised corporate bonds, government-related bonds, and other securities, primarily commercial paper.

In relation to the asset classification in trust accounts and loan loss reserve, see "Table – Asset classification based on FSS standards" in "Analysis of Financial Condition".

The outstanding balance of money trusts managed by the Bank was ₩3,604.3 billion at 2004 year-end, which represented a decline of 8.5% over the previous year. In contrast, property in trusts sharply increased to ₩874.0 billion in 2004 from ₩102.4 billion a year ago.

Chohung Bank offers two basic types of money trust accounts: guaranteed fixed-rate trusts and variable-rate trusts. The Bank maintains two types of guaranteed fixed-rate accounts: general unspecified money trusts and development trusts. Korean banks have been prohibited from establishing new general unspecified money trusts since January 1, 1996, and development trusts from January 1, 1999.

As a result, guaranteed fixed-rate trust accounts have decreased in size substantially and most development trusts and general unspecified money trusts matured or will mature by the end of 2001 and 2018 respectively. As of December 31, 2004, development trusts had no outstanding balance and general unspecified money trusts amounted to an aggregate of ₩8.0 billion.

Variable-rate trust accounts are trust accounts for which the Bank does not guarantee the return on the trust account but, in certain instances described below, the principle of the trust account is guaranteed. In respect of variable-rate trust accounts, the Bank is entitled to receive fixed fees. Chohung Bank also receives commissions upon the termination of trust accounts prior to their stated maturities.

Korean banks are required to set aside allowances for trust assets that are not market to market and to provide special reserves for principal-guaranteed variable-rate trust accounts in addition to guaranteed fixed-rate trust accounts. Provisions for variable-rate trust assets that are not market to market are reflected in the rate of return to customers and thus have no impact on Chohung Bank's income, while provisions for guaranteed fixed-rate or principal-guaranteed trust products would reduce the Bank's income.

The Bank provides special reserves with respect to guaranteed fixed-rate and principal-guaranteed variable-rate trust account credit by deducting the required amounts for such trust accounts from trust fees.

Korean banks are currently allowed to guarantee the principal of the following types of variable rate trust account products; i) individual pension trusts, ii) new individual pension trusts, iii) retirement pension trusts, iv) new retirement pension trusts, v) pension trusts and vi) employee retirement benefit trusts.

Table 23 - Schedule of revenues and expenses of trust accounts

(Billions of Korean Won)

	2003	2004
Revenue		
Interest on loans and discounts	₩ 35.2	₩ 11.0
Interest on call loans	5.3	6.5
Interest and dividends on securities	220.4	154.8
Revenues related to securities	47.2	37.4
Interest on loans to bank accounts	7.7	5.9
Receipt from bank accounts for return guaranteed trusts	-	-
Other	20.1	57.8
	₩ 335.9	₩ 273.4
Expenses		
Interest paid on trust deposits	₩ 213.8	₩ 173.7
Interest paid on borrowing	4.2	0.8
Expenses related to securities	23.9	14.3
Fees and commission to bank accounts	43.6	45.5
Provision for special reserve	4.4	4.4
Provision for valuation of receivables	39.6	5.2
Other	6.4	29.5
	₩ 335.9	₩ 273.4

Although assets in trust accounts are segregated from assets in bank accounts, Chohung Bank is responsible for the principal of and/or returns on certain trust accounts and may be required to transfer funds from bank accounts to satisfy such obligations. If income from a guaranteed trust account is insufficient to pay the guaranteed amount, such a deficiency must be satisfied from the following sources: first, reserves maintained in such trust accounts; second, trust fees; and lastly, receipt from bank accounts for guaranteed trusts. Receipt from bank accounts for return guaranteed trusts was nil in 2003 and was in 2004 affected by the drop in return-guaranteed trust balance.

Trust fund operating fees and commissions to bank accounts maintained a similar level of W45.5 billion in 2004. During FY2004, net gains from trust operations increased slightly, to W48.4 billion from W47.2 billion in 2003.

RISK MANAGEMENT

As a financial services provider, the principal risks to which the Bank is exposed are credit risk, market risk, liquidity risk and operational risk. Theses risks are recognized, measured and reported in accordance with risk management guidelines established at the holding company level of Shinhan Financial Group.

Our risk management and oversight begins with the Group Risk Management Committee of the board of directors at the holding company level. The Group Risk Management Committee establishes overall risk management guidelines and risk limits applicable to the group and each subsidiary, while delegating day-to-day risk management and oversight functions to the Senior Executive Vice President of Risk Management. The Senior Executive Vice President of Risk Management discusses risk management policies and strategies of the Group and its subsidiaries at the Group Risk Management Council, comprised of the Senior Executive Vice President of Risk Management, as its chairperson, and the executive officers of risk management from its subsidiaries.

In order to maintain the Group's risk at an appropriate level, Shinhan Financial Group has established a hierarchical limit system under which the Group Risk Management Committee establishes risk limits for the holding company and each subsidiary. Each subsidiary establishes and manages more detailed risk limits by type of risk and type of product for each department and division within the respective subsidiary. In accordance with the Group risk management policies and strategies, each subsidiary's risk management committee establishes its own risk management policies and strategies in more depth. The respective risk management departments implement those policies and strategies. The Risk Management Department, operating independently of business operations of each subsidiary, monitors, assesses, manages and controls the overall risk of its operations and reports all major risk-related issues to the Group's Senior Executive Vice President of Risk management.

Within the Group risk management strategies and policies set by our holding company, our own risk management policy is set by our Risk Management Committee (RMC), which consists of one standing director and two non-standing directors. The primary functions of the RMC are risk reduction with the overall aim of durable profit improvement and evaluation of compliance with risk limits and policies.

The Asset and Liabilities Management Committee (ALM Committee) consists of 8 Deputy Presidents. The ALM Committee sets Bank policies with respect to managing liquidity, interest rate and market risks.

Chohung Bank has a multi-layered risk management governance structure. The highest decision-making body is the Board of Directors. The Board formulates risk management policies and determines the Bank's risk tolerance. The Board delegates authority and responsibility for risk management activities to the Risk Management Committee (RMC).

The RMC allocates available capital within acceptable limits by business unit and risk in accordance with directives of the Board of Directors. In addition, the RMC determines risk limits by individual case and by industry with regard to credit risk. The Asset and Liabilities Management Committee manages risk involving the Bank's assets and liabilities.

Credit Risk Management

The Board of Directors functions as the highest decision-making body with respect to the direction of the Bank's overall credit policies. The Credit Planning Division is responsible for overall credit risk management. The Credit Planning Division has three working-level entities for planning, review and management of loan portfolios. Specifically, the Credit Planning Division recommends loan policies, manages loan portfolios, and develops and modifies related regulations and procedures. It also is responsible for development of various management infrastructures concerning loan portfolios. With the aim of ensuring the quality of its assets, the Bank established the Loan Review Division to review and monitor existing loans. In reviewing a loan, the Bank focuses on (i) whether the loan was approved in compliance with the credit approval procedures in place; (ii) whether the loan's current asset quality and the borrower's credit rating are adequate; and (iii) whether such a loan is profitable. The Bank's loan review can be further divided into three types: review, periodical review and special review. The Risk Management Division performs duties related to credit risk measurement, such as calculating risk for expected and unexpected loan losses, and applies RAROC (risk-adjusted returns on capital) to each business unit to measure performance effectively.

For efficient credit risk management, the Bank operates a Credit Management System, Total Exposure Management System, Credit Scoring System, and Credit Risk Rating System.

Market Risk Management

Market risk is the risk of loss that results from changes in market prices such as interest rates, foreign exchange rates and equity prices. The principal market risks to which Chohung Bank is exposed are interest rate risk and, to a lesser extent, foreign exchange risk and equity price risk. These risks stem from the Bank's trading and non-trading activities relating to financial instruments such as loans, deposits, securities and financial derivatives. Chohung Bank is not exposed to commodity risk, the other recognized form of market risk, as it does not hold any commodity positions. We divide market risk into risks arising from trading activities and risks arising from non-trading activities. Our Risk Management Committee establishes and oversees implementation of the overall risk management policies for both our trading and non-trading activities.

Market Risk Management for Trading Activities

Our trading activities consist of:

- Trading activities to realize short-term trading profits in debt and equity markets and foreign exchange markets based on our short-term forecasts of changes in market conditions and customer demand, for our proprietary account as well as for the trust accounts of our customers; and

- Trading activities primarily to realize profits from arbitrage transactions in derivatives such as swap, forward, futures and option transactions, and, to a lesser extent, to sell derivative products to our customers and to hedge market risk incurred from those trading activities.

As a result of these trading activities, we are exposed to interest rate risk, foreign exchange risk and equity risk.

- Interest Rate Risk

Our exposure to interest rate risks arises primarily from won-denominated debt securities, directly held or indirectly held through beneficiary certificates, and, to a lesser extent, from interest rate derivatives and foreign currency-denominated trading debt securities. As our trading accounts are market-to-market daily, we manage the interest rate risk related to our trading accounts using "value at risk" (VaR), a market value-based tool.

- Foreign Exchange Risk Management

Foreign exchange risk arises because the Bank's assets and liabilities, including derivatives such as foreign exchange forwards, futures, options and currency swaps, are denominated in currencies other than Korean won. Chohung Bank's exposure to foreign exchange risk arises primarily from its foreign exchange spot and forward positions in both trading and non-trading accounts.

Chohung Bank measures foreign exchange risk with its net foreign currency open position, which is the difference between its foreign currency assets and liabilities offset against forward foreign exchange positions. The ALM committee establishes limits for the net foreign currency open position, stop loss limits, and VaR limits.

The management of foreign exchange position is centralized at the Treasury Division. Dealers manage the Bank's overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps. The Bank sets a VaR limit for each dealer to control foreign exchange risk.

- Equity Risk

Equity risk for trading activities results from the trading of equity portfolios of Korean companies and Korea Stock Price Index futures and options. Although the Bank holds a substantially smaller amount of equity securities than debt securities in its trading accounts, the equity risk VaR of the trading account is relatively higher than that of the trading account interest rate risk due to high volatility in the prices of equity securities.

Chohung Bank generally manages market risk from trading activities at the entire trading portfolio level. To control market risk for its trading portfolio, the Bank uses VaR limits and stop loss limits. The Bank has prepared risk control and management guidelines for derivatives trading based on FSC regulations and guidelines.

For Chohung Bank's trading portfolio, the VaR (holding period 10-days, 99% confidence interval) was ₩14.3 billion as of December 31, 2004. Its market risk capital charge (required capital to manage market risk as determined according to BIS standards) was ₩26.5 billion. For market risk management purposes, we include our trading portfolio in bank accounts and trading assets in trust accounts for which we guarantee principal or fixed return in accordance with the Financial Supervisory Commission regulations. The following table presents an overview of market risk, measured by the 10-day VaR at a 99% confidence interval, from our trading activities for the year ended 2004.

Table 24 - VaR in 2004

(Billions of Korean Won)

	Trading Portfolio Ten-day VaR for the Year 2004			
	Average	Minimum	Maximum	As of Dec. 31, 2004
Interest rate	₩96.6	₩20.0	₩212.8	₩156.6
Equity	37.9	6.7	117.2	95.6
Foreign Exchange	6.3	1.0	15.3	5.6
Total VaR*	₩10.7	₩32.9	₩223.8	₩194.07

* Due to portfolio diversification, the total VaR figures are different from the simple additions of interest rate, foreign exchanges and equity risks.

We currently perform back testing of VaR results on a daily basis, using both actual losses and estimated losses when the actual movements of interest rates, foreign exchange rates and equity values are applied while assuming that our portfolio position remains same. In 2004, there were two days when our estimated loss exceeded the VaR limits set by the Financial Supervisory Service.

In addition to VaR, the Bank performs stress testing to measure market risk. As VaR assumes normal market situations, Chohung Bank assesses it market risk exposure to unlikely or abnormal market fluctuations through stress testing. Stress testing projects the anticipated change under certain scenarios of the value of positions held by the Bank assuming that no action is taken during a stress event to change the risk profile of a portfolio.

The Risk Management Division performs market risk stress testing on a daily basis. Based on the results, the Bank takes measures to manage risk exposure, including warnings and contingency plans. The Risk Management Division reports the results to the ALM Committee on monthly basis and to the Risk Management Committee on a quarterly basis. Moreover, it continuously monitors movements of market risk components and takes action to prevent crisis situations when there are abrupt market movements.

- Hedging and Derivatives Market Risk

Chohung Bank enters into derivative contracts on behalf of its customers or to hedge its own position. The principal objective of the Bank's hedging strategy is to manage market risk within established limits. The Bank uses derivative instruments to hedge its market risk as well as to generate profits by trading derivative products within pre-approved risk limits. Derivative trading includes interest rate and cross-currency swaps, foreign currency forwards, and futures, stock index and interest rate futures, and stock index and currency options. Market risk from derivatives is not significant since the Bank's derivative positions are primarily driven by arbitrage and customer transactions, which results in very limited open trading positions.

Market Risk Management for Non-Trading Activities

- Interest Rate Management

Chohung Bank's interest rate risk arises primarily due to differences between the timing of rate changes for interest-earning assets, such as loans and investment securities, and interest-bearing liabilities, such as deposits and borrowings. The principal objectives of interest-rate risk management are to generate stable net interest income and to protect the Bank's net asset value against interest-rate fluctuations. To this end, the ALM Committee sets the interest-rate risk limits at least annually. The Risk Management Division monitors compliance with these limits and reports its results to the ALM Committee on a monthly basis. The Bank primarily uses interest rate swaps to control its interest-rate exposure limits.

On a monthly basis, the Bank uses various analytical methodologies to measure and manage its interest-rate risk for non-trading activities. The principal methodology that the Bank uses for its non-trading interest-rate risk is "Value-at-Risk (VaR)" and "Earnings at Risk" (EaR) analysis.

Other complementary analytical methodologies that Chohung Bank uses include the following:

- Interest Rate Gap Analysis: Interest rate gap analysis measures the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and re-pricing date for a specific time frame.

- Duration Gap Analysis: Duration gap analysis measures durations of the Bank's interest-earning assets and interest-bearing liabilities, which are weighted average maturities of theses assets and liabilities calculated based on discounted cash flows from these assets and liabilities using yield curve.

- Market Value Analysis: Market value analysis measures changes in the market value of interest-earning assets and interest-bearing liabilities based on the assumption of parallel shifts in interest rates.

- Net Interest Income Simulation Analysis: Net interest income simulation analysis uses statistical analysis methodology to measure changes in the annual net interest income under the current maturity structure, using different scenarios for interest rates (assuming parallel shifts) and funding requirements.

- Interest Rate VaRs for Non-trading Assets and Liabilities

We measure VaR for interest rate risk from both won and foreign currency denominated non-trading accounts on a monthly basis. Interest rate VaR arises from mismatches in the re-pricing dates of our non-trading interest-earning assets and interest-bearing liabilities. The following table shows the one-year VaR as of December 31, 2004,

Table 25 - The one-year VaRs* of non-trading accounts

(Billions of Korean Won)

	One-year VaR (As of Dec. 31, 2004)
Won-denominated bank accounts	₩ 148.9
Foreign currency-denominated bank accounts	7.6

* Results at a 99% confidence level.

- Earnings-at-Risk Analysis

We measure EaR for interest rate risk from non-trading activities on a monthly basis. We use EaR as the principal analytical tool to measure and manage our interest rate risk for non-trading activities.
We calculate EaR with respect to won-denominated and foreign-currency denominated non-trading assets and liabilities in our bank accounts. On a monthly basis, we calculate 500 sets of annual interest income and expense scenarios based on 500 different sets by yield curves generated by a Monte Carlo simulation. Based on these annual interest and expense scenarios, we then calculate the average and the minimum interest income, interest expense and net interest income at a 99% confidence level. EaR is the difference between the average and minimum values.

The following table presents the minimum and average values of interest income, interest expense and net interest income, and their corresponding EaR as of Dec. 31 2004.

Table 26 - EaR of won-denominated bank accounts

(Billions of Korean Won)

	Simulation results as of Dec. 31, 2004		
	Minimum	Average	EaR
Interest income (from interest-earning assets)	₩ 3,418.2	₩ 3,514.1	₩ 95.9
Interest expense (from interest-bearing liabilities)	1,458.0	1,500.4	42.4
Net interest income	₩ 1,960.2	₩ 2,013.7	₩ 53.5

Table 27 - EaR of foreign currency-denominated bank accounts

(Billions of Korean Won)

	Simulation results as of Dec. 31, 2004		
	Minimum	Average	EaR
Interest income (from interest-earning assets)	₩ 164.4	₩ 172.9	₩ 8.4
Interest expense (from interest-bearing liabilities)	136.8	142.7	5.9
Net interest income	₩ 27.6	₩ 30.2	₩ 2.5

- Interest Rate Gap Analysis

Interest rate gap analysis measures the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and re-pricing date by preparing interest rate gap tables in which our interest-earning assets and interest-bearing liabilities are allocated to the applicable time buckets based on the expected cash flows and re-pricing dates. On a monthly basis, we perform interest rate gap analysis for won and foreign currency denominated assets and liabilities in our bank and trust accounts.

Our gap analysis includes won-denominated derivatives, whose management is centralized at the Treasury Department. Through the interest rate gap analysis that measures interest rate sensitivity gaps, cumulative gaps and gap ratios, we assess our exposure to future interest risk fluctuations.

For interest rate gap analysis, we assume and use the following maturities for different assets and liabilities:

- For debt securities in our trading accounts, we assume a maturity of three months. We exclude equity securities from interest-earning assets and also exclude assets classified as substandard or below from our interest rate gap analysis.

- With respect to the maturities and re-pricing of our liabilities, we assume that money market deposit accounts and "non-core" demand deposits have a maturity of 3 months. With respect to "core" demand deposits under the Financial Supervisory Commission guidelines, we assume a maturity of three years.

The following tables show our interest rate gaps as of December 31, 2004 for won-denominated non-trading bank accounts, including derivatives and foreign currency-denominated non-trading bank accounts, excluding derivatives.

Table 28 - Won-denominated non-trading bank accounts (including derivatives) as of Dec. 31, 2004

(Billions of Korean Won)

	0-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Total
Interest-earning assets (Including interest rate swaps)	₩ 30,948	₩ 3,170	₩ 3,513	₩ 4,913	₩ 4,129	₩ 46,673
Interest-bearing liabilities (Including interest rate swaps)	16,017	6,405	6,765	3,718	9,331	42,236
Sensitivity gap	14,931	(3,234)	(3,252)	1,195	(5,202)	4,437
Cumulative gap	15,331	11,670	8,444	9,639	4,854	-
% of total assets	25.86%	(5.60)%	(5.63)%	2.07%	(9.01)%	7.68%

Table 29 - Foreign currency-denominated non-trading bank accounts (excluding derivatives) as of Dec. 31, 2004

(Billions of Korean Won)

	0-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Total
Interest-earning assets	₩ 3,720	₩ 768	₩ 225	₩ 56	₩ 34	₩ 4,803
Interest-bearing liabilities	3,646	780	386	36	395	5,243
Sensitivity gap	74	(12)	(161)	20	(361)	(440)
Cumulative gap	74	62	(99)	(79)	(440)	-
% of total assets	1.29%	(0.21)%	(2.78)%	0.35%	(6.22)%	(7.58)%

- Duration and Market Value Analysis

We perform a duration gap analysis to measure effects of interest rate risk on the market value of our assets and liabilities. We measure, on a monthly basis and for each operating department, account, product and currency, durations of interest-earning assets and interest-bearing liabilities. We also measure on a monthly basis changes in the market value of our interest-earning assets and interest-bearing liabilities.

The following tables show duration gaps and market values of our won-denominated interest-earning assets and interest-bearing liabilities in our non-trading accounts as of December 31, 2004 and change in these market values when interest rate increases by 100 basis points.

Table 30 - Duration and Market value including interest rate swap as of December 31, 2004

(Billions of Korean Won)

	Duration (Year)	Market Value		
		Actual	100 basis point increase	Change
Interest-earning assets	0.51	₩ 43,620	₩ 43,368	₩ (252)
Interest-bearing liabilities	0.82	40,070	39,737	(333)
Gap	(0.27)	3,550	3,631	81

- Net Interest Income Simulation

We perform a net interest income simulation to measure the effects of interest rate risk on the results of our operations. Net interest income simulation measures changes in our annual net interest income under the current maturity structure, using different scenarios for interest rates and funding requirements. We apply three scenarios of parallel shifts in interest rate: (i) no change, (ii) a 100 basis point increase in interest rates and (iii) a 100 basis point decrease in interest rates. For funding requirement changes, we use simulated funding requirements based on our funding plans.

The following table illustrates by way of an example the simulated changes in our annual net interest income for one year hereafter with respect to won-denominated interest-earning assets and interest-bearing liabilities, using our net interest income simulation model, when we assume our maturity structure and funding requirement as of December 31, 2004 and the same interest rates as of December 31, 2004 and a 100 basis point increase in the interest rates.

Our won-denominated interest-earning assets and interest-bearing liabilities in non-trading accounts have a maturity profile that benefits from an increase in interest rates, because the re-pricing periods of the interest-earning assets in our non-trading accounts are shorter than those of the interest-bearing liabilities in these accounts. This is primarily due to a continuous decrease in interest rates in recent years in Korea, which has resulted in a significant increase in floating rate loans, making the maturities or re-pricing periods of our loans shorter, while fixed-rate longer-term deposits have increased. As a result, our net interest income increases when interest rates rise.

Table 31 - Simulated net interest income for one year hereafter (as of Dec. 31, 2004)

(Billions of Korean Won)

	Assumed interest rates		Change in net interest income	
	No Change	1% point increase	Amount	% Change
Simulated interest income	₩ 3,517.7	₩ 3,728.8	₩ 211.1	6.00%
Simulated interest expense	1,503.4	1,660.5	157.1	10.45
Net interest income	2,014.3	2,068.3	54.0	2.68

* For non-trading won-denominated bank accounts including interest rate swap

- Equity Risk

All of Chohung Bank's equity risk results from listed and unlisted equity securities issued by Korean companies. Chohung Bank measures VaR of the listed equity securities but does not manage most of the related risk using VaR limits, as most of these securities are held for reasons other than normal investment purposes. For unlisted equity securities, the Bank does not measure VaR. Theses unlisted securities were equities of its consolidated subsidiary and affiliates and those held as a result of debt-to-equity conversion as a part of the reorganization of companies to which it had extended loans. As of December 31, 2004, Chohung Bank held stocks in an aggregate amount of ₩1,409.0 billion in its non-trading accounts, including ₩230.9 billion of unlisted stocks.

The following table shows VaR of our equity risk from non-trading activities as of and for the one-year period from January 1, 2004 to December 31, 2004.

Table 32 - Ten-day VaR for the year 2004

(Billions of Korean Won)

	Average	Minimum	Maximum	As of Dec. 31, 2004
Equities	₩ 221.8	₩ 121.7	₩ 303.54	₩ 251.3

* Ten-day VaR results at a 99% confidence level.

Liquidity Risk Management

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

Chohung Bank's basic principles for liquidity risk management are as follows:

- maintain an appropriate level of liquidity risk through liquidity risk management based on liquidity gap or liquidity ratio at each maturity date;

- assess and monitor net cash flows by currency and by maturity and continuously evaluate available sources of funds and the possibility of disposal of any liquid assets;

- diversify sources and uses of funds by product and by maturity to prevent excessive concentration in certain periods or products; and

- prepare contingency plans to cope with a potential liquidity crisis.

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

Chohung Bank manages its liquidity risk within the limits set on local and foreign currency accounts in accordance with FSC regulations. The FSC requires Korean banks to maintain a won liquidity ratio of at least 105.0% and a foreign currency liquidity ratio of at least 85%. The FSC defines the liquidity ratio as liquid assets including marketable securities due within three months divided by liabilities due within three months.

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

The following tables show the Bank's liquidity status and limits for local and foreign currency accounts as of December 31, 2004 in accordance with FSC regulations.

Table 33 - Liquidity Status and Limits for Won and Foreign currency accounts

(Billions of Korean Won)

Won a/c (including derivatives)	0-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Substandard & below	Total
Assets	₩ 29,842.9	₩ 10,685.9	₩ 14,657.9	₩ 4,665.0	₩ 11,312.9	₩ 820.8	₩ 71,985.4
Liabilities	24,295.9	7,386.7	11,792.0	4,135.3	23,233.9	-	70,843.4
For 3 months or less:							
Liquidity gap	5,547.0						
Liquidity ratio	122.83%						
Limit	105.00%						

(Millions of US$)

Foreign currency a/c (including derivatives)	7 days or less	7 days–1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Substandard & below	Total
Assets	3,791.5	3,490.7	5,124.0	2,752.7	2,048.0	790.0	329.9	35.2	18,362.1
Liabilities	3,707.0	3,259.8	5,148.3	3,269.4	2,946.0	603.9	752.0	-	19,686.5
For 3 months or less:									
Asset	12,406.2								
Liabilities	12,115.1								
Liquidity ratio	102.40%								
Limit	85.00%								

We maintain diverse sources of liquidity to facilitate flexibility in meeting our funding requirements. We fund our operations principally through deposits from retail and corporate customers, accessing the call loan market (a short-term market for loans with maturities of less than one month), issuing debentures and borrowings from the Bank of Korea. We use the funds primarily to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

In addition to liquidity risk management under normal market conditions, we have contingency plans to cope with a potential liquidity crisis. A liquidity crisis arises when we would not be able to effectively manage the situations with our normal liquidity management measures due to, among other reasons, inability to access our normal sources of funds or epidemic withdrawals of deposits as a result of various external or internal factors, including a collapse in the financial markets or abrupt deterioration of our credit. We have contingency plans corresponding to different stages of liquidity crisis, "cautionary stage," "near-crisis stage" and "crisis stage," based on the following liquidity indices:

- indices that reflect the market movements such as interest rates and stock prices;

- indices that reflect financial market psychology such as the size of money market funds; and

- indices that reflect our internal financial condition.

Operational Risk Management

Operational risk is difficult to quantify and is subject to different definitions. The Basle Committee defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from other external events. Similarly, Chohung Bank defines operational risk as the risk related to overall management other than credit risk, market risk, interest rate risk and liquidity risk. The Bank monitors and assesses operational risks related to its business operations, including administrative risk, information technology risk, managerial risk, legal risk and reputation risk.

To monitor and control operational risk, the Bank maintains a system of comprehensive policies and has put in place a control framework designed to provide a stable and well-managed operational environment throughout the organization. The primary responsibility for ensuring compliance with Chohung Bank's operational risk management procedures remains with its business units and operational teams. In addition, the Examination Division, Risk Management Division and Compliance Department also play important roles in reviewing and maintaining the integrity of the Bank's internal control environment.

Each operational risk team checks operational risk, based on the checklists established and reports the results to the Risk Management Division, which collects the operational divisions' results to report to the Risk Management Committee and the ALM Committee.

General audits, special audits, day-to-day audits and real-time monitoring audits are performed by our examiners; self-audits are performed by auditors in the relevant operational departments.

The Financial Supervisory Service (FSS) conducts general annual audits of operations at Shinhan Financial Group and also performs general annual audits of our operations. The FSS also performs special audits as the need arises on particular aspects of the operations such as risk management, credit monitoring and liquidity. In the ordinary course of theses audits, the FSS routinely issue warning notices where it determines that a regulated financial institution or such institution's employees have failed to comply with the applicable laws or rules, regulations and guidelines of the FSS. We have in the past received, and expect in the future to receive, such notices. We have taken and will continue to take appropriate actions in response to such notices. None of the actions we have taken so far has had a materially adverse effect.

We consider legal risk as a part of operational risk. The uncertainty of the enforceability of obligations of our customers and counter parties, including foreclosure on collateral, creates legal risk. Changes in laws and regulations could also adversely affect us. Legal risk is higher in new areas of business where the law is often untested in the courts, although legal risk can also increase in our traditional business in as much as the legal and regulatory landscape in Korea is changing and many new laws and regulations governing the banking industry remain untested. We seek to minimize legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting legal advisers.

Our Risk Management Division set operational risk limits for 2004 based on the standardized approach specified in the proposed new Basel II Accord and FSS guidelines. The operational risk limits in 2004 were ₩388.1 billion.

Preparation for New Basel Capital Accord

In response to the proposed "BIS New Basel Accord for Measurement and Management of Operational Risk" and the proposed introduction of this new Basel Accord by the FSC into the Korean banking sector, Shinhan Financial Group has established a taskforce to study, evaluate and develop an integrated risk management system that is in compliance with the requirements of the New Basel Accord. This project is expected to be implemented in phases, beginning with the establishment of an integrated credit risk management model that combines the credit risk management systems of both Chohung Bank and Shinhan Bank. The project will also involve an upgrade of Shinhan Financial Group's information technology system, reconfiguration of the credit risk approval process and organizational structure as well as improvement of performance evaluation and human resources management.

Upon completion, the newly integrated credit risk management system is expected to satisfy the credit risk requirements of the New Basel Accord, introduce best practices through benchmarking leading global banks, introduce advanced credit evaluation techniques employed by globally recognized credit rating agencies and reconfigure the credit risk management system to correspond to customer segments. In addition, the integration and upgrading of the group-wide credit risk management system and capital adequacy evaluation system is designed to further implement the requirements and of the New Basel Accord.

Non-Consolidated Balance Sheets

December 31, 2004 and 2003

	Millions of Korean Won		Thousands of U.S. dollars	
	2004	2003	2004	2003
Assets				
Cash and due from banks	₩ 2,750,946	₩ 1,550,638	$ 2,635,511	$ 1,485,570
Securities	11,499,243	9,206,062	11,016,711	8,819,756
Loans	41,586,846	42,701,666	39,841,776	40,909,817
Fixed assets	1,252,573	1,280,655	1,200,012	1,226,916
Other assets	8,299,492	4,486,564	7,951,228	4,298,298
Total assets	**₩ 65,389,100**	**₩ 59,225,585**	**$ 62,645,238**	**$ 56,740,357**
Liabilities and Stockholder's equity				
Liabilities:				
Deposits	₩ 41,313,073	₩ 40,030,091	$ 39,579,491	$ 38,350,346
Borrowings	5,057,559	5,711,922	4,845,334	5,472,238
Debentures	7,115,575	6,424,165	6,816,990	6,154,594
Retirement and severance benefits	51,827	33,041	49,652	31,654
Other liabilities	9,240,138	5,090,005	8,852,403	4,876,418
Total liabilities	**62,778,172**	**57,289,224**	**60,143,870**	**54,885,250**
Stockholder's equity:				
Common stock of W5,000 par value	3,595,592	3,595,592	3,444,714	3,444,714
Authorized - 2,000,000,000 shares				
Issued - 719,118,429 shares				
Accumulated deficits	(1,620,607)	(1,890,738)	(1,552,603)	(1,811,399)
Capital adjustments	635,943	231,507	609,257	221,792
Total stockholder's equity	**2,610,928**	**1,936,361**	**2,501,368**	**1,855,107**
Total liabilities and stockholder's equity	**₩ 65,389,100**	**₩ 59,225,585**	**$ 62,645,238**	**$ 56,740,357**

* For more detailed information, please refer to "Non-Consolidated Financial Statement December 31, 2004 and 2003 (With Independent Auditors' Report Thereon)" in "CHB IR – Archive" on Chohung Bank Internet home page of www.chb.co.kr/eng/.

Non-Consolidated Statements of Operations

For the years ended December 31, 2004 and 2003

	Millions of Korean Won		Thousands of U.S. dollars	
	2004	2003	2004	2003
Interest income and dividends:				
Interest on due from banks	₩ 5,392	₩ 5,267	$ 5,166	$ 5,046
Interest and dividends on securities	417,591	520,143	400,068	498,317
Interest on loans	2,921,984	3,263,010	2,799,372	3,126,087
Other	17,965	26,644	17,211	25,526
	3,362,932	3,815,064	3,221,817	3,654,976
Interest expense:				
Interest on deposits	1,154,628	1,409,828	1,106,178	1,350,669
Interest on borrowings	130,942	170,889	125,447	163,718
Interest on debentures	334,990	386,865	320,933	370,631
Other	28,292	72,002	27,105	68,981
	1,648,852	2,039,584	1,579,663	1,953,999
Net interest income	1,714,080	1,775,480	1,642,154	1,700,977
Provision for loan losses	953,886	2,156,538	913,859	2,066,045
Net interest income (loss) after provision for loan losses	760,194	(381,058)	728,295	(365,068)
Non-interest income:				
Fees and commission income	665,978	696,004	638,032	666,798
Unrealized gain on trading securities	3,337	58	3,197	56
Realized gain from disposition of trading securities	52,664	24,411	50,454	23,387
Realized gain from disposition of available-for-sale securities	31,356	178,900	30,040	171,393
Reversal of impairment loss on available-for-sale securities	147	19,026	141	18,228
Gain from equity method	14,337	-	13,735	-
Gain from disposition of loans	23,975	1,320	22,969	1,265
Gain from trust management	48,306	46,984	46,279	45,012
Gain on foreign currency transactions	345,461	167,474	330,965	160,446
Gain on derivatives	2,262,491	561,083	2,167,552	537,539
Others	67,185	181,208	64,366	173,604
	3,515,237	1,876,468	3,367,730	1,797,728
Non-interest expenses:				
Fees and commission expense	136,073	149,143	130,363	142,885
General and administrative expenses	960,853	908,250	920,534	870,139
Unrealized loss on trading securities	317	4,374	304	4,190
Realized loss from disposition of trading securities	6,558	15,509	6,283	14,858
Realized loss from disposition of available-for-sale securities	382	14,037	366	13,448
Impairment loss on available-for-sale securities	52,890	232,629	50,670	222,867
Loss from equity method	-	5,306	-	5,083
Loss from disposition of loans	57,140	169,560	54,742	162,445
Contribution to Credit Guarantee Fund	51,840	53,959	49,665	51,695
Loss on foreign currency transactions	229,670	94,630	220,033	90,659
Loss on derivatives	2,290,133	539,595	2,194,034	516,952
Others	221,839	227,182	212,530	217,649
	4,007,695	2,414,174	3,839,524	2,312,870
Net non-interest income (loss)	(492,458)	(537,706)	(471,794)	(515,142)
Ordinary income (loss)	267,736	(918,764)	256,501	(880,210)
Extraordinary gain (loss)	-	-	-	-
Earnings (losses) before income taxes	267,736	(918,764)	256,501	(880,210)
Income taxes	2,498	50,176	2,393	48,071
Net earnings (losses)	**₩ 265,238**	**₩ (968,940)**	**$ 254,108**	**$ (928,281)**
Ordinary income (loss) per share in Won and U.S. dollars	₩ 369	₩ (1,425)	$ 0.354	$ (1.365)
Net earnings (loss) per share in Won and U.S. dollars	**₩ 369**	**₩ (1,425)**	**$ 0.354**	**$ (1.365)**

Consolidated Balance Sheets

December 31, 2004 and 2003

	Millions of Korean Won		Thousands of U.S. dollars	
	2004	2003	2004	2003
Assets				
Cash and due from banks	₩ 2,831,029	₩ 1,607,172	$ 2,712,233	$ 1,539,732
Securities	12,621,625	10,195,981	12,091,996	9,768,137
Loans	41,870,135	43,096,897	40,113,178	41,288,462
Fixed assets	1,261,668	1,291,485	1,208,726	1,237,291
Other assets	8,311,777	4,410,064	7,962,997	4,225,009
Total assets	**₩ 66,896,234**	**₩ 60,601,599**	**$ 64,089,130**	**$ 58,058,631**
Liabilities and Stockholder's equity				
Liabilities:				
Deposits	₩ 43,010,099	₩ 41,579,591	$ 41,205,306	$ 39,834,826
Borrowings	4,859,583	5,528,332	4,655,665	5,296,352
Debentures	7,115,576	6,424,165	6,816,992	6,154,594
Retirement and severance benefits	51,905	33,297	49,727	31,900
Other liabilities	9,205,132	5,074,840	8,818,866	4,861,888
Total liabilities	**64,242,295**	**58,640,225**	**61,546,556**	**56,179,560**
Stockholder's equity:				
Common stock of W5,000 par value	3,595,592	3,595,592	3,444,713	3,444,713
Authorized - 2,000,000,000 shares				
Issued - 719,118,429 shares				
Consolidated accumulated deficits	(1,603,061)	(1,868,540)	(1,535,793)	(1,790,132)
Consolidated capital adjustments	647,129	220,536	619,974	211,282
Minority interest in consolidated subsidiaries	14,279	13,786	13,680	13,208
Total stockholder's equity	**2,653,939**	**1,961,374**	**2,542,574**	**1,879,071**
Total liabilities and stockholder's equity	**₩ 66,896,234**	**₩ 60,601,599**	**$ 64,089,130**	**$ 58,058,631**

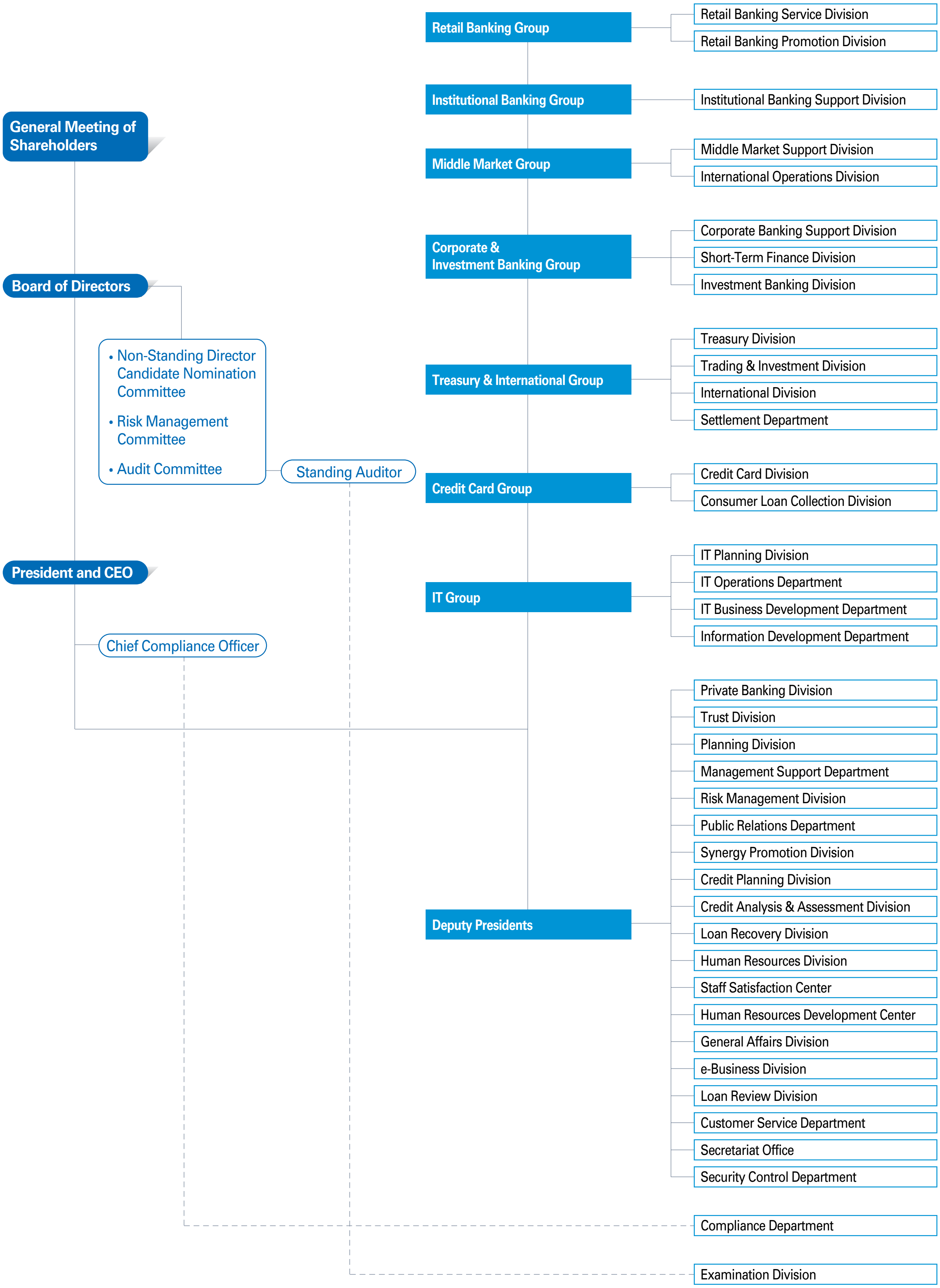
* For more detailed information, please refer to "Consolidated Financial Statement December 31, 2004 and 2003 (With Independent Auditors' Report Thereon)" in "CHB IR – Archive" on Chohung Bank Internet home page of www.chb.co.kr/eng/.

Consolidated Statements of Operations

For the years ended December 31, 2004 and 2003

	Millions of Korean Won		Thousands of U.S. dollars	
	2004	2003	2004	2003
Interest income and dividends:				
Interest on due from banks	₩ 6,629	₩ 6,488	$ 6,351	$ 6,216
Interest and dividends on securities	475,057	593,473	455,122	568,569
Interest on loans	2,947,868	3,295,250	2,824,169	3,156,974
Other	18,187	40,927	17,424	39,210
	3,447,741	3,936,138	3,303,066	3,770,969
Interest expense:				
Interest on deposits	1,219,650	1,465,508	1,168,471	1,404,012
Interest on borrowings	124,597	165,004	119,369	158,080
Interest on debentures	334,990	386,865	320,933	370,631
Other	27,157	72,003	26,017	68,982
	1,706,394	2,089,380	1,634,790	2,001,705
Net interest income	1,741,347	1,846,758	1,668,276	1,769,264
Provision for loan losses	940,152	2,198,645	900,701	2,106,385
Net interest income (loss) after provision for loan losses	801,195	(351,887)	767,575	(337,121)
Non-interest income:				
Fees and commission income	685,741	714,976	656,966	684,974
Unrealized gain on trading securities	6,886	1,390	6,597	1,332
Realized gain from disposition of trading securities	74,609	38,608	71,478	36,988
Realized gain from disposition of available-for-sale securities	31,356	178,900	30,040	171,393
Reversal of impairment loss on available-for-sale securities	147	19,026	141	18,228
Gain from equity method	1,585	1,987	1,518	1,903
Gain from disposition of loans	23,975	1,320	22,969	1,265
Gain from trust management	14,550	20,541	13,939	19,679
Gain on foreign currency transactions	346,172	168,202	331,646	161,144
Gain on derivatives	2,262,722	561,479	2,167,774	537,918
Others	69,591	182,973	66,672	175,295
	3,517,334	1,889,402	3,369,740	1,810,119
Non-interest expenses:				
Fees and commission expense	136,630	150,082	130,897	143,784
General and administrative expense	982,416	931,230	941,192	892,155
Unrealized loss on trading securities	1,110	7,180	1,064	6,879
Realized loss from disposition of trading securities	12,651	22,036	12,120	21,111
Realized loss from sale of available-for-sale securities	382	14,037	366	13,448
Impairment loss on available-for-sale securities	52,890	233,646	50,671	223,842
Loss from disposition of loans	58,330	169,560	55,882	162,445
Contribution to Credit Guarantee Fund	54,330	56,352	52,050	53,987
Loss on foreign currency transactions	229,709	94,630	220,070	90,659
Loss on derivatives	2,290,232	539,814	2,194,129	517,162
Others	226,401	232,809	216,901	223,039
	4,045,081	2,451,376	3,875,342	2,348,511
Net non-interest income (expense)	(527,747)	(561,974)	(505,602)	(538,392)
Ordinary income (loss)	273,448	(913,861)	261,973	(875,513)
Extraordinary gain	125	343	120	328
Earnings (losses) before income taxes	273,573	(913,518)	262,093	(875,185)
Income taxes	7,070	53,806	6,773	51,548
Net earnings (losses) before minority interest	266,503	(967,324)	255,320	(926,733)
Net income in minority interest	1,265	891	1,212	854
Consolidated net earnings (losses)	**₩ 265,238**	**₩ (968,215)**	**$ 254,108**	**$ (927,587)**
Ordinary income (loss) per share in Won and U.S. dollars	₩ 369	₩ (1,425)	$ 0.35	$ (1.37)
Net earnings (loss) per share in Won and U.S. dollars	**₩ 369**	**₩ (1,424)**	**$ 0.35**	**$ (1.36)**

Organization Chart



Board of Directors and Management

Standing Directors

Dong-Soo CHOI
Chairman of the Board
President and
Chief Executive Officer

Jee Hong YOO
Standing Auditor

Non-Standing Directors

Yong Sung PARK
Director
Chairman of
Doosan Heavy Industries &
Construction Co., Ltd.

Young-Hwi CHOI
Director
President and CEO of
Shinhan Financial Group

Byung Jae CHO
Director
Senior Executive
Vice President of
Shinhan Financial Group

Dae Sik KIM
Director
Professor of
Hanyang University

Gi Don KIM
Director
Director of
Korea Deposit Insurance
Corporation

Executive Officers

Bhang-Gil CHOI
Deputy President, Responsible for Planning Division, Management Support Department, Risk Management Division, and Public Relations Team

Hee-Soo KIM
Deputy President, Responsible for Trust Division, General Affairs Division, Security Control Department and Customer Service Department

Kwang-Yub CHUNG
Deputy President, Responsible for IT Group, Human Resources Division, Staff Satisfaction Center and Human Resources Development Center

Hong Hee CHAE
Deputy President, Responsible for Retail Banking Group and Synergy Promotion Division

Yong Uk O
Deputy President, Responsible for Middle Market Group and e-Business Division

Jeong-Woo CHANG
Deputy President, Responsible for Credit Card Group

Jae-Yoo KIM
Deputy President, Responsible for Credit Planning Division, Credit Analysis & Assessment Division and Loan Recovery Division

Injoon CHAEY
Deputy President, Responsible for Corporate & Investment Banking Group

Chang Seong MOON
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Sung-Yoon KIM
Deputy President, Responsible for Treasury & International Group

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