



# One-portal Financial Network

Business Review 2003



## Establishing Shinhan Standards

Shinhan Bank is redefining the standards for financial services.

In 2004, we are committed to creating greater value for all our shareholders by focusing on quality services, expanding revenues, realizing synergies, and building a foundation to expand into related businesses.

\*Shinhan Standards epitomize the best practice in each sector of the financial industry, standards on which competitor banks and other companies model their systems.



## + Brief History

- '82 Shinhan Bank founded (July)
- '89 Shinhan Bank listed on Korea Stock Exchange (November)
- '91 Korea's first online and phone banking service (August)
- '92 Korea's first credit information system (January)
- '98 Acquisition of Dongwha Bank (June)
- '98 Korea's first credit scoring system introduced (November)
- '99 Korea's first GDR issue since the financial crisis of 1997 (April)
- '00 "The Best" in Banking & Customer Service by Euromoney (July)
- '01 Shinhan Financial Group founded (September)
- '03 Shinhan Financial Group acquired Chohung Bank (CHB) (July)
- '03 Shinhan Financial Group listed on NYSE (September)



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# A stronger and greater financial world

## + Mission

Shinhan Bank's mission is to become a Korea's foremost banking institution, creating and delivering value to our clients and society.

We provide superior banking services for our customers, with a focus on:

- Financial security
- Innovative practices
- Competitive products and services
- World-class competence

Shinhan Bank has been designated as the central body and core distribution channel of the Shinhan Financial Group through the construction of its 'One-portal Financial Network.'



## + Profile

Shinhan Bank was established in July 1982 as a Korea's first private banking institution and was listed on the Korea Stock Exchange in 1989. Since then, the bank has grown to become a leader in the Korean banking industry, advocating a progressive corporate culture and implementing transparent management principles. As Korea's fourth biggest bank in terms of total asset, Shinhan Bank has the country's fourth largest retail banking operations (2003 market share of 9.5%) and offers a full array of financial products and services backed by over 4,500 devoted professionals and an extensive network of 365 branches at home and abroad.

With respect to its balance sheet, Shinhan Bank posted total assets of ₩84.1 trillion (US\$70.2 billion), shareholders' equity of ₩3.5 trillion (US\$2.9 billion) and total deposits of ₩56.5 trillion (US\$47.2 billion) as of 2003-end. Meanwhile, the bank saw net income of ₩476.0 billion (US\$397.4 million) in 2003, while its BIS ratio stood at 10.49%.

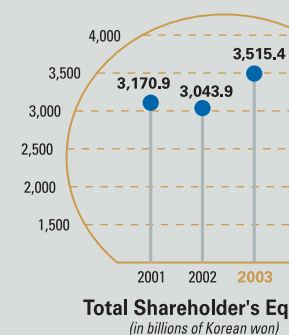
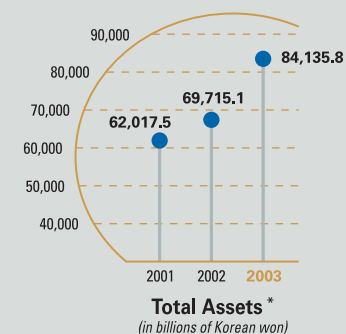
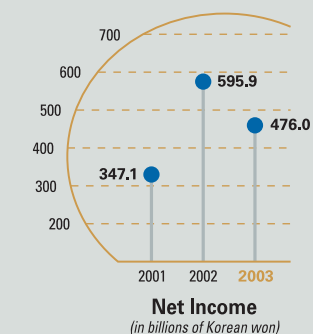
Today, boasting superior asset quality, efficiency and customer services, Shinhan Bank is unfolding a 'One-portal Financial Network,' which will act as Shinhan Financial Group (SFG)'s core distribution channel, resulting in economies of scale, significant synergies and global competitiveness.

# + Financial Highlights

	in billions of Korean won		in millions of U.S. dollars*	
	2003	2002	2003	2002
<b>Bank Account</b>				
For the Year				
Operating Revenues	4,855.9	4,821.4	4,054.0	4,016.5
Operating Expenses	4,180.7	3,889.4	3,490.3	3,240.1
Operating Income	675.2	932.0	563.7	776.4
Ordinary Income	685.7	843.0	572.5	702.3
Net Income	476.0	595.9	397.4	496.4
At year-end				
Total Assets	70,071.2	58,889.4	58,499.9	49,058.1
Total Loans	47,783.9	40,579.0	39,893.1	33,804.6
Total Securities	15,592.2	13,855.0	13,017.4	11,542.0
Total Deposits	45,612.6	39,627.8	38,080.3	33,012.2
Total Shareholder's Equity	3,515.4	3,043.9	2,934.9	2,535.7
<b>Trust Account</b>				
At year-end				
Total Assets	14,471.9	11,090.4	12,082.1	9,238.9
Total Loans	280.4	271.3	234.1	226.0
Total Securities	5,425.0	5,610.5	4,529.1	4,673.9
Total Money trusts	6,057.3	6,269.0	5,057.0	5,222.4
<b>Financial Ratios (%)**</b>				
Return on average assets	0.71	1.05		
Return on average equity	15.05	19.79		
Substandard & Below	2.2	1.42		
NPL Ratio by FSS	0.82	0.69		
Net Interest Margin	2.04	2.54		
BIS capital adequacy ratio	10.49	10.92		
( tier 1 Capital Ratio )	6.34	6.81		
( tier 2 Capital Ratio )	4.15	4.11		

**Notes :** \* Translated into US dollars at rates of ₩1,197.8/USD and ₩1,200.4/USD, respectively, the prevailing rates on Dec. 31, 2003 and Dec. 31, 2002.

\*\* Financial ratios are based on Financial Supervisory Service (FSS) standards. ROA, ROE, NPL ratio, and NIM are calculated based on non-consolidated data, while BIS ratio is based on consolidated data.



\* Total assets are the sum of bank and trust account, less intra-account and security investment trusts.



**Shin, Sang-Hoon**  
*President & Chief Executive Officer*



During the year, we were able to **increase quality assets and market shares in various sectors** based on **efficient business practices and stringent risk management**.

## + CEO's Message

The year 2003 proved to be the most difficult environment facing the domestic economy since the Asian Financial Crisis of the late-1990s. This was due in part to the so-called 'bipolarization phenomenon' between industries and a delayed Korean economic recovery, despite a strengthening domestic export sector and recovering world economies. The Korean financial industry, in particular, underwent major restructuring due to the SK Networks (formerly SK Global) scandal and the delinquency issues confronting the domestic credit card industry amid rapid changes in market trends.

Despite these unfavorable conditions, however, Shinhan Bank was able to accomplish its objectives for 2003. During the year, we were able to increase quality assets and market shares in various sectors based on efficient business practices and stringent risk management.

In addition, we solidified a foundation for creating synergies between business units by completing the first stage of our millennium retail branch (MRB) system, which has allowed us to provide a 'One-portal Financial Network.' Meanwhile, Shinhan Bank has made successful inroads into the newly launched bancassurance market.

In addition, Shinhan Bank strengthened its position as a leading domestic bank following the introduction of new products and services, including 'Gold Banking' which was awarded with the 2003 Best New Financial Product award by FSS (Financial Supervisory Service). We were also presented with the 2003 Best Internet Banking award by Stockpia, demonstrating our strength in e-banking.

Another major development in 2003 was Shinhan Financial Group (SFG)'s acquisition of Chohung Bank (CHB). To ensure the smooth integration of the two operations, we are committed to building a favorable environment by actively participating in joint management committee meetings as well as working-level conferences.

For the year 2004, we anticipate that a number of lingering uncertainties surrounding Korea and its economy will hinder growth. These

We will continue ensuring **world-class competitiveness** by promoting a **dynamic** and **progressive organizational culture**.

uncertainties include sharp rises in real estate prices, an increase in bad credit holders, an impending crisis in household credits, and worries over the insolvency of financial institutions.

We also foresee strengthening regulations on the soundness of financial companies before the implementation of the New Basel Accord amid accelerating restructuring and infusions of more foreign capital into the domestic financial market. Other unfavorable factors facing the industry include the deregulation of interest rates for demand deposits and mortgage loans, and the ongoing convergence of finance and communications. Accordingly, Shinhan Bank will continue working towards an ideal integration with CHB, while developing a firm foundation for solid growth by wisely coping with such challenging environment.

To this end, we are committed to focusing on four core management tasks in the coming year:

- Seek continuous stable growth,
- Construct a foundation for successful integration,
- Pursue customer-oriented values, and
- Move towards becoming a world-class financial institution.

First, we will work to establish a foundation for stable growth through effective management. We will develop new growth models and diversify our revenue sources in order to better stabilize earnings in spite of adverse business conditions. In addition, we will continue to stress the importance of risk management by focusing on high-quality asset portfolios through comprehensive economic and credit analysis. As such, Shinhan Bank aims to achieve industry-best productivity based on high profitability and asset soundness.

Second, we will continue to prepare a solid foundation for expansion through successful integration with CHB. The union of Shinhan Bank



with CHB brought about great expectations, which we intend to fulfill by designing a comprehensive model that will prove successful in the domestic banking history. On this note, 2004 will be the first full year of operations for the combined bank. Accordingly, the headquarters of each bank will devote their efforts to creating the most powerful processes and systems by combining their strengths and discarding their redundancies.

As for synergies, Shinhan Bank's strongest competitive advantage, we aim to strengthen customer loyalty and enlist new customers by sharing client information and developing affiliated products with other SFG affiliates through a 'One-portal Financial Network.'

Third, we will continue to place top priority on the success of our clients and their values. In order to secure true customer loyalty and enhance our brand, we will do our utmost to achieve customer satisfaction at all levels. To this end, we will reorganize Shinhan Bank's support system, establish a new Private Banking (PB) Department and the Corporate Banking Service Center, and separate the Retail Banking Division's sales and support functions. In addition, executives will develop closer relationships with customers, and assist salespeople with greater field management.

Lastly, we will continue ensuring world-class competitiveness by promoting a dynamic and progressive organizational culture. We believe that our people are the key to Shinhan Bank's role as SFG's core entity. As such, it is they who define our brand and secure our profitability. We are confident that the bank is poised to open a new financial world as the core of the Shinhan Financial Group, as our people are committed to delivering value to all of our shareholders.

**Shin, Sang-Hoon**

*President & Chief Executive Officer*

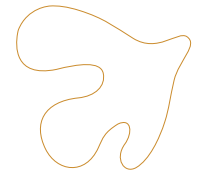
## + Vision & Values



**Vision 21:** Shinhan Bank is your 'One-portal Financial Network,' providing comprehensive financial services and delivering value to our customers and shareholders through speed, creativity, passion, and teamwork.

**Management:** Shinhan Bank's B-7 Strategy

- **Bank of National Wealth:** Contributing to the national economy while creating a new financial culture
- **Bank of Retail:** Serving customers with devotion
- **Bank of Community:** Supporting the community through active participation in environmental and cultural activities
- **Bank of Disclosure:** Growing into a solid bank backed by steady capital expansion and an industry-best BIS capital level
- **Bank of Effectiveness:** Upgrading the quality of our financial services by improving processes and introducing advanced financial techniques
- **Bank of World-wide:** Becoming a world-class bank with the implementation of global management practices
- **Bank of New Age:** Advocating progressive thinking and creativity in line with the ever-changing demands of our clients

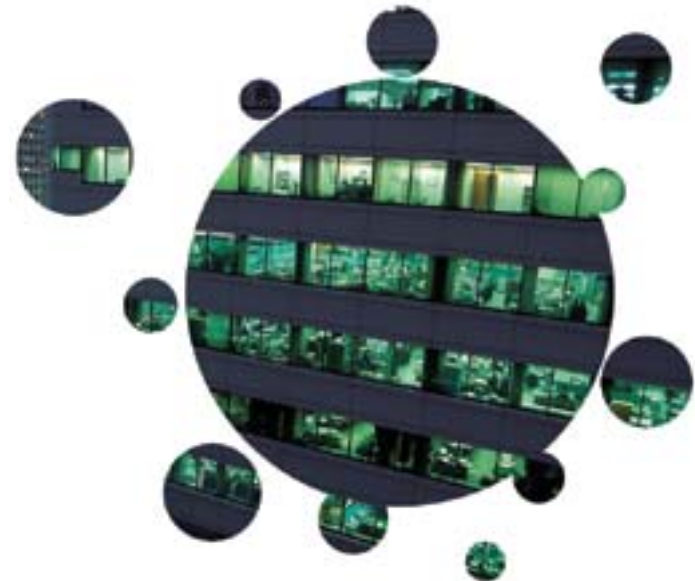



## + Corporate Governance

Shinhan Bank's operations are carried out in line with its legal responsibilities, while reflecting the ethical expectations of society in its decisions and actions. Our management team aims to move the bank in a direction which all stakeholders, including customers, employees, shareholders and society, grow together under a shared vision.

In order to ensure transparent corporate governance, management is committed to:

- (1) preventing mishaps by adhering to internal operating guidelines,
- (2) exposing customer service-related financial calamities through a customer report and complaint system on our website and
- (3) emphasizing transparent operations and moral practices.





Our **management team aims** to move the bank in a **direction** which all stakeholders, including customers, employees, shareholders and society, **grow together under a shared vision.**

We also fulfill our duties as a corporate citizen by contributing to society through various volunteer activities, services, donations and environmental preservation campaigns (participated in by the entire staff since April 1992). Meanwhile, we continue to keep our social obligations rendering a variety of social services, such as school development funds, and visits to orphanages and homes for the elderly.

Our management ideas revolve around the following concepts:

- **Customer Satisfaction:**  
Doing our utmost for the success of our customers by providing optimal products and services.
- **Shareholder Value:**  
Maximizing shareholder value through rational investments and transparent management.
- **Corporate Citizenship:**  
Complying with social values and all regulations, while contributing to the national economy and its development.
- **Employee Satisfaction:**  
Improving the welfare and benefits of our employees, while respecting individual personality, autonomy and creativity.



## + Executive Officers & Outside Directors

### Executive Officers

**Shin, Sang-Hoon**

President &  
Chief Executive Officer

**Cho, Jae-Ho**

Director & Standing Auditor

**Lee, Jae-Woo**

Deputy President &  
Chief Credit Officer

**Youn, Gwang-Lim**

Deputy President &  
Head of Investment &  
Financing Division

**Cho, Woo-Sup**

Deputy President &  
Head of Trust Division

**Han, Min-Ky**

Deputy President &  
Head of Retail Banking  
Division

**Song, Yeon-Soo**

Deputy President &  
Head of Planning &  
Coordination Department

**Han, Do-Heui**

Deputy President &  
Head of Corporate  
Banking Division

**Suh, Jin-Won**

Deputy President &  
Head of IT Division

**Yang, Shin-Keun**

Deputy President &  
Head of Treasury Division

**Oh, Sang-Young**

Executive Vice President &  
Chief Risk Officer

### Outside Directors

**Choi, Young-Hwi**

Director

**Jeong, Kap-Young**

Director

**Park, Kyung-Suh**

Director

**Seo, Sang-Rock**

Director

**Kim, Hee-Soo**

Director





## + Corporate Culture & Community Involvement

### Promoting A Customer-Oriented Culture

Since its establishment, Shinhan Bank has pursued innovative management strategies to achieve customer satisfaction. As a result, we have become a leader in the Korean banking industry, with other financial institutions benchmarking our efficient service techniques.

In line with rapid changes in the financial industry and increasingly diversifying customer needs, we have been implementing new dimensional strategies to achieve our goal of customer satisfaction. In 1991, we became the first bank to establish a 'Customer Service Center,' which was created to improve customer service and convenience by enabling customers to make inquiries on any inconveniences they may be faced with 24 hours a day. Then in 1993, we installed a 'Customer Satisfaction Center,' another first in the domestic banking industry, to maintain our high-quality customer service by collecting and analyzing a variety of customer opinions through in-house information networks, broadcasting and training programs to seek improvement measures.

In addition, the 'customer satisfaction index (CSI)' survey was launched in 1994 based on the 'Window Monitoring System,' which we had operated to enhance the quality of services. Focused on kindness, speed, expertise, professionalism and customer relationships, the CSI survey impacts our performance evaluations for employees and branches. We also utilize the Internet to provide our 'Customer Voice' and 'Customer Center' services, while monthly 'CS Conferences' are held by deputy presidents and division heads to seek overall improvement in customer service.

### Heightening Convenience With Market Changes

In order to brainstorm and implement branch-level service improvements, the 'Gal Force' has been constituted by employees who deal directly with customers at teller windows. The group has played an important role in improving customer services, and establishing the customer-oriented culture based on continuous training and education.

We have also carried out the 'Service Level-up' campaign since October 1999, which has resulted in improved and differentiated services. This has been the key in dealing with intensifying competition, particularly from foreign-based financial institutions amid rapid changes in the economic



We have become a **leader** in the Korean banking industry, with other financial institutions **benchmarking** our **efficient service techniques**.

Meanwhile, corresponding to market-oriented environment changes, we converted all our general branches into ones that specialize in retail, SME and large corporate customers. This was done with an aim of becoming more customer-oriented, and allowed us to provide specialized professional services to our clients. Furthermore, we established a Millennium Retail Branch (MRB) system, which was designed to facilitate customized services.

In an effort to facilitate e-banking, we were the first Korean bank to introduce Internet banking ([www.shinhan.com](http://www.shinhan.com)) in July 1999. This heralded an era of cyber banking in Korea, leading to all types of transactions processed in real-time over the Internet.

### Reinforcing Satisfaction Through Social Services

Shinhan Bank also looks to reinforce customer satisfaction through a wide spectrum of social service activities. Such endeavors are voluntarily participated in by employees and include visiting social welfare facilities and military units, inviting underprivileged children to special events, assisting senior citizens living alone, campaigning for blood donations, producing bracelets for missing children and donating time and money for the less fortunate.

The bank also operates online charity programs on its website, including the 'Online Salvation Army Charity Pot' and the 'Care Button,' the latter of which is carried out in cooperation with the Korea National Tourism Organization (KNTO). When the number of homepage visitors who click the 'Care Button' amounts to 160,000, the KNTO contributes ₩16 million to help the underprivileged. Meanwhile, the bank raised approximately ₩16.3 million in 2003 from collection boxes placed in each branch for another charity program called 'Care With ₩2,000 Per Month.' With the money, Shinhan Bank invited four ethnic Korean children in China suffering from heart disease to get medical treatment in Korea.

Accordingly, the bank takes pride in receiving the top rank in the customer service index (CSI) by the Korea Management Association Consulting. In addition, the bank received the industry's least number of civil complaints by the Financial Supervisory Service, and was the highest ranked bank on the Korea Standards Association's 2003 Service Quality Index (KS-SQI).

# + Year 2003 at a Glance



## Shinhan Financial Group acquired CHB

Following the sale of Chohung Bank (CHB) to Shinhan Financial Group (SFG), the expected merger between Shinhan Bank and CHB will create a mega bank with assets amounting to ₩149 trillion, turning it into Korea's second-largest bank behind KB (₩219.0 trillion). Experts also anticipated considerable synergy effects to be generated going forward, including an improvement in net interest margins and a more diversified customer base by CHB and stronger Risk Management System of SHB.

## Ranked first in customer satisfaction by KMA Consulting

Shinhan Bank ranked first among domestic banks in the Korea Customer Satisfaction Index (KCSI) surveys conducted by the KMA Consulting, recognizing its leadership in CS with customer-oriented innovative services.



## Selected as Korea's Best Emerging Market Bank

Global Finance, a US-based international finance journal, selected Shinhan Bank as a Korea's best emerging market bank. In making their decision, the trade journal evaluated the strategies and performances of international banks and gauged their market competitiveness, capital size and adequacy and product development capabilities.



## Recognized for the least number of civil complaints and the highest service quality

Shinhan Bank received the industry's least number of civil complaints by Financial Supervisory Service and was the highest ranked bank on the Korea Standards Association's 2003 Service Quality Index (KS-SQI).



## Shinhan Financial Group listed on NYSE

On September 16, shares of SFG were listed on the New York Stock Exchange (NYSE). SFG is the sixth Korean firm to list on the NYSE. This followed final approval from the US Securities Exchange Commission (SEC) on the financial statements submitted by SFG, proving the transparency of its accounting methods, including all subsidiaries.

## Received grand prize for exemplary corporate reforms from FKI

Shinhan Bank received the grand prize in the 'Exemplary Corporate Reforms Competition' managed by the Korea Economic Daily and the Federation of Korean Industries (FKI). The bank was applauded for aggressively pursuing a diverse program of reforms since its inception, as backed by the unflinching support of its staff. Shinhan Bank has been leading changes in the domestic financial environment with the implementation of new products and services.



### Obtained int'l information security standard 'ISO17799/BS7799'

Shinhan Bank acquired 'ISO17799/BS7799' from the British Standards Institution (BSI), a worldwide leading provider of standards. 'ISO17799/BS7799' is the only international standard for information security and protection.

### Launched Internet deposits and cooperative purchases

Shinhan Bank introduced the concept of cooperative Internet buying, which gives discounts when a number of individuals purchase specific goods, into its deposit products, providing 'convenience +fun+earnings' to Internet deposit product customers. The bank also applied to patent this product, an industry first.

### Shinhan Bank website received Hankook Ilbo Web Award

Shinhan Bank's website received top prize in the Internet Banking Category at the Hankook Ilbo, one of the popular daily newspaper in Korea, Web Awards.



### Opened Shanghai Branch in China

In October 2003, Shinhan Bank opened a branch in Pudong, Shanghai. Following the opening of a subsidiary in Hong Kong (November 1990) and a branch in Tianjin (September 1996), the Shanghai Branch is expected to become a key bridge for the bank's advance into China, which is emerging as a dominant player in the world economy.



### Developed nationwide ATM management system

Shinhan Bank was the first Korean bank to develop a comprehensive nationwide system that enabled ATM management by the Direct Banking Center. Designed to minimize customer inconvenience and lower costs, the system manages ATMs for regular maintenance through video monitoring and remote control. The system is fully operational and manages 2,350 ATMs in 268 branches and 361 self-service outlets throughout the nation.



### 'Gold Riche' selected as '2003 Best New Financial Product' by FSS

Shinhan Bank's 'Gold Riche,' an installment-type deposit product used to invest in gold, was selected as the '2003 Best New Financial Product' by FSS. Of note, the product deals with internationally recognized gold certified by the London Bullion Market Association (LBMA).



### Ranked first in Internet banking service

Shinhan Bank obtained a AAA rating from Stockpia for the seventh consecutive quarter. Featuring the Shinhan EzPlus service for speedy banking, its Internet channel had been recognized by customers and experts as being Korea's best banking website, providing safe transactions and fully reflecting the needs of customers.



**Expanding into a global One-portal Financial Network  
delivering ultimate services and value**

## **Primed for Growth**

Shinhan Bank is defining its future through impressive development and expansion

## + Defining Growth



As for synergies, Shinhan Bank's strongest competitive advantage, we aim to strengthen customer loyalty and enlist new customers by sharing client information and developing affiliated products with other SFG affiliates through a 'One-portal Financial Network.'

Shinhan Bank is defining its future through impressive development and expansion. For the last two decades, we have secured leadership in the domestic banking industry, while strengthening our competitiveness in world markets. In particular, we have demonstrated impressive growth in deposits, which grew by 15% YoY to ₩56.0 trillion (US\$46.8 billion) at 2003-end, from ₩48.8 trillion (US\$40.7billion) at 2002-end. Moreover, following SFG'S listing on the NYSE, we are now poised for further overseas expansion, having recently opened a branch in Shanghai, China.

## Shinhan Financial Group Acquisition of CHB

The merger of Chohung Bank (CHB) with Shinhan Bank will lead to the beginning of an integrated mega bank with assets amounting to ₩149 trillion (US\$124.4 billion), becoming Korea's second largest bank. Experts forecast that the integrated bank will be able to enjoy considerable synergy effects going forward, including an improvement in ROE. The integrated bank also should be able to secure greater competitiveness in various markets.

Aside from the immediate effects of the merger, the newly formed mega bank should also increase Shinhan Bank's future growth potential. We will work towards creating a foundation to optimize corporate and household asset portfolios, maximize revenue and profit generation and provide a complete lineup of financial services and products backed by our strong brands and business alliances.

In 2003, Shinhan Bank obtained visible results through the full-scale expansion of synergistic businesses including credit cards, financial network accounts (FNAs) in linkage with securities trading accounts, investment trusts and bancassurance.

### Credit Cards

The number of Shinhan Card holders rose by 211,268 accounts YoY, making up 77% of Shinhan Bank customers and 52% of total SFG customers. Meanwhile, credit card-related commission income reached ₩63.3 billion in 2003. Of note, the bank's credit card business was spun off in June 2002.

### Investment Trust

Despite aggravating funding conditions behind the SK Networks scandal and rising credit card delinquencies, Shinhan Bank strived to improve its investment trust business based on devoted customer relationships and quality assets. As a result, the investment trust business saw sales increase by ₩771.3 billion (US\$643.9 million) YoY, the highest among domestic banks, while investment trust-related commission income reached ₩8.2 billion (US\$6.8 million).

### Bancassurance

Since the introduction of bancassurance in September 2003, Shinhan Bank has focused on educating its employees, and constructing infrastructure for the early settlement of new systems and market advances. On the back of relationship marketing targeting major customers, the bank posted bancassurance sales of ₩295.1 billion (US\$246.4 million) (based on premium income), and recorded the industry-high sales per branch. Meanwhile, bancassurance-related commission income amounted to ₩11.5 billion (US\$9.6 million).

### Financial Network Accounts (FNAs)

The FNA business was carried out with a focus on actual demand for the maximization of synergistic effects, generating 374,223 new accounts and thereby contributing to the expansion of Good Morning Shinhan Securities (GMSH) during the year.

## Strategies for Growth in 2004

Securing world-class competitiveness through the establishment of Shinhan Standards

Shinhan Bank has developed industry-leading standards in several areas including corporate culture, retail revolutions, business division systems, Credit Scoring System (CSS), CRM, Internet banking, MRB and the holding company system. We will continue to maintain our leadership position to accomplish 'Shinhan Standards,' which will be viewed as standards for the Korean financial industry. Likewise, we strive to become Korea's representative bank, securing a substantial competitive edge in profitability, risk management, and productivity.

Strategic initiatives in 2004 primarily include:

### Doubling capabilities to generate earnings

- Maximize earnings power by strengthening strategic pricing competence
- Diversify earnings structure by reinforcing non-interest income sectors including commission income
- Improve deposit portfolio development and securing low-cost funding sources
- Enhance performance-centered and market-oriented corporate culture
- Create leading competitive advantages by sector

### Pursuing synergies in full scale and establishing a foundation for a new bank

- Strengthen leadership in synergy creation as SFG's primary distribution channel
- Diversify earnings sources by improving efficiencies
- Construct a base for globalization through continuous expansion
- Expand a foundation for a new bank

### Securing future competitiveness

- Develop future growth engines and construct foundations for each sector
- Expand brand image as a market leader
- Seek organizational productivity and efficiency by improving processes
- Enhance research and marketing capabilities for international growth, including China
- Cultivate financial talents through the development of a competence-centered education system

### Fortifying capabilities to preemptively address management risk

- Strengthen capabilities to monitor and cope with economic trends
- Minimize the volume of loan loss provisions through reinforced credit risk management
- Consolidate comprehensive risk management capabilities
- Build on current capabilities to correspond with new equity capital regulations (slated for 2006)



## Implementing Shinhan Global Standards

### Review of Operations

Shinhan Bank aims to achieve industry-best productivity based on high profitability and asset soundness.



Retail Banking pursued **growth** through an **expansion** in assets with a focus on **profitability**.



## + Retail Banking

Korea's retail banking sector witnessed intensifying competition in 2003, primarily due to: (1) expansion in market risk from continued low interest rates and a sluggish economy, (2) a slowing domestic real estate market, (3) signs of rising NPLs due to a sharp rise in household loans, and (4) a tendency towards the integration of financial services. In addition, the bancassurance and SME markets emerged to become very competitive in 2003, leading to an expansion in complex financial products offered.

The Retail Banking Division pursued growth through an expansion in assets with a focus on profitability, by concentrating on establishing efficient and elaborate business strategies, improving risk management functions, and reinforcing asset soundness. We also focused on cross selling with other SFG's affiliates the 'One-portal Financial Network.' Furthermore, we strived to elevate the quality of all retail business systems mainly by focusing our efforts on customer relationship marketing in full-scale.

As a result, despite difficult market conditions, the Retail Banking Division recorded satisfactory growth in both loans and deposits, which rose by 21.4% YoY and 6.9% YoY, respectively, to ₩24,651.5 billion (US\$20,580.6 million) and ₩34,574.1 billion (US\$28,864.7 million). Our delinquency ratio also remained low relative to the industry, standing at 0.27%. This was attributed to proactive risk management and preemptive delinquency curtailment strategies despite increases in bad credit holders and real estate risks. Meanwhile, Retail Banking Division saw pre-provisioning income amount to ₩652.7 billion (US\$544.9 million), up 11.4% from a year earlier.

### Loans

Shinhan Bank focused on resilient operational strategies for mortgage-backed loans considering risks due to an increase in the number of bad household credit holders and a slowing real estate market. We also conducted relationship marketing with real estate agencies with an aim to construct a cooperative network. As a result, 'Green Home Loans' rose by ₩1,121.6 billion (US\$936.4 million) YoY to ₩11,856.5 billion (US\$9,898.6 million), while all mortgage-backed loans climbed ₩606.2 billion (US\$506.1 million) to ₩1,714.4 billion (US\$1,431.3 million).

Personal credit loans also demonstrated growth due to a continued expansion in the development of a potential customer group for quality loans and reinforced strategic product sales by target customer. 'High Class Loans' for professionals and 'Elite Loans' for high-income earners amounted to ₩90.8 billion (US\$75.8 million) and ₩488.9 billion (US\$408.2 million), respectively, as of 2003-end. Meanwhile, 'Loans for civil servant'

The division plans to **increase profitability** by improving asset portfolios, conducting customer relationship management businesses to **induce high-quality customers**, and **actively perform a leading role as a core gateway for SFG customers**.



totaled ₩153.5 billion (US\$128.2 million).

In the small business sector, 'Small Office Home Office (SOHO) Loans' ballooned ₩190.1 billion (US\$158.7 million) YoY to ₩6,080.3 billion (US\$5,076.2 million) on the back of an expanding market share and differentiated services.

### Deposits

In an effort to meet the increasingly sophisticated needs of our customers, the bank focused on sales of compounding financial products in 2003, rather than traditional deposit products. We also strived to reinforce a marketing strategy to increase low-cost deposits, including Cash Management System (CMS) and B2B settlement accounts, in order to strengthen our earnings basis. Specifically, we generated ₩1,011.1 billion (US\$844.1 million) in sales of equity-linked products, including equity-linked time deposits, which emerged as popular financial products in the banking sector last year, reflecting demand for higher-rate yielding products.

In addition, we were able to create synergies while increasing market dominance with the expansion of affiliated composite financial products within the SFG network. This was accomplished by reinforcing our knowledge of FNA trading savings deposits, bancassurance and investment trust products.

### Customer Relationship Management Marketing

During 2003, the Retail Banking Division strived to advance its business systems to conduct full-scale relationship marketing, while seeking to complete its Millennium Retail Branch (MRB) business system, an integrated business system. Specifically, the division endeavored to maintain customers and prevent existing customers from leaving by further enhancing its competence on CRM-based marketing. Marketing for up selling and cross selling was also carried out, breaking down customers through an elaborate marketing algorithm.

Subsequently, we pursued a variety of service strategies by target group. We also expanded our customer base by core market and secured competitive advantages by concentrating our marketing capabilities on high net worth (HNW) individuals through private banking, which is a core market.



As a result, the number of 'major customers' (which account for 70% of the division's income, 85.8% of deposits, and 71% of loans) increased by 8.4% YoY to 313,000. Profitability per customer also saw a steady rise, increasing by 10.6% YoY to ₩1,470,000. This is attributed to reinforced relationship marketing towards high-income clients and differentiated service strategies. As a consequence, customer loyalty and quality both rose significantly, along with our core customer base, which saw the number of HNW customers expand 12.4% YoY to 154,000. Meanwhile, our retention ratio for HNW clients rose to 90%.

In 2004, we expect to see both opportunities and threats due to intensifying competition among mega banks and the entry of foreign-based players via acquisitions. In addition, the industry faces possible asset insolvencies and rising uncertainties in the financial market.

To cope with such a market environment, the division plans to increase profitability by improving asset portfolios, conducting customer relationship management businesses to induce high-quality customers, and actively perform a leading role as a core gateway for SFG customers. Also, by concentrating on the expansion of an efficient marketing infrastructure, we will solidify our leading position in the retail banking industry.



The division also secured **new revenue drivers**, such as the sales of comprehensive real estate management products, **a first in Korea**, and the provision of **realty, investment, and lease consulting/management services**.



## + Private Banking

The Korean market is increasingly utilizing and developing more advanced financial products, such as equity-linked securities and other derivatives products, breaking away from traditional investment instruments due to the low interest rate environment.

In addition, the ongoing integration of financial services following the introduction of financial holding companies and bancassurance has enabled financial institutions to develop and market new products. As a result, high net worth (HNW) customers have begun to demand customized products and services. Accordingly, competition in the Korean private banking (PB) market has intensified since the end of 2002, particularly in relation to real estate investments and tax affairs. Shinhan Bank strengthened its PB business through a number of measures, such as: (1) expanding its network of PB branches, (2) implementing appropriate PB support systems, and (3) reinforcing the capabilities of its PB specialists by offering continuing education opportunities.

In order to cope with this increasingly competitive environment, Shinhan Bank has focused on attracting more HNW customers. Firstly, the PB division increased its assets under management (AUM) by conducting exclusive HNW customer management through its PB Center. It also employed several customer relations strategies, such as holding seminars for realty, taxation, and investment issues, and organizing other high-interest events including charity golf tournaments and skin care classes for women. Such efforts led to ₩1.56 trillion (US\$1.30 billion) in PB sales in 2003, an increase of ₩0.95 trillion (US\$0.79 billion) from ₩0.61 trillion (US\$0.51 billion) in 2002. Furthermore, newly secured funds increased by ₩0.42 trillion (US\$0.35 billion) from a year earlier.

Secondly, the bank looked to expand its commission income based on fee businesses from key areas, such as the PB division. It heightened customer satisfaction by continuously introducing high-margin PB products, while activating fee-based products by concentrating on sales of PB securities trading savings deposits and bancassurance products. Bancassurance sales, in particular, accounted for more than 11% of PB sales.

The division also secured new revenue drivers, such as the sales of comprehensive real estate management products, a first in Korea, and the provision of realty, investment, and lease consulting/management services. In addition, the bank's 'Inheritance Management' services, another first in Korea, have been widely recognized and helped catapult Shinhan Bank into the upper echelons of the domestic PB market. Consequently,



the bank saw 2003 operating income rise by ₩7.4 billion (US\$6.18 million) on the back of this fee-based strategy, while operating margins to total funding advanced 14bp over the year.

Thirdly, the bank pursued a variety of PB support strategies by increasing its professional manpower. It heightened the overall quality of PB services by actively utilizing professionals, such as licensed tax accountants and real estate appraisers for customer asset operations, while providing a wide range of reports on current financial issues and trends.

In 2004, the Korean PB market will likely experience rapid growth behind aggressive marketing due to the recent acquisition of domestic banks by foreign suitors. Under this scenario, Shinhan Bank plans to continue leading the PB market through expansion, profit maximization, and progression. Above all, it will increase its assets under management (AUM) by fostering the retail sector and attracting new customers.

In order to maximize profitability, the bank plans to: (1) construct a stable earnings foundation through the continuous development of new earnings sources, (2) steadily secure high-caliber human resources, and (3) reinforce the consulting capabilities of its realty and tax specialists. Finally, Shinhan Bank will continue to develop customized products and asset management solutions and offer high-quality PB services, such as 'Art banking' for investments in works of art, 'Family Offices' for the personalized management of our client families and offshore banking services.



Corporate Banking Division focuses on **fee-based services**, such as structured and asset-backed financing, for its **large institutional clients**.



## + Corporate Banking

In 2003, the Corporate Banking Division continued to heighten its profile in the corporate banking market by continuously developing innovative products and services for the middle market, one of the bank's core markets. As a result, it secured a solid position as a market leader, maintaining the largest share (10%) of the corporate banking market. Furthermore, we were able to firmly maintain our leading position in our target markets amid intensifying competition among banks thanks to our efforts to subdivide the corporate banking market and steadily pursue differentiated marketing strategies by market.

Our corporate banking strategy first involved identifying high-quality corporate customers based on earnings and financial soundness, and classifying them as 'Premier Club' member companies to which we provide differentiated products and services. In addition, we strengthened CRM operations for high-income customers and target customers, building close relationships through 'High-Touch Marketing,' including regular visits by our executive directors to personally understand their bottlenecks and complaints. In addition, we secured a number of systems to strengthen relationships with companies of high growth potential by newly establishing 'Frontier Club' for the early development and support of companies with strong potential. In particular, we reinforced our capabilities to develop a variety of customized products by establishing the Corporate Banking Service Center for the development of new companies and providing more substantial business support.

In addition, we continued to improve our business support systems, developing the Sales Platform Upgrade to Reach the Top (SPURT) System, constructed for more systematic customer management and business support. The SPURT System comprises: (1) the Marketing Alert System, which automatically provides information on changes in the details of major transactions by customer, (2) the Proactive Proposal Approach, which supports the suggestion business by Relationship Managers (RMs), and (3) the Account Plan, which supports comprehensive information management by customer. We also firmly established a foundation to systematically pursue businesses by developing and operating the Relationship Support System, which supports changes in overall sales and earnings by customer.

As for the corporate electronic financial products using the Internet, we heightened our leading role in the corporate electronic banking sector, developing the BizBANK, virtual accounts, B2B purchase loans and integrated settlement systems. We also obtained recognition for our outstanding accomplishments in risk management, backed by our strong screening processes and risk management systems. Shinhan Bank's ratio of substandard and below loans to total loans stood at 0.67%, while its delinquency ratio hovered at only 0.15% as of 2003-end.

In 2004, we expect competition to further intensify in the corporate banking market. Accordingly, we plan to further strengthen our position as the middle market leader by developing innovative products and services backed by our current leading position in the corporate banking market.



## + Investment Banking

The Investment & Financing Division was established in 1999 with the long-term objective of developing and expanding new businesses, and meeting the diversified financial needs of large corporate clients. The division also focuses on the settlement of RM-based marketing systems and risk management for traditional businesses. In 2003, it obtained eye-opening results despite a difficult domestic financial environment, including the SK Networks scandal and credit card bond problems. Specifically, the division posted pre-provisioning income of ₩164.9 billion (US\$137.7 million), rising 33.5% YoY from 2002. It also expanded its weighting of income from investments and financing to total income to 40.2% in 2003, from 27.8% a year ago.

In addition, the division laid the foundation for its advanced earnings structure by generating commission income of ₩51.3 billion (US\$42.8 million), which is a significant rise of 74.4% YoY. This jump in commission income was mainly attributed to: (1) advances into markets such as securitization, real estate financing, build-transfer-operate (BTO), and syndicated loans, (2) entry into e-banking, (3) the expansion of financial derivative operations through a strategic alliance with an advanced financial institution, and (4) the introduction of agreed commitment fees for overdrafts, the first in Korean banking history. It also established a basis to create synergies among SFG affiliates, generating new income of ₩21.8 billion (US\$18.2 million) in the affiliated business sector through joint marketing activities.

Meanwhile, the bank developed a computerization system based on account planning—a technique it introduced in an effort to advance corporate finance marketing systems—to be utilized for actual marketing activities. It also published a collection of marketing business cases, summarizing by product new business deals that it had completed with a view to diversifying its products going forward.

With the goal of maintaining its leadership in the investment banking market, the division plans to secure a solid market position in 2004 by focusing on the investment banking sector, including ABS, real estate financing, and syndicated loans. To this end, it will refocus its marketing programs towards the investment banking sector, re-establish its internal processes, and upgrade its incentive programs. Accordingly, the Investment & Financing Division aims to expand its ratio of income from the investment banking sector to total income to more than 50%.

Under the banner of 'To the Top of IB,' we continue to lead the market, developing high-end products which reflect the needs of corporate customers both at home and overseas.



As for traditional businesses, the division remains committed to establishing an advanced earnings structure, which includes exposure to traditional business areas. On this note, the bank plans to readjust its e-banking and fee businesses, including derivatives, while improving NIMs by expanding margin ratios for loans and deposits.

Shinhan Bank provides a variety of structured and corporate finance products and services, such as asset backed securities (ABS), corporate restructuring, BTO, project financing, syndicated loans, M&A and real estate development financing. Under the banner of 'To the Top of IB,' we continue to lead the market, developing high-end products which reflect the needs of corporate customers both at home and overseas.

The ABS market continued to act as a cash cow for the Investment & Financing Division in 2003, with the bank securing a 19% share (ranking second). Shinhan Bank also entered the asset-backed commercial paper (ABCP) market in 2003 by establishing 'Goldwing,' the first ABCP Conduit in Korea. In addition, the bank floated 25 new ABS/ABL (asset-backed loan) during the year. Accordingly, the bank also firmly secured its position as industry leader with assets under management (AUM) and ABL of ₩7,520.4 billion (US\$6,278.5 million) and ₩302.5 billion (US\$252.5 million), respectively. As such, Shinhan Bank significantly contributed to the improvement of its earnings structure by constructing a commission-based business system.

In the syndicated loan sector, the bank expanded its investment areas both domestically and internationally to include new facility investment funds, NPLs, acquisition finance, and shipping finance. During 2003, syndicated loans and investments reached ₩300.0 billion (US\$250.5 million). In addition, playing a leading role in structured financing and customized ship financing raised the bank's reliability and profile further.

In the BTO financing sector, Shinhan Bank concluded five projects in 2003, which the bank acted as lead consultant in every cases. The sector grew as an important investment tool for the composition of the bank's loan portfolio as it typically generated stable earnings. Meanwhile, real estate financing grew to be a cash cow for the Investment & Financing Division in 2003. The division saw new real estate sales of ₩468.2 billion

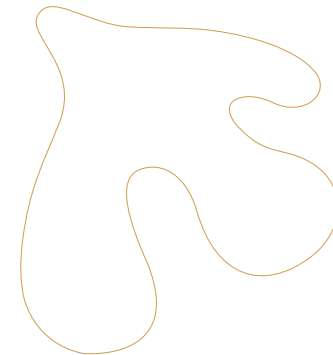




(US\$390.9 million) (29 cases) last year, leading to significant project financing in relation to real estate development, acquisitions and sales.

Furthermore, the bank's Investment & Financing Division is realigning its internal processes for more customer-oriented professional investments. Additionally, the Investment & Financing Division is implementing innovative management strategies to ensure its continued leadership in the investment banking market. These strategies involve refining its earnings structure, strengthening its risk management capabilities, and increasing its organizational vitality.

In 2004, Shinhan Bank plans to retain its superior competitiveness in the ABS, real estate finance, syndicated loan, and BTO markets in line with its slogan 'to the Top of investment banking.' It will also maintain its firm leadership in the investment banking sector, on the back of advanced financial technologies in cooperation with other SFG affiliates.



The Treasury Division aims to generate revenue through effective fund management and funding activities.



## + Treasury Business

The Treasury Division aims to generate revenue through effective fund management and funding activities. Specifically, the division focuses on: (1) strengthening ALM functions to create synergies between the domestic and foreign-currency businesses, (2) structuring and marketing new derivatives products, and (3) maximizing earnings from securities operations. Furthermore, it also strives to improve results through domestic and international business alliances and expanding into new product areas.

The Treasury Division is divided into: (1) the Treasury Department, (2) the FX & Derivatives Department, (3) the Securities Investment Department, and (4) the Settlement Office.

The Treasury Department is responsible for the bank's overall funding and liquidity management, primarily through the use of RMS21, a tool that enables risk and fund management via real time ALM. To maintain stable fund management, the department has diversified its funding methods into areas such as reverse FRNs and structured finance domestically. Internationally, the department has looked to multilateral funding markets including the HKD, EUR, and JPY.

The International Business Team, which was newly established within the Treasury Division, will engage in systematic overseas branch management and close transactions with correspondent banks in line with global standards.

The FX & Derivatives Department comprises: (1) a Trading Desk responsible for foreign exchange and derivatives trading, (2) a Marketing Desk, which implements relevant marketing and sales strategies, and (3) a Structuring Desk responsible for developing a wide range of derivatives-related financial products. In 2003, the Trading Desk held a domestic market share of 5.2% in foreign exchange trading, while earnings from derivatives trading soared 348% year-on-year. Meanwhile, the Marketing Desk saw more than 50% of its earnings come from marketing derivatives products, which was attributable to the innovative products developed by the Structuring Desk, which continued to lead the market by developing unique products such as equity-linked deposits and LIBOR-linked loans.



The Securities Investment Department contributes to earnings by making strong investments, including domestic and international stocks and bonds, ABS, and financial debentures, while utilizing derivatives financing techniques (such as futures and options).

The Settlement Office plays a middle office role by measuring, evaluating, and analyzing investment risks. It also performs back office functions, such as accounts settlement. In addition, the Settlement Office acts as the risk management and accounting center for the division.

In 2004, the Treasury Division aims to maintain the 'Shinhan Global Standards' by taking a leadership role in the domestic treasury sector. To this end, the division has defined its vision to be 'The Best Treasury in Korea,' which will allow Shinhan Bank to grow into one of Asia's preeminent financial institutions. The division's strategic objective is to secure the highest-level of competitiveness in the domestic treasury sector by: (1) solidifying profit center functions, (2) fostering synergies by developing and integrating products, (3) reinforcing the ALM and middle offices, and (4) strengthening the bank's domestic and overseas branch network by focusing on company infrastructure.



The division focused on **core businesses including asset operations**, products such as pension-type trusts/specific money in trust, custody & trustee services, and fund administration.



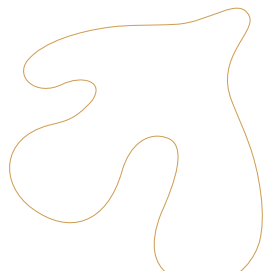
## + Trust Service

In 2003, the Trust Division suffered from a very difficult business environment due mainly to a tight corporate bond market following the SK Networks scandal during the first half, and the generation of liquidity risks for credit card firms during the second half.

In order to cope with such external factors, the division focused on core businesses including asset operations, products such as pension-type trusts/specific money in trust, custody & trustee services, and fund administration. As a consequence, the bank posted outstanding results relative to other banks, ranking first in the specific money in trust market and second in the pension-type trust market.

In 2003, the banking industry saw sales of money in trust fall 21.2% YoY to ₩58,148.1 billion (US\$48,545.6 million). However, during the same period Shinhan Bank posted a decline of only 3.4% YoY, recording money in trust sales of ₩6,057.3 billion (US\$5,057.0 million). Meanwhile, custody & trustee and fund administration sales jumped by a combined 32.3% YoY to ₩8,136.5 billion (US\$6,792.9 million).

In 2004, we forecast a very challenging environment for asset operations in trust accounts due to intensifying competition among banks and investment trust companies (ITCs) following the implementation of indirect investment asset management laws and continued low interest rates. Nevertheless, the bank expects to realize stable growth by: (1) continuously expanding its market shares in the pension-type trust, specific money in trust, custody & trustee, and fund administration markets, (2) concentrating on core capabilities, and (3) entering the real estate-related trust market.





## + e-Banking



In July 1999, Shinhan Bank became the first domestic bank to introduce Internet banking. Since then, the bank has maintained its position as a leader in e-banking, introducing advanced services including 'Cyber Loan,' an Internet loan service, and providing stable services at all times.

Shinhan Bank's Internet channel has been recognized by customers and experts as being Korea's best banking website, providing safe transactions and fully reflecting the needs of customers. In 2003, it obtained a AAA rating from Stockpia for the seventh consecutive quarter. The bank's website also received top prize in the Internet Banking Category at the Hankook Ilbo Web Awards.

The e-banking industry is likely to be restructured behind the emergence of new trends in service channels (e.g., mobile smart card) amid continued growth at home and abroad. Accordingly, Shinhan Bank plans to maintain its leadership in the field by increasing earnings from e-banking and expanding customer channels.

In 2003, Shinhan Bank had over 1.4 million Internet banking clients, up 350,000 from the previous year. Internet transactions also rose significantly, thanks to strong loyalty by its members. Particularly, the 'ezPlus' service, a client-based banking solution, provides stable Internet banking services through a decentralization system. The service also reflects the diverse needs of its customers by expanding services to include securities and insurance. In addition, the website has recently upgraded its services by supporting English-language Internet banking, offering supplementary services (e.g., income tax filing), and strengthening its security functions.

The 'BizBank,' an exclusive banking system for corporations, is currently utilized by the majority of Shinhan Bank's corporate clients. It has obtained favorable responses thanks to its advanced security system, and diverse range of services. In particular, online products such as 'E-biz Loans' and 'Electronic Bonds' are contributing to the development of electronic financial transactions in the domestic B2B market.

The profitability of e-banking is also expanding. With an increase in online transactions, commissions received from e-banking grew 37% YoY to ₩18.3 billion (US\$15.3 million) in 2003, while Internet deposits swelled 37% YoY to ₩127.3 billion (US\$106.3 million) and accumulated loans rose 31% YoY to ₩11.4 billion (US\$9.5 million) at year end.

Shinhan Bank's Internet channel has been recognized by customers and experts as being **Korea's best banking website**, providing **safe transactions** and fully **reflecting the needs of customers**.



### Information Technology

The Information & Technology (IT) Division aimed to develop advanced IT systems suitable for a digital financial environment in 2003. To this end, it concentrated its efforts on the construction of systems to support efficiently the SFG group and the bank's 'One-portal Financial Network' to maximize synergies.

With this goal, it first developed and provided necessary services in a timely manner by actively meeting the diverse needs of each business division. In particular, the construction of an e-CRM enabled the bank to provide customized products and services meeting the needs of the bank's customers. Following this, we successfully completed the Enterprise Data Warehouse (EDW) and integrated CRM to maximize group synergies in October 2003.

In 2004, with a view to providing advanced customer-focused services and maximizing joint management synergies, the IT Division plans to carry forward four core strategies:

- Provide information services to help each division achieve its objectives. Constructing a company-wide CRM system based on the group's integrated EDW will be the driving force behind this. To this end, we will expand Internet and mobile banking services, operating chip-based mobile banking services to support a variety of delivery channels during the first half of 2004, and construct systems that are customer-friendly.
- Improve competitiveness by advancing IT infrastructure to cope with rapidly changing environment and provide required services in a timely manner. Accordingly, we will prepare Business Continuity Planning (BCP) systems to realign disaster recovery systems and processes based on FSS guidelines and IT measures for the operation of new equity capital regulations (Basel II Accord).
- Establish solid IT foundation to lead group synergies by maximizing the value of information resources and providing comprehensive financial information.

Construct strategic IT foundation under the joint management with CHB. To this end, the division plans to establish strategic IT systems and processes to promote an image of one bank, expand its vision for joint management, and induce communications between two sides.

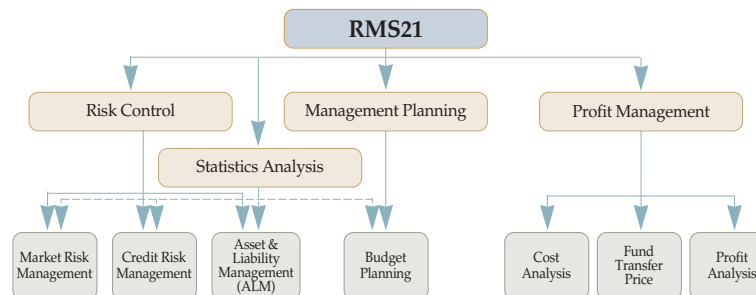


## + Risk Management

Shinhan Bank manages all risks by focusing on credit, market, and ALM risks, to seek stable business growth and maximize shareholder value. Risk management and control starts from the Board of Directors (BOD), which sets basic guidelines, such as total risk limits for the bank. Under the BOD, the Risk Management Committee determines asset allocation and risk limits by division, and assists management in formulating basic management guidelines for all banking operations. Following these guidelines, the ALM Committee and the Credit Committee, both consisting of executives and division heads, oversee market, liquidity, and credit risks. Meanwhile, the Risk Management Office, which is independent of all business units, identifies, evaluates, and controls all risks and supports the Risk Management Committee.

### Risk Management System 21 (RMS21)

Since 2001 Shinhan Bank has been pursuing its RMS21 project to further stabilize capital operations. The RMS21 is a comprehensive risk management system, which can be utilized to formulate appropriate capital and business policies, control various risks, and evaluate individual and unit performance. The project aims to combine risk management, risk-weighted profitability evaluation, and business planning, establishing a fully integrated system. Programmed to compute value-at-risk (VaR) by combining market and credit risks, the RMS21 can calculate and apply more accurate risk-adjusted performance measurement (RAPM) than any other system. Meanwhile, Shinhan Bank is in the process of consolidating data and systems according to the new Basel Accord of the Bank for International Settlements (BIS), and is sharing the RMS21 with the group affiliates.





## Credit Risk Management

Credit risk refers to the possibility of losses due to failure in the execution of liabilities by debtors or business counterparts, and is the most fundamental risk in banking operations.

The Credit Committee determines basic policies for the bank's credit risk management. Mainly consisting of loan-related business heads and Credit Policy & Risk Management Department Head and led by the Chief Credit Officer, the committee determines the approval of large loans through in-depth examination and screening in conjunction with the loan policies of the bank.

Inspection of corporate loans will induce deliberate decision making through a collective decision making system. General loans are approved through agreement by RMs at each branch, inspectors representing each division, or the council of inspectors according to their size and importance. Meanwhile, the Credit Committee inspects key loans. Retail loans are examined by the automated Credit Scoring System (CSS) based on objective statistics and the bank's credit policies.

Shinhan Bank's credit risk is also managed by establishing limits by nation, industry, sector, and financial institution in order to ensure a diverse portfolio of loans.

The bank automatically examines companies that are likely candidates for insolvency through a regular warning system on a weekly basis. In addition, loan inspectors and RMs are required to conduct post-loan management within a prescribed period, and the Credit Review Office closely analyzes the results to determine appropriateness and adjust credit ratings.

Following such procedures, company loans are classified into categories of 'Early Warning,' 'To Be Observed,' and 'Normal,' and are managed as such to prevent NPLs. Meanwhile, the bank continually updates its information on relevant industry trends, and regularly conducts financial analyses on its client companies.



Shinhan Bank manages all risks by focusing on **credit, market, and ALM risks**, to seek stable **business growth** and **maximize shareholder value**.



Specifically in preparation for the New Basel Capital Accord, slated to begin operations in 2006, we are accumulating credit data, improving our credit rating models, and organizing an independent task force team (TFT) in order to meet industry requirements.

### **Market Risk Management**

Shinhan Bank's market risk management aims to maintain the maximum potential losses at certain risk levels. Market risk is measured by using Value at Risk (VaR), which is calculated at a 99% confidence level, using historical data. The accuracy of the calculated VaR is then checked by back-testing reports, which are run daily.

The bank also conducts stress-test analyses according to scenarios in various contingency plans. Also used to manage the bank's portfolios are Duration, BPV (Basis Point Value), Delta, Gamma, and Vega analyses. When the verification of the RMS21 is completed, the bank will then be able to analyze the risks of subordinate portfolios and hedging strategies, and strengthen its derivative risk analysis functions using Monte Carlo simulation methods.

### **Asset & Liability Management (ALM)**

ALM management is performed daily through the ALM system, which conducts a variety of tests, including gap analysis for managing interest and liquidity risks, duration analysis, NPV analysis, NII simulation analysis, and earnings-at-risk (EaR) simulation analysis. It also analyzes derivative-generating cash flows and statistical data about customer behavior, including early loan pay-offs and loan cancellations.

Maximizing earnings with innovative financial structures



**Management Discussion & Analysis**

## Key Financial Data

	in billions of Korean won		in millions of U.S. dollars*	
	2003	2002	2003	2002
<b>Bank Account</b>				
For the Year				
Operating Revenues	4,855.9	4,821.4	4,054.0	4,016.5
Operating Expenses	4,180.7	3,889.4	3,490.3	3,240.1
Operating Income	675.2	932.0	563.7	776.4
Ordinary Income	685.7	843.0	572.5	702.3
Net Income	476.0	595.9	397.4	496.4
At year-end				
Total Assets	70,071.2	58,889.4	58,499.9	49,058.1
Total Loans	47,783.9	40,579.0	39,893.1	33,804.6
Total Securities	15,592.2	13,855.0	13,017.4	11,542.0
Total Deposits	45,612.6	39,627.8	38,080.3	33,012.2
Total Shareholder's Equity	3,515.4	3,043.9	2,934.9	2,535.7
<b>Trust Account</b>				
At year-end				
Total Assets	14,471.9	11,090.4	12,082.1	9,238.9
Total Loans	280.4	271.3	234.1	226.0
Total Securities	5,425.0	5,610.5	4,529.1	4,673.9
Total Money trusts	6,057.3	6,269.0	5,057.0	5,222.4
<b>Financial Ratios (%)**</b>				
Return on average assets	0.71	1.05		
Return on average equity	15.05	19.79		
Substandard & Below	2.2	1.42		
NPL Ratio by FSS	0.82	0.69		
Net Interest Margin	2.04	2.54		
BIS capital adequacy ratio	10.49	10.92		
[ tier 1 Capital Ratio ]	6.34	6.81		
[ tier 2 Capital Ratio ]	4.15	4.11		

Notes : \* Translated into US dollars at rates of ₩1,197.8/USD and ₩1,200.4/USD, respectively, the prevailing rates on Dec. 31, 2003 and Dec. 31, 2002.

\*\* Financial ratios are based on Financial Supervisory Service (FSS) standards. ROA, ROE, NPL ratio, and NIM are calculated based on non-consolidated data, while BIS ratio is based on consolidated data.

## Overview

In 2003, Shinhan Bank posted pre-provisioning income of ₩1,173.9 billion, representing a 10.7% year-on-year (YoY) rise. This was mainly led by: (1) growth in interest earning assets, (2) a downturn in mortgage loan-related commission expenses, and (3) a contraction in non-operating losses.

Despite this increase in pre-provisioning income, the bank recorded net income of only ₩476.0 billion in 2003, a 20.1% decline from a year earlier. This is attributable to a sharp increase in loan loss provisions reflecting aggravated asset soundness following the SK Networks (formerly SK Global) scandal and liquidity crisis facing credit card issuers.

Accordingly, ROA and ROE also declined as of 2003-end, falling by 0.34%p YoY and 4.74%p YoY, respectively, to 0.71% and 15.05%.

Overall asset soundness slightly deteriorated during the year with the bank's substandard-and-below loan ratio edging up 0.78%p YoY to 2.20%. This was mainly due to the SK Networks scandal, and rises in corporate and household credit risks, which deteriorated under the sluggish economy. In 2004, Shinhan Bank plans to maintain high asset quality through continuous improvements in risk management.

Meanwhile, total assets climbed 20.7% YoY to ₩84.1 trillion as of 2003-end. Specifically, deposits in banking accounts rose 19.0% YoY driven by a rise in loans, while assets in trust accounts surged 30.5% YoY owing to an increase in money trusts.

## Net Income Summary

in billions of Korean won

	FY2001	FY2002	FY2003	YoY
<b>Operating Revenues</b>	4,679.6	4,821.4	4,855.9	1%
Interest Income	3,616.5	3,413.6	3,543.4	4%
Commission Income	286.2	330.0	300.0	-9%
Other Operating Income	776.9	1,077.8	1,012.5	-6%
<b>Operating Expenses</b>	4,239.1	3,889.4	4,180.7	7%
Interest Expenses	2,405.6	2,104.5	2,128.9	1%
Commission Expenses	76.1	101.4	34.5	-66%
Other Operating Expenses	1,194.1	1,057.9	1,348.7	27%
(Provision for Credit Losses)	(550.7)	(148.3)	(438.7)	(196%)
Sales and Administrative Expenses	563.3	625.6	668.6	7%
<b>Operating Income</b>	440.5	932.0	675.2	-28%
Non-Operating Income	206.1	119.1	101.6	-15%
Non-Operating Expenses	150.9	208.1	91.1	-56%
<b>Ordinary Income</b>	495.7	843.0	685.7	-19%
Extraordinary Gains	-	-	-	-
<b>Income Before Income Taxes Expenses</b>	495.7	843.0	685.7	-19%
Income Tax expenses	148.6	247.1	209.7	-15%
<b>Net Income for the Year</b>	347.1	595.9	476.0	-20%

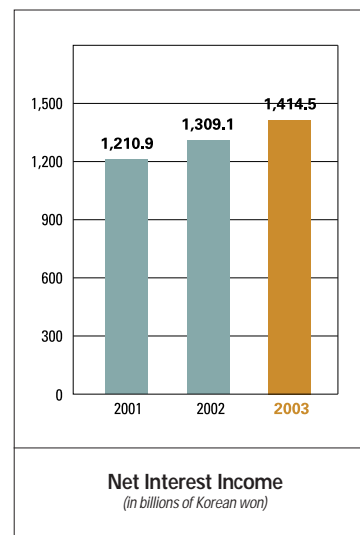
Operating income marginally rose by 0.7% YoY, although interest income climbed 3.8% YoY thanks to an increase in loans. Meanwhile, operating expenses rose 7.5% YoY on the back of an increase in loan loss provisions, despite a decrease in mortgage loan-related commission expenses. In addition, non-operating income increase due to a sharp decline in investment securities-related losses.

Accordingly, Shinhan Bank saw both interest income and non-operating income increase in 2003 relative to a year earlier. However, commission income contracted and loan loss provisions increased during the same period, resulting in a 20.1% YoY decline in net income in 2003.

## Net Interest Income and Margin

in billions of Korean won

	FY2001	FY2002	FY2003	Change	YoY Change
<b>Interest Income</b>					
Interest on Due from Banks	79.4	22.3	22.9	0.6	3%
Interest on Securities	1,041.5	871.3	826.6	-44.7	-5%
Interest on Loans	2,468.9	2,500.8	2,677.2	176.4	7%
Other	26.7	19.2	16.7	-2.5	-13%
<b>Total</b>	3,616.5	3,413.6	3,543.4	129.8	4%
<b>Interest Expenses</b>					
Interest on Deposits	1,558.3	1,362.4	1,325.8	-36.6	-3%
Interest on Borrowings	594.1	418.2	369.3	-48.9	-12%
Interest on Debentures	207.9	303.5	411.6	108.1	36%
Other	45.3	20.4	22.2	1.8	9%
<b>Total</b>	2,405.6	2,104.5	2,128.9	24.4	1%
<b>Net Interest Income</b>	1,210.9	1,309.1	1,414.5	105.4	8%



In 2003, interest income climbed 3.8% YoY, led by a 16.6% YoY rise in interest-earning assets, of which, interest-earning loans surged 17.8% YoY while interest-earning securities climbed 12.5% YoY. The rise in loans was led by corporate loans amid a slowdown in mortgage loans, which saw rapid growth in recent years.

Meanwhile, interest expenses edged up 1.2% YoY in 2003 due to a substantial gain in interest on debentures, despite declines in interest on deposits and borrowings.

## Net Interest Margin

in billions of Korean won

	Year 2001		Year 2002		Year 2003	
	Volume	Yield	Volume	Yield	Volume	Yield
<b>Interest Earning Assets</b>	44,876.7	8.00	49,725.0	6.83	57,957.3	5.81
IEA in KRW	38,550.2	8.32	43,533.6	7.32	48,793.7	6.44
Due from Banks	563.0	6.20	349.5	4.85	455.2	4.71
Securities	11,820.8	8.48	10,548.3	8.04	10,539.5	6.38
Loans	25,854.9	8.28	32,600.8	7.09	37,799.0	6.44
Loans in KRW	22,447.3	7.95	29,969.0	6.87	35,890.9	6.37
Corporates	13,297.1	7.69	14,862.5	6.68	18,015.5	6.18
Households	7,913.9	8.78	14,168.3	7.23	16,828.7	6.69
Loan Loss Reserves(Δ)	295.1		494.4		621.1	
IEA in Foreign Currency	6,326.6	6.07	6,191.4	3.33	9,163.6	2.49
Due from Banks	682.6	4.28	219.7	1.81	195.3	0.75
Securities	567.9	6.80	708.7	3.22	1,008.2	2.60
Loans	5,076.1	6.23	5,263.0	3.41	7,960.1	2.52
Loans in FC	3,318.1	5.08	3,541.1	2.98	4,638.1	2.89
Bills Bought in FC	2,022.5	7.30	1,834.5	4.04	3,463.2	1.93
Loan Loss Reserves(Δ)	264.5		112.6		141.3	
<b>Interest Bearing Liabilities</b>	43,302.1	5.61	49,414.5	4.31	58,518.2	3.74
IBL in KRW	37,231.7	5.88	43,775.5	4.65	49,449.5	4.24
Deposits	26,845.3	5.71	31,670.2	4.34	34,825.0	3.93
Borrowings	7,985.7	5.34	7,699.7	4.50	7,141.2	4.29
Financial Debentures	2,149.7	8.54	4,174.1	7.06	7,187.2	5.55
Others	251.1	17.67	231.5	8.58	296.0	7.41
IBL in Foreign Currency	6,070.4	3.95	5,639.0	1.71	9,068.7	1.01
Deposits	1,869.9	2.58	1,693.8	0.93	3,016.6	0.54
Borrowings	3,601.7	4.61	3,405.5	2.09	5,139.3	1.17
Financial Debentures	473.5	5.13	386.2	2.23	601.8	2.07
Others	125.3	1.19	153.5	0.51	310.9	0.84
<b>Net Interest Spread in KRW</b>		2.44		2.67		2.20
<b>Net Interest Margin</b>		2.59		2.54		2.04
(Won)		2.64		2.65		2.14
(Foreign Currency)		2.28		1.78		1.50

Net interest margin (NIM) contracted 0.50%p YoY to 2.04% in 2003 (-0.32%p YoY to 2.03% when excluding the credit card sector). The shrinking NIM was mainly attributed to: (1) special deposit insurance premiums (0.1%) imposed from 2003, (2) the spin-off of the bank's credit card business in June 2002, and (3) a fall in yields.

## Non-Interest Income

in billions of Korean won

	FY2001	FY2002	FY2003	Change	YoY Change
Fees & Commissions	210.1	228.5	264.9	36.4	16%
[ Credit Card ]	(123.5)	(123.0)	(68.9)	(-54.1)	(-44%)
Fees on Trust Accounts	129.8	120.3	81.9	-38.4	-32%
Securities-related Income	-15.6	11.8	18.3	6.5	56%
Gain on Foreign Currency Transaction	91.7	89.5	60.2	-29.3	-33%
Gain Related to Derivatives	0.3	46.7	41.8	-5.0	-11%
Other Income	-72.0	-109.6	-99.9	9.6	-9%
Total	344.5	387.3	367.2	-20.1	-5%

Although securities and derivatives-related income marginally increased in 2003, non-interest income shed 5.2% YoY due to: (1) a ₩54.1 billion decline in income from the credit card sector, following the spin-off of the bank's credit card business in June 2002, (2) a ₩38.4 billion drop in trust account fees, and (3) a ₩30.2 billion increase in deposit insurance premiums.

## General and Administrative Expenses

in billions of Korean won

	FY2001	FY2002	FY2003	Change	YoY Change
Salaries	184.7	204.7	232.2	27.5	13%
Retirement Allowance	45.7	48.9	53.1	4.2	9%
Other Employee Benefits	106.1	125.5	132.2	6.7	5%
Rent	20.5	23.4	27.8	4.4	19%
Entertainment	6.4	4.1	4.4	0.3	7%
Depreciation	63.8	62.8	72.1	9.3	15%
Taxes and Dues	25.4	26.1	24.6	-1.5	-6%
Advertising	25.4	29.7	18.1	-11.6	-39%
Other Expenses	85.3	100.3	104.1	3.8	4%
Total G&A Expenses	563.3	625.5	668.6	43.1	7%

In 2003, general and administrative expenses (G&A expenses) rose slightly by 6.9% YoY to ₩668.6 billion. This minimal rise was attributable to the bank's efforts to reduce expenses, and holding back on expenditures deemed unnecessary. Accordingly, the ratio of G&A expenses to total assets stood at 0.99%, an industry best in the domestic banking sector.

## Analysis of Summarized Assets

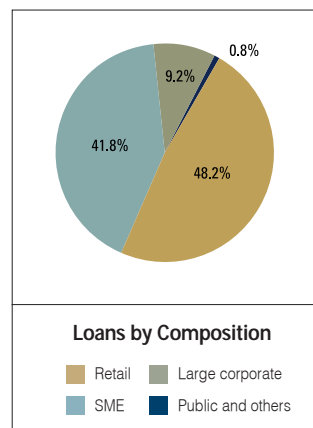
As of 2003-end, total assets amounted to ₩84,135.9 billion, up ₩14,420.8 billion from a year earlier. Of this total, deposits in banking accounts and trust accounts increased by ₩11,181.8 billion YoY and ₩3,381.5 billion YoY, respectively.

## Total Loans

in billions of Korean won

	FY2001	FY2002	FY2003	Change	YoY Change
Loans in Won					
Retails	10,772.9	15,992.7	17,864.9	1,872.2	12%
Mortgage	6,966.7	10,751.1	11,923.6	1,172.5	11%
Others	3,806.2	5,241.6	5,941.3	699.7	13%
SMEs	10,618.9	11,876.0	15,492.8	3,616.8	30%
Large Corp.	2,937.5	3,754.3	3,396.6	-357.7	-10%
Public & Others	93.0	111.1	303.0	191.9	173%
Total	24,422.3	31,734.1	37,057.3	5,323.2	17%
Loans in Foreign Currency	2,887.7	3,719.3	4,728.4	1,009.1	27%
Credit Card Accounts	2,093.4	180.9	0.1	-180.8	-100%
Bills Bought in Foreign Currency	1,872.2	2,242.4	1,844.9	-397.5	-18%
Call Loans, RPs	1,826.4	502.9	888.9	386.0	77%
Others	1,362.2	2,775.0	4,137.4	1,362.4	49%
(Loan Loss Allowance)	(567.3)	(565.8)	(866.4)	300.6	53%
(Present Value Discount)	(15.5)	(9.8)	(6.7)	-3.1	-32%
Total	33,881.2	40,579.0	47,783.9	7,204.9	18%

\* In Banking accounts only



Total loans in banking accounts surged 17.8% YoY to ₩47,783.9 billion as of 2003-end, of which, won-currency loans climbed 16.8% YoY and foreign-currency loans rose 27.1% YoY. The increase in won-currency loans was led by corporate loans. Meanwhile, bills bought in foreign currencies backed off 17.7% YoY.

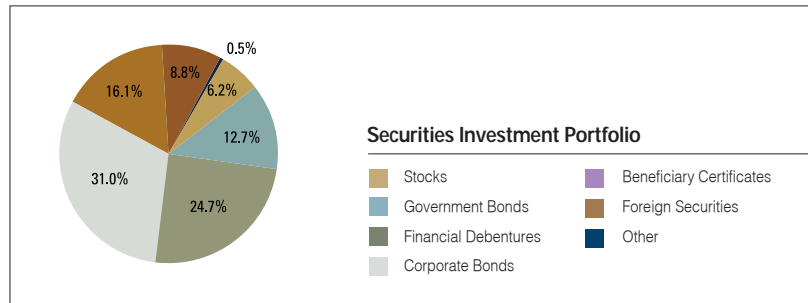
However, loan growth significantly slowed down in the second half of 2003 due to worries over an over-heated real estate market and government countermeasures against real estate speculation.

**Total Securities**

in billions of Korean won

	FY2001	FY2002	FY2003	Change	YoY Change
Stocks	804.0	571.0	971.7	400.7	70%
Government Bonds	2,053.6	1,145.0	1,987.6	842.6	74%
Finance Debentures	2,489.8	2,433.1	3,847.3	1,414.2	58%
Corporate Bonds	6,819.0	6,409.5	4,827.7	-1,581.8	-25%
Beneficiary Certificates	1,171.5	2,432.1	2,505.9	73.8	3%
Securities denominated in Foreign Currencies	664.2	787.1	1,370.3	583.2	74%
Others	18.2	77.2	81.7	4.5	6%
<b>Total</b>	<b>14,020.2</b>	<b>13,855.0</b>	<b>15,592.2</b>	<b>1,737.2</b>	<b>13%</b>

\* In Banking accounts only



Securities in banking accounts expanded by 12.5% YoY in 2003, reaching ₩15,592.2 billion as of 2003-end, accounting for 22.5% of total assets in banking accounts (-1.0% YoY). Specifically, corporate bonds sharply decreased, influenced by the sluggish economy and increases in stocks, government and public bonds, and financial debentures.

**Total Deposits**

in billions of Korean won

	FY2001	FY2002	FY2003	Change	YoY Change
Low Cost Deposits	10,014.1	10,857.5	12,974.1	2,116.6	19%
Demand	1,544.8	1,384.4	1,434.5	50.1	4%
Low Cost Saving*	8,469.3	9,473.1	11,539.6	2,066.5	22%
Time Deposits	15,751.6	17,756.7	18,818.2	1,061.5	6%
Installment Deposits	1,496.1	1,761.1	1,764.6	3.5	0%
CDs	2,866.8	2,772.2	5,136.0	2,363.8	85%
RPs, Bills Sold	4,077.1	4,444.2	3,620.8	-823.4	-19%
Deposits in Won	34,205.7	37,591.7	42,313.7	4,722.0	13%
Deposits in FC	1,764.3	2,036.1	3,298.9	1,262.8	62%
<b>Total</b>	<b>35,970.0</b>	<b>39,627.8</b>	<b>45,612.6</b>	<b>5,984.8</b>	<b>15%</b>

\* In Banking accounts only

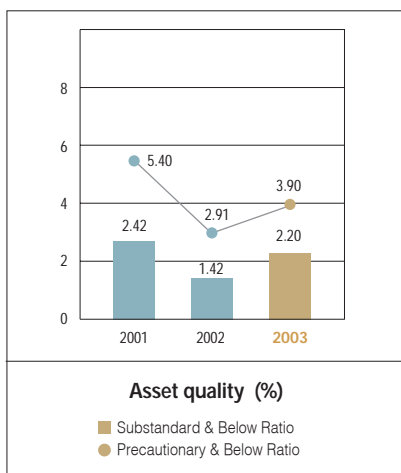
Deposits in banking accounts surged 15.1% YoY to ₩45,612.6 billion as of 2003-end, of which won-currency deposits increased by 12.6% YoY, while foreign-currency deposits jumped 62.0% YoY.

Low-cost deposits surged 19.5% YoY backed by the bank's efforts to curtail funding costs. Meanwhile, certificates of deposit swelled 85.3% in 2003 thanks to the unpopularity of market funds amid the low interest rate environment.

## Asset Quality

in billions of Korean won

	FY2001	FY2002	FY2003	Change	YoY Change
SHB					
Normal	33,981.0	42,055.8	46,916.7	4,860.9	12%
Precautionary	1,071.6	643.8	832.9	189.1	29%
Substandard	667.0	487.5	895.6	408.1	84%
Doubtful	106.6	57.2	54.5	-2.7	-5%
Estimated Loss	94.5	71.7	121.6	49.9	70%
Total	35,920.7	43,316.0	48,821.3	5,505.3	13%
Doubtful & below ratio	0.56%	0.30%	0.36%	0.06%p	21%
Substandard & below ratio	2.42%	1.42%	2.20%	0.78%p	54%
Precautionary & below ratio	5.40%	2.91%	3.90%	0.99%p	34%
Provisions	623.2	601.0	894.7	293.7	49%
Coverage Ratio against					
Doubtful & below	309.9%	466.3%	508.1%	41.8%p	
Substandard & below	71.8%	97.5%	83.5%	-14.0%p	
Precautionary & below	32.1%	47.7%	47.0%	-0.7%p	



As of 2003-end, substandard-and-below loans edged up 0.78%p YoY to 2.20%, while precautionary-and-below loans rose 0.99%p YoY to 3.90%. Accordingly, overall asset soundness was slightly aggravated primarily due to increased corporate and household credit risks behind the sluggish domestic economy and SK Networks scandal. In 2004, the bank will do its utmost to maintain high asset quality backed by thorough and systematic risk management.

## Provision

in billions of Korean won

	FY2001	FY2002	FY2003	Change	YoY Change
<b>Bank Accounts</b>					
LLR at the start of the period	605.8	580.4	569.5	-10.9	-2%
Provisions during period	551.6	148.3	438.4	290.1	196%
Write-off	701.1	120.7	159.4	38.7	32%
Other adjustments	124.1	-38.5	21.3	59.8	-155%
LLR at the end of period	580.4	569.5	869.8	300.3	53%
<b>Trust Accounts</b>					
LLR at the start of the period	78.8	42.8	31.5	-11.3	-26%
Provisions during period	0.3	0.9	2.7	1.8	200%
Write-off	28.7	16.8	1.6	-15.2	-90%
Other adjustments	-7.6	4.6	-7.7	-12.3	-267%
LLR at the end of period	42.8	31.5	24.9	-6.6	-21%
<b>Total</b>					
LLR at the start of the period	684.6	623.2	601.0	-22.2	-4%
Provisions during period	551.9	149.2	441.1	291.9	196%
Write-off	729.8	137.5	161.0	23.5	17%
Other adjustments	116.5	-33.9	13.6	47.5	-140%
LLR at the end of period	623.2	601.0	894.7	293.7	49%

Loan loss provisions for banking accounts ballooned 195.6% YoY to ₩438.4 billion as of 2003-end, which was attributed to deteriorating asset quality amid the sluggish domestic economy. Meanwhile, the balance of loan loss provisions amounted to ₩869.8 billion at the end of 2003, surging 52.7% YoY, and the coverage ratio for substandard-and-below loans fell 14.0%p YoY to 83.5%.

Loan loss provisions in trust accounts slightly edged up in 2003 to ₩2.7 billion, while the balance of loan loss provisions declined 21% YoY to ₩24.9 billion.



### Delinquency Ratio

in billions of Korean won

	Dec-2001			Dec-2002			Dec-2003		
	Total	Overdue	Ratio	Total	Overdue	Ratio	Total	Overdue	Ratio
Overall	33,469.7	565.6	1.69%	41,977.4	347.1	0.83%	47,552.4	521.0	1.10%
Corporate*	13,730.5	240.6	1.75%	15,796.4	179.6	1.14%	19,014.5	297.3	1.56%
Consumer*	11,140.4	89.0	0.80%	16,149.0	115.9	0.72%	18,011.4	190.7	1.06%

\* Banking accounts only

Shinhan Bank's delinquency ratio climbed 0.27%p YoY to 1.10% as of 2003-end. But despite this rise, the bank maintained its industry-best position in this category.

By sector, corporate and consumer loan quality slightly deteriorated, with their delinquency ratios increasing by 0.42%p YoY and 0.34%p YoY, respectively, to 1.56% and 1.06%. This was mainly driven by: (1) continued economic sluggishness, (2) slowing domestic demand, (3) a rise in bad credit holders, (4) an increase in household insolvencies, and (5) liquidity risks faced by credit card companies. In 2004, the bank will focus on improving asset quality through continued efforts to limit delinquencies.

### Capital Adequacy

in billions of Korean won

	FY2001	FY2002	FY2003	Chg in Amount	YoY Change
Total Capital	4,299.4	4,407.6	4,936.5	528.9	12%
Risk-weighted Assets	35,863.3	40,358.2	47,064.9	6,706.7	17%
Credit Risk-weighted Assets	35,518.1	40,082.1	46,247.1	6,165.0	15%
Market Risk-weighted Assets	345.2	276.1	817.8	541.7	196%
BIS Capital Adequacy Ratio	11.99%	10.92%	10.49%	-0.43%p	-4%
Tier 1 Ratio	8.24%	6.81%	6.34%	-0.47%p	-7%
Tier 2 Ratio	3.75%	4.11%	4.15%	0.04%p	1%

The bank's BIS capital adequacy ratio fell 0.43%p YoY to 10.49%, while its Tier 1 ratio fell 0.47%p YoY to 6.34% as of 2003-end.

Total capital surged 12.0% YoY on a rise in retained earnings and the issuance of collateralized bond obligations (CBOs). Meanwhile, the 0.43%p decline in BIS capital adequacy ratio was led by a 16.6% rise in risk-weighted assets following an increase in won-currency loans. Of note, Tier 1 capital totaled ₩2,984.8 billion as of 2003-end, while Tier 2 capital stood at ₩2,196.2 billion.

### Trust Account

in billions of Korean won

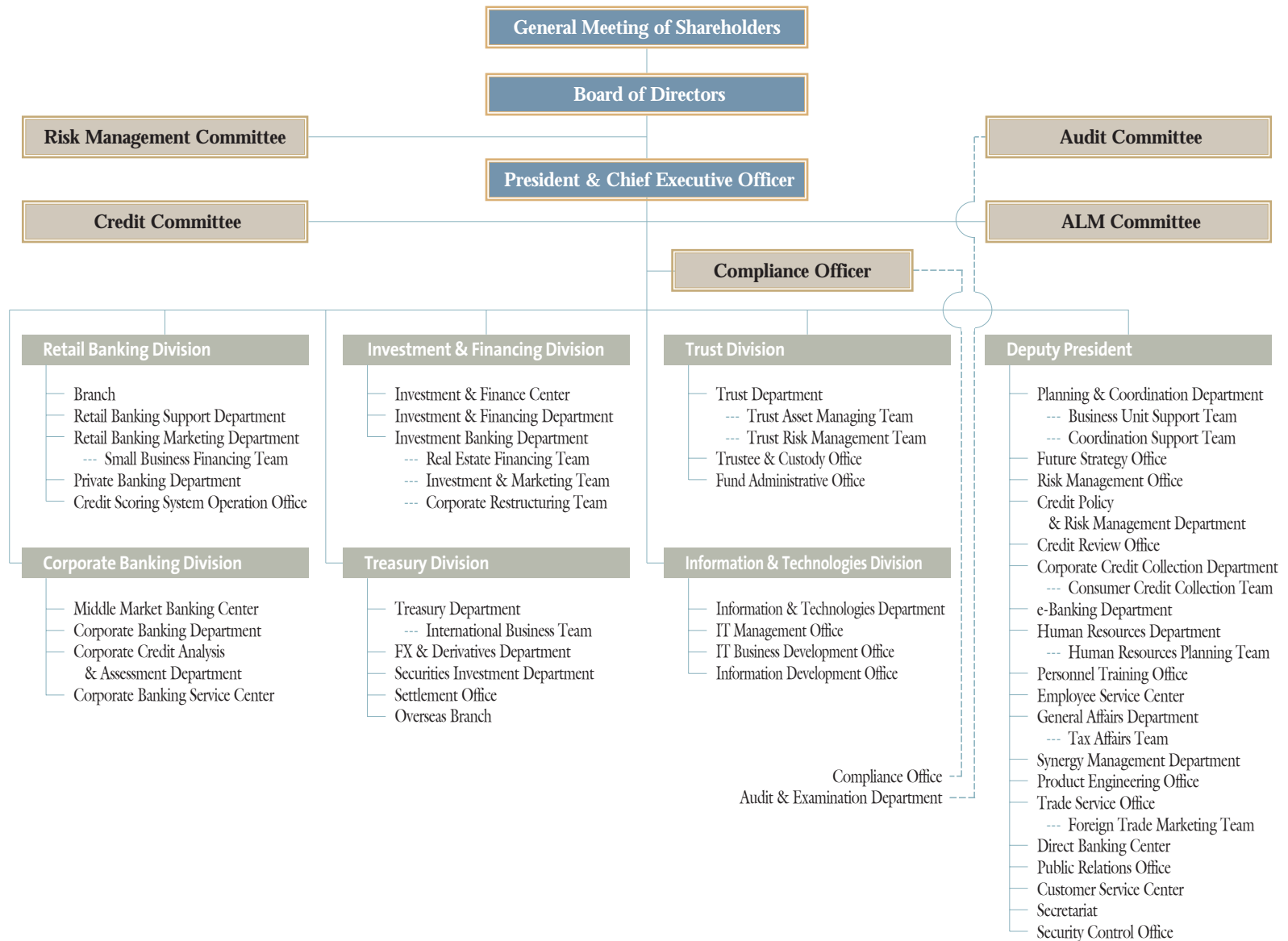
INCOME	FY2001	FY2002	FY2003	Change	YoY Change
Fees and Commissions from T/A	129.8	120.3	81.9	-38.4	-32%
Subsidy for T/A	-	-	-	-	-
Net Income from T/A	129.8	120.3	81.9	-38.4	-32%

in billions of Korean won

OUTSTANDING	FY2001	FY2002	FY2003	Change	YoY Change
Total Asset	9,422.8	11,090.4	14,471.9	3,381.5	30%
Money in trust	6,524.0	6,269.0	6,057.3	-211.7	-3%
Property in trust	2,489.2	4,527.1	8,101.2	3,574.1	79%

Assets in the trust accounts surged 30.5% YoY to ₩14,471.9 billion as of 2003-end. This increase was led by growth in other assets, including money in trusts and property in trusts, despite a contraction in money trust-related assets following a decline in money trusts.

# + Organization Chart



# + Business Network

## Head Office

120, 2 Ga, Taepyung-Ro  
Jung-Gu, Seoul, 100-102, Korea  
Mailing Address:  
C.P.O. Box 6999,  
Seoul 100-669, Korea  
email: corres@shinhan.com

### Treasury Department

Tel. +82-2-318-4272  
Fax. +82-2-774-7013  
SWIFT: SHBKRRSE  
Oh, Se-Il  
General Manager

### International Business Team

Tel. +82-2-318-4272  
Fax. +82-2-774-7013  
Jin, Ok-Dong  
Head of International Business Team

### Trade Service Office

Tel. +82-2-774-7672  
Fax. +82-2-773-6552  
Telex: SHBANK K25583  
SHBANK K25584  
SWIFT: SHBKRRSE  
Shin, O-Shik  
General Manager

## Overseas Network

### U. S. A.

#### New York Branch

32nd Fl., 800 3rd Ave,  
New York, NY 10022, U.S.A.  
Tel. +1-212-371-8000  
Fax. +1-212-371-8875  
SWIFT: SHBKUS33  
Koh, Suk-Jin  
General Manager

### United Kingdom

#### London Branch

3rd Fl., 51/55 Gresham St.,  
London EC2V 7HB,  
United Kingdom  
Tel. +44-207-600-0606  
Fax. +44-207-600-1826  
SWIFT: SHBKGB2L  
Lee, Han-Eung  
General Manager

### Japan

#### Tokyo Branch

9th Fl., Shiroyama JT Mori Bldg.,  
3-1, Toranomom, 4-chome,  
Minato-ku, Tokyo, Japan  
Tel. +81- 3-3578-9321  
Fax. +81- 3-3578-9355  
SWIFT: SHBKJPXTOK  
Lee, Sang-Bok  
General Manager

#### Osaka Branch

4-21, Minami-Semba,  
4-chome, Chuo-ku,  
Osaka, Japan  
Tel. +81-6-6243-2341  
Fax. +81- 6-6243-2346  
SWIFT: SHBKJPJX  
Lim, Young-Jin  
General Manager

#### Fukuoka Branch

8th Fl., Tenjin Mitsui Bldg.  
14-13, Tenjin, 2-chome,  
Chuo-ku, Fukuoka, Japan  
Tel. +81-9-2724-7004  
Fax. +81-9-2724-7003  
SWIFT: SHBKJPJXFUK  
Kim, Il-Jo  
General Manager

### China

#### Shanghai Branch

22nd Floor, HSBC Tower,  
101, YIN Cheng East Road,  
Pudong New Area, Shanghai  
Tel. +86-21-6841-2100  
Fax. +86-21-6841-2108  
SWIFT: SHBKCNSH  
Yu, Kwang-Ho  
General Manager

#### Tianjin Branch

Room 507, Tianjin Int'l Bldg.,  
75, Nanjing Road,  
Tianjin 300050, China  
Tel. +86-22-2339-3002  
Fax. +86-22-2339-3009  
SWIFT: SHBKCNBX  
Hong, Man-Ki  
General Manager

### Hong Kong

#### Shinhan Finance Ltd.

Room 3401, Gloucester Tower,  
The Landmark, 11 Pedder St.,  
Central, Hong Kong  
Tel. +852-2877-3121  
Fax. +852-2877-2460  
SWIFT: SHBKHKHX  
Lee, Hee-Seung  
Managing Director

### Vietnam

#### Ho Chi Minh City Branch

7th Fl., Yoco Bldg.,  
41, Nguyen Thi Minh Khai St.,  
District 1, Ho Chi Minh City,  
Vietnam  
Tel. +84-8-823-0012  
Fax. +84-8-829-9386  
SWIFT: SHBKVNXX  
Seol, Young-Oh  
General Manager

# + Corporate Data

## Date of Establishment

June 1982

## Major Shareholder

Shinhan Financial Group (100%)

- BNP Paribas 4.61%
- Emerging Market Growth Fund 4.58%
- National Pension Fund 4.53%
- Euro-Pacific Growth Fund 3.87%
- Citibank 2.44%
- Government of Singapore 2.04%

## Business Network

Domestic: 356

- 273 Retail Banking Branches
- 80 Middle Market Banking Centers
- 3 Investment & Finance Centers

Overseas: 9

## Number of Employees

4,678 persons

## Members of Shinhan Financial Group

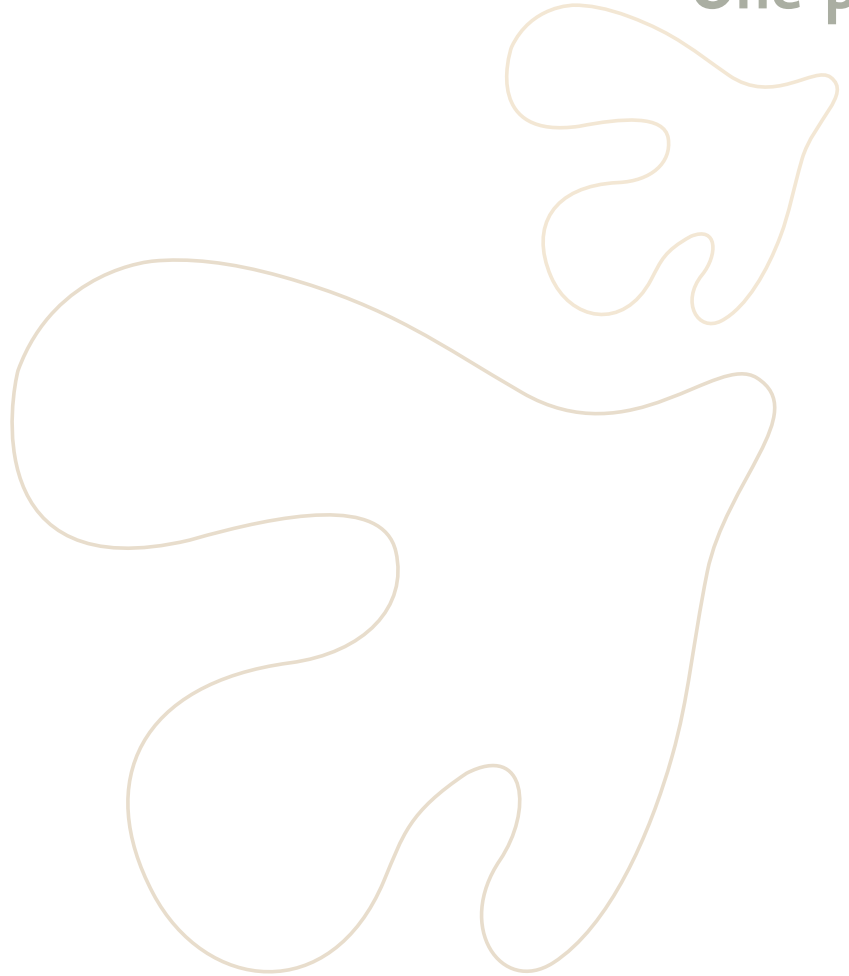
### Shinhan Financial Group



\* ( ) shows Shinhan Financial Group's holdings in its subsidiaries.



## One-portal Financial Network





# SHINHAN BANK

120, 2Ga, Taepyung-Ro, Jung-Gu,  
Seoul 100-102, Korea  
Tel: +82-2-756-0505  
Fax: +82-2-774-7013  
<http://www.shinhan.com>

