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Extend Your Financial Network



Korea's premier financial network has a **new outlook for growth.**

The exciting realm of a true financial network offering financial products and services to help you enjoy a more meaningful life.

Shinhan Bank puts you at the center of the financial network of the future.

A bigger and better financial world.

Shinhan Bank takes you there.



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Profile



‘ An industry leader in adopting to new market changes ’

The flagship of the Shinhan Financial Group, **Shinhan Bank**, has been an industry leader in adopting innovative ideas since its inception in 1982. With its steadfast focus on asset quality and its advanced risk management system, Shinhan has been consistently rated as one of the soundest financial institutions in Korea by international credit rating authorities. It also has been selected by Korea Management Association as the best bank in customer service for the past seven consecutive years. In 2001, Shinhan turned a new page in Korean banking history by forming Korea’s first privately funded financial holding company. Also, together with BNP Paribas, one of its strategic partners, Shinhan is now preparing for another great leap forward. Its aim is to offer the most advanced financial products and a total financial service of the highest quality, befitting its position at the heart of the Shinhan Financial Group. Shinhan is well on its way toward becoming a world-leading bank, bringing the Korean financial industry into the 21st century.



New Corporate Identity

Shinhan Financial Group has adopted a new corporate identity (CI). The adoption was part of the Group's vision to bolster its image as a total financial brand representing Korea in the 21st century and to grow into a global brand in the long run.

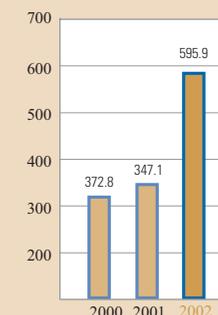
The CI represents the Group's desire to expand globally as a leading financial company, embodies its image as a customer-focused business group specializing in finance, and symbolizes its pursuit of a diversified yet fully integrated financial network.

The gold color of the CI symbolizes prestige, while the blue alludes to trust and scale. The dove and sprout of the old CI have been reconfigured to stand for hope for future generations. The sphere is a globe symbolizing globalization, and the s-shaped character in the middle is elongated to symbolize never-ending progress.

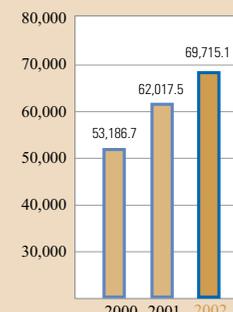
Financial Highlights

	in billions of Korean won		in millions of U.S. dollars	
	2002	2001	2002	2001
Bank Account				
For the Year				
Operating Revenues	4,821.3	4,679.6	4,016.4	3,528.8
Operating Expenses	3,888.9	4,239.1	3,239.7	3,196.7
Operating Income	932.4	440.5	776.7	332.2
Ordinary Income	843.0	495.7	702.3	373.8
Net Income for the Year	595.9	347.1	496.4	261.7
At year-end				
Total Assets	58,889.4	53,356.0	49,058.1	40,235.3
Total Loans	43,316.0	35,920.7	36,084.6	27,087.5
Total Securities	13,855.0	14,020.2	11,542.0	10,572.2
Total Deposits	39,622.8	35,969.9	33,008.0	27,124.6
Total Stockholders' Equity	2,860.5	3,170.9	2,383.0	2,391.1
Trust Account				
At year-end				
Total Assets	11,090.4	9,422.8	9,238.9	7,105.6
Total Loans	271.3	528.7	226.0	398.7
Total Securities	5,610.5	5,548.5	4,673.9	4,184.1
Total Money Trusts	6,268.9	6,524.0	5,222.3	4,919.7
Financial Ratios (%)				
Return on Average Assets	1.05	0.70		
Return on Average Equity	19.79	10.73		
Substandard & below	1.42	2.42		
NPL Ratio by FSS	0.69	1.21		
Net Interest Margin	2.54	2.59		
BIS Capital Adequacy Ratio	10.92	12.02		
(Tier 1 Capital Ratio)	6.81	8.26		
(Tier 2 Capital Ratio)	4.11	3.76		

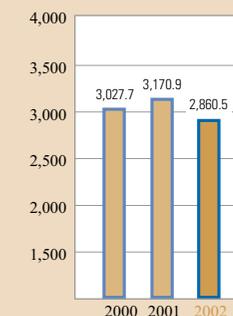
Notes : 1) Translated into U.S. dollars at the exchange rates of ₩1,200.40 and ₩1,326.10 to US\$1.00, the prevailing rates on Dec. 31, 2002 and 2001, respectively.
2) Above financial ratios are based on FSS(Financial Supervisory Service) standards. ROA, ROE, NPL ratio and NIM are calculated based on non-consolidated data while BIS ratio is based on consolidated data.



Net Income
(in billions of Korean won)



Total Assets*
(in billions of Korean won)



Total Stockholders' Equity
(in billions of Korean won)

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

CEO's Message



The year 2002 was a very special year for Shinhan Bank, as it marked its 20th anniversary of becoming Korea's first privately funded bank.

Shinhan Bank's 20-year history tells of a ceaseless and uncompromising pursuit of a single vision: excellence in banking. The emergence of Shinhan was a breath of fresh air for the Korean financial industry at that time. A customer-first business policy, a tireless pioneering spirit, and a progressive workforce were some of the qualities that made Shinhan unique and unconventional in the state-controlled industry. These values have been the motivating power behind the Bank's growth as Korea's premier financial institution. Because of our 20-year-long dedication to these timeless principles, Shinhan has set new standards for the Korean financial industry and remains a step ahead of its peers.

Of course, our 20-year history had its share of agonies and painful decisions. The so-called IMF crisis and the following tidal wave of industry restructuring, in particular, made it the most difficult, yet the most important, period in our history.

Our unswerving focus on asset quality and swift crisis management, were the key to our overcoming the challenge. Based on our creditworthiness and history of success, we raised U\$400 million overseas through a GDR issue and quickly regained customer and investor confidence. We adopted and instituted advanced management systems faster than any of our peers. We overhauled the Shinhan organization based on a business unit system to enable more targeted, customer-focused banking services.



In short, 2002 was the year in which we turned into reality our business philosophy of becoming a bank that is at once customer friendly and industry respected.



These combined efforts led to gratifying results. For the past three consecutive years, pre-provision income has exceeded the ₩1 trillion mark. Having rid ourselves of most of our problem assets, our balance sheet performance has become the envy of the industry and a source of growing investor confidence. These efforts enabled us to write a new chapter in the financial industry of Korea in 2001 when we launched a financial holding company.

The year 2002 was a truly challenging time for the Korean financial industry. Amid the swirl of mergers and other rapid changes, the industry walked a perilous path of restructuring. Banks, in particular, in a headlong pursuit of market expansion and maximum profit, resorted to aggressive marketing activities that brought about competition of unprecedented intensity.

The aggressive marketing strategy we adopted at the beginning of the year proved to be very effective in such a challenging market environment. During the year, our market share expanded by a healthy margin and high-quality assets rose strongly.

At the end of 2002, total assets stood at ₩69,715 billion and net income at ₩595.9 billion, while ROA and ROE were 1.05% and 19.79%, respectively. As our Bank for International Settlements (BIS) capital adequacy ratio of 10.92% and substandard & below NPL ratio of 1.42% indicate, our two-pronged strategy of focusing on financial strength and asset quality was more than effective in enabling us to exceed the goals set at the beginning of the year.

Our business performance was further highlighted by the coveted industry recognitions bestowed on us during the year. Once again, we were rated the best in customer service, a feat repeated for the last seven years. In addition, we were named the best bank in human resources management and in internet banking. In short, 2002 was the year in which we turned into reality our business philosophy of becoming a bank that is at once customer friendly and industry respected.

Shinhan has now **laid the cornerstone** for its emergence as a **world-class financial institution** that offers a full range of financial services at **competitive rates**, made possible by its economies of scale. 

The year 2003 is widely expected to be another challenging year for Korea and its industry. The economy is forecast to continue its current subdued growth pace, with a full-blown recovery delayed until a little further down the road. The financial markets are becoming increasingly competitive, meanwhile, with banks and other financial service providers vying for the same customers. Anticipating the configuration of the challenge that these developments present, the following management objectives and plans have been drawn up for 2003.

First, the expansion of core markets will be our top priority. Since the adoption of the business unit system, we have been successful in increasing our share in our two core markets, retail banking and middle-market banking. While improving relationships with customers and clients, we will shift our business focus to niche markets such as private banking and banking for small enterprises.

Second, we will expand in those areas where synergies of association become more effective. One of our biggest strengths that stand out in the increasingly competitive banking business lies in the synergies arising from the network linking all Shinhan Group members. Having realigned our business line-up of affiliates last year, we are ready to leverage these synergies in pursuit of new markets. In cooperation with our affiliates, we are developing multiplex banking products that include the financial service features of the affiliates as investment-type savings products and credit cards that can be used for banking, securities trading, and so on. And through customer database sharing and joint promotions, we will effectively identify new creditworthy customers. Moreover, we will launch a one-portal business system on completion of the MRB business system that we have been working on. To establish a viable foothold in the bancassurance market, which is due to open in the second half of this year, we will step up efforts to develop competitive products and a customer management system.

Third, we will upgrade our income structure. We will explore all means possible to manage our assets more efficiently and expand high-yielding assets. We will continue to diversify our sources of income by developing fee-based businesses, such as derivatives sales, B2B business and financial consulting. Financial consulting in particular is one of our target areas for increasing income, because non-price factors such as quality are the deciding factors in private banking. What is more, a quality consulting service is not only a source of income but also another way to increase customer satisfaction.



An increasing number shares the view that only banks of a certain scale are capable of meeting diverse customer needs. Considering the size of investment needed just to create and maintain a viable IT system, it is widely believed that smaller banks do not have the resources to survive for long. For this and other reasons, the size issue has been dominating the Korean financial industry for some time, and a wave of dramatic change has altered the industry's landscape. Riding the crest of this wave of change is Shinhan Bank.

Through years of cautious and well planned investment, Shinhan has established what is arguably the most advanced management system in the Korean banking industry. What is more, this system is run by a group of first-rate banking professionals dedicated to the growth of Shinhan. With the formation of Korea's first private financial holding company, Shinhan has now laid the cornerstone for its emergence as a world-class financial institution that offers a full range of financial services at competitive rates, made possible by its economies of scale. Based on these strengths and achievements, we will continue our unremitting pursuit of the vision of becoming a world-class bank.

Over the past twenty years, we have come a long way and made progress unprecedented in Korean financial history. Without the unwavering support and trust of our shareholders and customers, however, we would not be where we are today. Having come this far, our vision is within reach. On behalf of the Shinhan family, I would like to ask for your continued support and trust as we near our goal of becoming a world-class bank.

Sang-Hoon Shin
President & Chief Executive Officer

20-year Pursuit of Banking Excellence



The twenty years of Shinhan Bank is a history of tireless pursuit of new banking standards in Korea.

A history of endeavors to set new banking standards

Banking Excellence in the Making

Foundation of Shinhan Bank 1982

In July 1982, Korea's first privately funded commercial bank was born.

Gaining a solid foothold in the financial market 1982~1984

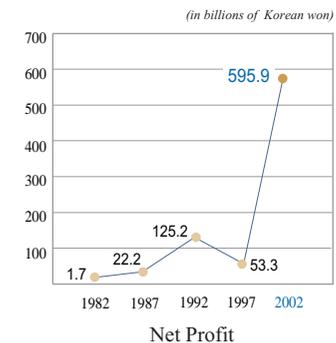
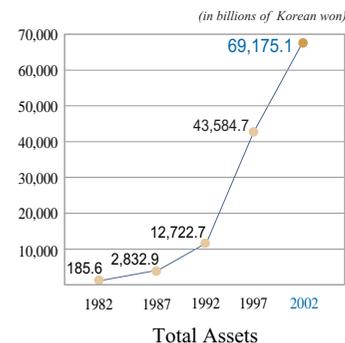
At the end of 1983, only a year and a half into business, Shinhan turned a profit, and recorded ₩4.6 billion in net income the following year. With a branch in Osaka, Japan, Shinhan began to explore overseas markets.

Sowing a new financial culture and going global 1985~1990

Shinhan laid the foundation for a general financial group by acquiring Dongwha Securities, establishing Shinhan General Research Center, and launching credit card operations. Shinhan expanded its overseas network beyond its Osaka branch to New York, Tokyo, London, and Hong Kong.

Improving retail banking and customer-focused management 1992~1993

Shinhan switched its business emphasis from corporate banking to retail banking and began building a long-term and stable business base. It set up a customer satisfaction center, a milestone in its pursuit of quality customer service, and a first for the industry.



Banking Excellence in the Making

Aiming high 1994~1996

Shinhan Bank's vision defines its goal as a total information service bank, pursuing the best in all financial services. As a first step of its master plan, Shinhan commissioned Boston Consulting Group to analyze its business operations and formulate a long-term business strategy. As part of the new strategy, Shinhan acquired Marine National Bank, a bank in the United States.

Agonies and survival efforts 1997~1998

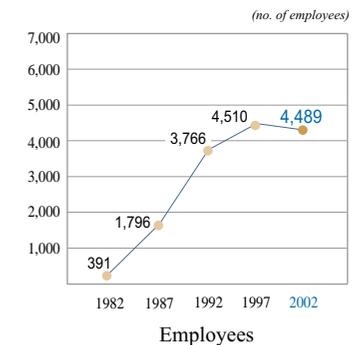
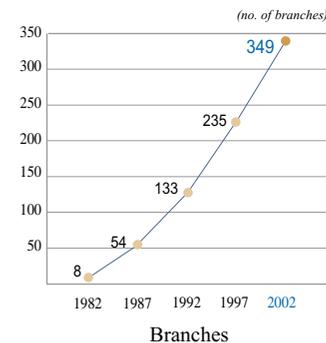
Hit, like other banks, by the nation's worst financial crisis, Shinhan adopted a business strategy that focused on survival in the short run and on asset quality in the long run. Having learned the importance of advanced financial systems following the closure of a merchant banking affiliate and the acquisition of a commercial bank, Shinhan made adoption of such systems a top priority.

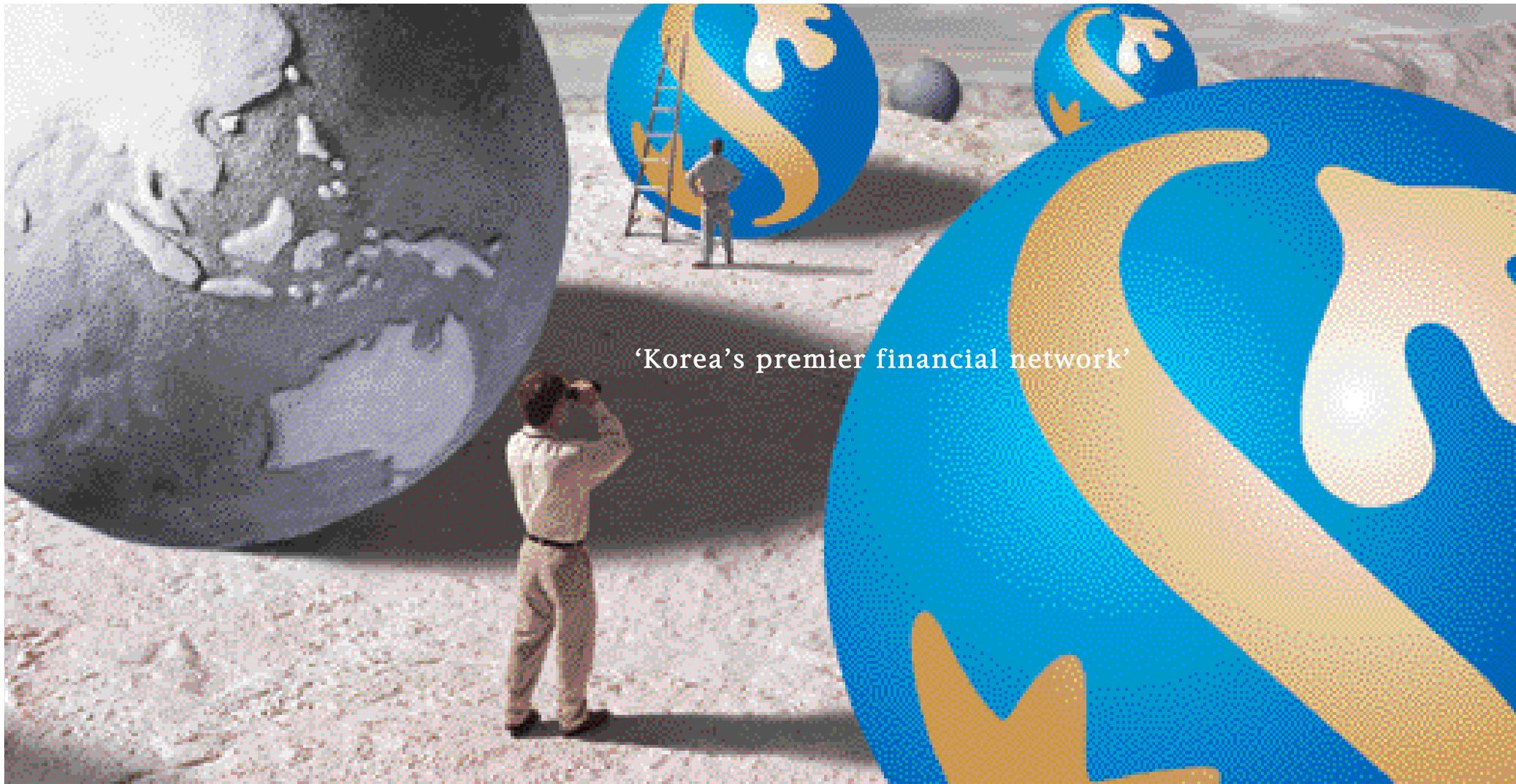
Advanced financial systems and stable growth 1999~2000

For management innovation and higher international credibility, Shinhan carried out a series of business activities, including a road show overseas. Pursuing the latest in banking systems, Shinhan launched an internet banking service and adopted business unit and MRB branch systems.

Another great leap forward 2001~2002

Striving to maintain its identity amid the whirlwind of mergers and acquisitions, Shinhan Bank launched Shinhan Financial Group, Korea's first private financial holding company.





‘Korea’s premier financial network’

The twenty years of Shinhan Bank is a history of tireless pursuit of new banking standards in Korea. When the domestic financial industry was still accustomed to a passive business monopoly, Shinhan brought a breath of fresh air with its customer-focused management practice. In addition, by taking the initiative and embracing advanced business techniques and systems, Shinhan strengthened its market position, won the hearts and minds of customers, and earned investor confidence and shareholder trust. What is more, with the formation of Korea’s first private holding company, Shinhan has re-emerged as an industry leader, setting standards for the rest of the industry to follow. Having come of age, Shinhan will continue its progress toward the creation of a new financial culture.

Birth of a Financial Legend

'82 Shinhan Bank founded (July 1982)

July 7, 1982 saw the birth of Korea's first privately funded commercial bank. The creation of Shinhan Bank was a result of the combined efforts of the Korean government and a group of Japanese Korean businessmen: The former wanted to adopt the financial systems of advanced nations, and the latter wanted to contribute to the growth of Korea through a financial institution.

The 20 years



'89 Stock market listing (November 1989)

On November 28, 1989, Shinhan listed its shares on the Korean Stock Exchange. The initial public offering (IPO) attracted the largest stock subscription in the history of the Korean stock market at that time. The IPO was handled by two joint-lead managing companies, another industry first. By the end of 1989, Shinhan had grown 23 times in deposits, 147 times in foreign exchange business, 8 times in branches, and 6 times in employees. In 1988, the Bank's return on net worth reached 35.6%, far exceeding the average (17.06%) of the then five major commercial banks.

'91 Korea's first online and phone banking service (August 1991)

In August 1991, Shinhan Bank introduced Korea's first online banking service. Initially available only to corporate clients, the online service marked the dawn of a new era of conducting banking services from the comfort and convenience of office and home. Phone banking followed in 1994, also a first-time event in Korea. The revolutionary idea of home banking caught on fast, as the Bank's initiative led to an industry-wide trend.

'92 Korea's first credit information system (January 1992)

As a way to preempt loan default and compile data on preferred customers, Shinhan launched a credit information system, the first-of-its-kind in the Korean banking industry. This system builds a database drawing on the Bank's existing corporate credit data and various other types of information, non-financial as well as financial, from credit rating agencies.

'98 Acquisition of Dongwha Bank (June 1998)

As part of the IMF-imposed industry restructuring, the government announced that five commercial banks would be closed, and that Shinhan was to acquire Dongwha Bank using a purchase and acquisition (P&A) formula. During the acquisition process, Shinhan Bank was the first among the five acquiring banks to get the acquired bank's computer system back in operation and begin the process of returning deposits. Shinhan completed the acquisition process first among the five, absorbing 300 of Dongwha's employees and 24 of its branches.

Korea's first credit scoring system (November 1998)

Shinhan developed the Korean banking industry's first credit scoring system (CSS). This system accurately appraises the credit risk of individual customers. It allowed Shinhan Bank to lend on the creditworthiness of borrowers, not on collateral, thereby initiating a new lending practice in the industry. The adoption of the CSS also made possible the application of flexible interest rates according to the credit score of borrowers. The Bank's adoption of the CSS not only gave people without collateral a new financial opportunity, but also sent a strong message to the public that credit is an asset.

'98



Korea's first GDR issue since the financial crisis of 1997 (April 1999)

Shinhan successfully issued global depository receipts (GDRs) overseas totaling U\$400 million, thus becoming Korea's first private corporation to come to market since the financial crisis of 1997. The success of the funding was considered approval on the part of the international investment community of the progress made by Shinhan in its pursuit of management reforms. In addition, the Bank's leading market position had a direct effect on the success. More significant was that the GDR issue attracted the active participation of the world's leading investment firms, largely thanks to the Bank's road show, which included in its itinerary stops in New York, London, Hong Kong, and other global financial hubs.

'99

"The Best" in Banking & Customer Service (July 2000)

Euromoney, once again, named Shinhan the best Korean bank in its July 2000 issue. This well-respected financial magazine cited the reasons for its selection as the Bank's high asset quality, profitability, and leading position in internet banking. This was the third time Shinhan was honored by the magazine: the first in 1996 and the second in 1997. This year's honor consolidated its profile as the pace setter of the Korean banking industry. Moreover, Korea Management Association, a state-run authority in the field of corporate management, named Shinhan the best bank seven times in a row based on its annual survey of customers.

'00

Shinhan Financial Group (September 2001)

Shinhan established Korea's first privately held financial holding company. Through Shinhan Financial Group, Shinhan Bank aims to grow into a general financial group specializing in distribution. This vision reflects a major trend in the global financial industry: the separation of product development from distribution. The world financial industry is increasingly falling into two categories—one that develops a variety of sophisticated financial products using its accumulated know-how, and another specializing in distribution of the products through its extensive network. In keeping with the trend, Shinhan has selected the latter category and decided to focus on building a financial distribution network.

'01

Shinhan Bank's Strategy

Grow into a leading bank through strengthened competitiveness in core markets



Secure core strengths of leadership



Grow core market shares

- Strengthen the market competitiveness of core products and services
- Expand corporate banking market share through differentiated marketing
- Increase the share of wallet of high-net-worth customers through intensified focus on private banking
- Secure a viable business base in potential growth markets

Expand synergy business base

- Develop products/services linking the affiliates
- Bolster one-portal business strengths

Boost dynamics of the organization

- Increase IT investment
- Foster a performance-based corporate culture
- Create a sense of unity through common goals

Improve income structure through a shift of the business mind-set

- Enhance customer relationships
- Increase non-interest income
- Develop non-monetary strengths
- Upgrade the credit decision process
- Pursue growth based on high-yielding assets

SFG's (Shinhan Financial Group) Strategy

Shinhan Financial Group's long-term growth strategy is in sync with that of Shinhan Bank, as the two must coordinate their growth at the same pace.

Establish a universal banking platform

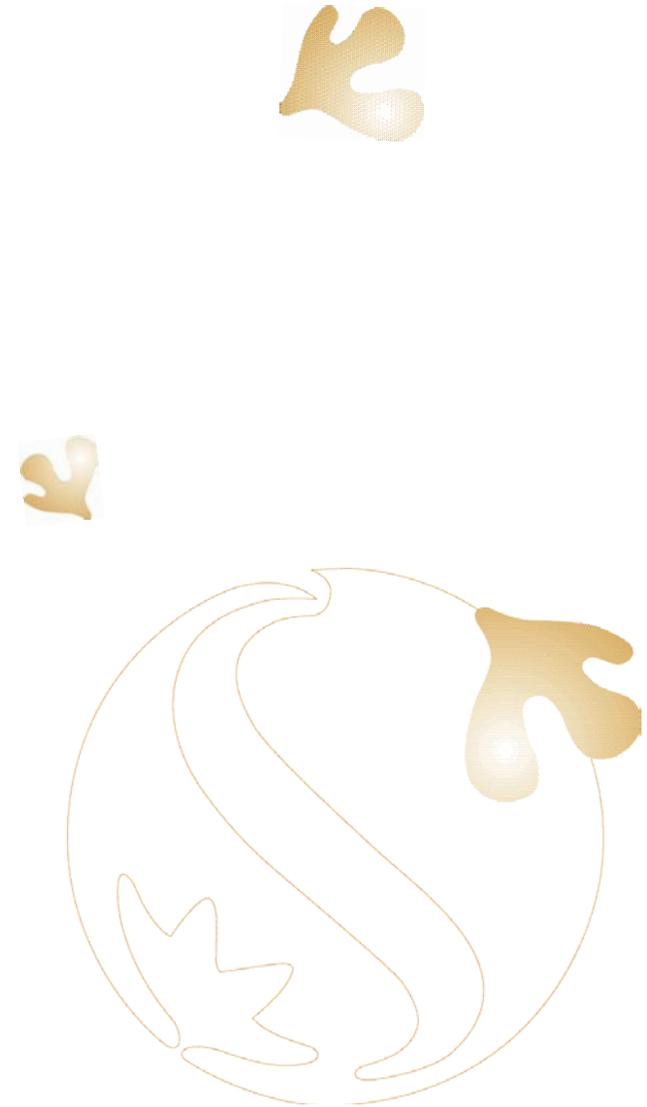
- Eliminate overlap of business
- Segregate customer profiles
- Expand into new markets through business ties and equity partnership

Maximize synergies

- Reconfigure business operations to maximize cross-selling potential and enhance share of wallet and profitability
- Operate various businesses under a comprehensive brand to differentiate products and services from its peers
- Establish a system of specialized branches and counters to address the needs of various customer segments

Achieve solid growth

- Strengthen product development ability
- Make distribution channels more efficient



2002 Highlights

Credit ratings raised

During 2002, Shinhan Bank's credit ratings were raised by the world's leading credit rating agencies. On May 2, Standard & Poor's (S&P) awarded Shinhan Bank BBB- on its long-term foreign currency debt and Positive on its credit outlook. Both ratings were a notch higher than those of the previous year. S&P again raised its ratings to BBB+ on September 25. Meanwhile, Moody's raised the Bank's long-term rating by two notches on June 18 to Baa1 from Baa3. Both agencies cited the Bank's superior asset quality, and high growth potential owing to the financial group system as reasons for their improved ratings.



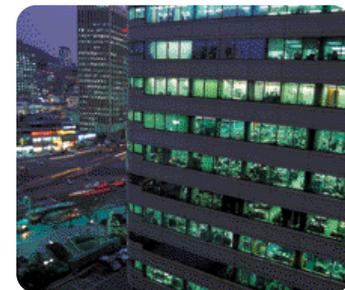
Credit Card operations spun off

On June 4, Shinhan Bank spun off its credit card operations into an independent subsidiary under the name of Shinhan Card. Part of the ongoing restructuring of Shinhan Financial Group's business alignment, the spin-off allows the Group's a certain degree of flexibility for the possibility of joint ventures, partnerships, and mergers and acquisitions (M&A) in the future. Moreover, the Group aims to pursue well-balanced growth by building up a unique and proactive marketing ability reflecting the characteristics of the credit card business. Given the high brand recognition of Shinhan Card and synergies from interaction with other Group affiliates, Shinhan Card is expected to emerge as a formidable player in the domestic credit card industry.



Corporate reorganization

Shinhan Bank carried out an extensive corporate reorganization, closing some units and creating many others. One noteworthy feature is the creation of Synergy Management Office, the key aim of which is facilitating the cross-selling of financial products in the retail sector through coordination of the business activities of the Group's affiliates. The wholesale sector is served by Corporate Finance Center, which liaises closely between Shinhan Bank and Goodmorning Shinhan Securities, forming a gateway between them. The Center delivers investment banking services for all growth phases of corporations, ranging from simple loans through equity and bond issuance to structured finance and M&A. By helping corporate clients move on to their next growth stage through its service, it contributes to strengthening client relationships and increasing our share of their financial business.



Financial network products developed

To maximize cross-selling synergies of its financial affiliates, Shinhan Bank developed “linked” products featuring the characteristics of more than one type of financial service. Made possible by Shinhan Financial Group’s integrated financial network, these products include FNA Securities Trade Savings, developed in cooperation with the securities and credit card affiliates, which offers various services related to banking, credit cards, and securities trading. Also offered are a loan product with life/casualty insurance features, a savings account with accident insurance benefits, a securities trading account with basic banking services and so on.



No. 1 in Internet banking

For the 7th year in a row, Shinhan Bank was rated by a respected financial consulting firm as the best bank in internet banking. In its annual evaluation of the online banking services of 22 domestic and foreign banks operating in Korea, Stockpia awarded Shinhan an AAA, the highest rating, in the overall category. Shinhan’s online service was found to be the most convenient in account transfers and interbank transfers. The Bank’s fast and accurate response to customer questions also received the highest mark. The superiority of its internet banking service was also acknowledged in July, when the Korea Economic Daily honored Shinhan with the highest award at its 2nd Annual e-Finance Awards Ceremony.



Eurobond issue

Shinhan Bank successfully staged a US\$200 million Eurobond issue with a three-year maturity. This was the first time that a private Korean bank had come to the market with a long-term Eurobond issue since the Asian financial crisis of 1997. The successful issue highlighted Shinhan’s sound financial health and growth potential. Road shows for this bond issue were staged for potential investors in Singapore, Hong Kong, and London. The issue was listed on the London Stock Exchange as a three-year bond with an initial coupon yield of 4%. It is assessed by the market that these conditions will form a benchmark for future foreign medium- and long-term bond issues by Korean banks. The funds raised through the bond issue will be used to reduce outstanding borrowings at high interest rates.



Named best in human resources management

Shinhan Bank was selected as the best bank in human resources management. At the 13th Annual Korea Human Resources Management Awards Ceremony, Shinhan received the award for best in the banking category in recognition of the superiority of its systematic training programs in every banking field.

A man in a dark suit and tie stands on a balcony or walkway, pointing his right hand towards a large, stylized graphic. The graphic consists of a blue background with a large, yellow, curved shape that resembles a stylized 'S' or a wing. The background of the entire image is a city skyline with various skyscrapers under a light sky. The overall image has a halftone or dot-matrix texture.

‘Leaping Forward’

Review of Operations

During the year, Shinhan’s market share expanded by a healthy margin and high-quality assets rose strongly.

Retail Banking



Shinhan Bank made efforts to secure a foothold in the mortgage market, develop multiplex as well as customized financial products, bolster customer relations marketing, and expanded cross-selling.



The Korean retail banking market in 2002 was characterized by low interest rates, the temporary stagnation of fund movements, a bullish real estate market, soaring real estate prices, an aggressive business expansion strategy by mega banks, and escalating competition among financial institutions.

In the midst of such challenging developments, Shinhan Bank focused on sharpening its competitive edge in target markets. For this, Shinhan made efforts to secure a foothold in the mortgage market, develop multiplex as well as customized financial products, bolster customer relations marketing, and expand cross-selling.

As a result, total household loans reached ₩20,298.3 billion at the end of 2002, ₩5,592.0 billion (38.0%) more than the previous year. Total usable deposits stood at ₩32,341.3 billion, ₩991.2 billion (3.2%) more than the previous year. Despite the healthy growth of loans, the default rate dropped 0.03% over the previous year to 0.26%. Pre-provision income in retail banking sector, after adjusting for an income reduction associated with the spin-off of credit card operations, amounted to ₩587.5 billion, a respectable 14% increase over the previous year.

Lending & Deposit Taking

Anticipating continuing low interest rates and a bullish real estate market, Shinhan formed a sales network linking 10,000-plus real estate brokerages nationwide and nurtured the network with incentives and personal interaction. In addition, Shinhan aggressively promoted “Green Home Loans”, a leading product in the mortgage market, and carried out various marketing events. As a result, Shinhan Bank was able to secure a solid position in the home mortgage market.

As for unsecured loans, Shinhan Bank broke the market down into various segments by income and developed and marketed a portfolio of loan products customized to the cash-flow characteristics of each segment. All the loan products were well received by the market. As of the end of the year, “Noblesse Loan”, a product for high-income professionals, had written a total of ₩35.0 billion in credits, while the product for high-salary earners had registered ₩284.0 billion.

While the low interest rate trend discouraged saving and shrank net interest margins, Shinhan focused on products that would accommodate customers’ financial needs aside from interest rates. In addition to multiplex savings products, Shinhan developed products that formulate asset portfolios. One savings product with a right to buy discount department store gift certificates attracted ₩2,974.8 billion by the end of the year.

Customer Relations

In 2002, Shinhan sought to improve customer relations with its high-net-worth (HNW) customers. For this, Shinhan segmented the HNW customer base, developed management programs for each segment, and realigned its sales structure accordingly.

To switch from the existing product-oriented marketing strategy to one that is based on customer relations, the division completed the formation of an MRB (Millennium Retail Branch) sales system, a type of one-portal sales system. Based on the new sales system, Shinhan carried out systematic data-based sales activities. As a result, the retention rate of HNW customers reached 90% and cross-selling soared. In particular, the number of dedicated customers, those banking only with Shinhan Bank, increased 12% over the previous year to

As a result, total household loans reached ₩20,298.3 billion at the end of 2002, ₩5,592.0 billion (38.0%) more than the previous year. Total usable deposits stood at ₩32,341.3 billion, ₩991.2 billion (3.2%) more than the previous year. Despite the healthy growth of loans, the default rate dropped 0.03% over the previous year to 0.26%. Pre-provision income in retail sector, after adjusting for an income reduction associated with the spin-off of credit card operations, amounted to ₩587.5 billion, a respectable 14% increase over the previous year.

356,000. Average income per customer increased 11% to ₩1,328,000.

Shinhan also segmented the dedicated customer base and offered a private banking service to those in the top segment. In the three months since its introduction, the private banking service attracted more deposits than had been anticipated and generated a substantial amount of fees through its consulting programs and savings accounts exclusively for private banking customers.

Synergies Business

Drawing on SFG's business structure and the MRB sales system, Shinhan Bank focused on a total financial service linked with the financial services of other affiliates. This effort was to accommodate customers' growing desire to have assets managed by a single financial institution.

Shinhan Bank aggressively promoted its "All Plus Point Program", the industry's first combined bonus point service, and increased its membership from 34,000 to 296,000 during the year. By increasing the membership, Shinhan significantly contributed to an increase in cross-selling by affiliates.

In addition, Shinhan Bank helped create 67,000 new accounts for its securities affiliate, and 323,000 new accounts for its credit card affiliate through a securities-trade-linked savings product. By rolling out a loan product featuring a credit payment protection service for the first time in Korea, Shinhan secured a position of advantage in the soon-to-open bancassurance market.

With the year 2003 expected to be no less challenging than 2002, Shinhan will strengthen customer relationships and its one-stop banking system to expand the cross-selling of the affiliates' financial products and services.

Credit Scoring System

Shinhan Bank has been operating a credit scoring system (CSS) since November 1998. Based on the data accumulated, Shinhan developed an application scorecard system to be used in conjunction with the CSS and to improve the accuracy of credit evaluation for household loans. To better evaluate the creditworthiness of borrowers who request a loan extension or an additional loan, Shinhan Bank also developed a behavior scorecard system on its own. As a result of the use of these systems, the default rate showed a significant reduction over the previous year. With the development of the systems, delinquencies dropped to 0.26% from 0.67% in terms of amount and to 0.46% from 0.89% in terms of number of delinquent accounts.

To better manage risks associated with the expansion of mortgage lending, Shinhan Bank also applied the CSS to its mortgage business and readjusted collateral ratios based on the credit score of borrowers. The CSS has been instrumental in identifying creditworthy customers, as it has played a vital part in the development of credit-based loan products.

The Bank's CSS strategy in 2003 focuses on upgrading risk management and strengthening marketing support. First, in risk management, Shinhan plans to use credit bureau scores to upgrade the scorecard systems and reduce bad assets through use of default information from other financial institutions. Also planned is a review of large household loans, and development of a model for analyzing why preferred loan customers switch to other banks. Second, to better support marketing, Shinhan plans to identify more loan-qualified customers by using a behavioral-scoring-risk grade system and further segment the customer base through analysis of the customer database.

Middle-Market Banking



Shinhan Bank's ability to improve upon its leading position in this increasingly competitive market can be attributed to its market segmentation and continued execution of different market strategies according to segmental characteristics.



During 2002, Shinhan Bank substantially enhanced its position in the middle market by developing a series of innovative products and services and bolstering marketing. As a result, market share reached 10%, while coverage rose to 38%. In particular, Shinhan Bank's market share of externally audited medium-sized companies, one of its target markets given their fiscal soundness, rose to 15%, with coverage at 50%.

Shinhan Bank's ability to improve upon its leading position in this increasingly competitive market can be attributed to its market segmentation and continued execution of different market strategies according to segmental characteristics.

Shinhan began by forming a "Premier Club" of first-rate clients based on their net income and fiscal soundness, and provided its member companies with products and services not found at other banks. To draw closer to high-net-worth clients, Shinhan Bank's executive members paid them visits on a regular basis to listen to their financial needs.

In addition, Shinhan developed various marketing support systems, including Marketing Alert System (MAS), Proactive Proposal Approach (PPA), and Account Plan systems. The MAS, in particular, informs clients of significant market developments or changes in their accounts, such as the withdrawal of a large sum. The PPA system supports Relationship Managers' (RMs') proposals for marketing activity. Using the output of its analysis of clients' financial needs, RMs propose solutions to the clients. In internet banking, Shinhan Bank also fortified its leading market position by developing a B2B purchasing loan product and an aggregated settlement system.

While increasing sales and expanding market shares, Shinhan reduced its Middle Market NPL(substandard & below) ratio and delinquency ratio in middle market sector to 0.51% and 0.21%, respectively.

As 2003 is expected to see a more competitive middle market, Shinhan plans to strengthen its position in the target segments by leveraging its corporate banking know-how.



Corporate Banking



The year 2002 was a good year for Shinhan Bank's corporate banking business. Pre-provision income in corporate banking sector reached ₩124.0 billion, net income ₩151.0 billion, and ROA 2.76%. Fees and income from new business combined to account for 27.5% of total income.

The year 2002 was a good year for Shinhan Bank's corporate banking business. Pre-provision income reached ₩124.0 billion, net income ₩151.0 billion, and ROA 2.76%. Fees and income from new business combined to account for 27.5% of total income.

Shinhan Bank's progress in fee-based business was remarkable, showing a 140% increase of fees & commission income. M&A and corporate restructuring consulting (CRC) became new additions to the business range. Asset-backed securities (ABS), social overhead capital (SOC) projects, real estate financing, and syndicated loans were selected for intensive cultivation. To link its corporate banking operations with its affiliates' business activities, Shinhan opened up a "Corporate Finance Center", bringing under one roof its corporate business unit and Goodmorning Shinhan Securities' corporate business unit. In addition, the Bank reorganized its large corporate banking unit as well as respective branches to establish a basis for investment banking.

A review of business performance by sector shows that ABS trustee business cornered 19% of the industry's total issues during the year. In particular, Shinhan's market share of ABS issues reached an unrivaled 42.8%. Its position in the customized financing market was bolstered when it arranged a ₩250 billion asset-backed loan with terms optimal to the asset structure and cash flows of the clients. The income structure improved significantly with ₩11.7 billion in fees and ₩8.1 billion in income from funds management.

In the syndicated loan area, Shinhan Bank strengthened its market position and brand recognition by actively arranging M&A financing, FRN issues, ship financing, and project financing at home and abroad. SOC financing, in

particular, has emerged as a major income generator for Shinhan, as the increasing number of institutional investors fuels the growth of the SOC market.

In real estate financing, Shinhan Bank built a solid business base by thoroughly analyzing this rapidly growing market and forming a tightly knit business network. By developing various income-generating models including REITS, Shinhan achieved a performance regarded by industry experts as a successful market entry.

In 2003, Shinhan Bank plans to expand its proposal marketing and thus translate client's latent needs into business by using newly developed marketing support systems such as the accounting plan (AP) system. As for investment banking, Shinhan aims to become a major market maker in such lucrative areas as ABS, SOC, real estate financing, and syndication. M&A, corporate restructuring consulting, tax lease, custodian banking, and other investment banking areas with growth potential will be continually developed as part of the Bank's grand scheme to offer what is truly a total financial service. Shinhan Bank plans to raise the ratio of fees and commission income from new business to 37% by 2003.

Treasury Business



In response to market changes at home and abroad, Shinhan transferred foreign currency treasury business to Treasury Department and upgraded it to division status in 2001. This integration opened up new business opportunities involving local and foreign currencies and delivered synergies from the meshing of funding and capital operations.



Treasury pursues profit through sound fund management and various means of funding and asset & liability management. Shinhan Bank, in response to market changes at home and abroad, transferred foreign currency treasury business from its now-defunct International Banking Department to Treasury Department and upgraded it to division status in 2001. This has created new business opportunities in the local currency and foreign currency areas, and synergies from funding and capital operations. In addition, asset and liability management has become more efficient.

Securities Investment Department, another major profit center, invests in and operates stocks, domestic and foreign bonds, and other securities. Its bond portfolio includes debentures, government bonds, blue-chip corporate bonds, ABS, CBO, and the like. Total assets under management amounted to ₩10,244.0 billion at the end of 2002, of which 22% was under the management of an investment trust company. Investment income totaled ₩102,877 million, 11% of Shinhan Bank's total operating income.

The Bank's Treasury Division consists of four departments: Treasury, FX & Derivatives, Securities Investment, and Settlement.

Treasury Department provides funds to all business operations and ensures the Bank's liquidity. By using RMS21, a next-generation risk management system, the Department manages the Bank's local currency and foreign currency assets and liabilities on a real-time basis, and thus formulates optimal funding and operation plans. To secure long-term stable funds, the department uses reverse FRN, structured financing, and other advanced funding methods. As for overseas funding, the department constantly explores the feasibility of raising funds in currencies other than the U.S. dollar, notably the Hong Kong dollar, Japanese yen, and the euro.

FX & Derivatives Department, a main profit center of Treasury Division, develops and markets diverse financial products by linking foreign exchange, savings and loan products, and derivatives. It also operates a Corporate Desk to develop prospective corporate clients. In 2002, the department's won-U.S. dollar foreign exchange dealings amounted to U\$18 billion, a 2.91% market share. It plans to raise this share to 5% by the end of 2003.





Shinhan Bank will maintain its drive for the diversification of foreign currency-related income sources. Heartened by its 2002 results, Shinhan intends to pursue more strategic business tie-ups, expand online operations, develop new fee-based services, and improve its fee structure.

Responding to the fast-growing volume of Korean imports and exports and the rapid expansion of individual travel and overseas contacts for business, study and travel, Shinhan Bank took various steps towards developing the role of its trade business and related foreign exchange business as a major income source. In July 2002, the Bank created a “Foreign Trade Marketing Team” to bolster its trade and retail-related foreign exchange marketing. Through close coordination of the Bank’s business operations, this has facilitated, the creation of new channels and services, the exploitation of niche markets, and the support of the network’s business activities in regard to retail and trade-related foreign exchange.

To grow its foreign trade marketing base over the medium and long-term, the Bank has constructed a “Foreign Exchange Income Double Counting System” linking all domestic and overseas branches. This synergy-creating system empowers them in the more effective coordination of their foreign currency-related operations in the trade and retail fields. Various channels and services were also brought into being to open up trade business opportunities and generate income. To better serve customers in Japan, the Bank launched “Shinhan Welcome Korea”, an online channel linking all branches, domestic and overseas. Software and hardware were upgraded to enable more efficient online remittance and foreign exchange services. “OK Phone Remittance Service” was introduced in answer to the diversification of customer needs. Moreover, foreign exchange-related work procedures were constantly upgraded through strategic ties with overseas correspondent banks. In order to generate more fee income, the Bank plans to continue its policy of augmenting and deepening its correspondent relationships.

Niche markets associated with trade finance and retail foreign exchange were

developed through the holding of various promotions, the forging of business ties, and the provision of distinctive services. Promotional events including Traveller’s Check Festivals, and China-bound remittance reward ceremonies were held to help stake out a larger share for the Bank in trade and retail areas of the foreign exchange market. Business ties were formed with travel agencies, airlines, and agencies for overseas study and so on. An Overseas Study Advisory Centre was created to offer comprehensive foreign exchange/remittance services to customers preparing to relocate overseas or study abroad.

As a result of these activities, in 2002, the Bank recorded US\$28.5 billion in trade finance and related business, which represented a 15% increase over the previous year. Foreign exchange operating income reached ₩293.0 billion.

In 2003, the Bank will maintain its drive for the diversification of foreign currency-related income sources. Heartened by its 2002 results, Shinhan intends to pursue more strategic business tie-ups, expand online operations, develop new fee-based services, and improve its fee structure. For its 2003 business objectives, the Bank is targeting US\$32.2 billion in trade and retail related foreign exchange business, which represents a 12.9% increase. The income generated from these foreign exchange operations is projected to reach ₩328.4 billion, a 12.1% increase.

Having successfully rebuilt the foundation for its trade and retail- related foreign- exchange business in 2002, Shinhan intends to advance strongly in this field in 2003, thanks to qualitative and quantitative growth achieved through the successful exploitation of the synergies throughout its network.

e - Banking



The number of customers signed up for Shinhan's internet banking is growing rapidly from an already large base: Another one million subscribers registered last year alone. They tend to be very active in internet banking, accounting for 20% of the Bank's total banking transaction volume in 2002.



Shinhan Bank is the de facto leader in cyber banking in Korea. It pioneered internet banking, introduced Korea's first online loan service, and has the largest e-banking customer base in the country.

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Shinhan Bank keeps abreast of the fast-shifting pattern of customer needs through innovation. The ezPlus service, a new client-based banking solution launched in February 2002, was an instant hit with online banking customers, because its dispersed system delivers a stable banking service regardless of traffic volume. Web Customer Center, an artificial-intelligence-based online consulting service, listens to a customer's questions and answers them on a real-time basis. Mobile banking has also been launched, offering various services, including transaction confirmation, accessed through a mobile phone handset. Shinhan's B2B settlement system has been adopted as the industry standard, thereby securing a position of advantage in the budding online payment market.

What is more, Shinhan Bank's e-business is fast becoming profitable. To further diversify its income sources, it has been developing income-generating projects including e-mail banking and an internet lottery. In addition, by putting its utility bill and tax receipt services online, Shinhan Bank has not only created a new income source but also cut operating costs.

To maintain and build on its leadership, Shinhan Bank continues to push

forward the frontiers of internet banking. One project now in the pipeline is an online wealth management service. For this, Shinhan plans to expand its product/service range and build strong customer relationships through one-on-one marketing.

Shinhan Bank is not only the undisputed leader in internet banking, it also sets the pace for Korean banking in information technology. Over the past year, the focus has been on building an IT infrastructure that ensures a stable and reliable banking service. The IT Division was reorganized to keep development and operations separate. The back-up system has been reconfigured as a mirror site to handle a greater workload and reduce down-time. Moreover, a group management infrastructure has been constructed that allows the sharing of customer information and applications among Group affiliates.

The year 2003 will be another busy one for Shinhan Bank's IT business. Shinhan plans to create more e-banking and e-business services, find ways to strengthen the Group's synergies using IT, and upgrade its IT processes in keeping with the highest standards.

Risk Management



Shinhan Bank manages all risks associated with its business operations to pursue stable business growth and maximize shareholder value. Shinhan specifically focuses on credit risk, market risk, and liquidity risk.

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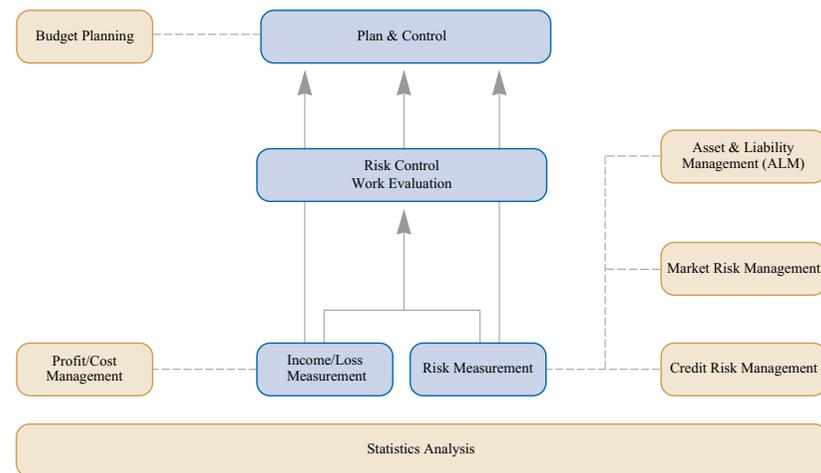
Risk management and control starts from the Board of Directors (BoD), which sets basic guidelines such as total risk limits for the Bank. Under the BoD, the Risk Management Committee determines asset allocation and risk limits by division, and assists management in formulating basic management guidelines 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.

Risk Management Team, 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 formulate appropriate capital and business policies, control risks, and evaluate individual and unit performance. The project aims to combine risk management, risk-weighted profitability evaluation and business planning, and establish a fully integrated system. By the end of 2002, the RMS21 was near completion with most of its intended functions programmed, and it was in operation in conjunction with other existing systems. Programmed to compute value-at-risk (VaR) by combining market and credit risk, the RMS21 can calculate more accurate risk-adjusted performance measurements (RAPM) than any other system. Meanwhile, Shinhan Bank is in the process of re-coding data and modifying systems according to the new Basel Accord of the Bank for International Settlements (BIS), and is sharing the RMS21 with its affiliates.

The main functions of the RMS21



Budget planning system formulates scientific budget plans by branch, by division, and for Shinhan Bank as a whole. The system combines the risk information, and the balance sheet and profit/loss statement data of three systems: profit/cost management, asset & liability management (ALM), and statistics analysis.

The profit/cost management system of the RMS21 consists of two subsystems: business cost and profitability. The former calculates business costs on various dimensions, including activity, product, and unit. These data are used for determining interest rates, fee rates, business service costs, and other related costs. The latter measures net profitability by customer, product, and unit, by combining interest rate margins, fee income/expenses, business costs, risk, and

RMS21 project aims to combine risk management, risk-weighted profitability evaluation and business planning, and establish a fully integrated system.



other related data. The business cost system has already started its operation throughout Shinhan Bank and the profitability system will come into operation sometime this year.

This market risk management system can calculate daily VaR with a 99% confidence level, using not only the historical simulation method and the parametric method, but also the Monte Carlo simulation method. The use of the Monte Carlo simulation method, in particular, has improved the system's derivatives risk analysis functions and made possible a combined market/credit risk measurement that considers the simultaneous insolvency of counterparties. The accuracy of calculated VaR is checked by the back-testing report, which is run daily. The system can also calculate the results of stress-test effect analysis according to scenarios in various contingency plans. As for risk management for derivatives, various parameters are used. As the RMS21 supports basis point value (BPV), Delta, Gamma, and Vega, it can analyze effects related to absolute and relative changes in stock prices, exchange rates, and interest rates.

The credit risk management system can calculate the exposure and VaR of all assets that would be at credit risk in the event of loan default. The assets included in the exposure are loans, payment guarantees, securities, derivatives, and overseas branch transactions. Moreover, the system can calculate exposure and VaR on at least a weekly basis, not only by borrower but also by business group, industry, credit rating, and so on. The Monte Carlo simulation method is used to calculate VaR more accurately. The utility of the system is increasing along with the growth of the derivatives market, because it can also calculate derivatives' latent exposure as well as their market-to-market value.

The ALM system of the RMS21 consists of three sub-systems: an ALM package by Oracle called OFSA Risk Manager, a web-based ALM, and a multi-dimensional analysis-based report. The ALM system performs gap analysis for managing interest rate risk and liquidity risk, duration analysis, NPV analysis, NII simulation analysis, and earnings-at-risk (EaR) simulation analysis. It also analyzes derivatives generating cash flow and statistical data about customer behavior, including early loan pay-off and loan cancellation.

The statistics analysis system defines and provides statistically meaningful parameters to the subsystems of the RMS21. For the budget planning system it provides basic scenarios on the availability of capital. In addition, this system analyzes relativity, changeability, and seasonality among such risk factors as interest rates, stock prices, and foreign exchange rates.



Management Discussion & Analysis



Key Financial Data

	in billions of Korean won		in millions of U.S. dollars	
	2002	2001	2002	2001
Bank Account				
For the Year				
Operating Revenues	4,821.3	4,679.6	4,016.4	3,528.8
Operating Expenses	3,888.9	4,239.1	3,239.7	3,196.7
Operating Income	932.4	440.5	776.7	332.2
Ordinary Income	843.0	495.7	702.3	373.8
Net Income for the Year	595.9	347.1	496.4	261.7
At Year-end				
Total Assets	58,889.4	53,356.0	49,058.1	40,235.3
Total Loans	43,316.0	35,920.7	36,084.6	27,087.5
Total Securities	13,855.0	14,020.2	11,542.0	10,572.2
Total Deposits	39,622.8	35,969.9	33,008.0	27,124.6
Total Stockholders' Equity	2,860.5	3,170.9	2,383.0	2,391.1
Trust Account				
At Year-end				
Total Assets	11,090.4	9,422.8	9,238.9	7,105.6
Total Loans	271.3	528.7	226.0	398.7
Total Securities	5,610.5	5,548.5	4,673.9	4,184.1
Total Money Trusts	6,268.9	6,524.0	5,222.3	4,919.7
Financial Ratios				
Return on Average Assets	1.05	0.70		
Return on Average Equity	19.79	10.73		
Substandard & below	1.42	2.42		
NPL Ratio by FSS	0.69	1.21		
Net Interest Margin	2.54	2.59		
BIS Capital Adequacy Ratio	10.92	12.02		
(Tier 1 Capital Ratio)	6.81	8.26		
(Tier 2 Capital Ratio)	4.11	3.76		

* Translated into U.S. dollars at the exchange rates of ₩1,200.40 and ₩1,326.10 to US\$1.00, the prevailing rates on Dec. 31, 2002 and 2001, respectively.

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

Overview

Shinhan Bank recorded net income of ₩595.9 billion in 2002, an impressive 71.7% increase compared with the previous year. This is attributable to a healthy increase of yield-bearing assets and a sizable reduction of loan loss provisions following the improvement of asset quality. Pre-provision income decreased 3.25%, due mainly to a ₩89 billion non-operating loss associated with the debt/equity swap of Hynix bonds and to a drop in credit card fees following the spin-off of the credit card business.

Shinhan's achievement in asset quality was equally impressive. As of the end of 2002, the substandard & below ratio stood at 1.42%, up 1.0%p from the year before, while the NPL ratio was 0.69%, up 0.52%p. The Bank plans to maintain its sound asset quality through stringent credit risk management. The BIS capital adequacy ratio was tallied at 10.92%, 1.10%p lower than the year before. Considering the improvement of asset quality and the reduced risk of the business environment, however, Shinhan's capital adequacy is thoroughly sound and stable.

Total assets amounted to ₩69.7 trillion in 2002, 12.4% more than the year before. Assets from the banking account grew 10.4%, while those from the trust account rose 17.7%. In the banking account, local currency loans soared 28%, whereas credit card loans dropped ₩1,912.4 billion due to the credit card spin-off. The increase of assets in the trust account stemmed mostly from money trusts.

Despite sluggish GDP growth at home and a slowing world economy, Shinhan Bank achieved noteworthy business results in 2002. Its emphasis on expanding quality assets in the retail and middle markets was one of the main contributing factors.

Management Discussion & Analysis

To review the growth of major financial indicators in 2002, total assets grew 12.4% (10.4% in the bank account and 17.8% in the trust account) to ₩69,715 billion, while operating income jumped 112% and net income soared 72%. Per capita assets and income, two leading productivity indicators, amounted to ₩12.8 billion and ₩128 million, respectively. Both figures were the highest in the Korean banking industry in 2002.

The substandard & below loan ratio was 1.42% at the end of 2002, while the non-performing loan ratio stood at 0.69%, the lowest in the industry. The BIS capital adequacy ratio inched down 1.10%p to a stable 10.92%.

Net Income Summary

(in billions of Korean won)

	FY2000	FY2001	FY2002	YoY
Operating Revenues	4,344.5	4,679.7	4,821.4	3%
Interest Income	3,377.7	3,438.9	3,320.3	-3%
Commission Income	381.5	463.9	423.3	-9%
Other Operating Income	585.3	776.9	1,077.8	39%
Operating Expenses	3,894.6	4,239.1	3,889.4	-8%
Interest Expenses	2,487.9	2,405.6	2,104.4	-13%
Commission Expenses	28.5	76.1	101.4	33%
Other Operating Expenses	887.8	1,194.1	1,057.9	-11%
(Provisions for Credit Losses)	(399)	(552)	(148)	-73%
Selling and Administrative Expenses	490.5	563.3	625.6	11%
Operating Income	449.9	440.5	931.9	112%
Non-Operating Income	146.5	206.1	119.1	-42%
Non-Operating Expenses	49.5	150.9	208.1	38%
Ordinary Income	547.0	495.7	843.0	70%
Extraordinary Gains	6.5	-	-	-
Income Before Income Taxes Expenses	553.5	495.7	843.0	70%
Income Tax Expenses	180.8	148.6	247.1	66%
Net Income for the Year	372.8	347.1	595.9	72%

Net income amounted to ₩595.9 billion in 2002, ₩248.8 billion more than the year before. The expansion of yield-bearing assets increased interest income, while the improvement of asset quality reduced the provisioning burden.

The Bank's credit card operations were spun off to become an independent entity in June 2002, which was a main reason for the drop of ₩66 billion fee income from the previous year to ₩322 billion.

Loan loss provisions shrank 73%, the biggest item in the reduction of operating expenses, due mainly to the credit card spin-off and the stringent risk management of corporate loans.

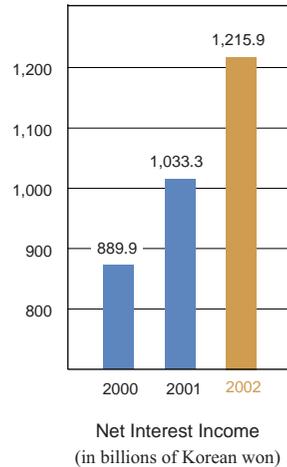
Due to asset growth and IT investment, selling and administrative expenses increased 11%p over the same period the year before. ₩57.3 billion loss sustained on Hynix through a debt/equity swap contributed to a net non-operating loss of ₩144 billion.

Net Interest Income and Margin

(in billions of Korean won)

	FY2000	FY2001	FY2002	Increase	YoY
Interest Income					
Interest on Due from Banks	112.9	64.1	22.3	-41.8	-65%
Interest on Trading Securities	57.6	55.9	34.8	-21.1	-38%
Interest on Investment Securities	1,108.6	985.7	836.5	-149.2	-15%
Interest on Loans	2,046.1	2,291.2	2,407.5	116.3	5%
Others	52.6	42.0	19.2	-22.8	-54%
Total	3,377.7	3,438.9	3,320.3	-118.6	-3%
Interest Expenses					
Interest on Deposits	1,513.5	1,558.3	1,362.4	-195.9	-13%
Interest on Borrowings	779.6	594.1	418.2	-175.9	-30%
Interest on Debentures	158.1	207.9	303.5	95.6	46%
Others	36.6	45.3	20.3	-25.0	-55%
Total	2,487.9	2,405.6	2,104.4	-301.2	-13%
Net Interest Income	889.9	1,033.3	1,215.9	182.6	18%

Management Discussion & Analysis



liabilities shrank, while that on debentures increased 46%, as the Bank relied on this funding vehicle more in 2002.

Net interest margin (NIM) averaged 2.54% in 2002, 0.05%p lower than the year before (without factoring in the credit card business, the figure would be 0.12%p higher). Local currency NIM remained somewhat unchanged compared with the year before, whereas foreign currency NIM decreased 0.49%p, due mainly to shrinking risk premiums on foreign currency assets.

Despite a 23% increase of loans in 2002, interest income decreased 3% compared with the previous year, due mainly to falling interest rates and a 9% reduction in securities holdings. Among loans, home-equity loans grew substantially, while the growth rate of corporate loans dropped from 22.3% in 2001 to 11.8% in 2002.

Interest expenses were also affected by falling interest rates, dropping 13%. Interest paid on deposits, borrowings and other interest-bearing

The chart below shows average funding costs, yield rates, and net interest margins.

(in billions of Korean won)

	Year 2000		Year 2001		Year 2002	
	Volume	Yield	Volume	Yield	Volume	Yield
Interest Earning Assets						
IEA in KRW	39,190.5	8.86	44,876.7	8.00	49,778.2	6.82
Due from Banks	32,600.2	9.14	38,550.2	8.32	43,643.6	7.31
Securities	960.8	6.96	563.0	6.20	349.6	4.99
Loans	12,110.0	9.36	11,820.8	8.48	10,548.8	8.04
Loans in KRW	19,529.5	8.94	25,854.9	8.28	32,710.3	7.06
Corporates	16,332.4	8.66	22,447.3	7.95	29,969.0	6.87
Households	10,871.9	8.37	13,297.1	7.69	14,862.5	6.68
Loan Loss Reserves(△)	4,347.7	10.29	7,913.9	8.78	14,168.3	7.23
Loan Loss Reserves(△)	457.5		295.1		384.9	
IEA in Foreign Currency	6,590.2	7.47	6,326.6	6.07	6,134.6	3.36
Due from Banks	777.3	5.93	682.6	4.28	219.7	1.81
Securities	553.6	5.94	567.9	6.80	708.7	3.22
Loans	5,259.3	7.85	5,076.1	6.23	5,206.1	3.45
Loans in FC	3,721.7	6.44	3,318.1	5.08	3,538.6	2.98
Bills Bought in FC	1,847.1	9.39	2,022.5	7.30	1,806.0	4.10
Loan Loss Reserves(△)	309.5		264.5		138.4	
Interest Bearing Liabilities						
IBL in KRW	37,157.6	6.72	43,302.1	5.61	49,414.7	4.31
IBL in KRW	30,686.2	6.83	37,231.7	5.88	43,775.7	4.65
Deposits	21,744.2	6.70	26,845.3	5.71	31,670.2	4.34
Borrowings	7,848.7	6.32	7,985.7	5.34	7,699.7	4.50
Financial Debentures	942.2	11.53	2,149.7	8.54	4,174.1	7.06
Others	151.1		251.1	17.67	231.6	8.58
IBL in Foreign Currency	6,471.4	6.23	6,070.4	3.95	5,639.0	1.71
Deposits	1,612.6	4.31	1,869.9	2.58	1,693.8	0.93
Borrowings	3,899.3	7.02	3,601.7	4.61	3,405.5	2.09
Financial Debentures	739.0	6.70	473.5	5.13	386.2	2.23
Others	220.6	4.81	125.3	1.19	153.5	0.51
Net Interest Spread in KRW		2.31		2.44		2.66
Net Interest Margin		2.48		2.59		2.54
(Won)		2.72		2.64		2.64
(Foreign Currency)		1.34		2.28		1.79

Management Discussion & Analysis

Non-Interest Income

(in billions of Korean won)

	FY2000	FY2001	FY2002	Increase	YoY
Fees & Commissions	353.0	387.7	321.8	-65.9	-17%
(Credit Card Income)	(248.3)	(301.1)	(216.3)	-84.8	-28%
Fees on Trust Accounts	-3.1	129.8	120.3	-9.5	n.a
Securities-related Income	96.3	7.7	-97.2	-104.9	n.a
Gains on FX transactions	91.9	91.7	89.5	-2.2	n.a
Other Income	-24.7	-39.8	-42.8	-3.0	n.a
Total	513.5	577.3	391.6	-185.7	n.a

Non-interest income totaled ₩391.6 billion in 2002, a ₩185.7 billion decrease compared with the year before. This reduction reflects a large non-operating loss (₩109 billion) related to the write-off of non performing investment securities including Hynix bonds.

Fee income other than that from credit card operations amounted to ₩105.5 billion, up ₩18.9 billion (22%) from the year before. Trust fees, on the other hand, decreased ₩9.5 billion, owing to shrinking trust volumes and yield rates.

Sales and Administrative Expenses

(in billions of Korean won)

	FY2000	FY2001	FY2002	Increase	YoY
Salaries	159.1	184.7	204.7	20.0	11%
Retirement Allowance	36.1	45.7	48.9	3.2	7%
Other Employee Benefits	108.6	106.1	125.5	19.3	18%
Rent	16.9	20.5	23.4	2.9	14%
Entertainment	6.3	6.4	4.1	-2.3	-36%
Depreciation	53.0	63.8	62.8	-1.0	-2%
Amortization on Intangible Assets	0.1	0.1	0.0	-0.0	-43%
Taxes and Dues	25.4	25.4	26.1	0.7	3%
Advertising	11.7	25.4	29.7	4.3	17%
Other Expenses	73.4	85.2	100.2	15.0	18%
Total S&A Expenses	490.5	563.3	625.5	62.2	11%

Sales & administrative expenses rose 11% to ₩625.5 billion in 2002. Of the amount, the expenses related to personnel and materials rose 13.8% each, respectively, to ₩291.7 billion and ₩196 billion. The Bank's expenses rose at a pace well below that of its income. The ratio of total sales and administrative expenses to total assets was a healthy 1.10%.

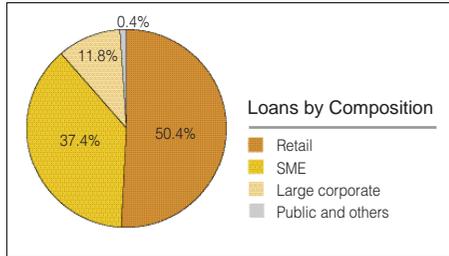
Analysis of Summarized Assets

Total loans from the banking account grew 20% to ₩40,579 billion. Household loans and corporate loans in local currency grew ₩5,219.8 billion and ₩2,073.9 billion, respectively, while foreign currency loans increased ₩831.6 billion. Credit card loans and call loans, however, dropped ₩1,912.5 billion and ₩1,323.5 billion, respectively.

Total Loans

(in billions of Korean won)

	FY2000	FY2001	FY2002	Increase	YoY
Loans in Won					
Retail	5,700.7	10,772.9	15,992.7	5,219.8	48%
Mortgage	2,138.5	7,021.2	10,767.1	3,745.9	53%
Others	3,562.2	3,751.7	5,225.6	1,473.9	39%
SMEs	9,974.1	10,618.9	11,876.0	1,257.1	12%
Large Corporates	3,461.8	2,937.5	3,754.3	816.8	28%
Public & Others	744.9	93.0	111.1	18.1	19%
Total	19,881.5	24,422.3	31,734.1	7,311.8	30%
Loans in FC	2,137.9	2,887.7	3,719.3	831.6	29%
Credit Card Accounts	1,585.8	2,093.4	180.9	-1,912.5	-91%
Bills Bought in FC	3,204.8	1,872.2	2,242.4	370.2	20%
Call Loans, RPs	1,592.9	1,826.4	502.9	-1,323.5	-72%
Others	898.6	1,362.2	2,775.0	1,412.8	104%
(Loan Loss Allowances)	(593.8)	(567.3)	(565.8)	-1.5	0%
(Present Value Discount)	(41.3)	(15.5)	(9.8)	-5.7	-37%
Total	28,666.6	33,881.2	40,579.0	6,697.8	20%

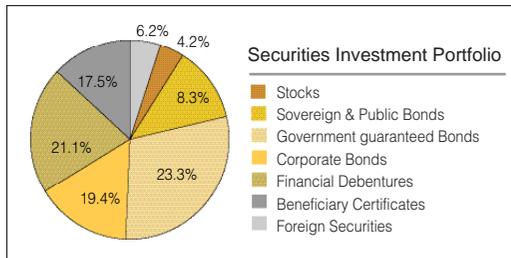


Among household loans, mortgage loans grew most noticeably, at 53%. “Fixed Asset-backed Loans”, a product rolled out in 2001, grew ₩1,122 billion in 2002, a sharp contrast to ₩0.4 billion in 2001. As for corporate loans, SME loans and large corporate loans increased 12% and 28%, respectively.

Total Securities

(in billions of Korean won)

	FY2000	FY2001	FY2002	Increase	YoY
Stocks	196.3	804.0	573.0	-231.0	-29%
Sovereign & Public Bonds	2,419.1	2,053.7	1,145.0	-908.7	-44%
Government Guaranteed Bonds	2,789.9	3,225.6	3,229.4	3.8	0%
Corporate Bonds	4,070.4	3,593.4	2,686.5	-906.9	-25%
Financial Debentures	2,894.8	2,489.8	2,926.7	436.9	18%
(Monetary Stabilization Bonds)	1,513.9	1,417.1	1,265.2	-151.9	-11%
Beneficiary Certificates	631.2	1,171.5	2,432.1	1,260.6	108%
Others	12.0	18.1	8.3	-9.8	-54%
Foreign Securities	637.4	664.2	853.9	189.7	29%
Total	13,651.0	14,020.2	13,854.9	-165.3	-1%



As of the end of 2002, the Bank’s securities holdings amounted to ₩ 13,854.9 billion. These represented 23.6% of total assets, down 2.6%p compared with the year before. Broken

down by type, stocks dropped 29%, reflecting the sluggish stock market environment. Public bonds and corporate bonds also dropped from the previous year. Beneficiary certificates, in contrast, jumped 108% in volume. However, as over 80% of the beneficiary certificates were invested in the form of public bonds, the actual composition of the securities portfolio did not change much over the year. Shinhan Bank continues its pursuit of ways to maximize yield while maintaining the asset quality of its securities portfolio.

Total Deposits

(in billions of Korean won)

	FY2000	FY2001	FY2002	Increase	YoY
Low Cost Deposits	8,932.9	10,014.1	10,857.4	843.3	8%
Demand	1,655.6	1,544.8	1,384.3	-160.5	-10%
Low Cost Saving	7,277.2	8,469.3	9,473.1	1,003.8	12%
Time Deposits	15,247.1	15,751.6	17,756.7	2,005.1	13%
Installment Deposits	1,329.8	1,496.1	1,761.1	265.0	18%
CDs	842.2	2,866.8	2,772.2	-94.6	-3%
RPs, Bills Sold	5,406.7	4,077.1	4,444.2	367.1	9%
Deposits in Won	31,758.7	34,205.7	37,591.6	3,385.9	10%
Deposits in FC	1,967.8	1,764.3	2,036.1	271.8	15%
Total	33,726.4	35,970.0	39,627.7	3,657.7	10%

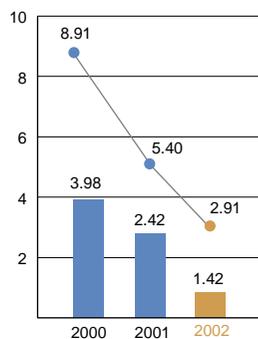
As for funding, the Bank relied more on debentures and less on deposits in 2002. As interest rates continued to fall, fund raising costs through the issue of debentures became cheaper than those associated with deposits. As of the end of 2002, local currency deposits-taking and foreign currency deposits stood at ₩37,591 billion and ₩2,036 billion, increases of 10% and 15%, respectively. Debentures rose 72.8% to ₩6,068.7 billion.

Management Discussion & Analysis

Asset Quality

(in billions of Korean won)

	FY2000	FY2001	FY2002	Increase	YoY
SHB					
Normal	30,126.6	33,981.1	42,055.8	8,074.7	24%
Precautionary	1,632.1	1,071.6	643.8	-427.8	-40%
Substandard	1,062.1	667.0	487.5	-179.5	-27%
Doubtful	184.8	106.6	57.2	-49.4	-46%
Estimated Loss	69.4	94.5	71.7	-22.8	-24%
Total	33,074.9	35,920.8	43,316.0	7,395.2	21%
Bad Loan Ratio	0.77%	0.56%	0.30%	-0.3%p	-47%
Substandard & Below Ratio	3.98%	2.42%	1.42%	-1.0%p	-41%
Precautionary & Below Ratio	8.91%	5.40%	2.91%	-2.5%p	-46%
Provisions	684.7	623.2	601.0	-22.2	-4%
Coverage Ratio against Bad Loans	269%	310%	466%	156%p	
Substandard & Below	52%	72%	98%	26%p	
Precautionary & Below	23%	32%	48%	16%p	



Asset quality (%)

■ Substandard & Below Ratio
● Precautionary & Below Ratio

Shinhan Bank substantially improved its asset quality index in 2002. The substandard & below loan ratio decreased 1.0%p to 1.42%, while the precautionary & below ratio dropped 2.5%p to 2.91%. Accordingly, the provisioning burden eased substantially in 2002, contributing a great deal to profitability. Shinhan improved its asset quality through stringent and systematic credit management of its core markets. Credit management continues to be one of the Bank's top-priority areas.

Provision

The chart below shows loan loss provisions for the bank and trust accounts by year.

(in billions of Korean won)

	FY2000	FY2001	FY2002	Increase	YoY
Bank Accounts					
LLR at the start of the period	956.3	605.8	580.4	-25.4	-4%
Provisions during period	398.5	551.6	148.3	-403.3	-73%
Write-offs	842.1	701.1	120.7	-580.4	-83%
Other adjustments	93.1	124.1	-38.5	-162.6	-131%
LLR at the end of period	605.8	580.4	569.5	-10.9	-2%
Trust Accounts					
LLR at the start	260.7	78.8	42.8	-36.0	-46%
Provisions during period	74.7	0.3	0.9	0.6	200%
Write-offs	287.4	28.7	16.8	-11.9	-41%
Other adjustments	30.8	-7.6	4.6	12.2	-161%
LLR at the end of period	78.8	42.8	31.5	-11.3	-26%
Total					
LLR at the start of the period	1,217.0	684.6	623.2	-61.4	-9%
Provisions during period	473.2	551.9	149.2	-402.7	-73%
Write-offs	1,129.5	729.8	137.5	-592.3	-81%
Other adjustments	123.9	116.5	-33.9	-150.4	-129%
LLR at the end of period	684.6	623.2	601.0	-22.2	-4%

Loan loss provisions for the bank account amounted to ₩148.3 billion in 2002, 73% less than the year before. The decrease stemmed from a reduction in bad loan write-offs. The Bank had written off ₩842 billion in 2000 and ₩701 billion in 2001, substantially reducing its bad assets. Those written off in 2002 amounted to ₩120.7 billion.

In 2002, the government tightened provisioning requirements on household loans, which led to a substantial increase in provisions for precautionary as well as normal

loans at the domestic banks, including Shinhan Bank. Of the ₩148.3 billion provisions taken by the Bank in 2002, corporate loans accounted for ₩29.1 billion and household loans for ₩119.2 billion.

As of the end of 2002, bad loans amounted to ₩129 billion, a mere 0.3% of total loans. The net balance of provisions stood at ₩569.5 billion, similar to the previous year. Provisions taken for the trust account amounted to ₩0.9 billion and the balance at the end of the year was ₩31.5 billion, 26% less than the year before.

Delinquency Ratio

(in billions of Korean won)

	Dec-2000			Dec-2001			Dec-2002		
	Total	Overdue	Ratio	Total	Overdue	Ratio	Total	Overdue	Ratio
Overall	29,893.3	526.5	1.76%	33,469.7	565.6	1.69%	41,977.4	347.1	0.83%
Corporate	13,675.8	262.6	1.92%	13,730.5	240.6	1.75%	15,796.4	179.6	1.14%
Consumer	6,458.5	102.1	1.58%	11,140.4	89.0	0.80%	16,149.0	115.9	0.72%

As the chart above shows, the overall delinquency ratio on the Bank's loans has been falling for the past three years. As of the end of 2002, the ratio was 0.83%, half the previous year's figure. The delinquency ratio of corporate loans decreased to 1.14%, while that of consumer loans shrank to 0.72%.

Capital Adequacy

(in billions of Korean won)

	FY2000	FY2001	FY2002	Increase	YoY
Total Shareholders' Capital	4,024.9	4,299.4	4,407.6	108.2	3%
Tier 1 Capital	3,024.3	2,955.9	2,749.4	-206.5	-7%
Tier 2 Capital	1,000.6	1,343.5	1,658.2	314.7	23%
Risk-weighted Assets	32,727.9	35,772.0	40,387.3	4,615.3	13%
Balance Sheet Assets	28,562.2	31,974.8	37,035.7	5,060.9	16%
Off-balance Sheet Assets	4,165.7	3,797.2	3,351.6	-445.6	-12%
BIS Capital Adequacy Ratio	12.30%	12.02%	10.92%	-1.10%p	-9%
Tier 1 Ratio	9.24%	8.26%	6.81%	-1.46%p	-18%
Tier 2 Ratio	3.06%	3.76%	4.11%	0.35%p	9%

As of the end of 2002, the BIS capital ratio was tallied at 10.92%, though this represented a decline of 1.10%p from the year before. In the view of the improved stability of the domestic financial market and Shinhan Bank's sound asset quality, it is considered a up-stable level.

As of the end of 2002, the Bank's net worth increased 3% and risk-weighted assets rose 13%, accounting for the 1.10%p decrease in the BIS ratio. Of net worth, Tier 1 capital decreased ₩206.5 billion, reflecting capital losses associated with the spin-off of the credit card business (₩246.9 billion), a mid-term dividend pay-out(₩348.6 billion), and a ₩412.4 billion increase in surplus earnings. Tier 2 capital rose ₩314.7 billion to ₩1,658.2 billion, due mainly to a subordinated bond issue.

Trust Account

Income

(in billions of Korean won)

	FY2000	FY2001	FY2002	Increase	YoY
Fees and Commissions from T/A	87.1	129.9	120.3	-9.6	-7%
Subsidy for T/A	90.1	-	-	-	-
Net Income from T/A	-3.1	129.9	120.3	-9.6	n.a

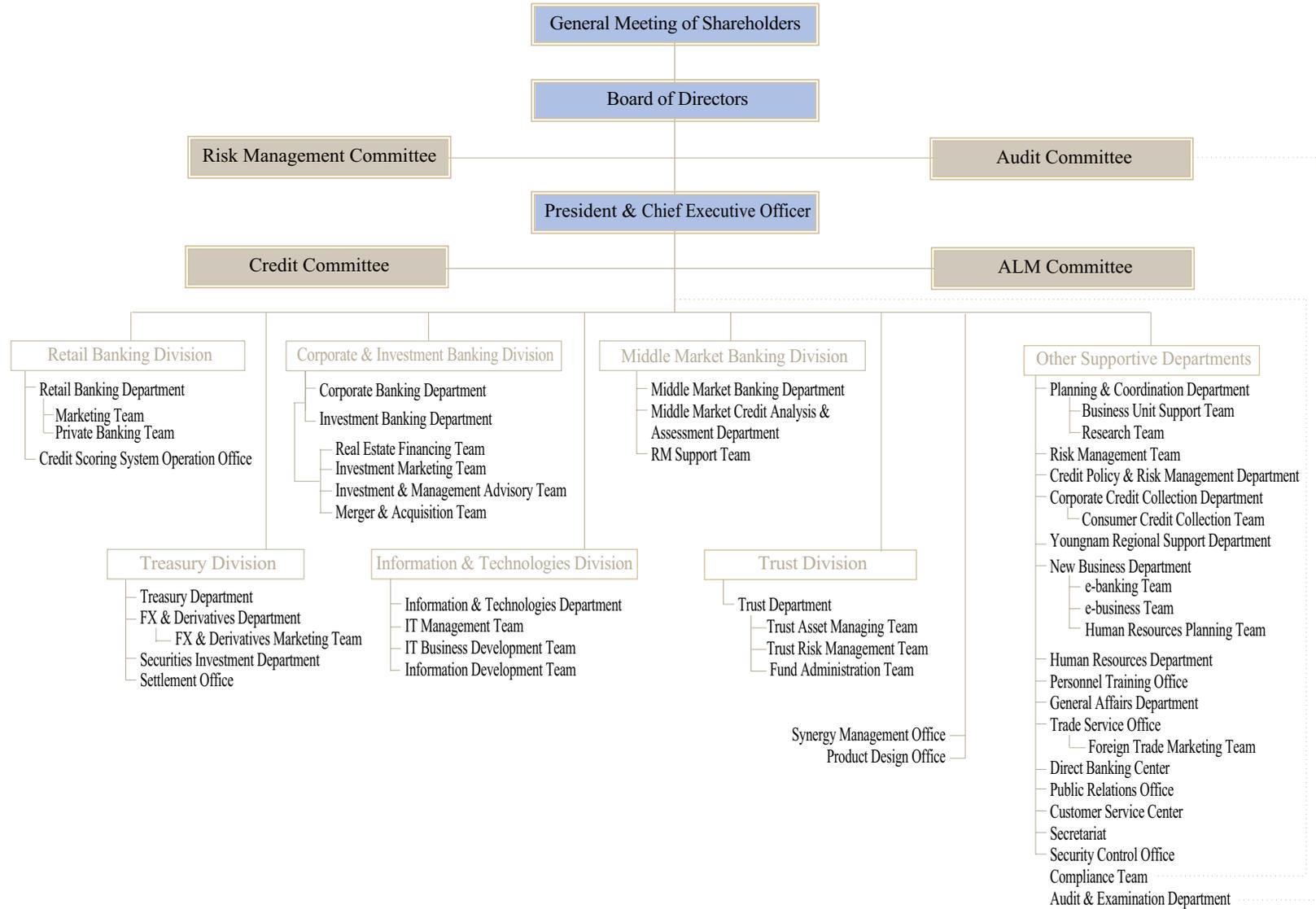
Outstanding

(in billions of Korean won)

	FY2000	FY2001	FY2002	Increase	YoY
Total Asset	6,147.7	9,422.8	11,090.4	1,667.6	18%
Money in trust	5,589.2	6,524.0	6,269.0	-255.0	-4%
Property in trust	0.0	2,489.2	4,527.1	2,037.9	82%

Total assets in the trust account grew 18% (₩1,667.6 billion) to ₩11,090.4 billion. Overall, money trusts decreased while property trusts rose. Most money in trust is invested in low-risk securities.

Organization Chart



Executive Officers & Outside Directors

>Executive Officers

Shin, Sang-Hoon
President &
Chief Executive Officer

Moon, Hong-Soon
Director & Standing Auditor

Lee, Jae-Woo
Deputy President
Head of Retail Banking Division

Huh, Joong-Ok
Deputy President
Head of IT Division

Kim, Sahng-Dae
Deputy President
Head of Planning & Coordination

Youn, Gwang-Lim
Deputy President & Chief Credit Officer

Cho, Woo-Sup
Deputy President
Head of Middle Market Banking Division

Kim, Hee-Soo
Deputy President
Head of Corporate & Investment Banking Division

Han, Do-Heui
Deputy President
Head of Trust Division

Shin, Christopher
Executive Vice President & Chief Risk Officer

Lee, Dae-Woon
Executive Vice President
Head of Treasury Division

>Outside Directors

Choi, Young-Hwi
Director

Lee, Jung-Bo
Director

Jeong, Kap-Young
Director

Choi, Bhang-Gil
Director

Park, Kyung-Suh
Director



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General Manager

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Fax. + 852-2877-2460
Kim, Myung-Chul
Managing Director

Corporate Data

Date of Establishment

September 15, 1981

Major Shareholder

Shinhan Financial Group(100%)

** Major Shareholders of SFG

Shinhan Bank 10.2 %

Citibank N.A. 4.6 %

BNP Paribas 4.0 %

National Pension Fund 2.5%

Business Network

Domestic: 349

272 Retail Banking Branches

74 Middle Market Banking Branches

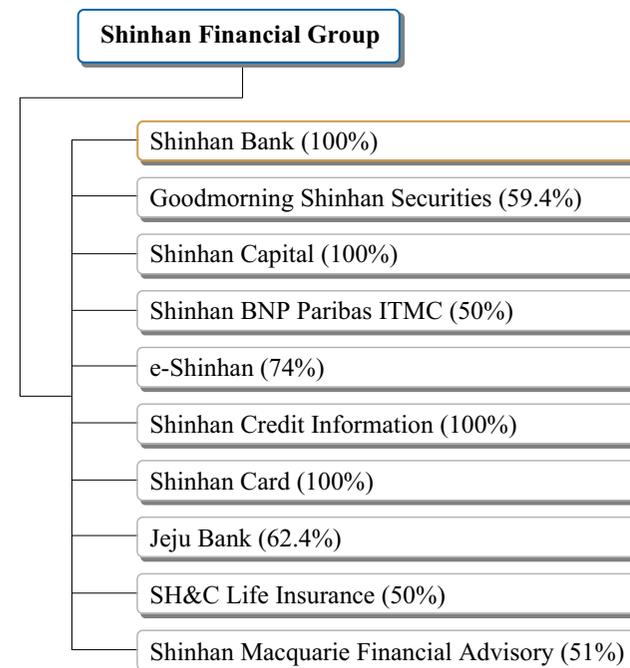
3 Corporate Banking Branches

Overseas: 8

Number of Employees

4,489 persons

Members of Shinhan Financial Group



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