

# All about Evolution Change and Innovation

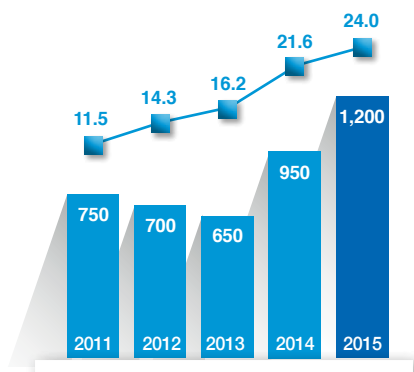
Shinhan Financial Group  
Annual Report  
2015



# Stock Information

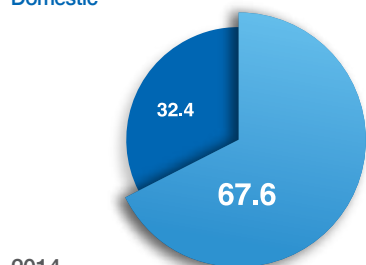
## Dividend (KRW,%)

- Dividend Payout Ratio
- Dividend Per Share

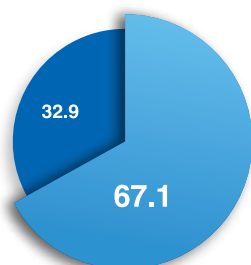


## Share Ownership (%)

- Foreign
- Domestic



2014



2015

## Number of Shares Issued

As of December 31, 2015

Common Stock	474,199,587	Redeemable Preferred Stock	11,100,000
			<b>Total</b>
			<b>485,299,587</b>

## Stock Performance (Common Stock)

	2015	2014
Market Capitalization (Year End)	₩ 18.8 trillion	₩ 21.1 trillion
Share Price		
Year End	₩ 39,550	₩ 44,450
High	₩ 46,650	₩ 53,400
Low	₩ 39,000	₩ 42,000
Weighting in the KOSPI (Year End)	1.5%	1.8%
Average Daily Trading Volume	1.0 million shares	0.9 million shares
Dividend Per Share	₩ 1,200	₩ 950
Total Dividend Paid	₩ 569 billion	₩ 450 billion
Foreign Share Ownership	67.1%	67.6%

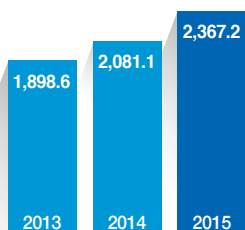
## Shareholders Holding Ownership of More than 1% (Common Stock)

Name of Shareholder	Number of Shares Owned	Ownership %
National Pension Service	43,881,041	9.25%
BNP Paribas	25,356,276	5.35%
SFG Employee Stock Ownership Association	21,273,373	4.49%
Citibank, N.A. (ADR Dept.)	13,675,125	2.88%
The Government of Singapore	11,530,462	2.43%
Saudi Arabian Monetary Agency	7,378,282	1.56%
Abu Dhabi Investment Authority	6,542,334	1.38%
Lazard Funds Inc.	6,440,002	1.36%
Mizuho	5,955,000	1.26%
National Westminster Bank Asiapacific	5,133,262	1.08%
Samsung Asset Management	4,951,044	1.04%
Peoples Bank of China	4,830,951	1.02%
Others	317,252,435	66.90%
<b>Total</b>	<b>474,199,587</b>	<b>100.00%</b>

# Financial Highlights

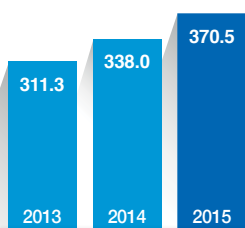
## Net Income

(KRW billion)



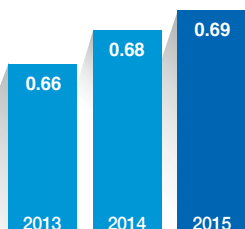
## Total Assets

(KRW trillion)



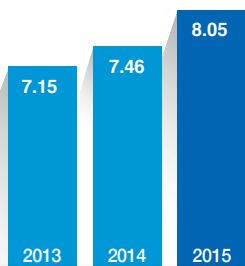
## ROA

(%)



## ROE

(%)



## Financial Highlights

	2015	2014	Chg %
<b>For the Year (KRW billion)</b>			
Operating Income Before Provisioning	4,010.6	3,604.8	11.3%
Net Income	2,367.2	2,081.1	13.7%
<b>As of Year End (KRW trillion)</b>			
Total Assets	370.5	338.0	9.6%
Total Liabilities	338.7	307.5	10.2%
Total Equity	31.8	30.5	4.2%

## Key Financial Ratio

	2015	2014	Chg %
ROA	0.69%	0.68%	0.01%p
ROE	8.05%	7.46%	0.59%p
Group Net Interest Margin	2.00%	2.27%	-0.27%p
Cost to Income Ratio	52.7%	55.3%	-2.6%p
NPL(Substandard and below loans) Ratio	0.87%	1.15%	-0.28%p
NPL Coverage Ratio	191%	168%	23%p
Group BIS Ratio	13.39%	13.05%	0.34%p
Group Common Equity Tier1 Ratio	10.77%	10.40%	0.37%p
BPS (KRW)	61,146	58,076	5.3%
EPS (KRW)	4,789	4,195	14.2%

## Credit Ratings

		S&P	Moody's	Fitch
Shinhan Bank	Long Term	A	Aa3	A
	Short Term	A-1	P-1	F1
Shinhan Card	Long Term	A-	-	A-
	Short Term	A-2	-	F2

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### Global Networks

### Investor Information





As we move forward, Shinhan Financial Group will embrace the new and pursue innovation to sustain growth in the face of change.

Our mid-term strategic goal is to solidify our presence as the leading financial group in Korea and strengthen our footing in the global markets.

Our efforts toward this goal will commence in 2016 with the implementation of three key initiatives: spearheading advances in digital finance, exploring new growth opportunities in the global markets and reinforcing our risk management system.

**Guided by the Group mission of Compassionate Finance, Shinhan upholds a culture of creativity where innovative ideas transpire into action in order to grow together with all of our stakeholders.**







# Globalization



## **Pushing the limits and raising the bar in finance**

We are extending our influence to the global arena and finding solutions with clients worldwide. With distinctive global business strategies, Shinhan is expanding the financial sphere and reaching out to a bigger market.

# Consistency



## **Spearheading advances in finance by looking ahead**

Consistency is the key to gaining trust and prudent risk management is vital in times of rapid change and high uncertainty. Shinhan delivers stable performance with a consistent growth strategy and advanced risk management.





# Sustainability



## Inspiring and sharing hope through finance

We are increasing engagement with customers and sharing hope with the wider community to grow hand in hand with society. Compassionate Finance embodies Shinhan's commitment to realizing a better tomorrow through finance.

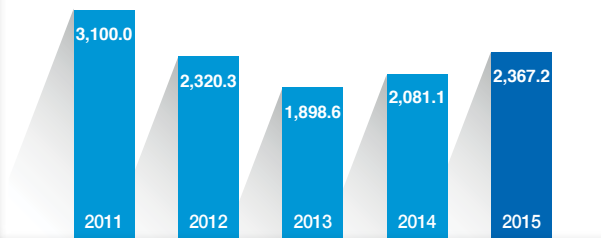


# Key Performance Indicators

## Net Income

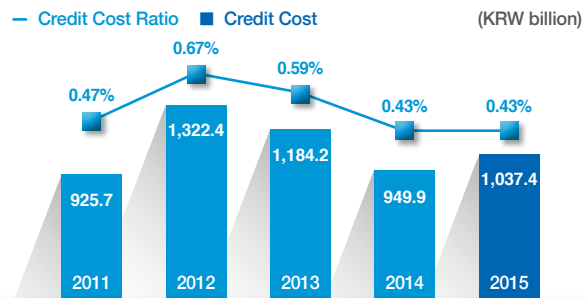
Shinhan Financial Group has pushed forward its consistent long-term strategies for sustainable growth since its inception. As a result, the Group realized KRW 2.37 trillion in net income for 2015, registering the highest net profit in the industry for the eighth straight year.

(KRW billion)  
**2,367**



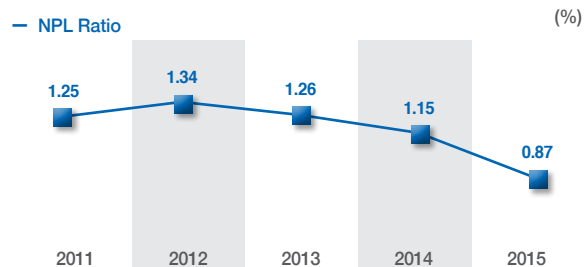
## Credit Cost

The Group's credit cost remained stable as a result of our focus on quality loan growth and preemptive risk management.



## Asset Quality

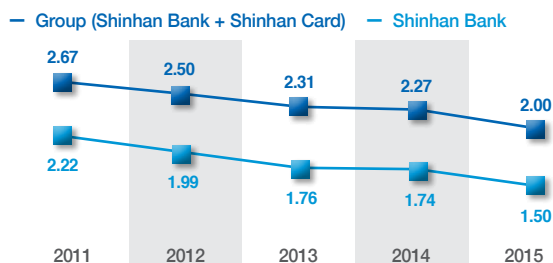
The NPL ratios have continued to improve through the industry-leading asset quality management.



## Net Interest Margin

Although Group's net interest margin kept contracting mainly due to the BOK's consecutive base rate cuts, the Group maintained stable interest income on the back of its persistent loan growth efforts accompanied by increased low-cost funding.

Group **2.00%**  
Shinhan Bank **1.50%**



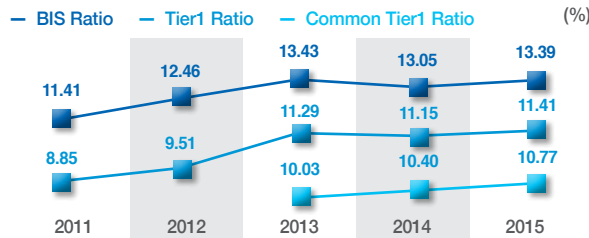
## Total Assets

The Group's total assets have been on the steady rise, reflective of the Group's sustainable growth strategies and balanced growth in major subsidiaries.

(KRW trillion)  
**370.5**

### Capital Adequacy

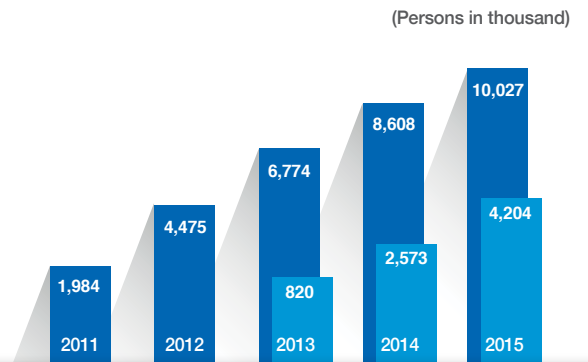
The Group's common equity tier 1 ratio marked a competitive level of 10.77% as of the end of 2015 on the back of stable net income flows and sound asset growth.



### Digital Banking

Shinhan Financial Group has been proactively offering its customers convenient and safe financial services through its mobile platform in order to address their rising expectations and provide differentiated customer experiences.

- No. of Customers Enrolled in Smart Phone Banking
- No. of Customers Enrolled in Shinhan App. Card



### Dividend

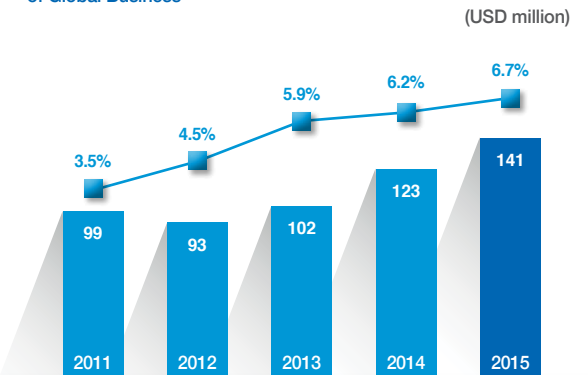
Shinhan Financial Group has implemented a proactive and flexible capital policy as part of its continued endeavor to enhance shareholder value. The Group's payout ratio, which has been rising since 2011, reached a record high 24% for the year 2015.

Payout ratio **24%**  
Dividend per share **1,200 KRW**

### Global Business

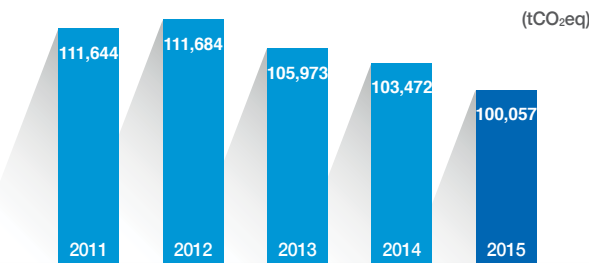
Shinhan Financial Group has been seeking future growth opportunities through a strategic business expansion into the global market with a special focus on Asia. In order to maintain the growth momentum, our banking and non-banking subsidiaries has jointly entered into the target markets actively pursuing synergy creation.

- Net Income Contribution by Global Business
- Net Income of Global Business



### Greenhouse Gas Emissions

Shinhan Financial Group has continued to reduce its greenhouse gas emissions by controlling indoor temperatures and improving air-conditioning facilities.



# Chairman's Message

## Dear shareholders,

The global economy was shrouded in uncertainty last year amid the challenges posed by slowing growth in China, interest rate hike in the US, and sharp decline in raw material prices.

The outlook was also cloudy in Korea as exports continued to decrease and economic growth was further undermined by sagging consumption.

Even in this demanding environment, Shinhan Financial Group was able to deliver outstanding results through healthy asset growth and effective risk management based on our balanced business portfolio.

## Consistent performance despite internal and external challenges

Our banking units fulfilled their role as the main pillar of the Group, posting KRW 1.50 trillion in net income despite margin contraction amid falling interest rates.

The non-banking subsidiaries contributed 42% of the Group's total income led by stable earnings from Shinhan Card as well as improved results from Shinhan Investment Corp. and Shinhan Life Insurance.

For 2015, the Group delivered net income of KRW 2.37 trillion. Shinhan Financial Group far outpaced domestic competitors in overall performance and we further solidified our leadership as Korea's top financial group.

As a result of ongoing efforts to practice Compassionate Finance, Shinhan Financial Group was ranked 18th on the list of the Global 100 Most Sustainable Corporations by *The World Economic Forum*. This represents the highest rank any Korean company has ever achieved on this prestigious list. Shinhan also earned worldwide recognition as Korea's leading banking brand by ranking in 44th place in the global banking brands survey by the UK's *The Banker*.

Our differentiated achievements in the face of a challenging environment would not have been possible without the consistent trust and support from our shareholders.

As a token of our sincere appreciation, Shinhan Financial Group has constantly raised the dividend payout ratio for the past four consecutive years. In 2015, the payout ratio rose to 24%, a sizeable jump from the 21.6% of the previous year. Consequently, the dividend yield ratio stood at around 3%.





**In this demanding environment, Shinhan Financial Group was able to deliver outstanding results through healthy asset growth and effective risk management based on our balanced business portfolio.**



I would like to take advantage of this opportunity to thank you once again. Shinhan Financial Group will continue with efforts to enhance shareholders' value through more flexible capital management.

### **Change, innovation and evolution**

With the world evolving at an ever faster pace, the financial sector is also experiencing an evolutionary process of its own.

The aging society, coupled with persistent low growth and low interest rate trends, has given rise to unprecedented financial needs among our customers.

Rapid developments in information and communication technologies (ICT) and the move towards deregulation are expected to bring about tremendous changes to the financial market landscape.

We believe these changes will mark the advent of a new era.

As we move forward, Shinhan Financial Group will embrace the new and pursue innovation to sustain growth in the face of change.

Our mid-term strategic goal is to solidify our presence as the leading financial group in Korea and strengthen our footing in the global markets. Our efforts toward this goal will commence in 2016 with the implementation of the following three key initiatives.

First, we will spearhead advances in digital finance by developing secure and convenient services and solutions to keep pace with the digital society.

Second, we will look beyond Korea and explore new growth opportunities in the global markets, with a particular focus on Asia.

Lastly, we will reinforce our risk management system in preparation for the low growth era and possible external shocks, so that we are positioned to withstand major shifts and turmoil in the financial markets.

Based on our strong corporate culture, we will continue to evolve and embrace innovation and change in order to grow together with our customers, shareholders and the society.



**Dear respected customers and shareholders,**

Shinhan Financial Group has sustained growth over the past three decades, unfazed by the many crises and challenges we have encountered. I believe our unique corporate culture was the driving force of growth throughout the years.

Based on our strong corporate culture, we will continue to evolve and embrace innovation and change in order to grow together with our customers, shareholders and the society.

We ask for your continued support and encouragement and extend our sincere wishes for the health and happiness of you and your family.

Thank you.

**Han Dongwoo**  
Chairman & CEO of Shinhan Financial Group

# Board of Directors and Management

## Executive Director

### Han Dongwoo

**Date of Birth** : November 10, 1948

**Current Position** : Chairman & CEO, Shinhan Financial Group

**Education** : LL.B., College of Law, Seoul National University

**Main Work Experience** :

2011~Current. Chairman & CEO, Shinhan Financial Group

2007~2009. Vice Chairman, Shinhan Life Insurance

2002~2007. Chief Executive Officer, Shinhan Life Insurance

1999~2002. Deputy President, Shinhan Bank

## Non-Executive Directors

### Cho Yong-byoung

**Date of Birth** : June 30, 1957

**Current Position** : President & CEO, Shinhan Bank

**Education** : LL.B., College of Law, Korea University

**Main Work Experience** :

2015~Current. President & CEO, Shinhan Bank

2013~2015. Chief Executive Officer, Shinhan BNP Paribas Asset Management

2011~2013. Deputy President, Shinhan Bank

2009~2011. Executive Vice President, Shinhan Bank

### Namkoong Hoon

**Date of Birth** : June 26, 1947

**Current Position** : Former) Chairman, Korea Life Insurance Association

**Education** : M.A. in Public Administration, University of Wisconsin at Madison

**Main Work Experience** :

2011~2016. Chairman of the Board of Directors, Shinhan Financial Group

2009~2011. Outside Director, Korea Real Asset Management Company

2005~2014. Outside Director, Samsung Electro-Magnetics Co., Ltd.

2005~2008. Chairman, Korea Life Insurance Association

Management of the company includes current Chairman & CEO of the Group, Mr. Han Dongwoo, 3 deputy presidents and 2 executive vice presidents.

The Board of Directors of Shinhan Financial Group is currently composed of 12 directors:

1 executive director,

2 non-executive directors and

9 outside directors.

The Chairman of the Board is

Mr. Park Cheul, who was appointed by

the Board of Directors among the

9 outside directors on March 24, 2016.

## Outside Directors

### Ko Boo-in

**Date of Birth** : December 25, 1941

**Current Position** : CEO, Sansei Co., Ltd.

**Education** : B.A. in Meiji University

**Main Work Experience** :

2005~Current. CEO, Sansei Co., Ltd.

2009~2010. Outside Director, Shinhan Financial Group

2005~2009. Outside Director, Jeju Bank

2002. Director, JEJU International Convention Center

### Park Cheul

**Date of Birth** : April 27, 1946

**Current Position** : Former) Chairman & CEO, Leading Investment & Securities Co., Ltd.

**Education** : M.A. in Economics, New York University

**Main Work Experience** :

2006~2013. Chairman & CEO, Leading Investment & Securities Co., Ltd.

2004. Member of the Committee, National Economy Advisory Council

2003~2006. Outside Director, Korea Development Bank

2000~2003. Senior Deputy Governor, Bank of Korea

### Lee Manwoo

**Date of Birth** : November 22, 1954

**Current Position** : Professor, Korea University Business School

**Education** : Ph.D. in Business Administration from University of Georgia

**Main Work Experience** :

1988~Current. Professor, Korea University Business School

2007~2008. Chairman, Korean Accounting Association

2006~2007. Chairman, Korean Academic Society of Taxation

2001~2007. Committee Member of Securities Listing, Korea Exchange

### Lee Sang-kyung

**Date of Birth** : September 20, 1945

**Current Position** : Representative Attorney, Law Firm Lee Sang Kyung

**Education** : LL.B., College of Law, Chung-Ang University

**Main Work Experience** :

2014~Current. Representative Attorney, Law Firm Lee Sang Kyung

2010~2013. Representative Attorney, Law Firm Wonjon

2009~2010. Lawyer, DW Partners Law Firm

2005~2009. Lawyer, Law Firm Leewoo

2004~2005. Chief Judge, Constitutional Court of Korea

## Outside Directors (Continued)

### Lee Sung-ryang

**Date of Birth** : August 30, 1955  
**Current Position** : Professor, School of Economics, Dongguk University  
**Education** : Ph.D. in Economics, Columbia University  
**Main Work Experience** :  
 2007~Current. Professor, School of Economics, Dongguk University  
 2015~Current. Director, Research Institute of Social Science, Dongguk University  
 2013~2015. Dean, School of Economics, Dongguk University  
 2002~2004. Head of Graduate Department of Public Administration, Dongguk University  
 1997~2006. Professor, School of International Studies, Dongguk University

### Lee Jung-il

**Date of Birth** : August 28, 1952  
**Current Position** : CEO, Hirakawa Shoji Co., Ltd.  
**Education** : B.A. in Political Science & Economics, Meiji University  
**Main Work Experience** :  
 2011~2013. Outside Director, Shinhan Financial Group  
 2006. Board Member, Korean Residents' Union in Japan  
 1995. Vice Chairman, Korea Chamber of Commerce and Industry in Japan  
 1985. CEO, Hirakawa Shoji Co., Ltd.

### Lee Heun-ya

**Date of Birth** : September 10, 1959  
**Current Position** : Executive Director, Korea Chamber of Commerce and Industry in Japan  
**Education** : B.A. in Osaka University of Arts  
**Main Work Experience** :  
 2014~Current. Executive Director, Korea Chamber of Commerce and Industry in Japan  
 1983~2005. CEO, Marushin Co., Ltd.

### Yuki Hirakawa

**Date of Birth** : October 21, 1960  
**Current Position** : CEO, Level River Co., Ltd.  
**Education** : B.A. in Spanish, Osaka University  
**Main Work Experience** :  
 2013~Current. CEO, Level River Co., Ltd.  
 1994~2012. CEO, Hirakawa Industry Co., Ltd.

### Philippe Avril

**Date of Birth** : April 27, 1960  
**Current Position** : CEO & Representative Director  
 BNP Paribas Securities(Japan) Ltd.  
**Education** : M.A. in Economics, Universite de Paris Dauphine  
**Main Work Experience** :  
 2011~Current. CEO & Representative Director  
 BNP Paribas Securities(Japan) Ltd.  
 2012~Current. Chief Country Officer BNP Paribas, Tokyo Branch

## Deputy Presidents

### Kim Hyung-jin

**Date of Birth** : August 7, 1958  
**Current Position** : Deputy President, Shinhan Financial Group  
**Education** : Executive Education, Wharton School  
 Advanced Management Program, Seoul National University  
 B.Sc. in Economics, Young-nam University  
**Main Work Experience** :  
 2013~Current. Deputy President, Shinhan Financial Group  
 2010~2013. CEO, Shinhan Data System  
 2009~2010. Deputy President, Shinhan Bank

### Lim Young-jin

**Date of Birth** : November 2, 1960  
**Current Position** : Deputy President, Shinhan Financial Group  
**Education** : B.A. in Business Administration, Korea University  
**Main Work Experience** :  
 2016~Current. Deputy President, Shinhan Financial Group  
 2013~2016. Deputy President & Head of Wealth Management Group, Shinhan Bank  
 2011~2013. Executive Vice President, Shinhan Bank

### Yim Bo-hyuk

**Date of Birth** : March 11, 1961  
**Current Position** : Deputy President, Shinhan Financial Group  
**Education** : B.A. in Business Administration, Korea University  
**Main Work Experience** :  
 2016~Current. Deputy President, Shinhan Financial Group  
 2014~2016. Executive Vice President, Shinhan Financial Group  
 2011~2014. Managing Director & Head of Risk Management Team, Shinhan Financial Group

## Executive Vice Presidents

### Lee Chang-goo

**Date of Birth** : January 14, 1961  
**Current Position** : Executive Vice President, Shinhan Financial Group  
**Education** : B.A. in Accounting, Hanyang University  
**Main Work Experience** :  
 2016~Current. Executive Vice President, Shinhan Financial Group  
 Executive Vice President & Head of Wealth Management Group, Shinhan Bank  
 2014~2016. Head of Wealth Management Division, Shinhan Bank  
 2012~2014. General Manager of Seongsu-dong Branch, Shinhan Bank

### Woo Young-woong

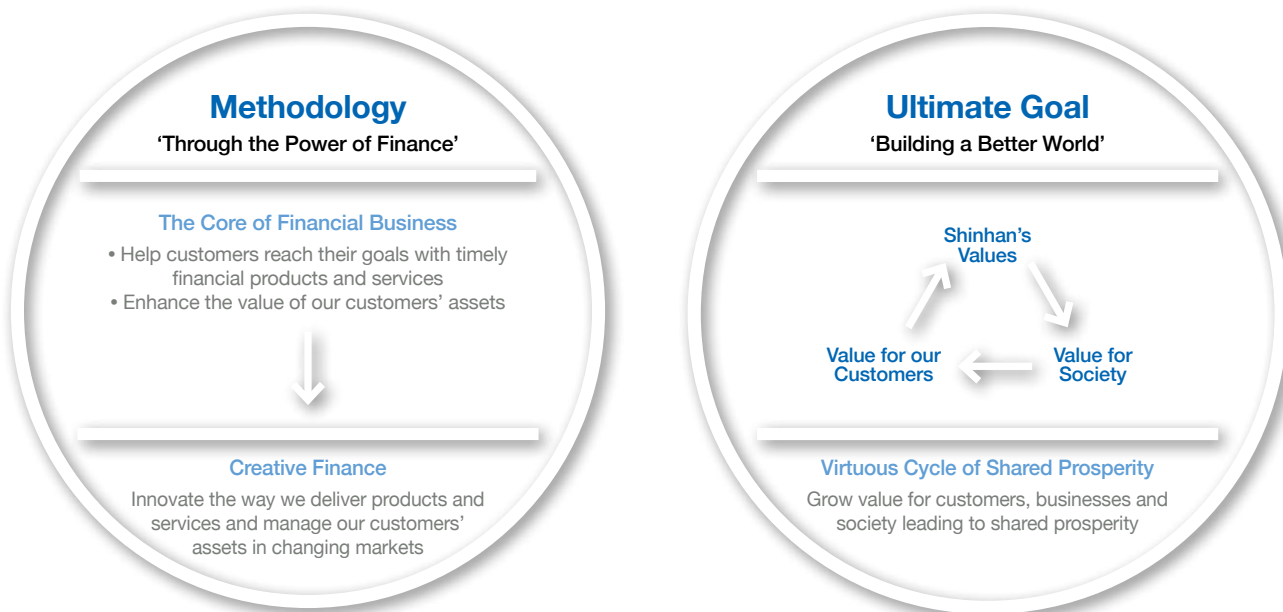
**Date of Birth** : March 5, 1960  
**Current Position** : Executive Vice President, Shinhan Financial Group  
**Education** : M.A. in International Business, Waseda University  
**Main Work Experience** :  
 2016~Current. Executive Vice President, Shinhan Financial Group  
 Executive Vice President & Head of Corporate & Investment Banking Group, Shinhan Bank  
 2015~2016. Head of Investment Banking Division, Shinhan Bank  
 2014~2015. Head of Corporate Banking Division, Shinhan Bank



# Group Mission

## Compassionate Finance, Your Companion for the Future

Promote a virtuous cycle of shared prosperity with creative financial services



## Group Mission

Shinhan Financial Group's mission, "Compassionate Finance, Your Companion for the Future," epitomizes the founding spirit of Shinhan—making a better world through the power of finance.

"Compassionate Finance" starts with putting the interest of our customers at the center of our daily operations. As a financial firm, the core of our business is to help customers achieve their goals by providing appropriate financial products, services, and asset management that are suitable with the current of times. Financial products and services as well as the method of asset management are tools that may vary according to changes in the times and the environment. It means we have to move away from traditional ways of doing our business and adopt different ways and creative methods that meet today's new environment. We call this "Creative Finance."

We believe Creative Finance can bring about a virtuous cycle of shared prosperity between and among Shinhan, its customers, and society.

When we provide our customers with optimal financial services in a timely manner and increase return on investment through Creative Finance, the value of our customer will grow and in turn we will also be able to share the profits. As more customers want to do business with Shinhan, our corporate value will grow alongside.

In addition to expanded customer value, a well-served function of finance—the efficient allocation of financial resources—will also increase the overall value of the society. This is what we call "Virtuous Cycle of Shared Prosperity" in which customers, society and Shinhan can all grow together.



Our mission, "Compassionate Finance, Your Companion for the Future," is meaningful in that it seeks harmonious coexistence of society members through the formation of a virtuous cycle where corporate value and customer/society value are positively correlated. Shinhan has been keen on internalizing Compassionate Finance in our organizational culture. We strived to establish fundamental and specific principles at the workplace so that each and every member of company can achieve Compassionate Finance in daily duties. With these efforts, we would like to provide our customers with a completely different customer experience at every point of contact.

## Shinhan Way

The “Shinhan Way” is the value system and guiding principle for all Shinhan employees in their thoughts and actions. The Shinhan Way consists of a mission, a vision, and core values.



## Our efforts to increase participation in Compassionate Finance

### Encouraging Participation by Rewarding Best Practices

- Individual employees planning and putting into action personal missions
- Executives’ comprehensive support
  - Review and feedback on the progress of personal missions, on-site visits on “Mission Day,” and special lectures by executives
- Rewarding best practices
  - Periodic rewards through personal mission best practice contests
  - Company-wide sharing of best practices through corporate broadcasts, video clips, portals, case studies, and newsletters

### Policy and System Upgrade

- Developing evaluation criteria and policies to measure the performance better reflecting Compassionate Finance
  - (Group-wide) Review of key performance indicators of the branches in reflection of Compassionate Finance
  - (Shinhan Bank, Shinhan Investment Corp.) Reflecting customers’ profitability and quality of following-up customer services in performance evaluation
  - (Shinhan Bank) Adopting a corporate success program and new cor-

porate client management system in order to offer long-term loyal clients with preferential benefits

- Reflecting results of personal missions, leader coaching and best practices in employee/corporate performance evaluation

### Key Initiatives of Creative Finance

- Developing customer-oriented innovative products and services
  - Opened 5 Shinhan Creative Finance Plaza in order to address IB service needs of small and medium sized corporate customers
  - Applying Big Data analysis such as Code 9 \* to the Group’s marketing activities and other business operations and establishing analysis systems for unstructured data
  - Industry’s first to introduce insurance products that allow prepayment of annuities on the collateral of death benefits
- Improving return on investment for clients’ assets
  - Constructing a platform for providing IB-structured products
  - Expanding creative product lineups (global ARS, EMA, Etna DLB, foreign currency deposits in trust, and low-barrier ELS\*\*)

\* Introduced in 2014, “Code 9” is a customer insight model that enables marketing tools tailored to individual customers’ spending habits based on big data analysis.

\*\* ARS: absolute return swap; EMA: expert managed account; DLB: derivative-linked bonds; ELS: equity-linked bonds

## Group Mission

### Compassionate Finance in Action

As a corporate citizen, we are currently operating various programs that contribute to our society. This includes strengthening systems to protect the rights of financial consumers, supporting middle income households, and financing SMEs.

#### Shinhan Bank

- **Start-up Training for Small Entrepreneurs**

Through business alliances with small enterprise support institutions, Shinhan Bank provides a bank-wide training program on start-ups to anyone who is considering starting a business. In 2015, a total of 2,743 prospective SOHO founders completed the training.

 **2,743** trainees

- **New Hope Seed Loan**

In 2015, Shinhan Bank extended a total of KRW 369 billion through a microfinancing program jointly launched with other banks in Korea. The program aimed to expand financial inclusion for the financially underprivileged.

 **KRW 369** billion

- **Preferential Fee Rates for Low-income Families**

In 2015, the bank offered fee reductions for those currently receiving financial support or workers subsidies from the government up to 81,602 cases.

 **81,602** cases

- **Supporting Business Success & SME Restructuring**

Committed to the mutual benefit of the bank and corporate clients, Shinhan Bank supports companies with competitive technology and business prospects but may be facing a temporary liquidity crunch by extending additional credits, postponing maturity, and offering interest rate cuts.

**Corporate Success Program worth KRW 414.4 billion in 311 cases**  
**SME Restructuring Support program worth KRW 369 billion in 727 cases**

- **Loans to Technology-Driven Startups**

Seeing the growth potential and greater chances of job creation in fostering creative SME startups in their burgeoning stages, Shinhan Bank extended loans in 2015 worth KRW 1,345.6 billion, particularly to SME startups with advanced technologies in their early stages of business.

 **KRW 1,345.6** billion

#### Shinhan Card

- **Redemption of Arrears Using Reward Points**

Shinhan Card expanded the rights of financial consumers through process innovation. This change allowed credit card holders who were in arrears (in small amounts) to use their reward points to pay their credit card bills, saving them from delinquency.

**No. of users who used rewards points: 138,000 users**  
**(worth KRW 10.7 billion)**

- **'All - That Shopping Mall' Earmarked for SMEs/SOHOs**

Shinhan Card operates an online shopping mall called All-That Shopping Mall, that provides an opportunity for SMEs and small businesses with high quality products yet weak marketing capabilities and distribution channels. For the understaffed SMEs, the company supports them in building up their markets with the help of the Small & Medium Business Distribution Center (SBDC).

**No. of companies on the site: 15 suppliers, 6 SMEs, and more than 50 companies under the umbrella of the SBDC**  
**Annual sales of SMEs and small businesses on the site: KRW 2.5 billion**

- **Industry-first Introduction of Custom Package FDS Service**

The custom package fraud detection system (FDS) service helps its credit card users remain unharmed by any theft, loss, or counterfeit damages. Using this service, cardholders can preset the conditions of their credit card usage such as countries, stay durations, transaction forms, and amounts, so that they can use their credit card with enhanced convenience and security.

**No. of registered members: 130,000 users**  
**No. of eligible cards: 160,000 cards (available since March 2015)**

- **Separate Consulting and Credit Screening for the Financially Underserved**

Shinhan Card operates a separate counseling and credit screening teams dedicated to silver generation customers. This organization ensures that senior customers are not neglected and have access to various benefits provided by the company. In addition, a new online chat service is available for customers with hearing difficulties to assist them in the credit screening process as part of the company's commitment to financial inclusion.

**No. of consulting/screening calls: 58,000 calls per month**



### Shinhan Investment Corp.

- **Compassionate Finance Camp for Teens**

Launched in 2012, this educational donation program for teenagers is the signature CSR program at Shinhan Investment Corp.

**1,139 students participated in a total of 38 camps in 2015**

- **SME Financing through the P-CBO**

Shinhan Investment Corp. assists SMEs that face difficulties in funding by underwriting the issuance of a P-CBO\* with a guarantee from the Korea Technology Credit Guarantee Fund (KIBO). The company administered KIBO's P-CBO issuance on three occasions in 2015 (the year's first, fifth and sixth issuance).

**Funding volume: KRW 755.2 billion (no. of beneficiary SMEs: 101)**

\* P-CBO: A primary-collateralized bond obligation is an asset-backed security issued based on numerous privately placed bonds.

### Shinhan Life Insurance

- **Shinhan Happy Silver Finance Classes**

This is Shinhan Life Insurance's CSR program to train retirees with a financial background as financial lecturers, who then provide senior citizens and senior caregivers with lectures on retirement planning, wealth management, and the avoidance of financial scams. In 2015, a total of 12,378 people completed 308 lectures.



**12,378 trainees in 308 lectures**

- **Follow-up Service**

Shinhan Life Insurance offers a follow-up service for customers whose insurance representatives have changed. Provided that the policyholders have allowed consent, the new representative visits them in person to provide five key services\* upon request. In 2015, 285,838 customers received the service.

\* Five Key Services : Readdressing the coverage of products with policies in force, checking the eligibility of insurance claims, updating customer information, offering a guide on designating beneficiaries, and including babies soon to be born in the coverage as well as coverage reviews



**285,838 policyholders**

- **Payment of Uncollected Insurance Payments**

Shinhan Life Insurance has mounted a campaign to pay out uncollected insurance payments. In 2015, a total of KRW 58.6 billion (103,155 cases) was paid out.



**KRW 58.6 billion  
in 103,155 cases**

- **Preferential Premium Rates for the Underprivileged**

Shinhan Life Insurance has a preferential premium rating scheme exclusive to low-income families, those with disabled family members, and families with more than three children. A total of 29,028 policies benefited from this preferential premium in 2015.



**29,028 cases**

In 2016, Shinhan Financial Group will dedicate itself to embodying Compassionate Finance in its corporate culture and creating greater customer experiences.

While making constant efforts toward enhanced investment return for both customer and Group assets, we will continue developing innovative products and services in digital banking, expanding CIB services for SMEs, and introducing creative products and services to deliver differentiated value to customers.

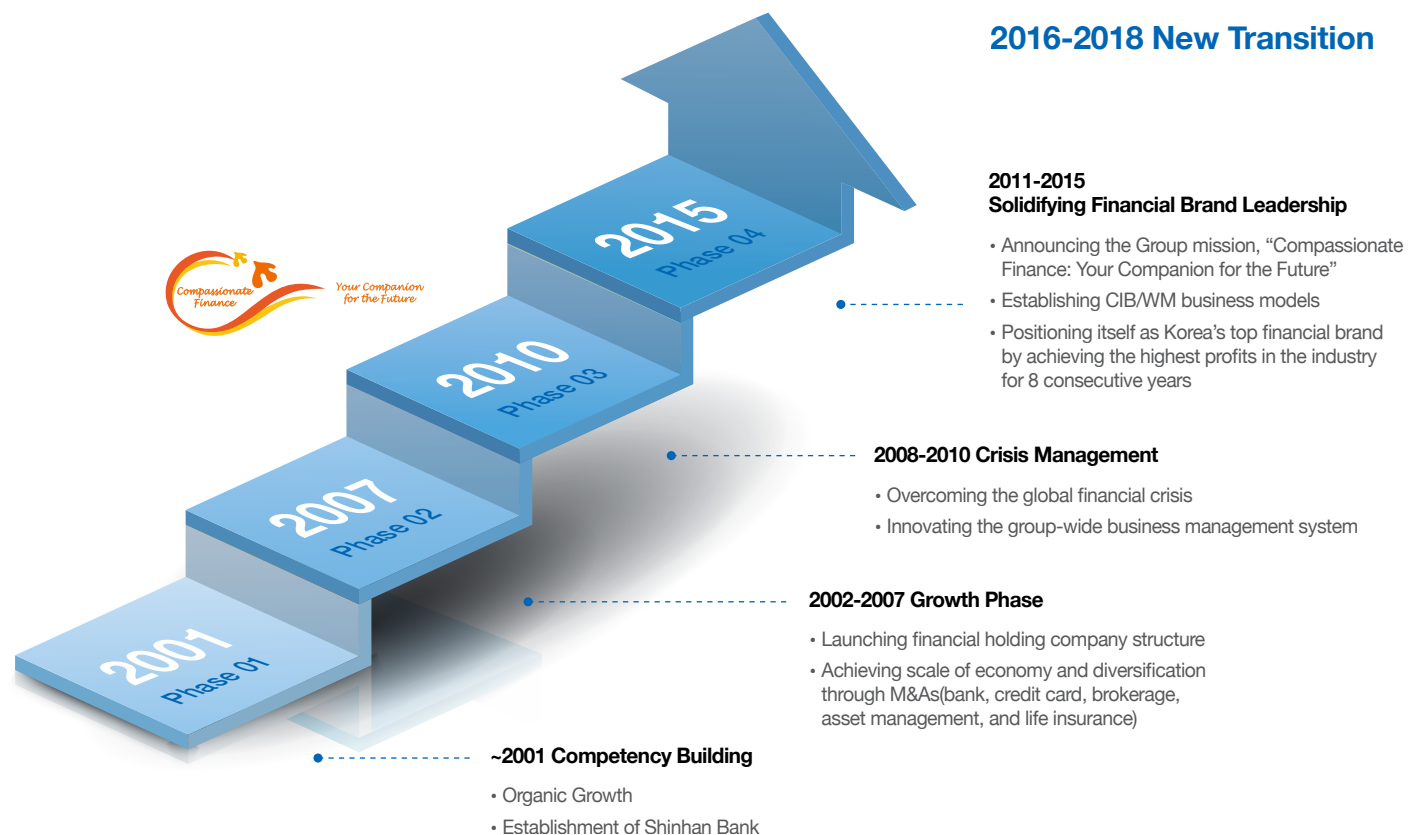
All these efforts will be directed to materializing the Group Mission: Compassionate Finance.

We firmly believe that our persistent pursuit of Compassionate Finance is integral in achieving sustainable growth and becoming a world leader in the 21st century financial markets.

# Group Vision & Strategy



## 2016-2018 New Transition



## Shinhan Financial Group Mid-term Strategic Goal and 2016 key strategic priorities

Since the inception of the financial holding company in 2001, Shinhan Financial Group has strived to become a leading world-class financial group in Korea, consistently pursuing balanced growth between banking and non-banking subsidiaries. Its differentiated business models have allowed the group to stay ahead of its peers based on the core competencies and systems.

In order to realize our long-term vision of becoming a world-class financial group, we have recently adopted a mid-term strategic goal of (i) solidifying our position as a leading financial group in Korea and (ii) establishing the foundation for success in the Asian market. Our efforts toward this goal already commenced in 2016.

### Mid-term Strategic Goal

Following the global financial crisis that began in the second half of 2008, a new set of challenges for financial service providers has emerged in the form of a “new normal” in the business environment with the following general trends: (i) demographic changes due to declining birth rates and increasingly aging population (ii) prolonged periods of low growth and low interest rates (iii) rapid innovation in the financial industry as a result of advancements in information and communication technology (ICT) and digital finance technologies, and (iv) amplifying effects of challenges and opportunities globally. Constant changes in the global markets demand that financial service providers consistently develop new financial trends, ensure customer satisfaction by offering competitive products and ser-

## Mid-term Strategic Goal

**“Solidifying our position as a leading financial group in Korea and establishing the foundation for success in the Asian market”**

vices in the continued low-interest rate environment, maintain a sound infrastructure that can withstand external shocks, and enhance social responsibility and accountability.

In recognition of these trends in our business environment and in order to realize our long-term vision of becoming a world-class financial group, we have recently adopted a mid-term goal of (i) solidifying our position as a leading financial group in Korea and (ii) establishing the foundation for success in the Asian market. We aim to become Korea’s number one financial brand and, at the same time, achieve meaningful growth in overseas markets by expanding into regions with high growth potential.

### 2016 Group Business Plans

We set our 2016 business plans in line with our mid-term strategic goal. Our key strategic priorities currently include the following:

#### Lead value creation through creative innovation.

By generating new ideas that drive global trends, we will strive for a synergy that increases value for both our customers and the Group. In particular, we plan to implement innovative approaches in emerging business sectors such as digital finance, retirement planning and real estate portfolio management, so that we can increase the value of our customers’ assets and develop new drivers of growth for the future.

#### Secure new opportunities for growth with global operations.

We will continue to expand into global high growth markets to procure a strong source of growth. To pursue meaningful advancement and move beyond a simple survey of opportunities, we plan to explore various new market entry strategies while establishing a firm presence in local markets.

#### Implement integration and build “One Shinhan” system by reforming the Group’s operating system.

We will reform our operating system to (i) provide our customers with a single portal that integrates multiple business lines and (ii) continue developing integrated financial products and services. Through such strategies, we intend to enhance the group’s operational efficiency and proactively accommodate customers’ needs regarding total financial service packages.

## 2016 Six Key Strategic Priorities

01. Lead value creation through creative innovation
02. Secure new opportunities for growth with global operations
03. Implement integration and build “One Shinhan” system by reforming the Group’s operating system.
04. Optimize risk management preemptively in preparation for low economic growth and external shock
05. Enforce strategic cost-savings
06. Establish a strong organizational culture based on the “Shinhan Way”

#### Optimize risk management preemptively in preparation for low economic growth and external shock.

In order to attain sustainable growth in an environment where risk factors are amplified and the threat of financial crises lingers, we plan to take precautionary measures to eliminate negative external factors before they arise. Moreover, we will strengthen our capacity to provide differentiated risk management and exercise our best effort to handle customer data with prudence.

#### Enforce strategic cost-savings.

Due to the deterioration of structural profitability, companies in the financial sector must improve their cost structure to survive. We plan to recalibrate our current business portfolio with investments in emerging business sectors and will continue to increase operational efficiency in areas such as business channels, processes and marketing.

#### Establish a strong organizational culture based on the “Shinhan Way.”

We will further upgrade our policies and operating system according to our mission of “Compassionate Finance, Your Companion for the Future.” We aim to further invigorate the group’s creative and proactive culture while nurturing a new generation of leaders based on the “Shinhan Way.”

# Corporate Governance

## Shinhan Financial Group's Corporate Governance Grades by the Korean Corporate Governance Service (CGS)

2009	2010	2011	2012	2013	2014	2015
Strong	A	A	A+	A+	A+	A+

Transparent, sound and effective corporate governance not only protects interests of stakeholders including shareholders and financial consumers but also contributes to the sustainable growth of the company. As such, Shinhan Financial Group has dedicated its persistent efforts to improve corporate governance of the Group.

First of all, Shinhan has fully publicized all corporate governance-related work processes, standards, procedures and results in a transparent and effective manner. In promotion of sound corporate governance, the Group honors the independence and expertise in the composition and operation of the board of directors in full compliance with all related laws and regulations, including the Korean Commercial Act and the Financial Holding Companies Act. The articles of incorporation, corporate governance bylaws, and BOD regulations all meet the recommendations made by the Financial Corporate Governance Code of the Financial Services Commission and the Corporate Governance Code of the Korea Corporate Governance Service.

Most importantly, Shinhan Financial Group upholds diversity and complementarity of skills in the composition of its BOD so that the board is able to assess problems from a broader point of view and is more likely to take into account the best interest of all stakeholders. As a result, the BOD of the Group is comprised of members with expertise in diverse professions and backgrounds. The BOD members are mostly from one of the five areas as recommended by the Financial Corporate Governance Code: finance, economy, business administration, accounting, and law.

### Composition of the BOD and Sub-Committees

Our board of directors, which currently consists of one executive director, two non-executive directors and nine outside directors, has the ultimate responsibility for the management of our affairs. It appoints and dismisses the CEO of the group, develops and approves the Group's business plans and other major business management issues. Another important duty is monitoring the top management of the Group.

Currently 75% of our board members are independent. The independence of the BOD was further enhanced by separating the chairperson of the BOD and the CEO of the Group and appointing the chairperson among outside directors. In addition, separate sessions by outside directors are being held to enhance the effectiveness in monitoring the general operation of the group.

The sub-committees of the BOD allow individual directors to be fully involved with various BOD activities. Each committee is specifically designed to represent the interests of stakeholders, shareholders in particular, as well as keeping the business operations of executive management in check and providing constructive alternatives to practices and problems. To assist with their fiduciary duties as board members, a BOD secretariat providing transparent information on corporate management and an explanation of the BOD's agenda has been put in place.

### Sub-committees of the BOD

#### Board Steering Committee

The Board Steering Committee is responsible for ensuring the efficient operation of the board and the facilitation of the BOD's functions. The committee's responsibilities also include reviewing and assessing the board's structure and the effectiveness of that structure in fulfilling the board's fiduciary responsibilities.

#### Risk Management Committee

The Risk Management Committee oversees and makes determinations on all issues relating to our comprehensive risk management function. In order to ensure our stable financial condition and to maximize our profits, the committee monitors our overall risk exposure and reviews our compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, reviews risk-based capital allocations, and reviews the plans and evaluation of internal control.

## Committees of Board of Directors

<p><b>Board Steering Committee</b></p> <p>Han Dongwoo Namkoong Hoon Lee Sang-kyung Lee Sung-ryang Yuki Hirakawa</p>	<p><b>Risk Management Committee</b></p> <p>Namkoong Hoon Park Cheul Lee Heun-ya Phillippe Avril</p>	<p><b>Audit Committee</b></p> <p>Lee Manwoo Lee Sang-kyung Lee Sung-ryang</p>	<p><b>Compensation Committee</b></p> <p>Park Cheul Lee Sang-kyung Lee Sung-ryang Lee Jung-il</p>
<p><b>Outside Director Recommendation Committee</b></p> <p>Han Dongwoo Lee Sung-ryang Lee Manwoo Lee Jung-il Lee Heun-ya</p>	<p><b>Audit Committee Member Recommendation Committee</b></p> <p>All Outside Directors</p>	<p><b>Corporate Governance &amp; CEO Recommendation Committee</b></p> <p>Han Dongwoo Namkoong Hoon Lee Sang-kyung Ko Boo-in Park Cheul Phillippe Avril Yuki Hirakawa</p>	<p><b>CSR Committee</b></p> <p>Han Dongwoo Namkoong Hoon Ko Boo-in Lee Manwoo Yuki Hirakawa</p>

### Audit Committee

The Audit Committee oversees our financial reporting and approves the appointment of and interaction with our independent auditors and our internal audit-related officers. The committee also reviews our financial information, audit examinations, key financial statement issues, and the administration of our financial affairs by the Board of Directors. In connection with the general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the Board of Directors for each general meeting of stockholders.

### Compensation Committee

The Compensation Committee reviews and approves management's evaluation and compensation program with fiduciary duties to ensure that compensation schemes are appropriately interrelated with the Group's financial condition and risk status.

### Outside Director Recommendation Committee

Members of this committee are appointed by our Board of Directors only to the extent necessary to recommend and nominate candidates for our outside director positions and related matters. Committee meetings are called by the chairman of this committee, who must be an outside director.

### Audit Committee Member Recommendation Committee

Members of this committee are appointed by our Board of Directors only to the extent necessary to recommend and nominate candidates for our Audit Committee and related matters. The committee is entirely consisted of outside directors of the Group.

### Corporate Governance & CEO Recommendation Committee

This committee is responsible for overall corporate governance matters of the company. It deliberates on matters related to corporate governance of the company, such as the code of conduct and code of ethics, size of the Board of Directors, and matters necessary for improvements to the company's corporate governance structure.

The committee is also responsible for developing, operating and reviewing the company's management succession plan, including setting CEO qualification criteria, evaluating the CEO candidate pool, and recommending CEO candidates.

The chair of this committee is elected from outside director members. The participation and voting rights of the incumbent CEO is limited if he or she is included in the CEO candidate pool.

### CSR Committee

The CSR Committee is responsible for setting directions for the Group on major economic, environmental, and social issues in relation to CSR (Corporate Social Responsibility). It also reviews and issues CSR related policies and guidelines. Furthermore, the committee reports on the Group's CSR Report, sustainability evaluation results, as well as the status on sustainable management.

# Risk Management

## Shinhan Financial Group's Risk Management Philosophy

“ With a sense of responsibility, all employees shall maintain the balance between risk and return in all business practices in order to achieve the sustainable growth of the Group. ”

Shinhan Financial Group has its own risk philosophy as an underlying principle for all employees.

Guided by this basic philosophy, we have in place a semi-matrix risk management organization policy that effectively coordinates both Group-wide integrated management and subsidiary-level independent management of risks.

In the first half of 2015, the Group's credit cost temporarily increased mainly due to one-off provisions arising from the restructuring of large corporations. Decreasing write-back of loan loss provision was another reason. The credit cost, however, started to stabilize during the second half of the year thanks to the Group's preemptive risk management practices.

In preparation for expanded volatility throughout global markets in 2016, as well as expected interest rate hikes in the U.S. and potential financial crises in emerging markets, Shinhan Financial Group will continue to come up with preemptive measures for more effective management of foreseeable risks.

## Differentiated Group Risk Management Tools

### 1. Group Risk Philosophy and Principles

Shinhan has established a Group-wide risk philosophy and seven risk management principles as guidelines for its daily risk management practices at front offices.

### 2. Group-wide comprehensive risk monitoring system

Shinhan Financial Group runs a comprehensive system for monitoring macroeconomic indicators (key risk metrics of the Group) and an up-to-date risk position of the Group to timely identify potential risks and key issues concerning it. Identified potential risks and key issues go through risk impact analysis for developing preemptive countermeasures at the Group level.

### 3. Group-wide Risk Expert Network (REN)

Shinhan has organized a Group-wide network consisting of risk experts who spearhead risk management corporate culture and train risk officers through Group-wide training courses and workshops in consideration of business areas and risk types. These people contribute their work experi-

ence and profound knowledge in risks by type to upgrading overall risk management capabilities Group-wide.

### 4. Group-wide Corporate Credit Assessment System

Starting in 2015, Shinhan adopted a Group-wide corporate credit assessment system, allowing for an integrated approach when it comes to the credit rating of a single corporate borrower. This system has not only allowed preemptive management of credit risks but also enhanced the quality of the Group's credit portfolio. In addition, it is expected to further improve the Group's BIS ratio when the Financial Supervisory Service (FSS) approve our system for an internal ratings-based approach (IRB) in the near future.

## Risk Management Organization

Shinhan's risk management organization consists of the Group Risk Management Committee, the Group Risk Management Council, the Group Chief Risk Officer (Group CRO), the Group Risk Management Team, and relevant risk committees and risk teams at the subsidiary level.

### Group Risk Management Committee

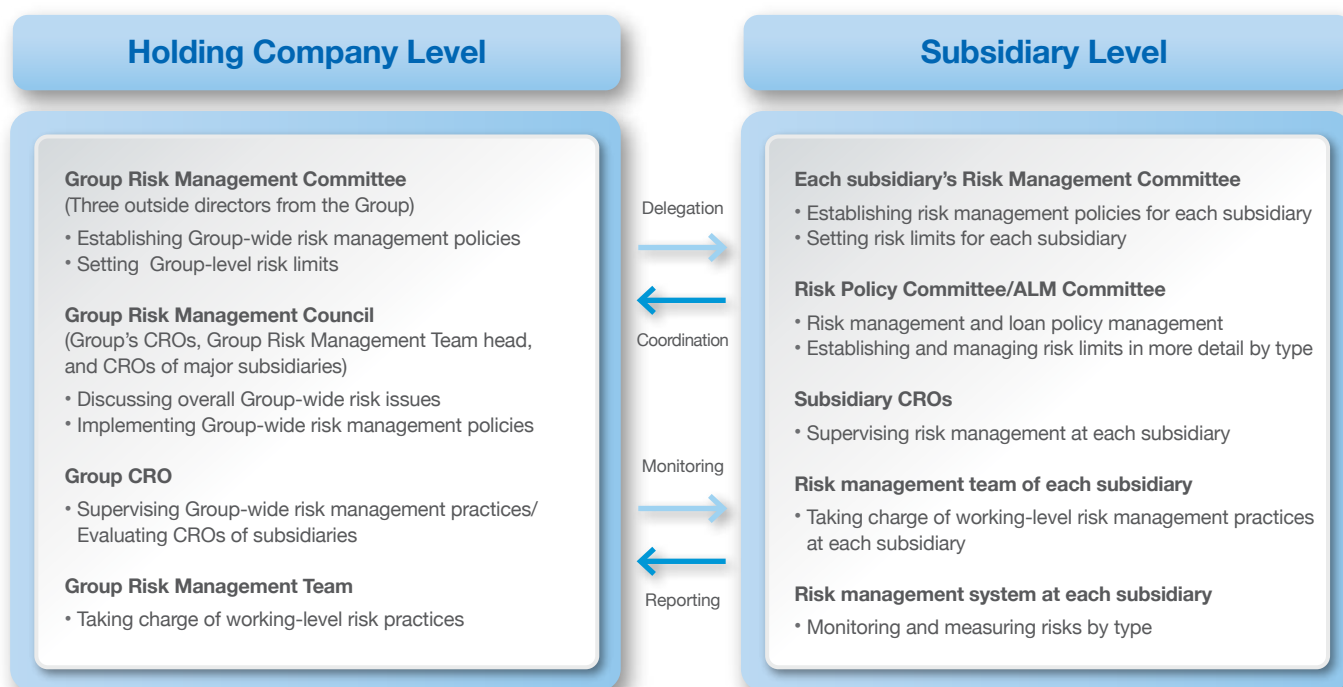
The Group Risk Management Committee is the highest decision-making body concerning the Group's risk issues. Consisting of three outside directors from the Group's board, the committee establishes the Group's overall risk management policies and strategies and resolves the following agenda items:

1. Establish basic risk management policies in line with management strategies
2. Set reasonable risk limits for the entire group and each of our subsidiaries
3. Approve the appropriate investment limits and/or maximum loss limits
4. Enact and amend risk management regulations and the Group Risk Management Council rules
5. Make decisions concerning the FSS's approval of the Group's internal ratings-based approach on-retail and retail credit assessment systems
6. Decide other risk management-related issues the board of directors or the Group Risk Management Committee sees fit to discuss

### Group Risk Management Council

Comprised of the Group Chief Risk Officer, Group Risk Management Team head, and Chief Risk Officers of our major subsidiaries, the Group Risk Management Council provides a forum for risk management executives from each subsidiary to discuss the group-wide risk management guidelines and strategies. It also approves action plans to implement policies established by the Group Risk Management Committee. The council is responsible for the following agenda items:





1. Set the risk appetite for the Group and its subsidiaries
2. Establish and adjust risk limits for the Group and its subsidiaries
3. Operate risk assessment system for the Group and its subsidiaries
4. Coordinate Group-wide risk management practices
5. Manage risks related to funding subsidiaries
6. Review other risk-related issues as requested by the Group Management Board

#### Group Chief Risk Officer (CRO)

The Group Chief Risk Officer assists the Group Risk Management Committee in implementing the risk policies and strategies as well as ensuring consistency in the risk management system of our subsidiaries. Furthermore, the CRO evaluates the Chief Risk Officer of each subsidiary in addition to monitoring the risk management practices of each subsidiary.

The Group Risk Management Team provides support and assistance to the Group CRO in carrying out his or her responsibilities.

Each of our subsidiaries has its own risk management committee and risk management team. In accordance with the group risk management policies and strategies, the risk management committee at the subsidiary level establishes its own risk management policies and strategies in more detail and implements them. The risk management team of each subsidiary monitors, assesses, manages and controls the overall risk of its operations and reports all major risk-related issues to the Group Risk Management Team at the holding company level, which then reports to the Group Chief Risk Officer.

#### Shinhan Financial Group Asset Quality

(%)

	2011	2012	2013	2014	2015
Precautionary & Below Loans Ratio	2.46	2.89	2.43	2.14	1.66
NPL Ratio	1.25	1.34	1.26	1.15	0.87
Delinquency Ratio-Shinhan Bank	0.60	0.61	0.39	0.31	0.33
Delinquency Ratio-Shinhan Card	2.01	2.35	1.80	1.89	1.44
NPL Coverage Ratio	166	170	163	168	191

# Sustainability Management

**Under its mission, “Compassionate Finance, Your Companion for the Future,” Shinhan Financial Group is pursuing sustainability management to create a virtuous circle of enhancing customer, corporate, and social values, and thus making a better world through the power of finance. Shinhan has developed nine socially responsible management strategies regarding the economy, society and the environment, and by implementing these strategies, we will further bolster our unique competitive advantage and provide greater value to customers and society.**

## Establishment of CSR Committee

Shinhan Financial Group has established Corporate Social Responsibility (CSR) Committee in order to proactively respond to stakeholder demands, fulfill its social responsibilities as a corporate citizen, and realize the mission of the Group, ‘Compassionate Finance’ in a proactive and systemic manner. CSR Committee is one of sub-committees of the BOD and it is the top decision-making body in matters related to group-wide CSR issues. The committee sets the direction of Group’s CSR activities, decides on enactment and amendment of relevant regulations and examines the implementation of decisions.

## Participation in Global Initiatives

Shinhan Financial Group has complied with global standard of sustainability management by joining global initiatives. Shinhan Bank and Shinhan BNP Paribas Asset Management are signatories to the carbon disclosure project (CDP). In addition, Shinhan Bank, as a UN Global Compact member, complies with the ten core principles in the areas including human rights, labor, the environment and anti-corruption. The Bank is also a member of the United Nations Environment Programme-Finance Initiative (UNEP-FI), a UN-directed environmental initiative. Finally, the Bank has pledged its support for the UN Commission in Human rights’ Universal Declaration of Human Rights and compliance of the guidelines to its best ability.

## Materiality Test

Shinhan Financial Group conducts its annual materiality test in accordance with the GRI G4 Guidelines in the following four steps—analysis of the CSR environment, development of issue pool, prioritization of the issues, and selection/reporting on key issues. In 2015, through internal and external environment analyses, we identified 30 sustainability issues and pared them to 10 core issues taking into account of stakeholder interests and expectations and the impact of the issues on business activity. Among the finalized 10 are customer satisfaction improvement and prevention of

financial frauds; and activities and progress related to the 10 issues are reported on a separate sustainability report and the Group website.

## CSR Strategies

### 1. Creating Customer Value Through Customer-oriented Management and Information Protection

Shinhan Financial Group has been promoting consumer rights, eradicating sources of customer complaints, and taking swift actions of remedy in response to damages so that we can earn financial consumer trust and improve our competitiveness. We also came up with consumer rights protection rules, conducted customer satisfaction surveys and reflected the results in the performance evaluation of the management and branch offices. In addition, we operated programs rewarding outstanding customer suggestions and customer panel programs to make their voices mirrored in business activities. On the other hand, we adopted an employee role-play system to ensure product sales practices in compliance with the Standards of Investment Recommendation and provided a Happy Call service to expand complete product sales. With these efforts, we have earned coveted industry recognitions, including, the Customer-Centric Management certification from the Fair Trade Commission, and first-place honors in the annual Korea Customer Satisfaction Index survey (KCSI), the Korea Service Quality Index (KS-SQI), Korea Service Grand Prix and Global Customer Satisfaction Index (GCSI).

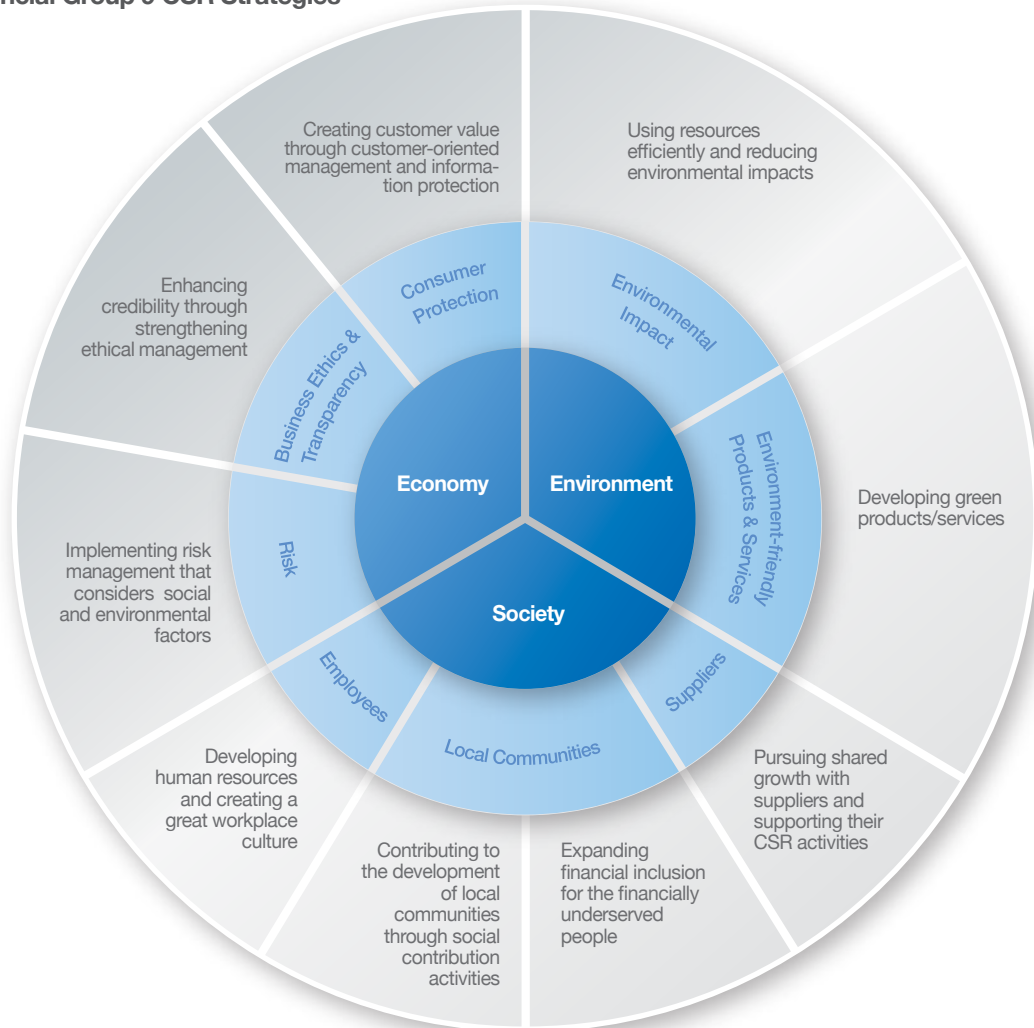
Customer information management has emerged as a key issue that can greatly affect the business performance and brand image of financial service providers. Having acquired the ISO27001 and ISMS certifications, Shinhan Financial Group has set up its own information protection compliance standards for complying with customer privacy protection laws and regulations. The Group has limited employee access to customer information, conducted on-site inspection of the customer information protection practices of all departments and branch offices, and reflected the results on the evaluation. In addition, the Group has been thoroughly preparing itself for possible security risks such as consumer information leakages, hackings and DDos attacks by conducting regular trainings and establishing group-wide security control system.

### 2. Enhancing credibility by strengthening ethical management

As a global financial corporation, the Group sees the ethical reputation as its core property. In order to be a trustworthy corporation for the customers, shareholders, and the local community, Shinhan Financial Group has been keen on enhancing its ethical management. It adopted a group-wide code of ethics, an employee code of conduct, and rules of ethics for each subsidiary.



### Shinhan Financial Group 9 CSR Strategies



Every year, all Shinhan employees pledge their compliance with the Group's Code of Ethics and Employee Code of Conduct. All of overseas Shinhan employees have to fully abide by the Foreign Corrupt Practices Act (FCPA). To comply with the Fair Trade act, all inter-subsidary transactions are reviewed on a quarterly basis, and exchanges of gifts in any form are strictly banned among all employees.

In accordance with stricter regulations against market manipulations, all Group affiliates have adopted internal guidelines, conducted employee education, and carried out on-site inspections in order to prevent such unfair trades as use of classified information.

#### 3. Implementing Risk Management that Considers Social and Environmental Factors

Risk review rules have been revised so that social and environmental im-

pacts can be examined whenever new products are launched or management criteria are reviewed for change. Accordingly, the new risk review checklist includes examinations of the adverse influence of new products, new businesses, or alliance partners on the environment and the society.

Additionally, CSR has been included as one of the non-financial criteria in the evaluation of corporate borrowers' credit ratings; history of environment-related complaints, job creation performance, and other CSR activities are evaluated as part of the screening process involving corporate loan applications.

Moreover, before carrying out a large-sized project financing, we first review the environmental and social impact of the project. When it comes to domestic SOC projects, we provide fund only when the project complete environmental impact assessments by the Ministry of Environment or oth-

# Sustainability Management

er relevant government authorities. Such assessments are prerequisite to project financing and we have stipulated it in all of our loan agreements. As for overseas SOC projects, we execute funding only after a thorough and in-depth examination. In addition to the local authorities' approval, we also examine the projects' potential impact on the local communities and the environment through consultation with environmental consulting agencies.

#### 4. Developing human resources and creating a great workplace culture

In 2015, Shinhan Financial Group established group-wide employee training programs named Shinhan Management School and Shinhan Global Business School in order to provide its employees with a vision for self-advancement through long-term human resource development. Shinhan Management School aims at raising strategic leaders by offering core business and financial courses including business planning, marketing, personnel management and risk management. On the other hand, Shinhan Global Business School focuses on cultivating global talents. It is a degree course for Master of Science in global management linked to Hong Kong University of Science and Technology.

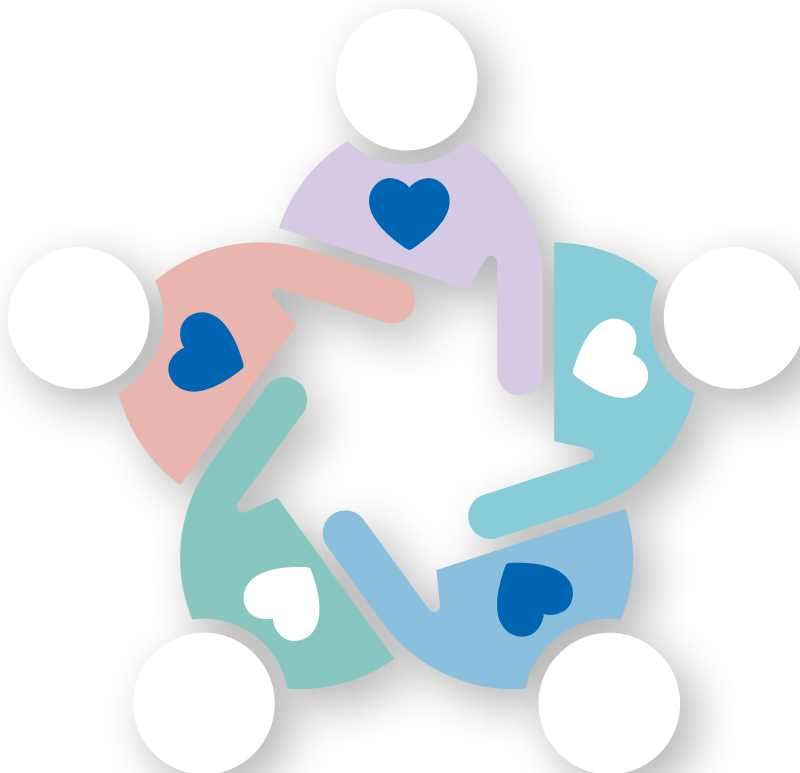
#### 5. Contributing to the development of local communities through social contributions

Since its foundation, Shinhan Financial Group has been fully aware of the importance of corporate social contribution and continued to expand its volunteer activities and contribution programs. Taking full advantage of its expertise in finance, the Group is conducting social contributions in a sys-




temic manner with a focus on the three key areas of welfare (co-prosperity), culture (consensus) and environment (co-existence). The result of these social contributions are reflected in the CEO evaluation of each subsidiary for an efficient promotion of social contributions on a group-wide basis and the proliferation of the social contribution culture.

#### 6. Promoting the financial inclusion of the financially underserved

Shinhan Financial Group is carrying out diverse activities to support financing for low income customers and small and medium-sized companies (SMEs). In 2015, Shinhan Bank extended KRW 369 billion through 'New Hope Spore Loan,' an industry-wide loan product specialized for low-income customers or for those who have difficulty in receiving loans from banks due to their low credit rating. The amount is the largest among all Korean banks in 2015 and the balance of loans extended since 2010 is also the industry's largest at KRW 1,622.8 billion. The bank provided other microfinance programs such as New Hope Dream Loan, Korea Easy Loan, New Hope Savings Installment, and Household Debt Healing. In recognition of these efforts, the Financial Supervisory Service designated Shinhan Bank as the 'Best Bank in Micro-financing' for the past three years in a row. In addition, the Bank has supported SMEs, from the start-up to growth and maturity stages. For the SMEs with competitive technology, Shinhan Bank provided loans up to KRW 5.5 trillion through Technology Credit Bureau (TCB). The cumulative balance of TCB loans stood at KRW 10.2 trillion as of the end of 2015.



## Green House Gas Reduction

	<b>Improving Energy Efficiency of Buildings</b>	Reduced energy consumption by converting to LED lighting in Shinhan Bank's head office building, other main buildings and branch offices (a total of 13,281 LED lights).	<b>2,376</b>
	<b>Operation of Eco-Friendly Data Center</b>	Equipped with solar power generators, LED lightings, BEMS (building energy management system) and ice thermal storage system	<b>2,193</b>
	<b>Reduction of Vehicle Use Through Video Conferences</b>	Video conferences extensively used for regular meetings between Shinhan Bank's regional hub offices and branches to reduce transportation emissions	<b>1,562</b>

Estimated Annual GHG Reduction (tCO<sub>2</sub>eq)

### 7. Pursuing shared growth with suppliers and supporting their CSR activities

We believe that stable growth of our suppliers is an essential basis for the growth and competitiveness of our own business. In that regard, Shinhan Financial Group complies with the basic principles of mutual growth in co-operation with its suppliers and partners. The Group strives to prevent any types of discrimination against partner companies arising due to reasons unrelated to business operation. Shinhan listens to its suppliers through regular meetings and satisfaction surveys to reflect their opinions in its daily operation policies.

Furthermore, the Group has adopted 'Shinhan Financial Group Partner Companies Code of Conduct' to enable its partners to live up to its CSR philosophy and principles. To ensure that suppliers fully understand and put into action the Code of Conduct, the Group encourages them to carry out self-evaluations on the implementation of the Code. We also keeps tracks of our major suppliers' CSR practices in the areas of human rights, workplace safety & health, the environment, and business ethics. Based on their feedbacks, we provide various supports designed to help them pursue sustainability management.

### 8. Developing environment-friendly products and services

Shinhan Financial Group continues introducing a variety of financial products designed to encourage customers to develop an eco-friendly lifestyle and to promote eco-friendly business. Concerned over depleting fossil fuels and exacerbating environmental pollution problems, Shinhan Bank and Shinhan Investment Corp. support the construction of power plants that use various renewable energies including wind power, biomass, solar power and fuel cells. The funding is executed in the forms of corporate loans, project financing, and equity investment through a PEF. These efforts contribute to the reduced use of fossil fuels and the expansion of green energy power stations, which in turn help reduce environmental impact at the national level.

### 9. Using resources efficiently and reducing environmental impacts

As a signatory to the UNEP-FI, Shinhan Bank in 2012 became the first Korean bank to obtain the ISO 5001 certification as part of its effort to help reduce the greenhouse gas. The bank has also strived to minimize its environmental impact by operating its data center in an energy-efficient building and managing environmental indicators through an integrated green management system. In addition, the bank has set yearly GHG reduction goals up to 2020 and reports performance results and action plans to the government on an annual basis.

## Global Sustainability Management Evaluation

For its outstanding CSR activities and programs, Shinhan Financial Group has achieved high recognitions from major CSR evaluations at home and abroad.

Organization (Index)	Results	Grades Scores
RobecoSAM (DJSI)	Included in the DJSI World Index for the past three consecutive years	88
Korea Corporate Governance Service (KRX SRI)	Grand Prix winner at the Corporate Governance Awards	A+
CDP	Member of the Carbon Management Honors Club for the last two years	100A
Global 100	One of the Global 100 Most Sustainable Corporations by the World Economic Forum for the past four years in a row	68.80%

# Ethical Management

**Practicing transparent and clear management, Shinhan Financial Group seeks to secure customer trust and grow into a leading global financial group that enjoys unwavering trust from customers, shareholders and other stakeholders. Identifying ethical reputation as a key ingredient in business success, the Group sets higher standards on ethical management every year in its endeavor toward becoming Korea's leading ethical financial group.**

**At Shinhan Financial Group, ethical management is governed by compliance officers. In step with the revision of Korea's Financial Holding Companies Act in February 2010, the compliance officer of the holding company was appointed to oversee the Group's ethical business practices. The compliance officer is responsible for supervising internal controls and ethical management.**

## Establishment and Enforcement of the Code of Ethics

In June 2011, we established a Group Code of Ethics to apply our ethical management philosophy in a coherent and consistent manner by upgrading the 'SFG Employee code of Ethics on Finance' adopted in July 2005. In order to reinforce the execution of ethical practice, we also adopted 'Employee Code of Conduct' in 2012.

In addition, each subsidiary of the Group put in place its own ethical standards, which present ethical virtues and values for employees to advocate as a corporate citizen and participants in the finance industry. The standards also provide employees with specific guidelines to follow in their daily jobs.

The Group Ethical Management CoP has been in effect since August 2010 to ensure the integrity of subsidiaries' codes of ethics and enhance ethical awareness among employees. Those responsible for ethical management at each subsidiary participate in the program.

In June of 2014, SFG established its Declaration of Human Rights based on the basic principles of human rights and human respect. The details are in line with UN's Commission on Human Rights' Universal Declaration of Human Rights and Guiding Principles for Corporations and Human Rights.

## Programs for Practicing Ethical Management

In practicing ethical management, the Group conducts various programs in compliance with its management philosophy and each subsidiary's code of ethics. We continue to improve the program in accordance with changes developing in the business environment.

Every year the Group identifies elements that require special emphasis among its ethical standards; and has all employees of its subsidiaries pledge their compliance to the select elements at the beginning of each year. The annual pledge has served as an opportunity for all Group employees to confirm their commitment to ethical conducts.

At Shinhan Bank, as a means to strengthen ethical awareness, employees are asked to make a compulsory pledge to comply with the code of conduct. Further, to prevent unfair trade practices such as improper use of undisclosed information, we conduct audits on related employees of transactions of financial investment products (12 audits in total, 16 departments in 2015). We also provide compliance self-examinations to all employees using our intranet platform on a monthly basis. In addition, to abide by the fair trade act and prevent unfair trade practices, we have implemented and are operating a fair trade self-compliance program. Shinhan Bank provided two fair trade related trainings to HQ employees (79 employees throughout 2015).

Shinhan Card requires its employees to sign a compliance pledge upon joining the company. Further, the company established 'Our commitment to and 4 principles for complete sales' and required all employees to commit to this as a means to prevent damage to customers due to incomplete sales. In order to eradicate illegal credit card sales practices, we executed 'Appropriate Sales Practices Pledge', and every year all employees must participate in a compliance self-examination process. In addition, Shinhan Card is regularly checking to see whether HQ departments are executing the fair trade self-compliance program once every six months.

Shinhan Life Insurance has been improving its ethical management practices since 2013 when it adopted ethical management as one of the five management principles of the CEO. Since 2014, the Company has included internal controls management results when evaluating the top management's performance in order to raise the awareness about ethical management.

Shinhan Financial Group created a 'Group Internal Transactions Guideline' and a related manual to prevent illegal transactions between subsidiary companies. Based on this, all subsidiary companies are inspected on the appropriateness of their internal transactions and are required to report the results. As such, we are constantly working to improve the transparency and fairness of our Group's management.

In November 2012, we established Code of Behavior for Partners of SFG to promote mutual growth with partners, and asked partner companies to apply this to their daily business. In 2013, we set up "VOC from partners" mechanism in our homepage to receive their complaints and suggestions. As such, we are making every effort to support the sustainable growth of partners and lay the foundation for contributing to local communities and the environment.

### Leading a More Transparent Financial Culture

The group is prepared to detect any possible financial accidents in advance with our Financial Irregularities Reporting System, through which customers can report breaches of law and/or irregularities of employees. Also, we have Whistleblower Reporting System in place through which employees can report internal violations of the law, company rules or code of ethics.

SFG provides online/offline training programs to elevate employee awareness on issues such as a transparent promotion culture, proper stock transactions, healthy investment practices and the prevention of bribery during holiday seasons. We are working to make ethical practices a natural part of Shinhan's culture. In particular, since the second half of 2012, we have been sending a notice to all Group employees preventing the sending/receiving of gifts between employees during major holidays.

### Ethical Management Training

Constant ethical and legal compliance training is provided to all employees in order to strengthen the ethical standards and legal compliance in all business activities. All employees are required to participate in rank-specific training, or take an online training session at least once a year.

Since 2011, SFG has supported all Group subsidiaries via a joint group-wide ethical and legal compliance online education. This allows all Group companies to easily understand and execute Group's philosophies and basic values of ethical management.

Shinhan Bank has made the third week of every month Compliance Education Week ("ABC Week"). During this period, the bank conducts training on the latest ethical and legal issues by circulating "Compliance Letter" which covers recent financial incidents, financial acts and regulations and best

practices. In addition, newly joined employees, PB directors and employees responsible for auditing are provided with classroom training.

Shinhan Card provides annual online training session to all employees to raise awareness of legal compliance and to prevent financial accidents. In 2015, a total of 3,885 employees completed the course. In addition, employees are also required to perform self-compliance checks once a year.

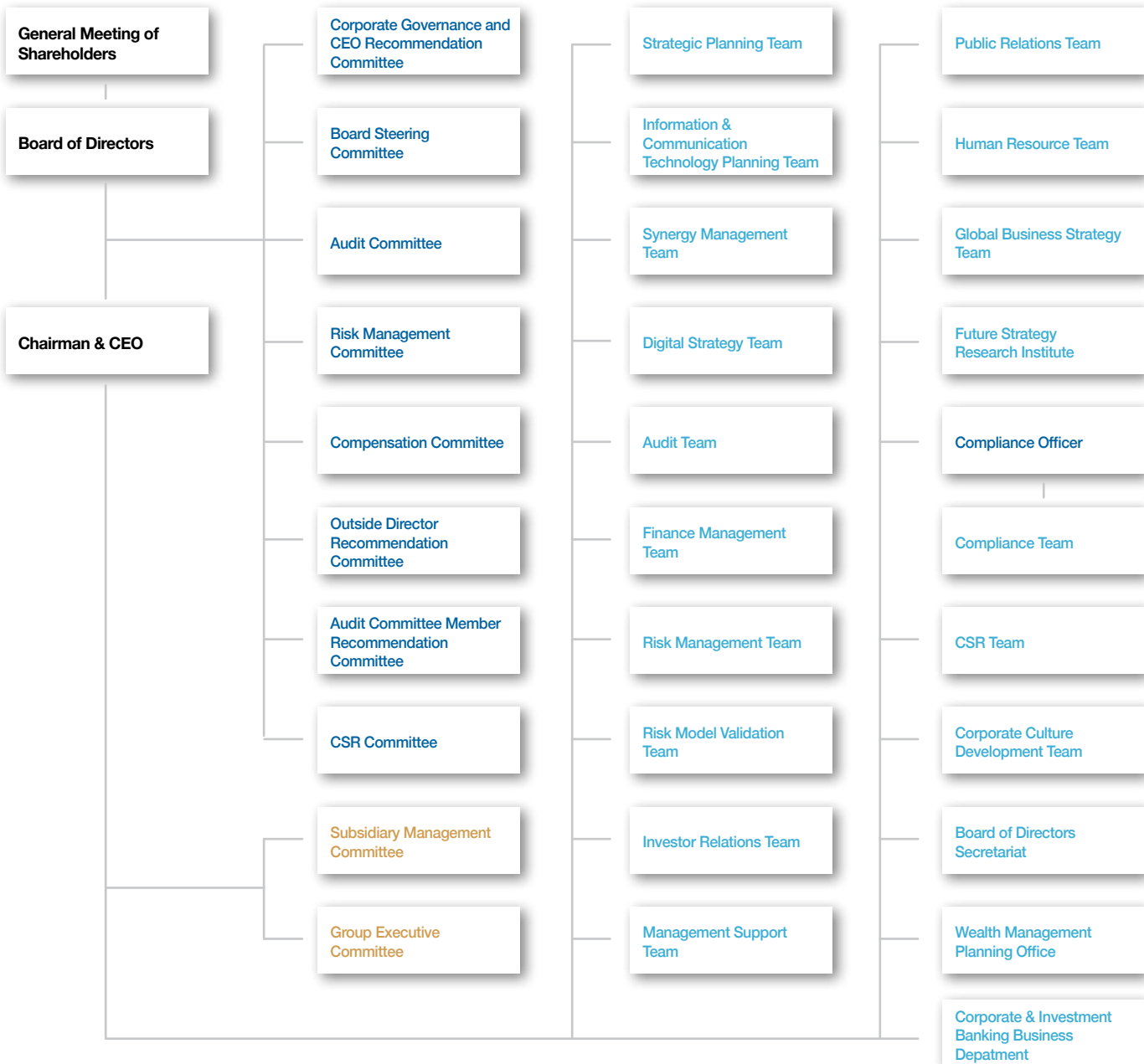
Shinhan Investment Corp. conducts an annual compliance awareness survey to gauge employees' general level of understanding of ethics and legal compliance. We also provide annual ethical compliance training sessions to employees. At retail branch offices, we try to raise the awareness on compliance by providing education on the changes in finance-related laws and regulations, main compliance monitoring tasks, and incident prevention. Finally, every year we designate a compliance officer for each sales branch and HQ department as a means to promote self-training activities and strengthen control.

Shinhan Life Insurance conducts ethics and compliance training during collective employee training sessions as well as those for newly hired planners (22 sessions for employees and 39 sessions for planners conducted in 2015). In 2015, the Company was awarded by the Financial Supervisory Service for its outstanding ethical management practices, which were introduced in the FSS's 'Handbook of Best Practices' for the year.

Going forward, Shinhan Financial Group will continue to practice ethical management and fulfill its responsibilities as a responsible corporate citizen.

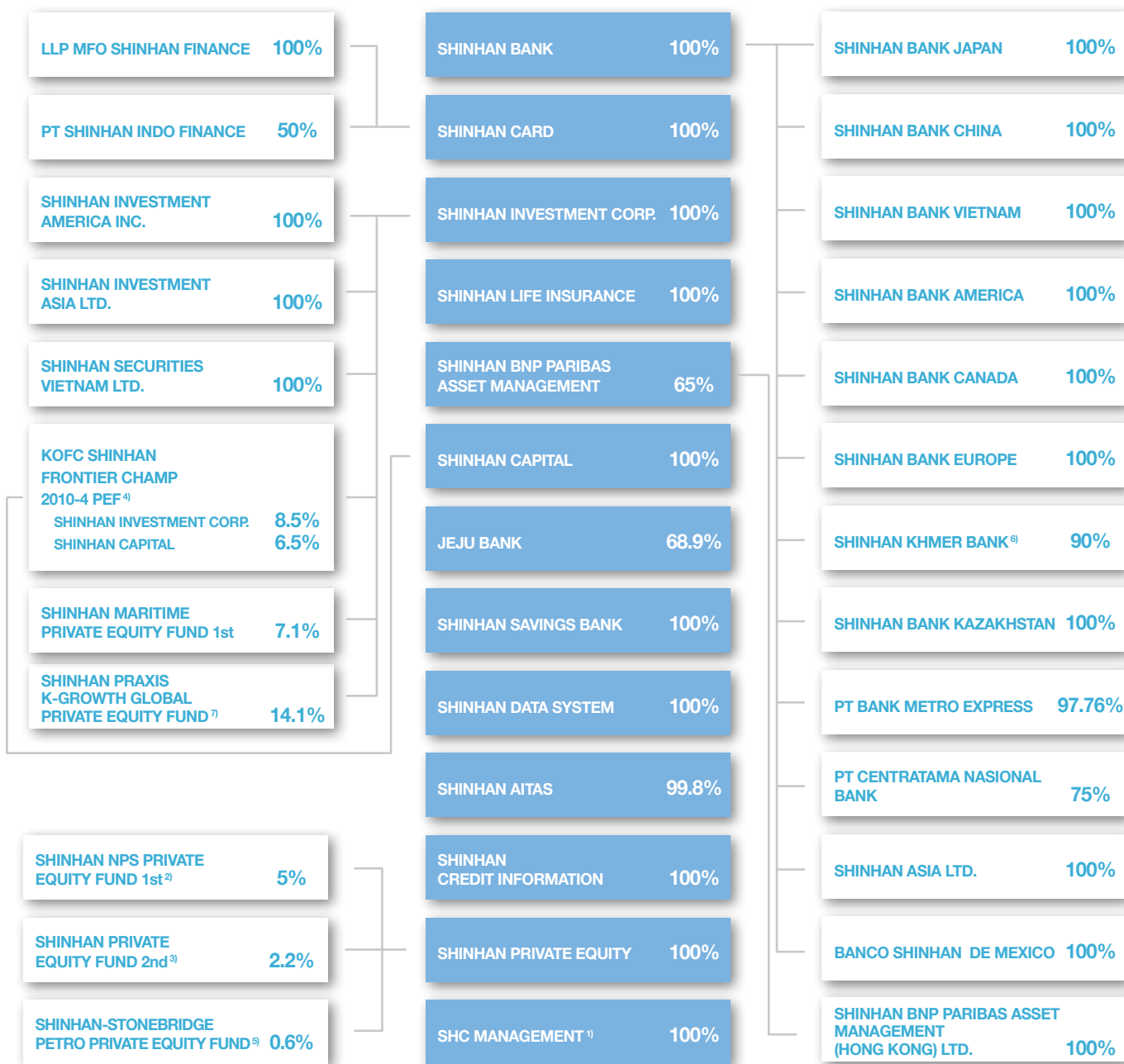


# Organization



# Business Portfolio

## SHINHAN FINANCIAL GROUP



1) Currently in liquidation proceedings

2) We and our subsidiaries currently own 36.7% in the aggregate.

3) We and our subsidiaries currently own 32.6% in the aggregate.

4) We and our subsidiaries currently own 34.6% in the aggregate.

5) We and our subsidiaries currently own 1.8% in the aggregate.

6) We and our subsidiaries currently own 93.3% in the aggregate

7) We and our subsidiaries currently own 18.9% in the aggregate



# Review of Operations

Shinhan Financial Group has pushed forward consistent long-term strategies for sustainable growth since its inception. In 2015, Shinhan surpassed the KRW 2 trillion mark for the second year in a row and registered the highest net profit in the industry for the eighth straight year.

The feat was the result of a well-balanced business portfolio of banking and non-banking subsidiaries and the synergies from their seamless collaboration underpinned by the Group's far-sighted growth strategies.

Our efforts will continue to enhance customer value through advanced risk management and group-wide synergies for mutual growth of both Shinhan and its customers.

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042 Digital Banking

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046 Retail Banking

048 Corporate Banking

050 Wealth Management

052 Investment Banking

054 Credit Card

056 Brokerage

058 Life Insurance

060 Asset Management





# Synergy

**Shinhan Financial Group continues to enhance customer value by maximizing synergy creation based on its diversified business portfolio.**

## Number of Active Customers

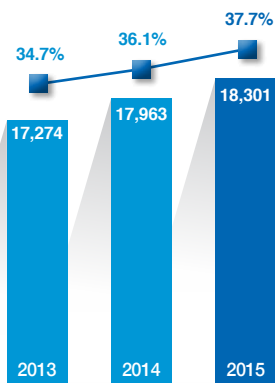
# 18

Persons in million

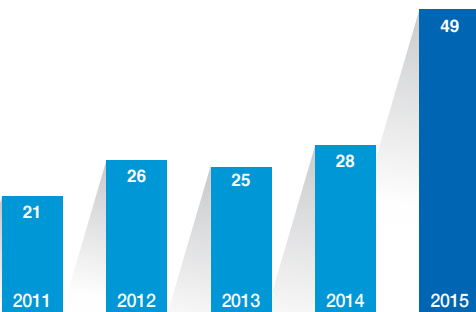
SFG serves 18 million, more than one-third of the population

## Active Customers & Proportion of Cross-selling Customers

(Unit: Persons in thousand)



## Hybrid Branches



Shinhan Financial Group has directed its synergy activities toward dismantling business barriers among its different operations, creating synergies through creative convergence of the subsidiaries' competencies and delivering differentiated value to our customers. Specifically, the Group has built an efficient business portfolio that consists of a stable banking business and highly competitive non-banking businesses including credit card, securities, insurance and asset management. Based on our diversified portfolio, the Group offers various products, services, and comprehensive financial solutions and thus creates greater synergies than our competitors.

Our synergy activities not only constitute of cross-selling on various financial products of subsidiaries, but also includes joint marketing, customer referrals and up selling activities. We also strive to maximize customer value by offering hybrid products jointly created by the banking, card, brokerage and insurance affiliates. Toward that end, we have introduced Tops Club as the group's main customer loyalty program in order to provide systematic customer management at the group level. In addition, through hybrid branches, we offer customers portfolios optimized to their financial goals.

Drawing on its extensive customer base and subsidiaries' superior sales competencies, Shinhan Financial Group has since its foundation pursued as its core synergy strategy the channeling of its group-wide competencies into maximizing customer value.

## 2015 Performance Results

In line with its synergy strategic direction of 'One customer, one company', the Group has selected and pushed forward the following four key tasks.

### First, expand the customer base by cross-selling

The number of the Group's active customers grew by 338,000 from 2014 to reach 18.3 million in 2015. Of these, the number of active customers who have conducted business with at least two or more subsidiaries of the Group has increased over 400,000 to reach 6.9 million at the end of the year. The Group conducted joint marketing by segmenting the target customer group by nursery market, faculties, public organizations, and retirement market. We also focused on developing hybrid products as the key task in expanding the customer base through cross-selling. In a bid to secure prospective customers, we have developed a credit card exclusively for university students in a strategic alliance with the Korea Student Aid Foundation (KOSAF). In preparation for the Account Switching System, we launched a loyalty package service with enhanced customer benefits jointly developed by subsidiaries through collaboration.

To address the growing retirement market, the Group has strengthened the joint marketing of subsidiary products: the Shinhan Card's 'Future Planning Card' developed based on a big data analysis of needs of the older gener-

ations; and Shinhan Life Insurance's 'Shinhan Future Plan Life Coverage' which helps customers plan their post-retirement lives.

#### **Second, diversify contents and increase channel collaboration**

We upgraded our signature loyalty program, 'Shinhan Tops Club' for better customer services. We also expanded the application of credit card marketing platforms such as 'All That Service' and 'Sally Bank', to other subsidiaries' services. We have developed various CMA-based hybrid products, increased overseas market alliances, and expanded the use of credit card reward points within the Group.

#### **Third, develop more synergies**

In pursuit of additional synergies, we increased the corporate lending of the saving bank subsidiary, and strengthened the investment product lineup of Jeju Bank through collaboration with Shinhan Bank. To spur synergies from corporate sector, we pursued more opportunities for cross-selling to corporate clients and developed additional synergies in the global and IB business areas. We also facilitated the sharing of synergy sales knowhow to cultivate a synergy culture, and upgraded 'Synergy Plaza', the Group's synergy platform to invigorate communication among subsidiary employees. Through 'Shinhan Creative Finance Plaza', a hybrid CIB branch launched in April 2015, we expanded the IB product lineup for SMEs and offered total solutions to diverse funding needs of corporations.

#### **Fourth, strategic cost saving from the synergy-based point**

Under the revised Financial Holding Companies Act, sharing of customer information among subsidiaries is banned. This change has hampered joint marketing within the Group and increased the marketing expenses of each subsidiary. To address this issue, we have focused on reducing costs from the synergy-based perspective throughout the year to and finally come up with some alternatives; We have obtained consent on co-marketing from 7.63 million customers, and subsequently constructed a new information sharing process with strengthened data security systems.

### **Business Plans for 2016**

In 2016, we are planning to leverage our group synergies to our maximum capacity in order to prepare ourselves for the new business environment such as expansion of account switching, individual savings account (ISA) and "robo-advisors. We also would like to take full advantage of the recent revision of regulations governing access to depersonalized information and other revisions adopted to foster the growth of financial holding companies. Specifically, under the synergy strategy banner of 'One Customer, One Shinhan', we will take the lead in emerging financial trends of digitalization and carry out the following four strategies:

#### **First, bolster new market responses**

We will develop new markets by embracing the account switching and ISA schemes. In preparation for account switching, we will keep promoting a royalty product package of savings, credit card and loan for preferred customers. We will extend preferential fees/interest rates to the immediate family members of preferred customers and conduct group-wide joint marketing to minimize customer attrition and gain new customers. In particular, we will offer differentiated customer benefits through the group-wide integrated rewarding program developed under the 'One Shinhan' concept. Furthermore, to strengthen the Group's retirement business competencies, we will channel group-wide synergies into developing and promoting retirement products and improve employee competencies in the retirement business as well.

#### **Second, implement the 'One-Shinhan' strategy**

The One-Shinhan strategy aims to offer unified (One-Shinhan) financial solutions to 'One Customer' based on the Group's resources and competencies. The solutions include integrated customer management, hybrid products, joint marketing, hybrid branch services. As part of the strategy, we will set up a mobile-based group-wide integrated marketing platform to provide upgraded, industry-leading financial services tailored to customer needs through traditional and non-traditional channels.

#### **Third, develop more synergies**

Our efforts to develop more synergies will be carried into 2016 as well. We will achieve strategic cost savings by bolstering the Group's competitiveness through inter-subsi-dary job-sharing and business consignment and by enhancing efficiencies in channel sharing among subsidiaries. We will also fine-tune the interactive collaboration between Shinhan Bank and Shinhan Investment through activating 'Creative Finance Plaza', and spur the joint development of loan products between the two subsidiaries. Furthermore, we will enhance collaboration among subsidiaries expanding overseas in line with the Group's global strategies, strengthen support for overseas channels, and thus develop more synergies overseas.

#### **Fourth, establish 'One-Shinhan' Culture**

Lastly, we will establish a corporate culture embodying the 'One Shinhan' concept by improving the synergy-based merit system developed to motivate employees toward synergy creation. We will also facilitate the sharing of outstanding synergy development cases.

Going forward, we will continue to pursue synergy creation among subsidiaries, the founding purpose of the holding company, and do our best to maximize values for our customers.

# Digital Banking

Shinhan Financial Group is strengthening its digital competitiveness with two initiatives: enhancing internal digital capacities and cooperating with non-financial ICT companies. With these efforts, the Group aims to develop a new digital ecosystem and increase customer value.

## Transactions through Internet & Mobile Channels

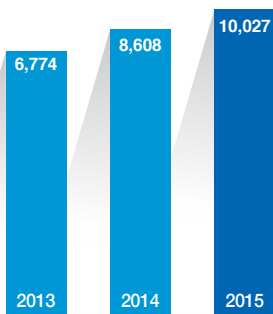
# 59.2%

59.2% of our total transactions are conducted through indirect channels.

Digital banking, once considered as a secondary channel, has quickly emerged as one of the key factors determining the quality of financial services in step with the growing use of smartphones and rising expectations for differentiated financial services. The advent of new technology on the mobile platform, coupled with the easing of regulations intended to promote fintech business, is expected to further accelerate the speed of the change with a stronger impact.

## No. of Customers Enrolled in Digital Banking Service

(Unit: Persons in thousand)

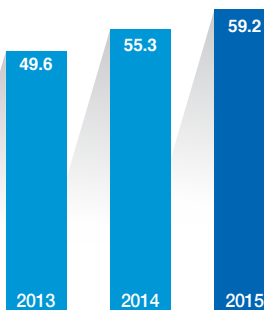


## 2015 Performance Results

Having anticipated this trend early on, Shinhan Financial Group has long prepared to take the lead in the digital banking. On top of offering traditional financial services via the Internet and a mobile platform, the Group is constantly seeking new opportunities through establishing strategic alliances with ICT businesses and incubating fintech startups. As a result, the Group's digital banking customer base has been expanding over the years. As of the end of 2015, the number of the Group's smartphone banking customers stood at 10 million, with app-based credit card users at 4.2 million.

## Proportion of Transactions conducted through Internet & Mobile

(Unit: %)



## Business Plans for 2016

In 2016, under the banner of "One Customer, One Shinhan, and One-Stop Mobile Service," Shinhan Financial Group plans to provide customers with convenient and useful digital banking services through execution of the following four tasks.

### First, establishing 'One Shinhan' Digital Ecosystem

To establish a distinctive financial ecosystem, the Group will enhance the competitiveness of its mobile platform by connecting main services, contents, and information of each subsidiary. With this, the customers will consider these services as an integrated financial service provided by "One Shinhan."

### Second, expanding the role of finance through strategic partnership.

As the name suggests, digital banking inherently requires a strategic partnership with ICT business. We will continue our efforts to connect ICT firms' knowhow in the area of platforms with our financial competencies and thus add more customer values.

**Third, supporting fintech startups through ‘Shinhan Future’s Lab.’**

Shinhan Future’s Lab (SFL) is a collaboration program developed to provide financial and practical support for Korean fintech startups and enhance the Group’s technological competitiveness through strategic alliance with leaders of new technology.

The main functions of the SFL includes:

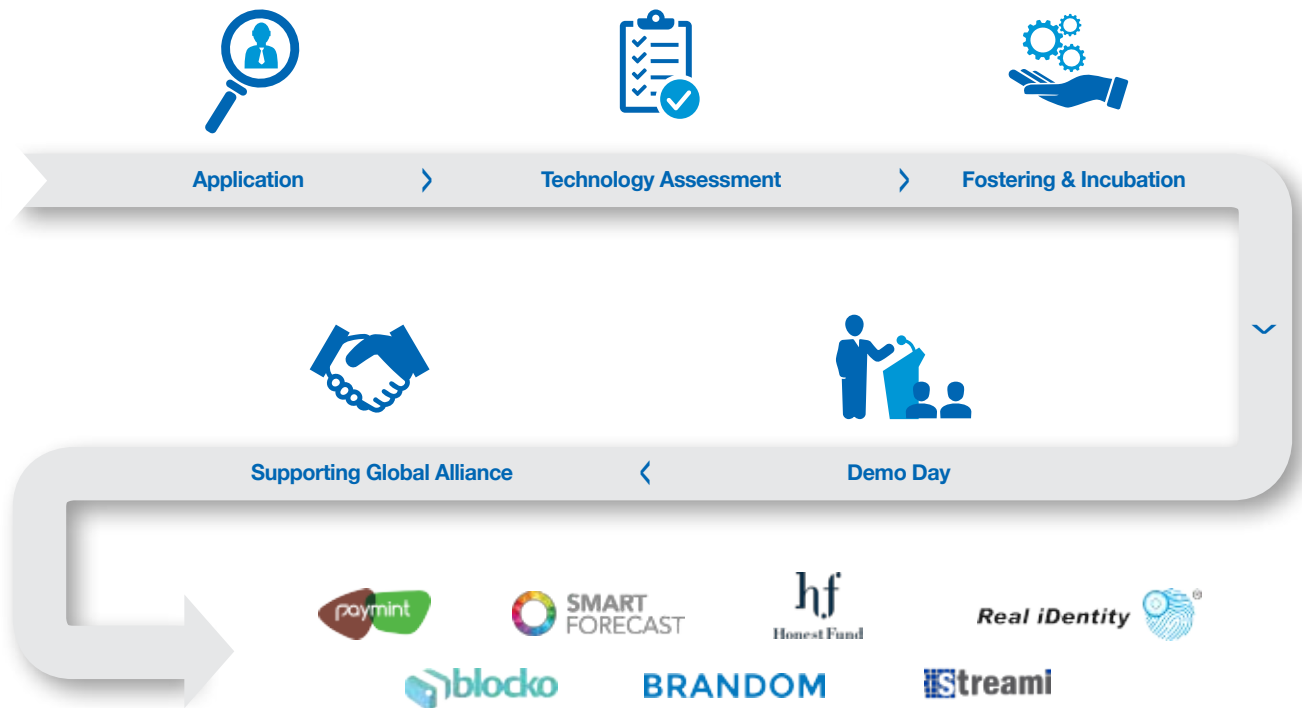
- Convergence of finance and fintech technology
- Mentoring services by internal and external experts from ICT, funding, legal affairs and venture capital
- Material technical supports including office space and ICT testbeds

**Lastly, establishing a Group-wide enabler to reinforce digital finance competencies**

Successful execution of our digital finance strategies takes a group-wide resource channeling. Accordingly, we will prioritize the digital strategies of subsidiaries and establish a group-wide framework for implementing the key tasks. At the same time, group resources, such as organizational support and capital, will be redistributed and channeled toward fortifying the Group’s digital finance competencies.

Shinhan Financial Group will stay focused on completing its digital finance structure that delivers via the mobile platform a variety of services whenever customer needs.

**Shinhan Future’s Lab**





# Global Business

Shinhan Financial Group sees abundant potential for sustainable growth in the markets worldwide. By capitalizing on global opportunities, we will generate a virtuous cycle of shared prosperity, enhance customer and shareholder values, and spread the Group mission of Compassionate Finance.

## Global Networks

# 151

SFG has built up an extensive global network, comprised of 151 networks in 19 countries

Over the past 30 years, Shinhan Financial Group has steadily pursued global expansion with a strategic focus on 'localization', 'prioritize & focus', and 'securing strongholds.' As a result, we have built up an extensive global network, comprised of 151 networks in 19 countries by the end of 2015 and recently the growth of global business has been accelerating.

At the beginning, our focus was on international financial hubs, where easier and sturdy market entrance was possible; and then, based on accumulated experience and know-how, we have begun expanding into emerging markets in Asia. Over the recent 5 years, from 2010 to 2015, the loan assets of global operations showed 43 % increase and their contributions to the Group's net income have tripled from 2 % to 6.7 %.

## Shinhan Financial Group's Global Networks

	No. of Countries with Presence	No. of Networks
Shinhan Bank	19	140
Shinhan Card	2	5
Shinhan Investment Corp.	4	4
Shinhan Life Insurance	1	1
Shinhan BNPP AM	1	1
<b>Group Total</b>	<b>19</b>	<b>151</b>

## 2015 Performance Results

In 2015, Shinhan Financial Group pursued three key initiatives in line with its strategic direction of "localization of operations and diversification for expansion methods".

### First, we stepped up our localization efforts.

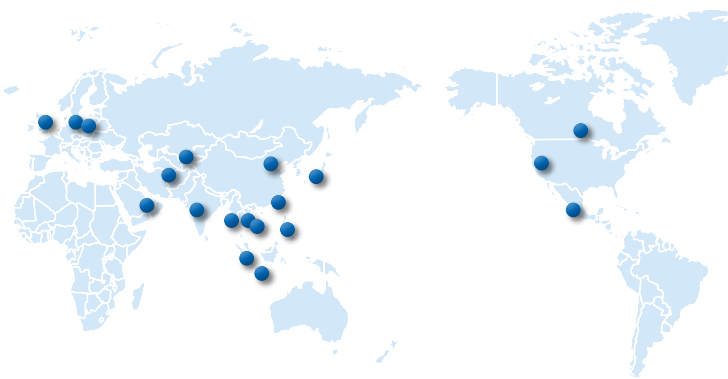
During the year, we made new attempts to enhance the localization on a group-wide basis. Overseas local operations were empowered to make important decisions on their business, while the headquarters set up 'Global Lending Support Team' as a communication channel between the headquarters and local networks concerning global corporations operating in the respective local markets.

### Secondly, we continued developing new business models.

For several years Shinhan Financial Group has been working to identify new growth opportunities in promising markets. The business model, which had previously focused only on Korean companies, has been upgraded to include local companies. For instance, Shinhan Bank became the first Korean bank to offer through its Vietnam subsidiary payroll accounts and employee credit loan products for local employees of Korean corporations in Vietnam, one of our strategic markets. These represent our first steps toward successful localization and new sources of revenue. We also recently selected the Philippines as a target market, for we see unlimited growth potential, with its population numbering 100 million. In November 2015, Shinhan Bank successfully opened a branch in Manila, the first of its kind by a Korean financial institution since 1994.

### Lastly, we diversified our methodology for global expansion.

Taking full advantage of our balanced business portfolio, we are diversifying our global expansion methodologies. Non-bank subsidiaries are ac-





## Global Business Overview

	2011	2012	2013	2014	2015
Global assets	13,506	15,334	16,011	17,223	18,318
Global profit	99	93	102	123	141
Contribution to Group net income (%)	3.5	4.5	5.9	6.2	6.7
No. of networks	66	69	71	75	151
No. of countries with presence	14	14	15	16	19
No. of employees sent from headquarters	180	187	188	184	212
No. of locally hired employees	1,261	1,417	1,617	1,799	2,963

(USD million)

companying Shinhan Bank's overseas expansions, bolstering the Group's non-banking business portfolio in the global market.

In 2015, Shinhan subsidiaries generated synergies in global markets as well. Shinhan Card established a subsidiary in Kazakhstan and began its operation in July. In Vietnam, Shinhan Life Insurance opened a representative office in June and Shinhan Investment Corp. acquired a local securities firm in July. As a result, now we can provide comprehensive financial services and products for Vietnam customers with operations ranging from banking to credit card, brokerage and life insurance. In step with Shinhan Bank's acquisition of BME and CNB, local banks in Indonesia, Shinhan Card entered the market through joint venture with Salim, a local conglomerate, in December and Shinhan Investment is also planning its own market entry.

## Business Plans for 2016

In 2016, Shinhan Financial Group plans on developing a group-wide global co-marketing platform by diversifying contents and offering quality services. To that end, we have developed the four strategies as follows.

### First, diversifying entry strategies

If we focused on organic growth for the global expansion in the past, we will be concentrating next 3 years on M&A and equity investment opportunities in global markets. To supplement our relative weakness in number of networks compared to local financial firms, we are also planning to enter the business of operating non-face-to-face channels reaching many parts of the global market. By diversifying our market entry strategies in the regions with high growth potential, we will continue to expand our long-term growth base.

### Second, increasing profits from overseas operations

We will continue to bolster collaboration among subsidiaries in step with their growing joint market entries overseas. We will also expand the proportion of non-interest incomes by growing non-banking operations and secure new income sources by developing new business models optimized to local market conditions.

### Thirdly, upgrading the operational structure.

The growing overseas network of the bank and increasing joint entry with non-banking subsidiaries has given rise to the need for an efficient collaboration in the respective local markets. Accordingly, we will explore better ways for subsidiaries to collaborate with one another in the local markets and construct an efficient operational framework by extending support to their local operations at the group level.

### Lastly, improving localization initiatives.

Localization is essential to sustainable global expansion: namely, empowering local talents, local customers-focused marketing, and localized operations. While upgrading products and services to meet the needs of local customers, we will continue to realign the work process with local needs and enhance our competitiveness in the respective markets.

# Retail Banking

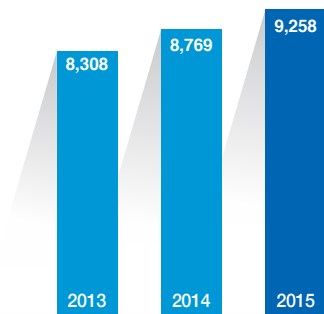
## Best Bank

# 1st

The Financial Supervisory Service in 2015 named Shinhan Bank the Best Bank in Microfinance, for the third year in row.

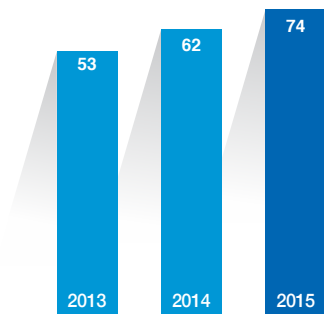
## Active Customers

(Unit: Persons in thousand)



## Low-Cost Deposits

(Unit: KRW in trillions)



Under the slogan “Through Candid Communication, Retail on the Go,” we focused on our core strengths and delivered outstanding results in terms of growth, profitability, asset quality, and customer satisfaction, all worthy of the No.1 bank in Korea.

The retail banking organization consists of 3 groups and 9 departments. Retail Banking Group is in charge of retail channel, WM Group serving high net-worth customers, and Institutions Group attending to the needs of governmental agencies and public institutions. In addition, there are 27 regional headquarters, each managing and supporting branch operations. In 2015, we streamlined the branch network reducing the number by 28 to 540 (723 counting financial centers) for better productivity. As of the year-end, the total number of employees in the retail banking sector stands at 8,531.

## 2015 Performance Results

Despite the challenging business environment marked by a protracted economic slump and successive base rate cuts, Shinhan Financial Group achieved superior performance in all of its retail operations on the strengths of its outstanding sales competencies.

First, we achieved the honor of being the No. 1 bank in profitability by increasing quality assets and enhanced risk management. In household lending, we pursued market segmentation and boosted the sales of high-margin loan products including Hannuri n-Nanum Loan which targets social workers. We took full advantage of a recovering housing market to grow mortgage lending. On the other hand, an increase in credit card settlement accounts and a steady inflow of funds from public entities helped boost our low-cost deposits.

Second, we expanded the customer base and diversified income sources by increasing non-interest incomes. The number of active customers, a customer segment crucial to sustainable growth, grew to 9.25 million, up 489,000 from 2014, nearing a symbolic 10 million milestone. Sales of non-interest income products grew including installment mutual funds, credit cards, and bancassurance, all contributing to diversify the revenue structure. The number of installment mutual fund accounts, in particular, doubled over the previous year to 415,000, contributing to a stable stream of non-interest revenue in the long run. The revenue structure was further buttressed by a healthy increase in credit card accounts, with the number of new credit cards totaling 293,000 in 2015.

Third, in the pursuit of the Group's mission, “Compassionate Finance: Your Companion for the Future,” we made meaningful achievements in the areas of customer satisfaction and microfinance. Throughout the year, we have continued to provide the customized products for low-income customers such as New Hope Seed Loan. In recognition of such efforts, the Financial Supervisory Service in 2015 named us the Best Bank in Microfinance, for the third year in a row. Moreover, Shinhan Bank was ranked first in all five major customer satisfaction surveys, conducted by renowned

industry watchers such as the Korea Standard Association, Korea Productivity Center, and Korea Management Association.

### Business Plans for 2016

Our goal in retail banking for 2016 is to better cope with adverse market conditions and become a leading retail group by drawing on the growth momentum we gained in 2015. With the strategic objective of “exceptional, leading retail,” we have selected five strategic tasks to pursue this year.

First, we will expand the customer base with special focus on primary customers. In 2016, we will increase the number of active customers by 750,000 surpassing the 10 million mark. To that end, we will further improve sales efficiencies by channeling marketing tools and resources toward reaching target customer segments such as office workers, women, and individual business owners. By drawing on the Group’s competitiveness in customer relationship management and product development, we also will strive to outpace our competitors in account switching and promoting individual savings accounts (ISA). Through these efforts, we will continue to consolidate our market leadership and attract new customers. At the same time, we will find new customers through sign-up for credit card payment settlement services, and extensively use cross-selling as a tool to induce customers to make us their primary bank.

Secondly, we will optimize the revenue structure of retail banking. We will continue to grow household and corporate loans with a focus on high quality assets and improve the net interest margin by increasing core deposits. In order to increase non-interest incomes, we will explore all options available to spur the sales of mutual fund, bancassurance, credit card and F/X operations.

Thirdly, we will speed up our globalization, platform, and segmentation (GPS) initiatives. As for globalization, we will share best retail banking practices with our overseas subsidiaries, while constructing a new platform that will enable us to secure more customers through cross-industry alliance. At the same time, we will continue segmenting existing markets in a pursuit of niche markets, while upgrading such specialized markets as childcare market, school faculties, social workers, and vocational high schools.

Fourth, we will pursue community-based collaboration with a new district scheme. To bolster collaboration among the retail banking, corporate banking, WM, and CIB operations, we have adopted a new district scheme, in which retail and corporate banking branches in a same district can generate additional synergies through collaboration. This will not only contribute to improve efficiencies in the channel operations but also in-

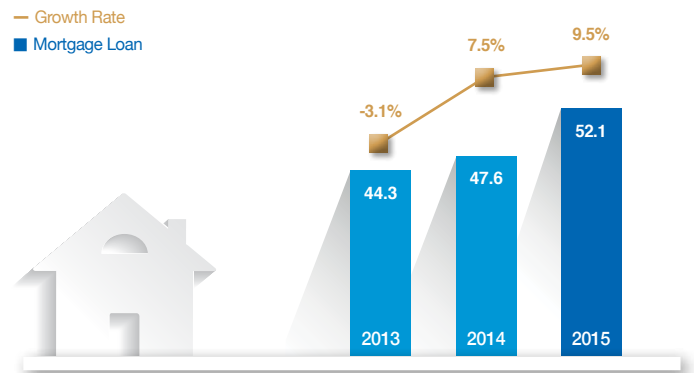
crease the alliances’ market share within the regional markets, which will contribute to improve the bank’s overall performance.

Lastly, we will build a great workplace, a first step of our new start toward excellence. We are building a workplace where employees work feel motivated to improve their competencies and produce outstanding results in a consistent manner.

Based on these strategies, our retail banking will be able to achieve another excellent year in 2016.

### Mortgage Loan

(Unit: KRW in trillions)



# Corporate Banking

As a pioneer of corporate banking, we serve our corporate clients with diverse financial services and solutions tailored to their specific needs.

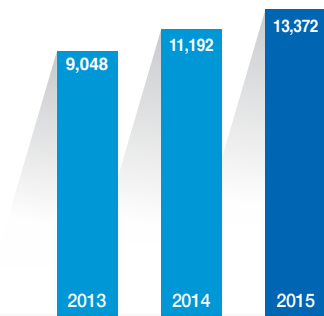
## Retirement Pension Accounts of Shinhan Bank

# 1st

Ranked first in the retirement pension market for six consecutive years in terms of assets under management.

## Retirement Pension(AUM)

(Unit: KRW in billions)



Corporate Banking Group oversees the large and SME banking operations of Shinhan Bank through its organizational network of four headquarter departments, six regional headquarters, and 190 branch offices. Maintaining competitive advantages in core corporate banking services, including international trade and foreign exchange, we strive to differentiate ourselves through introducing innovative financial services and products such as technology finance, hybrid products fused of investment and loan, and specialized IB services developed for mid-tier and SME clients. Furthermore, our 504 relationship managers (RMs) specializing in corporate banking are working diligently to offer financial solutions optimized to changing needs of our corporate clients.

## 2015 Performance Results

In the face of difficult business environment with sustained low interest rates and low growth, we adopted as a strategic objective, 'Creative territory expansion, great leap in corporate finance' and implemented three core tasks: 'strengthening core business (strong corporate finance),' 'efficient business practice (smart corporate finance),' and 'differentiate future competitiveness (prepared corporate finance).' As a result, we delivered outstanding results in all of our operations in terms of growth, profitability and asset quality.

### Strengthening core business (strong corporate finance)

As part of our strategy of growing quality assets, we focused on balanced growth in core markets comprising audited mid-cap, audited small cap, and blue chip unaudited small cap companies. In 2015, we extended our lead in mid-cap and audited small cap market and further penetrated into the unaudited blue chip markets, in which we had a meaningful progress in 2014. As a result, we increased SME lending by KRW 3.9 trillion over the year. We also improved the competitiveness of our loan products and services by structuring them based on the lifecycle of our corporate customers. As a result, the number of SME borrowers with more than KRW 100 million outstanding loans grew by 3,979, another industry-best figure of the year. Meanwhile, we maintained our unrivaled market leadership in the retirement pension market for six consecutive years.

### Efficient business practice (smart corporate finance)

In 2015, we sought to improve sales efficiencies in order to achieve sustainable growth. In response to the explosive growth of 'smart finance', we enhanced our non-face-to-face channel competitiveness and optimized corporate banking channels, by overhauling the corporate internet banking system. Furthermore, we carried out, in close consultation with regional divisions and branch heads, a series of marketing campaigns, each tailored to the characteristics of its respective market. In addition, we efficiently

## Performance Results in Technology Financing

	Shinhan	Bank A	Bank B	Bank C
No. of borrowers	11,371	8,380	6,107	5,578
Value Amount	5,497	4,667	4,253	3,470

(KRW billions)

managed margin spread in order to defend interest incomes and diversified profit sources to boosting non-interest incomes.

#### Differentiate future competitiveness (prepared corporate finance)

We also focused on maintaining our commanding lead in growing future markets. In TCB-based lending, we ranked No.1 in terms of number of borrowers and valuations by providing customized financial solutions to technology-intensive SMEs.

### Business Plans for 2016

In response to the ever-intensifying competition in corporate banking and other uncertainties hanging low on the business environment, we have adopted as a strategic objective for 2016, 'Territory expansion Value-Up, Solidifying the No. 1 brand image in corporate banking'; and identified the following as strategic tasks to accomplish this year: 'Improving the profitability of core businesses (strong corporate finance)', 'Reinforcing smart business practices (efficient corporate finance)', and 'Leading future business (prepared corporate finance).'

#### Improving the profitability of core businesses (strong corporate finance)

For another successful year, we plan to focus on growing profitable assets in our core SME lending markets. In addition, we will expand our customer base on a sustainable basis by making full use of state-backed funds and enhancing long-term customer relationship management. At the same time, we will continue to solidify our market position in F/X and foreign investment by tapping into our global cross-selling network.

#### Reinforcing smart business practices (efficient corporate finance)

We will further improve sales efficiencies in order to achieve sustainable growth. We will seek out new business opportunities by expanding alliances with the SMBA, KOTRA, and other government agencies. We will offer optimal financial services for startups and cutting-edge tech companies taking the funding opportunities presented by the Technology Commercialization Management System (TCMS) and Korea Credit Guarantee Fund. By increasing non-interest incomes and core deposits, we will also continue to diversify the profit structure and thus enhance the stability of the profit base.

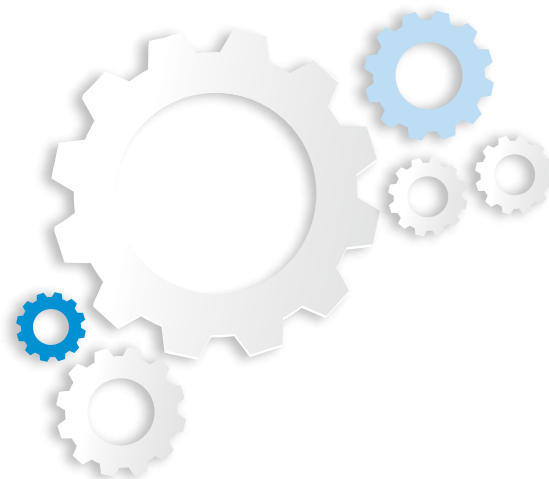
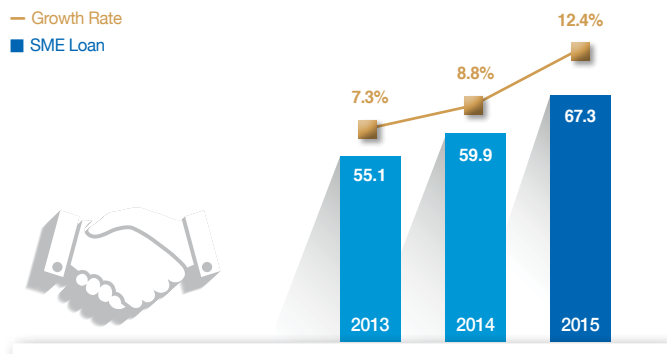
#### Leading future business (prepared corporate finance)

Lastly, we will continue to pursue our competitive advantages in future growth markets. To foster future market leaders, we will further upgrade human resource programs. In particular, we will reinforce core competencies of employees and upgrade 'RM Master program', the most advanced of our training sessions dedicated to cultivating corporate finance specialists. Finally, we will continue to enhance our expertise in tech-financing and relationship-based financing in order to secure sustainable growth engines in corporate finance.

In 2016, we will do our utmost to extend our lead in the corporate banking through change and innovation.

#### SME Loans

(Unit: KRW in trillions)



# Wealth Management

Based on co-location of Shinhan Bank and Shinhan Investment Corp., Shinhan PWM offers integrated wealth management services through the IPS (Investment Products and Services) department. With our differentiated wealth management model of tailored financial solutions, we create the highest value for our customers.

## Private Banking Brand

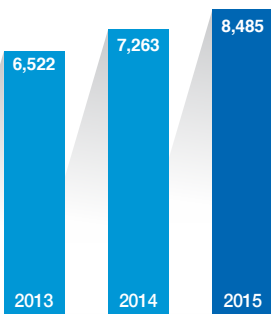
# 1st

Ranked 1st in the PB category of the Korea Standard Premium Brand Index (eight years in a row, jointly organized by the Korea Standards Association, Choseon Ilbo, and Seoul National University)

In 2012, Shinhan Financial Group launched PWM Center, a co-location branch model offering the products and services of both Shinhan Bank and Shinhan Investment Corp. Two new PWM Centers were added in 2015, bringing the number of PWM centers to 27 by the end of the year. In addition, we opened 16 new PWM lounges to extend PB services to those with KRW 100 million and more. Previously PB services had been reserved exclusively for high net-worth individuals with more than KRW 300 million in AUM. A total of 671 employees provide their clients with top-tier wealth management solutions by leveraging the force of the two industry leaders fusing their strengths toward creating the highest possible customer value.

## No. of Clients with more than KRW 1 billion in AUM

Shinhan Bank



## 2015 Performance Results

In 2015, we stayed focused on retaining its unrivaled leadership in the WM market by proactively responding to market developments.

### Customer-oriented asset management practices

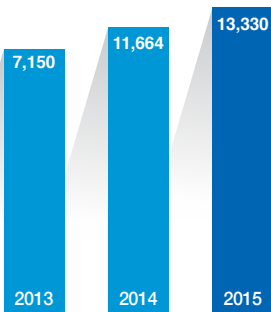
In 2015 we laid the foundation for improving investment returns by adopting company-wide 'Principles of Customer-Oriented Asset Management Practices.' We put in place an industry-leading asset management system to manage customers' investment returns more effectively. We also included customers' return rates in the criteria by which we evaluate the performance of PWM Centers and PB team heads.

### Delivering unrivaled results across major indicators

In 2015, the Group's PWM division realized an asset growth of KRW 3.1 trillion and posted KRW 189.6 billion in profit (combining the pre-expense operating profit of Shinhan Bank PWM and net operating income of Shinhan Investment PWM). In securing high-net-worth customers, we achieved the industry's best performance in terms of annualized average growth. (Shinhan Bank ranked No. 1 in the growth of HNW customers with AUM more than KRW 1 billion, Shinhan Investment Corp. also at the top in the growth of those with AUM more than KRW 100 million). In a bid to become the first mover and gain an edge over the competition in retirement planning, We expanded the Future Plan Center program to cover the entire retail branch network. We established 784 Future Plan Centers and opened a total of 1.79 million future planning accounts.

## No. of Clients with more than KRW 100 million in AUM

Shinhan Investment Corp.



### Enhancing brand value with accolades and recognitions

In recognition of our outstanding asset management performance, domestic and international industry watchers in 2015 presented awards and accolades acknowledging Shinhan as Korea's top PB brand. *The Banker*, in particular, singled out Shinhan as 'The Best Domestic Private Bank in Korea', for the second year in a row while *The Asset* praised us as 'Best Private Bank in Korea.'



## 2015 Awards & Recognitions

	Organization	Prize	Remark
International	<i>The Asian Banker</i>	Best Private Banking Korea	First
	<i>The Asset</i>	Triple A Investment Awards 2015 – WM/PB	WM (four consecutive years), PB (first)
	<i>The Banker</i>	Best Domestic Private Bank in Korea	Two years in a row
Korea	Korea Standard Association	KS-PBI (Premium Brand Index) – PB category	Eight consecutive years
	Korea Management Association	THE PROUD Korea Luxury Index – PB category	Five consecutive years
		THE PROUD Best Customer Value – retirement planning category (Shinhan Future Plan)	First
	JoongAng Daily	Best of the Best Awards – PB category	First

### Business Plans for 2016

In 2016, Shinhan PWM will double its efforts to improve the quality of wealth management services by leveraging the Group's unrivaled strengths in developing optimal financial solutions. To that end, we have defined as the mid-to long-term goal 'Only the Best WM, the Customers' Choice' and identified the following strategic tasks.

#### Creating customer value through active asset management

We will introduce a new management scheme that facilitates the management of customers' investment return. Namely, we will overhaul the existing performance evaluation system, which has focused on the branch performance results, to take into account of performances related to customer investment returns. While developing innovative products, we also will reinforce our after-sales care on all products we sell.

#### Strengthening Leadership in WM market targeting HNW customers

Next, we will continue to expand the PWM Lounge program which targets customers with KRW 100 million or more in AUM. At the same time, by upgrading the retail channel's asset management competencies, we will seek to strengthen our role in the WM market dedicated to the HNW customers.

#### Developing a WM business model subject to sustainable growth

We will establish an integrated asset management model that brings into one service point all products and services of Shinhan Bank, Shinhan Investment Corp. and Shinhan Life Insurance.

#### Exploring new markets through global WM operations

We will pursue WM business opportunities in the Asian markets where Shinhan Bank has established a presence. We will also seek strategic alliance with international financial groups to gain a foothold in the global WM market.

#### Completing digital asset management platform

To keep up with the rapidly evolving market environment, we will develop mobile-based WM channels. While adopting standardized asset management tools for developing investment solutions, we will gradually integrate the non-face-to-face channel platforms of each subsidiary into a mobile-based One Shinhan system.

#### Reinforcing differentiated competencies in retirement business

While offering retirement solutions that can cover more HNW customer needs, we will expand our consulting services covering taxation and real estate and continue to develop the platform for non-financial services. Also, by reinforcing the training of our retirement planners, we will offer financial services that mirror the excellence Shinhan pursues.

In 2016, competition in the WM market is expected to intensify on the ascendance of Internet banks, the continuance of financial deregulation, and the endurance of uncertainties gripping global markets. Bracing ourselves for such a harsh environment, we will stay focused on growing into Only Best WM of Customers' Choice by persistently implementing our new mid-to long-term strategies based on our experiences and competencies we have built up over the years.

# Investment Banking

## Loan Syndication

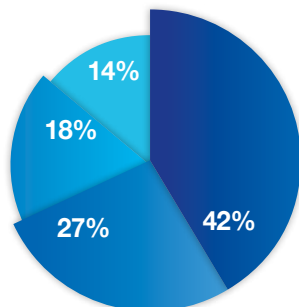
# 1st

Shinhan Bank topped all commercial banks, for three consecutive years, in the loan syndication market for its successful arrangement of the mega M&A financing

## Profit Contribution by Business Line

Shinhan Bank's CIB Division

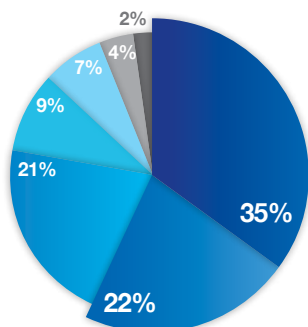
- Investment Banking
- Project Finance
- Structured Finance
- Real Estate Finance



## Profit Contribution by Business Line

Shinhan Investment Corp.'s IB Division

- Project Finance
- DCM/ECM
- Structured Finance
- M&A
- Investment Banking
- Hong Kong IB
- Syndication



## Shinhan's CIB offers total corporate and investment banking solutions based on collaboration of Shinhan Bank and Shinhan Investment Corp.

Established in 2012, Shinhan CIB has been successful in providing optimal IB solutions for its corporate customers by successfully combining the strength of the Shinhan Bank's CIB division and Shinhan Investment Corp.'s IB division.

### 2015 Performance Results

In 2015, Shinhan CIB achieved significant growth from the previous year, in terms of both size and quality. Collaboration volume and cases increased by 9% and 6%, respectively, with the proportion of collaboration in the non-bond issuance areas expanding from 35% to 54% in volume, and from 34% to 46% in cases. This is a clear indication that collaboration between the two companies is moving beyond bond issuances into other areas. In 2015, the CIB unit carried out a total of 140 collaboration deals worth KRW 6.06 trillion.

Based on such stronger cooperative ties, Shinhan CIB channeled its resources into being competitive in the DCM (debt capital market), expanding its alternative investment operations, and constructing a new platform for leading the IB market catering to SMEs.

### Maintaining competitive edge in DCM

In 2015, Shinhan Bank topped all commercial banks, for three consecutive years, in the loan syndication market for its successful arrangement of the mega M&A financing involving Halla Visteon Climate Control and Homeplus. Shinhan Investment, however, was demoted by one notch in each of the debenture/ ABS lead manager league tables due to its profit-focus growth policy. As for the equity capital market, the CIB unit successfully arranged major deals such as Lotte Insurance's rights offering and SK D&D's IPO, thereby shoring up its track records in the market.

### Expanding alternative investment

In 2015, we established a number of mutual funds in a bid to reinforce our competitiveness in the alternative investment market. In particular, we created a KRW 106 billion fund to finance SMEs and MEs' global expansions, leading toward our goal of becoming one of the top 3 private equity house in the brokerage sector. We also established two funds totaling KRW 140 billion that invest in fin-tech businesses and SMEs with prospective technologies and growth potential. We also created a fund that invests in refinancing of infrastructure projects to reinforce our competitiveness in the alternative investment market.

### Constructing a new platform for leading the IB market catering to SMEs.

Lastly, Shinhan CIB opened its eyes early on to the growth potential of the IB market developed for SMEs and MEs. In 2015, we launched an innovative investment banking-service platform called Creative Finance Plaza: It

taps into Shinhan Bank's SME/ME client base and offer Shinhan Investment's advanced capital market solutions. By the year-end, five Creative Finance Plazas were in operation, with three located in the Seoul metropolitan area and two in regional cities. Each Plaza is run by relationship managers from Shinhan Bank and Shinhan Investment, serving corporate clients with total CIB solutions optimized to their individual needs.

Shinhan's CIB unit has continued to extend its collaboration reach and strengthen its role as the IB solution provider within the Shinhan Financial Group. More details of its collaboration plans are described in the table below.

**Business Plans for 2016**

In 2016, Shinhan CIB will continue to explore diverse options of solidifying the long-term growth basis and securing sustainable growth.

First, to maximize synergies, we will integrate the planning/strategy-building units of Shinhan Bank and Shinhan Investment, improve consistency in CIB strategies, and upgrade sales support systems, including evaluation, personnel management and education.

Second, through collaboration with Shinhan BNP Paribas Asset Management, we will continue creating funds through which we can lead the market such as the Senior Loan Fund and Solar Fund.

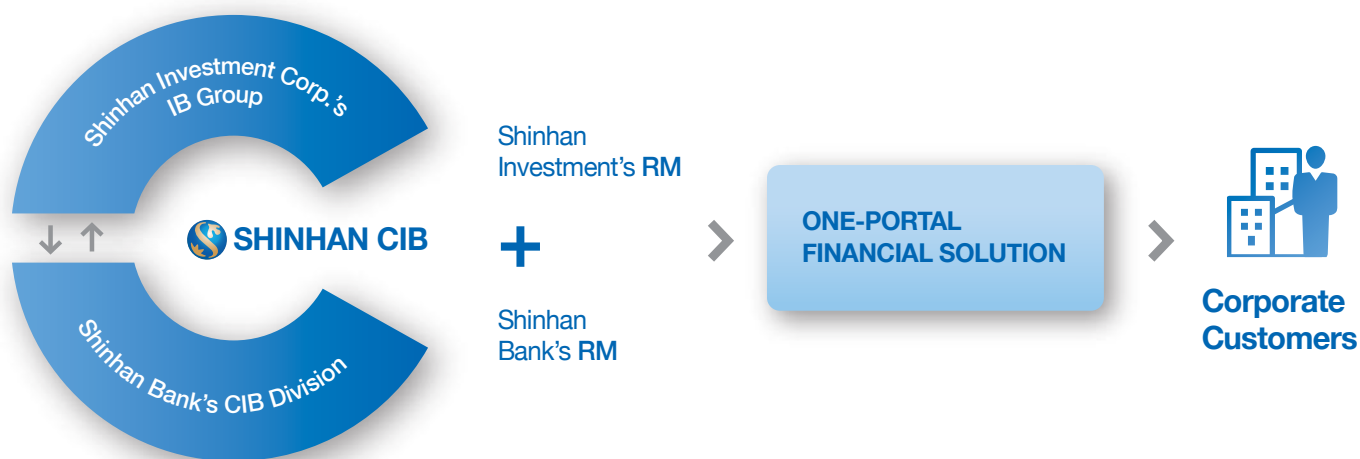
Third, we will spur overseas investment in various areas and expand the global business platform.

Fourth, we will further stabilize the system and expand the network of the Creative Finance Plaza to secure a vantage point in the IB market developed for SMEs and MEs.

Lastly, we will strive to further enhance Shinhan Investment's competitiveness in the non-bond issuance areas.

In dealing with protracted uncertainties in the business environment, Shinhan CIB will proactively respond to market changes and continue evolving toward a brighter future.

**Shinhan Financial Group CIB Model**



# Credit Card

Despite sagging domestic consumption, Shinhan Card delivered remarkable performance by proactively responding to challenges with effective marketing strategies. While dominating the credit card business, we also made significant progress in the cultivation of future growth engines.

## Market Share

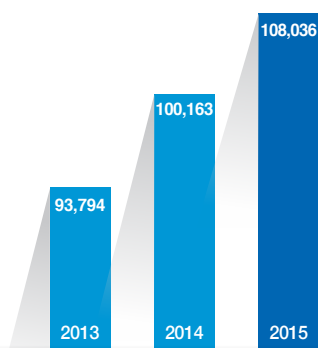
# 22.5%

No. 1 market share in Korea  
(retail credit purchase volume)

## Transaction Volume

(Retail credit sales + debit sales)

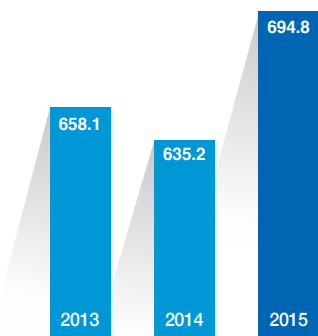
(Unit: KRW in billions)



## Net Income

Shinhan Card

(Unit: KRW in billions)



## 2015 Performance Results

In 2015 the domestic card industry saw threats and opportunities arising in tandem, the former from the foray of non-financial companies into the payment market, and the latter from the deregulation of ancillary services for credit card issuers. Against this backdrop, Shinhan Card proactively responded to new threats and opportunities with creative strategies. The strategies we devised and implemented in the year are titled 'First Mover' and 'Fast Follower.' By executing the strategies with vigor and foresight, we succeeded not only in taking the lead in the new markets emerged in the year, but also in sharpening our competitive edge in areas we had been fast catching up.

The 'First Mover' strategy was devised to seize on the opportunities presented by market developments over the last few years. We expanded our market dominance in mobile card business and reaped tangible results from global operations. In particular, our performance in the app-based mobile credit card market, we had pioneered in 2013, showed a notable growth: the number of active members grew to four million by the end of 2015, with its cumulative transaction volume of KRW 3.8 trillion, far surpassing that of the runner-up. In addition, we formed diverse service alliances to promote mobile credit card usage, thereby laying the foundation for transforming the app-based credit card into a service platform capable of offering a wide range of customer benefits.

The year 2015 also witnessed the birth of Shinhan Card's global expansion plan. In July, Shinhan Card opened a subsidiary in Kazakhstan for the first time in the history of Korean credit card business. We also laid a foothold in the Southeast Asian market in December by launching a joint venture with Salim in Indonesia, a market with huge growth potential. We now focus on training regional experts well-versed in the languages and cultures of the countries, as part of the effort to bring our localization strategy to a success.

We also made solid progress in the areas where we were fast catching up, implanting the 'Fast Follower' strategy through quick responses and prompt remedial actions. Our debit card business is a good example. In 2015, we increased the market share of debit card business by 1.3%p to 18.9%. To reinforce the installment finance operations, we also entered long-term rental car business and got the new business on track in a short time.

As a result of these strategic moves, we achieved a 7.9 percent year-on-year growth in transaction volume, with retail credit card sales surpassing KRW 100 trillion. The business efficiency efforts also led to a significant improvement in profitability, with the net income amounting to KRW 694.8 billion, up 9.4 percent from the previous year.

On the strength of these exceptional performance results, Shinhan Card took the 1st place in terms of brand competitiveness among all Korean financial firms in the '2015 Korea 100 Brand Evaluation' by the Brand Stock. The number of our Facebook followers surpassed 700,000 in 2015—a first in the Korean financial industry.

### Business Plans for 2016

In 2016, the business environment is widely forecasted to undergo drastic changes: recent emergence of fin-tech is leading to a market shakeup and risk factors are piling up both at home and abroad. To remain competitive in this rapidly changing market, we should respond to the changes both promptly and effectively. Sharing the view, Shinhan Card has developed its strategic tasks for 2016 with the basic concept of 'Fast Response' and came up with an 'on-demand' organizational framework that facilitates instant response to market developments. The followings are six strategic tasks we have identified for this year: solidifying the leadership in the mobile trend; diversifying new business models; putting global expansion at full throttle; bolstering the credit card customer base; expanding the effects of strategic cost reductions; and establishing a strong corporate culture based on the Shinhan Way.

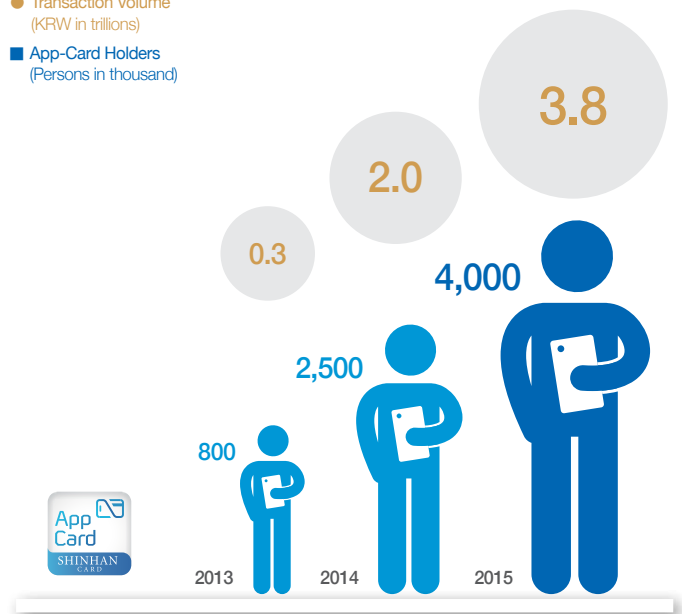
First of all, we will further cement our leadership in the mobile payment market as part of the initiative to secure future growth engines. On the back of the continuing growth in the mobile card customer base, we will upgrade the service contents of the app-card and enhance its competitiveness as a new platform. While developing new business models at home, we will actively explore opportunities abroad to enter new markets based on the experience and know-how we have cumulated over the years.

At the same time, we will continue sharpening our competitive edge in the traditional business domain. For a start, we will focus on solidifying our credit card customer base, for they not only constitute the source of current revenue streams, but buttress our future growth as well. In particular, we will make strenuous efforts toward increasing the number of card members in their twenties and thirties. In order to establish a platform for sustainable growth, we will further improve operational efficiencies in the management of channels, personnel and processes, while strategically deploying resources.

In 2016, the credit card industry, reeling from the recent drop in merchant fees, will feel more pressured to improve profitability than ever before. Accordingly, we will bypass competing for volume growth and go straight for higher management efficiencies, drawing upon the market control of the top player. Through these endeavors, we will practice our mission, Compassionate Finance, to our utmost and further solidify the trust-based relationships we have developed together with our customers and markets.

### Shinhan App-Card

- Transaction Volume (KRW in trillions)
- App-Card Holders (Persons in thousand)



# Brokerage

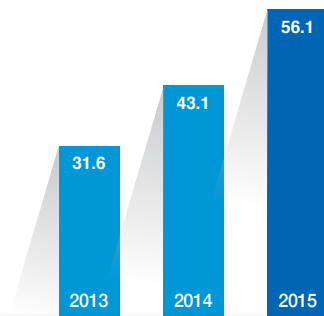
## Net Income Growth

# 82.2%

Shinhan Investment Corp. generated a net income of KRW 215.5 billion, up 82.2 % from the previous year

## Financial Product Assets

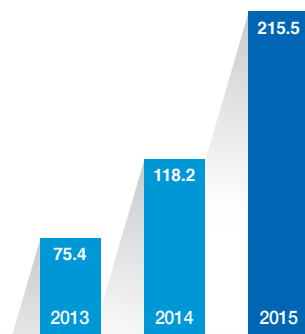
(Unit: KRW in trillions)



## Net Income

Shinhan Investment Corp.

(Unit : KRW in billions)



**Shinhan Investment Corp. offers innovative financial solutions based on its industry-leading competencies in research, asset management, risk management, and overseas sales.**

As of the end of 2015, Shinhan Investment Corp. had a network of 108 domestic sales offices and five overseas sales entities. Leveraging this extensive network, we win over new customers and generate differentiated profit across all our operations.

## 2015 Performance Results

Our 2015 strategic objective was to become one of the top 3 in all of our operations. To this end, we developed for each area a detailed strategy focusing on the followings: increasing customer returns by reinforcing comprehensive asset management sales capabilities; revamping retirement pension business models and increasing returns on retirement pension assets; optimizing business efficiencies through innovation of operating systems; maintaining the market leadership in wholesale and building a comprehensive service system for corporate clients; providing creative solutions to corporate clients and expanding investment banking; and launching market-leading products by leveraging overseas assets and diversifying investments. In addition to the performance-focused strategies, we strived to build a customer-oriented corporate culture by carrying out the Group's mission of Compassionate Finance.

As a result, Shinhan Investment Corp. generated a net income of KRW 215.5 billion, up 82.2 % from the previous year.

## Retail Business

In 2015, retail client assets under management (including PWM) grew by KRW 9.9 trillion from 2014 to reach KRW 57 trillion, with net operating profit advancing KRW 117.4 billion year on year to KRW 362.7 billion. This can be attributed to the stable profit structure we have built by focusing on the diversification of profit sources through enhancing asset management business. Meanwhile, our brokerage business saw its market share improve across all segments, shoring up the foundation for sustainable growth.

## Wholesale Business

The wholesale business continued reinforcing its marketing competencies against a fierce competition, rising to higher rank in all segments. Its profit and market share on overseas equity both topped the industry, while the balance of financial products sold to customers also increased, by KRW 10.3 trillion to KRW 34.9 trillion through collaboration between the sales & trading and IB sectors. Corporate equity sales also rose in terms of both profits and market share, maintaining its No.1 rank for the three consecutive years.



## Research Ranking

	2012	2013	2014	2015
<b>By Maeil Business News</b>				
1H	1st	1st		
2H	1st	1st	1st	1st
<b>By Korea Economic Daily</b>				
1H	5th	2nd	1st	1st
2H	1st	1st	1st	1st

### IB

The IB Division is reinforcing its competencies through the cooperation with Shinhan Bank's CIB division by leveraging on the group-wide collaboration model, Shinhan CIB. In 2015, the IB Division of Shinhan Investment generated KRW 65.3 billion in profits, up KRW 16.2 billion from 2014. It ranked second in the ABS and fifth in the debenture categories of the DCM league table.

### Sales & Trading

Despite volatile market trends and slowing growth in the Chinese market, the Sales & Trading sector earned KRW 130.7 billion in profit through the diversification of investment strategies and asset portfolios. With the aim of achieving a stable investment yield, we are proactively diversifying the investment asset composition by investing in offshore assets and acquiring licenses, while developing scenario-based investment schemes based on stricter risk management practices.

## Business Plans for 2016

For 2016, we have defined as our strategic goal 'Innovation for customers, challenging the top.'

To that end, we have devised two strategic directions as follows: build basic infrastructure and competencies required for growing into a leading financial investment company; and establish a customer-oriented corporate culture concentrating on Compassionate Finance. In line with these, we plan to implement the following nine key tasks.

### Innovate the comprehensive asset management sales platform

We will enhance channel operation efficiencies with focus on customer needs. The marketing approach will be transformed from conventional product-based selling to portfolio-based marketing such as the Expert Managed Account (EMA). For the brokerage business, we will improve

the customers' investment return by partnering with prominent advisory agencies. For corporate clients, we will set up a consulting team to spur corporate client targeting. In human resource development, we will focus on building up employee competencies as a way to improve customer returns. To foster future leaders, we will implement new human resource development programs.

### Upgrade development/operational competencies for distribution of products within the Group

We will establish seamless collaboration among product development, sales and after-sale care channels. Before launching new products, we will analyze their suitability through risk assessment, customer sampling, and market-sensing.

### Expanding the base for trusts/pension assets through improvement of returns

We will develop a number of asset-based new products that can be customized to each customer segment's needs, develop computerized systems for trusts, and establish infrastructure for marketing activities. As for retirement pension, our future growth driver, we will improve the work process in accordance with regulatory changes and focus on attracting new customers.

### Lay the foundation for new business in global/private funds/real estate

We will step up the glocalization strategy by expanding global markets and collaborating with subsidiaries. While constructing infrastructure for Prime Brokerage Service, private equity fund, and other new businesses, we will also develop a real estate investment advisory business.

### Upgrade the system for managing customer investment returns

We will enhance customer returns through a timely rebalancing based on the industry-top research competencies. We will upgrade the system for managing customer investment returns and implement an after-sale care based on crisis management scenarios by product.

### Upgrade risk management systems

Risk management system will be bolstered in preparation for various external factors. We will build a risk management system dedicated to customer assets, while improving the review and risk management process in proportion to asset size growth. Additionally, we will strengthen risk management competencies concerning over-the-counter derivatives and global operations with high growth potential.

# Life Insurance

Shinhan Life Insurance offers a variety of advanced insurance products and financial services through the extensive network of Shinhan Financial Group. In our daily operation, we practice 'compassionate insurance' based on our commitment to protecting customer interests from all calamities possible.

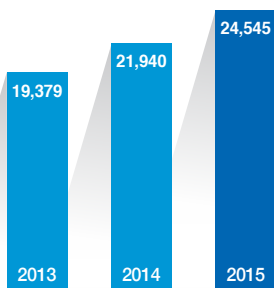
## Net Income Growth

# 24.2%

Shinhan Life Insurance generated a net income of KRW 100.2 billion, up 24.2 % from the previous year

## Total Assets

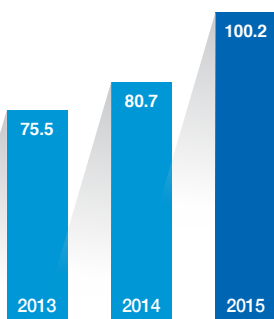
(Unit: KRW in billions)



## Net Income

Shinhan Life Insurance

(Unit: KRW in billions)



Shinhan Life Insurance provides quality insurance products through its diversified channels. Our products cover life insurance, third-party insurance, and individual/ retirement pension plans. Among our sales channels are financial consultants (FCs), customer-base marketing (CBM), agency marketing (AM), bancassurance, and self-enrolling programs (Internet). Our investment division generates stable investment income by offering various loan products (loans to insurance customers, secured and unsecured loans) and investing in securities (equities, fixed income and derivatives). We also maintain business stability through thorough risk management and persistent efficiency improvement.

## 2015 Performance Results

In 2015, we renewed our resolves to overcome business challenges by adopting a new vision and defining a mid-term strategic goal: 'Industry standard maximizing the intrinsic value of insurance' as the vision and '2018 Top-tier Shinhan' as the mid-term goal. The new vision embodies our will to set the industry standard by solidifying our insurance business respectable and sound enough to withstand such challenges as the 2nd phase of IFRS4. The mid-term goal expresses our determination to grow into a company that practices "compassionate finance" and earns respect from our stakeholders for values we create for them. In addition, with the full intention to embark on a new beginning with value management, we set our 2015 strategic objective as '2015 Beginning of Change, Change to Value' and carried out three core tasks in the following manners.

### Maximizing Corporate Value

To establish value management practices conducive to solid growth, we concentrated on expanding profitable protection-type product sales and modified evaluation systems with focus on our future value. On the other hand, we overhauled our operating systems by clarifying the roles and responsibilities of different distribution channels and implemented differentiated strategies for each channel. We also fine-tuned guidelines on product profitability, strengthened monitoring functions, and constructed highly profitable product portfolios in order to improve mortality profit. In pursuit of new growth drivers, we opened a representative office in Hanoi, through which we conducted market research and explored partnership opportunities with local insurers.

### Maximizing Customer Value

In 2015, we have developed new insurance products that meet the growing needs of our customers. In response to accelerated aging of population, we introduced a distinctive whole life insurance product which pre-pays the death benefit to customers in the form of annuities subject to customers' choice. We also provided a third generation cancer insurance

product that, for an affordable monthly premium, offers customers more benefits to help cover actual living expenses. This new product not only improved the risk coverage of customers but also helped FCs enhance their productivity by increasing sales of protection-type products. We also adopted advanced ALM systems, gradually reducing capital volatility in preparation for the Phase 2 of IFRS2. In recognition of our sound risk management and stable asset management practices, we won a grand prize in the insurance category at the Korea Fund Asset Management Awards, for the second year in a row.

#### Maximizing Community Value

In protecting consumer rights, we instituted 'quality management' in the entire process of business activities of Shinhan Life Insurance. To realize growth based on transparent sales and quality management, we strove to minimize customer complaints and maintain a high persistence rate. To reinforce competitiveness of our sales channels, we launched a company-wide campaign promoting ethical sales practices and focused on enhancing productivity and profitability.

We also sought to enhance the sales force's competencies by sharing product education know-how and implementing specialized training programs for consultants. In order to improve the policy persistence rate, we developed and introduced the industry's first system that estimates persistence rates based on analysis of policy data. As such, we focused on promoting complete sales practices, offering better benefits, and minimizing policy cancellations.

#### Business Plans for 2016

In 2016, the business climate is expected to remain harsh with delayed recovery of profitability stemming from reverse margin. On the other hand, industry deregulation will be implemented on a full scale further intensifying the competition. Against this backdrop, Shinhan Life has identified as the strategic objective for 2016, 'ACTION 2016 for Spreading Value Management.' The strategic objective reflects our commitment to diffuse value management throughout our operations based on our power to take actions. The word "ACTION" is a compilation of 'act', 'I', and 'on, embodying the message that value creation starts from each individual employee' practices.

The followings are 3 core tasks we identified for this year: 1) improving policy persistency and protection coverage, 2) enhancing business efficiencies for higher productivity, and 3) solidifying the growth platform through securing future competencies.

First, in order to improve persistency and protection coverage, we will increase sales of profitable protection-type products, enhance marketing efficiencies, and promote complete sales practices by reinforcing the consumer rights protection process.

Secondly, to enhance business efficiencies, we will reinforce distribution channel competencies and improve the work process. In preparation for the IFRS4 Phase 2, we will develop a company-wide responsive strategy focusing on profit-oriented sustainable growth.

Lastly, to solidify the growth platform, we will continue to cultivate our corporate culture, while focusing on long-term human resource development and pursuing digital finance and global business to secure a future growth platform.



**Shinhan Life Insurance obtained the highest (AAA) rating in the Insurance Financial Strength Rating (IFSR) for eight consecutive years**

# Asset Management

Demand for excess returns is increasing amid growing volatility of the global markets, sustained low interest rate trend and aging of society. Shinhan BNP Paribas Asset Management has developed diverse investment solutions to address these issues, each customized to specific customer needs based on investment principles that have proved sound year after year.

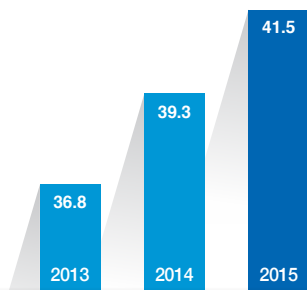
## Asset Management Ranking

# 5<sup>th</sup>

Shinhan BNP Paribas Asset Management has an AUM of KRW 41.5 trillion (based on NAV), the fifth largest among 97 asset management companies in Korea.

## Assets under Management (based on NAV)

(Unit: KRW in trillions)



Shinhan BNP Paribas Asset Management is a joint venture between Shinhan Financial Group (65 percent) and BNP Paribas Group (35 percent). Its business philosophy is to become a long-term partner that places customers first by providing a variety of investment solutions with reliable specialties.

Based on this business philosophy, we provide various domestic and overseas investment solutions in the areas of traditional equity and fixed income, as well as structured (derivatives, ELF, and more) and alternative investment (real estate, mezzanine, and infrastructure). By improving our long-term investment performance in a consistent manner, we have strived to earn unwavering trust from our customers.

As of December 2015, Shinhan BNP Paribas Asset Management has an AUM of KRW 41.5 trillion (based on NAV), the fifth largest among 97 asset management companies in Korea.

## 2015 Performance Results

In the first half of 2015, the domestic stock markets remained stagnant amid a protracted low-interest and low-growth environment, compelling domestic investors to look overseas for more appealing investment opportunities. By the end of the year, however, increasing volatility in emerging markets turned their attention back to safer investment. On the other hand, growing social concerns over an aging population and decreasing market interest rates increased market demands for more profitable retirement pension products and mid-risk, medium-return investment opportunities.

Over the past year, Shinhan BNP Paribas Asset Management concentrated on providing investment solutions tailored to customer needs responding to the rapidly changing capital market environment. Seeing early on the fast-growing interest in investment opportunity in China, we launched the industry's first mutual fund investing in the mainland Chinese market, thereby laying the foundation for securing leadership in the market with tremendous growth potential. For the retirement pension market, we introduced an asset allocation product catering to mid-risk medium-return investment needs, growing it into the No. 1 asset allocation fund in the market. In domestic equity investment, we reinforced our bottom-up research competencies to form investment strategies addressing market changes in a timely manner. We also continued developing innovative structured products and maintained our market leadership in that field.

These accomplishments earned us several recognitions and awards at home and abroad: 2015 Korea's Most Outstanding Asset Manager at The Asset Triple A Investor and Fund Management Awards by *The Asset* magazine for the sixth year in a row; Innovative Fund of the Year at the 2015 Korea Funds Awards by *Money Today*; and The Best Mid-risk Medium-Return Fund at the 2015 Market Leaders Awards by *E-Today*.

**Business Plans for 2016**

In 2016, market uncertainties are expected to continue to grow feeding volatility high in the stock markets and keeping interest rates low. In such a market environment, we expect investors to demand various types of investment solutions in the hope of finding new stable sources of income. In response, Shinhan BNP Paribas Asset Management will continue to develop investment strategies catering to these demands and improve investors' confidence in its products and services by implementing the following three initiatives:

First, we will enhance investor value by reinforcing our investment competencies in the operation of conventional investment assets.

Second, we will produce tangible results from investment solutions that can satisfy investment needs in the future.

Third, we will establish an environment in which investment experts can concentrate on their investment management.

By tapping into the collaboration platform linking all Shinhan affiliates and leveraging its global partnership with BNP Paribas, Shinhan BNP Paribas Asset Management will make a progress toward the vision of becoming 'The Asset Management Company of Korea' practicing 'Compassionate Finance, Your Companion for the Future.'

**2015 Awards and Recognitions**

**Korea Institutional Investor Best Manager**

*Asia Asset Management's Best of Best Awards  
(7 consecutive years)*

**2015 Korea's Most Outstanding Asset Manager**

*The Asset's 2015 The Asset Triple A Investor and Fund Management Awards (6 consecutive years)*

**Innovative Fund of the Year**

*Money Today's 2015 Korea Fund Awards*

**The Best Mid-risk Medium-Return Fund**

*E-Today's 2015 Market Leaders Awards*





# Financial Section

Shinhan Financial Group recorded KRW 2,367.2 billion of consolidated net income (attributable to controlling interest) in 2015. This marked a 13.7 percent increase over the previous year's KRW 2,081.1 billion. Not only was this the second year in a row Shinhan Financial Group surpassed the KRW 2 trillion threshold, but it was the eighth consecutive year it had outperformed its competitors.

This solid performance can be attributed to our consistent strategies for sustainable growth with a long-term view. Moreover, the group's banking and non-banking units together created a favorable outcome through complementary and synergic operations.

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# Management's Discussion and Analysis

## I. 2015 Review

In 2015, the global economy continued to undergo divergent paths of growth. The growth rate for China's gross domestic product for 2015 decreased to a quarter-century low of 6.9% despite various measures undertaken by the Chinese government to offset the effects of the sluggish economic growth, including cutting interest rates and adjusting the reserve requirements for its banks. Japan and Europe continued their expansionary monetary policies and are expected to maintain the current policy stance in the near term. The U.S. experienced improvement in the labor market and expressed confidence that inflation will be in line with the target rate over the medium term. In response to such signs of improvement, in December 2015, the U.S. Federal Reserve raised its benchmark interest rate by 0.25%p and announced its intention to gradually increase the rate in the future depending on the economic situation.

In the first half of 2015, the Korean economy experienced a slower-than-expected recovery due to delayed global economic recovery and a decrease in domestic consumption, resulting in part from the spread of the Middle East Respiratory Syndrome (MERS). However, downward pressure on the growth rate was slightly restrained in the second half of 2015 due to active stimulation efforts from the government, ranging from the Bank of Korea's move to cut the basic interest rate to a historic low level to the Ministry of Strategy and Finance's implementation of a supplementary fiscal budget.

In 2016, we consider the following as potential risks to the Korean economy: (i) sustained recessionary current account surplus resulting from diminishing imports; (ii) increasing proportion of temporary employment; (iii) steadily increasing household debt; (iv) China's slowing growth; and (v) the Korean economy's vulnerability to depreciation of the Japanese yen. Also, the government's recently announced initiatives to restructure distressed businesses may contribute to mid- and long-term growth, but is anticipated to restrict economic recovery in the short term.

As for interest rate movements, since 2009, Korea, like many other countries, has experienced a low interest rate despite some marginal fluctuations, in part due to the government's policy to stimulate the economy through active rate-lowering measures. For 2015, in an effort to support Korea's economy in light of the recent slowdown in Korea's growth and uncertain global economic prospects, the Bank of Korea reduced the base interest rate to 1.75% in March and further reduced such rate to the historic low of 1.50% in June, which has since remained unchanged. In light of the mixed signals on the economic outlook, the Bank of Korea's policy path of interest rates in 2016 and for the foreseeable future remains uncertain.

In 2015, the KRW/USD exchange rate showed high volatility amid Korea's massive current account surplus and financial instability in emerging markets following the rate hikes in the U.S. The Korean won to U.S. dollar exchange rate, which had been around KRW 1,100 to the dollar in the first half of 2015, surged to over KRW 1,200 in the latter half of the year as external uncertain-

ties triggered an FX flight among many foreign investors. In 2016, we expect volatility in the exchange rate, particularly in the KRW/USD exchange rate, to continue with the uncertainty in timing and speed of additional U.S. rate hikes and other domestic/overseas economic slowdown factors to surface.

Shinhan Financial Group recorded KRW 2,367.2 billion of consolidated net income (attributable to controlling interest) in 2015. This marked a 13.7% increase over the previous year's KRW 2,081.1 billion. Not only was this the second year in a row Shinhan Financial Group surpassed the KRW 2 trillion threshold, but it was the eighth consecutive year it had outperformed its competitors.

This solid performance can be attributed to our consistent strategies for sustainable growth with a long-term view. Moreover, the group's banking and non-banking units together created a favorable outcome through complementary and synergic operations.

Shinhan Bank, the Group's flagship company, posted a net income of KRW 1,489.7 billion, up 2.4% from the previous year. This stable income performance was primarily due to the bank's constant efforts to expand household and corporate loan assets throughout the year, which turned out to be effective in offsetting the impact of the unavoidable drop in interest income following a contraction of net interest margin (NIM).

Shinhan Card achieved 9.4% year-on-year growth in net income in 2015, which reached KRW 694.8 billion. In the face of an economic slowdown, this considerable growth is largely attributed to the company's aggressive marketing campaigns, which were backed by big data analysis and the resultant growth in credit card sales, followed by expanded commission income. Other notable factors included lower funding costs due to falling market rates and decreased credit costs as a result of consistent risk management.

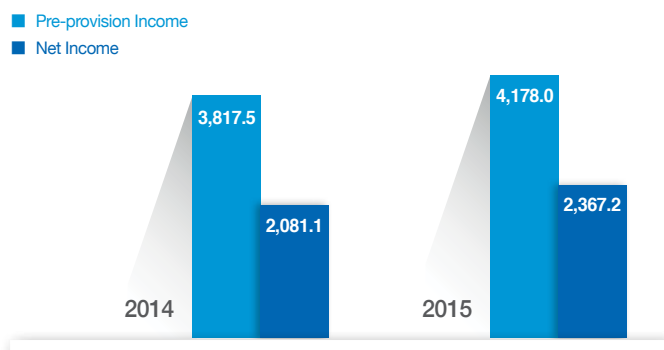
Shinhan Investment Corp. enjoyed 82.2% year-on-year growth in its net income for 2015, which amounted to KRW 215.5 billion. Spearheaded by the surging daily average trading volume on the Korean stock market, the company's brokerage commission income grew more than 50%. Increased financial product sales also shored up commission income from financial product sales.

Shinhan Life Insurance's net income for 2015 stood at KRW 100.2 billion, up 24.2% over the previous year. The sustained low interest rate trend took away any gains on the interest margin, but the company did manage to sustain growth by selling more profitable protection-type insurance products that generated stable income from the underwriting margin.

With the recovery in profitability of Shinhan Card, Shinhan Investment Corp., and Shinhan Life Insurance, the non-banking subsidiaries combined net income reached KRW 1,087.5 billion in 2015, contributing 42% of the Group's total net income (after consideration of percentage of shareholding and before consolidation adjustment).

### Group Pre-provision Income & Net Income

(Unit: KRW billion)



## II. Summary of the Reported Income Statement

### 1. Shinhan Financial Group

In 2015, the Group's consolidated net income (attributable to controlling interest) amounted to KRW 2,367.2 billion, up 13.7% from 2014.

This remarkable achievement, which came amid a turbulent business environment with persistent low growth and low interest rates trends, can be credited to the following: the balanced growth in the Group's loan portfolio throughout the year and stabilized net interest margin (NIM) toward the end of the year, both of which worked favorably with the Group's interest income performance; a diversified business portfolio that allowed for balanced income contribution between the banking and non-banking subsidiaries; effective control of SG&A expenses through constant cost reduction efforts across the Group; and stable credit costs based on preemptive and consistent risk management practices.

Specifically, Shinhan Financial Group's interest income remained stable due to the Group's timely loan growth policy. While the Group's NIM (Shinhan Bank and Shinhan Card) contracted by 27 basis points year on year, its total loans grew 8.5% over the same period. As a result, the Group's interest income stopped at a slight 1.4% drop.

In addition, Shinhan Financial Group's balanced business portfolio between the banking and non-banking sectors stood out among all 2015 performance results. Non-banking subsidiaries demonstrated significant growth in their income. Consequently, the Group's non-interest income also grew by 40.3% compared to the previous year.

In 2015, the Group's selling, general & administrative (SG&A) expenses edged up a mere 0.3% from the previous year. This was the result of its three-year-long cost-saving efforts for higher efficiency in its channel and human resource management. Even with increased temporary expenses arising

from its early retirement program at each subsidiary, the Group successfully stabilized its SG&A expenses through a mid- to long-term strategic approach to bring about fundamental improvements to its high-cost structure.

Even with the one-off credit costs incurred for some large corp. borrowers that went through business restructuring in the first half of 2015, the loan loss provision stabilized toward the end of the year due to preemptive efforts, such as continued expansion of quality loan assets, stronger risk management practices, and thorough monitoring of borrowers in high-risk sectors. As a result, the Group's credit cost increased by only 9.2%, with the credit cost ratio remaining the same as the previous year at 0.43%.

### SFG Condensed Income Statements

(Unit: KRW billion)

	2015	2014	Chg. (Amt.)	Chg. (%)
Total Operating Income	8,485.7	8,067.6	418.1	5.2%
Interest Income	6,692.9	6,789.8	-96.9	-1.4%
Non-interest Income	1,792.7	1,277.8	514.9	40.3%
SG&A Expenses	4,475.1	4,462.9	12.2	0.3%
Pre-provision Operating Income	4,010.6	3,604.8	405.8	11.3%
Non-operating Income	167.4	212.8	-45.4	-21.3%
Pre-Provision Income	4,178.0	3,817.5	360.5	9.4%
Loan Loss Provision	1,037.4	949.9	87.5	9.2%
Pre-tax Income	3,140.6	2,867.6	273.0	9.5%
Income Tax Expenses	694.6	668.0	26.6	4.0%
Consolidated Net Income	2,367.2	2,081.1	286.1	13.7%

Looking at net income by subsidiary, steady growth in the bank's loan assets outweighed dropping interest income despite the margin contraction. Moreover, growing commission income and gains on securities added to non-interest income, while the year-on-year decrease in SG&A expenses resulted from years of cost-saving initiatives. Consequently, net income at the banking subsidiaries improved by 2.6% over the previous year. The non-banking sector also enjoyed 17.7% year-on-year growth, driven by the improved profitability of Shinhan Card, Shinhan Investment Corp., and Shinhan Life Insurance.

# Management's Discussion and Analysis

## Subsidiaries' Income

(Unit: KRW billion)

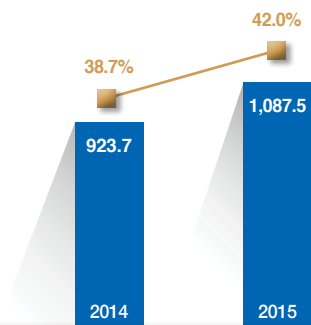
	2015	2014	Chg. (Amt.)	Chg. (%)
Bank (a)	1,503.0	1,464.8	38.2	2.6%
Shinhan Bank	1,489.7	1,455.2	34.5	2.4%
Jeju Bank	13.4	9.5	3.9	40.0%
Non-Bank (b)	1,087.5	923.7	163.8	17.7%
Shinhan Card	694.8	635.2	59.6	9.4%
Shinhan Investment Corp.	215.5	118.2	97.3	82.2%
Shinhan Life Insurance	100.2	80.7	19.5	24.2%
Shinhan BNPP AM	15.4	18.3	-2.9	-16.1%
Shinhan Capital	46.1	51.9	-5.8	-11.3%
Shinhan Savings Bank	8.0	11.1	-3.1	-28.0%
Shinhan Data System	1.0	2.6	-1.6	-60.5%
Shinhan AITAS	6.4	4.0	2.4	60.9%
Shinhan Credit Information	0.7	1.1	-0.4	-31.5%
Shinhan PE	-0.6	0.6	-1.2	n.a.
Total (a + b)	2,590.5	2,388.5	202.0	8.5%
Consolidated Net Income <sup>1)</sup>	2,367.2	2,081.1	286.1	13.7%

1) Net income attributable to controlling interest

## Net Income Contribution by Non-bank Subsidiaries

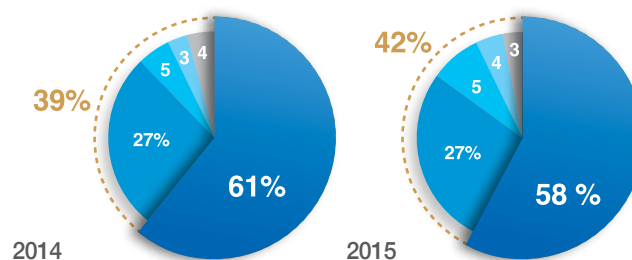
(Unit: KRW billion)

— Net Income Contribution by Non-bank Subsidiaries  
■ Non-Bank Total Net Income



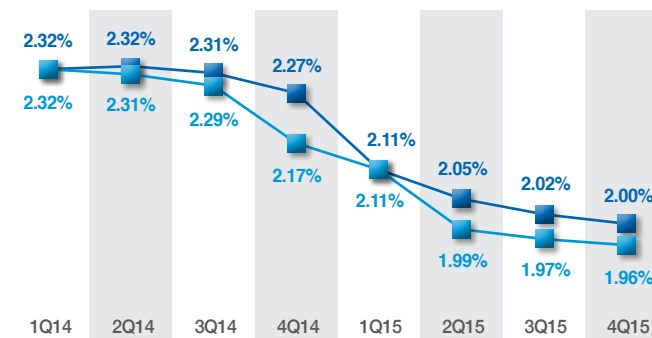
## Net Income Contribution by Subsidiary

■ Shinhan Bank + Jeju Bank  
■ Shinhan Card  
■ Shinhan Investment Corp.  
■ Shinhan Life Insurance  
■ Shinhan Capital & Others  
--- Non-Bank Subsidiaries



## Group Net Interest Margin

— Shinhan Bank+Shinhan Card (Cumulative)  
— Shinhan Bank+Shinhan Card (Quarterly)



## 2. Shinhan Bank

### 1) Overview

Shinhan Bank saw its net income for 2015 increase by 2.4% over the previous year, reaching KRW 1,489.7 billion. The bank maintained the industry's highest level of profitability for a fifth year in a row thanks to increased profits from its overseas subsidiaries and its own effective cost management efforts in the face of falling interest income. Preemptive and comprehensive risk management helped the bank to retain the cleanest book among its peers in terms of asset quality.

Furthermore, Shinhan Bank introduced a new business model offering enhanced customer convenience. The Digital Kiosk is an unmanned digital

bank window with a biometric authentication function that allows users to open an account without visiting the branch office. Sunny Bank serves the same function as Shinhan Bank's mobile platform.

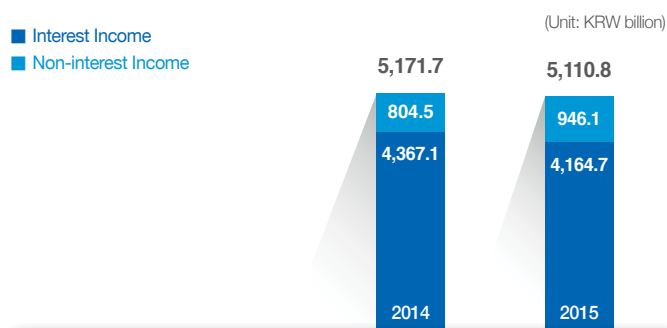
What is more, the bank was able to maintain its No. 1 position in the retirement pension market for the sixth consecutive year in terms of AUM. In line with its Compassionate Finance initiative, Shinhan Bank boasts the highest balance in tech credit bureau (TCB) loans (a creative/technology finance product) among all Korean commercial banks. This resulted in Shinhan Bank topping the government's innovation index for a second year in a row. Its balance in New Hope Seed Loans extended to low-income/low-credit customers was also greater than its competitors. Thus, it was no surprise when Shinhan Bank was singled out in 2015 as the Best Bank in Microfinance by Korea's Financial Supervisory Service for the third year in a row.

With growing concerns over possible deflation in the global economy in 2016, the Korean economy is also expected to face sagging exports and domestic consumption. However, Shinhan Bank's top-quality competitiveness in all business areas will allow the bank to attain sustainable growth should there be any volatility.

Growth in highly profitable SME loans was a particular boost, while expanded low-cost funding helped reduce interest expenses.

Going forward, Shinhan Bank will continue to improve its interest income through stable NIM performance, sound growth of profitable loan assets and the expansion of low-cost deposits.

### Interest Income & Non-interest Income for Shinhan Bank



### Condensed Income Statements for Shinhan Bank (Unit: KRW billion)

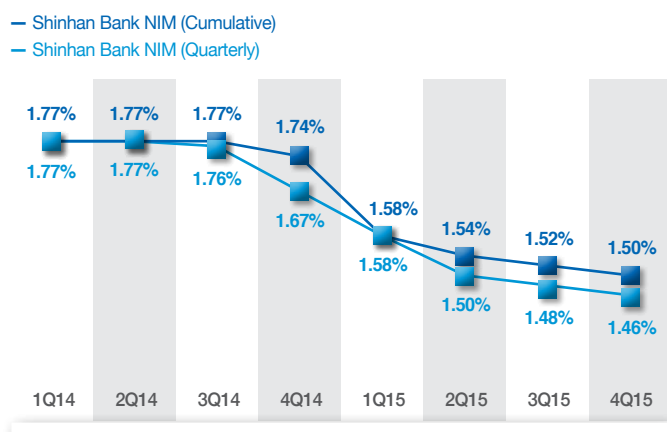
	2015	2014	Chg. (Amt.)	Chg. (%)
Total Operating Income	5,110.8	5,171.7	-60.9	-1.2%
Interest Income	4,164.7	4,367.1	-202.4	-4.6%
Non-interest Income	946.1	804.5	141.6	17.6%
SG&A Expenses	2,785.4	2,918.0	-132.6	-4.5%
Pre-provision Operating Income	2,325.4	2,253.6	71.8	3.2%
Non-operating Income	141.3	38.4	102.9	268.1%
Pre-provision Income	2,466.7	2,292.0	174.7	7.6%
Loan Loss Provision	591.6	456.2	135.4	29.7%
Pre-tax Income	1,875.1	1,835.8	39.3	2.1%
Income Tax Expenses	385.1	380.1	5.0	1.3%
Consolidated Net Income	1,489.7	1,455.2	34.5	2.4%

## 2) Interest Income & NIM

In 2015, Shinhan Bank's interest income dropped 4.6% from the previous year, falling to KRW 4,164.7 billion.

While Shinhan Bank's NIM for 2015 declined 24 basis points over the past year, the bank expanded its loan assets for both households and corporate borrowers each quarter in 2015, resulting in 10.5% growth in Korean won-denominated loan assets. These efforts eventually helped buffer Shinhan Bank's income contraction, leading to a stable interest income performance.

### Net Interest Margin for Shinhan Bank



## 3) Non-interest Income

Shinhan Bank's non-interest income for 2015 stood at KRW 946.1 billion, up 17.6% from the previous year.

Fee and commission incomes increased by 6.3% as a result of expanded loan assets and increased trust product sales, while higher dividend income and reduced impairment losses helped gains on securities improve by 18.5%, resulting in a rise in the overall non-interest income year on year.

# Management's Discussion and Analysis

## Non-interest Income for Shinhan Bank

(Unit: KRW billion)

	2015	2014	Chg. (Amt.)	Chg. (%)
Non-interest Income	946.1	804.5	141.6	17.6%
Fees & Commissions	853.9	802.9	51.0	6.3%
Securities Related & FX Trading/Derivatives	609.3	514.2	95.1	18.5%
(Gains on Sales of AFS Securities)	422.3	428.0	-5.7	-1.3%
(Impairment Loss on AFS Securities)	-206.6	-220.3	13.7	n.a.
Others	-517.0	-512.6	-4.4	n.a.
(Contribution Expenses)	-267.5	-244.9	-22.6	n.a.
(Insurance Fees on Deposits)	-249.0	-240.5	-8.5	n.a.

## Fees & Commissions for Shinhan Bank

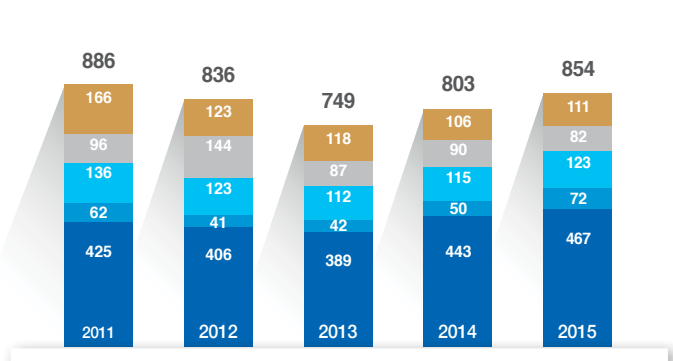
(Unit: KRW billion)

	2015	2014	Chg. (Amt.)	Chg. (%)
Fees & Commissions	853.9	802.9	51.0	6.3%
Fund Fee Income	110.7	105.9	4.8	4.5%
Bancassurance Fee Income	81.9	89.8	-7.9	-8.8%
FX Fee Income	122.9	114.5	8.4	7.3%
Trust Fee Income	71.5	49.7	21.8	43.8%
Others	466.8	443.0	23.8	5.4%

## Fees & Commissions

(Unit: KRW billion)

■ Mutual Funds ■ Bancassurance ■ FX ■ Trusts ■ Others



## 4) SG&A Expenses

Shinhan Bank saw its selling, general & administrative (SG&A) expenses decrease by 4.5% between 2014 and 2015, to KRW 2,785.4 billion.

The decrease can be ascribed to the bank's continued cost-saving initiatives, lower expenses associated with the early retirement program, and lower spending on performance-based pay and other remunerations. By efficiently managing SG&A expenses, Shinhan Group and Shinhan Bank achieved cost-to-income ratios of 52.7% and 54.5%, respectively, in 2015.

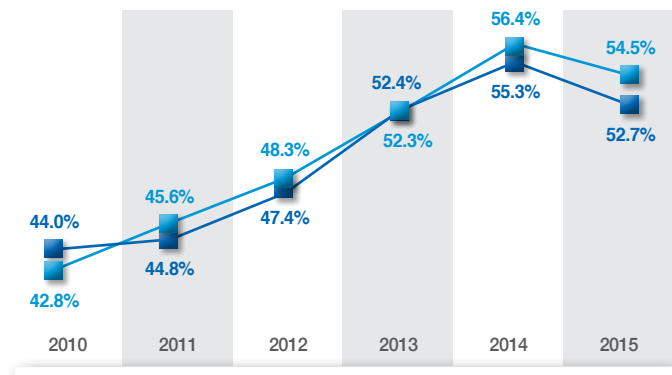
## SG&A Expenses for Shinhan Bank

(Unit: KRW billion)

	2015	2014	Chg. (Amt.)	Chg. (%)
SG&A Expenses	2,785.4	2,918.0	-132.6	-4.5%
Salary & Employee Benefits	1,659.6	1,734.9	-75.3	-4.3%
Early Retirement Program Expenses	59.5	106.2	-46.7	-43.9%
Depreciation & Amortization	165.4	202.9	-37.5	-18.5%
Other Expenses	960.4	980.1	-19.7	-2.0%
Advertising Expenses	58.0	59.1	-1.1	-1.9%
Taxes and Dues	78.3	82.2	-3.9	-4.8%

## Cost-Income Ratios for Shinhan Financial Group & Shinhan Bank

— SFG  
— SHB



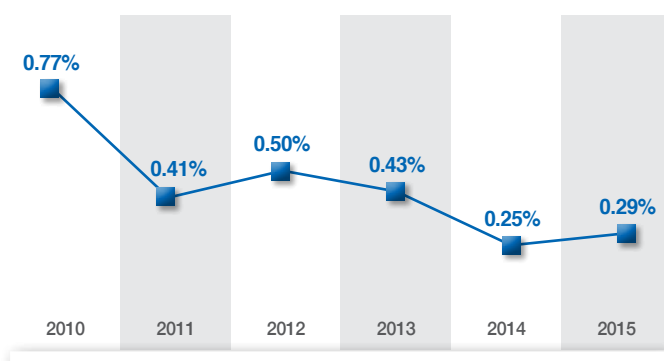
## 5) Credit Costs

Shinhan Bank's credit costs for 2015 rose by 29.7% from 2014 to reach KRW 591.6 billion.



This growth was driven by the increase in one-off provisions for business restructuring programs in the first half of 2015. A decrease in the write-back of the loan loss provision was another reason for the higher provisioning. In the second half of the year, however, credit costs of Shinhan Bank stabilized to the ordinary level. Consequently, the bank's annual credit cost ratio remained at a healthy 0.29%.

#### Credit Cost Ratio for Shinhan Bank



### 3. Shinhan Card

#### 1) Overview

Prolonged uncertainties abounded in the global economy throughout 2015. The resultant trend in lower growth—and only accentuated by the MERS scare in Korea—further dampened already sagging domestic consumption. Even in these challenging economic conditions, Shinhan Card delivered remarkable outcomes in 2015.

Shinhan Card's 2015 net income was KRW 694.8 billion, up 9.4% from 2014. This strong performance was primarily due to the active expansion of profitable assets, business innovation for higher efficiency, and effective risk management.

In 2015, Shinhan Card maintained its unparalleled leadership position, claiming a 22.5% share of Korea's credit card market (personal credit sales transactions). The company also raised its market share in the debit card business by 1.3%p to 18.4% in 2015 by pursuing niche markets, almost catching the No. 2 company in the industry along the way. This allowed Shinhan Card to secure a solid market share in all its business areas.

In 2015, the company's focus was on keeping up with the rapid changes going on with mobile platform technologies and increasing strategic investments in new markets for future growth.

The transaction volume of app-based mobile credit card usage that Shinhan

Card launched in 2013 has soared at an exceptional speed since then. As of 2015, the number of app-card holders had surpassed four million. In order to meet the diversifying needs of customers, the company is considering cross-industry partnerships so as to upgrade the app-based credit card system into a platform that offers a variety of services.

2015 was a starting point of full-fledged globalization efforts. In July of the same year, Shinhan Card became the first Korean credit card company to open a local subsidiary in Kazakhstan. In December, it also set up a joint venture with the Salim Group, a local financial company in Indonesia. This represents just two initiatives in the company's global expansion plans to go beyond the Korean credit card market.

In order to take advantage of new business opportunities, aided by a favorable regulatory environment that encourages investments in new products and services, Shinhan Card conducted numerous trials to diversify its profit model. The company started a long-term car-rental business and other new businesses that make use of its core competencies in big data, mobile technology and its deep customer base.

#### 2) Income Statement Analysis

##### Condensed Income Statements for Shinhan Card

(Unit: KRW billion)

	2015	2014	Chg. (Amt.)	Chg. (%)
Operating Revenue	4,742.2	4,600.3	141.9	3.1%
Credit Card Business	3,841.2	3,783.0	58.2	1.5%
Installment Finance	93.9	87.8	6.1	6.9%
Lease financing	37.7	36.6	1.1	2.9%
Others	769.4	692.8	76.6	11.1%
(Derivatives & FX)	173.0	129.4	43.6	33.7%
Interest Expenses	446.4	492.6	-46.2	-9.4%
SG&A Expenses	763.3	709.1	54.3	7.7%
Commissions & Other Expenses	2,321.5	2,157.2	164.4	7.6%
(Derivatives & FX)	143.8	107.3	36.5	34.0%
Pre-Provision Income	1,211.0	1,241.5	-30.5	-2.5%
Provision for Credit Losses	332.9	419.5	-86.5	-20.6%
Earnings before Income Tax	878.1	822.0	56.1	6.8%
Income Tax	183.3	186.9	-3.6	-1.9%
Net Income	694.8	635.2	59.6	9.4%

In 2015, Shinhan Card's net income stood at KRW 694.8 billion, up 9.4% from the previous year, mainly driven by increased merchant fee income and improved credit costs.

# Management's Discussion and Analysis

Operating revenue improved by 3.1% from 2014 primarily due to an increase in merchant fees and installment finance fees as a result of an expanded transaction volume and gains on sales of AFS securities. Shinhan Card's total transaction volume amounted to KRW 148.4 trillion in 2015, up 5.1% from the previous year's total of KRW 141.3 trillion.

Interest expenses for 2015 were down 9.4% thanks to issuance of lower-interest rate debentures and ABS.

SG&A expenses increased by 7.7% mainly due to the resumption of marketing activities. In the previous year, credit card marketing was not active in the industry because of scandals involving the personal information leakage of a large number of customers from other major credit card issuers in Korea.

Despite a reduction in the recovery of written-off receivables, provision for credit losses fell by 20.6% from 2014 mainly due to improved asset quality indicators such as the two-month delinquency roll rate. Recovery from written-off receivables declined to KRW 201.8 billion due to the aging and a decreased balance of receivables following the sale of KRW 1.4 trillion to the Public Happiness Fund in 2013. As of the end of 2015, the balance of written-off receivables was KRW 3.4 trillion. We can still expect a decent level of recovery going forward, given that on average KRW 500 billion of new receivables are written off every year.

## 4. Shinhan Investment Corp.

### 1) Overview

In 2015, rising expectations associated with global liquidity expansion, concerns over rate hikes in the U.S., and the sluggish growth of China's economy increased volatility of Korea's stock markets, with the KOSPI fluctuating between 1,800 and 2,180 points. Expanded volatility allowed the average daily trading volume to swell from KRW 6.7 trillion in 2014 to KRW 9.7 trillion in 2015.

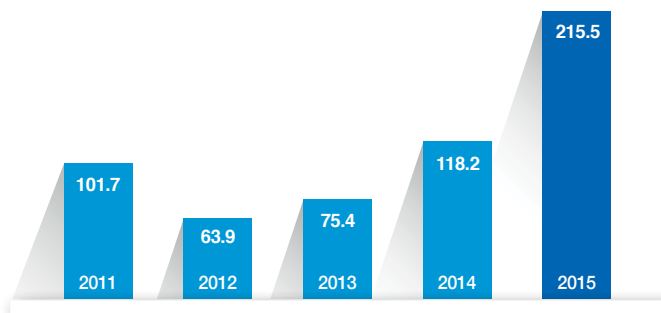
Shinhan Investment Corp. steadfastly put Compassionate Finance into practice throughout 2015 with the clear goal of achieving the industry's highest level of competitiveness. As a result, net income of the company increased 82.2% year-on-year to reach KRW 215.5 billion, with its operating income standing at KRW 260.7 billion, up 96.2% over the previous year.

In addition, the expanded daily trading volume in the Korean stock market boosted the company's brokerage commission income by 48.1% year on year, while the continued low interest rate trend fueled the sale of financial products, which led to an increase of 29.5% in the company's fee income from financial product sales. At the same time, falling market rates buoyed Shinhan Investment Corp.'s income from proprietary trading, including gains on the disposal of fixed income securities. As a result, net trading gains jumped 44.3% in 2015. Additionally, the growth in loans and the resultant increase in interest income raised other operating income by 31.3%.

In 2015, SG&A expenses rose by 22.6% mainly due to an increase in advertisement expenses as well as an increase in performance-related bonuses as a result of the strong performance of the company's trading teams.

### Net Income of Shinhan Investment Corp.

(Unit: KRW billion)



### Condensed Income Statements for Shinhan Investment Corp.

(Unit: KRW billion)

	2015	2014	Chg. (Amt.)	Chg. (%)
Operating Revenue	870.2	601.5	268.7	44.7%
Commissions Received	450.2	304.0	146.2	48.1%
Net Trading Gains	324.7	224.9	99.7	44.3%
Other Operating Income	95.3	72.6	22.7	31.3%
Operating Expenses	609.5	468.7	140.8	30.0%
SG&A Expenses	488.5	398.6	89.9	22.6%
Commission Expenses	118.8	67.6	51.1	75.6%
Loan Loss Provision	2.2	2.4	-0.2	-9.5%
Operating Income	260.7	132.9	127.9	96.2%
Net Income	215.5	118.2	97.2	82.2%

### Commissions Received for Shinhan Investment Corp. (Unit: KRW billion)

	2015	2014	Chg. (Amt.)	Chg. (%)
Commissions Received	450.2	304.0	146.2	48.1%
Brokerage Commissions	286.1	186.7	99.5	53.3%
Financial Product Fees	105.0	81.1	23.9	29.5%
IB-related Commissions <sup>1)</sup>	38.7	27.8	10.9	39.1%
Other Commissions	20.3	8.4	11.9	142.2%

<sup>1)</sup> Including fees and commissions from underwriting, IPOs, M&A consulting, and project financing advisory services

**SG&A Expenses for Shinhan Investment Corp.**

(Unit: KRW billion)

	2015	2014	Chg. (Amt.)	Chg. (%)
SG&A Expenses	488.5	398.6	89.9	22.6%
Salaries	318.7	263.5	55.2	21.0%
Other General Expenses	159.3	125.2	34.2	27.3%
Depreciation	10.5	9.9	0.5	5.4%

**2) Trading Volume & Market Share**

Although the equities business enjoyed an increase in trading volume in 2015, the company's market share declined slightly. Trading volume of stocks expanded by 35% from the previous year, reaching KRW 284 trillion, while market share dropped by 0.5%p to 5.9%.

The trading volume of futures fell by 27%, to KRW 520 trillion, representing a 2.2%p drop in market share. On the other hand, the trading volume of options jumped 50% over the previous year, to KRW 27 trillion, with its market share rising by 2.3%p.

**Trading Volume of Shinhan Investment Corp.**

(Unit: KRW trillion)

	2015	2014	Chg. (Amt.)	Chg. (%)
Stocks	284	211	73	35%
Futures	520	712	-192	-27%
Options	27	18	9	50%

**Market Share of Shinhan Investment Corp.**

	2015	2014	Chg. (%p)
Stocks	5.9%	6.4%	-0.5%p
Futures	5.7%	7.9%	-2.2%p
Options	7.3%	5.0%	2.3%p

**5. Shinhan Life Insurance**

Facing a paradigm change in the insurance business with the scheduled implementation of IFRS4 Phase 2 in 2020 and in meeting the prolonged low-growth, low-gain trends, Shinhan Life Insurance has set its vision as a

'Industry standard maximizing the intrinsic value of insurance.' In line with this, the company set its mid- to long-term strategic goal at attaining market recognition while procuring a stable source of revenue in the long term by improving the competitiveness of its life insurance program.

In 2015, Shinhan Life Insurance focused on implementing value-oriented management throughout the year. As a result, net income of the company reached KRW 100.2 billion, up 24.2% from the previous year despite negative hurdles such as the additional accrual per IBNR reserve.

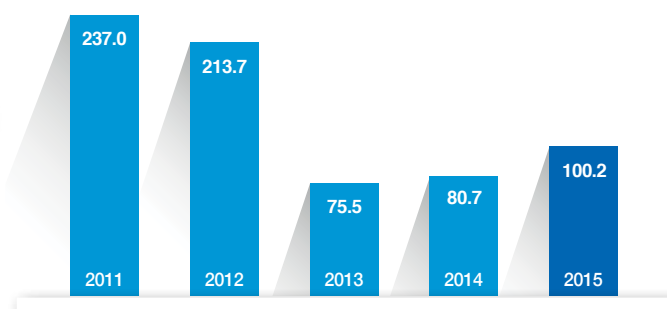
Net insurance operating results improved by 10.9% from the previous year in 2015. This was mainly due to the growth in premiums written, which buffered insurance payment increases that were the result of a greater number of policies in effect than in 2014. Net investment gains inched up by 2.3% thanks to an increase in interest and dividend income with growing investment size. The provision of policy reserve increased 8.4% year on year due to the expanded number of policies in effect.

By the end of 2015, the company's premiums written stood at KRW 4.8 trillion (including variable life insurance), while its monthly initial premium amounted to KRW 73 billion.

In 2016, Shinhan Life Insurance will continue improving its net results from insurance operations by increasing protection type insurance sales and its far-sighted strategic asset allocation to overcome the reverse interest margin that has arisen under the current trend of lower interest rates. Additionally, Shinhan Life Insurance will continue its profit-oriented, creative investment practices while reinforcing the company's asset-liability management.

**Net Income of Shinhan Life Insurance**

(Unit: KRW billion)



# Management's Discussion and Analysis

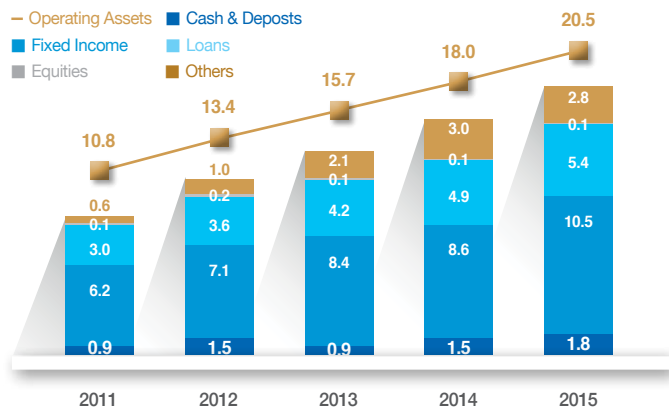
## Condensed Income Statements for Shinhan Life Insurance

(Unit: KRW billion)

	2015	2014	Chg. (Amt.)	Chg. (%)
Net Insurance Operating Results	<b>1,584.9</b>	1,429.6	155.3	10.9%
Premiums Written	<b>4,422.4</b>	4,200.3	222.1	5.3%
Claims Paid(Δ)	<b>1,946.7</b>	1,890.2	56.5	3.0%
Reinsurance Operating Results	<b>-1.1</b>	-0.9	-0.2	n.a.
Operating Expenses(Δ)	<b>889.8</b>	879.6	10.2	1.2%
Net Investment Gains	<b>771.7</b>	754.1	17.6	2.3%
Others Net Results	<b>53.6</b>	28.8	24.8	86.1%
Total Operating Net Results	<b>2,410.1</b>	2,212.5	197.6	8.9%
Provision of Policy Reserve(Δ)	<b>2,277.5</b>	2,100.5	177.0	8.4%
Net Income Before Taxes	<b>132.6</b>	112.1	20.5	18.3%
Net Income	<b>100.2</b>	80.7	19.5	24.2%

## Operating Assets of Shinhan Life Insurance

(Unit: KRW trillion)



## Operating Assets Breakdown for Shinhan Life Insurance

(Unit: KRW billion)

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Operating Assets	<b>20,545.0</b>	18,011.4	2,533.6	14.1%
Cash & Deposits	<b>1,831.6</b>	1,485.7	345.9	23.3%
Fixed Income	<b>10,505.2</b>	8,558.9	1,946.3	22.7%
Loans	<b>5,372.1</b>	4,919.4	452.7	9.2%
Equities	<b>80.7</b>	94.7	-14.0	-14.7%
Others	<b>2,755.4</b>	2,952.8	-197.4	-6.7%

## III. Balance Sheet & Asset Quality Review

### 1. Shinhan Financial Group

#### 1) Total Assets

At the end of 2015, Shinhan Financial Group's total assets on a consolidated basis amounted to KRW 370.5 trillion, up 9.6%, or KRW 32.5 trillion, from the previous year. This can be attributed to the sound asset growth of its major subsidiaries.

Shinhan Bank's constant loan asset growth added KRW 38.9 trillion, or 13.9%, to the bank's total assets, while Shinhan Card's increased credit card loan assets and Shinhan Life Insurance's investment asset growth also added KRW 4.3 trillion, a 3.5% increase, to the total assets held by all non-bank subsidiaries.

By asset type, the Group's loan assets expanded by KRW 24.8 trillion, or 11.2%. Furthermore, available-for-sale and hold-to-maturity securities increased by KRW 2.5 trillion (8.1%) and KRW 2.8 trillion (21.1%), respectively, to reach KRW 34.0 trillion and KRW 16.2 trillion, respectively, in 2015.

### Asset Breakdown by Subsidiaries

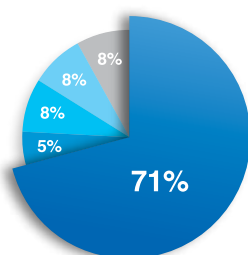
(Unit: KRW billion)

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Bank	<b>318,112.9</b>	279,232.2	38,880.7	13.9%
Shinhan Bank	<b>313,648.3</b>	275,756.6	37,891.7	13.7%
Jeju Bank	<b>4,464.6</b>	3,475.7	988.9	28.5%
Non-Bank	<b>128,969.0</b>	124,654.0	4,315.0	3.5%
Shinhan Card	<b>23,347.7</b>	22,259.5	1,088.2	4.9%
Shinhan Investment Corp.	<b>37,792.3</b>	39,039.8	-1,247.5	-3.2%
Shinhan Life Insurance	<b>24,544.6</b>	21,939.7	2,604.9	11.9%
Shinhan BNPP AM	<b>37,973.3</b>	35,601.0	2,372.3	6.7%
Shinhan Capital	<b>4,076.6</b>	3,939.5	137.1	3.5%
Shinhan Savings Bank	<b>795.1</b>	804.0	-8.9	-1.1%
Shinhan Data System	<b>26.7</b>	25.8	0.9	3.3%
Shinhan AITAS	<b>42.8</b>	37.7	5.1	13.6%
Shinhan Credit Information	<b>23.9</b>	23.0	0.9	3.7%
Shinhan PE	<b>119.0</b>	461.3	-342.3	-74.2%
Others	<b>227.1</b>	522.6	-295.5	-56.6%
Total <sup>1)</sup>	<b>450,438.5</b>	406,655.6	43,782.9	10.8%
Consolidated Total Assets	<b>370,539.6</b>	338,021.8	32,517.8	9.6%

1) Shinhan Investment Corp.'s trust A/C and Shinhan BNPP AM's AUM (including discretionary assets) are included in this figure.

### Asset Contribution by Subsidiary

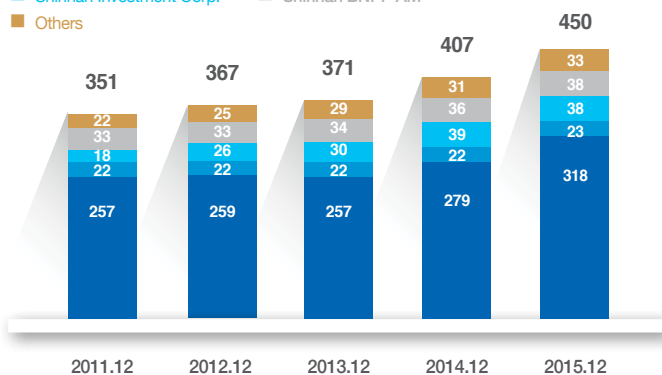
- Shinhan Bank + Jeju Bank
- Shinhan Card
- Shinhan Investment Corp.
- Shinhan BNPP AM
- Shinhan Life Insurance & others



### SFG's Total Assets

(Unit: KRW trillion)

- Shinhan Bank + Jeju Bank
- Shinhan Card
- Shinhan Investment Corp.
- Shinhan BNPP AM
- Others



### SFG Condensed Balance Sheets

(Unit: KRW billion)

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Assets	<b>370,539.6</b>	338,021.8	32,517.8	9.6%
Cash & Due from Banks	<b>22,024.4</b>	20,584.8	1,439.6	7.0%
Trading Assets	<b>22,638.4</b>	24,362.2	-1,723.8	-7.1%
Financial Assets designated at FVTPL	<b>3,244.2</b>	2,737.4	506.8	18.5%
Derivative Assets	<b>1,994.7</b>	1,568.3	426.4	27.2%
Loans	<b>246,441.4</b>	221,617.7	24,823.7	11.2%
Available-for-Sale Financial Assets	<b>33,966.1</b>	31,418.0	2,548.1	8.1%
Hold-to-Maturity Financial Assets	<b>16,192.1</b>	13,373.4	2,818.7	21.1%
Property and Equipment	<b>3,038.5</b>	3,147.3	-108.8	-3.5%
Intangible Assets	<b>4,274.9</b>	4,152.8	122.1	2.9%

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Investments in Associates	<b>393.0</b>	341.9	51.1	15.0%
Other Assets	<b>16,332.0</b>	14,718.0	1,614.0	11.0%
Liabilities	<b>338,730.0</b>	307,506.9	31,223.1	10.2%
Deposits	<b>217,676.4</b>	193,709.7	23,966.7	12.4%
Trading Liabilities	<b>2,135.4</b>	2,688.7	-553.3	-20.6%
Financial Liabilities designated at FVTPL	<b>8,916.3</b>	8,996.2	-79.9	-0.9%
Derivative Liabilities	<b>2,599.3</b>	1,717.6	881.7	51.3%
Borrowings	<b>21,733.9</b>	22,973.8	-1,239.9	-5.4%
Debt Securities Issued	<b>41,221.3</b>	37,334.6	3,886.7	10.4%
Liability for Defined Benefit Obligations	<b>226.1</b>	309.5	-83.4	-26.9%
Other Liabilities	<b>44,221.3</b>	39,776.9	4,444.4	11.2%
Stockholders' Equity	<b>31,809.6</b>	30,514.9	1,294.7	4.2%
Total Liabilities and Stockholders' Equity	<b>370,539.6</b>	338,021.8	32,517.8	9.6%

### 2) Total Deposits

On a consolidated basis, the Group's total deposits amounted to KRW 217.7 trillion at the end of 2015, up KRW 24.0 trillion, or 12.4%, from the previous year.

Shinhan Bank's deposit increased 12.3% year on year. This increase was largely due to customers' preference for low-risk investments in light of the continuing uncertainty in financial markets. Shinhan Investment Corp. and Jeju Bank also saw their deposit balances grow over the same period.

Additionally, increased market liquidity continued to feed the Group's deposit balance, mainly in the form of low-cost deposits, helping to decrease the Group's interest expenses.

### Total Deposits

(Unit: KRW billion)

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Shinhan Bank	<b>212,975.2</b>	189,639.9	23,335.3	12.3%
Bank Account	<b>193,377.4</b>	172,049.5	21,327.9	12.4%
Deposits in Won	<b>180,765.9</b>	163,321.9	17,444.0	10.7%
Low-Cost Deposits	<b>74,325.1</b>	62,012.9	12,312.2	19.9%
Demand	<b>21,858.4</b>	18,755.2	3,103.2	16.5%
Low-Cost Savings	<b>52,466.7</b>	43,257.7	9,209.0	21.3%
Time Deposits	<b>97,940.0</b>	92,519.1	5,420.9	5.9%
Installment Deposits	<b>8,500.8</b>	8,789.9	-289.1	-3.3%
CDs	<b>4,072.7</b>	1,872.9	2,199.8	117.5%
RPs & Bills Sold	<b>391.2</b>	377.8	13.4	3.5%

# Management's Discussion and Analysis

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Deposits in FC	8,147.8	6,476.9	1,670.9	25.8%
Trust Accounts	24,092.9	19,590.7	4,502.2	23.0%
Merchant A/C and Other Consolidated Entities	-4,495.2	-2,000.3	-2,494.9	124.7%
Shinhan Investment Corp.	1,197.2	1,091.7	105.5	9.7%
Jeju Bank	3,836.9	2,915.0	921.9	31.6%
Shinhan Savings Bank	661.0	666.8	-5.8	-0.9%
(-) Intra-Group Transactions	-993.9	-603.6	-390.3	n.a.
Total	217,676.4	193,709.7	23,966.7	12.4%

### 3) Total Loans

In 2015, the group's total loans on a consolidated basis grew by KRW 24.8 trillion, or 11.2%, from the previous year to reach KRW 246.4 trillion.

Shinhan Bank, Shinhan Card, Shinhan Investment Corp., Shinhan Life Insurance and Jeju Bank each grew their loan balance by KRW 21.3 trillion, KRW 0.8 trillion, KRW 1.1 trillion, KRW 0.5 trillion and KRW 0.8 trillion, respectively.

Shinhan Bank's loan expansion was driven by the balanced growth in both retail and corporate loans. Shinhan Card's loan balance also went up as credit purchase transactions and auto financing both increased. Shinhan Investment Corp. saw its IB-related loan assets increase over the previous year, while Shinhan Life Insurance experienced a loan balance growth, as a result of increased corporate loans and policy loans.

### Total Loans

(Unit: KRW billion)

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Shinhan Bank	209,651.5	188,325.5	21,326.0	11.3%
Bank Account	199,077.6	179,606.3	19,471.3	10.8%
Trust Account	454.3	433.7	20.6	4.8%
Others	10,119.6	8,285.5	1,834.1	22.1%
Shinhan Card	21,322.7	20,550.1	772.6	3.8%
Shinhan Investment Corp.	2,533.7	1,475.7	1,058.0	71.7%
Shinhan Life Insurance	5,372.1	4,919.4	452.7	9.2%
Shinhan Capital	3,467.9	3,515.5	-47.6	-1.4%
Jeju Bank	3,543.7	2,723.9	819.8	30.1%
Shinhan Savings Bank	696.5	589.0	107.5	18.3%
Other Subsidiaries	89.9	79.2	10.7	13.5%
(-) Intra-Group Transactions	-230.1	-560.5	330.4	n.a.
Total	246,447.8	221,617.7	24,830.1	11.2%

### 4) Asset Quality

At the end of 2015, Shinhan Financial Group posted an NPL ratio of 0.87%, down by 0.28%p from 2014—the Group's lowest level since 2009. This decline can be attributed largely to sound asset growth and a decline in bad debt amount. Not only did substandard and below loans fall in 2015, but precautionary loans also shrank by KRW 352.6 billion, while delinquency ratio performance leveled off across the Group's subsidiaries.

The Group's NPL coverage ratio rose by 23%p from the year before, to 191%, the highest in the industry, effectively providing sufficient coverage for any potential adverse changes in the future.

### SFG Asset Quality

(Unit: KRW billion)

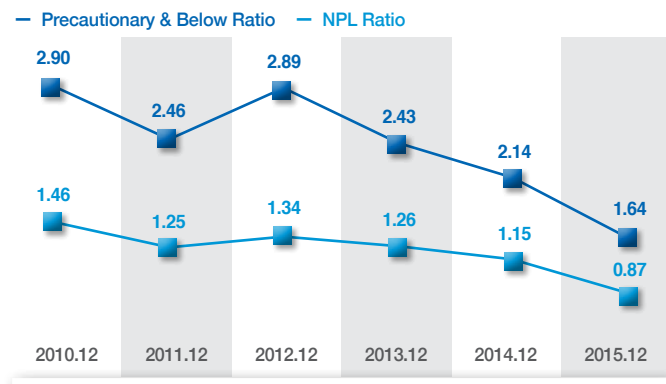
	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Total <sup>1)</sup>	238,775.7	220,089.7	18,686.0	8.5%
Normal	234,863.7	215,378.5	19,485.2	9.0%
Precautionary	1,834.6	2,187.2	-352.6	-16.1%
Substandard	954.0	1,133.9	-179.9	-15.9%
Doubtful	591.0	372.8	218.2	58.5%
Estimated Loss	532.5	1,017.2	-484.7	-47.6%
Substandard & Below Ratio	0.87%	1.15%	-	-0.28%p
Allowances + Reserves <sup>2)</sup>	3,969.5	4,241.4	-271.9	-6.4%
Coverage Ratio	191%	168%	-	23%p

1) The sum of Shinhan Bank, Jeju Bank, Shinhan Card, Shinhan Investment Corp., Shinhan Life Insurance, Shinhan Capital, and Shinhan Savings Bank

2) The sum of IFRS-based LLA and reserves for credit losses, excluding those for contingent acceptances & guarantees and unused credit lines

### SFG Precautionary & Below Ratio / NPL Ratio

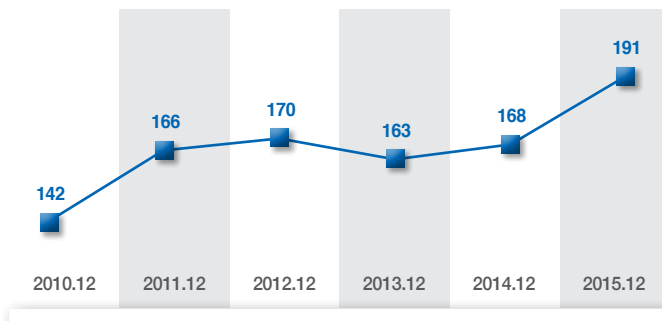
(Unit: %)





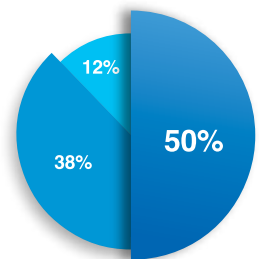
**SFG NPL Coverage Ratio**

(Unit: %)



**Loan Composition at Shinhan Bank**

■ Retail  
■ SMEs  
■ Large Corp.



**2. Shinhan Bank**

**1) Loans**

At the end of 2015, Shinhan Bank's loan assets in Korean won amounted to KRW 176.8 trillion, up KRW 16.8 trillion (10.5%) from the previous year.

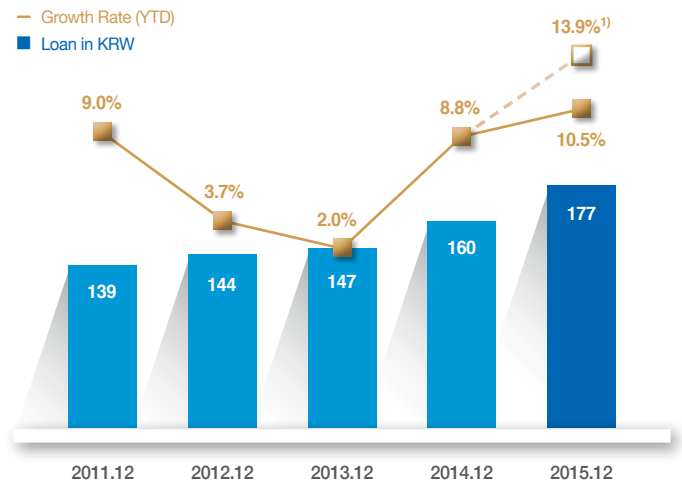
In 2015, the bank focused its targeted marketing activities to proprietary business owners and small- and medium-size enterprises that are not required to be audited by outside accounting firms. As a result, corporate loans increased by KRW 7.3 trillion, or 8.9%, compared to 2014.

Retail loans grew by KRW 9.5 trillion, or 12.1% year on year, as a result of the growth in prime credit loans and increased mortgage loans following deregulation in Korea's housing market.

Specifically, retail lending achieved very high growth despite the bank's KRW 5.4 trillion in securitization. This can be explained by the continued rise in demand for loans.

**Loan Growth at Shinhan Bank**

(Unit: KRW trillion)



1) Including securitized loans

**Shinhan Bank Loans**

(Unit: KRW billion)

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Loan in KRW	<b>176,810.0</b>	160,024.9	16,785.1	10.5%
Retail	<b>88,084.8</b>	78,577.4	9,507.4	12.1%
Mortgage	<b>52,054.2</b>	47,556.3	4,497.9	9.5%
Others <sup>1)</sup>	<b>36,030.6</b>	31,021.0	5,009.6	16.1%
Corporate	<b>88,725.2</b>	81,447.5	7,277.7	8.9%
SME	<b>67,336.3</b>	59,889.4	7,446.9	12.4%
SOHO	<b>34,223.0</b>	30,469.4	3,753.6	12.3%
Large Corporate etc.	<b>21,388.9</b>	21,558.1	-169.2	-0.8%
Loan in FX	<b>8,114.4</b>	6,955.9	1,158.5	16.7%

1) Including unsecured personal loans, commercial mortgage loans, and jeonse loans etc.

**Shinhan Bank Loan Growth Rate by Sector**

(Unit: %)



# Management's Discussion and Analysis

## 2) Asset Quality

Shinhan Bank's NPL (substandard & below) ratio stood at KRW 0.80% in 2015, down 0.23%p from the previous year. This marks the bank's lowest figure since 2010 and serves as clear evidence of its excellent risk management capabilities. The delinquency ratio remained at a record-low 0.33%, with the NPL coverage ratio standing at a sound 173%. The substandard and below loan amount declined by KRW 307.5 billion from the year before, and the precautionary loan amount also fell KRW 326.6 billion over the same period.

### Asset Quality of Shinhan Bank

(Unit: KRW billion)

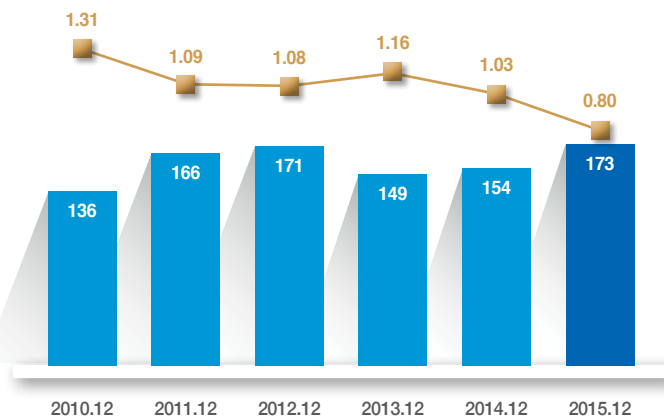
	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Total	202,003.2	185,966.1	16,037.1	8.6%
Normal	199,533.8	182,862.6	16,671.2	9.1%
Precautionary	854.6	1,181.2	-326.6	-27.6%
Substandard	849.9	995.3	-145.4	-14.6%
Doubtful	452.5	215.2	237.3	110.2%
Estimated Loss	312.4	711.8	-399.4	-56.1%
Substandard & Below Ratio	0.80%	1.03%	-	-0.23%p
Allowances + Reserves <sup>1)</sup>	2,789.8	2,963.3	-173.5	-5.9%
Coverage Ratio	173%	154%	-	19%p

1) The sum of IFRS-based LLA and reserves for credit losses, excluding those for contingent acceptances & guarantees and unused credit lines

### NPL Ratio & NPL Coverage Ratio at Shinhan Bank

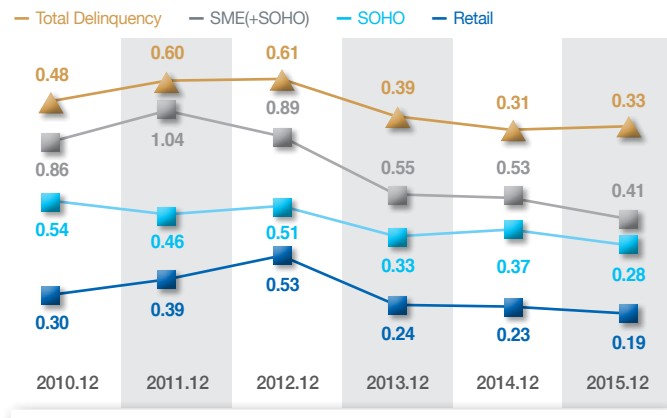
(Unit: %)

— NPL Ratio  
■ NPL Coverage Ratio



### Delinquency Ratio at Shinhan Bank

(Unit: %)



Note) One month overdue

## 3. Shinhan Card

### 1) Debit/Credit Card Holders

In 2015, the number of Shinhan Card's active credit card holders declined to 12.1million from 12.5 million of the previous year. This figure was affected by new regulations in 2013 mandating the automatic delisting of dormant credit cards. Nevertheless, the company successfully retained the largest customer base in Korea's credit card business in 2015.

### Effective Cardholders & Merchants of Shinhan Card

(Unit: thousand)

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Effective Cardholders	12,051.8	12,467.6	-415.8	-3.3%
Merchants	2,513.4	2,491.0	22.4	0.9%

### 2) Operating Assets

Shinhan Card's credit purchase declined by 0.2% from the previous year due to the company's profit-oriented policy by reducing new issuance of low-profit corporate credit cards. Cash advances declined by 7.8% year on year as a result of the market size contraction, while credit card loans improved by 13.0% thanks to the company's active marketing.

Assets from installment and lease financing enjoyed a year-on-year surge, fueled by expanding market demand for lease financing with the start of the company's long-term car-rental business.

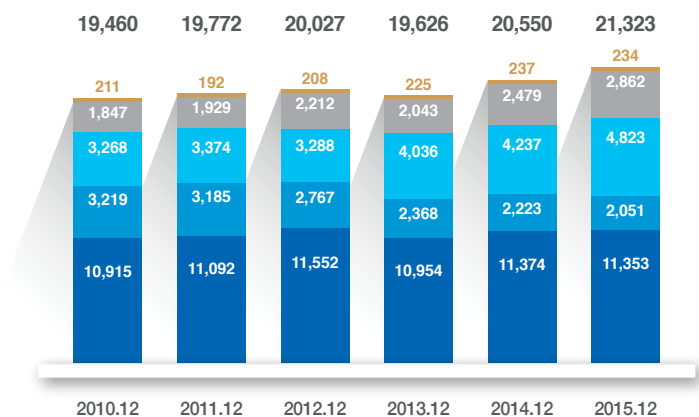
### Operating Assets Portfolio for Shinhan Card

(Unit: KRW billion)

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Operating Assets	21,322.7	20,550.1	772.6	3.8%
Credit Purchases	11,353.0	11,374.1	-21.1	-0.2%
Cash Advances	2,050.6	2,223.3	-172.7	-7.8%
Credit Card Loans	5,056.6	4,473.5	583.1	13.0%
Re-aged Loans	233.7	236.6	-2.9	-1.2%
Installment Financing	1,864.6	1,599.0	265.6	16.6%
Lease Financing	997.9	880.3	117.6	13.4%

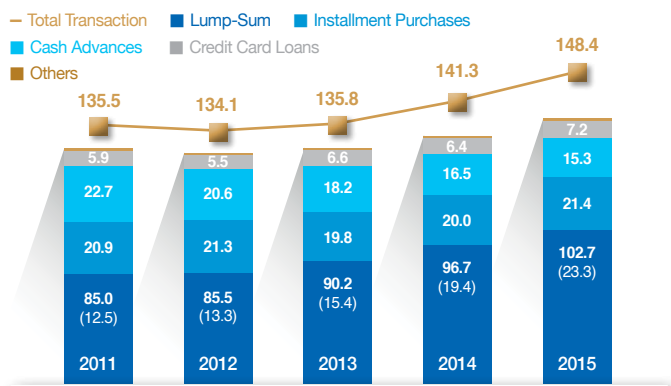
### Shinhan Card Operating Assets Breakdown by Products

(Unit: KRW billion)



### Transaction Volume of Shinhan Card

(Unit : KRW trillion)



Note) Figures in parentheses represent debit card transaction volume

### 3) Asset Quality

Despite the continued expansion in household debt, Shinhan Card's one-month and over delinquency ratio dropped from 1.89% of the previous year to 1.44% by the end of 2015. The substandard & below ratio also inched down by 0.42%p to 1.24%, with an NPL coverage ratio of 359%, or 59%p higher than that of 2014. Write-offs of non-performing loans amounted to KRW 501.2 billion, down by KRW 6.9 billion from the previous year's KRW 508.1 billion.

### Asset Quality of Shinhan Card

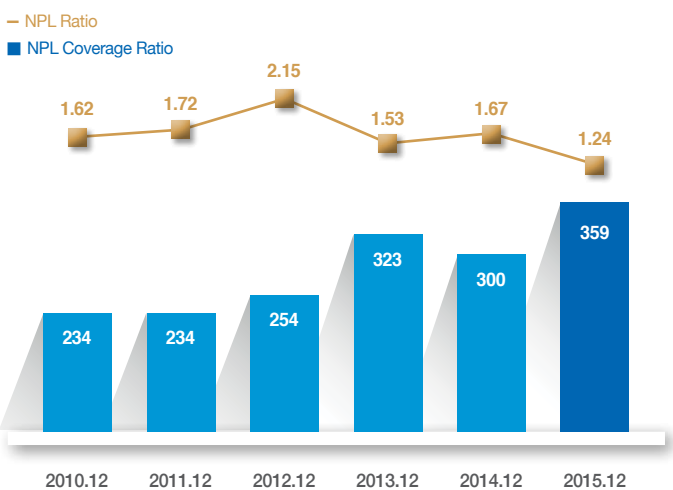
(Unit: KRW billion)

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Total	21,322.7	20,550.1	772.6	3.8%
Normal	20,332.5	19,475.1	857.4	4.4%
Precautionary	724.8	732.1	-7.3	-1.0%
Substandard	-	-	-	-
Doubtful	79.0	82.0	-3.0	-3.7%
Estimated Loss	186.5	261.0	-74.5	-28.5%
Substandard & Below Ratio	1.24%	1.67%	-	-0.43%p
Allowances + Reserves <sup>1)</sup>	953.4	1,029.9	-76.5	-7.4%
Coverage Ratio	359%	300%	-	59%p

1) The sum of IFRS-based LLA and reserves for credit losses, excluding those for contingent acceptances & guarantees and unused credit lines

### NPL Ratio & NPL Coverage Ratio of Shinhan Card

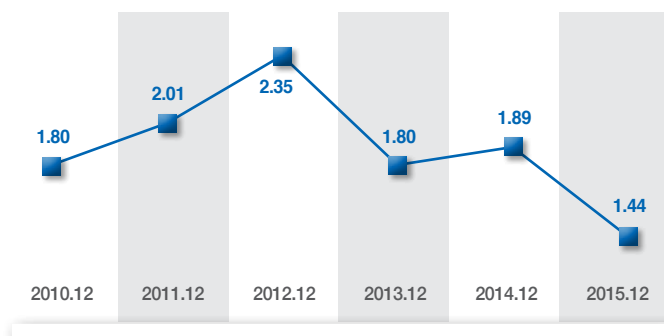
(Unit: %)



# Management's Discussion and Analysis

## Delinquency Ratio of Shinhan Card

(Unit: %)



Note) One month overdue from total credit

## 4. Shinhan Investment Corp.

At the end of 2015, Shinhan Investment Corp.'s total assets stood at KRW 24.3 trillion. Securities amounted to KRW 16.2 trillion, accounting for 66.6% of total assets, followed by cash and deposits, which totaled KRW 3.6 trillion, or 14.7% of total assets.

Total assets contracted by 6.1% from the previous year, mainly as a result of the 15.3% year-on-year decrease in securities. This was mainly due to the introduction of the new leverage ratio requirement for financial investment companies in 2015. On the other hand, with loan assets, the growth of IB-related loans and credit lending resulted in a 71.7% year-on-year increase.

Liabilities stood at KRW 21.8 trillion, down 7.6% from 2014. The main reason for the decline was the decrease in bond assets that came about from the aforementioned regulations, shrinking the RP balance from KRW 6.5 trillion in 2014 to KRW 4.9 trillion by the end of 2015.

Total shareholders' equity rose by 8.4%, to KRW 2.5 trillion, thanks to net income growth.

## Condensed Balance Sheets of Shinhan Investment Corp.

(Unit: KRW billion)

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Total Assets	24,337	25,928	-1,591	-6.1%
Cash and Deposits	3,576	3,361	215	6.4%
Securities	16,216	19,137	-2,921	-15.3%
(Trading securities)	14,118	16,410	-2,292	-14.0%
Derivatives	268	227	41	18.3%
Loans	2,534	1,476	1,058	71.7%
(Brokers' loans)	1,259	957	302	31.6%
Tangible fixed assets	119	126	-7	-5.3%

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Other Assets	1,625	1,603	22	1.4%
Total Liabilities	21,812	23,598	-1,786	-7.6%
Deposits	1,197	1,100	97	8.8%
(Customers' deposits)	1,189	1,092	97	8.9%
Borrowings	18,182	20,798	-2,616	-12.6%
(Call money)	375	866	-491	-56.7%
(Borrowings)	872	927	-55	-5.9%
(Bonds sold under repurchase agreements)	6,109	7,340	-1,231	-16.8%
(Derivatives-combined securities sold)	8,818	8,992	-174	-1.9%
Other Liabilities	2,433	1,700	733	43.1%
Total Stockholders' equity	2,526	2,330	196	8.4%
Total Liabilities & Stockholders' Equity	24,337	25,928	-1,591	-6.1%

## IV. Funding

### 1. Shinhan Bank

Shinhan Bank's Korean won-denominated deposits amounted to KRW 180.8 trillion at the end of 2015, up KRW 17.4 trillion (10.7%) from the previous year.

The substantial increase of the deposits, especially low-cost ones, is largely due to customers' growing preference for low-risk investments in light of the continuing uncertainty in financial markets and abundant market liquidity resulting from the sustained low interest rate environment. Alongside the bank's efforts to attract new payroll accounts and credit card bill settlement accounts, inflows of liquidity capital from institutional and corporate clients helped low-cost deposits rise from the previous year by KRW 12.3 trillion, or 19.9%, to reach KRW 74.3 trillion in 2015.

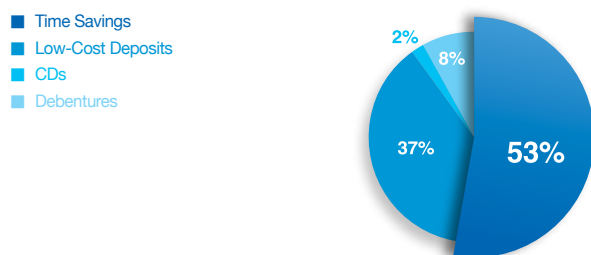
Shinhan Bank's loan-to-deposit ratio stood at 98.8%, remaining at a stable level against the regulated ratio of 100%.

## Deposits and Debentures at Shinhan Bank

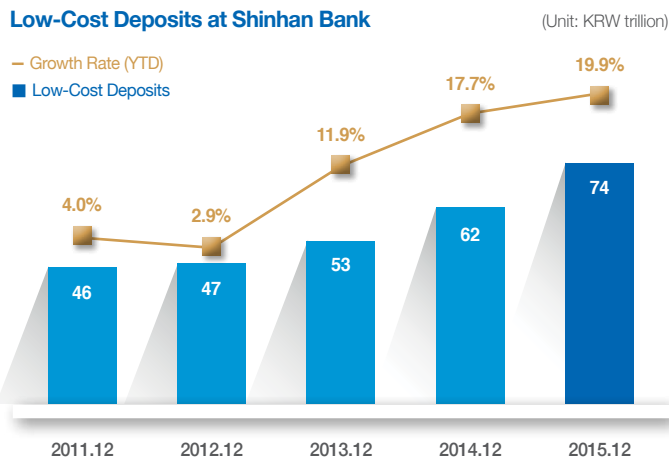
(Unit: KRW billion)

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Total Deposits	180,765.9	163,321.9	17,444.0	10.7%
Low-Cost Deposits	74,325.1	62,012.9	12,312.2	19.9%
Demand	21,858.4	18,755.2	3,103.2	16.5%
Savings	52,466.7	43,257.7	9,209.0	21.3%
Time Savings	106,440.8	101,309.0	5,131.8	5.1%
Time Deposits	97,940.0	92,519.1	5,420.9	5.9%
Accumulative	8,500.8	8,789.9	-289.1	-3.3%
Certificate of Deposits	4,072.7	1,872.9	2,199.8	117.5%
Debentures	15,989.1	12,566.4	3,422.7	27.2%

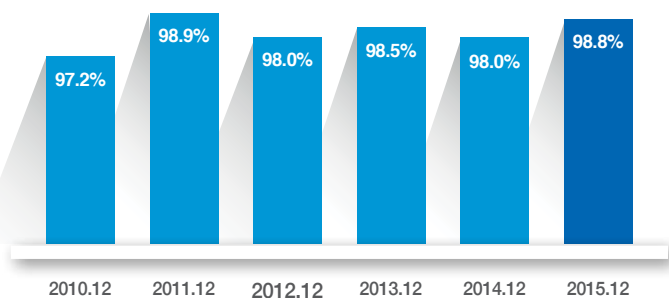
### Funding Composition of Shinhan Bank



### Low-Cost Deposits at Shinhan Bank



### Loan-to-Deposit Ratio at Shinhan Bank



## 2. Shinhan Card

Shinhan Card obtains funding from a variety of sources, including corporate debentures, asset-backed securitizations and commercial papers. By the

end of 2015, total funding stood at KRW 13.3 trillion, a 6.4% increase from KRW 12.5 trillion in 2014.

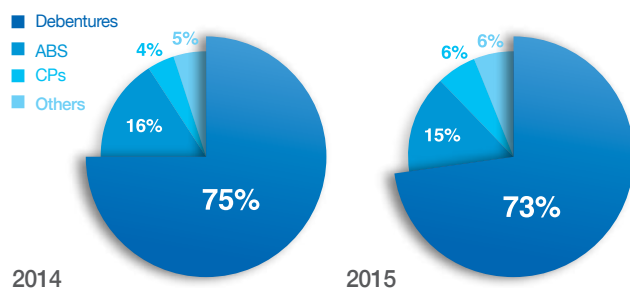
In 2015, Shinhan Card maintained its funding stability with its corporate debentures accounting for 73% of total funding due to favorable market conditions and ample market liquidity.

### Total Funding of Shinhan Card

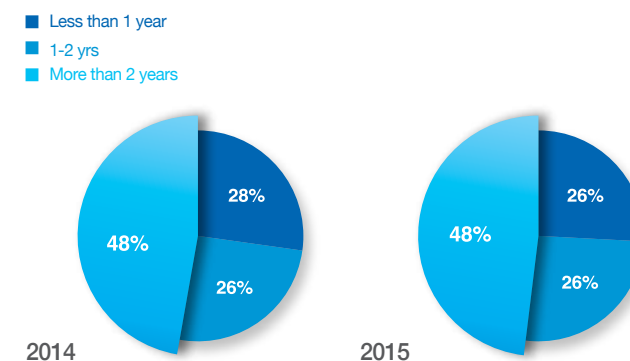
(Unit: KRW billion)

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Total Funding	13,325.2	12,528.6	796.6	6.4%
Debentures	9,779.8	9,360.0	419.8	4.5%
ABS	1,992.3	1,978.6	13.7	0.7%
CPs	770.0	440.0	330.0	75.0%
Others	783.2	750.0	33.2	4.4%

### Funding Composition of Shinhan Card



### Debt Maturity Profile of Shinhan Card



# Management's Discussion and Analysis

## V. Capital Management

### 1. Shinhan Financial Group

The Group's BIS ratio was 13.4% at the end of 2015, up 0.4%p from the previous year. Its common equity tier 1 (CET 1) ratio improved 0.4%p from 2014 to reach a stable 10.8% in 2015. While continued asset growth throughout the year also escalated the size of risk-weighted assets, the increased equity capital, which was led by a rise in retained earnings, helped improve the Group's capital ratio over the previous year. Currently, Shinhan Financial Group fully satisfies all capital adequacy requirements set forth under Korean laws and regulations, maintaining the capital ratios in excess of the required minimum levels.

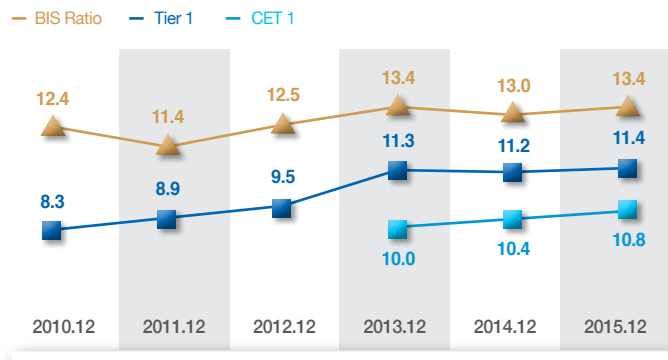
#### Group BIS Ratio

(Unit : KRW billion)

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Risk-Weighted Assets	203,274.5	198,832.9	4,441.6	2.2%
Capital	27,216.4	25,938.0	1,278.4	4.9%
CET 1	21,882.8	20,679.0	1,203.8	5.8%
Tier 1	23,194.2	22,174.4	1,019.8	4.6%
BIS Ratio	13.4%	13.0%	-	0.4%p
CET 1 Ratio	10.8%	10.4%	-	0.4%p
Tier 1 Ratio	11.4%	11.2%	-	0.2%p

#### Group BIS Ratio

(Unit: %)



### 2. Shinhan Bank

As of the end of 2015, Shinhan Bank's BIS ratio was 14.8%, down 0.6%p from 2014, while the CET 1 ratio declined 0.5%p to a stable level of 12.0%. Even though retained earnings improved with stable profitability, the relative-

ly higher growth in risk-weighted assets as a result of steady asset growth led to a slight drop in capital ratios.

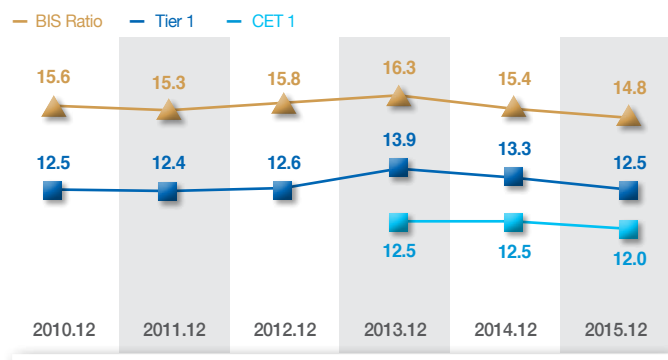
#### Shinhan Bank BIS Ratio

(Unit : KRW billion)

	2015.12	2014.12	Chg. (Amt.)	Chg. (%)
Risk-Weighted Assets	144,843.7	135,714.8	9,128.9	6.7%
Capital	21,370.1	20,947.4	422.7	2.0%
CET 1	17,324.0	16,999.5	324.5	1.9%
Tier 1	18,129.7	18,101.8	27.9	0.2%
BIS Ratio	14.8%	15.4%	-	-0.6%p
CET 1 Ratio	12.0%	12.5%	-	-0.5%p
Tier 1 Ratio	12.5%	13.3%	-	-0.8%p

#### Shinhan Bank BIS Ratio

(Unit: %)

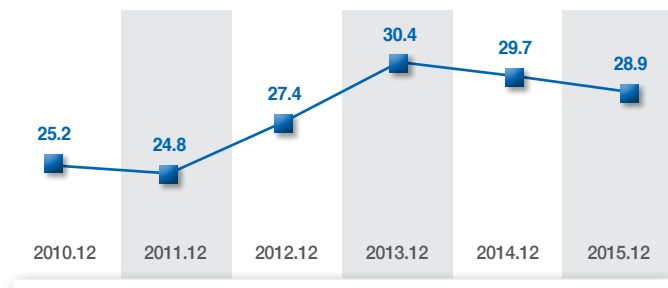


### 3. Shinhan Card

As of December 2015, Shinhan Card held KRW 6.4 trillion in adjusted equity capital, with its capital adequacy ratio (CAR) standing at 28.9%. The company has been maintaining its CAR above the 20% level since 2007.

#### Shinhan Card Capital Adequacy Ratio

(Unit: %)





# Independent Auditors' Report

Based on a report originally issued in Korean



KPMG Samjong Accounting Corp.  
10th Floor, Gangnam Finance Center, 152, Teheran-ro,  
Gangnam-gu, 135-984 Seoul, Republic of Korea  
Tel 82 2112 0100 / Fax 82 2112 0101  
www.kr.kpmg.com

## The Board of Directors and Stockholders Shinhan Financial Group Co., Ltd.:

We have audited the accompanying consolidated financial statements of Shinhan Financial Group Co., Ltd. and its subsidiaries (collectively the "Group"), which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2015 and 2014 and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

### Other matters

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

*KPMG Samjong Accounting Corp.*

KPMG Samjong Accounting Corp.  
Seoul, Korea  
March 9, 2016

This report is effective as of March 9, 2016, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

# Consolidated Statements of Financial Position

As of December 31, 2015 and 2014

(In millions of won)

	Notes	2015	2014
<b>Assets</b>			
Cash and due from banks	4,8,20	₩ 22,024,404	20,584,838
Trading assets	4,9,20	22,638,449	24,362,176
Financial assets designated at fair value through profit or loss	4,10,20	3,244,166	2,737,375
Derivative assets	4,11	1,994,714	1,568,307
Loans	4,12,20	246,441,361	221,617,689
Available-for-sale financial assets	4,13,20	33,966,071	31,418,014
Held-to-maturity financial assets	4,13,20	16,192,060	13,373,384
Property and equipment	14,20	3,038,477	3,147,255
Intangible assets	15	4,274,896	4,152,843
Investments in associates	16	393,006	341,876
Current tax receivable		9,740	10,643
Deferred tax assets	42	163,944	228,356
Investment property	17	208,717	267,529
Other assets	4,18,20	15,945,927	14,202,627
Assets held for sale		3,690	8,892
<b>Total assets</b>		₩ 370,539,622	338,021,804
<b>Liabilities</b>			
Deposits	4,21	₩ 217,676,428	193,709,738
Trading liabilities	4,22	2,135,390	2,688,734
Financial liabilities designated at fair value through profit or loss	4,23	8,916,332	8,996,181
Derivative liabilities	4,11	2,599,288	1,717,555
Borrowings	4,24	21,733,865	22,973,767
Debt securities issued	4,25	41,221,284	37,334,612
Liabilities for defined benefit obligations	26	226,130	309,457
Provisions	27	698,788	694,165
Current tax payable		142,014	256,993
Deferred tax liabilities	42	11,193	9,549
Liabilities under insurance contracts	28	20,058,284	17,776,280
Other liabilities	4,29	23,310,990	21,039,865
<b>Total liabilities</b>		338,729,986	307,506,896
<b>Equity</b>			
	30		
Capital stock		2,645,053	2,645,053
Hybrid bonds		736,898	537,443
Capital surplus		9,887,335	9,887,335
Capital adjustments		(423,536)	(393,405)
Accumulated other comprehensive income		304,771	637,894
Retained earnings		17,689,134	15,869,779
Total equity attributable to equity holders of Shinhan Financial Group Co.,Ltd.		30,839,655	29,184,099
Non-controlling interests		969,981	1,330,809
<b>Total equity</b>		31,809,636	30,514,908
<b>Total liabilities and equity</b>		₩ 370,539,622	338,021,804

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Comprehensive Income

For the years ended December 31, 2015 and 2014

(In millions of won, except earnings per share)

	Notes	2015	2014
Interest income		₩ 11,129,704	12,060,507
Interest expense		(4,436,771)	(5,270,707)
<b>Net interest income</b>	32	<b>6,692,933</b>	6,789,800
Fees and commission income		3,896,529	3,560,500
Fees and commission expense		(2,275,550)	(2,091,342)
<b>Net fees and commission income</b>	33	<b>1,620,979</b>	1,469,158
Insurance income		4,447,828	4,221,120
Insurance expenses		(4,879,989)	(4,634,320)
<b>Net insurance loss</b>	28	<b>(432,161)</b>	(413,200)
Dividend income	34	308,277	175,798
Net trading income (expenses)	35	(344,098)	262,492
Net foreign currency transaction gain		78,236	223,718
Net gain (loss) on financial instruments designated at fair value through profit or loss	36	459,765	(360,972)
Net gain on disposal of available-for-sale financial assets	13	772,474	680,931
Impairment losses on financial assets	37	(1,264,053)	(1,174,379)
General and administrative expenses	38	(4,475,068)	(4,462,883)
Other operating expenses, net	40	(444,143)	(535,653)
<b>Operating income</b>		<b>2,973,141</b>	2,654,810
Equity method income	16	20,971	30,580
Other non-operating income, net	41	146,465	182,186
<b>Profit before income taxes</b>		<b>3,140,577</b>	2,867,576
Income tax expense	42	694,619	667,965
<b>Profit for the year</b>		<b>2,445,958</b>	2,199,611
<b>Other comprehensive income (loss) for the year, net of income tax</b>			
Items that are or may be reclassified to profit or loss:			
Foreign currency translation adjustments for foreign operations		(6,469)	(12,868)
Net change in unrealized fair value of available-for-sale financial assets		(265,990)	135,908
Equity in other comprehensive income of associates		11,624	6,255
Net change in unrealized fair value of cash flow hedges		2,932	(16,378)
Other comprehensive income (loss) of separate account		3,092	5,820
		(254,811)	118,737
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liability		(81,813)	(154,416)
Total other comprehensive loss, net of income tax	30	(336,624)	(35,679)
<b>Total comprehensive income for the year</b>		<b>2,109,334</b>	2,163,932
<b>Profit for the year attributable to:</b>			
Equity holders of Shinhan Financial Group Co., Ltd.	30,43	2,367,171	2,081,110
Non-controlling interest		78,787	118,501
		<b>2,445,958</b>	2,199,611
<b>Total comprehensive income attributable to:</b>			
Equity holders of Shinhan Financial Group Co., Ltd.		2,034,048	2,046,037
Non-controlling interest		75,286	117,895
		<b>2,109,334</b>	2,163,932
<b>Earnings per share:</b>			
Basic and diluted earnings per share in won	30,43	₩ 4,789	4,195

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Changes in Equity

For the year ended December 31, 2014

(In millions of won)

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.							Non-controlling interests	Total
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Sub-total		
<b>Balance at January 1, 2014</b>	₩ 2,645,053	537,443	9,887,335	(393,128)	672,967	14,188,480	27,538,150	2,316,988	<b>29,855,138</b>
<b>Total comprehensive income for the year</b>									
Profit for the year	-	-	-	-	-	2,081,110	2,081,110	118,501	<b>2,199,611</b>
<b>Other comprehensive income (loss), net of income tax:</b>									
Foreign currency translation adjustments	-	-	-	-	(11,984)	-	(11,984)	(884)	<b>(12,868)</b>
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	134,507	-	134,507	1,401	<b>135,908</b>
Equity in other comprehensive income of associates	-	-	-	-	6,255	-	6,255	-	<b>6,255</b>
Net change in unrealized fair value of cash flow hedges	-	-	-	-	(16,378)	-	(16,378)	-	<b>(16,378)</b>
Other comprehensive income of separate account	-	-	-	-	5,820	-	5,820	-	<b>5,820</b>
Remeasurements of defined benefit plans	-	-	-	-	(153,293)	-	(153,293)	(1,123)	<b>(154,416)</b>
Total other comprehensive income (loss)	-	-	-	-	(35,073)	-	(35,073)	(606)	<b>(35,679)</b>
<b>Total comprehensive income</b>	-	-	-	-	(35,073)	2,081,110	2,046,037	117,895	<b>2,163,932</b>
<b>Other changes in equity</b>									
Dividends	-	-	-	-	-	(370,168)	(370,168)	-	<b>(370,168)</b>
Dividends to hybrid bonds	-	-	-	-	-	(29,940)	(29,940)	-	<b>(29,940)</b>
Change in other capital adjustments	-	-	-	(277)	-	-	(277)	-	<b>(277)</b>
Change in other retained earnings	-	-	-	-	-	297	297	-	<b>297</b>
Redemption of subsidiary's hybrid bonds and others	-	-	-	-	-	-	-	(1,104,074)	<b>(1,104,074)</b>
	-	-	-	(277)	-	(399,811)	(400,088)	(1,104,074)	<b>(1,504,162)</b>
<b>Balance at December 31, 2014</b>	₩ 2,645,053	537,443	9,887,335	(393,405)	637,894	15,869,779	29,184,099	1,330,809	<b>30,514,908</b>

(In millions of won)

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.							Non-controlling interests	Total
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Sub-total		
<b>Balance at January 1, 2015</b>	₩ 2,645,053	537,443	9,887,335	(393,405)	637,894	15,869,779	29,184,099	1,330,809	<b>30,514,908</b>
<b>Total comprehensive income for the year</b>									
Profit for the year	-	-	-	-	-	2,367,171	2,367,171	78,787	<b>2,445,958</b>
<b>Other comprehensive income (loss), net of income tax:</b>									
Foreign currency translation adjustments	-	-	-	-	(5,630)	-	(5,630)	(839)	<b>(6,469)</b>
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	(265,910)	-	(265,910)	(80)	<b>(265,990)</b>
Equity in other comprehensive income of associates	-	-	-	-	11,624	-	11,624	-	<b>11,624</b>
Net change in unrealized fair value of cash flow hedges	-	-	-	-	2,932	-	2,932	-	<b>2,932</b>
Other comprehensive income of separate account	-	-	-	-	3,092	-	3,092	-	<b>3,092</b>
Remeasurements of defined benefit plans	-	-	-	-	(79,231)	-	(79,231)	(2,582)	<b>(81,813)</b>
Total other comprehensive income (loss)					(333,123)	-	(333,123)	(3,501)	<b>(336,624)</b>
<b>Total comprehensive income</b>					(333,123)	2,367,171	2,034,048	75,286	<b>2,109,334</b>
<b>Other changes in equity</b>									
Dividends	-	-	-	-	-	(512,428)	(512,428)	-	<b>(512,428)</b>
Dividends to hybrid bonds	-	-	-	-	-	(34,488)	(34,488)	-	<b>(34,488)</b>
Change in other capital adjustments	-	199,455	-	-	-	-	199,455	-	<b>199,455</b>
Change in other retained earnings	-	-	-	(30,131)	-	(900)	(31,031)	-	<b>(31,031)</b>
Redemption of subsidiary's hybrid bonds and others	-	-	-	-	-	-	-	(436,114)	<b>(436,114)</b>
	-	199,455	-	(30,131)	-	(547,816)	(378,492)	(436,114)	<b>(814,606)</b>
<b>Balance at December 31, 2015</b>	₩ 2,645,053	736,898	9,887,335	(423,536)	304,771	17,689,134	30,839,655	969,981	<b>31,809,636</b>

See accompanying notes to the consolidated financial statements.



# Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(In millions of won)

	Notes	2015	2014
<b>Cash flows from operating activities</b>			
Profit before income taxes		₩ 3,140,577	2,867,576
Adjustments for:			
Interest income	32	(11,129,704)	(12,060,507)
Interest expense	32	4,436,771	5,270,707
Dividend income	34	(308,277)	(175,798)
Net fees and commission expense		168,313	166,204
Net insurance loss		2,714,061	2,583,739
Net trading loss	35	751,811	151,525
Net foreign currency translation loss		163,417	31,356
Net loss (gain) on financial instruments designated at fair value through profit or loss	36	(748,959)	117,137
Net gain on disposal of available-for-sale financial assets	13	(772,474)	(680,931)
Provision for credit losses	37	1,021,711	944,429
Impairment losses on other financial assets	37	242,342	229,951
Employee costs		185,222	143,330
Depreciation and amortization	38	278,882	312,966
Other operating income		(623,639)	(213,139)
Equity method income, net	16	(20,971)	(30,580)
Other non-operating income, net		(18,463)	(117,933)
		(3,659,957)	(3,327,544)
Changes in assets and liabilities:			
Due from banks		(1,926,814)	(4,542,186)
Trading assets and liabilities		1,583,631	(4,711,789)
Financial instruments designated at fair value through profit or loss		210,582	3,593,303
Derivative instruments		(382,276)	(261,032)
Loans		(24,731,045)	(16,978,229)
Other assets		(3,562,267)	(2,012,074)
Deposits		23,246,539	14,994,221
Liabilities for defined benefit obligations	26	(347,926)	(141,614)
Provisions	27	(71,272)	(128,531)
Other liabilities		3,578,899	3,079,941
		(2,401,949)	(7,107,990)
Income taxes paid		(640,393)	(667,784)
Interest received		10,921,869	11,732,050
Interest paid		(4,700,685)	(5,789,333)
Dividends received		310,852	212,381
<b>Net cash provided by (used in) operating activities</b>		₩ 2,970,314	(2,080,644)

See accompanying notes to the consolidated financial statements.

(in millions of Korean Won)

	Notes	2015	2014
<b>Cash flows from investing activities</b>			
Proceeds from disposal of available-for-sale financial assets		₩ 31,592,380	32,886,606
Acquisition of available-for-sale financial assets		(33,755,811)	(30,227,793)
Proceeds from redemption of held-to-maturity financial assets		2,414,031	2,667,782
Acquisition of held-to-maturity financial assets		(5,150,329)	(4,959,391)
Proceeds from disposal of property and equipment	14,41	8,760	32,377
Acquisition of property and equipment	14	(124,844)	(182,130)
Proceeds from disposal of intangible assets	15,41	5,463	10,275
Acquisition of intangible assets	15	(132,636)	(62,984)
Proceeds from disposal of investments in associates		35,396	77,592
Acquisition of investments in associates		(30,927)	(61,289)
Proceeds from disposal of investment property	17,41	16,171	676,496
Acquisition of investment property	17	(10,296)	(1,037)
Proceeds from disposal of assets held for sale		88,235	232,365
Net increase in other assets		(22,173)	(128,080)
Proceeds from settlement of hedging derivative financial instruments for available-for-sale financial assets		5,000	-
Payment for settlement of hedging derivative financial instruments for available-for-sale financial assets		(63,847)	-
Business combination, net of cash used	45	(163,172)	-
<b>Net cash provided by (used in) investing activities</b>		<b>(5,288,599)</b>	<b>960,789</b>
<b>Cash flows from financing activities</b>			
Issuance of hybrid bonds		199,455	-
Net increase (decrease) in borrowings		(1,557,883)	2,597,817
Proceeds from debt securities issued		16,512,720	10,262,773
Repayments of debt securities issued		(12,867,244)	(10,619,073)
Net decrease in other liabilities		(7,258)	(28,842)
Dividends paid		(546,160)	(399,791)
Proceeds from settlement of hedging derivative financial instruments for debt securities issued		23,270	-
Payment for settlement of hedging derivative financial instruments for debt securities issued		(17,342)	(20,980)
Redemption of subsidiary's hybrid bonds and others		(426,808)	(1,105,051)
<b>Net cash provided by financing activities</b>		<b>1,312,750</b>	<b>686,853</b>
<b>Effect of exchange rate fluctuations on cash and cash equivalents held</b>		<b>8,375</b>	<b>16,237</b>
<b>Decrease in cash and cash equivalents</b>		<b>(997,160)</b>	<b>(416,765)</b>
<b>Cash and cash equivalents at beginning of period</b>	45	<b>5,604,411</b>	<b>6,021,176</b>
<b>Cash and cash equivalents at end of period</b>	45	<b>₩ 4,607,251</b>	<b>5,604,411</b>

See accompanying notes to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

## 1. Reporting entity

Shinhan Financial Group Co., Ltd., the controlling company, and its subsidiaries included in consolidation (collectively the "Group") are summarized as follows:

### (a) Controlling company

Shinhan Financial Group Co., Ltd. (the "Shinhan Financial Group") was incorporated on September 1, 2001. Shinhan Financial Group's shares has been listed on the Korea Exchange since September 10, 2001 and Shinhan Financial Group's American Depository Shares were listed on the New York Stock Exchange since September 16, 2003.

### (b) Ownership of Shinhan Financial Group and its major consolidated subsidiaries as of December 31, 2015 and 2014 are as follows:

Investor	Investee (*1)	Location	Date of financial information	Ownership (%)	
				2015	2014
Shinhan Financial Group Co., Ltd.	Shinhan Bank Co., Ltd.	Korea	December 31	100.0	100.0
"	Shinhan Card Co., Ltd.	"	"	100.0	100.0
"	Shinhan Investment Corp.	"	"	100.0	100.0
"	Shinhan Life Insurance Co., Ltd.	"	"	100.0	100.0
"	Shinhan Capital Co., Ltd.	"	"	100.0	100.0
"	Jeju Bank	"	"	68.9	68.9
"	Shinhan Credit Information Co., Ltd.	"	"	100.0	100.0
"	Shinhan Private Equity Inc.	"	"	100.0	100.0
"	Shinhan BNP Paribas Asset Management Co., Ltd.	"	"	65.0	65.0
"	SHC Management Co., Ltd.	"	"	100.0	100.0
"	Shinhan Data System	"	"	100.0	100.0
"	Shinhan Savings Bank	"	"	100.0	100.0
"	Shinhan AITAS Co., Ltd.	"	"	99.8	99.8
Shinhan Bank Co., Ltd.	Shinhan Asia Limited	Hong Kong	"	99.9	99.9
"	Shinhan Bank America	USA	"	100.0	100.0
"	Shinhan Bank Europe GmbH	Germany	"	100.0	100.0
"	Shinhan Khmer Bank PLC (*2)	Cambodia	"	90.0	90.0
"	Shinhan Bank Kazakhstan Limited	Kazakhstan	"	100.0	100.0
"	Shinhan Bank Canada	Canada	"	100.0	100.0
"	Shinhan Bank (China) Limited	China	"	100.0	100.0
"	Shinhan Bank Japan	Japan	"	100.0	100.0
"	Shinhan Bank Vietnam Ltd.	Vietnam	"	100.0	100.0
"	Banco Shinhan de Mexico	Mexico	"	100.0	-
"	PT Bank Metro Express	Indonesia	"	97.76	-
"	PT Centratama Nasional Bank	"	"	75.0	-
Shinhan Card Co., Ltd.	LLP MFO Shinhan Finance	Kazakhstan	"	100.0	100.0
"	PT. Shinhan Indo Finance	Indonesia	"	50.0	-
Shinhan Investment Corp.	Shinhan Investment Corp. USA Inc.	USA	"	100.0	100.0
"	Shinhan Investment Corp. Asia Ltd.	Hong Kong	"	100.0	100.0
"	Nam An Securities Co., Ltd.	Vietnam	"	100.0	-
Shinhan Private Equity Inc.	HKC&T Co., Ltd.	Korea	September 30	100.0	100.0
Shinhan BNP Paribas Asset Management Co., Ltd.	Shinhan BNP Paribas Asset Management (Hong Kong) Limited	Hong Kong	December 31	100.0	100.0

(\*1) Subsidiaries such as trust, beneficiary certificate, corporate restructuring fund and private equity fund which are not actually operating their own business are excluded.

(\*2) Shinhan Savings Bank's interest of 3.3% in Shinhan Khmer Bank is not included.

**(c) Consolidated structured entities**

Consolidated structured entities are as follows:

Category	Consolidated structured entities	Description
Trust	19 trusts managed by Shinhan Bank including development trust	A trust is consolidated when the Group as a trustee is exposed to variable returns, for example, if principle or interest amounts of the entrusted properties falls below guaranteed amount, the Group should compensate it; and the Group has the ability to affect those returns.
Asset-Backed Securitization	MPC Yulchon Green I and 37 others	An entity for asset backed securitization is consolidated when the Group has the ability to dispose assets or change the conditions of the assets, is exposed to variable returns and has the ability to affect the variable returns providing credit enhancement and purchases of subordinated securities.
Structured Financing	SHPE Holdings One Co., Ltd. and 3 others	An entity established for structured financing relating to real estate, shipping, or mergers and acquisitions is consolidated, when the Group has granted credit to the entity, has sole decision-making authority of these entities due to the entities default, and is exposed to, or has rights to related variable returns.
Investment Fund	KoFC Shinhan Frontier Champ 2010-4 PEF and 43 others	An investment fund is consolidated, when the Group manages or invests assets of the investment funds on behalf of other investors, or has the ability to dismiss the manager of the investment funds, and is exposed to, or has rights to, the variable returns.

(\*) The Group provides credit enhancement for the consolidated structured entities providing ABCP purchase commitment amounting to ₩1,214,305 million for the purpose of credit enhancement of the structure entities.

**2. Basis of preparation****(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in The Act on External Audit of Stock Companies in the Republic of Korea.

The consolidated financial statements were authorized for issue by the Board of Directors on February 4, 2016, which will be submitted for approval to the coming shareholders' meeting.

**(b) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position.

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value
- financial liabilities designated as hedged items in a fair value hedge accounting of which changes in fair value attributable to the hedged risk are recognized in profit or loss
- liabilities for defined benefit plans that are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

**(c) Functional and presentation currency**

The financial statements of the parent and each subsidiary are prepared in functional currency of the respective operation. These consolidated financial statements are presented in Korean won, which is the Parent Company's functional currency and the currency of the primary economic environment in which the Group operates.

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

## (d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are evaluated on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

## (e) Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 3 to all periods presented in these consolidated financial statements.

The Group has adopted the following amendments to standards and new interpretation with a date of initial application of January 1, 2015.

### i) K-IFRS No. 1108, 'Operating Segments'

The Group has applied the amendments to K-IFRS No. 1108, 'Operating Segments' since January 1, 2015. The amendment requires the disclosure of judgements made by management in applying the aggregation criteria. The disclosures include a brief description of the operating segments that have been aggregated and the economic indicators that have been assessed in determining whether the operating segments share the similar economic characteristics. In addition, this amendment clarifies that a reconciliation of the total of the reportable segments' assets to the entity's total assets is required only when the information is regularly provided to the entity's chief operating decision maker. The impact of the amendments on the Group's consolidated financial statements is not significant.

### ii) K-IFRS No. 1102, 'Share-based Payment'

The Group has applied the amendments to K-IFRS No. 1102, 'Share-based Payment' since January 1, 2015. The amendment clarifies the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The impact of the amendments on the Group's consolidated financial statements is not significant.

### iii) K-IFRS No. 1103, 'Business Combinations'

The Group has applied the amendments to K-IFRS No. 1103, 'Business Combinations' since January 1, 2015. The amendment clarifies the classification and measurement of contingent consideration in a business combination. When a contingent consideration is a financial instrument, its classification as a liability or equity shall be determined in accordance with K-IFRS No. 1032 and the contingent consideration that is classified as an asset or a liability shall be subsequently measured at fair value of which the changes recognised in profit or loss. In addition, this amendments clarifies that the standard does not apply to the accounting for all types of joint arrangements. The impact of the amendments on the Group's consolidated financial statements is not significant.

### iv) K-IFRS No. 1113, 'Fair Value Measurement'

The Group has applied the amendments to K-IFRS No. 1113, 'Fair Value Measurement' since January 1, 2015. The amendment allows entities to measure short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, given the discount is immaterial. In addition, this amendment clarifies that the portfolio exception can be applies to contracts in the scope of K-IFRS No. 1039, even though the contracts do not meet the definition of a financial asset or financial liability. The impact of the amendments on the Group's consolidated financial statements is not significant.

### v) K-IFRS No. 1024, 'Related Party Disclosures'

The Group has applied the amendments to K-IFRS No. 1024, 'Related Party Disclosures' since January 1, 2015. The definition of a 'related party' is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity. The reporting entity is required to separately disclose the expense amount recognised for the key management personnel services. The impact of the amendments on the Group's consolidated financial statements is not significant.

### vi) K-IFRS No. 1019, 'Employee Benefits'

The Group has applied the amendments to K-IFRS No. 1019, 'Employee Benefits' since January 1, 2015. The amendments introduce a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. A company is permitted (but not required) to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered. Service-linked



contributions from employees or third parties should be reflected in determining the net current service cost and the defined benefit obligation, and should be attributed to the periods of service using the same method as used for calculating the gross benefits or on a straight line basis. The impact of the amendments on the Group's consolidated financial statements is not significant.

### 3. Significant accounting policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the changes in accounting policies as explained in Note 2 (e).

#### (a) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Group has reportable segments which consist of banking, credit card, securities, life insurance, and others.

#### (b) Basis of consolidation

##### i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for the same transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

##### ii) Structured entity

The Group establishes or invests in various structured entities. A structured entity is an entity designed so that its activities are not governed by way of voting rights. When assessing control of a structured entity, the Group considers factors such as the purpose and the design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee. The Group does not recognize any non-controlling interests in the consolidated statements of financial position since the Group's interests in these entities are recognized as liabilities of the Group.

##### iii) Intra-group transactions

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

##### iv) Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interest holders, even when the allocation reduces the non-controlling interest balance below zero.

#### (c) Business combinations

##### i) Business combinations

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

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- Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No.1012 Income Taxes
- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No.1019 Employee Benefits
- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset
- Reacquired rights are measured on the basis of the remaining contractual terms of the related contract
- Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in K-IFRS No.1102 Share-based Payment
- Assets held for sale are measured at fair value less costs to sell in accordance with K-IFRS No.1105 Non-current Assets Held for Sale

As of the acquisition date, non-controlling interests in the acquiree are measured as the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that are included in consideration transferred in the business combination shall be measured in accordance with the method described above rather than at fair value.

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No.1032 Financial Instruments: Presentation and K-IFRS No.1039 Financial Instruments: Recognition and Measurement.

## ii) Goodwill

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, bargain purchase gain is recognized immediately in profit or loss.

When the Group additionally acquires non-controlling interest, the Group does not recognize goodwill since the transaction is regarded as equity transaction.

## (d) Investments in associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity or when another entity is classified as a subsidiary by the Banking Act since the Group holds more than 15% of the voting power of another entity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The investment in an associate and a joint venture is initially recognized at cost, and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate and the joint venture after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate or a joint venture uses accounting policies different from those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

**(e) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and demand deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

**(f) Non-derivative financial assets**

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

**i) Financial assets at fair value through profit or loss**

A financial asset is classified as at fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a recognition or measurement inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives that would be required to be separated from the host contract.

**ii) Held-to-maturity financial assets**

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

**iii) Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

**iv) Available-for-sale financial assets**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

**v) De-recognition of financial assets**

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

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If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

## vi) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

## (g) Derivative financial instruments including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

### i) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

- Fair value hedge – Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

- Cash flow hedge – When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

- Hedge of net investment – Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the accumulated other comprehensive income is transferred to profit or loss as part of the profit or loss on disposal in accordance with K-IFRS No.1021, 'The Effects of Changes in Foreign Exchange Rates'.

### ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria has been met: (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

### iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

vi) Unobservable valuation differences at initial recognition

Any difference between the fair value of over the counter derivatives at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognized in profit or loss but is recognized on a straight-line basis over the life of the instrument or immediately when the fair value becomes observable.

**(h) Impairment of financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- significant financial difficulty of the issuer or obligor
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization
- the disappearance of an active market for that financial asset because of financial difficulties
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

**i) Loans and receivables**

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

If the interest rate of a loan or receivable is a floating rate, the discount rate used to evaluate impairment loss is the current effective interest rate defined in the loan agreement. The present value of estimated future cash flows of secured financial assets is calculated by including cash flows from collateral after deducting costs to acquire and sell the collateral.

In assessing collective impairment, the Group rates and classifies financial assets, based on credit risk assessment or credit rating assessment process that takes into account asset type, industry, regional location, collateral type, delinquency and other relative factors.

Future cash flow of financial assets applicable to collective impairment assessment is estimated by using statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the impairment losses are likely to be greater or less than suggested by historical modeling. In adjusting the future cash flow by historical modeling, the result has to be in line with changes and trends of observable data. Methodologies and assumptions used to estimate future cash flow are evaluated on a regular basis in order to reduce any discrepancy between impairment loss estimation and actual loss.



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Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss of the year.

## ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

## iii) Held-to-maturity financial assets

An impairment loss in respect of held-to-maturity financial assets measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate and is recognized in profit or loss. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

## (i) Property and equipment

Property and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced cost is derecognized. The cost of the day to day servicing of property and equipment are recognized in profit or loss as incurred.

Property and equipment are depreciated on a straight-line basis over the estimated useful lives, which most closely reflect the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance lease are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative years are as follows:

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40 years
Other properties	Straight-line	4-5 years

Depreciation methods, useful lives and residual value are reassessed at each fiscal year-end and any adjustment is accounted for as a change in accounting estimate.

## (j) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

Descriptions	Useful lives
Software, capitalized development cost	5 years
Other intangible assets	5 years or contract periods

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

**i) Research and development**

Expenditures on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

**ii) Subsequent expenditures**

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

**(k) Investment property**

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

The estimated useful lives for the current and comparative years are as follows:

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40 years

**(l) Leased assets**

**i) Classification of a lease**

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the lessee assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

**ii) Lessee**

Under a finance lease, the lessee recognizes the leased asset and a liability for future lease payments. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Under an operating lease, the lessee recognizes the lease payments as expense over the lease term and does not recognize the leased asset in its statement of financial position.

**iii) Lessor**

Under a finance lease, the lessor recognizes a finance lease receivable. Over the lease term the lessor accrues interest income on the net investment. The receipts under the lease are allocated between reducing the net investment and recognizing finance income, so as to produce a constant rate of return on the net investment.

Under an operating lease, the lessor recognizes the lease payments as income over the lease term and the leased asset in its statement of financial position.

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## (m) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 Impairment of Assets.

An asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

## (n) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, deferred tax assets and assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

## (o) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

### i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

The criteria for designation of financial liabilities at FVTPL upon initial recognition are the same as those of financial assets at FVTPL.

### ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

**(p) Foreign currency**

**i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined.

Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation (see iii) below), or in a qualifying cash flow hedge, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

**ii) Foreign operations**

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

**iii) Net investment in a foreign operation**

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, then foreign currency difference arising on the item which in substance is considered to form part of the net investment in the foreign operation, are recognized in the other comprehensive income and shall be reclassified to profit or loss on disposal of the investment.

**(q) Equity**

**i) Capital stock**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Group's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Group's shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

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## ii) Hybrid bonds

The Group classifies issued financial instruments, or their component parts, as a financial liability or an equity instrument depending on the substance of the contractual arrangement of such financial instruments. Hybrid bonds where the Group has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation are classified as equity instruments and presented in equity.

## iii) Capital adjustments

Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions in capital adjustments.

## (r) Employee benefits

### i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

### ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

### iii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

### iv) Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in personnel expenses in profit or loss.

The discount rate is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes service cost and net interest on the net defined benefit liability (asset) in profit or loss and remeasurement of the net defined benefit liability (asset) in other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.



**v) Termination benefits**

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

**(s) Share-based payment transactions**

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

**(t) Provisions**

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provision shall be used only for expenditures for which the provision was originally recognized.

**(u) Financial guarantee contract**

A financial guarantee contract is a contract that requires the issuer (the Group) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- The amount determined in accordance with K-IFRS No.1037 Provisions, Contingent Liabilities and Contingent Assets and
- The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with K-IFRS No.1018. Revenue

**(v) Insurance contracts**

Insurance contracts are defined as "a contract under which one party (the insurer) accepts significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder". A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Such a contract that does not contain significant insurance risk is classified as an investment contract and is within the scope of K-IFRS No.1039, Financial Instruments, Recognition and Measurement to the extent that it gives rise to a financial asset or financial liability, except if the investment contract contains a Discretionary Participation Features ("DPF"). If the contract has a DPF, the contract is subject to K-IFRS No.1104, Insurance Contracts.

**i) Reserves for insurance contracts**

The Group accounts for insurance contracts based on the Insurance Business Law and other related Insurance Supervisory Regulation. These insurance contracts are calculated based on insurance terms, premium and policy reserves approved by the Financial Supervisory Commission, as follows:

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- Premium reserve - Premium reserve is a liability to prepare for the future claims on the valid contracts. Premium reserve is calculated by deducting discounted net premium from the discounted claims expected to be paid in the future period.
- Unearned premium reserve - Unearned premium reserve represents the portion of premiums written which is applicable to the unexpired portion of policies in force.
- Guarantee reserve - At the end of reporting period, the Group is required to make reserve on the outstanding insurance contracts to guarantee a certain level of benefit payments for the amount equal to the average amount of net losses of the worst 30% of cases forecasted by scenarios or the standard reserve amount, as defined by Financial Supervisory Service, by insurance type and the lowest insured amount, whichever is greater.
- Reserve for outstanding claims - Reserve for outstanding claims is an estimate of loss for insured events that have occurred prior to the date of the statement of financial position but for which a fixed value cannot be determined, which includes the following:
  - Estimated amount: The expenses to be incurred in the course of settlement of the insured event, such as lawsuit or arbitration (if partial amount is settled, the remainder is recognized)
  - Reserve for ineffective contracts: Reserve for ineffective contracts due to default in premium payment (Partial amount of surrender value)
  - Unpaid claims: The amount of claims, surrender value and dividend to be paid is determined but not paid yet
  - IBNR (Incurred But Not Reported): Estimated amount using a statistical method considering the company's experience rate
- Reserve for participating policyholder's dividend - In accordance with regulations and policy terms, reserves for participating policyholder's dividend are provided for dividend to be paid to the policyholders and comprise the current reserve for policyholder's dividend and the future reserve for policyholder's dividend. The current reserve for policyholder's dividend is the fixed payable dividend amount declared but not paid at the end of the reporting period and the future reserve for policyholder's dividend is the calculated policyholder's dividend amount factoring in estimated policy termination rates for the valid insurance policy as at the end of the reporting period.

## ii) Policyholders' equity adjustment

At year end, unrealized holding gains and losses on available-for-sale securities are allocated to policyholders' equity adjustment by the ratio of the average policy reserve of the participating and non-participating contracts or the ratio of the investment source at the new acquisition year based on the date of acquisition.

## iii) Liability adequacy test (the "LAT")

Liability adequacy tests are performed by the Group in order to ensure the adequacy of the contract liabilities, net of related deferred acquisition costs and deferred policyholders' participation liability or asset.

## iv) Reinsurance contracts

According to K-IFRS 1104, "Insurance Contracts", the Group does not offset:

- 1) reinsurance assets against the related insurance liabilities; or
- 2) income or expense from reinsurance contracts against the expense or income from the related insurance contracts.

If reinsurance assets are determined to be impaired, impairment loss is recognized in the profit and loss for the current period.

## v) Deferred acquisition costs (the "DAC")

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

## (w) Financial income and expense

### i) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter year)

to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Once an impairment loss has been recognized on a loan, although the accrual of interest in accordance with the contractual terms of the instrument is discontinued, interest income is recognized at the rate of interest that was used to discount estimated future cash flows for the purpose of measuring the impairment loss.

**ii) Fees and commission**

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

**iii) Dividends**

Dividend income is recognized when the right to receive income is established.

**(x) Customer loyalty program**

For customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale is allocated between award credits ("points") and other components of the fee and commission income. The Group provides awards, in the form of price discounts and by offering a variety of gifts. The fair value allocated to the points is estimated by reference to the fair value of the monetary and/or non-monetary benefits for which they could be redeemed. The fair value of the benefits is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and recognized as unearned revenue. Unearned revenue is recognized only when the points are redeemed and the Group has fulfilled its obligations to provide the benefits. The amount of revenue recognized in those circumstances is based on the number of points that have been redeemed in exchange for benefits, relative to the total number of points that are expected to be redeemed.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from customer loyalty programmes are lower than the unavoidable cost of meeting its obligations under the programmes.

**(y) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

**i) Current tax**

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

**ii) Deferred tax**

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

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The Group files its national income tax return with the Korean tax authorities under the consolidated corporate tax system, which allows it to make national income tax payments based on the combined profits or losses of the Controlling Company and its wholly owned domestic subsidiaries. Deferred taxes are measured based on the future tax benefits expected to be realized in consideration of the expected combined profits or losses of eligible companies in accordance with the consolidated corporate tax system. Consolidated corporate tax amounts, once determined, are allocated to each of the subsidiaries and are used as a basis for the income taxes to be recorded in their separate financial statements.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either: the same taxable entity; or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## **(z) Accounting for trust accounts**

The Group accounts for trust accounts separately from its group accounts under the Financial Investment Services and Capital Markets Act and thus the trust accounts are not included in the consolidated financial statements except Guaranteed Fixed Rate Money Trusts controlled by the Group, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards. Funds transferred between Group account and trust accounts are recognized as borrowings from trust accounts in other liabilities with fees for managing the accounts recognized as non-interest income by the Group.

## **(aa) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

## **(ab) New standards and interpretations not yet adopted**

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2015, and the Group has not early adopted them.

Management is in the process of evaluating the impact of the amendments on the Group's consolidated financial statements, if any.

### **i) K-IFRS No. 1109, 'Financial Instruments'**

K-IFRS 1109, published in December 2015, replaces the existing guidance in K-IFRS No. 1039, Financial Instruments: Recognition and Measurement. K-IFRS 1109 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from K-IFRS No. 1039. K-IFRS 1109 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

ii) **K-IFRS No. 1115, 'Revenue from Contracts with Customers'**

K-IFRS 1115, published in January 2016, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including K-IFRS No. 1018, Revenue, K-IFRS No. 1011, Construction Contracts and K-IFRS No. 2113, Customer Loyalty Programmes. K-IFRS 1115 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

Other published new standards, interpretations and amendments to existing standards mandatory for the Group for annual periods beginning after January 1, 2015 which have not been early adopted, are not expected to have a significant impact on the Group's consolidated financial statements.

## 4. Financial risk management

### (a) Overview

As a financial services provider, the Group is exposed to various risks relating to lending, credit card, insurance, securities investment, trading and leasing businesses, its deposit taking and borrowing activities in addition to the operating environment.

The principal risks to which the Group is exposed are credit risk, market risk, interest rate risk, liquidity risk and operational risk. These risks are recognized, measured and reported in accordance with risk management guidelines established at the controlling company level and implemented at the subsidiary level through a carefully stratified checks-and-balances system.

### i) Risk management principles

The Group risk management is guided by the following core principles:

- identifying and managing all inherent risks;
- standardizing risk management process and methodology;
- ensuring supervision and control of risk management independent of business activities;
- continuously assessing risk preference;
- preventing risk concentration;
- operating a precise and comprehensive risk management system including statistical models; and
- balancing profitability and risk management through risk-adjusted profit management.

### ii) Risk management organization

The Group risk management system is organized along the following hierarchy: from the top and at the controlling company level, the Group Risk Management Committee, the Group Risk Management Council, the Chief Risk Officer and the Group Risk Management Team, and at the subsidiary level, the Risk Management Committees and the Risk Management Team of the relevant subsidiary. The Group Risk Management Committee, which is under the supervision of the controlling company's board of directors, sets the basic group wide risk management policies and strategies. The controlling company's Chief Risk Officer reports to the Group Risk Management Committee, and the Group Risk Management Council, whose members consist of the controlling company's Chief Risk Officer and the risk management team heads of each of subsidiaries, coordinates the risk management policies and strategies at the group level as well as at the subsidiary level among each of subsidiaries. Each of subsidiaries also has a separate Risk Management Committee, Risk Management Working Committee and Risk Management Team, whose tasks are to implement the group wide risk management policies and strategies at the subsidiary level as well as to set risk management policies and strategies specific to such subsidiary in line with the group wide guidelines. The Group also has the Group Risk Management Team, which supports the controlling company's Chief Risk Officer in his or her risk management and supervisory role.

In order to maintain the group wide risk at an appropriate level, the Group use a hierarchical risk limit system under which the Group Risk Management Committee assigns reasonable risk limits for the entire group and each subsidiary, and the Risk Management Committee and the Management Council of each subsidiary manage the subsidiary-specific risks by establishing and managing risk limits in more detail by type of risk and type of product for each department and division within such subsidiary.

The Group Risk Management Committee consists of directors of the controlling company. The Group Risk Management Committee convenes at least once every quarter and may also convene on an ad hoc basis as needed. Specifically, the Group Risk Management Committee does the following:

- (i) establish the overall risk management policies consistent with management strategies, (ii) set reasonable risk limits for the entire group and each of

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subsidiaries, (iii) approve appropriate investment limits or allowed loss limits, (iv) enact and amends risk management regulations, and (v) decide other risk management-related issues the Board of Directors or the Group Risk Management Committee sees fit to discuss. The results of the Group Risk Management Committee meetings are reported to the Board of Directors of the controlling company. The Group Risk Management Committee makes decisions through affirmative votes by a majority of the committee members.

The Group Risk Management Council is comprised of the controlling company's chief risk officer, head of risk management team, and risk officers from each subsidiary. The Group Risk Management Council holds meetings for risk management executives from each subsidiary to discuss the Group's group wide risk management guidelines and strategy in order to maintain consistency in the group wide risk policies and strategies.

### iii) Risk management framework

The Group takes the following steps to implement the foregoing risk management principles:

- Risk capital management – Risk capital refers to capital necessary to compensate for losses in case of a potential risk being realized, and risk capital management refers to the process of asset management based on considerations of risk exposure and risk appetite among total assets so that the Group can maintain an appropriate level of risk capital. As part of the Group's risk capital management, the Group has adopted and maintains various risk planning processes and reflect such risk planning in the Group's business and financial planning. The Group also has adopted and maintains a risk limit management system to ensure that risks in the Group's business do not exceed prescribed limits.

- Risk monitoring – The Group proactively, preemptively and periodically review risks that may impact our overall operations, including through a multidimensional risk monitoring system. Currently, each of subsidiaries is required to report to the controlling company any factors that could have a material impact on the group-wide risk management, and the controlling company reports to the Group's chief risk officer and other members of the Group's senior management the results of risk monitoring on a weekly, monthly and on an ad hoc basis as needed. In addition, the Group perform preemptive risk management through a "risk dashboard system" under which the Group closely monitor any increase in asset size, risk levels and sensitivity to external factors with respect to the major asset portfolios of each of subsidiaries, and to the extent such monitoring yields any warning signals, the Group promptly analyze the causes and, if necessary, formulate and implement actions in response to these warning signals.

- Risk review – Prior to entering any new business, offering any new products or changing any major policies, the Group reviews relevant risk factors based on a prescribed risk management checklist and, in the case of changes for which assessment of risk factors is difficult, supports reasonable decision-making in order to avoid taking any unduly risky action. The risk management departments of all subsidiaries are required to review all new businesses, products and services prior to their launch and closely monitor the development of any related risks following their launch, and in the case of any action that involves more than one subsidiary, the relevant risk management departments are required to consult with the risk management team at the controlling company level prior to making any independent risk reviews.

- Risk management – The Group maintain a group wide risk management system to detect the signals of any risk crisis and, in the event of a crisis actually happening, to respond on a timely, efficient and flexible basis so as to ensure the Group's survival as a going concern. Each subsidiary maintains crisis planning for three levels of contingencies, namely, "alert", "imminent crisis" and "crisis", determination of which is made based on quantitative and qualitative monitoring and consequence analysis, and upon the happening of any such contingency, is required to respond according to a prescribed contingency plan. At the controlling company level, the Group maintains and installs crisis detection and response system which is applied consistently group wide, and upon the happening of any contingency at two or more subsidiary level, the Group directly takes charge of the situation so that the Group manages it on a concerted group wide basis.

## (b) Credit risk

### i) Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. The Group's credit risk management encompasses all areas of credit that may result in potential economic loss, including not just transactions that are recorded on balance sheets, but also off-balance-sheet transactions such as guarantees, loan commitments and derivatives transactions.

- Credit Risk Management of Shinhan Bank

Major policies for Shinhan Bank's credit risk management, including Shinhan Bank's overall credit risk management plan and credit policy guidelines, are determined by the Risk Policy Committee of Shinhan Bank, the executive decision-making body for management of credit risk. The Risk Policy Committee is headed by the Chief Risk Officer, and also comprises of the Chief Credit Officer, the heads of each business unit and the head of the



Risk Management Department. In order to separate the loan approval functions from credit policy decision-making, Shinhan Bank has a Credit Review Committee that performs credit review evaluations, which focus on improving the asset quality and profitability from the loans being made, and operates separately from the Risk Policy Committee.

Shinhan Bank complies with credit risk management procedures pursuant to internal guidelines and regulations and continually monitors and improves these guidelines and regulations. Its credit risk management procedures include:

- credit evaluation and approval;
- credit review and monitoring; and
- credit risk assessment and control

Each of Shinhan Bank's borrowers is assigned a credit rating, which is based on a comprehensive internal credit evaluation system that considers a variety of criteria. For retail borrowers, the credit rating takes into account the borrower's past dealings with Shinhan Bank and external credit rating information, among others. For corporate borrowers, the credit rating takes into account financial indicators as well as non-financial indicators such as industry risk, operational risk and management risk, among others. The credit rating, once assigned, serves as the fundamental instrument in Shinhan Bank's credit risk management, and is applied in a wide range of credit risk management processes, including credit approval, credit limit management, loan pricing and computation of allowance for loan losses. Shinhan Bank has separate credit evaluation systems for retail customers, SOHO customers and corporate customers, which are further segmented and refined to meet Basel III requirements.

Loans are generally approved after evaluations and approvals by the manager at the branch level as well as the committee of the applicable business unit at Shinhan Bank. The approval limit for retail loans is made based on Shinhan Bank's automated credit scoring system. In the case of large corporate loans, approval limits are also reviewed and approved by a Credit Officer at the headquarter level. Depending on the size and the importance of the loan, the approval process is further reviewed by the Credit Officer Committee or the Master Credit Officer Committee. If the loan is considered, further evaluation is made by the Credit Review Committee, which is Shinhan Bank's highest decision-making body in relation to credit approval.

Pursuant to the foregoing credit review and monitoring procedures and in order to promptly prevent deterioration of loan qualities, Shinhan Bank classifies potentially problematic borrowers into (i) borrowers that show early warning signals, (ii) borrowers that require close monitoring and (iii) normal borrowers, and treats them differentially accordingly.

In order to maintain portfolio-level credit risk at an appropriate level, Shinhan Bank manages its loans using value-at-risk ("VaR") limits for the entire bank as well as for each of its business units. In order to prevent concentration of risk in a particular borrower or borrower class, Shinhan Bank also manages credit risk by borrower, industry, country and other detailed categories.

• Credit Risk Management of Shinhan Card

Major policies for Shinhan Card's credit risk management are determined by Shinhan Card's Risk Management Council and Shinhan Card's Risk Management Committee is responsible for approving them. Shinhan Card's Risk Management Council is headed by the Chief Risk Officer, and also comprises of the heads of each business unit, supporting unit and relevant department at Shinhan Card. In order to separate credit policy decision-making from credit evaluation functions, Shinhan Card also has a Risk Management Committee, which evaluates applications for corporate loans exceeding a certain amount and other loans deemed important. Shinhan Card uses an automated credit scoring system to approve credit card applications or credit card authorizations. The credit scoring system is divided into two sub-systems: the application scoring system and the behavior scoring system. The behavior scoring system is based largely on the credit history, and the application scoring system is based largely on personal information of the applicant. For credit card applicants with whom the Group has an existing relationship, Shinhan Card's credit scoring system considers internally gathered information such as repayment ability, total assets, the length of the existing relationship and the applicant's contribution to profitability. The credit scoring system also automatically conducts credit checks on all credit card applicants.

If a credit score awarded to an applicant is above a minimum threshold, the application is approved unless overridden based on other considerations such as delinquencies with other credit card companies.

Shinhan Card continually monitors all accountholders and accounts using a behavior scoring system. The behavior scoring system predicts a cardholder's payment pattern by evaluating the cardholder's credit history, card usage and amounts, payment status and other relevant data. The behavior score is recalculated each month and is used to manage the accounts and approval of additional loans and other products to the cardholder. Shinhan Card also uses the scoring system to monitor its overall risk exposure and to modify its credit risk management strategy.

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## ii) Maximum exposure to credit risk

The Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements as of December 31, 2015 and 2014 are as follows:

		2015	2014
Due from banks and loans (*1)(*3):			
Banks	₩	14,486,162	13,663,318
Retail		107,030,770	94,282,270
Government		16,701,241	12,195,758
Corporations		110,468,717	102,160,212
Card receivable		17,821,341	17,378,179
		<b>266,508,231</b>	<b>239,679,737</b>
Trading assets		19,595,405	21,500,955
Financial assets designated at FVTPL (*4)		2,329,018	1,946,200
AFS financial assets (*5)		29,037,640	26,855,662
HTM financial assets (*6)		16,192,060	13,373,384
Derivative assets		1,994,714	1,568,307
Other financial assets (*1)(*2)		11,878,420	10,151,338
Financial guarantee contracts		3,679,486	3,090,873
Loan commitments and other credit liabilities		76,965,151	74,295,365
	<b>₩</b>	<b>428,180,125</b>	<b>392,461,821</b>

(\*1) The maximum exposure amounts for due from banks, loans and other financial assets are measured as net of allowances.

(\*2) Comprise account receivables, accrued income, guarantee deposits, domestic exchange settlement debit and suspense payments, etc.

(\*3) Due from banks and loans were classified as similar credit risk group when calculating the BIS ratio under new Basel Capital Accord (Basel III).

(\*4) FVTPL : fair value through profit or loss

(\*5) AFS : available-for-sale

(\*6) HTM : held-to-maturity

## iii) Due from banks and loans by past due or impairment

- Due from banks and loans as of December 31, 2015 and 2014 are as follows:

		2015					Total
		Banks	Retail	Government	Corporations	Card	
Neither past due nor impaired	₩	14,511,673	106,691,153	16,704,356	110,388,809	17,677,433	265,973,424
Past due but not impaired		-	404,121	-	156,337	403,413	963,871
Impaired		-	264,754	-	1,221,700	415,731	1,902,185
		14,511,673	107,360,028	16,704,356	111,766,846	18,496,577	268,839,480
Less : allowance		(25,511)	(329,258)	(3,115)	(1,298,129)	(675,236)	(2,331,249)
	<b>₩</b>	<b>14,486,162</b>	<b>107,030,770</b>	<b>16,701,241</b>	<b>110,468,717</b>	<b>17,821,341</b>	<b>266,508,231</b>

		2014					Total
		Banks	Retail	Government	Corporations	Card	
Neither past due nor impaired	₩	13,693,746	93,848,005	12,203,568	101,988,278	17,111,952	238,845,549
Past due but not impaired		-	455,948	181	278,262	497,147	1,231,538
Impaired		-	286,414	-	1,349,849	490,925	2,127,188
		13,693,746	94,590,367	12,203,749	103,616,389	18,100,024	242,204,275
Less : allowance		(30,428)	(308,097)	(7,991)	(1,456,177)	(721,845)	(2,524,538)
	<b>₩</b>	<b>13,663,318</b>	<b>94,282,270</b>	<b>12,195,758</b>	<b>102,160,212</b>	<b>17,378,179</b>	<b>239,679,737</b>

- Credit quality of due from banks and loans that are neither past due nor impaired as of December 31, 2015 and 2014 are as follows:

2015							
		Banks	Retail	Government	Corporations	Card	Total
Grade 1 (*1)	₩	14,511,673	100,677,960	16,704,356	72,501,523	15,133,363	219,528,875
Grade 2 (*1)		-	6,013,193	-	37,887,286	2,544,070	46,444,549
		14,511,673	106,691,153	16,704,356	110,388,809	17,677,433	265,973,424
Less : allowance		(25,511)	(178,313)	(3,115)	(734,136)	(356,815)	(1,297,890)
	₩	14,486,162	106,512,840	16,701,241	109,654,673	17,320,618	264,675,534
Mitigation of credit risk due to collateral (*2)	₩	124,306	69,399,485	-	57,477,691	5,045	127,006,527

2014							
		Banks	Retail	Government	Corporations	Card	Total
Grade 1 (*1)	₩	13,693,746	88,338,903	12,201,919	62,614,102	14,750,893	191,599,563
Grade 2 (*1)		-	5,509,102	1,649	39,374,176	2,361,059	47,245,986
		13,693,746	93,848,005	12,203,568	101,988,278	17,111,952	238,845,549
Less : allowance		(30,428)	(161,189)	(7,984)	(864,854)	(340,544)	(1,404,999)
	₩	13,663,318	93,686,816	12,195,584	101,123,424	16,771,408	237,440,550
Mitigation of credit risk due to collateral (*2)	₩	59,826	63,402,563	398	51,326,493	4,970	114,794,250

(\*1) Credit quality of due from banks and loans was classified based on the internal credit rating as follows:

Type of Borrower	Grade 1	Grade 2
Banks and governments (*)	OECD sovereign credit rating of 6 or above (as applied to the nationality of the banks and governments)	OECD sovereign credit rating of below 6 (as applied to the nationality of the banks and governments)
Retail	Pool of retail loans with probability of default of less than 2.25%	Pool of retail loans with probability of default of 2.25% or more
Corporations	Internal credit rating of BBB+ or above	Internal credit rating of below BBB+ (Probability of default for loans with internal credit rating of BBB is 2.25%)
Credit cards	For individual card holders, score of 7 or higher in Shinhan Card's internal behavior scoring system	For individual card holders, score of below 7 in Shinhan Card's internal behavior scoring system
	For corporate cardholders, same as corporate loans	For corporate cardholders, same as corporate loans

(\*) In the case of loans to banks and governments that are neither past due nor impaired, Shinhan Bank classified loans with a sovereign rating of 6 or above as Grade 1 and those with a sovereign rating of below 6 as Grade 2. Under the guidelines set forth by the Financial Supervisory Commission of Korea, all major commercial banks in Korea, including Shinhan Bank, follow the standardized approach under Basel III for purposes of computing Bank of International Settlement (BIS) ratios for risk classifications of loans to banks and governments. Under this standardized approach under Basel III, risk classification for loans to banks and governments are determined on the basis of sovereign credit ratings, and not internal credit ratings assigned by the lending bank that are specific to the individual banks and governments. More specifically, this approach involves classifying loans to banks and governments in a given jurisdiction as either Grade 1 or Grade 2 based on the sovereign credit ratings for the government of such jurisdiction as determined by the Organization for Economic Co-operation and Development ("OECD"). As for our subsidiaries other than Shinhan Bank, risk classification of loans to banks and governments is made based on their respective internal credit ratings as these subsidiaries are not subject to the aforesaid guidelines of the Financial Supervisory Commission relating to Basel III risk classification.

(\*2) The Group holds collateral against due from banks and loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of quantification of the extent to which collateral mitigate credit risk are based on the fair value of collateral.

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- Aging analyses of due from banks and loans that are past due but not impaired as of December 31, 2015 and 2014 are as follows:

2015							
		Banks	Retail	Government	Corporations	Card	Total
Less than 30 days	₩	-	311,602	-	108,683	342,708	762,993
31~60 days		-	52,331	-	24,139	43,158	119,628
61~90 days		-	25,967	-	10,551	17,329	53,847
More than 90 days		-	14,221	-	12,964	218	27,403
		-	404,121	-	156,337	403,413	963,871
Less : allowance		-	(32,876)	-	(9,884)	(60,757)	(103,517)
	₩	-	371,245	-	146,453	342,656	860,354
Mitigation of credit risk due to collateral (*)	₩	-	258,827	-	54,985	8	313,820

2014							
		Banks	Retail	Government	Corporations	Card	Total
Less than 30 days	₩	-	353,523	80	157,029	429,972	940,604
31~60 days		-	66,576	101	31,839	44,603	143,119
61~90 days		-	28,868	-	50,745	22,445	102,058
More than 90 days		-	6,981	-	38,649	127	45,757
		-	455,948	181	278,262	497,147	1,231,538
Less : allowance		-	(31,590)	(8)	(32,996)	(72,581)	(137,175)
	₩	-	424,358	173	245,266	424,566	1,094,363
Mitigation of credit risk due to collateral (*)	₩	-	307,234	11	98,941	25	406,211

- Due from banks and loans that are impaired as of December 31, 2015 and 2014 are as follows:

2015							
		Banks	Retail	Government	Corporations	Card	Total
Impaired	₩	-	264,754	-	1,221,700	415,731	1,902,185
Less : allowance		-	(118,069)	-	(554,109)	(257,664)	(929,842)
	₩	-	146,685	-	667,591	158,067	972,343
Mitigation of credit risk due to collateral (*)	₩	-	109,869	-	399,142	7	509,018

2014							
		Banks	Retail	Government	Corporations	Card	Total
Impaired	₩	-	286,414	-	1,349,849	490,925	2,127,188
Less : allowance		-	(115,318)	-	(558,327)	(308,720)	(982,365)
	₩	-	171,096	-	791,522	182,205	1,144,823
Mitigation of credit risk due to collateral (*)	₩	-	137,039	-	488,535	2	625,576

(\*) The Group holds collateral against due from banks and loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of quantification of the extent to which collateral mitigate credit risk are based on the fair value of collateral.

## iv) Credit rating

- Credit ratings of debt securities as of December 31, 2015 and 2014 are as follows:

	2015					Total
	Trading assets	Financial assets designated at FVTPL (*)	Available-for-sale financial assets	Held-to-maturity financial assets		
AAA	₩ 6,972,123	143,888	18,885,297	13,046,394		39,047,702
AA- to AA+	5,144,783	676,975	4,004,980	2,342,271		12,169,009
A- to A+	4,745,915	1,269,073	3,923,203	576,568		10,514,759
BBB- to BBB+	917,401	239,082	941,149	35,160		2,132,792
Lower than BBB-	83,410	-	419,080	68,672		571,162
Unrated	1,582,553	-	863,931	122,995		2,569,479
	₩ 19,446,185	2,329,018	29,037,640	16,192,060		67,004,903

	2014					Total
	Trading assets	Financial assets designated at FVTPL (*)	Available-for-sale financial assets	Held-to-maturity financial assets		
AAA	₩ 7,068,449	59,945	14,584,701	9,879,920		31,593,015
AA- to AA+	6,639,473	262,439	4,797,373	3,040,388		14,739,673
A- to A+	6,195,826	1,433,469	4,705,307	350,244		12,684,846
BBB- to BBB+	926,701	190,347	1,647,993	19		2,765,060
Lower than BBB-	242,057	-	441,338	33,306		716,701
Unrated	203,893	-	678,950	69,507		952,350
	₩ 21,276,399	1,946,200	26,855,662	13,373,384		63,451,645

(\*) FVTPL : fair value through profit or loss

- The credit quality of securities (debt securities) according to the credit ratings by external rating agencies is as follows:

Internal credit ratings	KIS (*1)	KR (*2)	S&P	Fitch	Moody's
AAA	-	-	AAA	AAA	Aaa
AA- to AA+	AAA	AAA	AA- to AA+	AA- to AA+	Aa3 to Aa1
A- to A+	AA- to AA+	AA- to AA+	A- to A+	A- to A+	A3 to A1
BBB- to BBB+	BBB- to A	BBB- to A	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than Baa3
Unrated	Unrated	Unrated	Unrated	Unrated	Unrated

(\*1) KIS : Korea Investors Service

(\*2) KR : Korea Ratings

- Credit status of debt securities as of December 31, 2015 and 2014 are as follows:

	2015		2014
Neither past due nor impaired	₩	67,003,272	63,444,233
Impaired		1,631	7,412
	₩	67,004,903	63,451,645

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- Assets acquired through foreclosures amounting to ₩1,185 million and ₩2,585 million are classified as assets held for sale (non-business purpose property) as of December 31, 2015 and 2014, respectively.

## v) Concentration by geographic location

An analysis of concentration by geographic location for financial instrument, net of allowance, as of December 31, 2015 and 2014 are as follows:

	2015						
	Korea	USA	Japan	Vietnam	China	Other	Total
Due from banks and loans:							
Banks	₩ 6,735,520	1,541,760	348,956	340,933	3,929,087	1,589,906	14,486,162
Retail	104,878,555	292,437	1,313,156	117,797	98,679	330,146	107,030,770
Government	15,108,925	294,332	550,439	67,251	438,214	242,080	16,701,241
Corporations	99,243,181	1,548,932	1,724,085	1,399,971	2,438,980	4,113,568	110,468,717
Card	17,790,098	6,997	2,247	7,819	6,423	7,757	17,821,341
	243,756,279	3,684,458	3,938,883	1,933,771	6,911,383	6,283,457	266,508,231
Trading assets	19,337,295	8,413	1,054	-	87,110	161,533	19,595,405
Financial assets designated at FVTPL (*1)	2,247,189	-	-	-	36,396	45,433	2,329,018
AFS financial assets (*2)	27,586,155	619,084	89,433	418,865	46,545	277,558	29,037,640
HTM financial assets (*3)	15,789,289	148,073	26,770	73,226	148,258	6,444	16,192,060
	₩ 308,716,207	4,460,028	4,056,140	2,425,862	7,229,692	6,774,425	333,662,354

	2014						
	Korea	USA	Japan	Vietnam	China	Other	Total
Due from banks and loans:							
Banks	₩ 6,605,378	1,585,332	367,795	345,781	2,654,699	2,104,333	13,663,318
Retail	92,855,198	264,564	784,086	56,376	45,115	276,931	94,282,270
Government	11,321,880	115,845	73,475	80,516	540,175	63,867	12,195,758
Corporations	92,121,984	1,339,264	1,480,651	1,294,133	2,665,519	3,258,661	102,160,212
Card	17,349,245	6,597	2,401	8,394	4,503	7,039	17,378,179
	220,253,685	3,311,602	2,708,408	1,785,200	5,910,011	5,710,831	239,679,737
Trading assets	21,153,829	7,450	-	-	114,897	224,779	21,500,955
Financial assets designated at FVTPL (*1)	1,912,084	-	-	-	34,116	-	1,946,200
AFS financial assets (*2)	25,839,853	397,158	37,005	416,632	29,669	135,345	26,855,662
HTM financial assets (*3)	13,178,520	83,560	23,137	22,031	54,860	11,276	13,373,384
	₩ 282,337,971	3,799,770	2,768,550	2,223,863	6,143,553	6,082,231	303,355,938

(\*1) FVTPL : fair value through profit or loss

(\*2) AFS : available-for-sale

(\*3) HTM : held-to-maturity





# Notes to the Consolidated Financial Statements

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## (c) Market risk

Market risk from trading positions is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Interest rate risk from non- trading positions is the risk of loss resulting from interest rate fluctuations that adversely affect the financial condition and results of operations of the Group and affects the earnings and the economic value of net assets of the Group.

Foreign exchange risk arises from the Group's assets and liabilities which are denominated in currencies other than the Won.

The Group's market risks arise primarily from Shinhan Bank, and to a lesser extent, Shinhan Investment, which incurs market risk relating to its trading activities.

Shinhan Bank's Risk Policy Committee acts as the executive decision making body in relation to market risks setting the risk management policies and risk limits and controlling market risks arising from trading and non-trading activities. In addition, Shinhan Bank's Risk Management Department comprehensively manages market risks on an independent basis from Shinhan Bank's operating departments, and functions as the middle office of Shinhan Bank.

Shinhan Investment's Risk Management Working Committee is the executive decision-making body for managing market risks related to Shinhan Investment, and determines, among other things, Shinhan Investment's overall market risk management policies and strategies, and assesses and approves trading activities and limits. In addition, Shinhan Investment's Risk Management Department manages various market risk limits and monitors operating conditions on an independent basis from Shinhan Investment's operating departments.

### i) Market risk management from trading positions

Trading activities are to realize short-term trading profits in debt and stock markets and foreign exchange markets based on short-term forecast of changes in market situation and profits from arbitrage transactions in derivatives such as swap, forward, futures and option transactions. The Group manages market risk related to its trading positions using VaR, market value-based tool.

Shinhan Bank currently uses the ten-day 99% confidence level-based VaR for purposes of calculating the regulatory capital used in reporting to the Financial Supervisory Service and uses the more conservative ten-day 99.9% confidence level-based VaR for purposes of calculating its "economic" capital used for internal management purposes, which is a concept used in determining the amount of Shinhan Bank's requisite capital in light of the market risk. In addition, Shinhan Bank also uses the one-day 99% confidence level-based VaR on a supplemental basis for purposes of setting and managing risk limits specific to each desk or team in its operating units as well as for back-testing purposes. Shinhan Bank manages VaR measurements and limits on a daily basis based on an automatic interfacing of its trading positions into its market risk measurement system. In addition, Shinhan Bank establishes pre-set loss, sensitivity, investment and stress limits for its trading departments and desks and monitors such limits daily.

Shinhan Investment currently uses the ten-day 99.9% confidence level-based historical VaR for purposes of calculating its "economic" capital used for internal management purposes. When computing the VaR, Shinhan Investment does not assume any particular probability distribution and calculates it through a simulation of the "full valuation" method based on changes of market variables such as stock prices, interest rates, and foreign exchange rates in the past one year. In addition, Shinhan Investment applies this VaR as a risk limit for the entire company as well as individual departments and products, and the adequacy of such VaR is reviewed by way of daily back-testing.

In order to streamline such differences and use a consistent VaR among operating subsidiaries, the Group has adopted starting in 2013 a unified group-wide market risk measurement methodology, which uses the ten-day 99.9% confidence level for calculating the VaR.

An analysis of the Group's requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2015 and 2014 based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, was as follows:

	2015				
		Average	Maximum	Minimum	December 31
Interest rate	₩	305,563	328,357	281,223	328,357
Stock price		174,365	213,507	132,172	132,172
Foreign exchange		125,048	141,887	110,512	141,159
Option volatility		7,820	16,811	3,747	4,561
	₩	<b>612,796</b>	<b>700,562</b>	<b>527,654</b>	<b>606,249</b>

	2014				
		Average	Maximum	Minimum	December 31
Interest rate	₩	256,051	293,708	214,823	292,081
Stock price		130,879	161,505	85,819	159,049
Foreign exchange		121,334	145,703	104,065	114,101
Option volatility		7,857	9,843	5,577	5,577
	₩	<b>516,121</b>	<b>610,759</b>	<b>410,284</b>	<b>570,808</b>

Insurance company, Shinhan Life Insurance, was excluded when the Group estimated the market risk, because insurance company was not included in the Group's subsidiaries for the consolidated BIS capital ratio.

An analysis of market risk for trading positions of the major subsidiaries as of and for the years ended December 31, 2015 and 2014 are as follows:

#### i-1) Shinhan Bank

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Bank as of and for the years ended December 31, 2015 and 2014 are as follows:

	2015				
		Average	Maximum	Minimum	December 31
Interest rate	₩	37,341	43,746	33,849	35,976
Stock price		8,258	9,049	6,995	7,056
Foreign exchange (*)		45,102	54,459	36,549	44,475
Option volatility		355	550	262	262
Commodity		5	21	-	3
Portfolio diversification		(35,789)	(45,895)	(25,953)	(30,699)
	₩	<b>55,272</b>	<b>61,930</b>	<b>51,702</b>	<b>57,073</b>

	2014				
		Average	Maximum	Minimum	December 31
Interest rate	₩	17,302	25,863	8,721	13,414
Stock price		4,333	7,362	2,493	3,442
Foreign exchange (*)		43,872	54,355	34,928	49,372
Option volatility		161	259	66	66
Portfolio diversification		(18,668)	(32,344)	(5,246)	(13,268)
	₩	<b>47,000</b>	<b>55,495</b>	<b>40,962</b>	<b>53,026</b>

(\*) Both trading and non-trading accounts are included since Shinhan Bank manages foreign exchange risk on a total position basis.

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## i-2) Shinhan Card

The analyses of Shinhan Card's requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2015 and 2014, based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, are as follows:

	2015			
	Average	Maximum	Minimum	December 31
Interest rate	₩ 1,685	3,011	650	650
Foreign exchange	38,214	42,208	33,759	33,759
	₩ 39,899	45,219	34,409	34,409

	2014			
	Average	Maximum	Minimum	December 31
Interest rate	₩ 754	1,300	400	1,150
Foreign exchange	40,309	46,846	33,832	39,849
	₩ 41,063	48,146	34,232	40,999

(\*) Shinhan Card fully hedges all the cash flows from foreign currency liabilities by swap transactions and is narrowly exposed to foreign exchange risk relating to foreign currency equity securities held for non-trading purposes.

## i-3) Shinhan Investment

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Investment as of and for the years ended December 31, 2015 and 2014 are as follows:

	2015			
	Average	Maximum	Minimum	December 31
Interest rate	₩ 6,879	16,542	2,707	7,274
Stock price	19,397	64,650	10,213	19,047
Foreign exchange	5,680	10,881	2,845	7,489
Option volatility	2,634	5,207	175	4,396
Portfolio diversification	(11,714)	(32,096)	(4,062)	(8,460)
	₩ 22,876	65,184	11,878	29,746

	2014			
	Average	Maximum	Minimum	December 31
Interest rate	₩ 8,999	30,064	3,514	6,069
Stock price	7,531	14,677	3,389	14,438
Foreign exchange	3,688	17,353	646	5,227
Option volatility	1,917	7,042	224	711
Portfolio diversification	(7,730)	(38,169)	(1,399)	(8,967)
	₩ 14,405	30,967	6,374	17,478

## i-4) Shinhan Life Insurance

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Life Insurance as of and for years ended December 31, 2015 and 2014 are as follows:

	2015			
	Average	Maximum	Minimum	December 31
Interest rate	₩ 585	817	298	303
Stock price	275	1,190	-	-
Foreign exchange	1,308	2,337	511	1,780
Option volatility	541	1,868	108	138
	₩ 2,709	6,212	917	2,221

	2014			
	Average	Maximum	Minimum	December 31
Interest rate	₩ 997	4,850	223	354
Stock price	5	111	-	-
Foreign exchange	301	664	19	392
Option volatility	3,136	7,289	1,058	1,332
	₩ 4,439	12,914	1,300	2,078

## ii) Interest rate risk management from non-trading positions

Principal market risk from non-trading activities of the Group is interest rate risk, which affects the Group's earnings and the economic value of the Group's net assets:

- Earnings: interest rate fluctuations have an effect on the Group's net interest income by affecting its interest-sensitive operating income and expenses and EaR (Earnings at Risk) is a commonly used risk management technique.
- Economic value of net assets: interest rate fluctuations influence the Group's net worth by affecting the present value of cash flows from the assets, liabilities and other transactions of the Group and VaR is a commonly used risk management technique.

Interest rate VaR represents the maximum anticipated loss in a net present value calculation, whereas interest rate EaR represents the maximum anticipated loss in a net earnings calculation for the immediately following one-year period, in each case, as a result of negative movements in interest rates.

Accordingly, the Group measures and manages interest rate risk for non-trading activities by taking into account effects of interest rate changes on both its income and net asset value.

The principal objectives of Shinhan Bank's interest rate risk management are to generate stable net interest income and to protect Shinhan Bank's net asset value against interest rate fluctuations. Through its asset and liability management system, Shinhan Bank measures and manages its interest rate risk based on various analytical measures such as interest rate gap, duration gap and net present value and net interest income simulations, and monitors on a monthly basis its interest rate VaR limits, interest rate earnings at risk ("EaR") limits and interest rate gap ratio limits. Shinhan Bank measures its interest rate VaR and interest rate EaR based on a simulated estimation of the maximum decrease in net asset value and net interest income in a one-year period based on various scenario analyses of historical interest rates.

Shinhan Card and Shinhan Life Insurance also monitors and manages its interest rate risk limits for all its interest-bearing assets and liabilities (including off-balance sheet items) in terms of impact on its earnings and net asset value from changes in interest rates. The interest rate VaR analysis used by Shinhan Card and Shinhan Life Insurance principally focuses on the maximum impact on its net asset value from adverse movement in interest rates.

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Non-trading positions for interest rate VaR and EaR as of December 31, 2015 and 2014 are as follows:

## ii-1) Shinhan Bank

		2015	2014
VaR	₩	202,029	179,367
EaR		185,254	313,619

## ii-2) Shinhan Card

		2015	2014
VaR	₩	88,825	89,909
EaR		12,663	23,458

## ii-3) Shinhan Investment

		2015	2014
VaR	₩	9,846	5,106
EaR		85,881	119,812

## ii-4) Shinhan Life Insurance

		2015	2014
VaR	₩	206,432	201,940
EaR		5,947	4,525

(\*1) The interest rate VaR represents the maximum anticipated loss in a net asset value in one year under confidence level of 99.9% and is measured by the internal model.

(\*2) The interest rate EaR was calculated by the Financial Supervisory Service regulations based on the "middle of time band" and interest shocks by 200 basis points for each time bucket as recommended under the Basel Accord.

## iii) Foreign exchange risk

Foreign exchange risk arises because of the Group's net foreign currency open position, which is the difference between its foreign currency assets and liabilities, including derivatives.

The Group manages foreign exchange risk on an overall position basis, including its overseas branches, by covering all of its foreign exchange spot and forward positions in both trading and non-trading accounts.

The Risk Policy Committee oversees Shinhan Bank's foreign exchange exposure for both trading and non-trading activities by establishing limits for the net foreign currency open position, loss limits and VaR limits.

The management of Shinhan Bank's foreign exchange position is centralized at the FX & Derivatives Department. Dealers in the FX & Derivatives Department manage Shinhan Bank's overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps.



Foreign currency denominated assets and liabilities as of December 31, 2015 and 2014 are as follows:

	2015					Total
	USD	JPY	EUR	CNY	Other	
<b>Assets:</b>						
Cash and due from banks	₩ 3,255,745	1,146,612	137,912	1,854,220	875,451	7,269,940
Trading assets	376,477	6,102	52,440	27,330	172,335	634,684
Financial assets designated at FVTPL (*1)	335,474	-	-	-	-	335,474
Derivative assets	77,075	8,110	2,596	3,989	330	92,100
Loans	15,053,386	4,460,483	1,150,044	2,881,059	3,012,725	26,557,697
AFS financial assets (*2)	1,961,730	65,075	16,979	5,441	594,535	2,643,760
HTM financial assets (*3)	124,651	143,529	-	148,258	83,892	500,330
Other financial assets	2,338,372	268,558	126,115	654,260	185,008	3,572,313
	₩ 23,522,910	6,098,469	1,486,086	5,574,557	4,924,276	41,606,298
<b>Liabilities:</b>						
Deposits	₩ 8,526,888	5,300,848	451,613	3,544,013	2,554,630	20,377,992
Trading liabilities	317	-	-	-	453,605	453,922
Financial liabilities designated at FVTPL (*1)	368,633	4,530	1,142	-	-	374,305
Derivative liabilities	60,636	658	260	2,260	209	64,023
Borrowings	6,043,186	179,412	390,562	717,309	366,803	7,697,272
Debt securities issued	5,581,146	291,603	153,664	216,660	144,381	6,387,454
Other financial liabilities	2,465,314	211,698	337,612	827,811	314,892	4,157,327
	₩ 23,046,120	5,988,749	1,334,853	5,308,053	3,834,520	39,512,295
Net assets (liabilities)	₩ 476,790	109,720	151,233	266,504	1,089,756	2,094,003
Off-balance derivative exposure	266,359	24,438	(121,245)	69,342	(408,120)	(169,226)
Net position	₩ 743,149	134,158	29,988	335,846	681,636	1,924,777

(\*1) FVTPL : fair value through profit or loss

(\*2) AFS : available-for-sale

(\*3) HTM : held-to-maturity

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

	2014					
	USD	JPY	EUR	CNY	Other	Total
<b>Assets:</b>						
Cash and due from banks	₩ 2,379,606	798,025	152,503	2,001,028	700,881	6,032,043
Trading assets	278,187	8,986	-	110,086	285,465	682,724
Financial assets designated at FVTPL (*1)	149,380	-	-	-	-	149,380
Derivative assets	127,127	351	5,205	1,418	1,746	135,847
Loans	14,854,848	4,218,136	929,165	2,304,384	2,345,771	24,652,304
AFS financial assets (*2)	1,638,766	41,160	4,143	-	536,891	2,220,960
HTM financial assets (*3)	61,376	180,191	-	51,180	38,326	331,073
Other financial assets	1,884,301	213,949	33,864	279,412	120,851	2,532,377
	₩ 21,373,591	5,460,798	1,124,880	4,747,508	4,029,931	36,736,708
<b>Liabilities:</b>						
Deposits	₩ 7,416,198	4,548,996	383,545	3,003,747	2,325,939	17,678,425
Trading liabilities	430	-	-	-	428,936	429,366
Financial liabilities designated at FVTPL (*1)	188,123	-	-	-	-	188,123
Derivative liabilities	69,371	72,637	366	916	579	143,869
Borrowings	5,519,777	261,194	511,723	387,367	261,130	6,941,191
Debt securities issued	5,515,370	585,209	-	-	389,648	6,490,227
Other financial liabilities	1,999,245	129,719	103,272	436,379	185,590	2,854,205
	₩ 20,708,514	5,597,755	998,906	3,828,409	3,591,822	34,725,406
Net assets (liabilities)	₩ 665,077	(136,957)	125,974	919,099	438,109	2,011,302
Off-balance derivative exposure	350,795	132,161	(60,167)	(554,143)	83,193	(48,161)
<b>Net position</b>	₩ 1,015,872	(4,796)	65,807	364,956	521,302	1,963,141

(\*1) AFS : available-for-sale

(\*2) HTM : held-to-maturity

(\*3) FVTPL : fair value through profit or loss

## (d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Each subsidiary seeks to minimize liquidity risk through early detection of risk factors related to the sourcing and managing of funding that may cause volatility in liquidity and by ensuring that it maintains an appropriate level of liquidity through systematic management. At the groupwide level, the Group manages liquidity risk by conducting monthly stress tests that compare liquidity requirements under normal situations against those under three types of stress situations, namely, the group-specific internal crisis, crisis in the external market and a combination of internal and external crisis. In addition, in order to preemptively and comprehensively manage liquidity risk, the Group measure and monitor liquidity risk management using various indices, including the "limit management index", "early warning index" and "monitoring index".

Shinhan Bank applies the following basic principles for liquidity risk management:

- raise funding in sufficient amounts, at the optimal time at reasonable costs;
- maintain risk at appropriate levels and preemptively manage them through a prescribed risk limit system and an early warning signal detection system;
- secure stable sources of revenue and minimize actual losses by implementing an effective asset-liability management system based on diversified sources of funding with varying maturities;

- monitor and manage daily and intra-daily liquidity positions and risk exposures for timely payment and settlement of financial obligations due under both normal and crisis situations;
- conduct periodic contingency analysis in anticipation of any potential liquidity crisis and establish and implement emergency plans in case of a crisis actually happening; and
- consider liquidity-related costs, benefits of and risks in determining the pricing of the Group's products and services, employee performance evaluations and approval of launching of new products and services.

As for any potential liquidity shortage at or near the end of each month, Shinhan Card maintains liquidity at a level sufficient to withstand credit shortage for three months. In addition, Shinhan Card manages liquidity risk by defining and managing various indicators of liquidity risk, such as the actual liquidity gap ratio (in relation to the different maturities for assets as compared to liabilities), the liquidity buffer ratio, the maturity repayment ratio, the ratio of actual funding compared to budgeted funding and the ratio of asset-backed securities to total borrowings, at different risk levels of "caution", "unstable" and "at risk", and the Group also has contingency plans in place in case of any emergency or crisis.

Contractual maturities for financial instruments including cash flows of principal and interest and off balance as of December 31, 2015 and 2014 are as follows:

	2015						Total
	Less than 1 month	1~3 months	3~6 months	6 months ~1 year	1~5 years	More than 5 years	
<b>Non-derivative financial instruments:</b>							
Assets:							
Cash and due from banks	₩ 16,843,128	1,641,876	1,530,110	2,050,819	29,843	23,073	22,118,849
Trading assets (*3)	22,501,571	24,397	30,194	73,262	20,028	6,593	22,656,045
Financial assets designated at fair value through profit or loss	2,369,896	51,860	4,688	97,645	619,170	101,074	3,244,333
Loans	29,674,971	30,614,739	37,138,646	55,209,656	66,445,746	54,084,5500	273,168,308
Available-for-sale financial assets (*3)	29,415,328	1,091,745	12,623	1,173,011	398,156	1,904,249	33,995,112
Held-to-maturity financial assets	78,916	236,378	565,038	1,085,581	9,518,678	9,582,297	21,066,888
Other financial assets	8,057,613	24,202	21,106	290,955	3,502,493	90,587	11,986,956
	₩ 108,941,423	33,685,197	39,302,405	59,980,929	80,534,114	65,792,423	388,236,491
Liabilities:							
Deposits (*2)	₩ 108,029,850	21,996,113	26,252,328	51,392,270	13,511,745	3,415,583	224,597,889
Trading liabilities	2,135,390	-	-	-	-	-	2,135,390
Financial liabilities designated at fair value through profit or loss	151,597	368,648	335,632	1,586,608	5,496,762	977,743	8,916,990
Borrowings	10,799,071	2,321,249	1,410,898	2,392,047	4,425,261	682,720	22,031,246
Debt securities issued	805,212	2,582,626	3,036,650	8,292,380	25,620,414	4,096,669	44,433,951
Other financial liabilities	18,623,136	(7,698)	303,104	196,771	321,174	55,163	19,491,650
	₩ 140,544,256	27,260,938	31,338,612	63,860,076	49,375,356	9,227,878	321,607,116
Off balance (*4):							
Finance guarantee contracts	₩ 3,679,486	-	-	-	-	-	3,679,486
Loan commitments and other	76,965,151	-	-	-	-	-	76,965,151
	₩ 80,644,637	-	-	-	-	-	80,644,637
<b>Derivatives:</b>							
Cash inflows	₩ 2,040,644	493,895	375,267	1,127,109	1,835,195	42,160	5,914,270
Cash outflows	(2,601,358)	(329,658)	(354,063)	(1,075,864)	(1,645,263)	(30,270)	(6,036,476)
	₩ (560,714)	164,237	21,204	51,245	189,932	11,890	(122,206)

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

	2014						Total
	Less than 1 month	1~3 months	3~6 months	6 months ~1 year	1~5 years	More than 5 years	
<b>Non-derivative financial instruments:</b>							
<b>Assets:</b>							
Cash and due from banks	₩ 16,293,055	1,202,567	1,294,502	1,824,756	35,664	47,375	20,697,919
Trading assets (*3)	24,206,873	7,380	-	37,479	36,498	81,519	24,369,749
Financial assets designated at fair value through profit or loss	1,894,062	32,715	116,973	26,051	564,132	103,596	2,737,529
Loans	28,612,094	29,867,481	34,979,379	51,517,129	55,500,327	49,283,162	249,759,572
Available-for-sale financial assets (*3)	26,174,710	1,955,624	30,042	1,002,739	26,551	2,229,016	31,418,682
Held-to-maturity financial assets	205,544	636,188	394,655	1,265,085	7,646,864	7,471,576	17,619,912
Other financial assets	6,337,858	21,269	20,151	327,983	3,382,771	190,599	10,280,631
	₩ 103,724,196	33,723,224	36,835,702	56,001,222	67,192,807	59,406,843	356,883,994
<b>Liabilities:</b>							
Deposits (*2)	₩ 92,720,125	22,382,996	27,514,353	42,443,826	11,473,918	3,708,829	200,244,047
Trading liabilities	2,688,734	-	-	-	-	-	2,688,734
Financial liabilities designated at fair value through profit or loss	149,918	220,932	287,058	820,256	6,672,700	845,656	8,996,520
Borrowings	13,112,645	1,991,313	1,751,068	1,791,657	3,737,094	846,679	23,230,456
Debt securities issued	846,643	1,909,290	4,171,870	7,515,358	23,271,423	3,201,822	40,916,406
Other financial liabilities	16,634,144	45,750	15,921	172,690	471,352	108,993	17,448,850
	₩ 126,152,209	26,550,281	33,740,270	52,743,787	45,626,487	8,711,979	293,525,013
<b>Off balance (*4):</b>							
Finance guarantee contracts	₩ 3,090,873	-	-	-	-	-	3,090,873
Loan commitments and other	74,295,365	-	-	-	-	-	74,295,365
	₩ 77,386,238	-	-	-	-	-	77,386,238
<b>Derivatives:</b>							
Cash inflows	₩ 1,530,627	339,105	197,109	1,036,878	1,845,455	50,797	4,999,971
Cash outflows	(1,614,763)	(104,502)	(153,737)	(1,009,806)	(1,925,721)	(433,058)	(5,241,587)
	₩ (84,136)	234,603	43,372	27,072	(80,266)	(382,261)	(241,616)

(\*1) These amounts include cash flows of principal and interest on financial liabilities.

(\*2) Demand deposits amounting to ₩83,639,042 million and ₩68,949,585 million as of December 31, 2015 and 2014 are included in the 'Less than 1 month' category, respectively.

(\*3) Available-for-sale financial assets and trading assets which are not restricted for sale and measured at market prices were included in the 'Less than 1 month' category; and the other available-for-sale financial assets and trading assets are classified by the earliest maturities available for sale.

(\*4) Financial guarantees such as financial guarantee contracts and loan commitments and others provided by the Group are classified based on the earliest date at which the Group should fulfill the obligation under the guarantee when the counterparty requests payment.

## (e) Measurement of fair value

The fair values of financial instruments being traded in an active market are determined by the published market prices of each period end. The published market prices of financial instruments being held by the Group are based on the trading agencies' notifications. If the market for a financial instrument is not active, such as OTC (Over The Counter market) derivatives, fair value is determined either by using a valuation technique or independent third-party valuation service.

The Group uses various valuation techniques and is setting rational assumptions based on the present market situations. Such valuation techniques may include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

The Group classifies and discloses fair value of financial instruments into the following three-level hierarchy:

- Level 1: Financial instruments measured at quoted prices from active markets are classified as fair value level 1.
- Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.
- Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

**i) Financial instruments measured at fair value**

- The fair value hierarchy of financial assets presented at their fair values in the statements of financial position as of December 31, 2015 and 2014 are as follows:

	2015			Total
	Level 1	Level 2	Level 3	
<b>Financial assets</b>				
Trading assets:				
Debt securities	₩ 5,496,812	13,789,920	159,454	19,446,186
Equity securities	1,168,610	1,832,283	42,149	3,043,042
Gold deposits	149,221	-	-	149,221
Financial assets designated at fair value through profit or loss:				
Debt securities and others	133,652	1,868,749	326,618	2,329,019
Equity securities	6,045	784,596	124,506	915,147
Derivative assets:				
Trading	4,881	1,695,320	113,160	1,813,361
Hedging	-	153,455	27,898	181,353
Available-for-sale financial assets:				
Debt securities	9,265,153	19,582,353	190,134	29,037,640
Equity securities	1,545,321	594,186	2,788,924	4,928,431
	₩ 17,769,695	40,300,862	3,772,843	61,843,400
<b>Financial liabilities:</b>				
Trading liabilities:				
Securities sold	₩ 1,681,785	-	-	1,681,785
Gold deposits	453,605	-	-	453,605
Financial liabilities designated at fair value through profit or loss:				
Deposits	-	10,542	2,967	13,509
Securities sold	86,532	-	-	86,532
Derivatives-combined securities	-	2,374,637	6,441,654	8,816,291
Derivative liabilities:				
Trading	9,122	1,653,121	752,927	2,415,170
Hedging	-	92,146	91,972	184,118
	₩ 2,231,044	4,130,446	7,289,520	13,651,010

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

	2014			Total
	Level 1	Level 2	Level 3	
<b>Financial assets</b>				
Trading assets:				
Debt securities	₩ 5,553,244	15,567,883	155,271	21,276,398
Equity securities	1,191,394	1,659,309	10,519	2,861,222
Gold deposits	224,556	-	-	224,556
Financial assets designated at fair value through profit or loss:				
Debt securities and others	59,945	1,469,473	416,782	1,946,200
Equity securities	17,955	630,537	142,683	791,175
Derivative assets:				
Trading	4,640	1,247,402	159,126	1,411,168
Hedging	-	95,706	61,433	157,139
Available-for-sale financial assets:				
Debt securities	7,371,643	19,468,619	15,400	26,855,662
Equity securities	1,647,908	346,331	2,568,113	4,562,352
	₩ 16,071,285	40,485,260	3,529,327	60,085,872
<b>Financial liabilities:</b>				
Trading liabilities:				
Securities sold	₩ 2,259,798	-	-	2,259,798
Gold deposits	428,936	-	-	428,936
Financial liabilities designated at fair value through profit or loss:				
Deposits	-	3,054	3,085	6,139
Securities sold	417	-	-	417
Derivatives-combined securities	154	2,004,122	6,985,349	8,989,625
Derivative liabilities:				
Trading	5,317	1,360,839	230,244	1,596,400
Hedging	-	92,392	28,763	121,155
	₩ 2,694,622	3,460,407	7,247,441	13,402,470



- There was no transfer between level 1 and level 2 for the years ended December 31, 2015 and 2014.  
 - Changes in carrying values of financial instruments classified as Level 3 for the years ended December 31, 2015 and 2014 are as follows:

	2015				
	Trading assets	Financial assets designated at FVTPL (*3)	Available-for-sale financial assets	Derivative assets and liabilities, net	Financial liabilities designated at FVTPL (*)
Beginning balance	₩ 165,790	559,465	2,583,513	(38,448)	(6,988,434)
Recognized in total comprehensive income for the year:					
Recognized in profit (loss) for the year (*1)	4,426	(70,335)	61,988	(594,773)	469,274
Recognized in other comprehensive income (loss) for the year	-	-	(32,170)	(163)	-
	4,426	(70,335)	29,818	(594,936)	469,274
Purchase	278,477	354,258	903,357	15,932	(179)
Issue	-	-	-	-	(7,662,427)
Settlement	(247,090)	(392,264)	(462,617)	(86,327)	7,737,145
Transfer in (*2)	-	-	23,511	-	-
Transfer out (*2)	-	-	(98,524)	(62)	-
Ending balance	₩ 201,603	451,124	2,979,058	(703,841)	(6,444,621)

	2014				
	Trading assets	Financial assets designated at FVTPL (*3)	Available-for-sale financial assets	Derivative assets and liabilities, net	Financial liabilities designated at FVTPL (*)
Beginning balance	₩ 35,345	894,706	2,134,276	(305,107)	(4,529,091)
Recognized in total comprehensive income for the year:					
Recognized in profit (loss) for the year (*1)	7,519	(124,819)	(114,991)	348,608	(356,036)
Recognized in other comprehensive income (loss) for the year	-	-	133,010	(798)	-
	7,519	(124,819)	18,019	347,810	(356,036)
Purchase	412,363	323,824	603,113	30,864	-
Issue	-	-	-	-	(3,538)
Settlement	(289,437)	(534,246)	(203,674)	(111,963)	(2,099,769)
Transfer in (*2)	-	-	35,336	-	-
Transfer out (*2)	-	-	(3,557)	(52)	-
Ending balance	₩ 165,790	559,465	2,583,513	(38,448)	(6,988,434)

(\*1) Recognized profit or loss of the changes in carrying value of financial instruments classified as Level 3 for the years ended December 31, 2015 and 2014, are included in the accounts of the statements of comprehensive income, of which the amounts and the related accounts are as follows:

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

	2015		2014	
	Amounts recognized in profit or loss	Recognized profit or loss from the financial instruments held as of December 31	Amounts recognized in profit or loss	Recognized profit or loss from the financial instruments held as of December 31
Trading income	₩ (517,524)	(797,960)	202,418	1,329
Gain (loss) on financial instruments designated at FVTPL	398,938	726,298	(480,854)	(232,238)
Gain (loss) on disposal of available-for-sale financial assets	148,084	-	26,342	-
Impairment losses on financial assets	(88,327)	(85,679)	(141,410)	(140,885)
Other operating income (expenses)	(70,591)	(70,385)	153,785	154,846
	₩ (129,420)	(227,726)	(239,719)	(216,948)

(\*2) Changes in levels for the financial instruments occurred due to the change in the availability of observable market data. The Group reviews the levels of financial instruments as of the end of the reporting period considering the related events and circumstances in the reporting period.

(\*3) FVTPL : fair value through profit or loss

- Valuation techniques and inputs used in measuring the fair value of financial instruments classified as level 2 as of December 31, 2015 are as follows:

Type of financial instrument	Valuation technique	Carrying value	Significant inputs
<b>Assets</b>			
Trading assets:			
Debt securities	DCF(*1)	₩ 13,789,920	Discount rate Price of underlying assets
Equity securities	NAV(*2)	1,832,283	
		15,622,203	
Financial assets designated at fair value through profit or loss:			
Debt securities	DCF(*1)	1,868,749	Discount rate Price of underlying assets
Equity securities	NAV(*2)	784,596	
		2,653,345	
Derivative assets:			
Trading	Option model,	1,695,320	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
Hedging	DCF(*1)	153,455	
		1,848,775	
Available-for-sale financial assets:			
Debt securities	DCF(*1)	19,582,353	Price of underlying assets
Equity securities	NAV(*2)	594,186	
		20,176,539	
		40,300,862	
<b>Liabilities</b>			
Financial liabilities designated at fair value through profit or loss:			
Others	DCF(*1)	2,385,179	Discount rate
Derivative liabilities:			
Trading	Option model,	1,653,121	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
Hedging	DCF(*1)	92,146	
		1,745,267	
		₩ 4,130,446	

(\*1) DCF : Discounted cash flow (\*2) NAV : Net asset value

- Valuation techniques and significant inputs, but not observable, used in measuring the fair value of financial instruments classified as level 3 as of December 31, 2015 are as follows:

Type of financial instrument	Valuation technique	Carrying value (*4)	Significant unobservable inputs	Range
<b>Financial assets</b>				
Trading assets:				
Debt securities	DCF(*1)	₩ 159,454	The volatility of the underlying asset, correlations	0.44%~23.73% 77.95%
Financial assets designated at fair value through profit or loss:				
Debt securities and other securities	DCF(*1)	451,124	The volatility of the underlying asset, correlations	5.06%~80.39% (7.44)%~53.5%
Derivative assets:				
Equity and foreign exchange related	Option model(*2)	74,613	The volatility of the underlying asset, correlations	3.74%~43.50% (44.72)%~53.5%
Interest rates related	Option model(*2)	55,189	The volatility of the underlying asset, regression coefficient, correlations	0.40%~16.6% 0.02%~2.05% 0%~100%
Credit and commodity related	Option model(*2)	11,256	The volatility of the underlying asset, correlations	1.41%~47.48% (8.26)%~90.25%
		141,058		
Available-for-sale financial assets:				
Debt securities	NAV(*3)	190,134	Discount rate, growth rate	0.84%~21.65% 0%~3.5%
Equity securities	DCF(*1)	2,788,924		
		2,979,058		
		₩ 3,730,694		

(\*1) DCF : discounted cash flow

(\*2) Option model that the Group uses in derivative valuation includes Black-Scholes model, Hull-White model, Monte Carlo simulation, etc.

(\*3) NAV : net asset value

(\*4) Valuation techniques and inputs are not disclosed when the carrying amount is a reasonable approximation of fair value.

Type of financial instrument	Valuation technique	Carrying value (*2)	Significant unobservable inputs	Range
<b>Financial liabilities</b>				
Financial liabilities designated at fair value through profit or loss:				
Equity related	Option model(*1)	₩ 6,444,621	The volatility of the underlying asset, correlations	22.20%~28.48% 15.43%~52.70%
Derivative liabilities:				
Equity and foreign exchange related	Option model(*1)	590,208	The volatility of the underlying asset, correlations	3.74%~79.81% (3.84)%~73.25% 0.16%~32.94%
Interest rates related	Option model(*1)	109,709	The volatility of the underlying asset, regression coefficient, correlations	0.02%~2.04% 0%~100%
Credit and commodity related	Option model(*1)	144,982	The volatility of the underlying asset, correlations	7.09~47.48% 23.90%~100%
		844,899		
		₩ 7,289,520		

(\*1) Option model that the Group uses in derivative valuation includes Black-Scholes model, Hull-White model, Monte Carlo simulation, etc.

(\*2) Valuation techniques and inputs are not disclosed when the carrying amount is a reasonable approximation of fair value.



## ii) Financial instruments measured at amortized cost

- The method of measuring the fair value of financial instruments measured at amortized cost is as follows:

Type	Measurement methods of fair value
Cash and due from banks	The carrying amount and the fair value for cash are identical and most of deposits are floating interest rate deposits or next day deposits of a short-term instrument. For this reason, the carrying value approximates fair value.
Loans	The fair value of the loans is measured by discounting the expected cash flow at the market interest rate and credit risk, etc.
Held-to-maturity financial assets	The fair value of held-to-maturity financial assets is determined by applying the lesser of two quoted bond prices provided by two bond pricing agencies as of the latest trading date
Deposits and borrowings	The carrying amount and the fair value for demand deposits, cash management account deposits, call money as short-term instrument are identical. The fair value of others is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.
Debt securities issued	The fair value of deposits and borrowings is based on the published price quotations in an active market. In case there is no data for an active market price, it is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.

- The carrying value and the fair value of financial instruments measured at amortized cost as of December 31, 2015 and 2014 are as follows:

	2015		2014	
	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Loans	₩ 246,441,361	249,182,868	221,617,689	223,965,124
Held-to-maturity financial assets	16,192,060	17,489,238	13,373,384	14,231,320
Other financial assets	11,878,420	11,907,777	10,151,338	10,204,666
	₩ 274,511,841	278,579,883	245,142,411	248,401,110
Liabilities:				
Deposits	₩ 217,676,428	217,907,829	193,709,738	194,057,580
Borrowings	21,733,865	21,799,206	22,973,767	23,097,742
Debt securities issued	41,221,284	41,878,643	37,334,612	38,270,720
Other financial liabilities	19,535,670	19,508,155	17,485,236	17,432,936
	₩ 300,167,247	301,093,833	271,503,353	272,858,978

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

- The fair value hierarchy of financial assets and liabilities which are not measured at their fair values in the statements of financial position as of December 31, 2015 and 2014 are as follows:

	2015			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Loans	₩ 27,038	1,577,960	247,577,870	249,182,868
Held-to-maturity financial assets	6,360,572	11,128,666	-	17,489,238
Other financial assets	25,165	7,669,816	4,212,796	11,907,777
	₩ 6,412,775	20,376,442	251,790,666	278,579,883
<b>Liabilities:</b>				
Deposits	₩ 2,102,888	85,012,736	130,792,205	217,907,829
Borrowings	5,499,951	273,026	16,026,229	21,799,206
Debt securities issued in won	-	27,375,939	14,502,704	41,878,643
Other financial liabilities	25,803	7,488,938	11,993,414	19,508,155
	₩ 7,628,642	120,150,639	173,314,552	301,093,833

	2014			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Loans	₩ 29,569	2,959,108	220,976,447	223,965,124
Held-to-maturity financial assets	5,135,924	9,095,396	-	14,231,320
Other financial assets	16,544	5,841,425	4,346,697	10,204,666
	₩ 5,182,037	17,895,929	225,323,144	248,401,110
<b>Liabilities:</b>				
Deposits	₩ 1,697,313	70,025,042	122,335,225	194,057,580
Borrowings	7,542,900	1,793,101	13,761,741	23,097,742
Debt securities issued in won	-	23,667,234	14,603,486	38,270,720
Other financial liabilities	17,520	5,189,079	12,226,337	17,432,936
	₩ 9,257,733	100,674,456	162,926,789	272,858,978



- For financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed, information on valuation technique and inputs used in measuring fair value of financial instruments classified as level 2 or level 3 at December 31, 2015 and 2014 are as follows:

	2015		
	Fair value (*2)	Valuation technique	Inputs
<b>Financial instruments classified as level 2 :</b>			
Assets			
Loans	₩ 1,577,960	DCF(*1)	Discount rate, credit spread, prepayment rate
Held-to-maturity financial assets	11,128,666	DCF(*1)	Discount rate
Other financial assets	7,669,816	DCF(*1)	Discount rate
	20,376,442		
Liabilities			
Deposits	85,012,736	DCF(*1)	Discount rate
Borrowings	273,026	DCF(*1)	Discount rate
Debt securities issued	27,375,939	DCF(*1)	Discount rate
Other financial liabilities	7,488,938	DCF(*1)	Discount rate
	₩ 120,150,639		
<b>Financial instruments classified as level 3 :</b>			
Assets			
Loans	₩ 247,577,870	DCF(*1)	Discount rate, credit spread, prepayment rate
Other financial assets	4,212,796	DCF(*1)	Discount rate
	251,790,666		
Liabilities			
Deposits	130,792,205	DCF(*1)	Discount rate
Borrowings	16,026,229	DCF(*1)	Discount rate
Debt securities issued	14,502,704	DCF(*1)	Discount rate, regression coefficient, correlation coefficient
Other financial liabilities	11,993,414	DCF(*1)	Discount rate
	₩ 173,314,552		

# Notes to the Consolidated Financial Statements

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	2014		
	Fair value (*2)	Valuation technique	Inputs
<b>Financial instruments classified as level 2 :</b>			
Assets			
Loans	₩ 2,959,108	DCF(*1)	Discount rate, credit spread, prepayment rate
Held-to-maturity financial assets	9,095,396	DCF(*1)	Discount rate
Other financial assets	5,841,425	DCF(*1)	Discount rate
	17,895,929		
Liabilities			
Deposits	70,025,042	DCF(*1)	Discount rate
Borrowings	1,793,101	DCF(*1)	Discount rate
Debt securities issued	23,667,234	DCF(*1)	Discount rate
Other financial liabilities	5,189,079	DCF(*1)	Discount rate
	₩ 100,674,456		
<b>Financial instruments classified as level 3 :</b>			
Assets			
Loans	₩ 220,976,447	DCF(*1)	Discount rate, credit spread, prepayment rate
Other financial assets	4,346,697	DCF(*1)	Discount rate
	225,323,144		
Liabilities			
Deposits	122,335,225	DCF(*1)	Discount rate
Borrowings	13,761,741	DCF(*1)	Discount rate
Debt securities issued	14,603,486	DCF(*1)	Discount rate, regression coefficient, correlation coefficient
Other financial liabilities	12,226,337	DCF(*1)	Discount rate
	₩ 162,926,789		

(\*1) DCF : discounted cash flow

(\*2) Valuation techniques and inputs are not disclosed when the carrying amount is a reasonable approximation of fair value

iii) Changes in the difference between the fair value at initial recognition (the transaction price) and the value using models with unobservable inputs for the years ended December 31, 2015 and 2014

		2015	2014
Beginning balance	₩	(86,178)	(29,448)
Deferral on new transactions		(69,818)	(94,299)
Recognized in profit for the year		53,980	37,582
Ending balance	₩	(102,016)	(86,165)

**(f) Classification by categories of financial instruments**

Financial assets and liabilities are measured at fair value or amortized cost. The financial instruments measured at fair value or amortized cost are measured in accordance with the Group's valuation methodologies, which are described in Note 4.(e) Measurement of fair value.

The carrying amounts of each category of financial assets and financial liabilities as of December 31, 2015 and 2014 are as follows:

	2015						Total
	Trading assets	FVTPL assets (*1)	AFS (*2)	HTM (*3)	Loans and receivable	Derivatives held for hedging	
Assets:							
Cash and due from banks	₩ -	-	-	-	22,024,404	-	22,024,404
Trading assets	22,638,449	-	-	-	-	-	22,638,449
Financial assets designated at FVTPL (*1)	-	3,244,166	-	-	-	-	3,244,166
Derivatives	1,813,361	-	-	-	-	181,353	1,994,714
Loans	-	-	-	-	246,441,361	-	246,441,361
AFS financial assets (*2)	-	-	33,966,071	-	-	-	33,966,071
HTM financial assets (*3)	-	-	-	16,192,060	-	-	16,192,060
Other	-	-	-	-	11,878,420	-	11,878,420
	₩ 24,451,810	3,244,166	33,966,071	16,192,060	280,344,185	181,353	358,379,645

	2015				Total
	Trading liabilities	FVTPL liabilities (*1)	Financial liabilities measured at amortized cost	Derivatives held for hedging	
Liabilities:					
Deposits	₩ -	-	217,676,428	-	217,676,428
Trading liabilities	2,135,390	-	-	-	2,135,390
Financial liabilities designated at FVTPL (*1)	-	8,916,332	-	-	8,916,332
Derivatives	2,415,170	-	-	184,118	2,599,288
Borrowings	-	-	21,733,865	-	21,733,865
Debt securities issued	-	-	41,221,284	-	41,221,284
Other	-	-	19,535,670	-	19,535,670
	₩ 4,550,560	8,916,332	300,167,247	184,118	313,818,257

(\*1) FVTPL : fair value through profit of loss

(\*2) AFS : available-for-sale

(\*3) HTM : held-to-maturity

# Notes to the Consolidated Financial Statements

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	2014						Total
	Trading assets	FVTPL assets (*1)	AFS (*2)	HTM (*3)	Loans and receivable	Derivatives held for hedging	
Assets:							
Cash and due from banks	₩ -	-	-	-	20,584,838	-	20,584,838
Trading assets	24,362,176	-	-	-	-	-	24,362,176
Financial assets designated at FVTPL (*1)	-	2,737,375	-	-	-	-	2,737,375
Derivatives	1,411,168	-	-	-	-	157,139	1,568,307
Loans	-	-	-	-	221,617,689	-	221,617,689
AFS financial assets (*2)	-	-	31,418,014	-	-	-	31,418,014
HTM financial assets (*3)	-	-	-	13,373,384	-	-	13,373,384
Other	-	-	-	-	10,151,338	-	10,151,338
	₩ 25,773,344	2,737,375	31,418,014	13,373,384	252,353,865	157,139	325,813,121

	2014				Total
	Trading liabilities	FVTPL liabilities (*1)	Financial liabilities measured at amortized cost	Derivatives held for hedging	
Liabilities:					
Deposits	₩ -	-	193,709,738	-	193,709,738
Trading liabilities	2,688,734	-	-	-	2,688,734
Financial liabilities designated at FVTPL (*1)	-	8,996,181	-	-	8,996,181
Derivatives	1,596,400	-	-	121,155	1,717,555
Borrowings	-	-	22,973,767	-	22,973,767
Debt securities issued	-	-	37,334,612	-	37,334,612
Other	-	-	17,485,236	-	17,485,236
	₩ 4,285,134	8,996,181	271,503,353	121,155	284,905,823

(\*1) FVTPL : fair value through profit of loss

(\*2) AFS : available-for-sale

(\*3) HTM : held-to-maturity

## (g) Transfer of financial instruments

### i) Transfers that do not qualify for derecognition

- Bonds sold under repurchase agreements as of December 31, 2015 and 2014 are as follows:

	2015	2014
Transferred asset:		
Financial assets at fair value through profit or loss	₩ 5,605,287	6,929,219
Available-for-sale financial assets	1,050,002	972,344
Held-to-maturity financial assets	497,786	375,396
Loans	270,100	158,673
Associated liabilities:		
Bonds sold under repurchase agreements	₩ 6,617,251	7,707,954

- Securities loaned as of December 31, 2015 and 2014 are as follows:

		2015	2014	Borrowers
Government bonds	₩	36,786	491,931	Korea Securities Finance Corp., Mitsui Sumitomo and others
Financial institutions bonds		130,019	140,239	Korea Securities Finance Corp.
Corporate bonds		-	1,831	Mirae Asset Securities Co.,Ltd.
	₩	166,805	634,001	

ii) Financial instruments qualified for derecognition and continued involvement

There was no financial instruments which qualify for derecognition and in which the Group has continuing involvements as of December 31, 2015, and 2014.

**(h) Offsetting financial assets and financial liabilities**

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2015 and 2014 are as follows:

	2015					
	Gross amounts of recognized financial assets/ liabilities	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
<b>Assets:</b>						
Derivatives(*1)	₩ 1,903,714	-	1,903,714	6,977,154	10,361	2,285,289
Other financial instruments(*1)	8,497,835	1,128,745	7,369,090			
Bonds purchased under repurchase agreements(*2)	12,957,346	-	12,957,346	12,431,670	-	525,676
Securities loaned(*2)	166,805	-	166,805	159,807	-	6,998
Domestic exchange settlement debit(*3)	27,408,941	25,036,860	2,372,081	18,939	-	2,353,142
Receivables from disposal of securities(*4)	2,117	523	1,594	-	-	1,594
Insurance receivables	2,379	-	2,379	1,492	-	887
	50,939,137	26,166,128	24,773,009	19,589,062	10,361	5,173,586
<b>Liabilities:</b>						
Derivatives(*1)	2,715,265	-	2,715,265	7,009,512	-	1,000,226
Other financial instruments(*1)	6,423,218	1,128,745	5,294,473			
Bonds purchased under repurchase agreements(*2)	6,617,251	-	6,617,251	6,617,251	-	-
Securities borrowed(*2)	1,768,317	-	1,768,317	1,768,317	-	-
Domestic exchange settlement pending(*3)	27,245,592	25,036,860	2,208,732	2,165,161	-	43,571
Payable from purchase of securities(*4)	575	523	52	47	-	5
Insurance payables	1,492	-	1,492	1,492	-	-
	₩ 44,771,710	26,166,128	18,605,582	17,561,780	-	1,043,802

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	2014					
	Gross amounts of recognized financial assets/liabilities	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
<b>Assets:</b>						
Derivatives(*1)	₩ 1,513,338	-	1,513,338	5,006,936	25,044	920,259
Other financial instruments(*1)	5,280,560	841,659	4,438,901			
Bonds purchased under repurchase agreements(*2)	11,071,542	-	11,071,542	10,510,942	-	560,600
Securities loaned(*2)	634,001	-	634,001	487,090	-	146,911
Domestic exchange settlement debit(*3)	24,624,335	22,524,299	2,100,036	3,561	-	2,096,475
Receivables from disposal of securities(*4)	4,648	316	4,332	4,332	-	-
Insurance receivables	1,775	-	1,775	1,198	-	577
	<b>43,130,199</b>	<b>23,366,274</b>	<b>19,763,925</b>	<b>16,014,059</b>	<b>25,044</b>	<b>3,742,822</b>
<b>Liabilities:</b>						
Derivatives(*1)	1,845,449	-	1,845,449	4,978,480	-	711,744
Other financial instruments(*1)	4,686,434	841,659	3,844,775			
Bonds purchased under repurchase agreements(*2)	7,707,954	-	7,707,954	7,707,954	-	-
Securities borrowed(*2)	2,253,329	-	2,253,329	2,253,329	-	-
Domestic exchange settlement pending(*3)	24,010,268	22,524,299	1,485,969	1,449,106	-	36,863
Payable from purchase of securities(*4)	551	315	236	236	-	-
Insurance payables	1,198	-	1,198	1,198	-	-
	<b>₩ 40,505,183</b>	<b>23,366,273</b>	<b>17,138,910</b>	<b>16,390,303</b>	<b>-</b>	<b>748,607</b>

(\*1) The Group has certain derivative transactions subject to the ISDA (International Swaps and Derivatives Association) agreement. According to the ISDA agreement, when credit events (e.g. default) of counterparties occur, all derivative agreements are terminated and set off.

(\*2) Resale and repurchase agreement, securities borrowing and lending agreement are also similar to ISDA agreement with respect to enforceable netting agreements.

(\*3) The Group has legally enforceable right to set off and settles financial assets and liabilities on a net basis. Therefore, domestic exchanges settlement receivables (payables) are recorded on a net basis in the consolidated statements of financial position.

(\*4) Receivables and payables related to settlement of purchase and disposition of enlisted securities are offset and the net amount is presented in the consolidated statement of financial position because the Group currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis.

## (i) Capital risk management

The controlling company, controlling banks or other financial institutions conducting banking business as prescribed in the Financial Holding Company Act, is required to maintain a minimum consolidated equity capital ratio of 8.0%.

“Consolidated equity capital ratio” is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with the Financial Services Commission requirements that have been formulated based on Bank of International Settlement standards. “Equity capital”, as applicable to bank holding companies, is defined as the sum of Common Equity Tier 1 capital (including common stock, share premium resulting from the issue of instruments included common equity Tier 1, retained earnings, etc.), Additional Tier 1 capital (with the minimum set of criteria for an instrument issued by the Group to meet, ie ‘perpetual’) and Tier 2 capital (to provide loss absorption on a gone-concern basis) less any deductible items (including goodwill, income tax assets, etc.), each as defined under the Regulation on the Supervision of Financial Holding Companies. “Risk-weighted assets” is defined as the sum of credit risk-weighted assets and market risk-weighted assets.

The capital adequacy ratio of the Group as of December 31, 2015 and 2014 are as follows:



		<b>2015</b>	2014
Capital (A)	₩	<b>27,216,448</b>	25,937,968
Risk-weighted assets (B)		<b>203,274,542</b>	198,832,860
BIS ratio (A/B)		<b>13.39%</b>	13.05%

As of December 31, 2015 and 2014, the Group met the regulatory capital ratio above 8%.

Shinhan Life Insurance measures and manages RBC (risk based capital) ratio according to the Regulation on Supervision of Insurance Business to maintain required capital for the solvency margin.

As of December 31, 2015 and 2014, the Group's BIS capital ratio and Shinhan Life Insurance's RBC ratio exceed the regulatory minimum ratios.

## 5. Significant estimate and judgment

The preparation of consolidated financial statements requires the application of certain critical accounting and assumptions relative to the future. Management's estimate of the outcome may differ from an actual outcome if managements' estimate and assumption based on its best judgment at the reporting date are different from an actual environment. The change in an accounting estimate is recognized prospectively in profit or loss in the year of the change, if the change affects that year only, or the year of the change and future years, if the change affects both.

### (a) Goodwill

The Group assesses annually whether any objective evidence of impairment on goodwill exists in accordance with the accounting policy as described in note 3. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is measured based on estimates.

### (b) Income taxes

The Group is subject to tax law from various countries. Within the normal business process, there are various types of transaction and different accounting method that may add uncertainties to the decision of the final income taxes. The Group has recognized current and deferred tax that reflect tax consequences that would follow from the manner in which the entity expects, at the end of the reporting year, to recover or settle the carrying amount of its assets and liabilities. However, actual income tax in the future may not be identical to the recognized deferred tax assets and liabilities, and this difference can affect current and deferred tax at the year when the final tax effect is conformed.

### (c) Fair value of financial instruments

The fair values of financial instruments which are not actively traded in the market are determined by using valuation techniques. The Group determines valuation method and assumptions based on significant market conditions at the end of each reporting year. Diverse valuation techniques are used to determine the fair value of financial instruments, from general market accepted valuation model internally developed valuation model that incorporates various types of assumptions and variables.

### (d) Allowances for loan losses, guarantees and unused loan commitments

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes provision for guarantees and unused loan commitments. The accuracy of provisions of credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for allowances on individual loans and collectively assessing allowances for groups of loans, guarantees and unused loan commitments.

### (e) Defined benefit obligation

The present value of defined benefit obligation that is measured by actuarial valuation method uses various assumptions which can change according to various elements. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting year on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in other comprehensive income or loss. Other significant assumptions related to defined benefit obligation are based on current market situation.

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## (f) Impairment of available-for-sale equity investments

When there is a significant or prolonged decline in the fair value of an investment in an equity instrument below its original cost, there is objective evidence that available-for-sale equity investments are impaired. Accordingly, the Group considers the decline in the fair value of more than 30% against the original cost as “significant decline” and the status when the market price for marketable equity is less than the carrying amounts of instruments for six consecutive months as a “prolonged decline”.

## (g) Hedging relationship

The hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items during the period. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

## 6. Investment in subsidiaries

### (a) Summarized financial information of the subsidiaries

i) Condensed financial position for the controlling company and the Group's subsidiaries as of December 31, 2015 and 2014 are as follows:

	2015			2014		
	Total assets	Total liabilities	Total equity	Total assets	Total liabilities	Total equity
Shinhan Financial Group (Separate)	₩ 27,675,487	6,894,501	20,780,986	27,094,548	6,859,429	20,235,119
Shinhan Bank	285,007,437	264,168,084	20,839,353	255,646,329	235,169,429	20,476,900
Shinhan Card Co., Ltd.	23,347,702	17,127,969	6,219,733	22,259,514	16,127,087	6,132,427
Shinhan Investment Corp.	24,337,413	21,811,577	2,525,836	25,928,292	23,598,201	2,330,091
Shinhan Life Insurance Co., Ltd.	24,544,624	22,963,260	1,581,364	21,939,682	20,463,749	1,475,933
Shinhan Capital Co., Ltd.	4,076,553	3,458,433	618,120	3,939,493	3,369,060	570,433
Jeju Bank	4,464,601	4,146,580	318,021	3,475,694	3,170,213	305,481
Shinhan Credit Information Co., Ltd.	23,889	8,632	15,257	23,040	8,420	14,620
Shinhan Private Equity	119,042	108,030	11,012	461,342	371,448	89,894
Shinhan BNP Paribas AMC	170,164	15,356	154,808	188,886	32,429	156,457
SHC Management Co., Ltd.	8,411	615	7,796	8,938	1,358	7,580
Shinhan Data System	26,669	16,404	10,265	25,826	16,461	9,365
Shinhan Savings Bank	795,144	675,435	119,709	804,035	689,550	114,485
Shinhan Aitas Co., Ltd.	42,794	4,965	37,829	37,657	6,242	31,415

(\*1) Condensed financial information of the subsidiaries is based on the consolidated financial information, if applicable.

(\*2) Subsidiaries such as trust, beneficiary certificate, corporate restructuring fund and private equity fund which are not actually operating their own business are excluded.

ii) Condensed comprehensive income statement for the controlling company and the Group's subsidiaries for years ended December 31, 2015 and 2014 were as follows:

	2015			2014		
	Operating income	Net income	Total comprehensive income	Operating income	Net income	Total comprehensive income
Shinhan Financial Group (separate)	₩ 1,201,949	893,041	893,328	1,061,540	662,623	660,754
Shinhan Bank	14,656,853	1,489,988	1,197,961	13,987,650	1,455,653	1,396,780
Shinhan Card Co., Ltd.	4,740,139	694,774	629,164	4,596,758	635,151	547,666
Shinhan Investment Corp.	4,734,162	215,454	225,342	3,295,109	118,235	104,390
Shinhan Life Insurance Co., Ltd.	5,460,671	100,221	115,083	5,134,910	80,672	186,493
Shinhan Capital Co., Ltd.	380,867	46,081	52,754	328,077	51,945	55,591
Jeju Bank	167,479	19,397	14,665	168,593	13,856	15,608
Shinhan Credit Information Co., Ltd.	27,279	723	610	28,145	1,055	891
Shinhan Private Equity	373,577	6,401	6,602	332,861	8,327	7,579
Shinhan BNP Paribas AMC	83,718	23,653	23,721	89,019	28,195	28,228
SHC Management Co., Ltd.	287	215	215	558	482	482
Shinhan Data System	73,096	1,046	871	69,136	2,647	1,188
Shinhan Savings Bank	60,927	8,017	8,816	72,075	11,140	14,758
Shinhan Aitas Co., Ltd.	32,949	6,415	6,415	28,515	3,988	3,988

(\*1) Condensed financial information of the subsidiaries is based on the consolidated financial information, if applicable.

(\*2) Subsidiaries such as trust, beneficiary certificate, corporate restructuring fund and private equity fund which are not actually operating their own business are excluded.

#### (b) Change in subsidiaries

i) The subsidiaries that were newly included in consolidation during the year ended December 31, 2015 are as follows:

Company	Description
Banco Shinhan de Mexico	Newly established subsidiary
PT Bank Metro Express	Acquisition
PT Centratama Nasional Bank	Acquisition
Nam An Securities Co. Ltd.	Acquisition
PT. Shinhan Indo Finance	Acquisition

ii) The subsidiary that was newly included in consolidation during the year ended December 31, 2014 is as follows:

Company	Description
LLP MFO Shinhan Finance	Newly established subsidiary

Subsidiaries such as trust, beneficiary certificate, corporate restructuring fund and private equity fund which are not actually operating their own business are excluded.

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

## 7. Operating segments

### (a) Segment information

The general descriptions by operating segments as of December 31, 2015 are as follows:

Segment	Description
Banking (*)	Banking and related business
Credit card	Credit card business
Securities	Securities trading, underwriting and brokerage services
Life insurance	Life insurance and related business
Others	Leasing, assets management and other businesses

(\*) The Group previously disclosed the Banking segment by subdividing into four segments, which are Retail Banking, Corporate Banking, International Banking and Other Banking. Due to the substantial changes in internal organization of the Group's Banking segments including the increasing trends of identification among retail branches and corporate branches along with expansion of hybrid branches, the Group's internal reporting documents for the Group's Chief Operating Decision Maker does not present the previous four segments under Banking segment any more. As such, the Group determined to re-define its four pre-existing operating segments within the Banking segments as one single Banking segment, and disclosed it accordingly.

### (b) The following tables provide information of income and expense for each operating segment for the years ended December 31, 2015 and 2014.

	2015						Total
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	
Net interest income (loss)	₩ 4,246,146	1,350,968	444,271	675,760	(32,274)	8,062	6,692,933
Net fees and commission income (loss)	866,597	255,966	266,529	32,232	194,530	5,125	1,620,979
Other income (expense), net	(3,353,601)	(748,996)	(448,840)	(576,370)	(195,323)	(17,641)	(5,340,771)
Operating income	1,759,142	857,938	261,960	131,622	(33,067)	(4,454)	2,973,141
Equity method income (loss)	13,399	-	1,478	(277)	5,601	770	20,971
Income tax expense (benefit)	390,547	183,297	62,668	32,356	28,519	(2,768)	694,619
Profit (loss) for the period	₩ 1,509,385	694,774	215,454	100,221	(59,454)	(14,422)	2,445,958
Controlling interest	₩ 1,509,051	694,774	215,454	100,221	(66,492)	(85,837)	2,367,171
Non-controlling interests	334	-	-	-	7,038	71,415	78,787

	2014						Total
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	
Net interest income (loss)	₩ 4,446,554	1,372,965	386,071	651,109	(70,296)	3,397	6,789,800
Net fees and commission income (loss)	815,839	256,809	197,747	27,365	185,859	(14,461)	1,469,158
Other income (expense), net	(3,447,434)	(836,871)	(450,806)	(560,331)	(194,159)	(114,547)	(5,604,148)
Operating income	1,814,959	792,903	133,012	118,143	(78,596)	(125,611)	2,654,810
Equity method income	11,808	-	10,943	5	6,266	1,558	30,580
Income tax expense (benefit)	384,089	186,886	39,035	31,395	24,407	2,153	667,965
Profit (loss) for the period	₩ 1,469,510	635,151	118,235	80,672	(14,594)	(89,363)	2,199,611
Controlling interest	₩ 1,469,080	635,151	118,235	80,672	(22,325)	(199,703)	2,081,110
Non-controlling interests	430	-	-	-	7,731	110,340	118,501

(c) The following tables provide information of net interest income of each operating segment for the years ended December 31, 2015 and 2014.

	2015						Consolidation adjustment	Total
	Banking	Credit card	Securities	Life insurance	Others			
Net interest income from:								
External customers	₩ 4,253,559	1,390,469	450,019	674,708	(75,822)	-	6,692,933	
Internal transactions	(7,413)	(39,501)	(5,748)	1,052	43,548	8,062	-	
	₩ 4,246,146	1,350,968	444,271	675,760	(32,274)	8,062	6,692,933	

	2014						Consolidation adjustment	Total
	Banking	Credit card	Securities	Life insurance	Others			
Net interest income from:								
External customers	₩ 4,453,340	1,408,923	393,529	648,313	(114,305)	-	6,789,800	
Internal transactions	(6,786)	(35,958)	(7,458)	2,796	44,009	3,397	-	
	₩ 4,446,554	1,372,965	386,071	651,109	(70,296)	3,397	6,789,800	

(d) **Financial information of geographical area**

The following table provides information of income from external consumers by geographical area for the years ended December 31, 2015 and 2014.

		2015	2014
Domestic	₩	2,727,862	2,489,006
Overseas		245,279	165,804
	₩	2,973,141	2,654,810

The following table provides information of non-current assets by geographical area as of December 31, 2015 and 2014.

		2015	2014
Domestic	₩	7,397,788	7,513,214
Overseas		124,302	54,413
	₩	7,522,090	7,567,627

(\*) Non-current assets comprise property and equipment, intangible assets, investment properties.

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

## 8. Cash and due from banks

(a) Cash and due from banks as of December 31, 2015 and 2014 are as follows:

		2015	2014
Cash and cash equivalents	₩	1,957,535	2,522,791
Deposits in won:			
Reserve deposits		7,876,559	5,755,317
Time deposits		2,354,186	2,644,390
Certificate of deposits		29,801	-
Other		2,981,241	4,019,905
		13,241,787	12,419,612
Deposits in foreign currency:			
Deposits		3,217,974	2,540,592
Time deposits		3,058,776	2,577,682
Other		561,165	547,836
		6,837,915	5,666,110
Allowance for credit losses		(12,833)	(23,675)
	₩	22,024,404	20,584,838

(b) Restricted due from banks as of December 31, 2015 and 2014 are as follows:

		2015	2014
Deposits denominated in won:			
Reserve deposits	₩	7,876,559	5,755,317
Other (*)		3,108,270	3,842,219
		10,984,829	9,597,536
Deposits denominated in foreign currency		1,854,514	666,620
	₩	12,839,343	10,264,156

(\*) Pursuant to the Regulation on Financial Investment Business, the Group is required to deposit certain portions of customers' deposits with the Korean Securities Finance Corporation ("KSFC") or banks to ensure repayment of customer deposits and the deposits may not be pledged as collateral.



## 9. Trading assets

Trading assets as of December 31, 2015 and 2014 are as follows:

		2015	2014
Debt securities:			
Governments	₩	3,259,925	2,045,124
Financial institutions		6,776,284	8,302,174
Corporations		4,128,561	5,769,659
Commercial Papers		3,524,629	3,790,597
CMA(*)		1,572,270	1,197,304
Others		184,517	171,540
		<b>19,446,186</b>	<b>21,276,398</b>
Equity securities:			
Stocks		890,901	1,011,012
Beneficiary certificates		2,102,134	1,812,208
Others		50,008	38,002
		<b>3,043,043</b>	<b>2,861,222</b>
Other			
Gold deposits		149,220	224,556
	₩	<b>22,638,449</b>	<b>24,362,176</b>

(\*) CMA: Cash management account deposits

## 10. Financial asset designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss as of December 31, 2015 and 2014 are as follows:

		2015	2014	Reason for designation
Debt securities	₩	1,879,521	1,419,343	Evaluation and management on a fair value basis, accounting mismatch
Equity securities (*)		915,147	791,175	Evaluation and management on a fair value basis, accounting mismatch
Others		449,498	526,857	Combined instrument
	₩	<b>3,244,166</b>	<b>2,737,375</b>	

(\*) Restricted reserve for claims of customers' deposits (trusts) as of December 31, 2015 and 2014 are ₩784,596 million and ₩630,537 million, respectively.

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

## 11. Derivatives

(a) The notional amounts of derivatives as of December 31, 2015 and 2014 are as follows:

		2015	2014
<b>Foreign currency related:</b>			
Over the counter:			
Currency forwards	₩	55,057,195	31,812,684
Currency swaps		19,642,832	14,362,691
Currency options		2,430,336	774,869
		77,080,363	46,950,244
Exchange traded:			
Currency futures		440,791	397,954
		77,521,154	47,348,198
<b>Interest rates related:</b>			
Over the counter:			
Interest rate swaps		47,124,620	62,274,495
Interest rate options		1,231,201	1,861,201
		48,355,821	64,135,696
Exchange traded:			
Interest rate futures		2,088,507	1,236,960
Interest rate swaps (*)		29,544,300	17,943,000
		31,632,807	19,179,960
		79,988,628	83,315,656
<b>Credit related:</b>			
Over the counter:			
Credit swaps		1,154,315	385,333
<b>Equity related:</b>			
Over the counter:			
Equity swaps and forwards		3,707,762	4,168,373
Equity options		2,158,983	2,637,565
		5,866,745	6,805,938
Exchange traded:			
Equity futures		385,164	223,607
Equity options		6,811,381	205,018
		7,196,545	428,625
		13,063,290	7,234,563
<b>Commodity related:</b>			
Over the counter:			
Commodity swaps and forwards		1,146,599	1,170,283
Commodity options		27,533	40,502
		1,174,132	1,210,785
Exchange traded:			
Commodity futures		55,781	159,155
		1,229,913	1,369,940
<b>Hedge:</b>			
Currency forwards		1,230,307	685,348
Currency swaps		2,464,599	2,178,614
Interest rate swaps		7,679,755	8,306,680
		11,374,661	11,170,641
	₩	184,331,961	150,824,332

(\*) The notional amount of derivatives which is settled in the 'Central Counter Party (CCP)' system.

**(b) Fair values of derivative instruments as of December 31, 2015 and 2014 are as follows:**

	2015		2014	
	Assets	Liabilities	Assets	Liabilities
<b>Foreign currency related:</b>				
Over the counter:				
Currency forwards	₩ 806,785	607,632	440,089	509,555
Currency swaps	395,474	534,958	247,236	272,584
Currency options	18,030	10,652	4,440	5,048
	<b>1,220,289</b>	<b>1,153,242</b>	691,765	787,187
Exchange traded:				
Currency futures	-	-	175	-
	<b>1,220,289</b>	<b>1,153,242</b>	691,940	787,187
<b>Interest rates related:</b>				
Over the counter:				
Interest rate swaps	474,447	471,488	564,432	509,140
Interest rate options	10,479	11,932	10,147	16,614
	<b>484,926</b>	<b>483,420</b>	574,579	525,754
Exchange traded:				
Interest rate futures	192	27	213	45
	<b>485,118</b>	<b>483,447</b>	574,792	525,799
<b>Credit related:</b>				
Over the counter:				
Credit swaps	14,568	20,466	1,640	15,484
<b>Equity related:</b>				
Over the counter:				
Equity swap and forwards	17,806	518,812	59,440	(17,352)
Equity options	60,184	75,643	64,626	145,608
	<b>77,990</b>	<b>594,455</b>	124,066	128,256
Exchange traded:				
Equity futures	18	905	201	258
Equity options	4,299	7,977	2,540	104
	<b>4,317</b>	<b>8,882</b>	2,741	362
	<b>82,307</b>	<b>603,337</b>	126,807	128,618
<b>Commodity related:</b>				
Over the counter:				
Commodity swaps and forwards	10,164	154,465	12,663	134,400
Commodity options	543	-	1,814	3
	<b>10,707</b>	<b>154,465</b>	14,477	134,403
Exchange traded:				
Commodity futures	372	213	1,512	4,909
	<b>11,079</b>	<b>154,678</b>	15,989	139,312
<b>Hedge:</b>				
Currency forwards	4,925	34,631	1,127	19,712
Currency swaps	123,706	23,094	38,997	50,788
Interest rate swaps	52,722	126,393	117,015	50,655
	<b>181,353</b>	<b>184,118</b>	157,139	121,155
	₩ <b>1,994,714</b>	<b>2,599,288</b>	1,568,307	<b>1,717,555</b>

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

(c) Gain or loss on valuation of derivatives for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
<b>Foreign currency related</b>			
Over the counter			
Currency forwards	₩	142,086	(71,396)
Currency swaps		(132,226)	(74,327)
Currency options		10,540	582
		20,400	(145,141)
Exchange traded			
Currency futures		(272)	176
		20,128	(144,965)
<b>Interest rates related</b>			
Over the counter			
Interest rate swaps		(65,444)	(35,782)
Interest rate options		(185)	(668)
		(65,629)	(36,450)
Exchange traded			
Interest rate futures		144	168
		(65,485)	(36,282)
<b>Credit related</b>			
Over the counter			
Credit swaps		748	(11,216)
<b>Equity related</b>			
Over the counter			
Equity swap and forwards		(653,231)	62,852
Equity options		5,470	(1,925)
		(647,761)	60,927
Exchange traded			
Equity futures		613	2,748
Equity options		(2,218)	477
		(1,605)	3,225
		(649,366)	64,152
<b>Commodity related</b>			
Over the counter			
Commodity swaps and forwards		(106,976)	(112,485)
Commodity options		(457)	(196)
		(107,433)	(112,681)
Exchange traded			
Commodity futures		(2,582)	(5,527)
		(110,015)	(118,208)
<b>Hedge</b>			
Currency forwards		(27,339)	(13,470)
Currency swaps		97,576	58,444
Interest rate swaps		(120,396)	148,048
		(50,159)	193,022
	₩	(854,149)	(53,497)

**(d) Gain or loss on fair value hedges for the years ended December 31, 2015 and 2014 are as follows:**

		2015	2014
Hedged item	₩	211,951	(133,761)
Hedging instruments		(206,925)	145,560
	₩	5,026	11,799

**(e) Hedge of net investment in foreign operations**

Hedge accounting is applied for a portion of net investments in foreign operations. Foreign currency translation adjustments for foreign operation by each hedging instrument for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
Borrowings in foreign currency	₩	(17,492)	(2,066)
Debt securities issued in foreign currency		(14,005)	22,820
Currency forwards		(2,368)	(5,133)
	₩	(33,865)	15,621

**12. Loans****(a) Loans as of December 31, 2015 and 2014 are as follows:**

		2015	2014
Household loans	₩	96,017,634	84,929,702
Corporate loans		127,026,825	113,989,749
Public and other		2,194,277	2,135,127
Loans to banks		4,653,229	4,683,996
Card receivables		18,537,001	18,140,810
		248,428,966	223,879,384
Discount		(26,806)	(37,458)
Deferred loan origination costs and fees		357,617	276,627
		248,759,777	224,118,553
Allowance for credit losses		(2,318,416)	(2,500,864)
	₩	246,441,361	221,617,689

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

**(b) Changes in the allowance for credit losses for the years ended December 31, 2015 and 2014 are as follows:**

	2015						
	Loans					Other (*2)	Total
	Household	Corporate	Credit Card	Other	Subtotal		
Beginning balance	₩ 247,337	1,509,062	721,848	22,618	2,500,865	118,353	2,619,218
Provision for (reversal of) allowance	122,009	602,141	300,363	(2,802)	1,021,711	-	1,021,711
Write-offs	(122,796)	(701,970)	(488,660)	(66)	(1,313,492)	(18,850)	(1,332,342)
Effect of discounting (*1)	(253)	(30,499)	2,482	-	(28,270)	-	(28,270)
Allowance related to loans sold	(4,447)	(57,985)	(34,157)	(1,911)	(98,500)	-	(98,500)
Recoveries	26,527	88,944	171,253	85	286,809	4,013	290,822
Others (*3)	(1,613)	(51,204)	2,110	-	(50,707)	(23,677)	(74,384)
Ending balance	₩ 266,764	1,358,489	675,239	17,924	2,318,416	79,839	2,398,255

	2014						
	Loans					Other (*2)	Total
	Household	Corporate	Credit Card	Other	Subtotal		
Beginning balance	₩ 223,528	1,589,990	647,818	15,115	2,476,451	98,617	2,575,068
Provision for (reversal of) allowance	163,470	346,803	387,499	(3,050)	894,722	49,706	944,428
Write-offs	(150,381)	(459,018)	(497,538)	(206)	(1,107,143)	(33,742)	(1,140,885)
Effect of discounting (*1)	(220)	(41,700)	(354)	-	(42,274)	-	(42,274)
Allowance related to loans sold	(5,252)	(30,291)	(2,255)	(4)	(37,802)	-	(37,802)
Recoveries	18,883	178,970	181,882	10,763	390,498	4,216	394,714
Others (*3)	(2,691)	(75,692)	4,796	-	(73,587)	(444)	(74,031)
Ending balance	₩ 247,337	1,509,062	721,848	22,618	2,500,865	118,353	2,619,218

(\*1) Interest income from impaired financial assets

(\*2) Included allowance for due from banks and other assets

(\*3) Other changes were due to debt restructuring, debt-equity swap, and foreign exchange rate, etc.

**(c) Changes in deferred loan origination costs and fees for the years ended December 31, 2015 and 2014 are as follows:**

		2015	2014
Beginning balance	₩	276,627	251,249
Loan originations		223,768	179,784
Amortization		(142,778)	(154,406)
Ending balance	₩	357,617	276,627



### 13. Available-for-sale financial assets and held-to-maturity financial assets

(a) Available-for-sale financial assets and held-to-maturity financial assets as of December 31, 2015 and 2014 are as follows:

		2015	2014
<b>Available-for-sale financial assets:</b>			
Debt securities :			
Government bonds	₩	4,281,803	4,007,317
Financial institution bonds		15,594,417	11,922,184
Corporate bonds and others		9,161,420	10,926,161
		<b>29,037,640</b>	<b>26,855,662</b>
Equity securities (*1):			
Stocks		2,113,724	2,416,482
Equity investments		623,465	614,566
Beneficiary certificates		2,118,743	1,427,387
Others		72,499	103,917
		<b>4,928,431</b>	<b>4,562,352</b>
		<b>33,966,071</b>	<b>31,418,014</b>
<b>Held-to-maturity financial assets:</b>			
Debt securities:			
Government bonds		9,528,795	7,794,704
Financial institutions bonds		1,263,688	1,573,869
Corporate bonds		5,399,577	4,004,811
		<b>16,192,060</b>	<b>13,373,384</b>
	₩	<b>50,158,131</b>	<b>44,791,398</b>

(\*1) Equity securities with no quoted market prices in active markets and for which the fair value cannot be measured reliably are recorded at cost were ₩123,670 million and ₩110,425 million as of December 31, 2015 and 2014, respectively.

(b) Gain or loss on sale of available-for-sale financial assets for the years ended December 31, 2015 and 2014 were as follows:

		2015	2014
Gain on disposal of available-for-sale financial assets	₩	827,968	721,736
Loss on disposal of available-for-sale financial assets		(55,494)	(40,805)
	₩	<b>772,474</b>	<b>680,931</b>

# Notes to the Consolidated Financial Statements

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## 14. Property and equipment, net

(a) Property and equipment as of December 31, 2015 and 2014 are as follows:

	2015			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩ 1,780,970	-	-	1,780,970
Buildings	1,114,844	(190,543)	-	924,301
Other	1,924,400	(1,591,194)	-	333,206
	₩ 4,820,214	(1,781,737)	-	3,038,477

	2014			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩ 1,789,410	-	-	1,789,410
Buildings	1,115,070	(162,346)	-	952,724
Other	2,012,103	(1,606,982)	-	405,121
	₩ 4,916,583	(1,769,328)	-	3,147,255

(b) Changes in property and equipment for the years ended December 31, 2015 and 2014 are as follows:

	2015			
	Land	Buildings	Other	Total
Beginning balance	₩ 1,789,410	952,724	405,121	3,147,255
Acquisitions (*1)	5,631	26,266	138,453	170,350
Disposals	(934)	(1,016)	(6,077)	(8,027)
Depreciation	-	(35,910)	(158,018)	(193,928)
Amounts transferred from (to) investment property	2,526	596	-	3,122
Effects of foreign currency movements	(15,663)	(18,359)	(46,273)	(80,295)
Ending balance	₩ 1,780,970	924,301	333,206	3,038,477

(\*1) ₩ 3,255 million of buildings increased by transfers from construction-in-progress.

(\*2) Comprise land and buildings, etc.

	2014			
	Land	Buildings	Other	Total
Beginning balance	₩ 1,798,444	975,554	440,305	3,214,303
Acquisitions (*1)	590	28,061	156,625	185,276
Disposals	(101)	(2,656)	(24,260)	(27,017)
Depreciation	-	(35,060)	(165,751)	(200,811)
Amounts transferred to investment property	(12,432)	(14,319)	-	(26,751)
Amounts transferred from assets held for sale (*2)	2,891	305	-	3,196
Others	-	-	378	378
Effects of foreign currency movements	18	839	(2,176)	(1,319)
Ending balance	₩ 1,789,410	952,724	405,121	3,147,255

(\*1) ₩4,054 million of buildings increased by transfers from construction-in-progress.

(\*2) Comprise land and buildings, etc.

## (c) Insured assets as of December 31, 2015 are as follows:

Type of insurance	Assets insured	Amount covered	Insurance company
Comprehensive insurance for financial institution	Cash and cash equivalent (Including ATM)	₩ 22,700	Samsung Fire & Marine Insurance Co.,Ltd. and 9 other entities
Package insurance	General asset risk	1,244,704	Samsung Fire & Marine Insurance Co.,Ltd. and 5 other entities
Fire insurance	Furniture and fixtures	18,524	Hyundai Marine & Fire Insurance Co.,Ltd. and 2 other entities
Directors' and officers' insurance	Directors' and officers' liabilities	50,000	MERITZ Fire & Marine Insurance Co.,Ltd.
Employee accident insurance	Employees	17,700	Dongbu Fire & Marine Insurance Co.,Ltd.
Others	Cash, Securities, Fidelity guarantee, and liability insurance	82,380	Seoul Guarantee Insurance Co.,Ltd. And Dongbu Fire & Marine Insurance Co.,Ltd.
		₩ 1,436,008	

## 15. Intangible assets, net

## (a) Intangible assets as of December 31, 2015 and 2014 are as follows:

		2015	2014
Goodwill	₩	3,881,345	3,824,646
Software		93,914	70,708
Development cost		66,843	61,665
Other		232,794	195,824
	₩	4,274,896	4,152,843

## (b) Changes in intangible assets for the years ended December 31, 2015 and 2014 are as follows:

	2015				
	Goodwill	Software	Development cost	Other	Total
Beginning balance	₩ 3,824,646	70,708	61,665	195,824	4,152,843
Acquisitions	-	59,727	37,022	95,041	191,790
Business combination	59,106	127	1,517	42	60,792
Disposals	-	(1)	-	(8,640)	(8,641)
Impairment (*1)	-	-	-	(2,143)	(2,143)
Amortization (*2)	-	(34,851)	(32,773)	(46,990)	(114,614)
Effects of foreign currency movements	(2,407)	(1,796)	(588)	(340)	(5,131)
Ending balance	₩ 3,881,345	93,914	66,843	232,794	4,274,896

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

	2014				
	Goodwill	Software	Development cost	Other	Total
Beginning balance	₩ 3,835,141	74,622	87,168	229,447	4,226,378
Acquisitions	-	23,099	9,404	29,717	62,220
Disposals	-	-	-	(10,960)	(10,960)
Impairment (*1)	(10,493)	-	-	(1,965)	(12,458)
Amortization (*2)	-	(27,480)	(34,784)	(49,891)	(112,155)
Effects of foreign currency movements	(2)	467	29	(531)	(37)
Others	-	-	(152)	7	(145)
Ending balance	₩ 3,824,646	70,708	61,665	195,824	4,152,843

(\*1) The Group recognized impairment losses from golf and condo memberships with indefinite useful lives by comparing recoverable amounts with carrying amounts.

(\*2) The Group recognized amortization of intangible asset in general and administrative expenses and net other operating expense.

## (c) Goodwill

### i) Goodwill allocated in the Group's CGUs as of December 31, 2015 and 2014

	2015	2014
Banking (*)	₩ 879,564	824,526
Credit card	2,688,238	2,685,389
Securities	1,218	-
Life insurance	275,371	275,370
Others	36,954	39,361
	₩ 3,881,345	3,824,646

(\*) Due to structural changes in the Group's Banking segments and relevant changes in reporting structure submitted to the Group CODM, the Group determined to re-define its four pre-existing operating segments (Retail Banking, Corporate Banking, International Banking, and Other Banking) within the Banking segments as one single Banking segment, and also determined to re-define the group of CGUs at Shinhan Bank as one single group of CGUs. As such, goodwill impairment test was performed based on the level of re-defined group of CGUs as of December 31, 2015.

### ii) Changes in goodwill for the years ended December 31, 2015 and 2014

	2015	2014
Beginning balance	₩ 3,824,646	3,835,141
Acquisitions through business combinations	59,106	-
Disposal	(2,407)	-
Impairment loss(*)	-	(10,493)
Other	-	(2)
Ending balance	₩ 3,881,345	3,824,646

(\*) The impairment loss during the year ended December 31, 2014 was recognized in 'Others CGU'.

### iii) Goodwill impairment test

The recoverable amounts of each CGU were evaluated based on their respective value in use.

- Explanation on evaluation method

The income approach was applied when evaluating the recoverable amounts based on value in use, considering the characteristics of each unit or group of CGU.

- Projection period

When evaluating the value in use, 5.5 year of cash flow estimates – July 31, 2014 through December 31, 2019 – was used in projection and the value thereafter was reflected as terminal value. In case of Shinhan Life Insurance, only the 30 years of future cash flows were applied since the present value of the future cash flows thereafter is not significant.

- Discount rates and terminal growth rates

The required rates of return expected by shareholders were applied to the discount rates by calculating the cost of capital which comprises a risk-free interest rate, a market risk premium and systemic risk (beta factor). Expected terminal growth rate is on the basis of inflation rates.

Discount rates and terminal growth rates applied to each CGU are as follows:

	Discount rates	Terminal growth rate
Banking	9.82%	2.16%
Credit card	8.39%	2.16%
Securities	14.12%	0.00%
Life insurance	10.00%	0.00%
Others	9.82%	2.16%

iv) Key assumptions

Key assumptions used in the discounted cash flow calculations of CGUs (other than Shinhan Life Insurance) are as follows:

	2015	2016	2017	2018	2019 and thereafter
CPI growth	0.5%	0.7%	2.2%	2.4%	2.7%
Real retail sales growth	0.9%	4.4%	4.0%	3.4%	2.3%
Real GDP growth	2.3%	3.5%	3.6%	3.3%	3.2%

Key assumptions used in the discounted cash flow calculations of Shinhan Life Insurance are as follows:

	Key assumptions
Rate of return on investment	4.22%
Risk-based capital ratio	250.93%

v) Total recoverable amount and total carrying value of CGUs to which goodwill has been allocated

	Amount
Total recoverable amount	₩ 38,664,548
Total carrying value	₩ 35,103,579
	₩ 3,560,969

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

## 16. Investments in associates

(a) Investments in associates as of December 31, 2015 and 2014 are as follows:

Investees	Country	Reporting date	Ownership (%)	
			2015	2014
BNP Paribas Cardif Life Insurance (*1),(3)	Korea	September 30	14.99	14.99
Aju Capital Co., Ltd. (*1),(2)	"	"	12.85	12.85
UAMCO., Ltd. (*2)	"	December 31	17.50	17.50
Pohang TechnoPark 2PFV (*2)	"	"	14.90	14.90
Daewontos Co., Ltd. (*1),(6)	"	September 30	36.33	36.33
Inhee Co., Ltd. (*1),(2),(6)	"	"	15.36	15.36
DAEGY Electrical Construction Co.,Ltd.(*1)(6)	"	"	27.45	27.45
Kukdong Engineering & Construction Co., LTD. (*1)(2)(6)	"	"	14.30	14.30
YEONWOONG SYSTEM (*1)(6)	"	"	21.77	-
DOODOO LOGITECH (*1)(6)	"	"	27.96	-
Neoplux Technology Valuation Investment Fund (*1)	"	"	33.33	-
EQP Global Energy Infrastructure Private Equity Fund (*1)	"	"	22.64	-
JAEOUNG SOLUTEC CO.,LTD. (*1)(8)	"	"	11.90	-
Partners 4th Growth Investment Fund (*7)	"	October 31	25.00	-
PSA 1st Fintech Private Equity Fund (*7)	"	December 31	20.00	-
SHC-IMM New Growth Fund (*5)	"	"	64.52	64.52
QCP New Technology Fund 20th	"	"	47.17	47.17
Miraeasset 3rd Investment Fund	"	"	-	50.00
STI New Growth Engine Investment Fund	"	"	50.00	50.00
Shinhan K2 Secondary Fund (*4)	"	"	10.75	10.75
TS2013-6 M&A Investment Fund	"	"	25.00	25.00
KDB Daewoo Ruby PEF	"	"	-	20.00
Dream High Fund (*5)	"	"	54.55	54.55
Haejin Shipping Co., Ltd.	Hong Kong	"	24.00	24.00
SHC-EN Fund	Korea	"	43.48	43.48
SP New Technology Business investment Fund I	"	"	23.26	23.26
Albatross Growth Fund	"	"	36.36	36.36
Asia Pacific No.39 Ship Investment Co., Ltd.	"	"	50.00	-
Midas Dong-A Snowball Venture Fund (*5)	"	"	53.33	-
IBKS-Shinhan Creative Economy New Technology Fund (*4)	"	"	5.00	-
SH Rental Service	"	"	20.00	-
SM New Technology Business Investment Fund I	"	"	36.36	-
AJU-SHC WIN-WIN COMPANY FUND 4	"	"	21.98	-
APC Fund	Cayman Islands	"	25.18	25.18
BNH-CJ Bio Healthcare Fund	Korea	"	26.67	25.00
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	"	"	50.00	50.00
Arkone Asia Access Offshore Feeder Fund Limited	Cayman Islands	"	-	23.64
Shinhan Praxis K-Growth Global Private Equity Fund (*4)	Korea	"	18.87	-
BNPParibas Cardif General Insurance (*1)(2)	"	September 30	10.00	10.00
SHBNPP Private Korea Equity Long-Short Professional Feeder	"	December 31	29.24	-
Shinhan-Stonebridge Petro PEF (*4)	"	"	1.82	1.82

- (\*1) Financial statements as of September 30, 2015 were used for the equity method since the Group could not have the financial statements as of December 31, 2015. Significant trades and events occurred within the period were properly reflected.
- (\*2) The Group applies the equity method accounting as the Group has a significant influence on the financial and operating policies of the investee through electing investees' board members and presenting in decision making bodies of the investee.
- (\*3) The Group can have a significant influence on the investees through important business transactions.
- (\*4) As a managing partner, the Group can have a significant influence over the investees.
- (\*5) As a limited partner, the Group does not have ability to participate in policy-making processes to obtain economic benefit from the investees that would allow the Group to control the entity.
- (\*6) The shares of the investees were acquired by debt-equity swap. The Group reclassified available-for-sale financial assets to investments in associates as the reorganization procedures were completed and now the Group can normally exercise its voting rights to the investees.
- (\*7) Financial statements at the point of establishment were used for the equity method.
- (\*8) Although the ownership interests in JAEYOUNG SOLUTEC CO., LTD. were less than 15%, the Group used the equity method as the Group has significant influence on the entity's financial and operating policy decisions.

**(b) Changes in investments in associates for the years ended December 31, 2015 and 2014 were as follows:**

Investees	2015					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
BNP Paribas Cardif Life Insurance	₩ 56,776	-	(3,253)	3,757	-	57,280
Aju Capital Co., Ltd. (*1)	30,426	(1,849)	6,280	(413)	-	34,444
UAMCO., Ltd.	114,238	-	11,632	(48)	-	125,822
Pohang TechnoPark 2PFV	1,977	-	(1)	-	-	1,976
Daewontos Co., Ltd. (*3)	-	-	-	-	-	-
Inhee Co., Ltd.	531	-	(277)	-	-	254
DAEGY Electrical Construction.,LTD.	44	-	105	-	-	149
Kukdong Engineering & Construction CO.,LTD.	7,158	-	(1,556)	3,422	(9,024)	-
YEONWOONG SYSTEM	-	-	106	-	-	106
DOODOO LOGITECH	-	-	384	-	-	384
Neoplux Technology Valuation Investment Fund	-	2,000	(7)	-	-	1,993
EQP Global Energy Infrastructure Private Equity Fund	-	174	(174)	-	-	-
JAEYOUNG SOLUTEC CO.,LTD. (*2)	-	6,238	-	-	-	6,238
Partners 4th Growth Investment Fund	-	1,800	-	-	-	1,800
PSA 1st Fintech Private Equity Fund	-	2,000	-	-	-	2,000
BANK METRO EXPRESS	-	(207)	207	-	-	-
SHC-IMM New Growth Fund	8,948	(7,328)	1,555	-	-	3,175
QCP New Technology Fund 20th	270	(121)	(147)	-	-	2
Miraeasset 3rd Investment Fund	4,022	(4,468)	1,154	(708)	-	-
STI New Growth Engine Investment Fund	2,458	-	(28)	333	-	2,763
Shinhan K2 Secondary Fund	3,006	(1,954)	1,147	377	-	2,576
TS2013-6 M&A Investment Fund	1,581	(174)	(213)	922	-	2,116
KDB Daewoo Ruby PEF	7,704	(8,177)	473	-	-	-
Dream High Fund III	2,963	(2,283)	995	(119)	-	1,556
Haejin Shipping Co., Ltd.	1,035	-	107	86	-	1,228
SHC-EN Fund	3,992	-	320	-	-	4,312
SP New Technology Business investment Fund I	1,999	-	(25)	-	-	1,974
Albatross Growth Fund	1,200	-	(14)	2,155	-	3,341



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December 31, 2015 and 2014 (In millions of won)

Investees	2015					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
Asia Pacific No.39 Ship Investment Co., Ltd.	-	5,355	332	(602)	-	5,085
Midas Dong-A Snowball Venture Fund	-	1,200	2	-	-	1,202
IBKS-Shinhan Creative Economy New Technology Fund	-	150	(2)	-	-	148
SH Rental Service	-	100	(39)	-	-	61
SM New Technology Business Investment Fund I	-	1,962	(31)	-	-	1,931
AJU-SHC WIN-WIN COMPANY FUND 4	-	2,000	-	-	-	2,000
APC Fund	35,139	(571)	(6,199)	5,346	-	33,715
BNH-CJ Bio Healthcare Fund	5,072	(826)	4,849	-	-	9,095
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	28,000	(1,895)	1,905	-	-	28,010
Arkone Asia Access Offshore Feeder Fund Limited	5,013	(5,566)	919	(366)	-	-
Shinhan Praxis K-Growth Global Private Equity Fund	-	8,780	(166)	-	-	8,614
BNP Paribas Cardif General Insurance	1,295	728	(277)	(7)	-	1,739
SHBNPP Private Korea Equity Long-Short Professional Feeder	-	27,984	92	-	-	28,076
Shinhan-Stonebridge Petro PEF	17,029	(4)	816	-	-	17,841
	<b>₩ 341,876</b>	<b>25,048</b>	<b>20,971</b>	<b>14,135</b>	<b>(9,024)</b>	<b>393,006</b>

(\*1) The market values of investments are ₩ 47,550 million as of December 31, 2015 based on the quoted market price.

(\*2) The market values of investments are ₩ 10,409 million as of December 31, 2015 based on the quoted market price.

(\*3) The Group has stopped recognizing its equity method income or loss due to the investees' cumulative loss.

Investees	2014					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Transfer out	Ending balance
BNP Paribas Cardif Life Insurance	₩ 51,250	(84)	1,216	4,394	-	56,776
Aju Capital Co., Ltd. (*1)	28,223	(1,105)	3,438	(130)	-	30,426
UAMCO., Ltd.	139,271	(35,043)	10,066	(56)	-	114,238
Pohang TechnoPark 2PFV	2,847	-	(870)	-	-	1,977
Daewontos Co., Ltd. (*2)	-	-	-	-	-	-
Inhee Co., Ltd.	361	-	170	-	-	531
DAEGY Electrical Construction.,LTD.	-	-	41	3	-	44
Kukdong Engineering & Construction CO.,LTD.	-	9,092	(1,990)	56	-	7,158
Shinhan Corporate Restructuring Fund 5th (*3)	-	-	-	-	-	-
SHC-IMM New Growth Fund	9,149	-	(201)	-	-	8,948
QCP New Technology Fund 20 th	249	-	21	-	-	270
Miraeasset 3rd Investment Fund	5,736	(3,540)	1,916	(90)	-	4,022
STI New growth engine Investment Fund	2,509	-	(51)	-	-	2,458
Aju 4th Investment Fund	1,580	(1,261)	(319)	-	-	-
Medici 2nd Investment Fund	3,172	(3,838)	666	-	-	-
AJU-SHC WIN-WIN Company Fund 3	5,256	(7,211)	1,955	-	-	-
Shinhan K2 Secondary Fund	3,362	(623)	207	60	-	3,006
KDB Daewoo Securities Platinum PEF	6,563	(6,542)	(21)	-	-	-
FAMILY FOOD CO., LTD.	4,671	(4,211)	-	(460)	-	-
TS-6 M&A Investment Fund	3,911	(1,952)	543	(921)	-	1,581
KDB Daewoo Ruby PEF	-	6,918	786	-	-	7,704
Dream High Fund III	-	3,000	(37)	-	-	2,963
PT Clemont Finance Indonesia	5,580	-	(405)	1,568	(6,743)	-
Haejin Shipping Co. Ltd.	1,015	-	(10)	30	-	1,035
SHC-EN Fund	-	4,000	(8)	-	-	3,992
SP New Technology Business investment Fund I	-	2,000	(1)	-	-	1,999
Albatross Growth Fund	-	1,200	-	-	-	1,200
APC Fund	22,734	94	10,382	1,929	-	35,139
Truston Falcon Asia US Feeder Fund	10,841	(11,222)	279	102	-	-
Innopolis-CJ Bio Healthcare Fund	3,969	-	1,103	-	-	5,072
Korea investment gong-pyeong office real estate investment trust 2nd	-	26,540	1,460	-	-	28,000
Arkone Asia Access Offshore Feeder Fund Limited	-	5,141	(493)	365	-	5,013
BNPParibas Cardif General Insurance	-	1,290	5	-	-	1,295
Shinhan-stonebridge Petro PEF	16,318	(21)	732	-	-	17,029
	₩ 328,567	(17,378)	30,580	6,850	(6,743)	341,876

(\*1) The market values of investments are ₩ 47,624 million as of December 31, 2014 based on the quoted market price.

(\*2) The Group has stopped recognizing its equity method income or loss due to the investees' cumulative loss.

(\*3) The Group has recognized impairment loss on the investments during the year ended December 31, 2013 and the fund was liquidated during the year ended December 31, 2014.

# Notes to the Consolidated Financial Statements

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(c) Condensed statement of financial position information of associates as of December 31, 2015 and 2014 are as follows:

Investees	2015		2014	
	Asset	Liability	Asset	Liability
BNP Paribas Cardif Life Insurance	₩ 4,128,588	3,745,119	3,890,674	3,510,712
Aju Capital Co., Ltd.	6,906,603	6,155,236	6,428,736	5,714,874
UAMCO., Ltd.	4,068,354	3,331,647	4,357,490	3,688,589
Pohang TechnoPark 2PFV	14,664	1,401	14,668	1,401
Daewontos Co., Ltd.	1,952	3,420	6,139	7,344
Inhee Co., Ltd.	11,237	9,582	16,284	12,826
DAEGY Electrical Construction Co.,Ltd.	1,051	508	1,278	1,119
Kukdong Engineering & Construction Co., LTD.	278,497	233,376	368,308	337,159
YEONWOONG SYSTEM	1,040	554	-	-
DOODOO LOGITECH	1,418	44	-	-
Neoplux Technology Valuation Investment Fund	6,000	22	-	-
EQP Global Energy Infrastructure Private Equity Fund	2	467	-	-
JAEOUNG SOLUTEC CO.,LTD.	161,439	126,297	-	-
Partners 4th Growth Investment Fund	7,200	-	-	-
PSA 1st Fintech Private Equity Fund	10,000	-	-	-
SHC-IMM New Growth Fund	5,156	235	14,190	321
QCP New Technology Fund 20th	5	-	572	-
Miraeasset 3rd Investment Fund	-	-	8,215	172
STI New Growth Engine Investment Fund	5,646	120	4,916	-
Shinhan K2 Secondary Fund	24,332	366	27,998	7
TS2013-6 M&A Investment Fund	8,542	76	6,406	76
KDB Daewoo Ruby PEF	-	-	40,525	2,004
Dream High Fund III	2,854	-	5,432	-
PT Clemont Finance Indonesia	-	-	43,972	27,832
Haejin Shipping Co., Ltd.	5,106	(6)	4,523	211
SHC-EN Fund	9,918	2	9,183	2
SP New Technology Business investment Fund I	8,505	21	8,600	6
Albatross Growth Fund	9,202	15	3,301	-
Asia Pacific No.39 Ship Investment Co., Ltd.	10,225	54	-	-
Midas Dong-A Snowball Venture Fund	2,255	-	-	-
IBKS-Shinhan Creative Economy New Technology Fund	2,963	-	-	-
SH Rental Service	1,280	977	-	-
SM New Technology Business Investment Fund I	5,314	2	-	-
Shinhan 2014-1 New Technology Business Investment Fund	-	-	-	-
AJU-SHC WIN-WIN COMPANY FUND 4	9,102	-	-	-
APC Fund	134,025	138	139,732	197
BNH-CJ Bio Healthcare Fund	34,104	-	20,294	2
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	56,022	1	56,022	22
Arkone Asia Access Offshore Feeder Fund Limited	-	-	67,403	46,195
Shinhan Praxis K-Growth Global Private Equity Fund	46,000	347	-	-
BNPParibas Cardif General Insurance	31,213	13,817	33,341	20,392
SHBNPP Private Korea Equity Long-Short Professional Feeder (*)	98,123	3,384	-	-
Shinhan-Stonebridge Petro PEF	979,838	807	935,256	807
	₩ 17,087,775	13,628,029	16,513,458	13,372,270

Condensed statement of comprehensive income information for years ended December 31, 2015 and 2014 were as follows:

Investees	2015			
	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
BNP Paribas Cardif Life Insurance	₩ 481,472	(21,533)	25,039	3,506
Aju Capital Co., Ltd.	844,216	48,870	(3,191)	45,679
UAMCO., Ltd.	452,759	66,455	(276)	66,179
Pohang TechnoPark 2PFV	-	(4)	-	(4)
Daewontos Co., Ltd.	3,357	(263)	-	(263)
Inhee Co., Ltd.	3,921	(1,803)	-	(1,803)
DAEGY Electrical Construction Co.,Ltd.	65	385	-	385
Kukdong Engineering & Construction Co., LTD.	269,079	(10,881)	(3,072)	(13,953)
YEONWOONG SYSTEM	59	12	-	12
DOODOO LOGITECH	65	(42)	-	(42)
Neoplux Technology Valuation Investment Fund	-	(22)	-	(22)
EQP Global Energy Infrastructure Private Equity Fund	-	(767)	-	(767)
JAEYOUNG SOLUTEC CO.,LTD.	-	-	-	-
Partners 4th Growth Investment Fund	-	-	-	-
PSA 1st Fintech Private Equity Fund	-	-	-	-
SHC-IMM New Growth Fund	2,899	2,655	-	2,655
QCP New Technology Fund 20th	-	(312)	-	(312)
Miraeasset 3rd Investment Fund	5,753	2,376	(1,417)	959
STI New Growth Engine Investment Fund	-	(58)	667	609
Shinhan K2 Secondary Fund	11,376	10,658	3,510	14,168
TS2013-6 M&A Investment Fund	89	(234)	3,688	3,454
KDB Daewoo Ruby PEF	3,259	2,395	-	2,395
Dream High Fund III	1,945	1,825	(218)	1,607
Haejin Shipping Co., Ltd.	13	445	-	445
SHC-EN Fund	858	735	-	735
SP New Technology Business investment Fund I	-	(110)	-	(110)
Albatross Growth Fund	25	(38)	5,925	5,887
Asia Pacific No.39 Ship Investment Co., Ltd.	1,264	663	-	663
Midas Dong-A Snowball Venture Fund	66	5	-	5
IBKS-Shinhan Creative Economy New Technology Fund	2	(37)	-	(37)
SH Rental Service	297	21	-	21
SM New Technology Business Investment Fund I	19	(85)	-	(85)
Shinhan 2014-1 New Technology Business Investment Fund	-	(91)	(2,039)	(2,130)
AJU-SHC WIN-WIN COMPANY FUND 4	4	1	-	1
APC Fund	-	(24,604)	12,968	(11,636)
BNH-CJ Bio Healthcare Fund	18,531	18,313	-	18,313
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	3,885	3,800	-	3,800
Shinhan Praxis K-Growth Global Private Equity Fund	-	(880)	-	(880)
BNPParibas Cardif General Insurance	10,148	(10,481)	-	(10,481)
SHBNPP Private Korea Equity Long-Short Professional Feeder (*)	24,657	2,967	-	2,967
Shinhan-Stonebridge Petro PEF	48,138	44,797	-	44,797
	₩ 2,188,221	135,133	41,584	176,717

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December 31, 2015 and 2014 (In millions of won)

Investees	2014			
	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Cardif Life Insurance	₩ 483,911	5,852	29,293	35,145
Aju Capital Co., Ltd.	781,957	26,756	(1,016)	25,740
Pohang TechnoPark 2PFV	-	(5,839)	-	(5,839)
Daewontos Co., Ltd.	10,954	(2)	-	(2)
Shinhan Corporate Restructuring Fund 5th	90	82	-	82
PT Clemont Finance Indonesia	1,362	87	-	87
Haejin Shipping Co. Ltd.	74	(41)	-	(41)
APC Fund	13,756	40,426	-	40,426
SHC-IMM New Growth Fund	102	(155)	-	(155)
QCP New Technology Fund 20 th	51	45	-	45
UAMCO., Ltd.	548,990	57,519	(319)	57,200
Miraeasset 3rd Investment Fund	4,532	3,832	(182)	3,650
Medici 2nd Investment Fund	3,000	1,218	-	1,218
STI New growth engine Investment Fund	-	(110)	-	(110)
AJU-SHC WIN-WIN Company Fund 3	2,278	2,787	-	2,787
Shinhan K2 Secondary Fund	3,545	1,935	562	2,497
Aju 4th Investment Fund	143	(1,061)	-	(1,061)
KDB Daewoo Securities Platinum PEF	-	(111)	-	(111)
Shinhan-stonebridge Petro PEF	43,454	40,118	-	40,118
TS2013-6 M&A Investment Fund	56	(694)	(3,688)	(4,382)
Inhee Co., Ltd.	5,041	1,105	-	1,105
Innopolis-CJ Bio Healthcare Fund	4,414	4,414	-	4,414
KDB Daewoo Ruby PEF	4,422	3,929	-	3,929
Dream High Fund III	6	(68)	-	(68)
Korea investment gong-pyeong office real estate investment trust 2nd	2,821	2,821	-	2,821
DAEGY Electrical Construction.,LTD	286	148	-	148
Kukdong Engineering & Construction CO.,LTD	57,654	(13,917)	347	(13,570)
Arkone Asia Access Offshore Feeder Fund Limited	(1,349)	(2,087)	-	(2,087)
BNPParibas Cardif General Insurance	4,021	(8,103)	183	(7,920)
SHC-EN Fund	-	(19)	-	(19)
SP New Technology Business investment Fund I	-	(6)	-	(6)
Albatross Growth Fund	1	1	-	1
	₩ 1,975,572	160,862	25,180	186,042

(d) Reconciliation of the associates' financial information to the carrying value of the Group's investments in the associates as of December 31, 2015 and 2014 are as follow:

Investees	2015					
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
BNP Paribas Cardif Life Insurance	₩ 383,468	14.99	57,520	(240)	-	57,280
Aju Capital Co., Ltd. (*1)	700,147	12.85	89,969	-	(55,525)	34,444
UAMCO., Ltd. (*2)	718,983	17.50	125,822	-	-	125,822
Pohang TechnoPark 2PFV	13,264	14.90	1,976	-	-	1,976
Daewontos Co., Ltd. (*3)	(1,469)	36.33	(534)	-	534	-
Inhee Co., Ltd.	1,655	15.36	254	-	-	254
DAEGY Electrical Construction Co.,Ltd.	544	27.45	149	-	-	149
Kukdong Engineering & Construction Co., LTD. (*4)	46,376	14.30	6,630	-	(6,630)	-
YEONWOONG SYSTEM	486	21.77	106	-	-	106
DOODOO LOGITECH	1,374	27.96	384	-	-	384
Neoplux Technology Valuation Investment Fund	5,978	33.33	1,993	-	-	1,993
EQP Global Energy Infrastructure Private Equity Fund (*5)	(464)	22.64	(105)	-	105	-
JAEYOUNG SOLUTEC CO.,LTD. (*6)	34,193	11.90	4,069	-	2,169	6,238
Partners 4th Growth Investment Fund	7,200	25.00	1,800	-	-	1,800
PSA 1st Fintech Private Equity Fund	10,000	20.00	2,000	-	-	2,000
SHC-IMM New Growth Fund	4,921	64.52	3,175	-	-	3,175
QCP New Technology Fund 20th	5	47.17	2	-	-	2
STI New Growth Engine Investment Fund	5,526	50.00	2,763	-	-	2,763
Shinhan K2 Secondary Fund	23,966	10.75	2,576	-	-	2,576
TS2013-6 M&A Investment Fund	8,466	25.00	2,116	-	-	2,116
Dream High Fund III	2,854	54.55	1,556	-	-	1,556
Haejin Shipping Co., Ltd.	5,112	24.00	1,228	-	-	1,228
SHC-EN Fund	9,916	43.48	4,312	-	-	4,312
SP New Technology Business investment Fund I	8,484	23.26	1,974	-	-	1,974
Albatross Growth Fund	9,187	36.36	3,341	-	-	3,341
Asia Pacific No.39 Ship Investment Co., Ltd.	10,171	50.00	5,085	-	-	5,085
Midas Dong-A Snowball Venture Fund	2,255	53.33	1,202	-	-	1,202
IBKS-Shinhan Creative Economy New Technology Fund	2,963	5.00	148	-	-	148
SH Rental Service	303	20.00	61	-	-	61
SM New Technology Business Investment Fund I	5,312	36.36	1,931	-	-	1,931
AJU-SHC WIN-WIN COMPANY FUND 4	9,100	21.98	2,000	-	-	2,000
APC Fund	133,887	25.18	33,715	-	-	33,715
BNH-CJ Bio Healthcare Fund	34,104	26.67	9,095	-	-	9,095
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	56,021	50.00	28,010	-	-	28,010
Shinhan Praxis K-Growth Global Private Equity Fund	45,653	18.87	8,614	-	-	8,614
BNPParibas Cardif General Insurance	17,396	10.00	1,739	-	-	1,739
SHBNPP Private Korea Equity Long-Short Professional Feeder	94,739	29.24	28,076	-	-	28,076
Shinhan-Stonebridge Petro PEF	979,031	1.82	17,841	-	-	17,841
	₩ 3,391,107		452,593	(240)	(59,347)	393,006

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(\*1) Net assets do not include non-controlling interests and other adjustments represent the cumulative impairment loss and unequal dividends from investee.

(\*2) Net assets do not include non-controlling interests.

(\*3) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses due to the investees' cumulative loss. The unrecognized equity method losses for the year ended December 31, 2015 and the cumulative unrecognized equity method losses as of December 31, 2015 are ₩ 96 million and ₩ 534 million, respectively.

(\*4) Other adjustments represent an impairment loss, ₩ 9,024 million and the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date, ₩ 2,394 million.

(\*5) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses due to the investees' cumulative loss. The unrecognized equity method losses for the year ended December 31, 2015 and the cumulative unrecognized equity method losses as of December 31, 2015 are ₩ 105 million and ₩ 105 million, respectively.

(\*6) Recorded at the acquisition cost.

Investees	2014					
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intragroup transactions	Other	Carrying value
Cardif Life Insurance	₩ 379,962	14.99	56,991	(215)	-	56,776
Aju Capital Co., Ltd. (*1)	668,171	12.85	85,860	-	(55,434)	30,426
Pohang TechnoPark 2PFV	13,268	14.90	1,977	-	-	1,977
Daewontos Co., Ltd. (*3)	(1,205)	36.33	(438)	-	438	-
Haejin Shipping Co. Ltd.	4,312	24.00	1,035	-	-	1,035
APC Fund	139,535	25.18	35,139	-	-	35,139
SHC-IMM New Growth Fund	13,869	64.52	8,948	-	-	8,948
QCP New Technology Fund 20 th	572	47.17	270	-	-	270
UAMCO., Ltd. (*2)	652,801	17.50	114,238	-	-	114,238
Miraeasset 3rd Investment Fund	8,043	50.00	4,021	-	-	4,021
STI New growth engine Investment Fund	4,916	50.00	2,458	-	-	2,458
Shinhan K2 Secondary Fund	27,991	10.75	3,006	-	-	3,006
Shinhan-stonebridge Petro PEF	934,449	1.82	17,029	-	-	17,029
TS2013-6 M&A Investment Fund	6,330	25.00	1,581	-	-	1,581
Inhee Co., Ltd.	3,458	15.36	531	-	-	531
Innopolis-CJ Bio Healthcare Fund	20,292	25.00	5,072	-	-	5,072
KDB Daewoo Ruby PEF	38,521	20.00	7,704	-	-	7,704
Dream High Fund III	5,432	54.55	2,963	-	-	2,963
Korea investment gong-pyeong office real estate investment trust 2nd	56,000	50.00	28,000	-	-	28,000
DAEGY Electrical Construction.,LTD	159	27.48	44	-	-	44
Kukdong Engineering & Construction CO.,LTD (*4)	33,318	14.30	4,763	-	2,395	7,158
Arkone Asia Access Offshore Feeder Fund Limited	21,208	23.64	5,014	-	-	5,014
BNPParibas Cardif General Insurance	12,949	10.00	1,295	-	-	1,295
SHC-EN Fund	9,181	43.48	3,992	-	-	3,992
SP New Technology Business investment Fund I	8,594	23.25	1,999	-	-	1,999
Albatross Growth Fund	3,301	36.36	1,200	-	-	1,200
	₩ 3,065,427		394,692	(215)	(52,601)	341,876

(\*1) Net assets do not include non-controlling interests and other adjustments represent the cumulative impairment loss and unequal dividends from investee.

(\*2) Net assets do not include non-controlling interests.

(\*3) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses due to the investees' cumulative loss. The unrecognized equity method loss for year ended December 31, 2014 and the cumulative unrecognized equity method loss as of December 31, 2014 are ₩ 1 million and ₩ 438 million, respectively.

(\*4) Other adjustments represent the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.



## 17. Investment properties, net

### (a) Investment properties as of December 31, 2015 and 2014 are as follows:

		2015	2014
Acquisition cost	₩	266,893	317,775
Accumulated depreciation		(58,176)	(50,246)
Book value	₩	208,717	267,529

### (b) Changes in investment properties for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
Beginning balance	₩	267,529	690,257
Acquisitions		10,336	1,037
Disposals		(53,347)	(438,566)
Depreciation		(13,117)	(13,795)
Amounts transferred from (to) property and equipment		(3,122)	26,751
Amounts transferred from (to) assets held for sale (*)		-	1,841
Foreign currency adjustment		438	4
Ending balance	₩	208,717	267,529

(\*) Comprise land and buildings, etc.

### (c) Income and expenses on investment property for the years ended December 31, 2015 and 2014 were as follows:

		2015	2014
Rental income	₩	30,876	60,684
Direct operating expenses for investment properties that generated rental income		9,434	14,902

### (d) The fair value of investment property as of December 31, 2015 and 2014 is as follows:

		2015	2014
Land and buildings(*)	₩	1,016,736	1,016,009

(\*) Fair value of investment properties is estimated based on the recent market transactions and certain significant unobservable inputs. Accordingly, fair value of investment properties is classified as level 3.

# Notes to the Consolidated Financial Statements

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## 18. Other assets, net

Other assets as of December 31, 2015 and 2014 are as follows:

		2015	2014
Accounts receivable	₩	7,034,582	5,468,811
Domestic exchange settlement debit		2,391,014	2,127,545
Guarantee deposits		1,214,199	1,307,700
Present value discount		(47,326)	(62,993)
Accrued income		1,250,507	1,291,305
Prepaid expense		132,153	127,913
Suspense payments		54,865	74,304
Sundry assets		55,369	153,040
Separate account assets		2,473,528	2,356,530
Advance payments		325,933	288,107
Unamortized deferred acquisition cost		1,042,788	1,060,325
Other		85,321	104,717
Allowances for impairment		(67,006)	(94,677)
	₩	15,945,927	14,202,627

## 19. Leases

(a) Finance lease receivables of the Group as lessor as of December 31, 2015 and 2014 are as follows:

		2015			
		Gross investment	Unearned finance income	Present value of minimum lease payment	Unguaranteed residual value
Not later than 1 year	₩	774,939	127,756	647,183	-
1 ~ 5 years		1,294,374	79,795	1,214,579	-
Later than 5 years		13,728	28	13,700	-
	₩	2,083,041	207,579	1,875,462	-
		2014			
		Gross investment	Unearned finance income	Present value of minimum lease payment	Unguaranteed residual value
Not later than 1 year	₩	736,050	114,368	621,682	-
1 ~ 5 years		1,270,400	71,644	1,198,756	-
Later than 5 years		24,449	552	23,897	-
	₩	2,030,899	186,564	1,844,335	-

(b) The scheduled maturities of minimum lease payments of the Group as lessor as of December 31, 2015 and 2014 are as follows:

Operating leases

		Minimum lease payment	
		2015	2014
Not later than 1 year	₩	13,066	8,496
1 ~ 5 years		12,201	17,239
	₩	25,267	25,735

(c) Future minimum lease payments under non-cancellable operating lease of the Group as lessee as of December 31, 2015 and 2014 are as follows:

		Minimum lease payment	
		2015	2014
Not later than 1 year	₩	199,139	128,296
1 ~ 5 years		232,718	174,293
Later than 5 years		3,873	5,310
	₩	435,730	307,899

## 20. Pledged assets

(a) Assets pledged as collateral as of December 31, 2015 and 2014 are as follows:

		2015	2014
Loans	₩	364,971	132,373
Securities			
Trading assets		6,969,235	10,320,812
Financial assets designated at fair value through profit or loss		211,411	2,006,430
Available-for-sale financial assets		1,615,430	5,219,661
Held-to-maturity financial assets		6,061,673	636,399
		14,857,749	18,183,302
Deposits		779,549	456,432
Real estate		10,330	11,691
Other assets		116,359	137,707
	₩	16,128,958	18,921,505

(\*) The carrying amounts of asset pledged that the pledgees have the right to sell or repledge regardless of the Group's default as of December 31, 2015 and 2014 are ₩ 7,545,051 million and ₩ 8,323,372 million, respectively.

# Notes to the Consolidated Financial Statements

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(b) The fair value of collateral held that the Group has the right to sell or repledge regardless of pledger's default as of December 31, 2015 and 2014 are as follows:

	2015	
	Collateral held	Collateral sold or repledged
Securities	₩ 12,104,793	-
Others	270,100	-
	2014	
	Collateral held	Collateral sold or repledged
Securities	₩ 10,203,339	-
Others	58,600	-

## 21. Deposits

Deposits as of December 31, 2015 and 2014 are as follows:

	2015	2014
Demand deposits	₩ 83,639,042	68,949,585
Time deposits	122,918,419	116,521,457
Negotiable certificates of deposits	4,579,112	2,179,573
Note discount deposits	3,018,551	3,241,082
CMA (*)	2,280,816	1,682,610
Others	1,240,488	1,135,431
	₩ 217,676,428	193,709,738

(\*) CMA: Cash management account deposits

## 22. Trading liabilities

Trading liabilities as of December 31, 2015 and 2014 are as follows:

	2015	2014
Securities sold:		
Equity	₩ 631,514	592,667
Debt	977,545	1,453,931
Others	72,726	213,200
	1,681,785	2,259,798
Gold deposits	453,605	428,936
	₩ 2,135,390	2,688,734



# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

## 25. Debt securities issued

Debt securities issued as of December 31, 2015 and 2014 are as follows:

	2015	
	Interest rate (%)	Amount
Debt securities issued in won:		
Debt securities issued	0.00~8.00	₩ 31,019,830
Subordinated debt securities issued	2.72~5.10	3,940,808
Loss on fair value hedges		(52,579)
Bond issuance cost		(55,288)
		34,852,771
Debt securities issued in foreign currencies:		
Debt securities issued	0.32~4.38	6,361,471
Loss on fair value hedges		25,983
Bond issuance cost		(18,941)
		6,368,513
		₩ 41,221,284
	2014	
	Interest rate (%)	Amount
Debt securities issued in won:		
Debt securities issued	0.00~8.91	₩ 27,567,890
Subordinated debt securities issued	3.41~5.10	3,321,239
Gain on fair value hedges		34,277
Bond issuance cost		(56,050)
		30,867,356
Debt securities issued in foreign currencies:		
Debt securities issued	0.32~4.50	6,443,377
Loss on fair value hedges		46,850
Bond issuance cost		(22,971)
		6,467,256
		₩ 37,334,612

## 26. Employee benefits

### (a) Defined benefit plan assets and liabilities

Defined benefit plan assets and liabilities as of December 31, 2015 and 2014 are as follows:

	2015	2014
Present value of defined benefit obligations	₩ 1,567,898	1,346,881
Fair value of plan assets	(1,341,768)	(1,037,424)
Recognized liabilities for defined benefit obligations	₩ 226,130	309,457

**(b) Changes in the present value of defined benefit obligation and plan assets for the years ended December 31, 2015 and 2014 were as follows:**

	2015		
	Defined benefit obligation	Plan assets	Net defined benefit liability
Beginning balance	₩ 1,346,881	(1,037,424)	309,457
Included in profit or loss			
Current service cost	161,539	-	161,539
Past service cost	-	-	-
Interest expense (income)	50,950	(41,121)	9,829
	212,489	(41,121)	171,368
Included in other comprehensive income:			
Remeasurements loss (gain) :			
- Actuarial gains (losses) arising from :			
Demographic assumptions	(21,329)	-	(21,329)
Financial assumptions	142,484	35	142,519
Experience adjustment	(30,428)	-	(30,428)
- Return on plan assets excluding interest income	-	18,361	18,361
	90,727	18,396	109,123
Other :			
Benefits paid by the plan	(71,964)	53,465	(18,499)
Contributions paid into the plan	-	(335,461)	(335,461)
Succession from associates	5,071	-	5,071
Change in subsidiaries	(15,403)	377	(15,026)
Effect of movements in exchange rates	97	-	97
	(82,199)	(281,619)	(363,818)
Ending balance	₩ 1,567,898	(1,341,768)	226,130

Profit or loss arising from defined benefit plans is included in general and administrative expenses.

	2014		
	Defined benefit obligation	Plan assets	Net defined benefit liability
Beginning balance	₩ 1,037,143	(919,488)	117,655
Included in profit or loss			
Current service cost	138,370	-	138,370
Past service cost	(12,527)	-	(12,527)
Interest expense (income)	48,677	(44,695)	3,982
	174,520	(44,695)	129,825
Included in other comprehensive income:			
Remeasurements loss (gain) :			
- Actuarial gains (losses) arising from :			
Demographic assumptions	(550)	-	(550)
Financial assumptions	186,210	-	186,210
Experience adjustment	(3,214)	-	(3,214)
- Return on plan assets excluding interest income	-	20,953	20,953
	182,446	20,953	203,399
Other :			
Benefits paid by the plan	(52,490)	42,644	(9,846)
Contributions paid into the plan	-	(136,838)	(136,838)
Succession from associates	5,199	-	5,199
Effect of movements in exchange rates	63	-	63
	(47,228)	(94,194)	(141,422)
Ending balance	₩ 1,346,881	(1,037,424)	309,457



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Profit or loss arising from defined benefit plans is included in general and administrative expenses.

**(c) The composition of plan assets as of December 31, 2015 and 2014 are as follows:**

		2015	2014
Plan assets comprise:			
Equity securities	₩	92,316	52,872
Debt securities		15,823	747
Due from banks		1,184,300	982,841
Other		49,329	964
	₩	1,341,768	1,037,424

**(d) Actuarial assumptions as of December 31, 2015 and 2014 are as follows:**

	2015	2014	Description
Discount rate	2.77%~3.53%	3.04%~4.02%	AA corporate bond yields
Future salary increase rate	2.68%~4.13% + Upgrade rate	2.54%~4.45% + Upgrade rate	Average for 5 years
Weighted-average duration	8.16 year~ 16.51 year	7.68 year~ 16.33 year	

**(e) Sensitivity analysis**

Reasonably possible changes as of December 31, 2015 to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

		Defined benefit obligation	
		Increase	Decrease
Discount rate (1%p movement)	₩	1,402,761	1,760,221
Future salary increase rate (1%p movement)		1,759,114	1,400,558

## 27. Provisions

**(a) Provisions as of December 31, 2015 and 2014 are as follows:**

		2015	2014
Asset retirement obligations	₩	48,434	44,181
Expected loss related to litigation		25,945	33,377
Unused credit commitments		434,941	402,877
Bonus card points program		27,649	33,113
Financial guarantee contracts issued		81,374	107,209
Others		80,445	73,408
	₩	698,788	694,165

## (b) Changes in provisions for the years ended December 31, 2015 and 2014 were as follows:

	2015						
	Asset retirement	Litigation	Unused credit	Card point (*2)	Guarantee	Other	Total
Beginning balance	₩ 44,181	33,377	402,877	33,113	107,209	73,408	694,165
Provision (reversal)	1,671	(4,474)	31,476	43,975	(32,700)	24,149	64,097
Provision used	(1,215)	(3,686)	-	(49,439)	-	(16,625)	(70,533)
Foreign exchange translation	-	728	588	-	2,552	270	4,138
Others (*1)	3,797	-	-	-	4,313	(757)	6,921
Ending balance	₩ 48,434	25,945	434,941	27,649	81,374	80,445	698,788

	2014						
	Asset retirement	Litigation	Unused credit	Card point (*2)	Guarantee	Other	Total
Beginning balance	₩ 41,730	106,202	411,171	29,104	92,980	69,096	750,283
Provision (reversal)	408	(23,458)	(9,592)	42,095	10,365	29,439	49,257
Provision used	(2,576)	(49,807)	-	(48,928)	-	(25,900)	(127,211)
Foreign exchange translation	-	440	1,298	-	11,603	773	14,114
Others (*1)	4,619	-	-	10,842	(7,739)	-	7,722
Ending balance	₩ 44,181	33,377	402,877	33,113	107,209	73,408	694,165

(\*1) Others include the effects of decrease in discount and changes in discount rate.

(\*2) Provisions for card point were classified as fees and commission expense.

(c) Asset retirement obligation liabilities represent the estimated cost to restore the existing leased properties which is discounted to the present value using the appropriate discount rate at the end of the reporting period. Disbursements of such costs are expected to incur at the end of lease contract. Such costs are reasonably estimated using the average lease year and the average restoration expenses. The average lease year is calculated based on the past ten-year historical data of the expired leases. The average restoration expense is calculated based on the actual costs incurred for the past three years using the three-year average inflation rate.

## (d) Allowance for guarantees and acceptances as of December 31, 2015 and 2014 are as follows:

	2015	2014
Guarantees and acceptances outstanding	₩ 10,110,330	10,796,896
Contingent guarantees and acceptances	3,036,301	4,335,333
ABS and ABCP purchase commitments	2,668,370	2,143,308
Endorsed bill	29,549	51,043
	₩ 15,844,550	17,326,580
Allowance for loss on guarantees and acceptances	₩ 81,374	107,209
Ratio	% 0.51	0.62

## 28. Liability under insurance contracts

## (a) Insurance liabilities as of December 31, 2015 and 2014 are as follows:

	2015	2014
Policy reserve	₩ 20,041,489	17,763,576
Policyholder's equity adjustment	16,795	12,704
	₩ 20,058,284	17,776,280

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**(b) Policy reserve as of December 31, 2015 and 2014 are as follows:**

		2015	2014
Interest rate linked	₩	13,541,770	11,832,073
Fixed interest rate		6,499,719	5,931,503
	₩	20,041,489	17,763,576

**(c) The details of policy reserves as of December 31, 2015 and 2014 are as follows:**

	2015							
	Individual insurance				Group insurance			
	Pure endowment	Death	Endowment	Subtotal	Pure protection	Savings	Subtotal	Total
Premium reserve	₩ 4,228,561	8,346,382	6,439,851	19,014,794	37,088	294	37,382	19,052,176
Guarantee reserve	11,212	30,927	167	42,306	-	-	-	42,306
Unearned premium reserve	3	454	-	457	531	-	531	988
Reserve for outstanding claims	65,059	666,320	149,891	881,270	28,644	-	28,644	909,914
Interest rate difference guarantee reserve	2,046	168	14	2,228	-	-	-	2,228
Mortality gains reserve	6,658	5,372	243	12,273	4	-	4	12,277
Interest gains reserve	16,340	271	22	16,633	-	-	-	16,633
Long term duration dividend reserve	60	10	2	72	-	-	-	72
Reserve for policyholder's profit dividend	2,898	-	-	2,898	-	-	-	2,898
Reserve for losses on dividend insurance contract	1,997	-	-	1,997	-	-	-	1,997
	₩ 4,334,834	9,049,904	6,590,190	19,974,928	66,267	294	66,561	20,041,489

	2014							
	Individual insurance				Group insurance			
	Pure endowment	Death	Endowment	Subtotal	Pure protection	Savings	Subtotal	Total
Premium reserve	₩ 3,657,740	7,338,766	5,793,465	16,789,971	36,939	286	37,225	16,827,196
Guarantee reserve	10,601	20,965	179	31,745	-	-	-	31,745
Unearned premium reserve	3	544	-	547	1,228	-	1,228	1,775
Reserve for outstanding claims	62,489	629,976	143,756	836,221	29,929	-	29,929	866,150
Interest rate difference guarantee reserve	2,214	176	16	2,406	-	-	-	2,406
Mortality gains reserve	7,072	5,639	294	13,005	6	-	6	13,011
Interest gains reserve	15,101	276	25	15,402	-	-	-	15,402
Long term duration dividend reserve	65	11	2	78	-	-	-	78
Reserve for policyholder's profit dividend	3,666	-	-	3,666	-	-	-	3,666
Reserve for losses on dividend insurance contract	2,147	-	-	2,147	-	-	-	2,147
	₩ 3,761,098	7,996,353	5,937,737	17,695,188	68,102	286	68,388	17,763,576

(d) Reinsurance credit risk as of December 31, 2015 and 2014 are as follows:

	2015	
	Reinsurance assets	Reinsurance account receivable
AA- to AA+	₩ 852	1,630
A- to A+	533	749
	₩ 1,385	2,379

	2014	
	Reinsurance assets	Reinsurance account receivable
AA- to AA+	₩ 270	661
A- to A+	750	1,114
	₩ 1,020	1,775

# Notes to the Consolidated Financial Statements

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(e) Income or expenses on insurance for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Insurance income		
Premium income	₩ 4,421,381	4,199,227
Reinsurance income	4,239	3,595
Separate account income	22,208	18,298
	<b>4,447,828</b>	<b>4,221,120</b>
Insurance expenses		
Claims paid	1,946,669	(1,890,213)
Reinsurance premium expenses	5,306	(4,485)
Provision for policy reserves	2,277,549	(2,100,459)
Separate account expenses	22,207	(18,298)
Discount charge	458	(394)
Acquisition costs	596,124	(514,997)
Collection expenses	14,139	(13,251)
Deferred acquisition costs	(418,975)	370,925
Amortization of deferred acquisition costs	436,512	(463,148)
	<b>4,879,989</b>	<b>(4,634,320)</b>
Net loss on insurance	₩ (432,161)	(413,200)

(f) Maturity of premium reserve as of December 31, 2015 and 2014 are as follows:

	2015							Total
	Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years		
Fixed interest rate	₩ 14,258	89,356	458,102	598,282	1,157,664	3,590,347	5,908,009	
Interest rate linked	44,685	75,385	1,550,233	572,951	1,123,881	9,777,032	13,144,167	
Ending balance	₩ 58,943	164,741	2,008,335	1,171,233	2,281,545	13,367,379	19,052,176	

	2014							Total
	Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years		
Fixed interest rate	₩ 21,789	41,189	430,313	493,853	1,149,626	3,225,055	5,361,825	
Interest rate linked	83,211	92,768	1,062,364	839,953	978,613	8,408,462	11,465,371	
Ending balance	₩ 105,000	133,957	1,492,677	1,333,806	2,128,239	11,633,517	16,827,196	

(g) Liability adequacy test, LAT

Liability adequacy tests were performed on the premium reserve, unearned premium reserve and guarantee reserve for the contracts held at December 31, 2015 and 2014. The premium reserve considered the amount net level premium reserve less, where appropriate, deferred acquisition cost in accordance with the article 6-3 of Regulation on Supervision of Insurance Business Act.

The assumptions of the current estimation used to assessment and their basis for calculation was as follows:



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Sensitivity analysis as of December 31, 2015 and 2014 are as follows:

		LAT fluctuation	
		2015	2014
Discount rate increased by 0.5%	₩	(901,208)	(1,028,258)
Discount rate decreased by 0.5%		1,343,624	1,202,286
Operating expense increased by 10%		249,095	241,465
Mortality rate increased by 10%		541,400	495,624
Mortality rate increased by 5%		277,282	248,801
Surrender ratio increased by 10%		125,240	151,132

(\*) As a result of sensitivity analysis above, there are no effects on income and capital, because the increase of LAT does not exceed LAT surplus.

## 29. Other liabilities

Other liabilities as of December 31, 2015 and 2014 are as follows:

		2015	2014
Accounts payable	₩	8,535,444	6,762,516
Accrued expenses		2,821,615	3,216,009
Dividend payable		19,572	24,524
Advance receipts		168,550	62,326
Unearned income (*)		351,313	354,822
Withholding value-added tax and other taxes		478,483	490,556
Securities deposit received		721,936	733,023
Foreign exchange remittances pending		209,086	228,017
Domestic exchange remittances pending		2,227,750	1,524,019
Borrowing from trust account		2,972,023	2,020,712
Due to agencies		542,014	648,430
Deposits for subscription		86,111	88,010
Separate account liabilities		2,567,196	2,411,454
Sundry liabilities		1,480,086	2,398,937
Other		150,629	100,978
Present value discount account		(20,818)	(24,468)
	₩	23,310,990	21,039,865

(\*) Changes in deferred (unearned) point income for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
Beginning balance	₩	168,488	140,436
Deferred income		284,164	262,383
Recognized income		(271,056)	(234,331)
Ending balance	₩	181,596	168,488



### 30. Equity

#### (a) Equity as of December 31, 2015 and 2014 are as follows:

	2015	2014
Capital stock:	₩	
Common stock	2,370,998	2,370,998
Preferred stock	274,055	274,055
	2,645,053	2,645,053
Hybrid bond	736,898	537,443
Capital surplus:		
Share premium	9,494,769	9,494,769
Others	392,566	392,566
	9,887,335	9,887,335
Capital adjustments	(423,536)	(393,405)
Accumulated other comprehensive income, net of tax:		
Valuation gain (loss) on available-for-sale financial assets	826,712	1,092,622
Equity in other comprehensive income of associates	18,569	6,945
Foreign currency translation adjustments for foreign operations	(163,737)	(158,107)
Net loss from cash flow hedges	(12,202)	(15,134)
Other comprehensive income of separate account	8,795	5,703
Actuarial gains (losses)	(373,366)	(294,135)
	304,771	637,894
Retained earnings (*1)	17,689,134	15,869,779
Non-controlling interest (*2)	969,981	1,330,809
	₩ 31,809,636	30,514,908

(\*1) Restriction on appropriation of retained earnings is as follows:

- 1) Legal reserve of ₩1,756,387 million and ₩1,690,125 million for the years ended December 31, 2015 and 2014, respectively.
- 2) Regulatory reserve for loan loss of ₩ 8,479 million and ₩ 7,621 million for the years ended December 31, 2015 and 2014, respectively.
- 3) Retained earnings restricted for dividend at subsidiaries level pursuant to law and regulations amounts to ₩ 4,628,814 million for the years ended December 31, 2015.

(\*2) The hybrid bonds of ₩ 801,298 million and ₩ 1,100,250 million issued by Shinhan Bank were attributed to non-controlling interests as of December 31, 2015 and 2014, respectively. Dividends to those hybrid bonds of ₩ 57,158 million and ₩ 96,293 million were attributed to non-controlling interests for years ended December 31, 2015 and 2014, respectively.

#### (b) Capital stock

##### i) Capital stock of the Group as of December 31, 2015 and 2014 are as follows:

Number of authorized shares	1,000,000,000
Par value per share in won	₩ 5,000
Number of issued common stocks outstanding	474,199,587
Number of issued preferred stocks outstanding	11,100,000

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The capital stock does not match the total amount of the par value for preferred stock issued ₩ 55,500 million as of December 31, 2015 because redeemable preferred stock (43,711,000 shares) has been repaid by retirement of stock method.

ii) Preferred stocks issued by the Group as of December 31, 2015 are as follows:

	Number of shares	Predetermined dividend rate (%) (*1)	Redeemable period
Redeemable preferred stock:			
Series 12 (*2)	11,100,000	5.58%	April 21, 2016 - April 21, 2031

(\*1) Based on initial issuance price

(\*2) The Group maintains the right to redeem Series 12 redeemable preferred stock in part or in its entirety during the redeemable period at par value (reflecting contract dividend rate). If the preferred shares are not redeemed by the end of the redeemable period, those rights will lapse.

## (c) Hybrid bond

Hybrid bond classified as other equity as of December 31, 2015 and 2014 are as follows:

Issue date	Maturity date	Interest rate (%)		2015	2014
October 24, 2011	October 24, 2041	5.80	₩	238,582	238,582
May 22, 2012	May 22, 2042	5.34		298,861	298,861
June 25, 2015	June 25, 2045	4.38		199,455	-
			₩	736,898	537,443

The above hybrid bonds can be repaid at par value early after 5 years from date of issuance, and the Group has an unconditional right to extend the maturity under the same condition. In addition, if no dividend is to be paid for common shares, the agreed interest is also not paid.

## (d) Capital adjustments

Changes in capital adjustments for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
Beginning balance	₩	(393,405)	(393,128)
Other transactions with owners		(30,131)	(277)
Ending balance	₩	(423,536)	(393,405)

**(e) Accumulated other comprehensive income**

i) Changes in accumulated other comprehensive income for the years ended December 31, 2015 and 2014 are as follows:

	2015							Total
	Items that are or may be reclassified to profit or loss						Items that will never be reclassified to profit or loss	
	Unrealized gain (loss) on available-for-sale financial assets	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other comprehensive income of separate account	Remeasurements of the defined benefit plans		
Beginning balance	₩ 1,092,622	6,945	(158,107)	(15,134)	5,703	(294,135)	637,894	
Change due to fair value	197,959	14,559	-	-	4,079	-	216,597	
Reclassification:								
Change due to impairment or disposal	(574,018)	(423)	-	-	-	-	(574,441)	
Effect of hedge accounting	-	-	-	(126,428)	-	-	(126,428)	
Hedging	(864)	-	(33,864)	130,296	-	-	95,568	
Effects from exchange rate fluctuations	30,796	-	27,850	-	-	-	58,614	
Remeasurements of the defined benefit plans	-	-	-	-	-	(107,598)	(107,716)	
Deferred income taxes	80,137	(2,512)	(455)	(936)	(987)	25,785	101,182	
Non-controlling interests	80	-	839	-	-	2,582	3,501	
Ending balance	₩ 826,712	18,569	(163,737)	(12,202)	8,795	(373,366)	304,771	
	2014							
	Items that are or may be reclassified to profit or loss						Items that will never be reclassified to profit or loss	
	Unrealized gain (loss) on available-for-sale financial assets	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other comprehensive income of separate account	Remeasurements of the defined benefit plans	Total	
Beginning balance	₩ 958,115	690	(146,123)	1,244	(117)	(140,842)	672,967	
Change due to fair value	629,374	6,849	-	-	7,678	-	643,901	
Reclassification:								
Change due to impairment or disposal	(479,184)	-	-	-	-	-	(479,184)	
Effect of hedge accounting	-	-	-	(96,405)	-	-	(96,405)	
Hedging	2,181	-	15,622	74,798	-	-	92,601	
Effects from exchange rate fluctuations	21,468	-	(30,376)	-	-	-	(8,908)	
Remeasurements of the defined benefit plans	-	-	-	-	-	(203,300)	(203,300)	
Deferred income taxes	(37,931)	(594)	1,886	5,229	(1,858)	48,884	15,616	
Non-controlling Interests	(1,401)	-	884	-	-	1,123	606	
Ending balance	₩ 1,092,622	6,945	(158,107)	(15,134)	5,703	(294,135)	637,894	

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December 31, 2015 and 2014 (In millions of won)

## (f) Appropriation of retained earnings

Statements of appropriation of retained earnings for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
<b>Unappropriated retained earnings:</b>			
Balance at beginning of year	₩	5,285,274	5,232,139
Dividend to hybrid bonds		(34,488)	(29,940)
Net income		893,041	662,623
		6,143,827	5,864,822
<b>Reversal of regulatory reserve for loan losses</b>			
		-	-
		6,143,827	5,864,822
<b>Appropriation of retained earnings:</b>			
Legal reserve		89,304	66,262
Regulatory reserve for loan losses		665	858
Dividends			
Dividends on common stocks paid		569,040	450,490
Dividends on preferred stocks paid		61,938	61,938
		720,947	579,548
<b>Unappropriated retained earnings to be carried over to subsequent year</b>	₩	5,422,880	5,285,274
Date of appropriation:		March 24, 2016	March 25, 2015

(\*) These statements of appropriation of retained earnings were based on the separate financial statements of the parent company.

## (g) Regulatory reserve for loan loss

In accordance with Regulations for the Supervision of Financial Institutions, the Group reserves the difference between allowance for credit losses by K-IFRS and by Regulations for the Supervision of Financial Institutions at the account of regulatory reserve for loan losses.

i) Changes in regulatory reserve for loan losses including non-controlling interests for the years ended December 31, 2015 and 2014 were as follows:

		2015	2014
Beginning balance	₩	2,235,402	2,236,131
Planned regulatory reserve for (reversal of) loan losses		(42,767)	(729)
Ending balance	₩	2,192,635	2,235,402

ii) Profit attributable to equity holders of Shinhan Financial Group and earnings per share after factoring in regulatory reserve for loan losses for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
Profit attributable to equity holders of Shinhan Financial Group	₩	2,367,171	2,081,110
Provision for regulatory reserve for loan losses		46,053	1,241
Profit attributable to equity holders of Shinhan Financial Group after adjusted for regulatory reserve	₩	2,413,224	2,082,351
Basic and diluted earnings per share after adjusted for regulatory reserve in won		4,886	4,198

### 31. Dividends

(a) Details of dividends recognized as distributions to common stockholders for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
Total number of shares issued and outstanding	₩	474,199,587	474,199,587
Par value per share in won		5,000	5,000
Dividend per share in won		1,200	950
Dividends	₩	569,040	450,490
Dividend rate per share	%	24.0	19.0

(b) Details of dividends recognized as distributions to preferred stockholders for the years ended December 31, 2015 and 2014 are as follows:

	2015					
	Total shares outstanding	Dividend per share in won	₩	Total dividend	Issue price per share in won	Dividend rate per issue price
Convertible redeemable preferred stock series 12	11,100,000	5,580	₩	61,938	100,000	5.58%

	2014					
	Total shares outstanding	Dividend per share in won	₩	Total dividend	Issue price per share in won	Dividend rate per issue price
Convertible redeemable preferred stock series 12	11,100,000	5,580	₩	61,938	100,000	5.58%

(c) Dividend for hybrid bond was calculated as follows for years ended December 31, 2015 and 2014.

		2015	2014
Amount of hybrid bond	₩	740,000	540,000
Interest rate	%	4.38-5.80	5.34-5.80
Dividend	₩	34,488	29,939

(d) There is no unrecognized dividend on cumulative preferred stocks as of December 31, 2015 and 2014.

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## 32. Net interest income

Net interest income for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
Interest income:			
Cash and due from banks	₩	225,554	236,919
Trading assets		510,764	583,234
Financial assets designated at fair value through profit or loss		48,264	36,894
Available-for-sale financial assets		665,561	825,790
Held-to-maturity financial assets		539,190	521,683
Loans		9,024,682	9,713,860
Others		115,689	142,127
		<b>11,129,704</b>	<b>12,060,507</b>
Interest expense:			
Deposits		(2,861,027)	(3,449,480)
Borrowings		(325,564)	(443,668)
Debt securities issued		(1,183,758)	(1,301,872)
Others		(66,422)	(75,687)
		<b>(4,436,771)</b>	<b>(5,270,707)</b>
Net interest income	₩	<b>6,692,933</b>	<b>6,789,800</b>

## 33. Net fees and commission income

Net fees and commission income for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
Fees and commission income:			
Credit placement fees	₩	74,769	63,462
Commission received as electronic charge receipt		136,991	135,472
Brokerage fees		410,682	320,700
Commission received as agency		167,137	190,759
Investment banking fees		79,840	50,158
Commission received in foreign exchange activities		162,989	143,365
Asset management fees		86,144	60,635
Credit card fees		2,351,140	2,200,964
Others		426,837	394,985
		<b>3,896,529</b>	<b>3,560,500</b>
Fees and commission expense:			
Credit-related fee		(43,337)	(32,757)
Credit card fees		(1,848,510)	(1,725,712)
Others		(383,703)	(332,873)
		<b>(2,275,550)</b>	<b>(2,091,342)</b>
Net fees and commission income	₩	<b>1,620,979</b>	<b>1,469,158</b>

### 34. Dividend income

Dividend income for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
Trading assets	₩	68,607	13,585
Available-for-sale financial assets		239,670	162,213
	₩	308,277	175,798

### 35. Net trading income (loss)

Net trading income (loss) for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
Trading assets			
Gain (loss) on valuation of debt securities	₩	(6,451)	58,143
Gain (loss) on sale of debt securities		55,810	44,699
Gain on valuation of equity securities		19,355	33,007
Gain on sale of equity securities		125,552	46,636
Loss on valuation of other trading assets		(5,238)	(1,623)
		189,028	180,862
Trading liabilities			
Gain (loss) on valuation of securities sold		20,146	31,095
Gain (loss) on disposition of securities sold		(84,642)	15,280
Gain on valuation of other trading liabilities		24,366	(17,781)
Gain on disposition of other trading liabilities		1,805	1,296
		(38,325)	29,890
Derivatives			
Gain (loss) on valuation of derivatives		(803,990)	(246,519)
Gain on transaction of derivatives		309,189	298,259
		(494,801)	51,740
	₩	(344,098)	262,492



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## 36. Net gain (loss) on financial instruments designated at fair value through profit or loss

Net gain (loss) on financial instruments designated at fair value through profit or loss for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Financial assets designated at fair value through profit or loss:		
Other securities		
Gain on valuation	₩ 14,707	22,147
Debt securities		
Gain (loss) on valuation	(19,786)	27,458
Gain on sale and redemption	14,651	19,770
	(5,135)	47,228
Equity securities		
Dividend income	112	850
Gain (loss) on valuation	(24,509)	5,684
Gain on sale	46,200	2,451
	21,803	8,985
Financial liabilities designated at fair value through profit or loss:		
Other securities		
Gain on valuation	95	32
Gain (loss) on disposal and redemption	(111)	3
	(16)	35
Borrowings		
Gain (loss) on valuation	778,451	(171,537)
Loss on disposal and redemption	(350,045)	(267,830)
	428,406	(439,367)
	₩ 459,765	(360,972)

## 37. Net impairment loss on financial assets

Net impairment loss on financial assets for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Impairment losses on:		
Loans	₩ (1,021,711)	(894,722)
Available-for-sale financial assets	(254,883)	(243,895)
Other financial assets	-	(49,706)
	(1,276,594)	(1,188,323)
Reversal of impairment losses on:		
Available-for-sale financial assets	12,541	13,944
	₩ (1,264,053)	(1,174,379)

### 38. General and administrative expenses

General and administrative expenses for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Employee benefits:		
Salaries	₩ 2,478,136	2,475,184
Severance benefits:		
Defined contribution	20,203	18,608
Defined benefit	165,706	125,552
Termination benefits	105,031	120,308
	2,769,076	2,739,652
Rent	350,718	353,879
Entertainment	33,339	33,248
Depreciation	193,927	200,811
Amortization	75,060	112,155
Taxes and dues	195,729	197,433
Advertising	255,656	229,643
Research	13,442	11,871
Others	588,121	584,191
	₩ 4,475,068	4,462,883

### 39. Share-based payments

(a) Stock options granted as of December 31, 2015 are as follows:

	4th grant(*1)(*2)	5th grant(*1)(*2)	6th grant(*1)(*2)	7th grant(*1)(*2)
Grant date	March 30, 2005	March 21, 2006	March 20, 2007	March 19, 2008
Exercise price in won	₩ 28,006	₩ 38,829	₩ 54,560	₩ 49,053
Number of shares granted	2,695,200	3,296,200	1,301,050	808,700
Contractual exercise period	Within four years after three years from grant date	Within four years after three years from grant date	Within four years after three years from grant date	Within four years after three years from grant date
Changes in number of shares granted:				
Balance at January 1, 2015	102,389	108,356	58,764	493,079
Exercised	-	-	-	447,451
Balance at December 31, 2015	102,389	108,356	58,764	45,628
Fair value per share	₩ 11,544	₩ 721	-	-

(\*1) The equity instruments granted are fully vested as of December 31, 2015. The weighted average exercise price for 315,137 stock options outstanding at December 31, 2015 is ₩ 39,726.

(\*2) As of December 31, 2015, the exercise of the remaining stock options (4th, 5th, 6th and 7th grant) was temporarily suspended.

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## (b) Performance shares granted as of December 31, 2015 are as follows:

Type	Expired	Not expired
	Cash-settled share-based payment	
Performance conditions	Increase rate of the stock price and achievement of target ROE	
Operating period (*1)	4 or 5 years	
Estimated number of shares vested at December 31, 2015	187,637	953,410
Fair value per share in won	₩ 45,926, ₩ 47,376 and ₩ 40,889 (*2)	₩ 39,550

(\*1) Four-year period is applied from the beginning of the year that the grant date belongs while five-year period for the shares with deferred payment.

(\*2) ₩ 45,926 of fair value per unit is applied for the shares that are vested at December 31, 2013, ₩ 47,376 for the shares that are vested at December 31, 2014 and ₩ 40,889 for the shares that are vested at December 31, 2015, respectively.

The amount of cash payment for the Group's cash-settled share-based payment arrangements with performance conditions is determined at the fourth anniversary date from the grant date based on the share price which is an arithmetic mean of weighted average share prices of the past two-months, past one-month and past one-week. As such the fair value of number of shares expired is estimated using the arithmetic mean of weighted average share prices at the day after expiration date and the fair value of number of shares non-expired is estimated using the closing share price at the end of reporting year.

## (c) Share-based compensation costs for the years ended December 31, 2015 and 2014 are as follows:

	2015		
	Employees of		Total
	The controlling company	The subsidiaries	
Stock options granted :			
4th	₩ (44)	(458)	(502)
5th	(31)	(500)	(531)
6th	-	-	-
7th	(4)	(15)	(19)
Performance shares	1,599	13,878	15,477
	₩ 1,520	12,905	14,425
	2014		
	Employees of		Total
	The controlling company	The subsidiaries	
Stock options granted :			
4th	₩ (26)	(266)	(292)
5th	(18)	(291)	(309)
6th	(1)	(4)	(5)
7th	(216)	(876)	(1,092)
Performance shares	2,264	12,939	15,203
	₩ 2,003	11,502	13,505

**(d) Accrued expenses and the intrinsic value as of December 31, 2015 and 2014 are as follows:**

	2015		
	Employees of		Total
	The controlling company	The subsidiaries	
Stock options granted :			
4th	₩ 103	1,079	1,182
5th	5	73	78
6th	-	-	-
7th	-	-	-
Performance shares	5,539	39,927	45,466
	₩ 5,647	41,079	46,726

The intrinsic value of share-based payments is ₩ 46,726 million as of December 31, 2015. For calculating, the quoted market price ₩ 39,550 per share was used for stock options and the fair value was considered as intrinsic value for performance shares, respectively.

	2014		
	Employees of		Total
	The controlling company	The subsidiaries	
Stock options granted :			
4th	₩ 147	1,537	1,684
5th	36	573	609
6th	-	-	-
7th	4	15	19
Performance shares	6,327	33,584	39,911
	₩ 6,514	35,709	42,223

The intrinsic value of share-based payments is ₩ 42,024 million as of December 31, 2014. For calculating, the quoted market price ₩ 44,450 per share was used for stock options and the fair value was considered as intrinsic value for performance shares, respectively.

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

## 40. Net other operating expense

Other operating income and other operating expense for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
<b>Other operating income</b>		
Gain on sale of assets:		
Loans	₩ 180,306	72,061
Others:		
Gain on hedge activity	356,090	422,637
Reversal of allowance for acceptances and guarantee	33,526	2,262
Gain on trust account	5,027	5,374
Gain on other allowance	6,988	37,567
Others	392,548	376,861
	794,179	844,701
	974,485	916,762
<b>Other operating expense</b>		
Loss on sale of assets:		
Loans	(10,759)	(1,249)
Others:		
Loss on hedge activity	(297,066)	(338,818)
Contribution	(274,685)	(250,159)
Loss on allowance for acceptances and guarantee	(825)	(12,867)
Loss on other allowance	(55,425)	(32,477)
Depreciation of operating lease assets	(9,895)	(9,058)
Others	(769,973)	(807,787)
	(1,407,869)	(1,451,166)
	(1,418,628)	(1,452,415)
<b>Net other operating expenses</b>	₩ (444,143)	(535,653)

#### 41. Net other non-operating income

Other non-operating income and other non-operating expense for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
<b>Other non-operating income</b>			
Gain on sale of assets:			
Property and equipment	₩	2,379	1,229
Investment property		5,586	123,723
Lease assets		328	1,203
Others		433	405
		8,726	126,560
Gain on sale of Investments in associates		95,485	-
Others:			
Rental income on investment property		30,876	60,684
Reversal of impairment losses on intangible asset		982	-
Gain from assets contributed		714	259
Others		100,877	97,127
		133,449	158,070
		237,660	284,630
<b>Other non-operating expense</b>			
Loss on sale of assets:			
Property and equipment		(1,496)	(3,558)
Investment property		(55)	(5,168)
Lease assets		(2,714)	(2,108)
Others		(69)	(42)
		(4,334)	(10,876)
Loss on sale of investments in associates		(2,012)	(1,076)
Impairment loss on investments in associates		(9,024)	-
		(11,036)	(1,076)
Others:			
Donations		(24,830)	(18,828)
Depreciation of investment properties		(13,117)	(13,795)
Impaired loss on intangible assets		(3,125)	(12,458)
Write-off of intangible assets		(960)	(1,572)
Collecting of written-off expenses		(8,088)	(4,718)
Others		(25,705)	(39,121)
		(75,825)	(90,492)
		(91,195)	(102,444)
<b>Net other non-operating income</b>	<b>₩</b>	<b>146,465</b>	<b>182,186</b>

#### 42. Income tax expense

(a) Income tax expense for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
Current income tax expense	₩	556,558	689,216
Adjustment for prior periods		(31,101)	(1,772)
Temporary differences		67,928	(37,003)
Income tax recognized in other comprehensive income		101,234	17,524
Income tax expenses	<b>₩</b>	<b>694,619</b>	<b>667,965</b>

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

(b) Income tax expense (benefit) is calculated by multiplying net income before tax with the tax rate for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
Income before income taxes	₩	3,140,578	2,867,576
Income taxes at statutory tax rates	₩	758,345	692,384
Adjustments :			
Non-taxable income		(16,421)	(31,865)
Non-deductible expense		7,862	21,874
Tax credit		(557)	(639)
Other		(42,869)	(12,017)
Refund due to adjustments of prior year tax returns		(11,741)	(1,772)
Income tax expense	₩	694,619	667,965
Effective tax rate	%	22.12	23.29

(c) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2015 and 2014 are as follows:

		2015			Ending balance
		Beginning balance	Profit or loss	Other comprehensive income	
Unearned income	₩	(135,815)	(2,726)	-	(138,541)
Account receivable		(16,186)	2,983	-	(13,203)
Trading assets		(49,125)	(10,107)	-	(59,232)
Available-for-sale		42,673	(31,883)	80,114	90,904
Investment in subsidiaries		18,277	(12,744)	(2,512)	3,021
Valuation and depreciation of property and equipment		(146,176)	(3,014)	-	(149,190)
Derivative asset (liability)		8,172	183,598	(936)	190,834
Deposits		29,208	(13,796)	-	15,412
Accrued expenses		111,436	(16,158)	-	95,278
Defined benefit obligation		279,207	47,005	23,835	350,047
Plan assets		(237,208)	(72,425)	1,178	(308,455)
Other provisions		206,498	(3,138)	-	203,360
Allowance for acceptances and guarantees		25,914	(5,840)	-	20,074
Allowance related to asset revaluation		(44,810)	(2,178)	-	(46,988)
Allowance for expensing depreciation		(634)	56	-	(578)
Deemed dividend		1,334	248	-	1,582
Accrued contributions		13,308	(2,047)	-	11,261
Financial instruments designated at fair value through profit of loss		42,023	(201,862)	-	(159,839)
Allowances		59,732	15,783	-	75,515
Fictitious dividend		5,375	(274)	-	5,101
Liability under insurance contracts		7,683	2,555	-	10,238
Other		(2,079)	(41,327)	(445)	(43,851)
	₩	218,807	(167,291)	101,234	152,750

(\*) Deferred tax assets from overseas subsidiaries were decreased by ₩ 1,455 million due to foreign exchange rate movements.



	2014			
	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Unearned income	₩ (150,138)	14,323	-	(135,815)
Account receivable	(1,898)	(14,288)	-	(16,186)
Trading assets	(18,770)	(30,355)	-	(49,125)
Available-for-sale	229,579	(148,975)	(37,931)	42,673
Investment in subsidiaries	(6,557)	25,428	(594)	18,277
Valuation and depreciation of property and equipment	(145,687)	(489)	-	(146,176)
Derivative asset (liability)	19,289	(16,346)	5,229	8,172
Deposits	25,690	3,518	-	29,208
Accrued expenses	72,321	39,115	-	111,436
Defined benefit obligation	205,116	26,346	47,745	279,207
Plan assets	(194,466)	(43,841)	1,099	(237,208)
Other provisions	232,391	(25,893)	-	206,498
Allowance for acceptances and guarantees	22,497	3,417	-	25,914
Allowance related to asset revaluation	(44,789)	(21)	-	(44,810)
Allowance for expensing depreciation	(690)	56	-	(634)
Deemed dividend	1,334	-	-	1,334
Accrued contributions	12,236	1,072	-	13,308
Financial instruments designated at fair value through profit of loss	(28,879)	70,902	-	42,023
Allowances	36,305	23,427	-	59,732
Fictitious dividend	6,511	(1,136)	-	5,375
Liability under insurance contracts	5,765	1,918	-	7,683
Other	(95,375)	91,320	1,976	(2,079)
	₩ 181,785	19,498	17,524	218,807

(\*) Deferred tax assets from overseas subsidiaries were decreased by ₩ 19 million due to foreign exchange rate movements.

**(d) Deferred tax assets and liabilities that were directly charged or credited to equity for the years ended December 31, 2015 and 2014 are as follows:**

	January 1, 2015		Changes		December 31, 2015	
	OCI (*2)	Tax effect	OCI (*2)	Tax effect	OCI (*2)	Tax effect
Valuation gain (loss) on available-for-sale financial assets	₩ 1,436,480	(343,858)	(346,024)	80,114	1,090,456	(263,744)
Foreign currency translation adjustments for foreign operations	(135,080)	(23,027)	(5,185)	(445)	(140,265)	(23,472)
Gain (loss) on cash flow hedge	(19,966)	4,832	3,868	(936)	(16,098)	3,896
Equity in other comprehensive income of associates	6,610	335	14,136	(2,512)	20,746	(2,177)
The accumulated other comprehensive income in separate account (*1)	7,524	(1,821)	4,079	(987)	11,603	(2,808)
Remeasurements of the defined benefit liability	(387,947)	93,812	(104,244)	25,013	(492,191)	118,825
Income tax charged or credited directly to equity	₩ 907,621	(269,727)	(433,370)	100,247	474,251	(169,480)

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	January 1, 2014		Changes		December 31, 2014	
	OCI (*2)	Tax effect	OCI (*2)	Tax effect	OCI (*2)	Tax effect
Valuation gain (loss) on available-for-sale financial assets	₩ 1,264,042	(305,927)	172,438	(37,931)	1,436,480	(343,858)
Foreign currency translation adjustments for foreign operations	(121,120)	(25,003)	(13,960)	1,976	(135,080)	(23,027)
Gain (loss) on cash flow hedge	1,641	(397)	(21,607)	5,229	(19,966)	4,832
Equity in other comprehensive income of associates	(239)	929	6,849	(594)	6,610	335
The accumulated other comprehensive income in separate account (*1)	(154)	36	7,678	(1,857)	7,524	(1,821)
Remeasurements of the defined benefit liability	(185,810)	44,968	(202,137)	48,844	(387,947)	93,812
Income tax charged or credited directly to equity	₩ 958,360	(285,394)	(50,739)	15,667	907,621	(269,727)

(\*1) Deferred tax effects, which are originated from the accumulated other comprehensive income in separate account, were included in the other assets of separate account's financial statement.

(\*2) OCI : other comprehensive income

**(e) The amount of deductible temporary differences, unused tax losses, and unused tax credits that are not recognized as deferred tax assets as of December 31, 2015 and 2014 are as follows:**

		2015	2014
Tax loss carry forward (*)	₩	99,449	99,449

(\*) At the end of reporting date, the expected extinctive date of tax loss carry forward and tax credits carry forward that are not recognized as deferred tax assets are as follows:

		1 year or less	1-2 years	2-3 years	More than 3 years
Tax loss carry forward	₩	-	-	-	99,449

**(f) The amount of temporary difference regarding investment in subsidiaries that are not recognized as deferred tax liabilities as of December 31, 2015 and 2014 are as follows:**

		2015	2014
Investment in associates	₩	(16,298)	(11,532)

**(g) The Group set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets and liabilities presented on a gross basis prior to any offsetting as of December 31, 2015 and 2014 are as follows:**

		2015	2014
Deferred tax assets	₩	261,255	280,599
Deferred tax liabilities		(108,505)	(61,792)

### 43. Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
Profit attributable to equity holders of Shinhan Financial Group	₩	2,367,171	2,081,110
Less:			
Dividends on preferred stock		61,938	61,938
Hybrid bond		34,488	29,940
		96,426	91,878
Net profit available for common stock		2,270,745	1,989,232
Weighted average number of common shares outstanding		474,199,587	474,199,587
Basic and diluted earnings per share in won	₩	4,789	4,195

### 44. Commitments and contingencies

(a) Guarantees, acceptances and credit commitments as of December 31, 2015 and 2014 are as follows:

		2015	2014
Guarantees			
Guarantee outstanding	₩	10,110,330	10,796,896
Contingent guarantees		3,036,301	4,335,333
		13,146,631	15,132,229
Commitments to extend credit			
Loan commitments in won		53,677,696	52,723,778
Loan commitments in foreign currency		21,765,110	20,195,691
ABS and ABCP commitments(*)		2,668,370	2,143,308
Others		1,314,743	1,226,604
		79,425,919	76,289,381
Endorsed bills			
Secured endorsed bills		29,549	51,043
Unsecured endorsed bills		7,542,862	10,914,587
		7,572,411	10,965,630
Loans sold with recourse		2,099	2,099
	₩	100,147,060	102,389,339

(\*) The Group consolidates a structured entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to most significantly affect those returns through its power over the structured entity based on the terms in the agreement relating to the establishment of the structured entity. As the Group's interests in the structured entities are presented as liabilities in the consolidated statement of financial position of the Group, the Group does not recognize non-controlling interests for the consolidated structured entities. The Group provides ABCP purchase agreement amounting to ₩ 492,195 million to the structured entities described above.

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## (b) Legal contingencies

The Group's pending lawsuits as a defendant for the years ended December 31, 2015 are as follows.

Case	Number of claim	Descriptions	Claim amount
Billing of Goods	1	The plaintiff filed claims against the Group for payment of goods that were based on a forged guarantee of payment. The first appeal was ruled against the Group, and therefore, the Group has paid the claim amount. The Group is in progress with its second appeal.	43,761
Compensation for a loss	1	The plaintiff has filed a lawsuit against the Group claiming that the Group should compensate for a loss of the damaged right of management insisting the Group had purchased the shares of Shinho Paper Co., Ltd. while being aware that the sale had been executed against the will of the members of Aram Corporate Restructuring Association. The first and second court decided partially in favor of the plaintiff, and therefore, the Group has paid the claim amount. The Group is in progress with its third appeal.	47,200
Lehman Brothers Special Financing Inc(LBSF)	1	A plaintiff, Lehman Brothers has claimed that the CDO investment that had been returned to the Group after bankruptcy should be returned to the Lehman Brothers and also claimed. It was contrary to US bankruptcy law. The Group is currently in its first trial.	12,000
Void Contract and Return of Unjust Enrichment	1	Claims to void or cancel currency futures option. The Group is in progress with its second and third appeal, and recognizes provisions for the expected loss.	68,875
VAN Fee Fixing	4	Agency of VAN filed claims against VAN and the credit card company. The agency filed a lawsuit against VAN and the Group claiming for losses due to fee fixing. 4 cases were all for the same claim, and therefore, there were partial losses for VAN and the Group. All cases are currently pending in their third appeal.	13,456
Others	219	Compensation for a loss claim, etc.	332,644
	227		517,936

As of December 31, 2015, the Group recorded ₩ 25,945 million as provisions and ₩ 1,656 million as liabilities under insurance contracts with respect to these lawsuits.

## 45. Statement of cash flows

### (a) Cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2015 and 2014 are as follows:

		2015	2014
Cash and due from banks	₩	22,037,236	20,608,513
Due from financial institutions with a maturity over three months from date of acquisition		(4,590,643)	(4,739,947)
Restricted due from banks		(12,839,342)	(10,264,156)
	₩	4,607,251	5,604,410

### (b) Significant non-cash activities for the years ended December 31, 2015 and 2014 are as follows:

		2015	2014
Debt-equity swap	₩	34,218	57,335
Transfers from construction-in-progress to property and equipment		3,255	4,054
Transfers between property and equipment and investment property		3,122	26,751
Transfers from property and equipment to assets held for sale		-	3,196
Transfers from investment property to assets held for sale		-	1,841

(c) For the year ended December 31, 2015, the cash out flows related to the investments in Nam An Securities Co., Ltd., PT Bank Metro Express, PT Centratama Nasional Bank and PT. Shinhan Indo Finance amounted to ₩ 163,172 million.

#### 46. Related parties

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(a) Significant balances with the related parties as of December 31, 2015 and 2014 are as follows:

Related party	Account	2015	2014
<b>Investments in associates:</b>			
Aju Capital Co., Ltd.	Trading assets	₩ 99,953	49,980
"	Loans	160,000	200,000
"	Credit card loans	2,165	2,011
"	Allowances	(479)	(624)
"	Deposits	1,061	1,184
"	Provisions	55	78
UAMCO., Ltd.	Loans	23,100	-
"	Credit card loans	42	43
"	Allowances	(32)	(1)
"	Deposits	410	28,801
"	Provisions	46	50
Pohang TechnoPark2PFV	Deposits	14,662	14,666
BNP Paribas Cardif Life Insurance	Other assets	118	115
"	Credit card loans	108	119
"	Allowances	(1)	(1)
"	Accrued expenses	153	-
"	Deposits	644	194
"	Provisions	1	1
BNPParibas Cardif General Insurance	Credit card loans	28	26
"	Allowances	(1)	(1)
"	Deposits	12	7
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	Other liabilities	55	76
Kukdong Engineering & Construction CO.,LTD	Credit card loans	11	17
"	Allowances	(1)	(1)
"	Deposits	5,388	6,986
"	Provisions	15	-
Dream High Fund III	Deposits	4	301
SH Rental Service	Deposits	219	-
SM New Technology Business Investment Fund I	Accounts receivable	55	-
Midas Dong-A Snowball Venture Fund	Deposits	303	-
IBKS-Shinhan Creative Economy New Technology Fund	Deposits	1,463	-
SP New Technology Business investment Fund I	Accounts receivable	19	5
"	Deposits	283	-
EQP Global Energy Infrastructure Private Equity Fund	Deposits	3	-
Shinhan Praxis K-Growth Global Private Equity Fund	Other assets	174	-
JAEOUNG SOLUTEC CO.,LTD.	Loans	15,276	-
"	Credit card loans	40	-
"	Allowances	(160)	-

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Related party	Account	2015	2014
"	Deposits	15,261	-
"	Provisions	15	-
Partners 4th Growth Investment Fund	Deposits	2,704	-
SHBNPP Private Korea Equity Long-Short Professional Feeder	Other assets	163	-
Key management personnel and their immediate relatives:	Loans	3,415	4,642
	Assets	₩ 303,993	256,330
	Liabilities	42,757	52,344

(b) Significant transactions with the related parties for the years ended December 31, 2015 and 2014 are as follows:

Related party	Account	2015	2014
<b>Investments in associates</b>			
Aju Capital co., Ltd	Interest income	₩ 6,440	5,638
"	Fees and commission income	291	487
"	Other operating income	23	202
"	Reversal of credit losses	148	-
"	Interest expense	(1)	(1)
"	Fees and commission expense	(694)	(1,693)
"	Provision for credit losses	(2)	(340)
UAMCO., Ltd	Interest income	4	40
"	Fees and commission income	9	7
"	Other operating income	4	-
"	Reversal of credit losses	-	1
"	Interest expense	-	(1)
"	Provision for credit losses	(32)	-
Pohang TechnoPark2PFV	Interest expense	(15)	(15)
BNP Paribas Cardif Life Insurance	Fees and commission income	1,994	1,731
"	Provision for credit losses	(1)	-
"	Non-operating expense	(847)	-
"	Other operating expense	(7)	(4)
Kukdong Engineering & Construction CO.,LTD	Interest income	26	-
"	Fees and commission income	16	15
"	Reversal of credit losses	1	-
"	Interest expense	(35)	(40)
"	Fees and commission expense	(3)	(4)
"	Other operating expenses	(15)	-
"	Provision for credit losses	-	(1)
BNPParibas Cardif General Insurance	Fees and commission income	10	9
"	Provision for credit losses	(1)	-
"	Reversal of credit losses	-	1
Shinhan K2 Secondary Fund	Fees and commission income	116	465
Dream High Fund III	Interest expense	(5)	(6)
Midas Dong-A Snowball Venture Fund	Fees and commission income	30	-
"	Interest expense	(3)	-
SHC-EN Fund	Fees and commission income	54	8

Related party	Account	2015	2014
SP New Technology Business investment Fund I	Fees and commission income	79	5
IBKS-Shinhan Creative Economy New Technology Fund	Fees and commission income	39	-
"	Interest expense	(2)	-
SH Rental Service	Interest expense	(1)	-
SM New Technology Business Investment Fund I	Fees and commission income	96	-
JAEYOUNG SOLUTEC CO.,LTD.	Interest income	616	-
"	Fees and commission income	1	-
"	Interest expense	(47)	-
"	Provision for credit losses	(160)	-
"	Other operating expense	(15)	-
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	Fees and commission income	21	21
Shinhan Praxis K-Growth Global Private Equity Fund	Fees and commission income	391	-
Partners 4th Growth Investment Fund	Interest expense	(6)	-
SHBNPP Private Korea Equity Long-Short Professional Feeder	Fees and commission income	506	-
<b>Key management personnel and their immediate relatives</b>			
	Interest income	119	170
		₩	9,142
			6,624

**(c) Key management personnel compensation**

Key management personnel compensation for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Short-term employee benefits	₩ 18,462	18,711
Severance benefits	393	422
Share-based payment transactions	6,318	6,541
	₩ 25,173	25,674

**(d) The guarantees provided between the related parties as of December 31, 2015 and 2014 were as follows:**

Guarantor	Guaranteed Parties	Amount of guarantees		Account
		2015	2014	
Shinhan Bank	Aju Capital Co., Ltd.	₩ 50,000	50,000	Unused credit line
	"	-	50,000	Security underwriting commitment
	BNP Paribas Cardif Life Insurance	10,000	10,000	Unused credit line
	UAMCO., Ltd.	89,100	112,200	Unused credit line
	"	89,950	179,900	Security underwriting commitment
	Kukdong Engineering & Construction Co., LTD.	1,574	-	Performance guarantees
	Neoplux Technology Valuation Investment Fund	18,000	-	Security underwriting commitment
	JAEYOUNG SOLUTEC CO.,LTD.	600	-	Unused credit
	"	469	-	Import letter of credit
		₩ 259,693	402,100	



# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

(e) Details of collaterals provided by the related parties as of December 31, 2015 and 2014 were as follows:

Provided to	Provided by	Pledged assets	2015	2014
Shinhan Bank	Aju Capital Co., Ltd.	Beneficiary certificate	₩ 160,000	-
	BNP Paribas Cardif Life Insurance	Government bonds	13,676	12,770
	JAEYOUNG SOLUTEC CO.,LTD.	Properties	20,814	-
	"	Guarantee insurance policy	7,214	-
			₩ 201,704	12,770

## 47. Information of trust business

(a) Significant balances with trust business as of December 31, 2015 and 2014 are as follows:

	2015	2014
Borrowings from trust account	₩ 2,972,023	2,020,712
Accrued fees on trust accounts	21,515	16,227
Accrued interest expense	998	526

(b) Transactions with trust business for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Trust management fees	₩ 71,753	49,877
Fees on early withdrawal	1	-
Interest on borrowings from trust account	44,986	44,899

## 48. Interests in unconsolidated structured entities

(a) The nature and extent of interests in unconsolidated structured entities

The Group is involved in assets-backed securitization, structured financing, beneficiary certificates and other structured entities and characteristics of these structured entities are as follows:

	Description
Assets-backed securitization	<p>Securitization vehicles are established to buy assets from originators and issue asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The Group is involved in the securitization vehicles by purchasing (or committing to purchase) the asset-backed securities issued and/or providing other forms of credit enhancement.</p> <p>The Group does not consolidate a securitization vehicle if (i) the Group is unable to make or approve decisions as to the modification of the terms and conditions of the securities issued by such vehicle or disposal of such vehicles' assets, (ii) (even if the Group is so able) if the Group does not have the exclusive or primary power to do so, or (iii) if the Group does not have exposure, or right, to a significant amount of variable returns from such entity due to the purchase (or commitment to purchase) of asset-backed securities so issued or subordinated obligations or by providing other forms of credit support.</p>
Structured financing	Structured entities for project financing are established to raise funds and invest in a specific project such as M&A (mergers and acquisitions), BTL (build-transfer-lease), shipping finance, etc. The Group is involved in the structured entities by originating loans, investing in equity, or providing credit enhancement.
Investment fund	Investment fund means an investment trust, a PEF (private equity fund) or a partnership which invests in a group of assets such as stocks or bonds by issuing a type of beneficiary certificates to raise funds from the general public, and distributes its income and capital gains to their investors. The Group manages assets by investing in shares of investment fund or playing a role of an operator or a GP (general partner) of investment fund, on behalf of other investors.

The size of unconsolidated structured entities as of December 31, 2015 and 2014 are as follows:

		2015	2014
Total assets:			
Asset-backed securitization	₩	83,587,652	33,603,260
Structured financing		55,864,638	52,342,495
Investment fund		34,418,872	29,096,759
	₩	173,871,162	115,042,514

#### (b) Nature of risks

i) The carrying amounts of the assets and liabilities relating to its interests in unconsolidated structured entities as of December 31, 2015 and 2014 are as follows:

	2015			
	Assets-backed securitization	Structured financing	Investment fund	Total
Assets:				
Loans	₩ 302,074	5,683,497	38,013	6,023,584
Trading assets	1,793,038	44,733	-	1,837,771
Derivative assets	16,722	-	-	16,722
Available-for-sale financial assets	2,541,137	442,646	2,356,212	5,339,995
Held-to-maturity financial assets	2,496,659	-	-	2,496,659
Other assets	560	2,984	207	3,751
	7,150,190	6,173,860	2,394,432	15,718,482
Liabilities:				
Derivative liabilities	8	-	-	8
Other	134	214	322	670
	₩ 142	214	322	670

# Notes to the Consolidated Financial Statements

December 31, 2015 and 2014 (In millions of won)

	2014				
		Assets-backed securitization	Structured financing	Investment fund	Total
<b>Assets:</b>					
Loans	₩	383,011	4,658,388	613,089	5,654,488
Trading assets		573,919	48,877	10,950	633,746
Derivative assets		42	-	-	42
Available-for-sale financial assets		575,360	253,740	2,085,276	2,914,376
Held-to-maturity financial assets		154,103	-	-	154,103
Other assets		555	-	15,038	15,593
		1,686,900	4,961,005	2,724,353	9,372,348
<b>Liabilities:</b>					
Other		1,200	-	658	1,858
	₩	1,200	-	658	1,858

ii) Exposure to risk relating to its interests in unconsolidated structured entities as of December 31, 2015 and 2014 are as follows:

	2015				
		Assets-backed securitization	Structured financing	Investment fund	Total
Assets held	₩	7,150,190	6,173,860	2,394,432	15,718,482
ABS and ABCP commitments		1,093,171	121,134	74,328	1,288,633
Loan commitments		1,589,389	475,091	13,500	2,077,980
Guarantees		65,000	43,240	-	108,240
	₩	9,897,750	6,813,325	2,482,260	19,193,335

	2014				
		Assets-backed securitization	Structured financing	Investment fund	Total
Assets held	₩	1,686,991	4,961,049	2,724,352	9,372,392
ABS and ABCP commitments		325,195	167,000	103,702	595,897
Loan commitments		1,631,113	229,540	26,454	1,887,107
Guarantees		-	28,888	-	28,888
	₩	3,643,299	5,386,477	2,854,508	11,884,284

## 49. Business Combinations

### (a) General information

On August 14, 2015, the Group acquired 40% of voting shares of PT Bank Metro Express ("BME"), a local bank located in Indonesia. Subsequently, on November 30, 2015, the Group acquired additional 50% of voting shares of BME, and also participated in the increase of the paid-in capital of BME, which made the Group's total shareholding of BME up to 97.76%. In addition, on December 18, 2015, the Group acquired 75% of voting shares of PT Centratama Nasional Bank ("CNB"), another local bank also located in Indonesia, and obtained the control of CNB.

On December 1, 2015, the Group obtained control of Swadharma Indotama Finance, a finance company located in Indonesia, by acquiring 50% + 1 of the shares and changed the company's name to Shinhan Indo Finance. In addition, on July 16, 2015, the Group obtained control of Nam An Securities Co., Ltd. in Vietnam by acquiring 100% of its shares.

**(b) The fair value of assets and liabilities**

The fair value of assets acquired and liabilities assumed by acquisition of BME, CNB, Shinhan Indo Finance and Nam An Securities as of acquisition dates were as follows:

		BME(*1, 2)	CNB(*3)	Shinhan Indo Finance	Nam An Securities
<b>Asset:</b>					
Cash and due from banks	₩	35,509	23,577	602	3,258
Loans and receivables		136,086	51,443	67,982	-
Property and equipment		4,176	3,815	2,629	1
Other assets		3,195	782	108	90
		178,966	79,617	71,321	3,349
<b>Liabilities:</b>					
Deposits		84,253	66,179	-	56
Borrowings		-	-	54,757	-
Provisions		1,523	837	225	4
Other liabilities		773	520	837	9
		86,549	67,536	55,819	69
The fair value of the identifiable assets acquired and liabilities assumed	₩	92,417	12,081	15,502	3,280

(\*1) Loans were measured as carrying amount since the difference between fair value and carrying amount was not significant.

(\*2) Identifiable intangible assets represent the estimated amount of cost savings of deposits which were discounted to the present value.

(\*3) The Group utilized the CNB's financial statements since the accounting treatments for a business combination has not been completed by the end of the reporting period.

**(c) Goodwill**

Goodwill arising from the acquisitions has been recognized as follows:

		BME	CNB	Shinhan Indo Finance	Nam An Securities
Consideration transferred (Cash)	₩	98,391	30,782	10,600	4,498
Fair value of previously held equity interest		25,273	-	-	-
		123,664	30,782	10,600	4,498
Fair value of identifiable net assets		(92,417)	(12,081)	(15,502)	(3,280)
Non-controlling interest(*)		2,070	3,020	7,751	-
Goodwill	₩	33,317	21,721	2,849	1,218

(\*) Non-controlling interests were measured in proportionate interest in the recognized amount of the fair value of identifiable net assets.

**(d) Acquisition-related costs**

The Group incurred acquisition-related costs of ₩2,638 million on legal fees and due diligence costs. These costs were included in the administrative expenses.

# Global Networks



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# Investor Information

## **Forward-Looking Statements**

Shinhan Financial Group's 2015 Annual Report may contain forward-looking statements to provide value-added account of Shinhan Financial Group's businesses and results of operations. These forward-looking statements reflect our current views with respect to future events and performance, and are generally identified by the use of forward-looking terminology, such as "expect", "plan", "intend", and similar expressions. You are cautioned not to place undue reliance in these forward-looking statements, which reflect management's current analysis of future events. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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