

Business Review 2014

Creative Innovation



Creative Innovation:

Transcending boundaries to lead
the future of finance

Shinhan Bank is committed to being a leader in the field of creative finance, providing our customers with the fullest possible range of products and services and constantly developing new markets to help us increase our earnings. Our primary goal is to create exciting new opportunities and enhance our corporate value by strengthening our key business activities and adding to our capabilities in the area of compassionate finance. These continuing efforts to raise our level of competitiveness have helped us become one of Asia's leading financial institutions and extend our reach into the international financial arena.



Our earnings in the global banking sector also improved by developing new markets, based on our seventy-strong networks spanning sixteen countries



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PROFILE

Shinhan Bank maintained its position as one of South Korea's leading banks in 2014, despite a lengthy economic downturn and the country's financial industry facing slowing profitability and growth due to persistent global uncertainties.

Shinhan Bank's success included achieving the banking industry's highest profitability in terms of all leading indicators, which was accomplished through the solid growth of operating income and effective cost management. We also retained our position as best-in-class through our preemptive and comprehensive risk management. Above all, we achieved balanced development in management's three linchpins – profitability, stability, and growth – by exceeding our original targets for quantitative growth with a special focus on quality loans to small and medium-sized enterprises (SMEs).

We also continued with our global localization strategy, based on our overseas network consisting of seventy offices in sixteen countries. As a result, we were the first South Korean bank to post earnings of over USD 100 million (approximately KRW 120 million) from global operations, having done this within the thirty years since our expansion overseas.

Shinhan Bank was named the best bank in South Korea in terms of overall management, including brand recognition, customer satisfaction, "great workplace" index, and job creation. In particular, we were recognized for our dedicated efforts to practice compassionate finance, winning the first prize at the Small-Loan Finance Awards from the Financial Supervisory Service for the second consecutive year.

Meanwhile, Shinhan Financial Group ranked first at home (and thirty-sixth in the world) in the Top 500 Banking Brands list compiled by The Banker magazine. It was also the first among domestic financial institutions to be named on the list of Top 10 Banks in Asia by Brand Value.

Our strategic goal for 2015 is "Creative Innovation: Transcending boundaries to lead the future of finance". This goal was developed to allow us to sustain our growth despite the recent economic downturn in the financial industry. Shinhan Bank will continue to create new values and transcend boundaries through our innovative approach to business.

Although Shinhan originally began as a very small business some thirty years ago, we are now stretching ourselves to become a major global player, as well as the leading bank in South Korea. All our employees are dedicated to practicing compassionate finance and sharing the future with our many satisfied customers. We could not have reached the level of success that we enjoy now without the continuing support and encouragement of our customers, our shareholders, and the people living in the communities in which we operate.

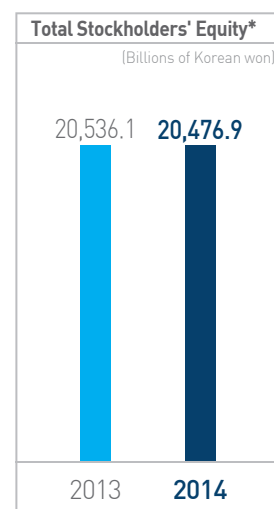
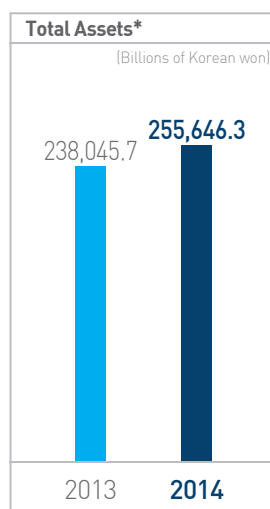
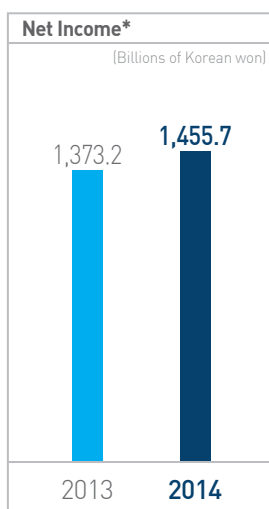


FINANCIAL HIGHLIGHTS

| | In billions of Korean won | | In millions of US dollars ¹⁾ | |
|---------------------------------------|---------------------------|-----------|---|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Bank Account | | | | |
| For the Year | | | | |
| Total Operating Income | 5,171.7 | 5,151.0 | 4,704.9 | 4,881.1 |
| Operating Income | 2,253.6 | 2,458.1 | 2,050.3 | 2,329.3 |
| Net Income | 1,455.7 | 1,373.2 | 1,324.3 | 1,301.2 |
| At Year-End | | | | |
| Total Assets | 255,646.3 | 238,045.7 | 232,574.9 | 225,571.6 |
| Total Loans | 188,325.5 | 174,689.3 | 171,329.6 | 165,535.2 |
| Total Deposits | 189,639.9 | 175,020.4 | 172,525.4 | 165,849.0 |
| Total Stockholders' Equity | 20,476.9 | 20,536.1 | 18,628.9 | 19,460.0 |
| Financial Ratios ²⁾ | | | | |
| Return on Average Assets | 0.60 | 0.59 | | |
| Return on Average Equity | 7.50 | 7.28 | | |
| NPL Ratio by FSS | 1.03 | 1.16 | | |
| Net Interest Margin | 1.74 | 1.76 | | |
| BIS Capital Adequacy Ratio | 15.45% | 16.29% | | |
| [Tier 1 Capital Ratio] | 13.35% | 13.94% | | |
| [Tier 2 Capital Ratio] | 2.10% | 2.35% | | |

Note1) Translated into US dollars at the rates of KRW 1,055.3/USD 1 and KRW 1,099.2/USD 1 respectively--those prevailing on December 31, 2013 and December 31, 2014

Note2) Based on separate financial statements.



* Bank account only

2014 AT A GLANCE



May: Named Best of the Best Banks 2002-2013 by *Asiamoney*

Asiamoney selected SHB as the Best of the Best Banks in Korea, 2002-2013. SHB gained the high rating for its outstanding financial performance, including profitability and asset quality, as well as its excellent non-financial performance, including differentiated customer base expansion, leading role in non-direct channels, and the introduction of innovative products.

June: Shinhan Bank Vietnam recorded over USD 10 million in monthly credit card usage

Shinhan Bank Vietnam, SHB's subsidiary in Vietnam, was the first South Korea-based bank to enter the credit card business in Vietnam, and its monthly credit card billings exceeded USD 10 million as of June 2014. Total credit card billings in the first half of the year soared by 165% from the same period of the previous year, a rate more than four times higher than the growth of the country's entire credit card market.



September: Named Best Wealth Manager in Korea by *The Asset* magazine for the third consecutive year

SHB was named the Best Wealth Manager in Korea for the third year running at "The Asset Triple A Awards 2014", organized by *The Asset* magazine. The magazine, directed at users and providers of Asia's financial services, recognized SHB for its excellent customer-centered asset management, offering custom-tailored products and solutions. SHB has led the market with differentiated asset management services since it launched private banking in 2002.

October: Ranked first in both CSR and customer satisfaction management

Shinhan Bank Vietnam, SHB's subsidiary in Vietnam, opened a TO in Phu My Huong, Ho Chi Minh City, which is the economic center of Vietnam. The office is achieving success for "global retail banking" by ensuring differentiated and higher-level customer satisfaction in the Vietnamese market. It is doing so, mainly via the company's newly launched innovative services and differentiation strategies.



October: Named Best Private Bank in Korea by *The Banker*

SHB was named the Best Private Bank in Korea at the Global Private Banking Awards 2014, jointly organized by *The Banker* and the *PWM* magazine. SHB was recognized for its excellence in PWM with distinguished asset management services.

November: Shinhan Bank Vietnam obtained approval for four branches, a first among foreign-based banks

Shinhan Bank Vietnam obtained approval for four new branches from the country's central bank, a first for any foreign-based bank. With this, the bank has a fourteen strong branch network.



December: Received Presidential Citation for financial support to SMEs

SHB received a Presidential Citation in recognition of its financial support for small and medium enterprises. SHB has expanded segmented financial support for SMEs, in line with their characteristics and needs, while actively providing various non-financial assistance options, including management consulting, to help them enhance their competitiveness.

December: Received first prize at the Small-Loan Finance Awards

For the second year in a row, SHB received the first prize at the Small-Loan Finance Awards 2014 from the Financial Supervisory Service. This award recognized the Bank's ongoing efforts to support the financing of small loans, and its dedication to the practice of compassionate finance.



December: Opened Pune Branch in India

SHB opened Pune Branch in India. As the fourth branch in India and the seventieth in our global network, the branch will serve as a bridgehead to implement the Bank's localization strategy in the country. Moving away from operations centering around South Korean companies in India, it has focused on attracting local and foreign-affiliated companies.

Awards & Accolades

January 2014

- Named Best Bank in Korea by *The Asset* magazine
- Ranked first in the Financial Company category at the Korea SM-Smart App Award by Korea ICT Accreditation Council (KIAC)

February 2014

- Named Best Private Bank in Korea by *Euromoney*
- Named Korea's Most Admired Company by Korea Management Association Consulting for the eleventh consecutive year

March 2014

- Named Best Retail Bank in Korea by *Asian Banker*

May 2014

- Named The Best Korean Bank by *Global Finance* magazine
- Ranked first in the Banking category in the Global Brand Competency Index (GBCI) survey by JMA Consulting and Global Management Committee
- Named Best of the Best Banks by *Asiamoney*

June 2014

- Named the Best Bank in Korea by *Asiamoney* magazine for the tenth consecutive year

September 2014

- Named Best Wealth Manager in Korea by *The Asset* magazine for the third consecutive year

October 2014

- Named Best Private Bank in Korea by *The Banker*
- Ranked first in the Banking sector in the Korean Sustainability Index (KSI) survey by Korean Standards Association for the third consecutive year

November 2014

- Received the grand prize at the Korea Retirement Pension Awards from *Korea Economic Daily*

December 2014

- Received the Prime Minister Award at the Korea Brand Awards from the Ministry of Trade, Industry and Energy
- Received the first prize (Presidential Citation) in recognition of financial support for small and medium enterprises from the Small and Medium Business Administration
- Received first prize at the Small-Loan Finance Awards 2014 from the Financial Supervisory Service for the second straight year
- Ranked first in the Banking category in the National Customer Service Index (NCSI) survey by the Korea Productivity Center
- Received the Donation for Education Award 2014 for the second consecutive year from the Ministry of Education

MESSAGE FROM THE CEO



Yong Byoung Cho _ President & Chief Executive Officer

Dear Valued Customers:

Shinhan has achieved unprecedented success by overcoming numerous crises through our indomitable spirit, willingness to take on challenges, and endless innovation. Currently, we are recognized as the nation's best bank in terms of our overall management, including profitability and stability, as well as for customer satisfaction and social contribution. Our brand value is also improving in overseas markets.

While global economic uncertainties are mounting, the domestic economy also faces worries about deflation due to the recent prolonged low growth trend. Cross-border competition is also occurring in the domestic financial industry, as the competition among banks intensifies and new competitors emerge following the development of information and communications technologies (ICT).

In order to successfully navigate such a difficult environment, we need to continue to create new opportunities and values through innovation and perseverance. Shinhan Bank will pursue this goal via a number of management policies that we have developed.

First, we will establish our status as an unrivalled leading bank.

To this end, we will continue to maintain our superior profitability and stability. Profitability is a key prerequisite to guarantee sustained growth in the current situation where the low growth and low interest rate trends are deepening. We must continue our quality asset-oriented solid growth by demonstrating our strong sales capacity, and must work hard to find future revenue sources by exploring new markets. We will also make efforts to enhance our efficiencies in our organizational operations at large, including channels, human resources, and systems. By fully exerting our preemptive and comprehensive risk management capabilities, we will retain our leading position of stability.

We will also continue to take the initiative in creating synergies within the Shinhan Group. Specifically, we will actively seek win-win policies through efficient collaborations among the Group companies, and enhance our competitiveness in businesses on which the Group is focused, such as future planning, wealth management, and corporate and investment banking.

At the same time, as befits a leading bank, we must display leadership in corporate social responsibility, contributing to the invigoration of the economy and to the development of a healthy society. We will actively respond to government policies by taking the lead in supporting SMEs through our creative and technology financing, which will be developed into long-term growth engines. We will become a reliable companion for individuals and small businesses by offering them real benefits and thereby supporting their success.

By doing so, we will earnestly put our mission of "compassionate finance, creating a happier future" into practice, and will internalize it as our organizational culture so as to form a system in which customer, social, and corporate values support each other.

Second, we will build the foundation to evolve from a leading domestic into a leading global bank.

To begin, we will further consolidate our global competencies. We plan to upgrade the levels of our marketing, risk management, HR, IT, and other processes and systems through organic collaborations among Group companies. By strengthening and expanding our existing networks with a focus on Asia's financial belt, including Vietnam and China, we will continuously seek ways to enter promising markets. Through these efforts, we will continue to solidify our presence as a leading global player.

In addition, we will secure distinguished competitiveness that will enable us to lead smart banking in the FinTech era. To this end, we will be committed to developing innovative banking services with high user convenience, while gaining an edge in the online payment service market. We will also create new business opportunities through strategic alliances with ICT companies.

We will also introduce industry-leading platform management, an initiative that was begun by ICT companies like Amazon, Apple, and Google, and which is becoming more widespread in that industry.

The platform business is gradually emerging in the financial sector as well, including initiatives such as online payment services and crowdfunding, which connect demand and supply with funds. The core of future corporate competitiveness will depend on whether companies appropriately use these platforms; accordingly, we will create new growth engines and added values by utilizing platform management for the development of products, services, and new business models.

Third, we will continue to develop our proud Shinhan culture.

The strength to firmly stand against the wave of massive changes comes from a strong organizational

culture that unites the minds of its members as one. Our Shinhan culture has enabled unprecedented growth, and the Shinhan DNA of challenge and passion drives our success. We must uphold this culture and continue to use it as a motivating force for our organizational development.

To this end, we will continue to put our customer-centered core values into action. Since its founding, Shinhan has recognized the importance of customer satisfaction. Customers are the basis of our existence, and have made us what we are today. We will build an environment in which anyone can feel comfortable making transactions, by protecting customers and their rights and interests, and will continue to develop a long-term partnership with our customers by offering professional financial solutions.

We will also focus on frontline management, because strong frontline relationships and skills make a strong bank. We pledge to always listen to the voices of our customers and frontline employees, and actively reflect those voices in the establishment and execution of our policies. We will make timely decisions based on efficient communication, and will accurately factor in the needs of our branches so as to provide adequate support to our frontline employees, which will in turn benefit our customers.

At the same time, we will spread our organizational culture of creativity and innovation. Shinhan's growth has been facilitated by its employees, whose enthusiastic passion leads them to put the company's needs ahead of their own.

We will not rely on traditional thinking and conservative attitudes, but will continue to evolve and develop through the innovation and creativity of our employees. In addition, we will demonstrate collective intelligence through participation and sharing, so that the creativity of individuals can benefit the organization as a whole. We will put a "culture of not fearing failure" into place so as to encourage Group companies and employees to take on and learn from challenges.

"Establishing an unwavering status as a leading bank", "Building the foundation to be a world-class bank", and "Inheriting and developing our proud Shinhan culture" - none of these goals are simple, but I am certain that we can achieve them with the support of our customers and our 19,000+ Shinhan employees. Through our hard work and dedication, we will pursue the maxim of "Making a constant effort to realize big dreams without settling for the status quo".

Thank you.

A handwritten signature in black ink, appearing to read 'Yong Byoung Cho'. The signature is stylized and fluid, with a large, sweeping initial 'Y'.

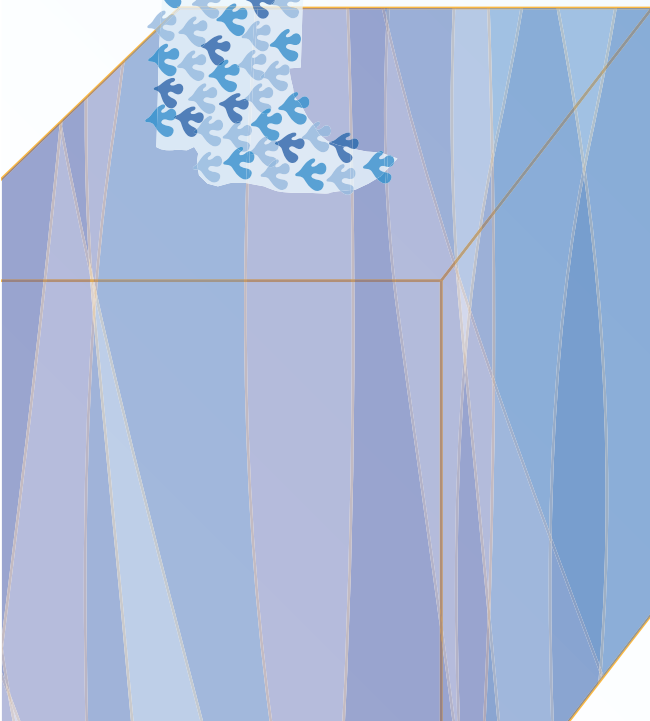
Yong Byoung Cho
President & Chief Executive Officer



Creative Innovation:

Enhancing our core competencies and entering promising new markets

Shinhan Bank is adding to its revenue base by diversifying its range of operations and strengthening its risk management capabilities. In addition to offering our customers the industry's widest choice of financial solutions through the broadest range of easily accessible channels, we are building up our reputation for probity and profitability by entering a constantly growing number of promising new markets.



VISION & STRATEGY

Vision

Shinhan Bank's vision is to become a premier financial institution that grows with its customers for a better future. In terms of the market and our customers and employees:

Customers: Seeking to become a premier financial institution that grows with its customers for a better future

The Market: Leading future trends in the finance industry through change and innovation

Employees: Developing a great workplace, in which our employees work with pride as members of the country's number one bank

Mission

Compassionate Finance: Benefiting society through the finance business

What Compassionate Finance Means

1. Benefiting society through the finance business

This means that Shinhan Financial Group views its business operations and its social contribution activities as complimentary contributors to its overall success, offering continuing benefits and values to our customers and the society at large.

2. Protecting and creating value for our customers

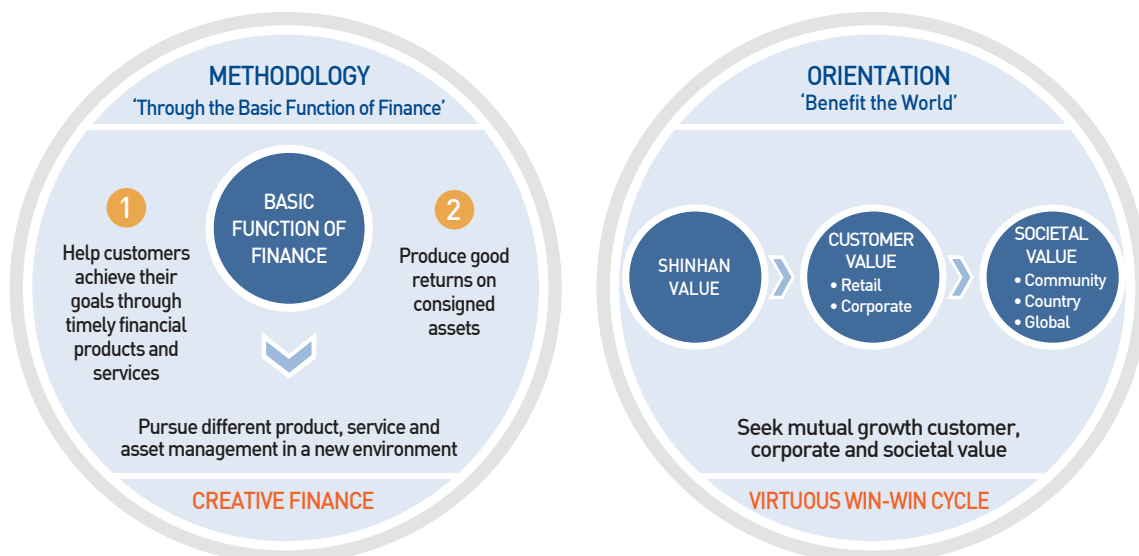
We analyze all our products and services to ensure that they benefit our customers and meet their needs. We also offer them guidance and advice on how to protect themselves financially and their assets. All of these practices demonstrate our commitment to customer value and protection. We only pursue profits when we are sure that we have put the optimal risk management policies and processes in place.

3. Fulfilling our social responsibilities to create a better and happier world

This means sharing the fruits of our success with all the members of society. It also includes helping the underprivileged to become fully contributing members of society.

COMPASSIONATE FINANCE 2.0 SHARING THE FUTURE

“Benefit the world from creating a virtuous win-win cycle through creative finance”



Management Goals and Strategies

The domestic economy is expected to attain moderate growth, led by a modest recovery and the expansionary economic policies of advanced economies. However, the banking industry is in an age of revolutionary change, with its boundaries moving due to the expansion of globally competitive rivals. Relevant factors include the high volatility of the global economy and domestic and overseas financial markets, the persistent low growth in the domestic economy, intensifying competition among different financial sectors, and the entry of other business sectors into the financial industry.

In addition, a rise in demand for finance and the increase of smart financial consumers are leading to stronger demand for new finance initiatives. Shinhan's strategic goal for 2015 is "Creative innovation: Transcending boundaries to lead the future of finance". To accomplish this goal, we need to be equipped with differentiated competencies that transcend boundaries, allowing us to lead the future of new finance in this rapidly changing financial environment.

New: Lead creative financing that creates new values

By diversifying traditional banking practices, Shinhan Bank will lead creative financing that creates new values from the customers' and bank's perspectives.

Shinhan Bank will increase its creative financing and technology financing, so as to support companies with innovative ideas and technological advances. We will also develop IB-specialized areas based on the financial needs of SMEs, and will provide a broad range of solutions to enhance our leadership in creative financing.

We will generate diversified revenues through creative asset management, put customer-oriented asset management processes into place, and expand infrastructures to inquire and manage returns on customer assets. Through such portfolio-based efforts to improve customers' yields, we will achieve platform management that will enable us to offer differentiated value to both the bank and our customers.

At the same time, we will create new financial demand in an aging society with systems, products, and services developed exclusively for retired customers, and will continue to develop markets through global expansion and enhanced localization.

Solid: Strengthen key businesses through differentiated growth

Shinhan Bank will gain a firm footing for future growth by reinforcing its existing key businesses, and will secure greater competitiveness through differentiated growth in its existing business areas.

We will continue with our differentiated growth by seeking qualitative increases in retail and corporate banking, and by expanding profitability-centered asset growth and key businesses. In addition, we will create a wide range of revenue opportunities by raising the loyalty of our key base customers, while expanding our fee revenue base by offering a variety of services including real estate investment consulting.

We will lay the foundation to activate new business areas by optimizing our risk- and earnings-based portfolios through strategic risk management. We will also build an integrated voice of customer (VOC) analysis and response system, and use it in risk management and the development of new business opportunities. In addition, we will boost our competitiveness further through improved efficiency and differentiation by fortifying our market presence in each sector.

Active: Boost organizational adaptability and differentiated competencies through optimization and simplification for efficiency

Shinhan Bank will improve its ability to adapt to the rapidly changing environment through constant innovation

and efficient allocation of resources while utilizing market opportunities in a timely manner by enhancing its differentiated competencies.

First, we will reestablish our direct and indirect channel strategies and upgrade our channel convergence systems with a view to customer-centered channel operations. We will also consolidate our smart marketing systems by putting our indirect revenue models into place. In line with the changing needs of financial consumers, we will enable them to use the bank with greater ease and convenience by establishing our delivery channels as customer-centered omni-channels.

In addition, with an aim to improve the efficiency of the application of resources, we plan to reduce expenses by strategically using our human resources and assets, and to manage our resources with a focus on productivity. We will also raise organizational adaptability by adding to the efficiency of our systems, practices, processes, and decision-making, while establishing a self-directed talent cultivation system and fostering talent for our key businesses. This will allow us to take the lead in responding to changes in the financial markets by strengthening human competencies, which are the most important assets for financial institutions.

Friendly: Seek coexistence with customers and society by bolstering the practice of compassionate finance

Shinhan Bank will strengthen the practice of "compassionate finance, creating a happier future" with a sense of responsibility as a corporate citizen while also continuing to pursue the goals of a financial organization.

We will upgrade our action programs to improve the practice of compassionate finance at our frontline sites, and will put this into place as our organizational culture. We will also review and improve our evaluations and systems from the perspective of customer-centered compassionate finance. In addition, we will realign our customer management system for long-term customers in order to form partnerships, and will continue to push for programs that will enable us to enhance the practice of financial consumer protection.

In order to reinforce the function of financial intermediation, the main business of banking finance, we will actively support the success of low-income individuals and SMEs. We will create a system to provide these customers with substantial assistance, by improving our lending practices. In addition, we will strengthen our safety devices for the financially underprivileged and vulnerable including foreigners, the differently-abled and the elderly. By heightening the convenience and accessibility of financial transactions, we will build up a consumer-centered culture in which we place top priority on customers.



Creative Innovation:

Practicing compassionate finance
for happier tomorrows

As part of its commitment to practicing compassionate finance to ensure that everyone can enjoy a happier and healthier tomorrow, Shinhan Bank is constantly adding to the quality of its operating programs and systems. We aim for long-term, trusting, and warm and welcoming partnerships with all of our customers.



SOCIAL CONTRIBUTIONS

"Making a better world through the power of finance"

Shinhan Bank: Working Together for a Better Future

Shinhan Bank has been promoting "compassionate finance" through its original business. This is aimed at fulfilling our social responsibilities as a financial institution, with the mission to "create a better world through the power of finance", and through our vision to be "a respected and favored premier bank that is creating a better tomorrow".

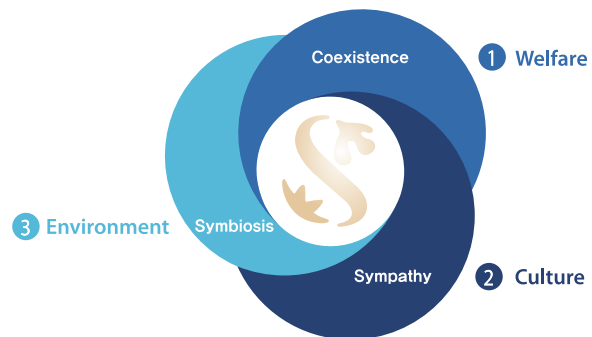
We will continue to do our best to create customer values and protect our customers, treating them as our partners. We will become a bank that is respected by all of its stakeholders – including customers, markets, employees, and communities – as an organization that considers the socially vulnerable and is committed to fulfilling its social responsibilities.

Strategic Direction of Social Contribution for Sustainable Management

Our social responsibility management goal is to be "Shinhan Bank, creating a better tomorrow", and we have executed three strategies to solidify this.

They include "Coexistence (Improvement of Welfare and Education)", "Symbiosis (Environmental Preservation)", and "Sympathy (Mecenat)", which are aimed at returning our profits to society and sharing our achievements and values with our communities through diverse forms of social contribution projects.

[Basic philosophy of social contribution]



Framework and Organization for Social Contribution

Ever since establishing the SHB Volunteer Group in July 2004, we have made efforts to fulfill our role as a model corporate citizen. In 2007, we also established the Corporate Social Responsibility Department for the management of social responsibility initiatives.

Social Contribution, Power of Our Business

We carry out financial education as one of the key projects for our CSR activities, making the best of our business as a means of practicing compassionate finance. Specifically, we provide children and teenagers with a broad range of financial education at the Youth Financial Education Center. In addition, we have offered financial education to senior citizens and to children at community childcare centers. We also assist North Korean refugees to begin a new life in South Korea by providing them with information on the capital market system and by teaching them how to prevent financial fraud.

Sponsoring the Arts and Culture

Since the establishment of the Shinhan Museum, the nation's first specialized museum of financial history, we have been committed to the collection, management, research, and exhibition of historical relics. In addition, by opening Shinhan Gallery at Gwanghwamun and Yeoksam in Seoul, we increase opportunities for the general public to enjoy culture, and contribute to the development of the exhibition culture.

We created the Shinhan Music Awards in 2008 to discover musically gifted individuals; this was a first in the financial industry. Since then, we have discovered and sponsored promising talent for classical music while sparing no support and patronage in diverse areas in order to invigorate the arts and culture.



ETHICAL MANAGEMENT

Shinhan Bank is committed to transparency in all its operations. To achieve this goal, we have developed ethical standards with which all of our employees must comply.

We are constantly revamping our ethical management systems. Our Compliance Officer, who is responsible for pursuing operations related to ethical management company-wide, leads this task. He is assisted by our Compliance Department.

Every employee is required to sign a "Pledge of Ethical Practices" and must participate in a monthly employee compliance checkup program. In addition, we are strengthening our online and offline training in ethics to ensure that all our employees are familiar with our Code of Ethics.

In 2014, we further reinforced the ethical conduct of our employees, based on our new ethical management system that contains a revised Code of Ethics.

Ethical Management Programs and Systems

Programs

Reporting on and carrying out inspections of securities accounts and trading

We observe all of Korea's laws and regulations related to securities, and are committed to the prevention of all illicit transactions, such as the use of classified information. We limit the possibility of having such transactions occur by monitoring the securities accounts and trading practices of employees on a regular basis.

Integrity Pact

We ensure the honesty and fairness of all our contracts by outlining the procedures that employees in charge of contracting must follow during the bidding process, when a contract is signed, and when its contents are being delivered. This applies to areas such as construction, services, outsourcing, and purchasing. We also monitor the performance of every division at our head office on a yearly basis.

Pledge of Ethical Practices

Every employee signs a Pledge of Ethical Practices every year as a means of strengthening his or her resolve to carry out ethical management.

Compliance

Our compliance program helps our employees understand our rules and regulations relating to fair trade. It includes information on how the program works, handbooks, a Code of Conduct, and training and monitoring systems. We also keep a sharp eye on high-risk divisions and departments, and offer them specialized training. In addition, we scrutinize internal trading among the Group's affiliates.

Ethical Management

We have put a number of programs in place to increase our employees' awareness of the need for ethical behavior. They include the Pledge of Ethical Practices, employee compliance checkups, and a securities transaction reporting system. On our intranet, we are also putting up a legal advice system called Judicial and Ethical Affairs, which is about ethical management.

Compliance Department

In 2014, the Compliance Department focused on enhancing the effectiveness of our compliance management programs on a divisional basis, as well as supporting compliance operations at our branches through the provision of

enhanced training. We also strengthened cooperation among the divisions in matters relating to internal controls, and enhanced their efficiency by holding training conferences. In addition, we ensured that employees followed the bank's rules and regulations regarding compliance issues by monitoring divisions in the head office, domestic branches, and overseas offices.

In addition, we conducted monthly ethics training sessions on the observance of rules and regulations. These were especially aimed at employees working at our various divisions and at compliance officers stationed at our various branches, to help them carry out compliance monitoring activities more efficiently. In addition, we rewrote the bank's rules, regulations, and bylaws relating to the operation of its head office divisions.

We are also committed to observing all of Korea's rules and regulations relating to the finance industry. This includes carrying out monthly and quarterly monitoring operations to comply with the Korean government's mechanisms for preventing conflicts of interest.

In regards to money laundering, the Compliance Department enhanced the convenience and effectiveness of the bank's reporting system by making continuous improvements to its Suspicious Transactions Reporting system. As a result, the bank was given an "Excellent" rating in the evaluation of financial institutions carried out by the Korea Financial Intelligence Unit. Some of our other efforts in this area included strengthening employee awareness via training programs, making improvements to our monitoring activities, and creating a monthly reporting system for our overseas branches.

In addition, we satisfied increasing demand from the bank's divisions for legal advice by instituting a legal risk management system that makes legal advice available in a speedy and accurate manner. We also developed a legal advice system called Judicial and Ethical Affairs.

Audit Department

SHB's audit organization consists of the Audit Committee and its subsidiary organization, Audit Department, which is supervised by its Director & Standing Auditor. The Audit Department executes risk-based audit operations in the areas of retail banking, corporate banking, and the bank's divisions.

In 2015, we will be dedicated to establishing an internal audit partnership system through checks and balances, based on field-centered audit activities, proactive responses to changes, and differentiated audit competencies. In addition, we will faithfully perform our duty of surveillance to protect the rights and interests of financial consumers and to help the bank achieve its management goals in a healthy manner.

Internal Control Support Program

The Audit Department operates a crisis prevention program for employees in order to strengthen their sense of ethical responsibility and to prevent financial malfeasance.

Operating the Shinhan Keeper program since 2010, the department continuously strives to activate a whistle blower system. Such efforts include adding to report channels primarily by developing mobile apps and educating the employees of our overseas branches on this program. This will allow us to become a global bank with internal control functions that meet international standards.



BOARD OF DIRECTORS (As of March 31, 2015)

The Board of Directors (BOD) consists of eleven executive directors, including six outside ones. It operates a number of committees to ensure greater expertise in their respective fields. These include the Audit Committee, Risk Management Committee, Remuneration Committee, Outside Director Recommendation Committee, and Audit Committee Member Recommendation Committee.

The BOD is the Bank's highest decision-making body and is ultimately responsible for setting operational strategies and business targets, implementing such strategies and targets as well as supervising and monitoring the activities of the Bank. It has the powers and the budgetary authority to hire independent third-party advisors at its discretion.

Executive Directors & Non-Executive Directors

Yong Byoung Cho

President &
Chief Executive Officer

Seok Keun Lee

Director &
Standing Auditor

Dong Hwan Lee

Executive Director &
Deputy President,
Corporate & Investment Banking Group

Young Jin Lim

Executive Director &
Deputy President,
Wealth Management Group

Hyung Jin Kim

Non-executive Director,
Vice President,
Shinhan Financial Group

Outside Directors

Se Jin Park

Outside Director,
Former Vice-minister,
Ministry of Government Legislation

Dong Chul Cho

Outside Director,
Chief Economist,
Korea Development Institute

Kook Jae Hwang

Outside Director,
Professor of Business Administration,
Sogang University

Bon Il Ku

Outside Director,
Professor,
Yonsei University

Sun Tae Hwang

Outside Director,
Lawyer of Logos Law Firm

Fukuda Hiroshi

Outside Director,
Director of Kyowa Create Co., Ltd.

Executive Officers & Compliance Officer

Young Suk Lim

Deputy President,
Institutional Banking Group

Jae Youl Choi

Executive Vice President,
Global Business Group

Hyo Jin Ahn

Executive Vice President,
Management Planning Group

Hyun Ju Seo

Deputy President,
Retail Business Unit & Retail Business
Development Group

Byeong Hwa Choi

Executive Vice President,
Corporate Business Unit &
Corporate Banking Group

Ki Jun Lee

Executive Vice President,
Credit Analysis &
Assessment Group

Seung Woog Yoon

Executive Vice President,
Management Support Group

Sun Cheor Shin

Executive Vice President,
Business Improvement Group

Dong Ook Ryu

Executive Vice President,
Marketing Service Group

Tae Wook Wang

Executive Vice President,
Consumer Brand Group

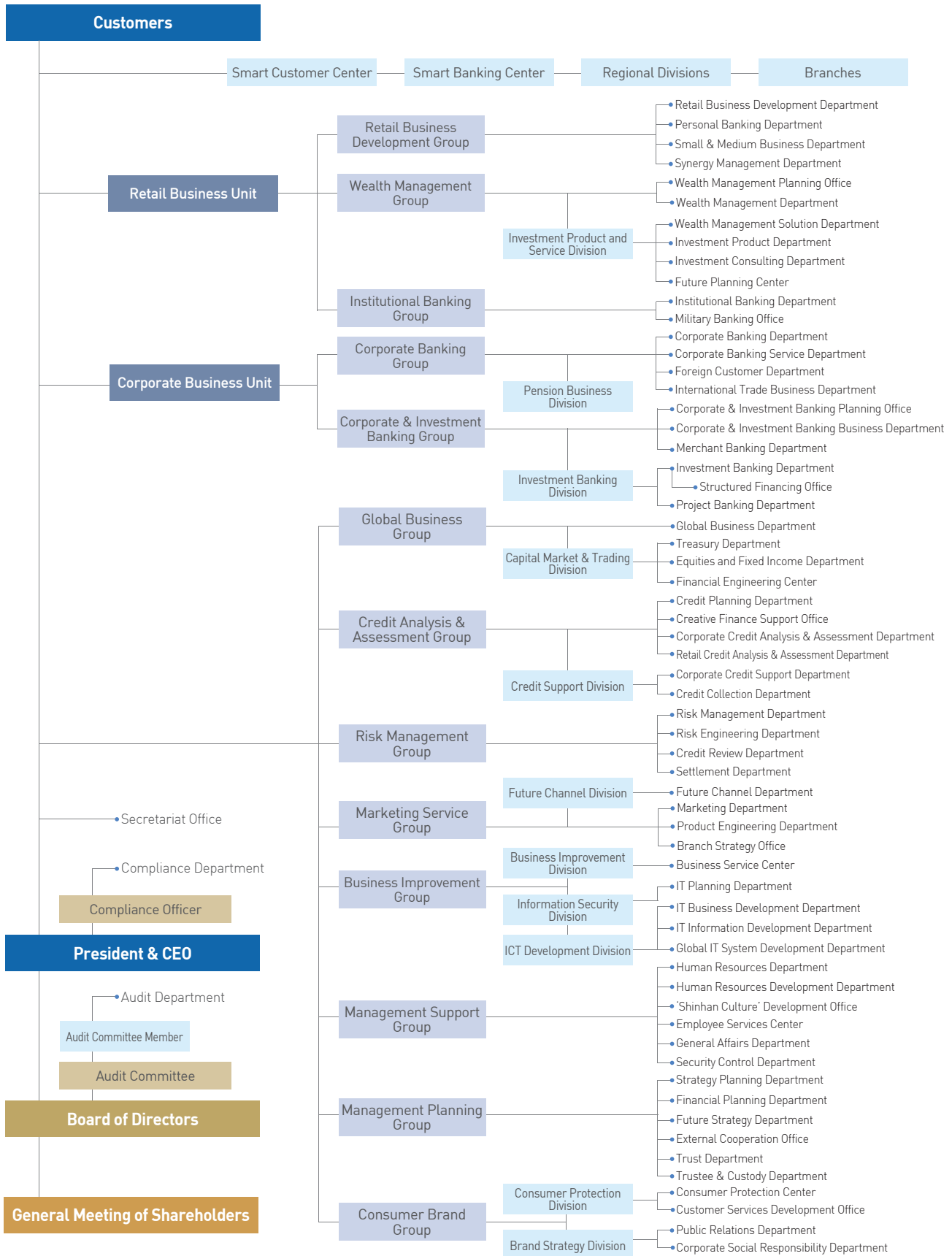
Jae Jung Kwon

Executive Vice President,
Risk Management Group

Soon Seog Huh

Compliance Officer,
Compliance Department

ORGANIZATION (As of December 31, 2014)





Review of Operations

Creative Innovation:

Developing a creative, employee-centered organizational culture

Shinhan Bank goes to great lengths to add to the skills and abilities of its employees. This includes developing their professional competencies and enhancing their work environment so that they feel that they are the very best workers employed by the very best bank in South Korea. We are building the industry's most efficient work infrastructures that will ensure the formation of a warm and welcoming employee environment and allow us take immediate advantage of any and all innovations for the future.

INSTITUTIONAL BANKING GROUP

The Institutional Banking Group's institutional customers are its core market. These include central government organizations (such as the courts and public prosecutors' offices), local governments, military bases, and public organizations (such as airports and the National Pension Service). We provide a wide variety of financial services to these organizations and their employees in our mission of attracting and enhancing business relations with new customers, including universities and hospitals.

We have enjoyed particular success in establishing our presence in court-related businesses—an area that we have specialized in since 1958. In addition, we are tasked with the establishment of systems and funds management for the smooth operations of public institutions, including the National Pension Service. We also boast the largest airport-based banking network in Korea, as we provide currency exchange and other financial services at the international airports in Incheon, Gimpo, Gimhae, and Jeju.

The key to our success lies in the fact that we have an extremely loyal and high-quality customer base in all our core markets. The experience and expertise that we have gained in these sectors, and the customer trust that we have built up within them, make it very difficult for our competitors to encroach upon us. In addition, we are creating a strong customer base for the future by opening branches in major institutions and carrying out extensive marketing activities, such as area marketing.

Secondly, we have a custom-tailored specialized system for each institution. By providing these smoothly operating systems, we gain demonstrative expertise in related businesses. Serving as a high entry barrier, this has allowed us an opportunity to occupy a firm position in the institutional banking market.

In 2014, we were designated again as a bank for court deposits, firming up our presence in the court banking market. We also retained 21 institutions with whom our contracts were due to expire, solidifying our core foundation in the institutional banking market.

In the municipal and provincial depository market, we strengthened our profile in the Incheon region by retaining the Incheon municipal depository. We also attracted for the first time depository of Yongsan-gu Office in Seoul through a public tender, obtaining a foothold to attract more Seoul municipal depositories in the future. We also succeeded

in retaining Incheon and Gimpo International Airports amid keen competitive bidding in the financial industry, by efficiently taking a strategy of selection and concentration.

In the potential customer market, we carried out active PR and marketing using our exclusive "Shinhan S20" brand for people in their twenties. As a result, we garnered the largest share in the market for customers in this age group and strengthened the basis for our future growth.

Despite being a latecomer to the military market, we are gradually increasing our market share by using strategic methods such as the development of various financial products under an agreement with the Ministry of National Defense. We provide the Narasarang Card, a debit card issued to all general military personnel, as well as a broad range of financial services such as salary transfers and credit loans for military officials. As a result, we secured an unrivalled market share position in handling salary transfers of active duty personnel in 2014.

Through such differentiated strategies, we are dedicated to maintaining our leading position in the institutional banking market.

In 2015, the Institutional Banking Group will continue to perform its role as a keystone of Shinhan Bank by establishing its strategic goal for "Differentiated Growth! Future Value Creation!". To this end, we will focus on discovering new revenue sources by attracting new institutions in order to secure sustainable drivers of growth. We will also promote marketing initiatives to attract customers in their 20s and will reinvigorate the Narasarang Card business with a view to leading future markets.

Next, we will reinforce our leading position in the court market to build up a differentiated key institutional base, and will retain institutions with maturing contracts while continuously unfolding a lock-in strategy for existing institutional customers.

Last but not least, we will provide frontline-centered competitive support for our branches by strengthening the competencies of their employees in charge of institutional banking.

The role of the Institutional Banking Group in doing business with major institutions and their employees is more important than ever, as competition in the financial industry continues to intensify in the current low growth and low interest rate situation. Therefore, we will continue to act as the keystone of Shinhan Bank, based on our expertise, experience, and passion for our unique institutional banking operations.

RETAIL BUSINESS DEVELOPMENT GROUP

The Retail Business Development Group is composed of four departments: Retail Business Development, Personal Banking, Small & Medium Business, and Synergy Management.

The Retail Business Development Department establishes overall strategies and promotes key business areas in the retail banking sector, which comprises retail mass, wealth management (WM), individual business, SME, and institutional customer groups. It also evaluates retail branches and supports customer management strategies and operations, while helping the branches to enhance their capabilities through the development of sales programs and training.

The Personal Banking Department is tasked with a wide variety of loan and deposit operations, including household loans and deposits, interest rates, small-loan finance, real estate, affiliated operations, and the National Housing Fund. The Small & Medium Business Department is in charge of promoting small office/home office (SOHO) customer-related systems and operations, while the Synergy Management Department is responsible for the expansion of synergy-creating operations with the Group companies in addition to marketing activities for the credit card business and the settlement accounts of individual customers and merchant stores.

The Retail Business Development Group increased the number of its regional headquarters to 21 (27 when including financial centers) in January 2015, to allow for optimal management and support of its branches. The number of its branches was reduced to 568 (758 when including financial centers) through the merger and abolition of branches for strategic cost efficiency.

The number of its employees totals 8,250 (including 2,027 at financial centers), and this includes 6,429 full-time workers (including 1,555 at financial centers) and 1,821 retail service tellers (including 472 at financial centers).

With such robust organization and sales channels, we realize strong frontline offices by building an efficient organizational structure. This is based on the unique Shinhan DNA, which contains a strong sense of ownership and the spirit of overcoming challenges through innovation

and passion.

In 2014, the business environment was more difficult than ever. Factors included delayed economic recovery at home and abroad, increasing volatilities in the financial markets, benchmark interest rate cuts, and government regulations. Faced with this situation, the Retail Business Development Group worked hard right from the beginning of the year and was able to outperform other banks, exceeding our original targets in all areas of profitability, growth, and stability, thus fortifying our leading position.

Our key tasks for 2014 were to enhance our asset value with a focus on profitability (Asset Value), expand our creative business foundations from a long-term perspective (Business Value), and operate our channels, employees, and systems with a focus on productivity (Channel Value).

First, we enhanced our asset portfolio with a focus on profitability (Asset Value). In terms of earnings, we exceeded our original targets, helping the bank to realize outstanding profitability. As for core liquid deposits, the number of customers who used us as their primary bank, check card sales, and the settlement accounts of merchant stores all increased. We also attracted new funds centering around public institutions. As a result, with all customer groups showing steady growth, these deposits grew by KRW 5.6 trillion over the year, posting the highest growth in the banking industry and playing the biggest role in increasing our revenues.

Household loans achieved balanced growth with a focus on healthy, profitability-guaranteed operational assets. Specifically, mortgage loans increased following the recovery of market demand after the measures of real estate deregulation in August 2013, and home lease loans and quality credit loans also grew by 6.7 trillion, or 9.4%, from the previous year.

With regard to delinquencies in payments, which are directly related to our profits and losses, we realized the lowest levels of delinquencies at 0.23% for household loans and 0.37% for loans to individual businesses (based on delinquencies on the payments of principal and payment for over one month), achieving the industry's unrivalled top position in these loans. We also retained our dominance in the retirement pension market for the fifth year in a row, as a result of consolidating our sales capacity throughout the year amid keen competition.



Second, we expanded our creative business foundations (Business Value) from a long-term perspective. We increased the number of our specialized markets from five to seven in order to include more workers in our customer base. To this end, we carried out marketing efforts to open up new markets for medical and bus company employees. Consequently, the number of our worker customers rose by 118,000 over the year. We also increased the number of individual business owners by 33,000 by strengthening our marketing efforts, and grew the number of high net worth (HNW) customers by 10,000 through our ongoing customer upgrade strategy.

Third, we operated our channels and systems with a focus on productivity (Channel Value), strengthened our employees' capabilities, and realized exhaustive internal control. We closed or merged 40 branches and converted 28 branches into financial centers in 2014. There were several motives behind this strategy: coping with structural slowdowns, involving low growth, low interest rates, and low margins; integrating branches that were overlapping and lacked the ability to generate revenues; and creating synergies by transcending retail and corporate banking boundaries.

In order to boost the capabilities of our employees, we also strengthened our frontline-centered education and training. This was accomplished by opening the CAP program for branch managers, the MAP program for assistant managers of branches, and the custom-tailored JUMP program. We also put a culture of internal controls into place at our branches through innovations in our overall internal controls.

Lastly, we won trust and commitment from our customers and society in general in terms of compassionate finance and customer satisfaction. We were selected as the best institution for small-loan finance for the second consecutive year, and scored the splendid achievement of ranking first in all five categories at the domestic customer satisfaction index surveys.

In 2015, we expect an unprecedented and extensive financial struggle due to the intensifying competition among banks. In order to maintain the focus of our strategy in 2014 and pursue balanced operations at large in retail revenues, assets, and customers, we have set our strategic goal as being to "Lead retail banking with value-oriented growth and the strongest sales capacity!", which

will require four specific tasks to be achieved.

Our first task is meaningful asset growth (Asset Jump). We will increase household and corporate loans with a focus on profitability, and will maintain key liquid deposits at the previous year's level, while adding to our efforts for inducing customers to choose us as their main bank in order to prevent erosion of our customer base. In addition, we will expand investment products, such as installment-type funds, while attracting household funds so as to ensure a stable financing structure.

The second task is the expansion of our customer base (Business Expansion). We will gain an early edge in the markets for workers who are women and mothers, based on childcare facilities, expand a future-planning customer base, and continuously increase creative joint marketing through agreements at home and abroad.

In particular, we will cope with changes such as those on the transfer of bank accounts to be enforced in 2016, and will strive to secure 10 million active customers in two years with an aim of expanding our customer base and sustaining our long-term growth. In addition, we will implement upgraded customer management in order to grow together with our customers according to our customer roadmap: inactive customers → active customers → core base customers by inducing them to use us as their main bank → primary customers → high-net-wealth customers → retired customers.

The third task is channel operation management (Channel Innovation). We will enhance our customer management system, reinforce our frontline support system, improve our frontline-centered competence-based education and training, and put our channel innovation strategy into place.

The fourth and final task is preparing for sustainable growth in the future (Future Leadership). We will firm up the practice of compassionate finance, strengthen our internal controls, innovate our business, and increase employee motivation plans.

Based on this business plan and the enumerated tasks, we will work to increase our key liquid deposits, attract quality workers, scale up non-interest income including installment-type funds, diversify our medium-term loans portfolio, and gain an early edge in the childcare market.

WEALTH MANAGEMENT GROUP

The Wealth Management Group, which is tasked with SFG-wide business strategies in our WM businesses, consists of the Wealth Management Planning Office, the Wealth Management Department, and the Investment Products and Services Division (under which are the Wealth Management Solution Department, the Investment Products Department, the Investment Consulting Department, and the Future Planning Center). Its channel organization includes the WM Business Division, which controls the PB and PWM channels, and other related channels.

The Group launched the Shinhan Private Wealth Management (PWM) Center in 2012, the first such branch in branch (BIB) center in South Korea, by combining the operations of Shinhan Bank and Shinhan Investment in the form of a branch with branch (BWB), and obtaining systematic support from investment products and services (IPS) specialists. This allows us to offer differentiated, custom-tailored services to UHNW (ultra-high net worth), HNW, and Affluent customers, while providing one-stop banking and security products and services.

This innovative initiative is based on Shinhan Bank's unique philosophy of "customer-centered asset management", which has the goal of meeting the different financial needs of customers and delivering differentiated, highest-level premium services. Customer-centered asset management reflects the Shinhan Financial Group's mission to create a virtuous win-win cycle among customers, society, and the Group through "creative financing". It also shows our determination that all of our asset management operations will be focused on customers' needs.

As a result of these efforts, we were named the Best Domestic Private Bank in Korea by *The Banker*, an internationally recognized English-language monthly magazine. We were also named the Best Private Bank in Korea by *Euromoney*, and received the Triple A Investment Awards from *The Asset* for the third consecutive year.

Domestically, we ranked first in the PB category at the Korea Standard Premium Brand Index (KS-PBI) surveys by the Korean Standards Association for seven years in a row, and were awarded the "2011 THE PROUD Most Valuable Product" award by KMA Consulting five years in a row.

In terms of financial performance, we realized balanced

growth in all areas of asset growth, earnings, and HNW customers, based on our differentiated competitiveness.

Our retail customer deposits increased by KRW 4.5 trillion over the year to a total of KRW 58.3 trillion at the end of 2014. The net assets under management at our 25 PWM centers rose by KRW 1.1 trillion to reach KRW 15.3 trillion. The number of customers with a balance of over KRW 0.1 billion and KRW 1 billion increased by 7.4% and 11.4% respectively to reach 209,000 and 7,263, achieving the largest market share in the financial industry.

The group's strategic goals for 2015 are to improve customer value and lead the WM market through customer-centered asset management operations. Our strategic directions are "Customer-Centered Asset Management Build Up", "WM Market Leadership Level Up", and "Asset Management Competitiveness Jump Up".

For the "Customer-Centered Asset Management Build Up", we will strengthen customer asset revenue and risk management to put our customer-centered asset management system into place, and will continue with our service innovations to improve customer value in a creative way. In addition, we will be committed to reliable and transparent WM operations by protecting customers and enhancing open, honest, and principled management.

"WM Market Leadership Level Up" will include consolidating our leading position in the HNW customer market by attracting more HNW customers in diverse ways. We will continue to enhance our competitiveness in the WM market by expanding the profitability-centered growth of the WM business, upgrading our PWM operation systems, and building nationwide asset management coverage.

Finally, to accomplish "Asset Management Competitiveness Jump Up", we will operate a comprehensive program so as to systematically help our branch employees improve their asset management capabilities. In addition, we will upgrade our WM customer management platform so that our employees can offer more professional and sophisticated special asset management services.

In addition to these goals, we will also take on a new challenge: a retail BIB (retail bank branch + retail securities branch). Such endless changes and innovations will provide the momentum for us to fortify the foundation for our future growth.



Investment Product & Service Division

The Investment Product & Service Division consists of the Wealth Management Solution Department, the Investment Product Department, the Investment Consulting Department, and the Future Planning Center. Each of these is staffed with investment managers, product managers, and wealth managers. Together, they make up an unrivalled team of specialists who are dedicated to offering customers a broad range of products and services that include both banking and security products and services, as well as top-of-the-line asset management solutions.

Wealth Management Solution Department

This department is tasked with developing and providing investment solutions for our customers and employees, based on the SFG's WM investment strategies. These include strengthening the asset management capabilities of our employees, supporting experts in wealth management for our customers and hosting investment seminars and lectures on financial techniques.

In 2014, the department played an instrumental role in cementing Shinhan Bank's reputation as a leader in the asset management industry. One of its major achievements was to offer customers asset management consultation services in their own homes. A team of experts, called Solution Partners, visited customers, offering over 260 "At-Your-Home" professional consultation sessions. The department also hosted 240 seminars and lectures on asset management for customers, as well as 900 training sessions on asset management methods for Shinhan employees.

Importantly, the department operates a team of industry experts who have years of experience and who are able to provide tailored products and consultation services for UHNW customers. During the year, we offered solutions on over 61 occasions and attracted new funds of KRW 135.3 billion.

In addition, we were committed to fortifying our customer portfolio risk management operations and to normalizing their returns on investments. This included rebalancing overseas investment funds (such as Chinese and BRICs funds) that had performed poorly for a long period of time.

Finally, we reinvigorated our standardized solution selling, based on our "S-Solution" asset management system, for premier customers at our retail branches.

We put differentiated asset management operations in place, by offering over 24,200 proposals and by reconstituting customer portfolios that met their investment patterns during the year.

Our strategic goal for 2015 is "Customer Asset Value Up by Providing Creative Solutions". To accomplish this goal, we will focus on three strategic imperatives.

First, we will build a customer-centered asset management system. We will put an upgraded asset management system in place at an early stage, and strengthen our customer's earnings rate-centered asset management skills. We will also operate an IPS video education program to share investment and product strategies and offer clear guidelines on investment products sales. Other plans include providing training in "S-solution", our solution selling invigoration system, and promoting an Asset Management Competition to boost the practice of solution selling.

Second, we will upgrade the asset management capabilities of our employees. We will build training roadmaps for our PWM and retail banking employees, and offer open learning courses so as to foster those employees as asset management specialists. We will also offer a wide range of frontline-centered education opportunities aimed at reinforcing self-directed learning.

In addition, we will foster the development of the highest-caliber asset management specialists. To this end, we have devised a number of policies to bolster the capabilities of our WM and PB team leaders in charge of asset management. We will also continue to increase the number of Certified Financial Planners (CFPs), Associate Financial Planners Korea (AFPks), and other professional certificate holders.

Third, we will improve our frontline-centered differentiated asset management operations. We will strengthen our support for a customized solution team (targeting UHNW customers with a balance of over KRW 5 billion), a WM solution team (targeting HNW customers with a balance of over KRW 1 billion), and a specialist companion team (targeting customers with a balance of over KRW 0.3 billion) in order to help attract new HNW customers. We will also continue to promote asset management seminars, allowing us to meet the diverse asset management needs of our customers.

Finally, we will expand communications with our customers by invigorating our asset management services through our website, while practicing compassionate

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finance including financial technique assistance for the underprivileged.

Investment Product Department

The Investment Product Department (IPD) includes: the Fund Product Team, which is tasked with launching and marketing public fund products; the Bancassurance Team, which is in charge of bancassurance operations; the Structured Product Team, which plans and develops private equity funds; and the Gold Team, which operates gold banking and the VAT reverse charge system (gold and copper trading accounts). Together, these teams play a key role in supplying investment products and supporting sales of those products. Specifically, they establish preemptive product strategies, and provide product strategies-linked custom-tailored products and product marketing tools.

In the public funds sector, the department offers a wide range of products with market competitiveness. The products offered are based on the financial market analysis offered by the Investment Consulting Department, which is in charge of investment strategies at the Investment Product and Service Division (IPS) Division. The IPD also implements market sensing by utilizing a variety of media outlets, and supports the development of asset portfolios that meet the expectations of our customers by seeking out and offering promising products in a timely manner.

In addition, the IPD regularly holds educational programs that provide information and details of strategically launched products while establishing and implementing marketing strategies to target customers.

The bancassurance sector continues to enjoy qualitative growth by promoting sales activation through training programs and a wide array of differentiated support programs. In addition, we are committed to launching competitive pension products in order to invigorate the retirement market, and strengthening our product lineups which are tailored to meet various customer needs.

We have developed and supplied investment products containing various underlying assets, including stocks, bonds, exchange rates, and real estate from South Korea and other countries, by targeting PWM and PB customers. We also further consolidated our asset management foundations by building our order-made product platforms, and enabling them to reflect investment needs in product designs. As a result, in 2014 we sold a total of 74 private equity funds amounting to KRW 471.7 billion.

Despite the prolonged slowdowns in the domestic fund market, we achieved new fund sales of KRW 3.36 trillion in 2014. We accomplished this by providing stable, medium-risk and medium-return funds to our retail banking and PWM customers, with a focus on equity linked funds (ELFs) and custom-tailored products that best answer our customers' needs.

In addition, despite the market remaining stagnant due to sluggish domestic consumption and the worldwide low interest rate trend, in 2014 we outperformed other banks in the equity linked deposit (ELD) market. Our ELD sales amounted to KRW 427.0 billion resulting in a balance of KRW 692.0 billion at the end of the year. We sought product diversity and differentiation by introducing the banking industry's first coupon installment-type ELD product, enabling us to become a safe investment vehicle for both individual and institutional customers.

Despite the difficult market environment, we were also able to fortify our leading position in gold banking, including the opening of the KRX Gold Exchange and expanded gold bullion sales by commercial banks. In addition, we contributed to implementing a national policy for the legalization of tax revenue sources by launching a copper trading account product, and thus supporting the VAT reverse charge system.

Our strategic goal for 2015 is to improve customer value through creative product innovation. In order to achieve this goal, we have outlined three core agendas to pursue.

First, we will continue to lead in the investment product market by increasing creative financial products and supporting differentiated products. We will also secure our market position by enhancing our product competitiveness through various programs of market sensing and innovations to structured products, and by launching products so that we are able to provide timely investment opportunities.

Second, we will expand our business foundation for long-term growth. By creating new businesses such as the stable introduction of silver banking and gold scrap trading, we will build long-term revenue-based business models.

Last, but not least, we will put into place a customer-value-oriented sales culture. By improving our new fund and bancassurance and post management processes, and strengthening consumer protection, we will lead the way in the practice of compassionate finance.

In the future, we will continue to develop creative and

We will position ourselves as the financial industry's top consulting group by devising optimal investment strategies, and by providing hands-on professional services to our customers in order to protect them against market volatility and maximize the value of their assets

innovative investment products that best suit the needs of our customers, allowing us to retain our industry-leading competitiveness in the market while playing a pivotal role in asset management.

Investment Consulting Department

The Investment Consulting Department has four teams working in the areas of Investment Strategy, Value Up, Tax, and Real Estate with 29 experts in each field, all of whom support the bank's frontline offices. The Investment Strategy Team establishes investment and asset allocation strategies, while the Value Up Team is in charge of increasing investors' yields by suggesting and managing investment product strategies. The Tax Team is tasked with tax consultation services and seminars, and the Real Estate Team provides consultation services through the value analysis of real estate holdings and real estate prospects by leveraging market outlook and investment consulting.

In 2013, the department demonstrated its competitiveness in differentiated customer asset management services under its strategy to lead the market, put frontline operations first, and upgrade investment consulting service. This involved sponsoring specialized seminars in which customers are offered expert advice on asset management from specialists in each area. We also laid the groundwork for upgraded consulting services by registering for the investment consulting service, a first in the domestic banking industry.

As a result, in 2014 the department contributed to attracting new loans of KRW 15.9 billion and new deposits of KRW 376.7 billion, in coordination with our retail branches and sales channels of the PWM centers. The department also hosted 4,312 consulting sessions and 193 seminars on tax and real estate as part of its sales support activities for frontline workers.

In addition, the department provided the monthly WM Investment Guide, detailing the Shinhan Financial Group's investment strategy house views through elaborate market analyses, and published 244 strategy reports which identified key issues in the market.

The department decided that its strategic goal for 2015 is to "strengthen investment consulting services to increase customer asset values", and, on this note, established three key strategic directions.

First, we will establish our asset management processes to raise the levels of customers' earnings rates, and

focus on fortifying our customer-oriented investment and product strategies. We will upgrade our investment strategy execution abilities by strengthening the linkage between investment strategies and product strategies. This will include offering the Product Multi Asset Portfolio, which recommends top priority product portfolios through scoring by region and sector. We will also establish solid asset allocation policies through accurate reviews of asset allocation strategies and performance analyses. In addition, we will support customer management at frontline asset management operations by offering an "Issue Report" when issues arise concerning extensive asset market conditions and for issues related to the markets that involve bonds, exchange rates, and raw materials.

We will also establish an investors' earnings rate management and assessment system for all of our customers and products. This will permit us to achieve qualitative growth that improves the growth of customers' asset values along with quantitative growth. On this note, we will build the banking industry's first IT system for the management of investors' earnings rates to suggest investment strategies by measuring and analyzing investment performances. By doing this, we will raise our customers' returns on investment (ROIs), and help the bank to achieve its mission of "compassionate finance, creating a happier future".

Second, we will implement an industry-leading real estate consulting service and establish a standardized investment consulting market business model. The department laid the foundation for new real estate business by registering for investment consulting business with the Financial Service Commission in November 2014. We are also diversifying our revenue structure by shifting our commission system to a fee-based one. Based on these efforts, we commenced the operation of the real estate investment consulting service in December 2014. This service provides report-based consulting services in relation to investment judgments, ranging from the acquisition of real estate to management and disposal.

In 2015, by establishing a long-term roadmap for the real estate business, we will create a real estate investment consulting council and increase our number of investment consulting specialists so as to successfully position ourselves in the real estate investment consulting market.

In addition, in 2014 we integrated our Field Academy, a heuristic learning program of visiting real estate sites with customers, into the Shinhan Financial Technique Healing School, which teaches comprehensive financial



techniques. In 2015, we plan to offer upgraded services through the school. We will also increase publicity for the department's real estate brand through diverse media activities, including contributions by experts.

Finally, under the banner of strengthening our support for taxation services with a focus on frontline operations, we will continue to broaden the depth and breadth of our assistance for those regions and branches which we have previously had difficulty supporting. These include planning differentiated seminars and consulting services, such as the Evening Tax School and the Weekend Consulting Service for customers with time constraints, and the Tax Angel Service to help customers address tax issues according to their individual situations. These initiatives will allow us to meet the diverse needs of our customers.

We also aim to provide high net worth individuals (HNWIs) with the nation's best PB tax services through one-stop close consulting for tax investigations by the National Tax Service. We will also support the bank's frontline operations by publishing tax-related research materials that contain information and advice on tax issues.

We will position ourselves as the financial industry's top consulting group by devising optimal investment strategies, and by providing hands-on professional services to our customers in order to protect them against market volatility and maximize the value of their assets.

Future Planning Center

The Future Planning Center, which is in charge of our retirement business, was created in January 2014 to preemptively respond to changes that occur in the financial markets due to the protracted low growth trend and other changes in society such as a rapidly aging population. It also works to secure differentiated competitive advantages. The center has played the role of planning the bank's entire retirement business and in building infrastructures, while also working to promote the development of retirement solutions and other relevant marketing efforts.

In 2014, the center operated its retirement business with the goal of successively entering the market and becoming the number one brand for retirement products and services within three years. As a result, it recorded 790,000 future planning accounts, KRW 1.2 trillion in retirement products, 9,585 retirement plans, 739 customers participating in retirement classes for couples, and 700 customers participating in the future planning

camp. It also had 325 future planning centers at the bank's branches and 325 future planning consultants.

The center's key strategic goal for 2015 is to lead the retirement market by strengthening differentiated future planning capabilities. Its strategic directions are to maximize customer experience in Shinhan retirement solutions, begin full-fledged retirement operations through the differentiation of solutions, and enhance infrastructure competitiveness.

First, we will increase customer walk-ins by maximizing customer experience using our "S-future planning", which is the financial industry's best retirement planning system, and will develop our "future planning index" as the market-leading retirement index. We will expand our retirement classes and location-free future planning camps, which are custom-tailored for couples and institutional and corporate customers, into our signature retirement education programs.

Second, we will boost our differentiated retirement solutions so as to help our customers solve their problems after retirement. We will provide solid solutions for living expenses, such as future planning accounts and credit cards, which will be the basis for post-retirement living. Other plans include developing SFG companies-linked, competitive pension products and activating their sales, and substantially expanding the low-risk and medium-return products lineup to support the retirement funds management.

Third, we will foster our future planning consultants to become the financial industry's leading retirement specialists, by strengthening their retirement planning competencies through a systematic curriculum and intensive training. We will ensure a variety of retirement-related content, such as sales tips for customer consultations, and retirement planning model portfolios by vocation and asset. We will upgrade our homepage to strengthen our non-direct customer contact points, and will build an online platform by developing a mobile system.

Moving forward, we will help our customers to prepare for their future, and will lead the retirement market to become the nation's best retirement brand. We will do so by diagnosing customers' financial positions and offering practical, customized solutions.

CORPORATE BANKING GROUP

Corporate Banking Department

The Corporate Banking Group consists of five departments (Corporate Banking, Corporate Banking Service, Foreign Customer, International Trade Business, and Retirement Pension Business), six financial divisions to manage branches, and 109 branches. The group is committed to gaining a competitive edge in its key business areas, including corporate loans and deposits and foreign exchanges, while striving to differentiate its future competitiveness through creative financing. This involves invigorating technology financing, expanding support for hybrid investment and loan products, and discovering investment banking-specialized areas.

In addition, with its 508 relationship managers, who are the industry's highest-caliber corporate banking specialists, the group leads the corporate banking market by offering optimal financial solutions to meet the increasingly diversifying needs of our customers.

The group's strategic goal for 2014 was to expand the territories of corporate banking with a view to overcoming the recent stagnant business environment in the long-term low growth era, and achieving differentiated growth by breaking the framework of competition. Detailed strategic directions were to tighten core business, optimize business resources, and pioneer new markets. With these goals and strategies, the group achieved outstanding results in its overall operations, demonstrating growth, profitability, and stability.

In 2015, the group aims to protect against changes in the market and the reorganized competitive landscape in the banking industry, by using creative innovations in our environment, systems, and competition. To this end, we set our strategic goal to be "expand territory creatively and achieve a quantum jump in corporate banking", and selected the following as our strategic directions.

First, we will bolster core business (Strong Corporate Banking) by pursuing balanced growth, based on our earnings in the market for medium-sized

healthy companies, which is our key market. We will outperform our competition by relying on our strength in having independent auditors examine the financial statements of medium-sized healthy companies, and will further reinforce our advances into that market.

In order to boost our relatively minor presence in the foreign exchange market, we will rely on our differentiated advantages in our core markets. In addition, as the retirement pension market leader, we will continue to pursue qualitative growth, ranking first in both retirement assets under management and customers' earnings rate. This will be done by responding to the central government's measures to activate private pensions.

Second, we will optimize business resources (Smart Corporate Banking) by improving the efficiency of our marketing for sustainable growth. In a bid to cope with the spread of smart banking and to optimize corporate banking channels, we will enhance our competitiveness in non-direct channels including the overall reorganization of corporate Internet banking operations.

In addition, we will expand our share of regional markets through effective marketing that meets the needs of store owners, by bolstering closely monitored operations by region. This will be led by our regional headquarters. We will also improve our profitability, and will focus on expanding our stable revenue base by managing our loan and deposit margins in order to increase our interest income. We will also diversify our revenue structure by increasing non-interest income and key liquid deposits.

Finally, we will differentiate ourselves in future competitiveness (Well-prepared Corporate Banking) by securing a distinct competitive edge in future growth markets. We will continue to develop creative financing into a new growth engine of our corporate banking by focusing on qualitative growth and creating new values, as well as the quantitative expansion of technology financing and relationship banking. In addition, we will put our efforts into finding IB-specialized areas that benefit SMEs, including M&A, to develop IB revenue models for these companies, and will enhance our competitiveness through active collaboration with Shinhan Investment.



In 2015, we will continue to lead in the corporate banking industry, and will succeed in achieving our strategic goals despite difficulties in the financial landscape.

Pension Business Division

The Pension Business Division is composed of four teams, which allows the division to offer a wide range of retirement pension-related operations. The Marketing Team supports branches in attracting new retirement pension operations, while the Solution Team offers education to employees and customers and a broad range of consulting materials in relation to retirement pension programs including legislation and taxes. The Business Support Team assists branches with enquiries and various practical business affairs, and the Proprietary Trading Team is in charge of developing retirement pension products and exchanging products with other business operators.

In 2014, the total value of our retirement pension assets under management (AUM) was KRW 10.91 trillion, making us the industry leader in South Korea for the fifth consecutive year. We also ranked first in terms of reserves for management operations for four years in a row.

Recognizing the importance of individual subscriber management in the retirement pension market, we launched various customer management operations, including maturity and earnings rate management and rebalancing. We also built the foundation to go beyond simple services targeting retirement pension subscribers, and began offering more comprehensive services.

In addition, we focused on increasing our customers' retirement asset values, and offered a variety of options. This included adding the industry's first private ELF.

The ELF particularly has been in the spotlight as an alternative product which protects customers from changes in retirement pension plans, such as the prohibition on retirement pension operators including their own products in retirement pensions and expanding the limits for the inclusion of risk assets. It also allows for overcoming the limitations of low interest rates. By launching our Future Planning

Center in April 2014, we have been able to provide our customers – who have secured assets for their old age with retirement pensions and other vehicles – with total retirement solution packages, assisting them from employment to post-retirement.

In 2015, the central government's plan to invigorate private pensions will be in full force, providing a new turning point for the development of the retirement pension market. Accordingly, we will lead differentiated growth as the retirement market leader. This will involve establishing a goal called the "Retirement Pension 300", which will focus on targeting businesses with over 300 employees that are required to introduce retirement pension programs, and addressing increased retirement pension payment limits for tax deductions of KRW 3 million.

In addition, we will re-establish and upgrade our retirement pension system. On this note, we will develop a system, giving consideration to our frontline offices including user convenience and the simplification of processes. This will allow us to enhance the accessibility of our branch employees. At the same time, in order to cope with a rise in social interest in returns on investment and changes in the market focused on defined contribution (DC) plans, we will bolster our proprietary trading abilities and concentrate our capabilities on the conversion of our products to DC retirement plans and their post management.

CORPORATE & INVESTMENT BANKING GROUP

The Shinhan Financial Group (SFG) launched its CIB business division system in January 2012. Its goal was to meet the ever-increasing needs of corporate customers, maximize customer value, and to ensure the bank's sustainable growth. Since then, the CIB business group has been committed to building stable systems, by making diverse attempts and accumulating capabilities in order to bring about qualitative improvements.

The business group was formed by combining Shinhan Bank's IB organization, which is a special banking service channel for large corporations, and Shinhan Investment's IB organization into one business unit to solve the problem of having a dual operating system. Now that the Group is integrated into SFG's corporate culture, it is fast becoming a growth engine for the future.

Consisting of the Corporate and Investment Banking Planning Office, the Corporate and Investment Banking Service Department, the IB Division, the Hong Kong IB Center and the Merchant Banking Department, SHB's CIB Group provides Korea's most comprehensive range of financial services through the CIB business model. As a result, we are now much better equipped to provide corporate customers with high-quality, one-stop services in all areas of banking and securities, based on our strong relationship with our corporate customers.

Shortly after the CIB Group was launched in January 2012, the IB divisions of SHB and Shinhan Investment, as well as the Merchant Banking Department, began sharing the same space within the head office of Shinhan Investment in Yeouido. This was aimed at overcoming limitations to the business models of each company, and offering integrated financial solutions for corporate customers by bringing together their various skills. The "shared location" of these three business divisions resulted in the seamless integration of their PM functions and expertise, and led to the development of a system that can provide a full package of CIB services to maximize customer value.

In addition, we have added to our customer coverage and marketing efficiencies by establishing new business models such as the Duo- RM system for the joint management of customers for the RMs of Shinhan Bank and Shinhan Investment. In the process of establishing these models, we are also activating joint operations and referral marketing efforts.

To ensure that this is done seamlessly, we have upgraded all of our business processes. This includes offering a broad range of specialized talent cultivation programs that will improve SFG's core competencies, strengthen its foundations for future growth, and increase its organizational efficiency. We are also tasked with conducting research, new business development, and delivering solutions.

In the past, collaboration between the two displayed a pattern that focused on simply introducing the traditional products of each individual company to the customers. However, after the launch of the CIB Group, the two companies have been achieving qualitative growth by continuously developing and proposing package deals that meet various customer needs through joint operation.

For instance, the SFG's CIB Division did more than just put banking and securities products together to meet customers' funding needs. Instead, it also assisted in improving corporate customers' financial structure by utilizing equity financing, "advanced structuralization", and other techniques. By doing so, it has built a variety of solution selling capabilities and developed an excellent track record. These efforts have produced excellent results, allowing the division to lead the direct and indirect markets.

Even in the challenging business environment of 2014, the CIB Group has been playing a pivotal role in corporate and investment banking. It has done so by focusing on risk management and by building a growth engine based on this new system. As a result, it posted KRW 399.9 billion in operating revenue and KRW 246.6 billion in earnings before taxes, in terms of financial gains.

In 2014, the CIB Group enhanced its competitiveness in the area of alternative investments by improving synergies between Shinhan Bank and Shinhan



Investment and improving its role as an "IB Solution Provider" within the Shinhan Financial Group.

The group created and invested in the Senior Loan Fund (amounting to KRW 5.465 trillion) and the Japan Solar Power Fund (amounting to KRW 200.0 billion) through collaboration with its affiliate, Shinhan BNP Paribas Asset Management. In addition, as a total solution provider, it laid the groundwork for large-scale power generation projects, which was done by securing the rights for financial arrangements for the Goseong Green Power Project, with total working expenses amounting to KRW 4 trillion. Such successful financial consulting and arrangement deals for large projects will be recorded as landmark cases in the market.

In the meantime, apart from generating interactions between the companies, the CIB Group also continued to enhance its role as an IB Solution Provider within the Shinhan Financial Group. In order to expand collaboration in the bank, the group provided retail customers with quality, custom-tailored IB asset products whose profitability and stability have been verified. It has also provided SME customers with IB solutions that focus on standardized loans (such as equity-linked products, new rights issues, and support for listing on the Korea New Exchange, or KONEX).

In addition, the group expanded its collaboration on quality IB deals with other relevant affiliates, including Shinhan Card. These deals included making handset loan-backed structured deals for wireless carriers.

Currently, the motto for the CIB business is "creative asset management", and we have produced impressive results by overcoming existing asset management limitations. This was done by improving our earnings and growth through the invigoration of investments and loans for alternative assets. In 2015, we plan to upgrade our platform with an aim to further invigorate "creative asset management".

Going forward, the CIB Group will ensure long-term growth foundations and sustainable growth amidst the industry's current low interest rate, low growth, and low margin trends, and intensified competition.

First, following the establishment of the Senior Loan and Solar Power Funds, we will push for additional fund business in collaboration with Shinhan BNP Paribas

Asset Management, which will allow us to take the lead in assessing market trends.

Second, we will activate overseas investments in diverse areas, in order to build a global operations base. As the development of new markets is imperative step in replacing the saturated domestic corporate banking market, we will minimize our risk arising from initial market entries via indirect investment methods, accumulate investment experience, and boost our earnings rate with hybrid investments and loans on fund investment deals.

Third, we will identify the IB needs of SMEs which have to date been relatively isolated in the direct financing market, through collaboration with banking company groups. We will also continue to build medium- to long-term partnerships between financial institutions and other companies through the timely supply of capital required for corporate growth, in the form of investments and loans.

Fourth, we will supply stable and highly profitable products to our retail banking customers. This will be done by utilizing our IB product supply function and Shinhan Bank's sales power of retail banking.

Finally, we will enhance our competitiveness in the non-corporate bonds sector of Shinhan Investment.

We have been able to secure differentiated CIB market leadership thus far, and we will continue to evolve in 2015 by exploring new territory, improving various applicable systems, and building a stronger organizational culture.

GLOBAL BUSINESS GROUP

The Global Business Group's strategic goal for 2015 is to "expand business based on localization and improve profitability". This is aimed at contributing to bank-wide performance and improving the bank's market credibility. Our three key strategic directions on this note are to accelerate localization, expand overseas channels, and ensure profitable management. Our top priority for the year is the acceleration of our localization.

As a key task in accomplishing the acceleration of our localization, we will strengthen the promotion of localization operations. We will also systematize our customer marketing capabilities, and continue to develop and increase locally specialized products. In addition, we will upgrade our customer management support tools.

Our second key task is to strengthen our support for localization sites.

This will involve continuously transferring key operations at the head offices of our local subsidiaries, which our expatriate employees are currently in charge of, to local employees. We will also boost the capabilities of our local employees. In terms of infrastructures, we will strengthen our local management information system (MIS), and expand autonomous Key Performance Indexes (KPIs).

The last strategy is to improve our global business processes. This will include enhancing business processes with a focus on local operations, boosting asset stability system management, and improving local risk management.

Our second strategic direction is to expand overseas channels. To this end, we will strategically expand overseas and diversify options, and upgrade our non-direct channels, for which we will implement local market-centered Internet banking. In addition, we will build a global portal site and support the timely establishment of IT infrastructures in our newly entered regions following the expansion of our channels. In order to put into place compassionate financing on a global scale, we will strengthen locally customized training, and spread and share local best practice in order to internalize compassionate finance.

Our Financial Engineering Center will continue activities

to help domestic SMEs manage their foreign exchange risk, and it will carry out its upgraded foreign exchange hedge consulting services from the perspective of compassionate finance.

Our third strategic direction is to reinforce profitable management. In order to accomplish this, we will expand and invigorate new global businesses and products. In addition to discovering and activating niche and strategic products for localization, we will develop affiliated products with policy institutions and other local institutions at home and abroad. We will also seek out new revenue sources such as the bancassurance business in link-ups with local insurance companies, and will increase interest and non-interest revenue sources by expanding various operations under contract and receipt services.

We will invigorate joint operations for quality IB deals with the CIB Group, and will develop new hybrid and convergence business models. This will include the introduction of package products in association with major local client companies.

We will also promote custom-tailored growth strategies, by expanding the weight of global operations in the bank's net income to 10%, in an effort to rank first in each region. In addition, we will fortify our customized growth strategies by region. This will be done by expanding our programs to enhance our foreign exchange business, and by continuously promoting FX and transaction banking operations.

Next, we will boost our profitability-oriented mindset and earnings-centered business management by branch. We will improve the efficiency of return on assets (ROA), net interest margin (NIM), non-interest income, and capital management, and will adopt the bank's provisions calculation method so as to achieve efficient capital allocation and growth. We will also introduce an upgraded internal interest rate system to our major subsidiaries, allowing us to facilitate optimal resources allocation and performance measurement, and improve customer profitability management among branches.

Finally, in order to lead the capital market and respond to the tightening regulatory environment, we will manage our assets and liabilities and adapt to new government regulations. We will also activate alternative investments



in the marketable securities sector, strengthen our stock management and trading capabilities, and secure a leading role and position in the direct won-yuan exchange market.

Treasury Department

The year 2014 began with the majority of market participants expecting a global economic recovery. With the end of quantitative easing, it was naturally anticipated that advanced nations would raise their interest rates. However, the global stirrings of economic recovery ended up differing by nation and region. As a result, monetary policy turned out to differ between countries where signs of economic recovery were distinctive such as the US, and those where they were still obscure such as Europe and Japan. In addition, prolonged economic slowdown and political unrest and conflicts in the Middle East, Europe, and other areas heightened the risk of volatility and downward movement in the international financial markets.

A few emerging countries showed vulnerabilities with their currency values dropping sharply due to international payments imbalances, which included widened current account deficits and foreign debts. This provided an opportunity for South Korea to highlight its differentiation from these countries, as its currency value remained relatively stable along with the country's continuously increasing exports and stable economic growth.

The world has raised its voice, asking for regulations to prevent the recurrence of a global financial meltdown such as the one that took place in 2008. The global trend to re-establish risk management policies for overall financial systems continued in 2014. The Volcker Rule that was devised by the US to enhance the safety and soundness of financial markets took effect in April 2014, heralding the start of a new regulatory environment.

The Basel Committee on Banking Supervision outlined its policies regarding capital and liquidity controls in the second half of 2010. It did so following the announcement of its basic plan to reorganize financial regulations in 2009.

The Treasury Department established a number of liquidity management strategies to help the bank cope

with new liquidity regulations that began to be enforced in 2015, reflecting its existing liquidity ratio management and the requirements of financial regulators (the Basel Committee and Korea's Financial Supervisory Service).

In the won-denominated funds sector, we maintained a stable loan-to-deposit ratio by pursuing a policy to increase deposits by utilizing our customer base. We continued to enhance the stability of our financing by securing medium- to long-term funds through the issuance of financial bonds. We also carried on debentures implementing our interest rate risk management strategies to reduce the volatility of earnings in line with that of interest rates. As a result, we were able to maintain stable liquidity ratios and add to our interest income throughout the year.

We dealt appropriately with the excess and/or deficiency of funds for asset and liability management (ALM) purposes, while managing our investment funds. We continued to improve our rates of return through carrying out differentiated management strategies, which were based on various plausible scenarios for interest rates. All of these we managed to achieve while still securing sufficient collateral through purchasing maturing bonds.

In the foreign currency sector, we established annual foreign-currency ALM plans, developed optimal annual target portfolios for each asset and business division, and monitored their performances on an ongoing basis. This allowed us to manage our foreign-currency liquidity operations in a stable manner, despite the economic downturn in the Euro zone, slowing economic growth in China, and worries over interest rate hikes in the US.

In addition, we defused uncertainties regarding refinancing in the future, and firmed up differentiated investor awareness about Shinhan Bank by a preemptive move in floating JPY 30 billion worth of Samurai Bonds with low interest rate in November 2014. This happened while destabilizing geopolitical factors, including North Korea's threats to carry out military attacks, were still at a high level.

In the meantime, Shinhan Bank is seeking to diversify its funding sources by utilizing the US, Euro commercial paper (CP), and global medium-term note (MTN) programs. The bank is also focused on maintaining its



foreign-currency liquidity operations at a stable level by continuously strengthening its relationships with overseas financial institutions.

The world economy has been moving in various directions since the financial meltdown. For example, unlike the US economy which has shown a gradual recovery, the economic downturn in the Euro zone is prolonged and growth in China is slowing. Nonetheless, we should exercise caution against increasing volatility in the financial markets, which will arise from the expected benchmark interest rate hike by the Federal Reserve in 2015.

Accordingly, the Treasury Department will work to establish liquidity risk management systems that meet any and all international standards. We will also develop systematic and well-thought-out ALM strategies, based on our upgraded liquidity management capabilities. We plan to concentrate our energies on stabilizing our revenue structure, based on our ALM strategies. In addition, we will institute new risk management paradigms that are grounded in BASEL III, and we will enhance our funding structure through the further diversification of our financing vehicles.

International Trade Business Department

In 2014, the ITB Department strengthened its support for foreign trade financing to export and import companies. The department also strengthened its competitiveness in remittance and foreign exchange services through alliances and collaborations with other institutions, amidst stagnant trade growth.

We realized solid growth by expanding forfaiting so as to reduce our credit risk on foreign credit by export companies, attracting small and medium-sized exporters to broaden our trading customer base, and strengthening our supplementary services to attract FX operations from domestic and overseas tourists. We also carried out customized marketing through market segmentation, which allowed us to add to our support for remittance and FX services targeting non-Korean workers, and contribute to improving the bank's FX brand by participating in national projects.

In addition, we have strengthened our CSR activities to achieve win-win growth with our business partners.

These activities include operating training programs for the employees of small and medium-sized export and import companies, and operating FX consulting programs in line with corporate needs.

Since South Korea is an export-led economic system, the central government is expected to consistently press ahead with its export promotion policies in 2015. Accordingly, we will adapt to market changes and strengthen our marketing to target customers. This will involve expanding our support for foreign trade financing, and offering differentiated services to export and import companies including the development of customized products by customer size and target.

We will strengthen our financial assistance to export companies that are experiencing difficulties, by creating differentiated products that meet the needs of our customers in line with market changes, and promoting the development of affiliated products with outside guarantee institutions. We will also secure prospective customers by operating diverse programs such as training and professional consulting in exports and imports, targeting small and medium-sized export companies.

We will also reinvigorate our sales field-centered market support. We will strategically respond to market changes, by sharing marketing field issues and offering solutions, and developing and expanding FX services through alliances with outside organizations and overseas financial institutions. We will also actively promote our CSR efforts through mutual cooperation with domestic and overseas institutions.

Finally, we will reinforce affiliated operations with our overseas branches through the SFG's global network, and will expand our customer service. This will involve upgrading our services by using our network, and increasing export and import financial products in linkage with our overseas branches.

RISK MANAGEMENT GROUP

Our guiding philosophy is that our employees must find a “golden mean” between risk and profits for our continuing sustainable growth. Each business unit that is exposed to risk or that is likely to generate risk is responsible for its own risk management practices. This includes their having their own risk managers.

The Risk Management Group is responsible for managing the Bank’s risks. This is carried out separately from its general business operations, and includes identifying, evaluating, monitoring, controlling, and reporting risks.

Shinhan Bank has also developed a number of consultative bodies to ensure more efficient risk management. They include a Risk Management Committee, a Credit Policy Committee, and an ALM Committee. We also operate a Derivatives and Structured Products Risk Review Council, a Fair Value Appraisals Council, and an IB Deal Pre-Review Council. All of these councils are tasked with analyzing potential risk factors before new products and businesses are released onto the market.

In order to ensure that our processes meet all the requirements of the Basel II Accord, we obtained the approval of the FSS to use our in-house marketing risk model and the Foundation Internal Ratings Based Approach to Credit Risk, which is used to calculate capital adequacy and BIS ratios. Additionally, we utilize a system that measures credit, markets, interest rates, and liquidity risks to ensure that they remain at the appropriate levels.

We are also tasked with coping with changing outside regulations. This means that we must become familiar with a wealth of new rules, including those contained in the International Financial Reporting Standards (IFRS) and the Basel III regulations.

Credit Risk Management

Credit risk refers to the potential economic loss that can arise when a borrower fails to make payments due to causes such as insolvency. Credit risk accounts for more than 80% of the bank’s total risks. Classified as either expected or unexpected loss, it is calculated on the basis of the bank’s insolvency and recovery rates. Our loan loss provisions are then derived from the expected

losses and reserves. Their value is based on either the K-IFRS guidelines or the Financial Supervisory Service’s guidelines, depending on which are higher.

Unexpected loss refers to risk capital that the bank is obliged to hold against credit losses that exceed its anticipated volume. It is measured and managed based on both regulatory capital and economic capital standards. Regulatory capital is calculated by using risk-weighted assets that are modeled on the Basel II Foundation Internal Rating-Based Approach. This is mainly utilized in the management of BIS ratios. Economic capital is used to establish loan limits and to conduct performance evaluations.

The various components that we use when calculating expected and unexpected losses were approved by the Korean government’s Financial Supervisory Service (FSS). These components meet all of the standards included in the FSS’s Credit Risk Foundation Internal Rating-Based Approach.

We separate credit risk into household and corporate loans to ensure more effective risk management. We double-check for credit risk in household loans in order to prevent an excessive amount of concentration from occurring in specific sectors, such as mortgage loans. This is done by managing the portion of high loans-to-value (LTVs), and monitoring stability. We also prepare against a drop in real estate prices and future economic slowdowns by increasing loans centering around quality borrowers. We promote the sale of mortgage loans and increase prime loans to act preemptively against a further decline in the real estate market. We also analyze risk by household loan product to minimize the possibility of insolvency.

Industry, country, group, and ceilings limit the number of business loans that we can grant. Loans to individuals take the borrower’s maximum limit into account. Other factors taken into account are credit ratings, so we can expand, maintain, and manage our portfolio of customers who have a high credit rating.

Market Risk Management

Market risk refers to a risk that is generated by fluctuations in market prices, such as interest rates, share prices, exchange rates, and commodity prices. Its management



is geared toward ensuring that the maximum amount of loss falls within permissible, pre-established levels. It is managed by establishing value-at-risk limits, investment limits, position limits, transaction limits, loss limits, and stop-loss selling limits.

The Risk Management Department ensures that these limits are adhered to, although the Credit Policy Committee establishes the limits themselves. In addition, the department evaluates the degree of risk associated with new products or deals within each business sector prior to their launch.

To measure market risk, the bank uses VaR, which is a statistical method for calculating the maximum potential loss due to fluctuations in the market. We can calculate the market risk with 99% accuracy by using historical simulation methods. We calculate our capital adequacy levels by estimating the maximum potential loss of our trading positions in the event of an emergency.

In order to measure the market risk of foreign exchange, stocks, bonds, and derivatives, we operate front systems, including the Kondor, Murex, Sophis, and IBMS, in which we enter and manage relevant data. This allows us to calculate risks and establish limits on lending, and report this information to upper management to assist with market analysis.

We conduct a cause analysis of risks that are above a specified level, and the results are shared with the relevant divisions and departments for their use and are reported, in the form of a document, to upper management for review. This is done to strengthen our control systems.

We use the same data to establish portfolio risks and hedging strategies. We also use historical simulation methods in order to ensure that our non-linear risk measurements and risk management is more accurate

We intend to cope with the new regulations that will follow the implementation of Basel III requirements.

Middle Office

We transferred the functions of the Middle Office to the Risk Management Group in February 2009. The goal of this move was to act as an intermediary between the front and back offices. This helps to make our risk management processes more efficient and systematic. Our front system has also

been improved to establish a more accurate valuation system. In addition, we plan to develop and implement more measures to improve the system in order to come up with a more efficient way to manage the market data.

The Middle Office for securities and derivative products manages market data and analyzes the value and probity of transactions that have been determined by the front office. It also calculates risks (in terms of sensitivity levels, positions, and investment status) and losses that have been incurred at the desk or dealer levels. In addition, it monitors the front office to ensure that it complies with the bank's stop-loss limits. The Middle Office also ensures that each department and desk is observing the Credit Policy Committee's loss and risk limit levels. It makes continued efforts in building a database on profits and losses and on the sensitivity levels of securities and derivatives that have been calculated by the Middle Office, in order to ensure timely reporting and accurate risk management.

Asset & Liability Management (ALM)

Interest Rate Risk Management

Interest rate risk refers to the possibility of losses generated by unfavorable interest rate movements. The goal of interest rate risk management is to ensure stable earnings and to maintain net asset value by forecasting changes in interest rate risks that are related to the bank's net interest income and net asset value, and to also manage them within allowable ranges. Shinhan Bank manages interest rate risk from the perspective of both earnings and economic value. It also measures it on a regular basis through its ALM system.

The interest rate gap and VaR limits are established at the beginning of the year with the approval of the Risk Management Committee, Credit Policy Committee, and the ALM Committee. Their management of these areas is reported to the head office. We also conduct quarterly "stress tests" to calculate potential losses in the event of market crises. The results of these tests are reported to the ALM Committee.

Liquidity Risk Management

Liquidity risk refers to the potential inability to fulfill contractual payment obligations on time, being forced to raise capital at higher-than-market prices, or maintaining

Our guiding philosophy is that our employees must find a “golden mean” between risk and profits for our continuing sustainable growth. Each business unit that is exposed to risk or that is likely to generate risk is responsible for its own risk management practices. This includes their having their own risk managers

operating funds at lower than market rates. It includes funding liquidity risks and market liquidity risks.

The goals of liquidity risk management are to minimize the risks that arise from capital shortages and to ensure stable earnings. It does this by predicting liquidity fluctuation factors in advance in relation to financing and capital management in the banking and trust accounts, and by ensuring a proper level of liquidity through systematic management. It also guarantees that the bank has enough high quality liquid assets to cope with emergencies.

Shinhan Bank follows all the liquidity-related guidelines that have been established by the Korean financial industry’s supervisory organizations, including those that deal with liquidity ratios. It also develops contingency plans to guard against unexpected shortages of cash that could result from sudden changes in the Korean and overseas market environment or monetary policies.

The Bank also establishes limit control indicators. Their management is reported to the Risk Management Committee, Credit Policy Committee, and the ALM Committee on a regular basis. The results of the liquidity “stress tests” are also presented to management to lessen the possibility of liquidity risks occurring.

Operational Risk Management

Operational risk refers to a risk resulting from direct and/or indirect losses caused by incomplete or incorrect internal processes, employee speculation, system errors, or other external factors.

Shinhan Bank’s operational risk management structure involves three major lines of defense, in addition to the BOD and upper management. The Bank’s lines of defense include its sales organizations; its support departments, which are tasked with the development and operation of its risk management systems; and its examination departments, which are responsible for conducting inspections. In addition, the Bank has been operating an operational risk management system since February 2006.

Our in-house operational risk management system includes the following six modules: Risk and Control Self-Assessments, Key Risk Indicators, Loss Data

Collections, Operational Risk Measurements, Scenario Analyses, and Operational Risk Culture. They meet all of the quantitative and qualitative requirements for operational risk management that have been stipulated by the Basel Committee and the FSS.

In addition, after obtaining approval from the FSS on the application of Advanced Measurement Approach (AMA) in July 2013, we have used this method to calculate the equity capital required for our operational risk. Our subsidiaries, including Shinhan Bank Americas (SHBA) and SBJ Bank, use the Basic Indicator Approach.

In 2014, we upgraded our systems and provided measures to improve our operational risk management and control, with a focus on business units. We will continue to meet qualitative and quantitative requirements of the Basel Committee and the FSS for operational risk management, while improving the Bank’s operational risk management levels.

Risk Model Validation

We use risk model validation to minimize the possibility of risk resulting from operating errors or defects in the models themselves. This is also done to ensure that we can cope with changes in our internal and external operating environment, and meet the requirements of Korea’s financial supervisory authorities.

In 2014, we carried out validation tests on our corporate, retail, and SOHO credit assessment systems; the LGD/CCF calculation system; the PD/LGD/CCF estimation system; and the market and operational risk and risk-weighted asset calculation system. We also expanded the range of validation and conducted validation tests on our bankruptcy management and Basel III-based liquidity risk systems, and capital adequacy and integrated risk situation analysis.

The results were presented to senior management and to the Risk Management Committee. Operating divisions were also notified about areas that need to be improved. In the future, we will enhance the performance and utilization of our various risk models by adding to the list of targets for validation. Additionally, we will introduce new methodologies, and train our employees who are in charge of risk management in their use.

Global Network Risk Management

We support stable growth at our overseas branches and subsidiaries by strengthening their risk management abilities. Our major strategy is to foster their healthy growth in relation to their potential for countering risks, and to prevent the transfer of their risks to our home operations. This includes ensuring that the bank and its overseas branches share a consistent risk management structure, and helping them to establish credit risk models and a major risk indicator monitoring system.

To this end, we streamline their risk management organizations, establish risk exposures, build risk management systems, and standardize risk management according to type. We also help local subsidiaries by establishing their total risk limits, monitoring their risk management capabilities, and helping them to improve their shortcomings. In addition, we assist them in building risk management platforms so that they can carry out their own risk management programs and processes. This includes establishing credit risk models, risk data marts, and systems for calculating market risk.

Information Quality Management

The Risk Management Group supports speedy and accurate decision-making and policy development by providing the bank with information that is both correct and accurate. This is done to help the bank cope with a rapidly changing financial environment, and to guarantee the accuracy and reliability of the information that will be reported to its supervisory bodies.

Correct and accurate information helps us to maximize our business outcomes by making us more competitive. To this end, we are tasked with establishing strategies and guidelines to enhance and measure the quality of our data. We also carry out a bank-wide data cleansing campaign on a regular basis.

Going forward, we will continue to use our data verification system to secure the compatibility of acquired data that are used for individual systems, and to conduct information quality control by identifying verification rules by business.

CREDIT ANALYSIS & ASSESSMENT GROUP

The Credit Analysis & Assessment Group manages the Bank's overall loan-related systems and processes, including credit approvals and assessments and the management of delinquent loans. It comprises one division and five departments.

The Credit Planning Department serves as the Bank's loan control tower by establishing relevant policies and regulations, supporting loans, evaluating industrial information and technologies, and planning and assisting with global loans.

The Corporate Credit Analysis & Assessment Department and the Retail Credit Analysis & Assessment Department are tasked with loan analyses and assessments and general risk management. They develop credit analysis and assessment programs, evaluate and assess credits, and establish and monitor credit exposure.

The Corporate Restructuring Division was created in January 2012 to support small- and medium-sized enterprises having cash-flow difficulties. It also assists in the restructuring of poorly run companies. Currently, it is operating under the new name of, the Credit Support Division.

The Credit Support Division provides liquidity to companies that show a potential for recovery. It also carries out credit analyses and assessments of companies and businesses that are threatened with insolvency.

The Credit Collection Department and the Retail Credit Collection Department are tasked with minimizing credit-related losses by undertaking legal procedures involving bad loans, as well as with handling individual and corporate restructurings and restructuring programs.

The Bank's total loans amounted to KRW 174.6 trillion at the end of 2014, which was an increase of KRW 14.5 trillion throughout the year. We also boasted a superior level of asset soundness compared to other domestic commercial banks. For example, our delinquency ratio was a mere 0.31% (based on more than one month

delinquencies on the principal), while our ratio of non-performing loans to total loans was only 1.03%.

In 2015, the domestic economy is expected to grow moderately, but the volatility in the international financial market will likely expand following the risk of the global economy's downturn, requiring corresponding risk management.

Given this situation, we plan to pursue our business in 2015 with a focus on the items listed below.

1. Support value creation by creative finance

- Strengthen our international status in technology financing, and support SMEs with relationship banking
- Establish a new business support system, including IB operations, targeting SMEs and direct and indirect equity investments
- Enhance support for localization, improving systems by country and enhancing global credit analysis and assessment systems

2. Strategically prepare against credit expansion

- Provide management systems for creative financing and global and other new business areas
- Detect and manage crises by monitoring the external environment
- Maintain optimal portfolio through risk management
- Improve differentiated stability through strategic depreciation and disposal and efficient bad asset management

3. Enhance competitiveness by securing differentiation factors

- Support the expansion of existing key assets including promising growth industries and quality loans
- Secure differentiated capabilities by activating strategic cost reductions and strengthening expertise
- Add to support for SMEs and small-loan finance, and for the practice of compassionate finance including financial consumer protection

BUSINESS IMPROVEMENT GROUP

The Business Improvement Group serves as a leader for the Bank's business innovations. Its roles include improving productivity at worksites, offering differentiated ICT services, and protecting customer information under its strategic goal of establishing differentiated work environments in order to lead the future market.

To achieve this goal, the group has established three strategic directions and specific core tasks. Strategic directions are to lead innovations for value creation, protect customers and strengthen trust, and differentiate essential capabilities. Core tasks include innovating the work environment for future growth, offering creative ICT infrastructures, and reinforcing the prevention of information leaks and monitoring systems.

The group is composed of: the ICT Planning Department, which is tasked with ICT strategies, budgeting, and system architecture management; the ICT Development Division, which develops and operates ICT services; the Business Improvement Division, which is tasked with enhancing the efficiency of the various business processes that take place at the Bank's branches and head office divisions; and the Information Security Division, which operates information security systems while protecting and managing customer information.

Information and Communications Technologies (ICT)

Our strategic ICT goal for 2014 was to secure the best-in-class IT capabilities through the use of advanced IT infrastructures and differentiated services. We actively carried this forward via the three strategic directions and detailed tasks explained below.

First, with regard to advanced IT infrastructures and security systems, we focused on upgrading our IT security programs and systems, and on improving our IT compliance measures. We also consolidated the management and operation of our infrastructures.

Second, as for differentiated IT service innovations, we raised the business productivity of our employees mainly through the development of smart IT and field-oriented innovations. We also strengthened our IT support further, so that they could concentrate on their chief tasks, including marketing. In addition, we expanded our global IT infrastructures and services, and provided IT systems for big data, the retirement market, and corporate



banking to achieve our bank-wide strategies.

Third, in terms of our ICT structure and organizational capability improvement, we strategically reduced our IT expenses. This was done by expanding our IT investment evaluation system, improving the awareness of IT costs at our frontline offices, and building a demand control program to improve the efficiency of IT development. At the same time, we reinforced the IT organization's capabilities and management systems by raising the efficiency of ICT sourcing competencies, fostering key human resources, and practicing compassionate finance in the IT sector.

Our strategic ICT goal for 2015 is to secure future growth engines through creative ICT innovations. This is to catch up with financial ICT trends, including the FinTech, and to pursue ICT businesses. We will accomplish this goal through the three strategic directions explained below.

First, with regard to creative ICT for value creation, our key tasks are to offer creative ICT infrastructures, and realize field-oriented compassionate ICT. We will also establish infrastructures to assist us in developing our employees' capabilities.

Second, as for the timely support of ICT-based key strategies, we will differentiate our global ICT systems, realize differentiated smart channel infrastructures, provide well-timed strategy support systems, and respond to environmental changes – including regulations and policies – both at home and abroad.

Third, in order to realize safe and stable ICT, we will establish a seamless customer information protection system, realize barrier-free operations, improve our response system, and optimize our process and operations.

Business Improvement Division

In 2014, the Business Improvement Division launched the "ReBorn 2014" business innovation project. "ReBorn 2014" aims to pursue innovation, based on the enhanced efficiency and stable operation of our focused businesses that have been steadily expanded since the introduction of the Business Process Reengineering (BPR) system in 2005.

The "ReBorn 2014" project aims to raise the efficiency of our current businesses and upgrade future ones, and to consolidate and systematically carry out our improvement tasks. On this note, we established a strategic goal to "upgrade business methodologies and secure innovation engines".

In addition, we selected and executed nine key project tasks, based on four strategic directions and two key overall tasks. The strategic directions were to strengthen support for frontline operations, adapt to the future environment, strategically reduce expenses, and realize compassionate finance. The key overall tasks were to upgrade the BPR 2.0 and build an electronic filing service (EFS) system.

We also carried out a wide array of business innovation activities. These activities included improving concentration businesses, strengthening small-loan finance support services, upgrading the service capabilities at frontline sites, strategically reducing expenses, and boosting field-centered risk management.

Meanwhile, the BPR 2015 (Best Practice for Reborn, 2015) is another project designed to create best practices in support of the ReBorn innovation project.

In order to create best innovation practices, the Business Improvement Division set its goal for 2015 as being to maximize business productivity through business innovation infrastructures, using four key strategies: upgrade BPR methodologies; build an EFS trading system; increase frontline-centered sales support; and innovate center operations.

The BPR 2.0, scheduled to be implemented in May 2015, will go beyond simply upgrading our systems, and will substantially improve bank-wide business productivity through changes in new business methodologies. It will also lay the framework for the future BPR 3.0.

As for the EFS, we will execute its first-phase pilot service in February 2015, developing the second phase and expanding it bank-wide by reflecting feedback during the first half of the year, and preparing for the second-phase expansion in the second half of the year.

In addition, we will ensure risk-free operations by improving our business processes. This will involve monitoring our operations through a new and comprehensive control system, while predicting workloads and establishing countermeasures in advance.

Overall, the division will achieve a quantum jump in innovation through the BPR 2.0 and the EFS. We will also continue a cycle of innovation by pushing ahead with the "Center Innovation 2.0" in a stable manner and identifying and executing innovation tasks.

Information Security Division

Launched in 2014, the Information Security Division has successfully dealt with major security threats and

environmental changes. For instance, the division introduced a broad range of programs and systems designed to prevent the leakage of customer information and unauthorized enquiries. It has also served as a control tower for the operation of the Bank's all-customer-information-protection.

In addition, we also established the strategic goal of protecting customer information and enhance reliability through preemptive responses to security threats, and we executed key tasks to accomplish this goal.

First, we dealt with security threats, such as information leaks and external infringements, through the development and upgrading of our security systems. Second, we built a response system for customer information leaks so as to strengthen our compliance operations. Third, by managing employee awareness and changes, we boosted the information protection capabilities of all of our staff members, and sought to improve the security levels of our frontline operations.

In 2015, the division aims to expand the scope of its responses and strengthen its execution. Our three strategic directions are to enhance our information security risk management, raise the efficiency of our internal control-based operation system, and successfully respond to security threats. We will select and pursue nine strategic tasks in order to achieve these strategic directions.

On this note, we will carry out the "2015 information protection system advancement 2.0" project, which will allow us to analyze internal and external risks, identify items for improvement, and implement upgrades.

We will also improve our information protection management system by identifying and carrying out the Information Field, Risk management, Advance, Model, Enhance (FRAME) Development task in order to improve our internal risk management structure. This will involve identifying and implementing tasks to cope with external risks, such as increasing legal risk and requirements of financial authorities, strengthening existing management systems, and putting new processes into place.

In 2015, the second year since our division's inauguration, we plan to achieve the industry's highest-level information protection risk management through the thorough management of risks in line with external changes. This will include thoroughly observing legal requirements and performing our duty of care. Under the slogan of "All or Nothing" for security, we will do our best to ensure information protection.

MANAGEMENT PLANNING GROUP

Trustee & Custody Department

The Trustee & Custody Department is responsible for the trusteeship and custody of institutional investment assets, as per the regulations stipulated in the Financial Investment Services and Capital Markets Act. At the end of 2014, we had KRW 58 trillion in assets belonging to about 120 institutional customers that were in our custody.

In addition, we engaged in asset investment activities for a number of fund clients, including the Ministry of Strategy and Finance's Investment Pool for Public Funds and the Government of Singapore Investment Corporation (GIC).

The department is dedicated to helping the Bank lead the domestic trustee and custody market under its 2015 strategic goal: "Lead the trustee and custody market through creative thinking and practice!".

We will encourage collaboration between our affiliates, including Shinhan Investment, Shinhan BNP Paribas Asset Management, and Shinhan Aitas. In addition, we will increase our share of the domestic market through marketing efforts that target institutional customers. We will also promote both qualitative and quantitative growth by diversifying our revenue sources. We will do this by securing new growth engines, including the RMB qualified foreign institution investors (RQFII) fund and hedge fund custody businesses. In addition, we will assist in the development of global networks and strengthen the bank's global capabilities.

We engage in overseas asset investment activities in conjunction with a number of other financial institutions, including HSBC, State Street Bank, Brown Brothers Harriman, China Construction Bank, Euroclear, and Clearstream.

Furthermore, we will develop specialists in the Trustee & Custody Department through training programs. This will be done in collaboration with custodial banks from around the world. We will add to our expertise in custodial and management operations by managing

information regarding the overseas assets of custodial services. In addition, we will ensure the ultimate in customer satisfaction through the provision of enhanced investor protection in a rapidly changing capital market, and we will continue to assist in the bank's sustainable growth and development.

Trust Department

In 2014, our strategic goals for the trust business were to protect financial consumers by preventing the misselling of specified money-in-trust products, and to raise the dividend ratios of our pension related products. Such efforts involved implementing strengthened mystery shopping, and securing more license holders for the sales of specified money-in-trust ELSs. As for pension related trusts, we endeavored to deliver further improved earnings to our customers by putting our top priority on raising dividend ratios.

As for properties-in-trust, we offered relevant training and sales support to activate real estate trusts, one of our signature products, thanks to which we produced meaningful results, providing a turning point for sales invigoration.

In 2015, our sales strategy for the trust business is to improve our earnings rate in relation to pension-type trust products in which social interest is increasing in an aging society. This will allow us to deliver improved profits to our customers so that they can better provide for their old age.

Given that interest rates have stayed relatively low, we will enhance customer value by offering specified money-in-trust products that suit the various investment tastes of customers. To this end, we will continue to expand medium-risk and -return products, and will actively discover new investment assets. We will also strive to attract more short-term liquid funds.

In addition, we will meet the needs of our customers for inheritance-related property management and inheritance by actively publicizing our Testamentary Substitutes, launched in 2013. We will increase customer satisfaction with our trust products by carrying out our trust operations-related risk management and internal controls in a more efficient and effective manner.

MARKETING SERVICE GROUP

The Marketing Service Group consists of the Marketing Department, the Product Engineering Department, the Branch Strategy Office, the Consumer Protection Center, the Future Channel Division, the Smart Customer Center, and the Smart Banking Center.

The group's strategic goal for 2015 is to establish a bank-wide marketing support system. To this end, we will develop marketing activities and products that meet the needs of our customers, pursue differentiated channel innovations, maximize the efficiency of our operations, provide differentiated support to frontline offices, and ensure a profit-centered structure based on the convergence and integration of our channels.

We set seven key management indicators for each of the divisions, in order to establish mid- to long-term strategies for the Bank to become a true leading financial institution by 2017. The seven key management indicators are as follows:

- Office workers who use us as their primary bank
- Female customers who choose us as their primary bank
- Quality companies whose financial statements are not examined by independent auditors
- Products with competitive edges in the market
- Non-direct platform customer bases
- Non-direct product sales
- Non-direct customer management

By achieving our goals for the above indicators, we built our long-term growth foundations in 2014. We will use this roadmap to further secure differentiated market competitiveness in 2015, and will become a market leader in 2016.

Marketing Department

The Marketing Department consists of the Marketing Sensing, Next Generation, and Support Teams. It is tasked with the following responsibilities:

- Develop and support market and customer insights by collecting data and designing a relevant database through customer segmentation



- Plan omni-channel marketing
- Analyze markets and develop mid- to long-term customer indicators
- Develop and implement marketing programs for major markets (including bridge marketing programs by financial life cycle)
- Develop and implement marketing programs for major markets.
- Operate marketing support and customer management systems, and support front-line operations.
- Implement package marketing and manage marketing contents.

In 2014, the department focused on increasing its primary customer ratio, establishing differentiated marketing strategies by customer group, and supporting bank-wide marketing activities. To this end, we carried out the key projects described below.

We published the MI-REPORT, which presented directions for the establishment of bank-wide marketing strategies and business plans. We also operated marketing programs in relation to markets for workers and women, allowing us to gain an early edge in the development of new markets.

We attracted new customers by promoting bridge marketing programs for those starting out in their careers. We offered marketing assistance in launching new products for healthcare providers, to expand our quality customer base, and developed specialized markets.

We strengthened our support for the reinforcement of marketing capabilities at our frontline offices. This included adding to our support for target marketing, the Retail Shinhan Way, direct marketing by divisions, and our customer management systems such as the SPURT and the MIDAS. In addition, we analyzed the structure of our corporate customers and industrial complexes, and then we presented suggested directions for them. We did this in order to strengthen our support for marketing, targeting companies in the corporate banking sector whose financial statements are not examined by certified by independent auditors. We also operated preferential services, targeting long-term individual and corporate

customers through marketing programs to encourage their long-term transactions.

In 2015, we selected our strategic goal to be frontline-centered marketing support, which will allow us to expand our customer base and encourage customers to choose us as their primary bank. To achieve this goal, we will carry forward the projects listed below.

- Continue to develop new markets
- Support local banking relationships, to expand the corporate customer base
- Enhance product and service development capabilities to assist global localization
- Activate family transactions
- Strengthen bridge marketing to secure youth and future markets
- Consolidate HNW customer market dominance
- Reinforce corporate customer management
- Develop key management indicators to build long-term growth foundations
- Operate an organization to take exclusive charge of the big data
- Support channel convergence and customer management, and build a customer-interactive marketing system

Product Engineering Department

This department is tasked with developing new products and services for all of the bank's business groups. These products and services include loans, foreign exchanges, and hybrid financial instruments that are linked with SFG companies or other industries. In addition to carrying out market surveys, analyses, and studies relating to new product development, it suggests ways to enhance the competitiveness of new products, and carries out research in areas such as discovering why selected products are successful.

In 2014, we launched a variety of products to support creative financing, strengthen the Bank's retirement planning brand, explore new markets, and practice compassionate finance. First, we launched a four-type creative financing set to assist the central government in

Our goals are to fill in the blank spaces for bank-wide customer management, develop new sales opportunities, and increase product sales. This will become a new standard for non-direct sales models in the domestic financial market, while serving as a future growth engine for the bank

realizing creative financing, helping the Bank to rank first in innovation evaluations.

Second, we launched five future planning products to strengthen the Bank's retirement planning brand, by thinking outside the box and seeing retirement products as more than just insurance policies.

Third, we launched various new market development products, based on the big data.

Fourth, we launched a number of products to practice compassionate finance, including the Truck Loan and the Shared Growth Loan. These were aimed at increasing value to customers, as well as contributing to the Bank's revenue generation.

In 2015, we will develop custom-tailored strategic products and new revenue-generating products with an aim to improve value to our customers through timely product support. This will allow us to lead the market and strengthen our product sales competitiveness. In addition, we will continue to introduce many different products to lead creative and technology financing and improve our future planning brand.

Finally, we will be dedicated to establishing a global product development support system that will enhance our global competitiveness. This will include the following efforts:

- Develop customer-oriented strategic products
- Develop products to lead creative and technology financing
- Develop products to enhance our future planning brand
- Develop specialized products to explore new markets
- Support product development for global localization

Branch Strategy Office

As of March 2015, the Branch Strategy Office is currently planning to create 895 manned, unmanned, and mobile branches in South Korea, with the goal of achieving smooth communication with frontline offices.

The office is divided into the Channel Planning & Development Team, and the Mobile Branch Team. Their main tasks are as follows:

- Develop and implement strategies for bank-wide offline channels (manned, unmanned, and mobile branches only). (Overseas branches are excluded.)
- Monitor offline channels and provide follow-up services
- Create, relocate, and close down offline channels
- Operate mobile branches.

The office's strategic goal for 2014 was to continue innovating its channels with a focus on productivity and efficiency. To this end, it carried forward the following projects:

- (1) Selectively opening new branches in strategic areas, including in "innovation cities," and introduce/increase customized and specialized customer channels by market and customer.
- (2) Converting branches into financial and PWM centers to increase coverage on corporate banking and HNW customers.
- (3) Relocating branches to optimal locations.
- (4) Strategically locating self-service branches and increase the efficiency of their usage.
- (5) Strengthening the various sales support roles of mobile branches.

The Business Strategy Office's strategic goal for 2015 is to improve the convenience of customer use and lower the inefficiency of branch operations. To this end, it plans to open new optimized branches and strengthen the competitiveness of existing ones, and carry forward the following projects:

- Open new retail and financial centers, based on the characteristics of customers and store owners primarily in newly developed areas
- Develop custom-tailored branches and designs
- Continue relocating branches to enhance their competitiveness
- Enhance standards for the appropriateness of branch location and size
- Strategically raise cost efficiency by adjusting branch layouts



Future Channel Department

The Future Channel Department is in charge of the Bank's smart banking strategies in the rapidly changing financial landscape, including the reorganization of the customer use environment to center on mobile channels, and accelerating competition following the advances into the financial industry by global FinTech companies. The department consists of the Planning and Marketing, FinTech Business, Corporate Banking, and Personal Banking teams, and is tasked with the planning and operation of products and services by using non-direct channels and the development of new channels and processes.

The division's strategic goal for 2014 was to complete the development of key channels through the differentiated growth of smart banking. Its three directions were to develop new growth engines by expanding service areas, complete customer-centric channels through the convergence and integration of channels and services, and lead the smart banking market by strengthening platform capabilities. Under these directions, we carried out specific tasks. We were dedicated largely to enhancing our competitiveness in smart banking channels by promoting channel convergence and integration tasks, while pushing for the development of smart banking-specialized new channels, products and services.

As a result, Shinhan S Bank, the Bank's signature banking app for non-direct channels, received numerous awards in 2014. These awards included: the Grand Prize (Presidential Award) at the Korea Digital Management Innovation Awards organized by the Ministry of Science, ICT and Future Planning; App of the Year; National Consumer-Driven Brand Award; and The Best Brand of the Chosen by CONSUMER.

The division's strategic goal for 2015 is to build new smart banking-based business models that will lead to differentiated growth, and its key tasks in pursuit of this goal are as follows:

- Promote channel convergence and integration projects, and expand and activate convergence and integration between channels
- Pursue alliances to lead the FinTech market, and

develop new business models

- Build a mobile full-banking system, and realize a non-direct financial hub
- Explore non-direct channel-based new global revenue sources

Smart Customer Center

The Smart Customer Center consists of the Planning, Operation Support, Operation 1 (Inbound), Operation 2 (Loan Deferment), Operation 3 (Self-Service Branch), and Operation 4 (Incheon Center/Outbound) teams. Together, they carry out the following tasks:

- Support customer consultation services and their operations through online channels (including the Internet, smartphones, and phone banking)
- Execute the deferment of maturing household loans (center concentration)
- Operate and manage ATMs outside branches, offering CCTV image information
- Conclude agreements for remote transactions targeting non-resident customers, and manage new accounts and funds transfers

In 2014, the center carried out the key projects listed below, with the goal of maximizing operational efficiency and ranking first in satisfaction index surveys performed by outside agencies.

- Reorganized into a professional consultation system by unit to provide in-depth customer consultation services
- Minimized the registration number collection process when interacting with customers via phone banking (ARS) and customer service representatives
- Ranked first in customer satisfaction indexes in the phone banking/ATM category in non-direct channel competitiveness surveys

The center's strategic goal for 2015 is to realize differentiated consultation and assistance services by maximizing operating efficiencies. Under the aim of innovating our operation system based on productivity, strengthening non-direct marketing, and building the groundwork for customer- and branch-oriented support systems, the center plans to carry out the following key

tasks:

- Set up a professional consultation operating system by business, and strengthen consultation efficiencies
- Build recorded file analysis and information system
- Heighten customer convenience by improving the loan deferment process
- Strengthen ATM environment management and CCTV image information security
- Implement small-loan finance information service, targeting customers who defer low credit rating- and high-interest rate loans

These initiatives will allow us to secure a competitive edge in non-direct channels, and to increase Shinhan and customer values, thereby contributing to creating the Bank's differentiated values.

Smart Banking Center

The center consists of the Marketing Planning, Channel Operation, Fund, Overseas Study and Immigration, Customer Management, Customer Support, Marketing Support, and Loan Center teams. Together, they carry out the following tasks:

- Inbound and outbound marketing using various non-direct channels (including our homepage, telephone, emails, SMS, and online messages).
- Customer management through employees for non-direct channels.
- Providing professional consultations; utilizing deposits, funds, and foreign exchange centers (video consulting, email, and callbacks).
- New online loans and increases in online loans through loan centers.

Shinhan Bank was the first in the domestic banking industry to open a smart banking center that was tasked with non-direct operations when it was reorganized on January 1, 2014. The Smart Banking Center's missions for 2015 are as follows:

- Expand customer management coverage by utilizing non-direct channels.
- Build a non-direct channel marketing system, and

produce results through non-direct marketing activities

To achieve these, the center will pursue the following projects:

- Create a system for the management of non-visiting WM customers at branches, and operate an existing non-direct customer management allocation system and management team
- Pursue non-channel customer management 2.0 through system overhauls
- Strengthen the mobile channel marketing system and build an omni-channel marketing system
- Promote non-direct channels by using marketing to increase new online products and to expand platform customers (including running promotions and events for customers and employees).
- Conduct marketing in connection with new products, including deposits, funds, loans, and foreign exchange, and in connection with branches through professional consultations.
- Develop consultation systems to enhance consulting environments and upgrade consultation efficiencies.

Through these projects, the Center will actively promote customer management and product marketing by using non-direct channels. Our goals are to fill in the blank spaces for bank-wide customer management, develop new sales opportunities, and increase product sales. This will become a new standard for non-direct sales models in the domestic financial market, while serving as a future growth engine for the bank.

Management Discussion & **Analysis**



Financial Highlights

| | In billions of Korean won | | In millions of US dollars ¹⁾ | |
|---------------------------------------|---------------------------|-----------|---|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Bank Account | | | | |
| For the Year | | | | |
| Total Operating Income | 5,171.7 | 5,151.0 | 4,704.9 | 4,881.1 |
| Operating Income | 2,253.6 | 2,458.1 | 2,050.3 | 2,329.3 |
| Net Income | 1,455.7 | 1,373.2 | 1,324.3 | 1,301.2 |
| At Year-End | | | | |
| Total Assets | 255,646.3 | 238,045.7 | 232,574.9 | 225,571.6 |
| Total Loans | 188,325.5 | 174,689.3 | 171,329.6 | 165,535.2 |
| Total Deposits | 189,639.9 | 175,020.4 | 172,525.4 | 165,849.0 |
| Total Stockholders' Equity | 20,476.9 | 20,536.1 | 18,628.9 | 19,460.0 |
| Financial Ratios ²⁾ | | | | |
| Return on Average Assets | 0.60 | 0.59 | | |
| Return on Average Equity | 7.50 | 7.28 | | |
| NPL Ratio by FSS | 1.03 | 1.16 | | |
| Net Interest Margin | 1.74 | 1.76 | | |
| BIS Capital Adequacy Ratio | 15.45% | 16.29% | | |
| (Tier 1 Capital Ratio) | 13.35% | 13.94% | | |
| (Tier 2 Capital Ratio) | 2.10% | 2.35% | | |

Note1) Translated into US dollars at the rates of KRW 1,055.3/USD 1 and KRW 1,099.2/USD 1 respectively--those prevailing on December 31, 2013 and December 31, 2014

Note2) Based on separate financial statements.

Overview

Shinhan Bank achieved the highest levels of profitability, stability, and growth in the domestic banking industry. It also recorded the largest transactions among commercial banks in the areas of creative, technology, and small-loan financing, showing leadership in corporate social responsibilities.

SHB ranked first in the value of retirement pension assets under management for the fifth consecutive year through organic collaboration among its frontline offices, headquarters, corporate and retail banking, and branches. SHB also promoted its localization strategy while expanding its global network. As a result, its net income from global operations exceeded USD 100 million, thirty years after its initial overseas expansion.

In addition, through its dedication to customer-first "compassionate finance", SHB swept the first rankings in customer satisfaction index surveys by the top five evaluation agencies, a first in the banking industry. It was also named the best institution for small-loan finance by the Financial Supervisory Service for the second year in a row.

Overall, SHB posted satisfactory results through its efforts for quality-oriented asset growth and coexistence with its customers and society even amid the economic slowdown and the low interest rate stance following two policy rate cuts by the Monetary Policy Committee.

Condensed Income Statements

(In billions of Korean won)

| | FY2013 | FY2014 | Increase | YoY |
|--|----------------|----------------|-------------|--------------|
| Total Operating Income (a=b+c) | 5,151.0 | 5,171.7 | 20.7 | 0.40% |
| Interest Income (b) | 4,350.5 | 4,367.1 | 16.6 | 0.38% |
| Non-interest Income (c) | 800.5 | 804.5 | 4.0 | 0.50% |
| General and Admin Expenses (d) | 2,692.9 | 2,918.0 | 225.1 | 8.36% |
| Operating Income before Provisioning (e=a-d) | 2,458.1 | 2,253.6 | -204.5 | -8.32% |
| Gains on Investment Stock Using Equity Method (f) | 8.0 | 38.4 | 30.4 | 380.00% |
| Pre-provision Income (g=e+f) | 2,466.2 | 2,292.0 | -174.2 | -7.06% |
| Provision for CreditLosses (h) | 738.2 | 456.2 | -282.0 | -38.20% |
| Income before Taxes (i=g+h) | 1,728.0 | 1,835.8 | 107.8 | 6.24% |
| Income Tax (j) | 354.8 | 380.1 | 25.3 | 7.13% |
| Consolidated Net Income(m=i-j) | 1,373.2 | 1,455.7 | 82.5 | 6.01% |
| Net Income Attributable to Controlling Interest | 1,373.0 | 1,455.2 | 82.2 | 5.99% |
| Net Income Attributable to Non-controlling Interest | 0.2 | 0.4 | 0.2 | 100.00% |

Shinhan Bank's net income increased by approximately 6% year-on-year to reach KRW 1.45 trillion at the end of 2014. Interest income expanded by 0.4%, despite a decline in net interest margins following the low interest rate trend. This was attributable to growth of 8.8% of won-denominated loans. Bad debt expenses were reduced by KRW 281.9 billion, with a low non-performing loan (NPL) ratio at 1.03%.

Condensed Balance Sheets

(In billions of Korean won)

| | FY2013 | FY2014 | Increase | YoY |
|------------------------------------|------------------|------------------|-----------------|--------------|
| Assets | 238,045.7 | 255,646.3 | 17,600.6 | 7.39% |
| Currency & Due from Banks | 12,430.0 | 15,860.1 | 3,430.1 | 27.60% |
| Trading Assets | 7,519.8 | 8,316.3 | 796.6 | 10.59% |
| Financial Assets at FVTPL | - | - | - | - |
| Derivative Instruments Assets | 1,458.0 | 1,309.1 | -148.9 | -10.21% |
| Loans | 174,689.3 | 188,325.5 | 13,636.1 | 7.81% |
| Available for Sale Securities | 24,093.1 | 22,363.6 | -1,729.5 | -7.18% |
| Hold to Maturity Securities | 7,433.6 | 8,012.1 | 578.5 | 7.78% |
| Tangible Fixed Assets | 2,201.0 | 2,036.1 | -164.9 | -7.49% |
| Intangible Fixed Assets | 225.8 | 180.3 | -45.6 | -20.18% |
| Investment Using Equity Method | 222.3 | 211.3 | -11.1 | -4.98% |
| Deferred Tax Assets | 49.3 | 90.6 | 41.2 | 83.59% |
| Current Tax Assets | 5.2 | 7.0 | 1.8 | 34.63% |
| Investment Real Estate | 597.0 | 738.6 | 141.7 | 23.73% |
| Other Assets | 7,107.5 | 8,190.3 | 1,082.8 | 15.23% |
| Sundry Assets | 13.7 | 5.5 | -8.2 | -60.05% |
| Liabilities | 217,509.6 | 235,169.4 | 17,659.8 | 8.12% |
| Deposits | 175,020.4 | 189,639.9 | 14,619.4 | 8.35% |
| Trading Liabilities | 398.6 | 428.9 | 30.3 | 7.61% |
| Financial Liability at FVTPL | - | - | - | - |
| Derivative Instruments Liabilities | 1,478.2 | 1,256.4 | -221.7 | -15.00% |
| Borrowings | 10,069.3 | 12,802.8 | 2,733.5 | 27.15% |

[In billions of Korean won]

| | FY2013 | FY2014 | Increase | YoY |
|--|-----------------|-----------------|--------------|---------------|
| Trading Corporate Bonds in Won | 17,739.7 | 16,581.4 | -1,158.2 | -6.53% |
| Allowance for Severance and Retirement Benefits | 67.4 | 246.0 | 178.5 | 264.74% |
| Temporary Account for Ex-CHB | 364.0 | 298.7 | -65.3 | -17.94% |
| Deferred Tax Liabilities | 10.5 | 9.3 | -1.1 | -10.87% |
| Current Tax Liabilities | 148.3 | 170.7 | 22.4 | 15.12% |
| Policy Reserves | - | - | - | - |
| Other Allowances | 12,213.2 | 13,729.1 | 1,515.9 | 12.41% |
| Sundry Liabilities | - | - | - | - |
| Stockholder's Equity | 20,536.1 | 20,476.9 | -59.2 | -0.29% |
| Controlling Interest | 20,533.4 | 20,473.6 | -59.7 | -0.29% |
| Capital Stock | 7,928.1 | 7,928.1 | - | 0.00% |
| Hybrid Bonds | 2,099.3 | 1,100.2 | -999.1 | -47.59% |
| Capital Surplus | 403.2 | 403.2 | - | 0.00% |
| Capital Adjustment | 0.0 | -0.8 | -0.9 | -3501.13% |
| Accumulated Other Comprehensive Income, Net of Taxes | 296.4 | 237.4 | -59.0 | -19.91% |
| Retained Earnings | 9,806.3 | 10,805.6 | 999.2 | 10.19% |
| Non-controlling Interest | 2.7 | 3.3 | 0.6 | 20.56% |

On the basis of consolidation, including SHB, overseas subsidiaries, and companies subject to consolidated accounting, SHB's total bank account assets rose by KRW 17.6 trillion over the year to about KRW 256.0 trillion. This was attributable to a rise in loans of KRW 13.6 trillion, which in turn was led by the growth of mortgage loans by 7.5% and increased loans to self-employed businesses and companies whose financial statements are not examined by independent auditors. Assets in the overseas subsidiaries were also on the upturn due primarily to their expanded sales capacity.

Total bank account liabilities increased by KRW 17.6 trillion, due to the growth of low-cost deposits. They centered on deposits and salary transfers from public institutions and companies, and the settlement accounts of credit card-affiliated stores. The loan-to-deposit ratio was maintained at a stable level of 98% at the end of the year.

Interest Income and Margin

[In billions of Korean won]

| | FY2013 | FY2014 | Increase | YoY |
|-----------------------------------|-----------|-----------|----------|---------|
| Interest Earning Assets | 197,919.8 | 202,968.8 | 5,049.0 | 2.55% |
| Interest Revenue | 8,125.4 | 7,572.6 | -552.8 | -6.80% |
| Loans | 6,700.8 | 6,342.3 | -358.5 | -5.35% |
| Securities/Others | 1,424.6 | 1,230.3 | -194.3 | -13.64% |
| Interest Bearing Liabilities | 181,890.0 | 185,905.6 | 4,015.6 | 2.21% |
| Interest Expense | 4,642.3 | 4,040.2 | -602.1 | -12.97% |
| Deposits | 3,682.5 | 3,235.0 | -447.5 | -12.15% |
| Debentures/Borrowings | 959.7 | 805.3 | -154.4 | -16.09% |
| Net Interest Income ¹⁾ | 3,483.1 | 3,532.3 | 49.2 | 1.41% |
| Interest Income in Won | 3,408.3 | 3,437.0 | 28.7 | 0.84% |
| Interest Income in FC | 74.8 | 95.4 | 20.6 | 27.54% |
| Net Interest Spread in Won | 1.87% | 1.86% | -0.01% | -0.53% |
| Average Lending Rate | 4.46% | 4.05% | -0.41% | -9.19% |
| Average Deposit Rate | 2.59% | 2.18% | -0.41% | -15.83% |
| Net Interest Margin | 1.76% | 1.74% | -0.02% | -1.14% |
| NIM in Won | 1.88% | 1.85% | -0.03% | -1.60% |
| NIM in FC | 0.46% | 0.56% | 0.10% | 21.74% |

Note1) NII is based on the methodology applicable to calculate Net Interest Margin and is different from the NII stated on the earnings presentation material, which is based on the current accounting standard.

The interest income edged up by 0.38%, or KRW 16.6 billion, although the net interest margin fell by 2 basis points over the year. This rise was due to the growth of won-denominated loan assets by 8.8%, and a reduction in funding costs. The latter was caused by SHB's efforts to increase liquid deposits, by attracting salary transfer and credit card settlement accounts.

Net interest margins (NIMs) were expected to drop significantly due to sharp market interest declines in the wake of two separate benchmark interest rate cuts and expected additional cuts following the delay in economic recovery. SHB was able to prepare against the falling NIMs, however, by making efforts to improve its funding structure with a focus on liquid key deposits (low-cost deposits) and the growth of relatively more highly profitable loans to SMEs whose financial statements are not audited by certified public accountants.

G&A Expenses

(In billions of Korean won)

| | FY2013 | FY2014 | Increase | YoY |
|--|----------------|----------------|--------------|---------------|
| Employee Benefits | 1,508.9 | 1,734.9 | 226.0 | 14.98% |
| Salaries & Employee Benefits | 1,438.5 | 1,527.0 | 88.5 | 6.15% |
| Termination Benefits | 56.2 | 106.2 | 50.0 | 88.97% |
| Provision for Current Year Severance and Retirement Benefits | 14.2 | 101.7 | 87.5 | 616.20% |
| Depreciation | 203.6 | 202.9 | -0.7 | -0.34% |
| Other General and Administrative Expenses | 980.4 | 980.1 | -0.3 | -0.03% |
| Occupancy, Furniture & Equipment Expenses | 897.2 | 897.9 | 0.7 | 0.08% |
| Taxes | 83.2 | 82.2 | -1.0 | -1.20% |
| G&A Expenses | 2,692.9 | 2,918.0 | 225.1 | 8.36% |

G&A expenses increased by KRW 225.1 billion, or 8.4%, over the year, due mainly to wage hikes, the large-scale implementation of voluntary resignations, and a rise in other employee benefits. As a consequence, the cost income ratio climbed by 4.1% points to 56.4%.

Summary of Loans and Deposits

(In billions of Korean won)

| | 4Q2013 | 4Q2014 | Increase | YoY |
|---|------------------|------------------|-----------------|--------------|
| Loans | | | | |
| Bank Account | 166,710.9 | 179,606.3 | 12,895.4 | 7.74% |
| Loans in Won | 147,048.1 | 160,024.9 | 12,976.8 | 8.82% |
| Retail | 71,846.4 | 78,577.4 | 6,731.0 | 9.37% |
| Mortgage | 44,257.5 | 47,556.3 | 3,298.8 | 7.45% |
| Others | 27,588.9 | 31,021.0 | 3,432.1 | 12.44% |
| Corporate | 75,201.7 | 81,447.5 | 6,245.8 | 8.31% |
| SME | 55,062.1 | 59,889.4 | 4,827.3 | 8.77% |
| (SOHO) | 27,731.9 | 30,469.4 | 2,737.5 | 9.87% |
| Large Corp. & Public | 20,139.6 | 21,558.1 | 1,418.5 | 7.04% |
| Loans in FC | 5,291.5 | 6,955.9 | 1,664.4 | 31.45% |
| Bills Bought in FC | 3,749.1 | 4,558.5 | 809.4 | 21.59% |
| Call Loans, RPs | 7,436.3 | 5,018.2 | -2,418.1 | -32.52% |
| Others | 4,687.1 | 4,483.3 | -203.8 | -4.35% |
| Loan Loss Allowance(Δ) | 1,501.1 | 1,434.6 | -66.5 | -4.43% |
| Trust Account | 466.2 | 433.7 | -32.5 | -6.97% |
| Merchant A/C and Other Consolidating Entities | 7,512.2 | 8,285.5 | 773.3 | 10.29% |
| Total Loans (Consolidated) | 174,689.3 | 188,325.5 | 13,636.2 | 7.81% |
| Loan to Deposit Ratio ¹⁾ | 98.5% | 98.0% | -0.50% | -0.51% |

Note1) Based on monthly average balance, excluding CDs

(In billions of Korean won)

| | 4Q2013 | 4Q2014 | Increase | YoY |
|---|------------------|------------------|-----------------|--------------|
| Deposits | | | | |
| Bank Account | 159,103.2 | 172,049.5 | 12,946.3 | 8.14% |
| Low Cost Deposits | 52,697.0 | 62,012.9 | 9,315.9 | 17.68% |
| Demand | 17,691.2 | 18,755.2 | 1,064.0 | 6.01% |
| Low Cost Saving | 35,005.8 | 43,257.7 | 8,251.9 | 23.57% |
| Time Deposits | 89,641.7 | 92,519.1 | 2,877.4 | 3.21% |
| Installment Deposits | 8,140.7 | 8,789.9 | 649.2 | 7.97% |
| CDs | 1,475.6 | 1,872.9 | 397.3 | 26.92% |
| RPs & Bills Sold | 373.3 | 377.8 | 4.5 | 1.21% |
| Deposits in FC | 6,774.9 | 6,476.9 | -298.0 | -4.40% |
| Trust Account | 16,830.0 | 19,590.7 | 2,760.7 | 16.40% |
| Merchant A/C and Other Consolidating Entities | -912.8 | -2,000.3 | -1,087.5 | 119.14% |
| Total Deposits | 175,020.4 | 189,639.9 | 14,619.5 | 8.35% |
| Deposits in FC | 4.3% | 3.8% | -0.5% | -11.63% |

Loans grew sharply as the Bank endeavored to increase loans to companies that are not audited by certified public accountants, based on its sales capacity and system for loans to self-employed businesses. Household loans grew by 9.4% over the year, resulting from government measures to ease housing-related regulations in the second half of the year.

Time deposits swelled by about KRW 2.9 trillion from the previous year, as the marked preference for risk-free assets continued. Low-cost deposits also rose significantly for all customer groups, including public institutions, companies, individuals, and SOHOs. This was attributable to expanded market liquidity and the Bank's efforts to attract salary transfers from public institutions and companies, and the settlement accounts of credit card-affiliated stores. The loan to deposit ratio fell by about 50 basis points to 98%, while maintaining a stable level as compared to the required ratio of 100%.

Asset Quality

(In billions of Korean won)

| | 4Q2013 | 4Q2014 | Increase | YoY |
|--|------------------|------------------|-----------------|----------------|
| Total Asset | | | | |
| Normal | 167,398.2 | 182,862.6 | 15,464.4 | 9.24% |
| Precautionary | 1,383.6 | 1,181.2 | -202.4 | -14.63% |
| Substandard | 912.9 | 995.3 | 82.4 | 9.03% |
| Doubtful | 257.2 | 215.2 | -42.0 | -16.33% |
| Estimated Loss | 814.9 | 711.8 | -103.1 | -12.65% |
| Total | 170,766.7 | 185,966.1 | 15,199.4 | 8.90% |
| Bad loan Ratio | 0.63% | 0.50% | -0.13% | -20.63% |
| Substandard & Below Ratio | 1.16% | 1.03% | -0.13% | -11.21% |
| Precautionary & Below Ratio | 1.97% | 1.67% | -0.30% | -15.23% |
| Allowance + Reserve | 2,962.0 | 2,963.3 | 1.3 | 0.04% |
| Allowance | 1,492.7 | 1,442.3 | -50.4 | -3.38% |
| Reserve | 1,469.2 | 1,521.0 | 51.8 | 3.53% |
| Coverage Ratio Against | | | | |
| Bad Loan | 139.24% | 155.58% | 16.34% | 11.74% |
| Substandard & Below | 149.22% | 154.16% | 4.94% | 3.31% |
| Precautionary & Below | 87.93% | 95.48% | 7.55% | 8.59% |

The ratio of substandard and below loans to total loans decreased by 13 basis points over the year to 1.03%. This marked the lowest level since 2010, proving the Bank's differentiated risk management abilities. The delinquency ratio also stood at 0.31%, the lowest-ever recorded. The non-performing loan (NPL) coverage ratio was also maintained at a satisfactory level of 154.16%.

Delinquency Ratio by Sector

(In billions of Korean won)

| | 4Q2013 | 4Q2014 | Increase | YoY |
|--|------------------|------------------|-----------------|----------------|
| Total Loans | 160,045.5 | 174,575.8 | 14,530.3 | 9.08% |
| Retail | 72,239.3 | 78,946.0 | 6,706.7 | 9.28% |
| Corporate | 87,806.2 | 95,629.9 | 7,823.7 | 8.91% |
| SME | 57,969.2 | 62,581.6 | 4,612.4 | 7.96% |
| (SOHO) | 28,284.6 | 30,910.9 | 2,626.3 | 9.29% |
| Large Corp. | 29,837.0 | 33,048.3 | 3,211.3 | 10.76% |
| Total Delinquent Loans¹⁾ | 617.0 | 543.7 | -73.3 | -11.88% |
| Retail | 176.7 | 184.0 | 7.3 | 4.13% |
| Corporate | 440.4 | 359.7 | -80.7 | -18.32% |
| SME | 320.4 | 331.8 | 11.4 | 3.56% |
| (SOHO) | 93.8 | 115.2 | 21.4 | 22.81% |
| Large Corp. | 120.0 | 28.0 | -92.0 | -76.67% |
| Delinquency Ratio_Total Loan¹⁾ | 0.39% | 0.31% | -0.08% | -20.51% |
| Retail | 0.24% | 0.23% | -0.01% | -4.17% |
| Corporate | 0.50% | 0.38% | -0.12% | -24.00% |
| SME | 0.55% | 0.53% | -0.02% | -3.64% |
| (SOHO) | 0.33% | 0.37% | 0.04% | 12.12% |
| Large Corp. | 0.40% | 0.08% | -0.32% | -80.00% |

Note1) Principal or interest delinquent for 1 month and over

Delinquency rates for household loans and small- and medium-sized enterprise (SME) loans stood at manageable levels of 0.23% and 0.53% respectively, despite a drop in bad debt disposal by about KRW 270.0 billion. This was attributable to the Bank's steady efforts to manage problematic business types and the continued normalization of companies under workout programs.

Delinquency Ratio by Industry(SME)¹⁾

(In billions of Korean won)

| | 4Q2013 | 4Q2014 | Increase | YoY |
|-----------------------------|--------------|--------------|---------------|---------------|
| Manufacturing | 0.37% | 0.41% | 0.04% | 10.81% |
| Constructions | 0.86% | 0.63% | -0.23% | -26.74% |
| Wholesale & Retail | 0.36% | 0.34% | -0.02% | -5.56% |
| Accommodation & Restaurants | 0.17% | 0.43% | 0.26% | 152.94% |
| Transport and Storage | 0.19% | 0.23% | 0.04% | 21.05% |
| Telecommunication | 0.27% | 0.16% | -0.11% | -40.74% |
| Finance and Insurance | 0.06% | 0.00% | -0.06% | -96.87% |
| Real Estate/ Rent | 1.21% | 1.02% | -0.19% | -15.70% |
| Science and Technology | 0.12% | 0.13% | 0.01% | 8.33% |
| Educational Service | 0.14% | 0.43% | 0.29% | 207.14% |
| Health and Social Benefits | 0.06% | 0.19% | 0.13% | 216.67% |
| Entertainment and Sports | 0.94% | 0.99% | 0.05% | 5.32% |
| Others | 0.19% | 0.30% | 0.11% | 57.89% |
| SME Total | 0.55% | 0.53% | -0.02% | -3.64% |

Note1) Principal or interest delinquent for 1 month and over

Capital Adequacy

(In billions of Korean won)

| | 4Q2013 | 4Q2014 | Increase | YoY |
|-----------------------------------|------------------|------------------|----------------|---------------|
| Tier I Capital | 18,021.4 | 18,101.8 | 80.4 | 0.45% |
| Paid in Capital | 7,928.1 | 7,928.1 | -0.0 | 0.00% |
| Capital Surplus | 403.2 | 403.2 | -0.0 | 0.00% |
| Retained Earnings | 8,088.1 | 9,061.5 | 973.4 | 12.03% |
| Others | 297.0 | 237.2 | -59.8 | -20.13% |
| Deductions(-) | 586.0 | 630.4 | 44.4 | 7.58% |
| Tier II Capital | 3,035.7 | 2,844.9 | -190.8 | -6.28% |
| Total BIS Capital | 21,057.1 | 20,946.7 | -110.4 | -0.52% |
| RWA | 129,276.7 | 135,543.7 | 6,267.0 | 4.85% |
| Credit Risk RWA | 114,809.3 | 121,196.8 | 6,387.4 | 5.56% |
| Market Risk RWA | 5,448.4 | 5,178.3 | -270.1 | -4.96% |
| Operation Risk RWA | 9,018.9 | 9,168.6 | 149.7 | 1.66% |
| BIS Capital Adequacy Ratio | 16.29% | 15.45% | -0.84% | -5.16% |
| Tier I | 13.94% | 13.35% | -0.59% | -4.23% |
| Tier II | 2.35% | 2.10% | -0.25% | -10.64% |

Note) Applied the Basel III capital requirements in December 2013

The Basel III-based BIS ratio stood at 15.45% at the end of 2014, falling by 0.84% points from the previous year. Common stocks increased by about KRW 0.9 trillion, following rises in dividends by KRW 90.0 billion and retained earnings, excluding loan loss provisions, by about KRW 1.0 trillion. The common stock ratio (CET 1) was 12.53%, up 0.05% over the year, due to an increase in risk-weighted assets by about KRW 6.4 trillion following the large-scale asset growth.

The Tier 1 capital ratio edged down by 0.59% as Tier 1 capital reduced by about KRW 0.8 trillion due mainly to the repayment of KRW 1 trillion-worth hybrid bonds. The Tier 2 capital ratio also fell by 0.25%, reflecting a decrease in Tier 2 capital by KRW 240.0 billion following the repayment of subordinated bonds amounting to about KRW 2.2 trillion.

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No.A99 & A101, Russian Federation Blvd., Sangkat Teuk Thla, Khan Sen Sok, Phnom Penh, Cambodia
Tel. 855-23-880-240
SWIFT: SHBKHKHP

DAUN PENH BRANCH

No.1Eo, Street Preah Sisowath, Sangkat Srah Chork, Khan Daun Penh, Phnom Penh, Cambodia
Tel. 855-23-988-390
SWIFT: SHBKHKHH

SHINHAN ASIA LIMITED

Units 7704, 777F International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong
Tel. 852-3717-0700
Fax. 852-2877-2460
SWIFT: SHBKHKHH

SHINHAN BANK MYANMAR REPRESENTATIVE OFFICE

No.48, Ward 10, Kabar Aye Pagoda Road, Mayangone Township, Yangon, Myanmar
Tel. 95-94-2531-4799

CENTRAL ASIA

SHINHAN BANK KAZAKHSTAN

123/7 Dostyk ave. Medeu District, Almaty, Republic of Kazakhstan
Tel. 7-727-385-9600
Fax. 7-727-264-0999
SWIFT: SHBKZKZA

SHINHAN BANK UZBEKISTAN REPRESENTATIVE OFFICE
Newworld bldg, 3rd fl., Oybek st. 22 Tashkent, Uzbekistan 100015
Tel. 998-71-150-1184
Fax. 998-71-252-3605

CHINA

SHINHAN BANK CHINA LTD.
12th Fl. Zhongyu Plaza No.6, Workers' Stadium Road N., Chaoyang District, Beijing 100027, China
Tel. 86-10-8529-0088
Fax. 86-10-8529-0188
SWIFT: SHBKCNBJ

BEIJING BRANCH
1st Floor Zhongyu Plaza No.6, Workers' Stadium Road N., Chaoyang District, Beijing 100027, China
Tel. 86-10-8523-5555
Fax. 86-10-8523-5696
SWIFT: SHBKCNBJJG

BEIJING SHUNYI SUB-BRANCH
1st Floor Shunxin International Business Center No. 3, Zhanqian West Road, Shunyi District, Beijing 101300, China
Tel. 86-10-6040-6008
Fax. 86-10-6040-6123
SWIFT: SHBKCNBJJG

BEIJING WANGJING SUB-BRANCH
No 103, 1st Floor Wangjingxiyuan Bldg 429 Chaoyang District, Beijing, China
Tel. 86-10-6472-9866
Fax. 86-10-6475-6758
SWIFT: SHBKCNBJJG

SHANGHAI BRANCH
1st Floor, Huaneng Unite Mansion, 958 Lujiuzui Ring Road, Pudong New Area, Shanghai, China
Tel. 86-21-6886-5566
Fax. 86-21-6886-5840
SWIFT: SHBKCNBJJG

SHANGHAI PUXI SUB-BRANCH
1st Floor, Hyunyon International Building, block 5, 1100 Wuzhong Road, Min Hang District, Shanghai, China
Tel. 86-21-6465-2300
Fax. 86-21-6465-2313, 2314
SWIFT: SHBKCNBJJG

SHANGHAI HONGQIAO SUB-BRANCH
East Century Building, 1111 Gubei Road, Changning Area, Shanghai, China
Tel. 86-21-6241-0066
Fax. 86-21-6273-2178
SWIFT: SHBKCNBJJG

SHANGHAI HONGQUAN LU SUB-BRANCH
1F, West side-A, Jingting Building, 1000 Hongquan Road, Minhang District, Shanghai, China [Postal Code 201103]
Tel. 86-21-6115-7799
Fax. 86-21-6091-2500
SWIFT: SHBKCNBJJG

TIANJIN BRANCH
Room 108/911, Tianjin International Building, 75 Nanjing Road, Tianjin, 300050 P.R. China
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Fax. 86-22-2339-4043
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Fax. 86-22-6628-1235
SWIFT: SHBKCNBJJG

TIANJIN AOCHENG SUB-BRANCH
Tel. 86-22-5885-0088
Fax. 86-22-5885-0090
SWIFT: SHBKCNBJJG

QINGDAO BRANCH
4th Fl., CITIC WT Securities Co., Ltd, Bldg. No.28 Donghai West Road, Qingdao 266071, CHINA
Tel. 86-532-8502-5500
Fax. 86-532-8502-5566
SWIFT: SHBKCNBJQDO

QINGDAO CHENGYANG SUB-BRANCH
No. 151, Zhengyang Road, Chengyang District, Qingdao, 266109, P.R. China
Tel. 86-532-6696-0505
Fax. 86-532-6696-0215

SWIFT: SHBKCNBJQDO

WUXI BRANCH
2 Floor No.5 Changjiang North Road, Changjiang Club, Wuxi, Jiangsu 214028, China
Tel. 86-510-8181-3000
Fax. 86-510-8181-3058
SWIFT: SHBKCNBJJXJ

CHANGSHA BRANCH
New Times Square No.161, Furong Middle Road, Kaifu District, Changsha City, Hunan Province, China
Tel. 86-731-8833-9999
Fax. 86-731-8833-9999
SWIFT: SHBKCNBJJCHS

SHENZHEN BRANCH
1st Fl. 131-132 YangGuang Golf Building, Shennan Street, Futian District, Shenzhen City, Guangdong Province, 518040 P.R.China
Tel. 86-755-8828-0050
Fax. 86-755-8282-8542
SWIFT: SHBKCNBJJXX

SHENYANG BRANCH
1st Fl. 193 YangGuang Caixian Building, No.193 ZhongShan Road, Heping District, Shenyang, 110000 P.R.China
Tel. 86-24-3161-6000
Fax. 86-24-3139-5199

EUROPE

LONDON BRANCH
3rd Fl. 51-55 Gresham Street., London EC2V 7HB, United Kingdom
Tel. 44-207-600-0606
Fax. 44-207-600-1826
SWIFT: SHBKGB2L

SHINHAN BANK EUROPE GmbH
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AMERICA

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330 5th Avenue 4th Fl. New York, NY 10001 U.S.A.
Tel. 1-646-843-7300
Fax. 1-212-447-7477
SWIFT: SHBKUS6LNYX

MANHATTAN BRANCH
313 5th Ave., New York, NY 10016, U.S.A.
Tel. 1-646-843-7333
Fax. 1-212-447-9169
SWIFT: SHBKUS6LNYX

FLUSHING BRANCH
136-17 39th Ave. Ground Floor, Flushing, NY 11354, USA
Tel. 1-718-799-7001
Fax. 1-718-886-9157
SWIFT: SHBKUS6LNYX

NORTHERN 150 BRANCH
150-29 Northern Blvd., Flushing, NY 11354, U.S.A.
Tel. 1-718-799-7100
Fax. 1-718-888-9696
SWIFT: SHBKUS6LNYX

BAYSIDE BRANCH
211-11 Northern Blvd., Bayside, NY 11361, U.S.A.
Tel. 1-718-799-7090
Fax. 1-718-224-5764
SWIFT: SHBKUS6LNYX

FORTLEE BRANCH
222 Main St., Fort Lee, NJ 07024, U.S.A.
Tel. 1-202-363-9009
Fax. 1-201-363-9049
SWIFT: SHBKUS6LNYX

PALISADEPARK BRANCH
21 Grand Ave. PalisadesPark, New Jersey, 07650, U.S.A.
Tel. 1-201-303-1009
Fax. 1-201-313-9688
SWIFT: SHBKUS6LNYX

LITTLENECK BRANCH
252-20 Northern Blvd. Littleneck, NY 11362, U.S.A.
Tel. 1-718-281-7888
Fax. 1-718-819-2333
SWIFT: SHBKUS6LNYX

NORTH ATLANTA BANK
10500 Old Alabama Road Connector Alpharetta, GA 30022, U.S.A.
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Fax. 1-678-277-8440
SWIFT: SHBKUS6LNYX

DULUTH BRANCH
2170 Pleasant Hill Road, Duluth, GA30096, U.S.A.
Tel. 1-678-512-8200
Fax. 1-678-957-9974
SWIFT: SHBKUS6LNYX

DALLAS BRANCH
2174 Royal Lane Dallas Texas 75229 USA
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SHINHAN BANK AMERICA (CA H.O.)
3000 West Olympic Blvd., Los Angeles, CA 90006, U.S.A.
Tel. 1-213-251-3000
Fax. 1-213-386-7208
SWIFT: SHBKUS6LCAX

OLYMPIC BRANCH
3000 West Olympic Blvd., Los Angeles, CA 90006, U.S.A.
Tel. 1-213-251-3000
Fax. 1-213-386-7208
SWIFT: SHBKUS6LCAX

BUENA PARK BRANCH
6771 Beach Blvd., Buena Park, CA 90621, U.S.A.
Tel. 1-714-443-6400
Fax. 1-714-443-5960, 5961
SWIFT: SHBKUS6LCAX

DOWNTOWN BRANCH
738 East Pico Blvd., Los Angeles, CA 90021, U.S.A.
Tel. 1-213-251-3090
Fax. 1-213-748-9422
SWIFT: SHBKUS6LCAX

IRVINE BRANCH
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Fax. 1-416-250-3507
SWIFT: SHBKCAT

SHINHAN BANK CANADA MAIN BRANCH
5095 Yonge St. Unit B2, Toronto, Ontario M2N 6Z4, Canada
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SWIFT: SHBKCAT

MISSISSAUGA BRANCH
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THORNHILL BRANCH
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CORPORATE DATA (As of December 31, 2014)

- **Date of Establishment:**

Shinhan Bank (established in 1982) and Chohung Bank (established in 1897) merged to form the new Shinhan Bank on April 1, 2006

- **Major Shareholder:**

Shinhan Financial Group (100%)

- **Business Network:**

- Domestic : 925 branches and offices
- Overseas : 16 countries and 70 outlets
(8 overseas branches, 9 local subsidiaries)

- **Number of Customers:**

22,200,778

- **Number of Employees:**

13,402

- **Members of Shinhan Financial Group:**

- Shinhan Bank (100%)
- Shinhan Card (100%)
- Shinhan Investment (100%)
- Shinhan Life Insurance (100%)
- Shinhan BNP Paribas Asset Management (65%)
- Shinhan Capital (100%)
- Jeju Bank (68.9%)
- Shinhan Savings Bank (100%)
- Shinhan Data System (100%)
- Shinhan AITAS (99.8%)
- Shinhan Credit Information (100%)
- Shinhan Private Equity (100%)
- SHC Management (100%)

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



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