

Business Review 2015

NEW CHALLENGE TOWARDS EXCELLENCE



Excellence through
Challenge and Innovation



There are a number of reasons why Shinhan Bank is South Korea's leading financial institution. One of them is our ongoing commitment to innovating the way we do banking in the ever-changing financial environment. We have also taken major steps to increase our overseas earnings and our level of non-interest income from our asset management and investment banking operations. In addition, we have dramatically optimized our risk vs. revenue portfolio.

Our status as a leading South Korean bank was fortified in 2015. We maintained the banking industry's highest level in such areas as profitability and financial soundness, and strengthened our foundation for evolving into a truly world-class financial institution. More than 10% of our total income for 2015 was derived from our international operations, which are based on 140 overseas networks in 19 countries around the world.

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PROFILE

In 2015, Shinhan Bank recorded one of the highest results among the domestic financial institutions by maintaining market-leading profitability and asset quality. Despite economic uncertainties and volatile market conditions, the Bank managed to attain significant growth through a more than 10% increase on both loans and deposits. The substantial increase in the Bank's asset size is meaningful since it was achieved while maintaining sound asset quality with the highest credit rating among South Korean banks. Overall, 2015 was a year in which Shinhan Bank reconfirmed its distinctive competitiveness by generating solid and stable earnings.

Based on unparalleled success in the domestic market, Shinhan Bank focused on expansion of its global business in search of new growth opportunities. As a result, the Bank doubled the number of its global channels in 2015 alone, from 70 branches to 140 branches. Shinhan Bank opened branches in Dubai and Manila, and acquired two local banks in Indonesia, further strengthening the "Asian Financial Belt". Not only did the Bank's global network grow physically, but net income contribution from global operations exceeded 10% of its total net income for the first time in Shinhan Bank's history. Shinhan Bank's overseas subsidiaries and branches excelled in fulfilling the needs of local customer needs, highlighted by Shinhan Bank Vietnam which recorded the second highest net income among foreign banks operating in Vietnam.

The second key area of business in 2015 was Shinhan Bank's transformation to lead the digital banking era. Shinhan Bank launched a new sub-brand, Sunny Bank, an online banking platform. Furthermore, Digital Kiosks with palm-print identification technology were installed in domestic branches, enabling 24-hour non-face-to-face banking services for retail clients. Shinhan Future's Lab, an accelerator program for FinTech startups, also produced tangible results in the areas of bitcoin and block chain technologies. Combined efforts in digital banking contributed to the expansion of the Bank's client base to younger generations and reaffirmation of the Bank's reputation as the most innovative and creative bank.

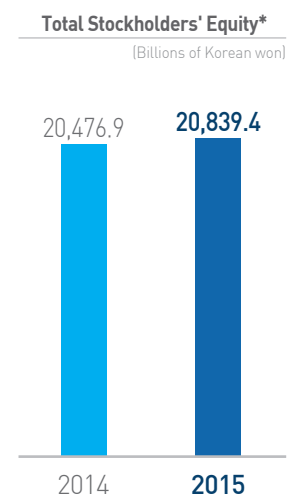
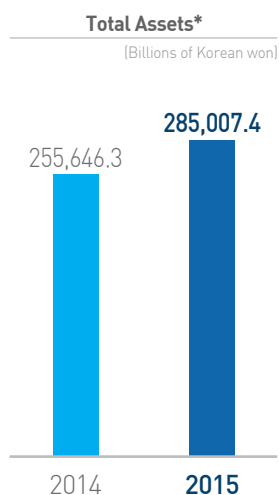
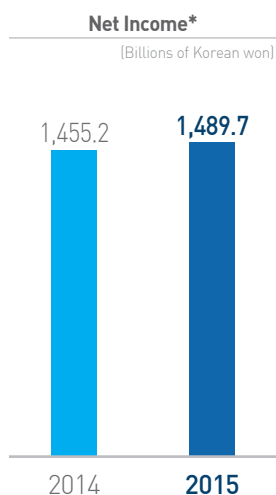


FINANCIAL HIGHLIGHTS

	KRW in Billions		USD in Millions ¹⁾	
	2015	2014	2015	2014
Bank Account				
For the Year				
Total Operating Income	5,110.8	5,171.7	4,360.8	4,704.9
Operating Income	2,325.4	2,253.6	1,984.1	2,050.3
Net Income	1,489.7	1,455.2	1,271.0	1,324.3
At Year-End				
Total Assets	285,007.4	255,646.3	243,180.4	232,574.9
Total Loans	209,651.5	188,325.5	178,883.5	171,329.6
Total Deposits	212,975.2	189,639.9	181,719.4	172,525.4
Total Stockholders' Equity	20,839.4	20,476.9	17,781.0	18,628.9
Financial Ratios ²⁾				
Return on Average Assets	0.49	0.60		
Return on Average Equity	6.71	7.50		
NPL Ratio by FSS	0.80	1.03		
Net Interest Margin	1.50	1.74		
BIS Capital Adequacy Ratio	14.67%	15.43%		
[Tier 1 Capital Ratio]	12.45%	13.34%		
[Tier 2 Capital Ratio]	2.23%	2.10%		

Note1) Translated into US dollars at the rates of KRW 1099.2/USD 1 and KRW 1172.0/USD 1 respectively--those prevailing on December 31, 2014 and December 31, 2015

Note2) Based on separate financial statements.



* Bank account only



March: New President and CEO Yong Byoung Cho took office

The new President and CEO Yong Byoung Cho emphasized in his inauguration speech that SHB will continue to create new opportunities and value through continuous innovation. Given that the current environment is a difficult one with growing economic uncertainties, SHB will focus on or rising above existing challenges rather than relying too heavily on its achievements.

March: Named Best Retail Bank in Korea for the fourth consecutive year, and Best Network Integration in Asia, a first among South Korean banks, by *The Asian Banker*

SHB was named the Best Retail Bank in Korea and the Best Network Integration in Asia at the Excellence in Retail Financial Services Awards 2015 by *The Asian Banker*. SHB received high scores in all categories of non-financial performance, in addition to its excellent financial performance. The categories included: customer-centered products and services; consumer protection including the prevention of customer information leakage; customer satisfaction; small loan finance; and support for small businesses.



August: Ranked first in the Korea Great Work Place Index for the eighth consecutive year

SHB ranked first in the Banking category at the K-GWPI (Korea Great Work Place Index) survey by the Korea Management Association Consulting for eight straight years. SHB received high scores in all evaluation criteria, including Excellent Vision and Total Happiness Level, and also was awarded the service industry's highest scores in Fair System and Commitment.

November: Opened Manila branch in Philippines

SHB opened its Manila Branch in the Philippines, a gateway to ASEAN (Association of Southeast Asian Nations) countries. With this launch, SHB expanded its global network to cover 78 branches in 17 countries. The Manila Branch marked the first entry into the Philippine financial market by a South Korean bank since the country re-opened its financial market at the end of 2014.



November: Named Best Domestic Private Bank in Korea by *The Banker*

SHB was named the Best Domestic Private Bank in Korea at the Global Private Banking Awards, which are organized by *The Banker* and the *Professional Wealth Management* magazines. This was the sixth time in 2015 alone that SHB received an award in the PB category by evaluation agencies at home and abroad, confirming its Private Wealth Management (PWM) as a powerhouse in the domestic PB market.

December: Launched Digital Kiosk, the first bio-certified unmanned smart branch in South Korea

As the nation's first bio-certified unmanned smart branch, Digital Kiosk enables many different teller and transaction operations using video calls and palm vein authentication. It is operated 24/7 throughout the year, providing speedy and convenient financial services through customer-centered self-banking so that customers do not have to wait at teller or transaction windows.



December: Launched mobile banking-specialized Sunny Bank

SHB launched Sunny Bank, a mobile-specialized bank where non-face-to-face identification is available for the first time in South Korea. Through this initiative, SHB plans to preemptively secure its image as a mobile innovator and to establish a loyal customer base in preparation for the emergence of internet-only banks, and to firm up its position as a leading bank in the future financial ecosystem. In the overseas markets, SHB will continue to strengthen its local operations through Sunny Bank, with a focus on mobile channels.

December: Opened Dubai branch in UAE

SHB opened the Dubai branch, its 98th overseas location, in the UAE, which is a gateway to the Middle East. Dubai is growing into a financial and logistics hub, connecting Europe, Africa, and Asia. Using the momentum of this opening, SHB plans to offer a full range of financial services to local and Korea-based companies that operate in other regions of Africa and the Middle East in addition to the UAE.



December: Acquired Centratama Nasional Bank of Indonesia

SHB acquired Centratama Nasional Bank (CNB) of Indonesia, following the acquisition of Bank Metro Express at the end of November 2015. With this, SHB advanced into major financial markets in Southeast Asia -- including Vietnam, Cambodia, Indonesia, Singapore, Philippines, Myanmar, and India -- and secured an overseas network of 140 operations in 19 countries while consolidating its global business strategy of "building an Asian financial belt".

Awards & Accolades

February 2015

- Named Korea's Most Admired Company in the Banking Industry category by Korea Management Association Consulting(KMAC)

March 2015

- Named Best Workplace in Asia by GPTW (Great Place to Work) Institute
- Named Best Retail Bank in Korea for the fourth consecutive year, and Best Network Integration in Asia, a first among South Korean banks, by *The Asian Banker*

April 2015

- Ranked first in the Banking category in the Global & Great Brand Competency Index (GBCI) survey by JMA Consulting for the seventh consecutive year

May 2015

- Received the Presidential Citation in the Excellent Support for Small Businesses category at the National Small Business Competition 2015

June 2015

- Ranked first in the Global Customer Satisfaction Competency Index (GCSI) survey by Global Management Association and JMA Consulting
- Named The Top Company of the Year by Korea CEO Association for the seventh consecutive year

July 2015

- Ranked first in the Banking and PB categories at the Korea Standard Premium Brand Index (KS-PBI) survey by the Korean Standards Association, for the eighth consecutive year

August 2015

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

September 2015

- Named Best Wealth Manager and Best Private Bank in Korea by *The Asset*
- Ranked first in the Banking sector in the Korean Sustainability Index (KSI) survey by Korean Standards Association for the fourth consecutive year

October 2015

- Named Best Company to Work For in Korea and received GWP Team Performance Innovation award at the 100 Best companies to Work For in Korea awards by GWP Korea

November 2015

- Received the Presidential Award at the Corporate Innovation Awards from the Korea Chamber of Commerce and Industry
- Named Best Private Bank in Korea by *The Banker* for the second consecutive year

December 2015

- Named Best Bank at the Small Loan Finance Awards 2015 from the Financial Supervisory Service, for the third straight year

MESSAGE FROM THE CEO



Yong Byoung Cho _ President & Chief Executive Officer

Dear Valued Customers:

"The Bank Shinhan" was reborn a decade ago by integrating the dynamism of Shinhan Bank with the tradition of Chohung Bank. It was an exciting and uncertain time, as the joining was an "integration first merger later" approach, unprecedented in the history of South Korean finance. The Global financial meltdown broke out shortly after, making it difficult for the bank to secure liquidity and maintain asset quality. However, our determination led us through the difficulties.

Through hard work and a strong will to overcome obstacles, Shinhan became a market leader in South Korea. While maintaining the industry's highest levels of profitability and asset quality, our total assets increased from KRW 182 trillion at the time of integration to KRW 300 trillion, and shareholders' equity

more than doubled. Our global income, which used to sit consistently at 5% of the company's total earnings, exceeded 10%, and our overseas network expanded to 140 locations in 19 countries around the world.

In addition, Shinhan has continuously set new standards for Korean finance through constant change and innovation. We actively practice the mission of Compassionate Finance, and our approach combines the business of finance with customer service, valuing both equally. Using the capabilities of the Shinhan Financial Group, we have encouraged new collaboration platforms by launching the Private Wealth Management (PWM) and Corporate & Investment Banking (CIB) models along with the Creative Finance Plaza.

In 2015, Shinhan took the lead in digital banking by initiating the domestic banking industry's first non-face-to-face personal authentication service. We demonstrated that "Shinhan is different" through our achievements in the areas of customer satisfaction, technological finance, and small loan finance.

Based on these performances, Shinhan Financial Group ranked first in South Korea in the Top 500 Banking Brands list compiled by *The Banker* magazine for five years in a row, and was given the same credit rating as the nation's issuer and bond ratings from Moody's Investors Service in 2015.

In 2016, Shinhan is making concerted efforts to retain its status as a leading bank, in the midst of an intensified competitive environment involving individual savings accounts (ISAs), bank account switching, and technology financing.

Shinhan Bank is now at a critical point, where it will take its accomplishments to date and evolve them to help the company through the next decade. The new time has come with low growth and low interest rates becoming permanent and regulations being tightened, has arrived. The development of artificial intelligence, such as the AlphaGo, is causing a great wave of change in all industries.

With the emergence of FinTech, with ICT at the head, a warning has been issued that traditional banks could disappear. We are working to consistently emphasize our ongoing value, and have established our mid- to long-term management directions through the comprehensive analysis of the external environment and our internal capabilities.

As the first phase in preparing for the next ten years, Shinhan's mid- to long-term strategic goals will be to "Solidify our position as a leading bank that shares with its customers" and to "Grow into an Asia-based global bank". Our goal is to achieve KRW 2 trillion in net income and 20% in global income by 2020. Going beyond the nation's the nation's leading bank and evolve into a world-class bank, we will upgrade our target for profitability and will accomplish 10% in return on equity (ROE).

In order to reach these mid- to long-term goals, all management and employees at Shinhan Bank will need to work together on a set of strategies, as set out below.

First, we will continue to enhance our customer value by practicing "Compassionate Finance, creating a happier future". Shinhan is currently recognized as South Korea's leading bank; in order to be recognized by its customers as the best bank, we will focus on the essentials of finance which will help customers to achieve their dreams. Through new and creative finance approaches, we will raise customers' asset values and effectively meet customers' needs through preemptive communications.

Next, Shinhan will be a leader in the financial future of the digital environment, through constant change and challenge. Greeting a new era in which digital technologies are leading social change, we will demonstrate our innovativeness to lead the future trends in finance. Our omni-channels and community collaboration system will be strengthened and digital asset management services will be introduced, so

that customers can be offered optimal solutions anytime, anywhere. We will confirm our status as a digital leading bank that creates paradigms for finance by enabling employees to concentrate on more valuable work through ICT-based process innovations.

Shinhan will also focus on producing differentiated results in the global market on the basis of an Asian financial belt, especially after having recently obtained preliminary approval for a banking business in Myanmar. Shinhan will be the foreign-based bank with the largest number of channels in Vietnam within the year, and will soon launch PT Bank Shinhan Indonesia. By firming our hold in the Asian financial belt through these initiatives, and by gaining strategic footholds in Mexico and Australia, we plan to secure a global network of 230 operations in 24 countries by 2020.

While expanding the company's global financial territory, Shinhan will at the same time seek qualitative growth by effectively combining its strengths with local operations through bank-wide global matrixes. We will also overcome the shortage of channels, language barriers, and other constraints using non-direct platforms, including Sunny Bank.

The final strategy is to continue to develop Shinhan's strong organizational culture of creativity and dedication. Our strategic goal for the upcoming year, "New challenge toward excellence", will be accomplished through the knowledge, expertise, and hard work of each and every employee. Shinhan's employees will be given the opportunity to demonstrate their capabilities to the fullest, so that they can lead change at Shinhan with a sense of ownership.

Shinhan intends to evolve into a creative organization where problems are proactively addressed and individual ideas are cultivated and improved through group intelligence. Our employee happiness project will allow all employees to see the value of their work and to dream of a bright future with their family and their co-workers.

Last year, I suggested the "G.P.S. Speed-up" as a methodology for how Shinhan works. Thanks to our employees' commitment to this approach, we were able to further affirm our status as a leading bank. The Global, Platform, Segmentation, and Speed-up methodologies will help Shinhan to achieve its goals over the next ten years. Using these four methodologies as a compass, we will continue our success and will work toward a better future.

Thank you.

A handwritten signature in black ink, appearing to read 'Yong Byoung Cho', with a stylized, sweeping flourish at the end.

Yong Byoung Cho
President & Chief Executive Officer
Shinhan Bank

Enhancing core competitiveness through “G.P.S. Speed-up”

The term “G.P.S. Speed-up” refers to Globalization, Platform, and Segmentation. It includes our strategies for expanding our globalization efforts (*Globalization*), strengthening collaboration and cooperation between our various business groups and companies (*Platform*), and having an ideal mix of programs and policies needed to deal with increasingly complicated and diverse customer and market needs (*Segmentation*).



Vision

Shinhan Bank's vision is to become a premier financial institution that grows with its customers for a better future.

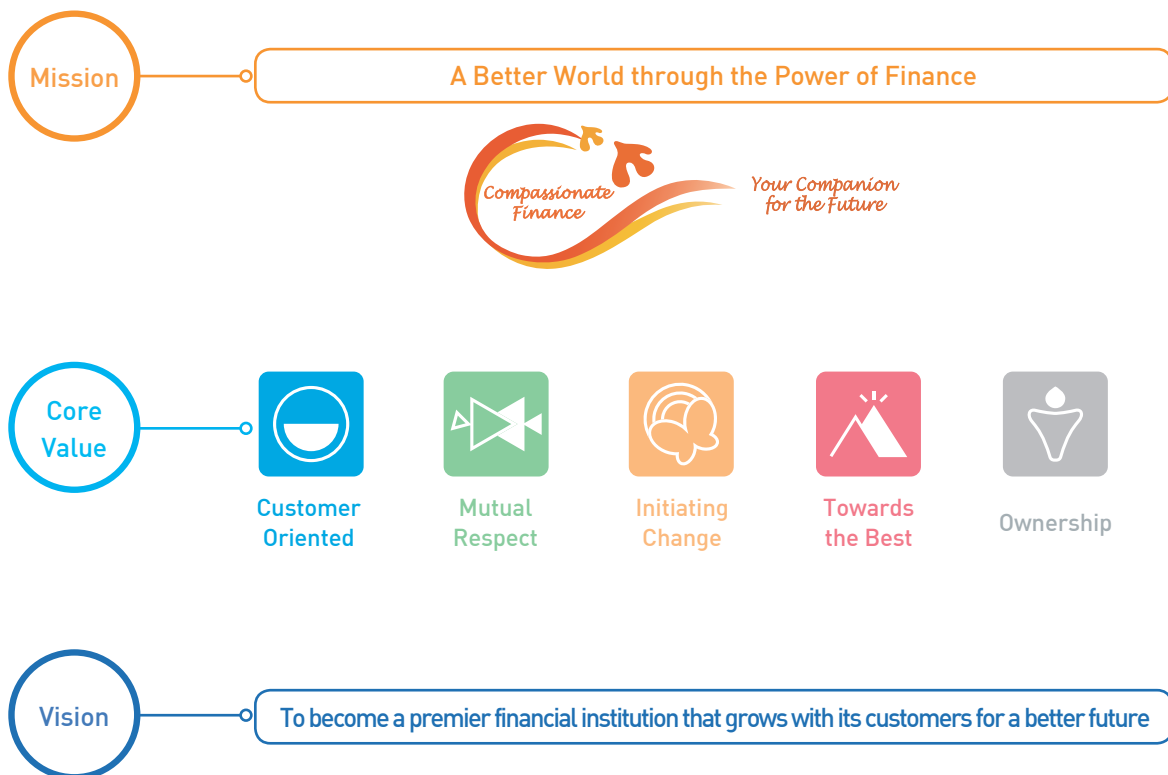
Customers: Seeking to become a premier financial institution that grows with its customers for a better future

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

Shinhan Way

"Shinhan Way" is the value system and guiding principle for all Shinhan employees' thoughts and actions. It consists of mission, core value, and vision.



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.

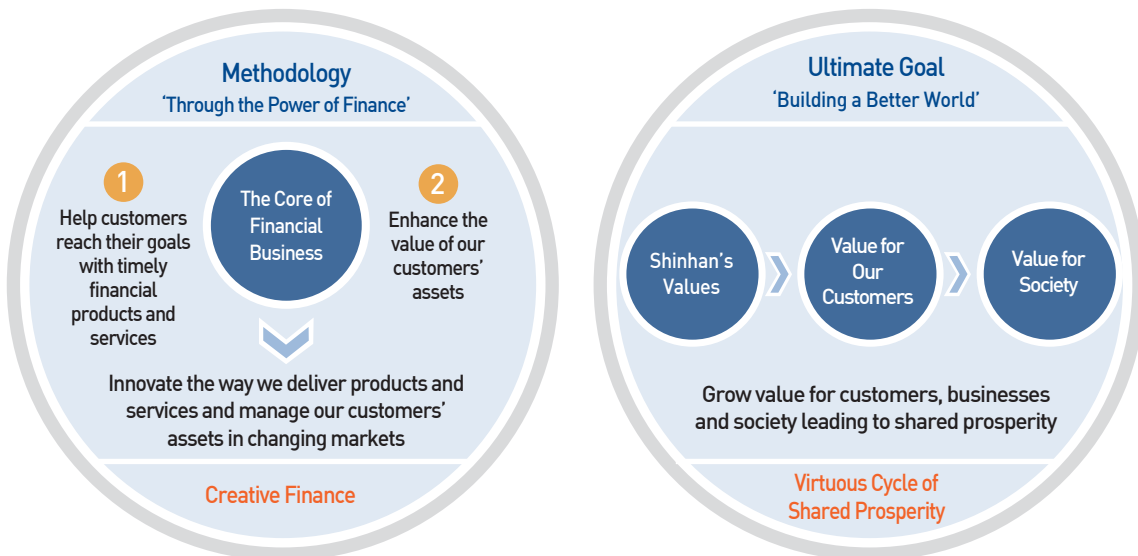
2. Protecting and creating value for our customers

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, Your Companion for Future
"Promote a virtuous cycle of shared prosperity with creative financial services"



Management Goals and Strategies

As uncertainties in the global economy increase, the domestic economy is also experiencing unstable economic factors including restructuring for marginal companies and household debts. Societal and economic trends in general are also rapidly changing; for example, the trend of low growth is becoming permanent amid fundamental changes in population structure such as low birthrate and aging, while mobile banking and robo-advisors are expanding

In order to overcome these new difficulties, Shinhan will continue to improve its competitiveness through hard work and innovation. Crises will be turned into opportunities to excel in all areas, ranging from management indicators to individual capabilities, systems and processes, and corporate culture. In this regard, our strategic goal for 2016 will be "New challenge toward excellence".

Create differentiated customer value, based on "Compassionate Finance, creating a happier future"

Shinhan will facilitate creative thinking for customers through more advanced practice programs, and will meet customer needs with proactive communications. In addition, we will strive to grow valuable customer assets by upgrading our customer yield management system and capabilities.

We will continue our channel innovations, to provide our customers with worthwhile experiences and convenience in keeping with the digital financial environment. We will enhance the competitiveness of our non-face-to-face channels and build an omni-channel-based customer experience management (CEM) process so that customers can be offered optimal solutions anytime, anywhere. We will empower frontline workers, allowing our branch evaluation methods to be more customer-oriented.

Realize Happy Shinhan, raising employee value amid organizational development

Shinhan will be dedicated to creating a lively workplace where the organization and its employees grow together to achieve a sense of fulfillment and pride, while balancing work and life. We will implement a variety of programs that will enable employees to recharge and to take care of their physical and mental health. At the same time, we will enable employees to concentrate on more essential and worthwhile work by removing inefficient factors, including in programs, systems, and processes, from all operations.

Enhance core organizational competitiveness by accelerating the practice of G.P.S. Speed-up

Shinhan will enhance its differentiated competitiveness using the G.P.S. Speed-up as a compass. To this end, we will increase the ratio of non-interest income along with profitability-oriented asset growth, and will continue to raise global earnings. This will involve building a bank-wide support system by adopting global matrixes, gaining an early-comer advantage in promising overseas markets, and pursuing powerful localization.

We will preemptively and proactively manage risks through the optimization of our earnings to risk portfolio and the exhaustive monitoring of our markets and industries, while maintaining the highest level of soundness.

In addition, we will effectively respond to the needs of our customers and secure regional market leadership with closely-monitored operations by region. This will be done through collaboration between retail and corporate banking by expanding our community collaboration system on a national and international basis.

We will also adapt our organizational structure in order to lead the digital banking era. We will build a FinTech ecosystem for mutual prosperity and development through proactive alliances with ICT companies both at home and abroad. At the same time, we will broaden our customer base, which is the foundation for our long-term growth, by continuing our efforts to seek out new markets through segmentation and offering optimized products and services by customer group.

Shinhan will provide a broad range of communication programs through which the opinions of our frontline offices and the strategies of our head office can be circulated. As for communications with our customers, we will ensure an immediate response system by listening to the voices of customers through a variety of platforms, including SNS.

Enhancing customer values

Shinhan Bank is a firm believer in the concept of “Compassionate Finance”. We do this both by providing our customers with the widest possible range of communications options and by offering them a broad mix of programs and services to meet all their banking needs. To this end, we are upgrading and innovating our operating channels even further, as well as ensuring that everyone who invests in us is able to realize the highest possible return on their investment.



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

Shinhan is committed to fulfilling its corporate responsibilities under the goal of "Compassionate Finance, creating a happier future". To this end, we have executed three strategies: "Coexistence (Improvement of Welfare and Education)", "Culture (Sharing of Culture)", and "Symbiosis (Environmental Preservation)", which are aimed at investing our profits in society and sharing our achievements and values with our communities. This leads to creating a circle of mutual prosperity where our values, and the values of our customers and society, can grow together.

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 expanded our "Hands-on career and job experience for youth" program in preparation for the full-fledged implementation of a free semester system, helping our future generations to properly understand the financial system. We have also offered various custom-tailored financial education initiatives for the financially underprivileged, including senior citizens, developmentally-challenged youth who may have difficulty using banks, and North Korean defectors, so as to prevent and solve financial problems.

Sponsoring the Arts and Culture

Since 2005, Shinhan has carried out cultural properties protection activities after concluding a "one cultural asset-one keeper" agreement with the Cultural Heritage Administration. In March 2015, we created a "Volunteer Service Group for Cultural Properties Protection" for the systematic management of important cultural properties, actively engaging in protecting traditional 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.

New goals for global social contributions

Shinhan assisted with the extension of an integrated school and the opening of its informatization class in the Philippines, contributing to its community development and the improvement of free education and vocational training for the disabled. We delivered emergency relief funds, raised through the voluntary donations of our employees, for survivors of the great earthquakes in Nepal. Since 2013, we have visited Vietnam, Cambodia, and Mongolia with the National Pension Service, helping multicultural families to visit home while supporting school facilities in rural regions. We also continue to develop and expand social contribution projects that befit the local conditions of our overseas branches, with an aim to fulfilling our global corporate social responsibilities. These efforts include overseas medical volunteer activities, in which we have participated since 2008.

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 2015, we further improved the understanding of the SFG's Code of Ethics and the practice of ethical standards by our employees in a bid to upgrade ethics observance level. This included implementing education on ethics observance with our holding company.

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 SFG 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 2015, 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.



BOARD OF DIRECTORS (As of March 31, 2016)

The Board of Directors (BOD) consists of nine 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 Director & Non-executive Directors

Yong Byoung Cho

President &
Chief Executive Officer

Hyung Jin Kim

Non-executive Director

Seok Keun Lee

Director &
Standing Auditor

Outside Directors

Sun Tae Hwang

Outside Director

Dong Chul Cho

Outside Director

Hoh Peter In

Outside Director

Bon Il Ku

Outside Director

Kook Jae Hwang

Outside Director

Fukuda Hiroshi

Outside Director

EXECUTIVE OFFICERS & COMPLIANCE OFFICER (As of March 31, 2016)

Hyun Ju Seo

Deputy President,
Retail Business Unit &
Retail Banking Group

Soon Seog Huh

Executive Vice President,
Chief Compliance Officer

Young Woong Woo

Executive Vice President,
Corporate & Investment Banking Group

Seung Woog Yoon

Deputy President,
Management Support Group

Ki Jun Lee

Executive Vice President,
Credit Analysis & Assessment Group

Sang Don Youn

Executive Vice President,
Institutional Banking Group

Tae Wook Wang

Deputy President,
Consumer Brand Group

Dong Ook Ryu

Executive Vice President,
Digital Banking Group

Chang Goo Lee

Executive Vice President,
Wealth Management Group

Byeong Wha Choi

Deputy President,
Corporate Business Unit &
Corporate Banking Group

Choon Seok Seo

Executive Vice President,
ICT Group

Jae Hee Cho

Managing Director,
Risk Management Group

Jae Jung Kwon

Deputy President,
Management Planning Group

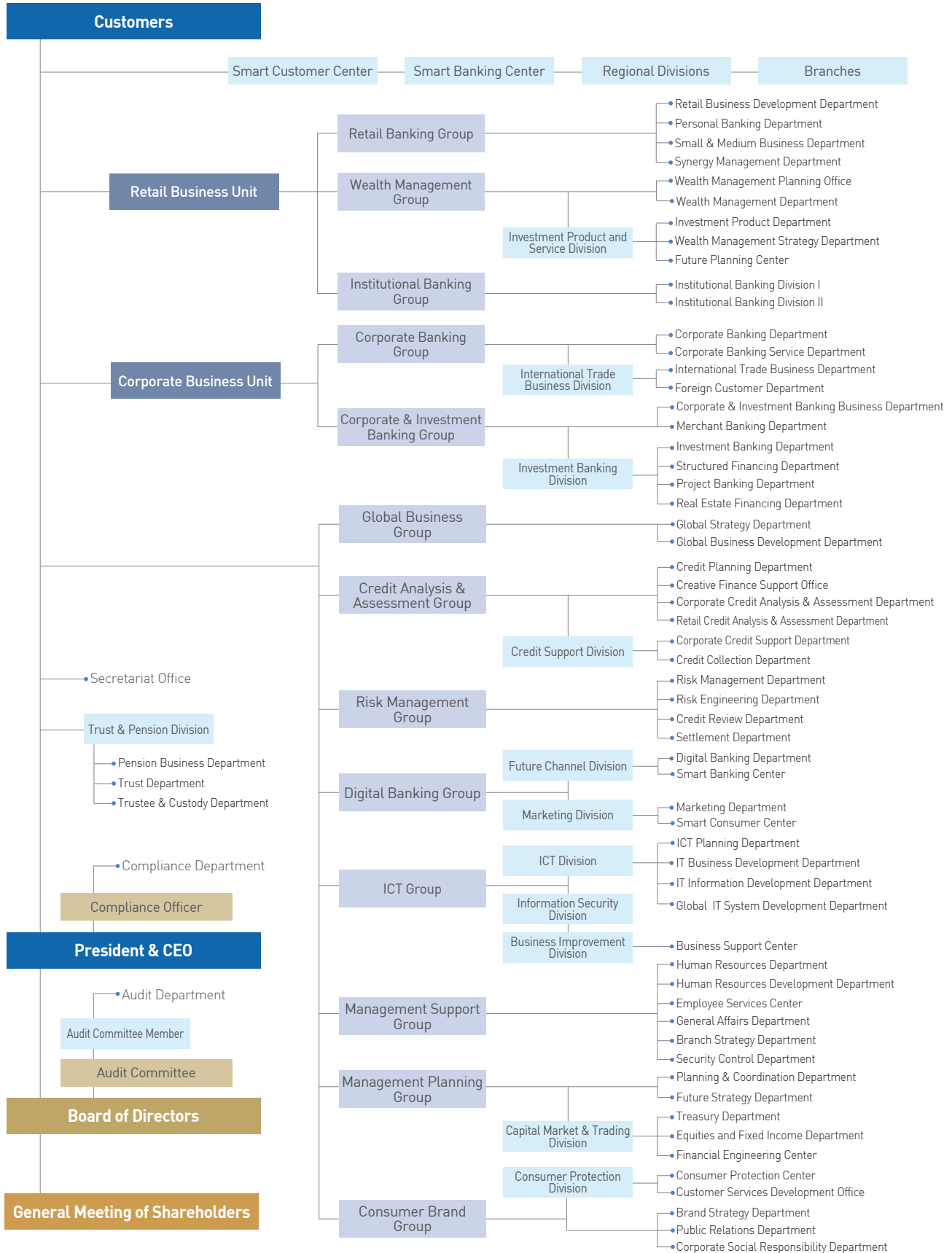
Young Taeg Heo

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Managing Director,
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ORGANIZATION (As of January 2016)



Review of **Operations**



Retail Banking

The Retail Business Development Group is composed of four departments: Retail Business Development, Personal Banking, Small & Medium Business, and Synergy Management. In 2015, we made remarkable achievements in all areas, including growth, soundness, non-interest income, and customers, under the slogan of "Retail banking acting with open communication".

The Retail Business Development Group operated 27 regional headquarters, which manage and support its branches in the most suitable manner. The number of its branches was reduced to 540 (723 when including financial centers) through the merger and reduction of branches, allowing for increased productivity.

The number of its employees totals 8,531 (including 1,608 at financial centers), and this includes 6,615 full-time workers (including 1,111 at financial centers) and 1,916 retail service tellers (including 497 at financial centers).

In 2015, the business environment was more difficult than ever. Factors included economic slowdowns at home and abroad and benchmark interest rate cuts on two occasions. Faced with this situation, the Retail Business Development Group used its unique capabilities to outperform other banks in all areas of growth, asset quality, non-interest income, and the number of customers.

First, we achieved a number one ranking in profitability by increasing quality assets and reinforcing our soundness management. We added to key liquid deposits, household loans, and SME loans, contributing to the bank's differentiated growth. Key liquid deposits increased by KRW 8 trillion over the year, led by rises in active customers and credit card and credit card-affiliated store settlement accounts and by the inflow of stable funds centering on public institutions.

As for household loans, we reinforced the sales of credit loan products with high profitability by continuing with our differentiated market segmentation strategies. These strategies included loans to school personnel and Nuri n Nanum loans, targeting employees of social assistance facilities. Mortgage loans increased by KRW 9.5 trillion, following an activated housing sales market. This led to the expanded weight of deferred floating-rate loans, improving the structure of our household loans with a focus on floating-rate lump sum repayment.

Loans to small and medium-sized enterprises (SMEs) increased by KRW 4.4 trillion from the year before thanks to the PR activities of our Retail Relationship Managers. Specifically, loans to prime-quality companies with the BBB- or higher credit ratings surged by KRW 4.1 trillion, resulting in healthy asset-centered growth.

With regard to asset quality, which is directly related to our profits and losses, we realized delinquency ratios of 0.35%, including 0.41% for household loans and 0.71% for loans to individual businesses. We achieved the industry's top position with respect to these loans. Overall, we retained our excellent soundness amid quantitative growth in 2015.

Secondly, we expanded our customer base and diversified our revenue structure by increasing non-interest income. We secured a total of 9.25 million active customers, increasing the number of our active customers by 489,000. Eventually we laid groundwork to acquire 1 million active customers, who will be assets and will enable us to continue our growth despite changes in our environment.

We also increased the sales of products such as installment-type funds, credit cards, and bancassurance, through which we can increase non-interest income. Sales of installment-type funds doubled from the previous year to 415,000 accounts, creating a structure in which earnings can be continuously generated.

The number of new credit cards issued amounted to 293,000, the largest-ever since the launch of Shinhan Card in 2007, contributing to a significant increase in non-interest income. We also diversified and actively sold non-interest income products, including bancassurance, trusts, and foreign exchange.

Thirdly, we ranked first in terms of small loan finance and customer satisfaction. Shinhan Bank is dedicated to increasing customer assets and improving social values through its mission to "Practice Compassionate Finance", creating a better world with the power of finance.



As a result of continuously increasing small loan products, in 2015 we were selected as the best institution for small loan finance for the third consecutive year by the Financial Supervisory Service. We were also ranked first in all five categories in the domestic customer satisfaction index surveys by the Korean Standards Association, Korea Productivity Center, Korea Management Consulting (KSCI and KSQI), and other agencies.

In 2016, we aim to be an industry leader by overcoming difficulties in our internal and external business environments based on our growth engines secured in 2015. To this end, we established our strategic directions under the goal to "Lead retail banking with excellence!" These strategic directions include: Expand customer base and induce customers to choose us as their main bank; Optimize retail revenue; Put G.P.S. Speed-up in place; and Build infrastructures for sustainable growth.

Expand customer base and induce customers to choose us as their main bank

Shinhan will achieve 10 million active customers by increasing the number of active customers by 750,000 in 2016. To accomplish this, we will strengthen our segmented operations by customer group, including workers, women, and individual business customers. Based on our customer management and product competitiveness, we will secure customers by enhancing our leadership in the individual savings account (ISA) market and in bank account shifting, which will be enforced in full scale starting this year. In addition, we will continue to encourage customers to choose us as their main bank, by attracting new credit card customers and acquiring one million credit card bill settlement accounts, and through cross-selling.

Optimize retail revenue

Shinhan will grow the number of household and corporate loans centering on healthy assets from which earnings are secured, and will continue to improve interest margins from loans by increasing key liquid deposits again this year. We will also generate more earnings from funds, bancassurance, trusts (ELTs), credit cards, foreign exchange, housing funds, and commissions, with a focus on increasing non-interest income to diversify our retail revenue structure.

Put G.P.S. Speed-up in place

Shinhan will share success cases in the retail business with our overseas subsidiaries, allowing us to expand our global operations. Through alliances with other industries, we will build new platforms to secure customers. By continuously segmenting our markets, we will create new specialized marketplaces while upgrading our existing specialized markets, including those for childcare, school personnel, social services, and specialized high schools.

Build infrastructures for sustainable growth

Shinhan will produce additional outcomes by pursuing community collaboration, which is a new operational system. In order to strengthen mutual collaboration among retail, corporate, WM, and CIB businesses, we will build an operational system that can produce additional outcomes by organizing our retail and corporate banking branches as one community. We will also operate our branches efficiently and increase our community market share in individual communities so as to improve bank-wide performances.

Develop a lively workplace as the first step for "New challenge toward excellence"

We will develop a lively workplace, by enhancing job performance and problem-solving capabilities to make a positive work environment for our employees. We have produced and sustained and stable results while benefiting society through creative finance, under our mission to benefit the world with the power of finance: "Compassionate Finance, creating a happier future". Our true strength comes from the Shinhan spirit of constantly overcoming challenges with creative innovations and a customer-oriented mindset.

Based on these business plans and tasks, in 2016 we will retain our unrivalled leadership in the industry, expanding our customer base and optimizing our revenue structure.

Corporate Banking

In 2015, the Corporate Banking Group was committed to providing financial support for small- and medium-sized enterprises (SMEs), leading to winning the grand prize in the Creative Finance category (financial products and services) at the Korea Future Creative Management Awards. In 2016, we will continue to fulfill our leading role in assisting SMEs through customized and segmented financial support and offering a wide range of financial services.

The Corporate Banking Group consists of four departments (Corporate Banking, Corporate Banking Service, Foreign Customer, International Trade Business, and Retirement Pension Business), six financial divisions to manage branches, and 190 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 504 relationship managers (RMs), 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.

Our strategic goal for 2015 was to "Expand territory creatively and achieve a quantum jump in 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 bolster core business (Strong Corporate Banking), optimize business resources (Smart Corporate Banking), and differentiate ourselves for future competitiveness (Well-prepared Corporate Banking). With these goals and strategies, we achieved outstanding results in our overall operations, demonstrating growth, profitability, and stability.

First, in order to bolster core business (Strong Corporate Banking), we pursued balanced growth, based on our earnings in the market for mid-sized healthy companies, which is our key market, to continue with quality asset-centered solid asset growth. We particularly outperformed our competition by relying on our strength in the market for medium-sized healthy companies, and further reinforced our advances into that market. As a result, loans to SMEs advanced by KRW 3.9 trillion over the year, achieving our leading position among commercial banks.

In addition, we made positive endeavors to expand our customer base by strengthening customized services according to corporate growth stage. This led to a rise in the number of SME customers with over KRW 100 million loans by 3,979 from the year before, outperforming our competitors. We also ranked first in the banking industry in retirement pensions for the sixth consecutive year.

In order to optimize business resources (Smart Corporate Banking), we continued to improve 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 enhanced our competitiveness in non-face-to-face channels including the overall reorganization of corporate internet banking operations.

In addition, we unfolded effective marketing activities that meet the needs of store owners, by bolstering closely monitored operations by region. We also achieved significant asset growth and prevented margins from falling at the same time through the management of margins on deposits and loans to increase interest income and through the diversification of our revenue structure by increasing non-interest income and key liquid deposits.

Finally, in order to differentiate ourselves in future competitiveness (Well-prepared Corporate Banking), we made steady efforts to lead in the future growth market without being content with our current satisfactory results. We provided systematic and creative support to SMEs with excellent potential by activating technology financing. This

Shinhan Bank had a 19.3% share in the banking industry's retirement fund market, based on reserves at the end of 2015. It also ranked first in assets under management for the sixth consecutive year, and in reserves under management for the fifth consecutive year in the banking industry.

resulted in our ranking first in the number of borrowers and the valuation amount of technology credit-based (TCB) loans.

We also worked hard to suggest IB deals that best suit established companies and SMEs, including M&As, by launching the "Creative Finance Plaza", a first among commercial banks. This was aimed at developing IB revenue models that are suitable for those companies.

In 2016, we will lead the market in addressing changes by responding to increasing uncertainties in our business environment and a reshuffle in the banking industry's competition structure with outstanding innovations that will properly address the environment, systems, and competition. To this end, we set our strategic goal to be "expand territory through Value-Up and build No.1 brand in corporate banking", and selected the following as our strategic directions.

First, in order to create core business values (Strong Corporate Banking), we will continue to pursue selective asset growth with secured profitability in the SME loan sector, our key market. In addition, we will expand our customer base by leveraging guarantees and external political funds and through the systematic management of long-term customers. We will also strive to boost our status in the foreign exchange and investment markets by invigorating globally linked operations.

Second, to optimize business resources (Smart Corporate Banking), we will continue to improve the efficiency of our marketing for sustainable growth. On this note, we will seek out business opportunities by expanding agreement platforms in linkage with political institutions such as the Small and Medium Business Administration and the Korea Trade-Investment Promotion Agency (KOTRA). By leveraging the Guarantee Fund Agreement Network and the Technology Commercialization Management System (TCMS), we will increase our effective financial support for startups and companies with advanced technologies. In addition, we will concentrate on expanding our stable revenue base by diversifying our revenue structure. This will be done by increasing non-interest income and liquid deposits.

Finally, in order to differentiate ourselves in future competitiveness (Well-prepared Corporate Banking), we will be dedicated to securing a distinct competitive edge to lead in future markets.

We will ensure that we have human resources that will help us to lead the future markets. This will involve enhancing the key capabilities of our employees, and fostering the development of a corporate banking experts group by operating an RM Master's Course, the highest-level job training. In addition, we will develop technology financing and relationship banking into new growth engines of our corporate banking by focusing on qualitative and differentiated growth as well as quantitative expansion.

In 2016, we will establish a firm status in corporate banking by fundamentally innovating the way we compete and consistently overcoming challenges to move toward excellence. Through these efforts, we will lead the future corporate banking sector and succeed in the face of any difficulties in the financial environment.

Ranked first in the banking industry's retirement fund market as of the end of 2015

Shinhan Bank had a 19.3% share in the banking industry's retirement fund market, based on reserves at the end of 2015. It also ranked first in assets under management for the sixth consecutive year, and in reserves under management for the fifth consecutive year in the banking industry.

(KRW in Billions)

Reserves for asset management	2013	2014	2015
Balance of retirement pensions	9,047.6	11,192.4	13,372.3



We also registered the highest results in the number of borrowers and the valuation amount of technology financing as of the end of 2015.

	[Companies, KRW in Billions]			
	SHB	A	B	C
No. of borrowers	11,371	8,380	6,107	5,578
Valuation amount	5,496.7	4,666.9	4,252.5	3,469.9

Pension Business Department

The Pension Business Department, which consists of three teams, engages in overall retirement pension-related operations including systems, laws and regulations, products, marketing, and education. The Consulting Team supports branches with field marketing. The Solution/Defined Contribution (DC) Team offers education and materials in relation to retirement pension plans, including laws and taxes, and is also tasked with the management of subscribers to DC plans. The Business Support/Product Team assists branches with enquiries and various practical business affairs, while taking charge of developing and operating retirement pension products.

Retirement pensions were introduced to South Korea at the end of 2005 and have since maintained rapid growth, achieving KRW 126 trillion in the total value of retirement pension assets under management (AUM) at the end of 2015. Shinhan Bank recorded KRW 12.91 trillion in terms of reserves for management operations as of the end of 2015, ranking first in the banking industry for the fifth consecutive year.

In 2015, we were also dedicated to strengthening our capabilities to support our quantitative growth, and as part of such efforts, we opened a new IT system in June with a focus on the management of individual DC subscribers. Within the bank's Wealth Management Strategy Department, which is tasked with investment product management strategies, we also established a Retirement Pension Product Team. The Team enabled us to upgrade our proprietary trading competency. We aim to raise customer returns by improving our expertise in proprietary trading through collaboration with the Wealth Management Strategy Department.

The portions of DC and Individual Retirement Pension (IRP) plans have recently increased in the retirement pension market. Given the characteristics of DC and IRP plans that decide on and take responsibility for asset management by individual, this will result in a rise in the retirement pension-related workload while highlighting the importance of individual subscriber management.

In order to cope with this trend, the Pension Business Department will organize an Integrated Retirement Pension Support Center in 2016. This will allow us to heighten our business efficiency by transferring simple and repetitive IT operations, mass customer notices, and consulting functions of branches to the head office.

GLOBAL BUSINESS

In 2015, our global business increased exponentially. The number of our overseas branches doubled from 70 at the end of 2014 to 140 at the end of 2015, allowing us to secure new strongholds in strategic places. Our global channel strategy to build an Asian financial belt produced tangible results by allowing us to advance into the Philippines and the UAE. We will be also entering Australia, Mexico, and Myanmar in 2016.

Along with this quantitative growth, we also laid the groundwork to go beyond Asia and become a global industry leader, with the ratio of earnings by the global business exceeding 10% of our bank-wide net income for the first time.

The Global Business Group's vision for 2016 is to "Build a Shinhan Bank that can survive independently by region through differentiated localization". We established the two most important key factors for the sustainable independent survival and growth of our global business: internalizing the best practices of Shinhan Bank in South Korea to benefit local networks, and seeking internal stability of our global business.

Our strategic goal for 2016 is to "HIT the king PIN for self-sustaining global network (build differentiated global business foundations that can survive independently)".

We intend to build sustainable independent survival and growth foundations for our global network itself by hitting the Kingpin (HIT the King PIN), i.e. targeting the heart of the problem to ensure that the true issues are discovered and resolved.

HIT means to target primary objectives, and PIN stands for Profitability, Infrastructure, and Network. This refers to securing strong profitability, building solid global infrastructures, and transforming into a smart network that encompasses direct and non-direct channels and SFG affiliates.

In summary, we are determined to focus on three key factors in order for our global network to achieve independent and sustainable profitability creation and growth in each and every location. They are: (1) developing strong profitability; (2) building solid infrastructures that internalize the best practices of Shinhan Bank in South Korea; and (3) transforming into a smart network that encompasses direct and non-direct channels and SFG channels.

Hunt for strong profitability

In a bid to secure strong profitability, we will expand segmentation-based local operations that segment marketing areas and products by target customer and market. We will also build globally-linked business platforms that will cover our domestic and overseas operations and SFG companies, develop new revenue sources, realign our commission structures, and strengthen internal and external alliances.

Install solid infrastructure

Shinhan Bank has secured its position as a leading bank in South Korea. One factor that has had a significant impact on this achievement is that Shinhan Bank has built a variety of high-level infrastructures that make elaborate marketing and internal management possible.

If we can implant our excellent infrastructures in overseas channels to benefit local markets, accumulate experience and expertise generated there, and share and spread that experience and expertise with all of our overseas channels, then overseas channels will be also able to firmly establish themselves in other countries. We will do our best to build solid infrastructures, ranging from internal interest rate, credit cost, risk, and sales management systems, to internal control and HR systems through which we can foster the development of local employees.

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Transform to smart network

If to date our global network strategy has been focused on expanding physical offline channels, in 2016 we will be moving in the direction of building an optimized network where customer values can be maximized by connecting online and offline channels.

We will set as our goal the establishment of corporate fund management services which will enable linkage among overseas global networks such as the CITI Connect and the SC Link, and will work to build foundations with relevant divisions at home.

In addition, we will make our digital specialized services available overseas, including business models that have reflected the needs of customers by customer segment, such as Sunny Bank. With regard to direct channels, we will successfully carry out our merger and post-merger integration with local banks in Indonesia and advance into new regions such as Mexico and Australia.

Spreading Compassionate Finance to the world

Shinhan Bank's Compassionate Finance is manifested around the world through its active global operations. Following the initiatives in 2015 to internalize its mission in its employees around the globe, Shinhan Bank aims to pursue locally customized Compassionate Finance in order to maximize the value of its global customers.



Digital Banking

The Digital Banking Group is composed of the Digital Banking Department, the Smart Banking Center, the Marketing Department, and the Smart Customer Center.

The Group's strategic goal for 2016 is to establish its status as a digital banking leader, and its strategic directions to pursue are to: build a platform to increase a mobile-oriented customer base; ensure a customer-centered omni-channel marketing system; develop future markets and strengthen a customer base; and support corporate and global marketing.

Key strategies are to: identify and initiate innovation strategies for digital banking; fortify non-direct channel fundamentals; solidify a youth customer base; build an omni-channel-based customer experience management process; create smart banking-based new customer groups; support the enhancement of global customer management, and develop new products; and enhance global non-direct channel capabilities.

Digital Banking Department

The Digital Banking Department consists of five teams: Digital Planning Team, Sunny Business Team, FinTech Business Team, Corporate Banking Team, and Retail Banking Team. Together, the Department carries forward the bank's smart banking strategies in the rapidly changing financial environment. This includes reorganization in the customer use environment with a focus on mobile channels, and competition following the global FinTech business operators' advance into the financial business.

The Department's strategic goal for 2015 was to build smart banking-based new business models, leading differentiated growth. Its three strategic directions to pursue detailed tasks were to: (1) secure smart banking-based differentiated competitiveness; (2) develop creative businesses; and (3) strengthen core fundamental capabilities for channels.

We also implemented the following major services according to these strategic directions:

1. Sunny Bank and Sunny Club

We overtook our competitors in the digital market by launching Sunny Bank (in South Korea) and Sunny Club (in Vietnam), which are platforms to attract new customers and encourage customers to choose us as their primary bank.

Sunny Bank in South Korea attracted new customers with competitive specialized services such as exchanges, foreign-currency remittances, and loans. It also encouraged customers to choose as their main bank by offering new checking accounts and bank account switching services through real name verification for non-direct channels, a first in the nation.

Sunny Club in Vietnam induced local corporations to use our financial services, including credit cards and loans, through the Fintech (Fintech + Content) strategy. This was aimed at securing new customer groups through the non-financial Korean-wave content.

Going forward, Sunny Bank plans to continue promoting the mobile-only bank specialization business to cope with changes in our financial environment, including the inauguration of internet-only banks, and will build an innovative marketing platform.

2. Digital Kiosk

As the nation's first bio-certified ATM to use the palm vein authentication method, Digital Kiosk is not a simple ATM for deposits and withdrawals but a digital self-banking window through which direct channel teller window-level

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operations are available through non-direct real name verification.

Digital Kiosk is pursuing three values - customer value, operational value, and channel strategic value - with the goal of building a future-oriented platform for customer-centered self-banking.

Moving forward, Digital Kiosk plans to increase customer convenience and secure digital competitiveness through ongoing process improvement.

3. Shinhan Future's Lab

Shinhan Future's Lab, launched to foster and support domestic FinTech startup companies, was focused on: providing affiliation opportunities with Shinhan Financial Group; assisting global connections; and offering mentoring by financial experts, working spaces, and test environments. It also created opportunities to attract investments through equity investments by SFG companies and linkage with venture capital, and provided clouding services through the Amazon Web Service and the Microsoft BizSpark Cloud software.

As a result we won a number of accolades, including Best Network Integration in Asia from *The Asian Banker*, Presidential Award at the Corporate Innovation Awards from the Korea Chamber of Commerce and Industry, Web of the Year, National Consumer-Driven Brand Award, and The Best Brand of the Chosen by Consumer.

The Digital Banking Department's strategic goal for 2016 is to secure a differentiated competitive edge to become a mobile banking leader. Our key undertakings to pursue include the Shinhan O2O Innovation project and the enhancement of competitiveness in cash management service (CMS) and corporate banking. We also aim to realize a Mobile Digital Life Bank and enhance competitiveness by customer group and product through channel segmentation.

Our detailed strategies are to develop new business areas, based on FinTech and changes in regulations, secure differentiated competitive advantages as a non-direct channel of an orthodox financial institution, and establish future-oriented banking fundamentals. Through these strategies, we will ensure our status as an unrivalled industry leader through digital innovations in 2016, despite the market entries by new competitors such as FinTech and internet-only banks.

Smart Banking Center

Newly established in January 1, 2014 as an exclusive organization for non-direct operations, a first in the domestic banking industry, the Smart Banking Center is in charge of non-direct marketing, non-direct customer management, and smart banking-based customers. As of 2016, the Center consists of three teams: Marketing Planning, Channel Operation, and Non-Direct Loan. Together, they carry out the following tasks:

- Marketing for customers using various non-direct channels (including our website, telephone, emails, SMS, and online messages);
- Professional consultations, utilizing deposit, fund, and foreign exchange centers (video consulting, email, and callbacks);
- New online loans and increases in online loans through mobile devices and the internet;
- Customer management through employees for non-direct channels; and
- Expansion of customers subscribing to and using smart banking.

In 2015, the Center sold KRW 7.8 trillion worth of products through non-direct channels, demonstrating quantitative growth. We also offered differentiated services for customer management, including sending out smart proposals, while broadening the range of our customer management to include prime-quality customers by launching a Smart WM



center.

Our strategic goal for 2016 is to be a smart banking leader through the diversification of integrated smart marketing and the advancement of non-direct customer management. To achieve these, we will pursue the following projects:

- Build a smart channel-based referral marketing system: Introduce Members-Get-Members (MGM) marketing;
- Overhaul Smart Cookie, a non-direct reward system;
- Expand customer management consultations and contact coverage;
- Enhance competitiveness in non-direct asset management: Create a Smart Asset Management Team; and
- Activate the implementation of loans through non-direct channels.

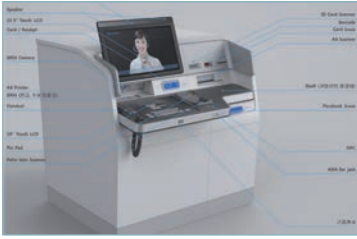
Through these projects, the Center will proactively promote customer management and product marketing by using non-direct channels. Our goals are to ensure thorough coverage of all customer needs to provide bank-wide customer management, develop new sales opportunities, and increase product sales. This 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.

Marketing Department

The Marketing Department consists of the Big Data Team, Future Planning Team, Product Development Team, and Planning/Customer Relationship Management (CRM) Team. It is tasked with the following responsibilities:

- Develop and support the implementation of the bank's marketing strategies;
- Develop and manage marketing-related management indicators (including customer-related indexes);
- Support marketing by business groups upon request;
- Develop and execute marketing programs by major market;
- Establish and operate CRM marketing strategies and tasks;
- Operate and manage CRM systems (MIDAS, SPURT);
- Develop analysis models through big data analysis and research;
- Assist marketing through customer insight analysis and market trend prediction;
- Support the establishment of marketing strategies for overseas branches;
- Develop new loan and deposit products and services for business groups;
- Develop hybrid financial products in relation to affiliated operations among SFG companies;
- Develop new products and services related to global operations;
- Conduct market surveys, analyses, and research relating to new product development; and
- Conduct research operations, including idea and information gathering, to improve competitiveness in new products.

In 2015, the Department aimed to support timely frontline office-centered products and marketing, with a view to improving customer value, expanding customer bases, and encouraging customers to choose us as their main bank. To this end, we carried out the key projects described below:



- Promoted joint customer activation marketing activities for the childcare market by SFG companies. This included developing Happy Child Installment Savings, invigorating the sales of Happy Child and Family products, and marketing targeting customers who hold Happy Child Cards;
- Pursued marketing efforts to expand our customer base and encourage customers to choose us as their primary bank. This involved marketing to activate youth customers and to secure specialization- and Korean Meister School-based customers;
- Attracted new customers for the school personnel market by developing and supporting marketing for school personnel-only specialized deposit products and supplementary services;
- Developed a financial industry-wide corporate loan information system (Financial Assistance Market Explorer, or FAME) to give enhanced support for corporate customer management;
- Launched customized products including the Shinhan Super Dream Corporate Free Deposit, Shinhan School Personnel Preference Loan, One Click School Personnel Loan, and Shinhan Plus Performance Guarantee;
- Launched and renewed thirteen products for the practice of Compassionate Finance through the support of individuals and small businesses, while releasing five creative finance supporting products to assist government policies; and
- Supported products to gain an early edge in the retirement market, including future planning long-term plan pension deposits and the Shinhan Future Planning Installment Savings.

In addition, we added to our customer base by finding new markets, and helped the bank to increase customers by strengthening corporate customer management, bridge marketing, and dominance in the high-net-worth customer market. We were also dedicated to enhancing our product competitiveness by developing customized strategic products and new revenue source creating products.

In 2015, we also won two important awards in the financial sector: The Best Banker award in the financial product category from *Seoul Economic Daily* in February, and the *Maeil Business Newspaper* Financial Product Awards in March.

In 2016, we will carry forward the projects listed below under our strategic goal to support the development of industry-leading products and marketing:

- Develop products to preemptively cope with environmental changes in the financial markets;
- Develop market segmentation products and market-leading products to create new revenue sources;
- Develop products and services to support global operations and assist in the enhancement of customer management capabilities;
- Strengthen collaboration with SFG affiliates and communications with frontline offices;
- Meet corporate social responsibility expectations by supporting government policies;
- Build omni-channel-based integrated customer management and marketing processes;
- Develop new markets through big data analysis;
- Build a customer experience management system, using neuro (psychology) marketing;
- Strengthen youth and child customer bases to secure future markets;
- Support channel convergence and customer management, and build a customer-interactive marketing system; and
- Strengthen the attraction and management of customers in response to the bank account switching service.

These initiatives will allow us to serve as a hub for non-direct channels that can immediately respond to customer enquiries received through a variety of channels, on a 24/7 basis throughout the year.

We plan to establish a frontline office-centered marketing support system by building a customer-centered marketing platform and developing future customer groups with high potential values. In addition, we will seek out business opportunities by segmenting our markets and identifying customer needs, and will develop market-leading products and services based on these needs. Finally, in order to boost our global competitiveness, we will develop global products and services and ensure an efficient customer management support structure.

Smart Customer Center

The Smart Customer Center consists of five teams: Planning, Customer Consultation, Loan Deferment, Channel Support, and Operation Support (Incheon Center). Together, they carry out the following tasks:

- Support customer consultation services and operations, using online channels (including the internet, smartphones, and phone banking);
- Support customer consultation through digital channels including mobile chats (Talk), emails, SNS, and Digital Kiosk;
- Execute the deferment of maturing household loans (Center concentration);
- Receive reports of problems with ATMs outside of branches, dispatching emergency service teams and offering CCTV image information; and
- Conclude agreements for remote transactions targeting non-resident customers, and manage new accounts and funds transfers.

In 2015, the Center carried out the key undertakings listed below, with the goal of building infrastructures to transform into a differentiated digital customer center, and ranking first in call center satisfaction surveys by improving call quality:

- Reorganized into a professional consultation system by unit to provide in-depth customer consultation services;
- Raised efficiency through the improvement of phone banking (ARS);
- Won a triple crown in customer satisfaction index surveys in the call center category (KSQI, fact-finding ARS survey, and KS-CQI); and
- Increased digital consultation channels including Digital Kiosk video consultation, mobile chats (Talk), emails and SNS.

The Center's strategic goal for 2016 is to advance contact centers in an age of digital banking. Our strategic directions are to expand digital consultation platforms, increase support for non-direct marketing by analyzing and using big data on consultation recordings, and innovate our consultation service operation system to be customer-centered. Under these strategies, we plan to carry out the following key tasks:

- Innovate the consultation system to transform into a digital contact center;
- Build a speech-to-text consultation analysis system, and strengthen support for big data-based non-direct marketing;
- Provide custom-tailored consultation services targeting the financially underprivileged to practice Compassionate Finance;
- Add to support for global services; and
- Innovate the customer-centered consultation service operation system through the expansion of digital consultation platforms including non-direct identification services.

These initiatives will allow us to serve as a hub for non-direct channels that can immediately respond to customer enquiries received through a variety of channels, on a 24/7 basis throughout the year.

Wealth Management

The Wealth Management Group consists of the Wealth Management Planning Office, the Wealth Management Department, and the Investment Products and Services Division. Its channel organization includes the WM Business Division, which controls the PWM channels, and other related channels.

The Wealth Management Planning Office is tasked with SFG-wide WM business strategies. In order to boost WM business-related synergies, the Office establishes new WM business strategies and supports their execution.

The Wealth Management Department launched the Shinhan Private Wealth Management (PWM) Center at the end of 2011, 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 through the co-location of a bank branch and a securities branch in one space.

In 2015, we built a nationwide PWM Center asset management network by opening two more PWM Centers in Incheon and Gwangju. In order to meet the asset management needs of our affluent customers, we also scaled up our targets for PWM asset management services, and opened 16 PWM Lounges to provide a wide range of products and services to customers who hold assets of more than KRW 100 million.

We plan to expand our PWM Lounges further with a focus on previously uncovered areas in our PWM Centers, to ensure bank-wide customer management. By installing Shinhan Life Insurance branches within Shinhan Bank branches, we are now able to offer integrated asset management services, since insurance services have been added to the asset management services at our PWM platforms which used to consist of bank and securities branches.

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 Finance". 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* for the second consecutive year. We were also named the Best Private Banking in Korea by *The Asian Banker*, and received the Triple A Investment Awards from *The Asset* for the fourth consecutive year.

Domestically, we ranked first in the PB category at the Korea Standard Premium Brand Index (KS-PBI) survey by the Korean Standards Association for eight years in a row, and received the "THE PROUD Most Valuable Product" award in the PB category from KMA Consulting for six years in a row.

In terms of financial performance, we realized remarkable growth in all areas of asset growth, earnings, and HNW customers, based on our differentiated competitiveness.

Our retail customer deposits expanded by KRW 6.8 trillion over the year to a total of KRW 65.0 trillion at the end of 2015. Net assets under management at our 27 PWM centers rose by KRW 2.0 trillion to reach KRW 17.5 trillion. The number of customers with a balance of over KRW 0.1 billion and KRW 1 billion increased by 8.6% and 16.8% respectively to reach 227,000 and 8,485, continuing our sustained growth.

The Wealth Management Department's strategic goal for 2016 is to lead the WM market through customer-oriented creative asset management operations. Our strategic directions are to "Preemptively secure future WM growth foundations", "Differentially develop asset management platforms", and "Systematically strengthen frontline office-centered sales capacity".

In order to preemptively secure future WM growth foundations, we will push ahead with WM global expansion

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projects and explore future growth-based new asset management businesses. In addition, we will put the practice of more compassionate asset management in place while solidifying our leading WM brand position.

To differentially develop asset management platforms, we will embody WM omni-asset management channels. This will include establishing an integrated direct and non-direct customer management system, while leading in retail branch-in-branch platforms. We will also strengthen the balance between revenue and growth in the PWM business by shifting our PWM business paradigm to profitability-centered solid growth.

Finally, to systematically strengthen frontline office-centered sales capacity, we will renovate our WM customer marketing system and accelerate growth momentum for asset management operations, and concentrate on boosting business vitality and increasing communications with frontline offices.

Through these initiatives, we will raise our customer asset values, innovate the asset management business, and expand our market dominance, providing momentum to fortify the foundation for our future growth.

IPS (Investment Products & Services) Division

The IPS Division consists of the Future Planning Center, Investment Product Department, and Wealth Management Strategy Department. Each function 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.

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.

The Center will be reintroduced as a new Future Planning Center by merging with the Wealth Management Solution Department in a reshuffle that will take place in 2016. The Wealth Management Solution Department is tasked with offering customers asset management consultation services and strengthening the asset management capabilities of our employees. This will enable the Center to provide a wider variety of retirement planning solutions by strengthening collaboration with real estate and tax experts who used to belong to the Wealth Management Solution Department.

In 2015, the Center expanded its retirement business platforms following its successful entry into the retirement planning market in 2014. It also gave substance to retirement consulting by differentially strengthening the capabilities of future planning consultants.

As a result, it recorded 1 million future planning accounts, KRW 3.8 trillion in retirement products, 55,800 retirement plans, 1,099 customers participating in retirement classes for couples, and 1,800 customers participating in the future planning camp.

The Center also rolled out a series of services, including a website (in May) and a mobile website (in August), in addition to its existing S-Future Planning System. This allowed it to consolidate non-direct channels of the retirement business platforms. As for direct channels, it allocates at least one future planning consultant per branch, with a focus on PWM Centers and premier teller and transaction windows at all retail branches.

The Center's key strategic goal for 2016 is to "Build Future Planning Platform 2.0 through TOP Leading strategy".



Its strategic directions are to attract customers through creativity, enhance competitiveness in future planning platforms, and improve retirement asset management capabilities.

We will differentiate our customer walk-in strategy to increase customer experience in our "S-Future Planning" consulting service. To this end, we will upgrade our retirement classes for couples, and continue to expand our location-free future planning camps. In addition, we will discover potential customers for future planning and strengthen our branding through active MOUs with external institutions.

We will also offer differentiated retirement planning consultation services according to the needs of our customers, to enhance the qualitative competitiveness of our future planning platforms. We will elaborate the S-Future Planning positioning strategy with a focus on simple planning for customers who are in the stage of accumulating assets, and standard planning for those who are rebalancing their retirement assets. The simple version of retirement planning was launched in January 2015, to improve customer convenience so that retirement planning can be done in five minutes on the spot.

To activate retirement planning through our non-direct channels, we plan to build a process in which online self-diagnosis through our website and mobile website can lead to consulting with our employees by phone.

We will also push for the 4S project, to enhance our retirement asset management consulting capabilities. Specifically, we will compute and operate "future planning capability indicators" to upgrade the standard of our consultant competencies (Standard), while spreading the future planning consulting skills to our frontline offices by using a Future Planning Clinic and One-On-One Future Planning Coaching Day (Spread). We will develop consulting solutions by customer (Segmentation), and encourage our consultants to improve themselves through "Self-Activity" programs (Self-Activity). We expect the quality of our S-Future Planning consulting to be upgraded further if a series of these activities is invigorated.

We will also continue to improve our product sales processes and expert support programs. For example, we will activate retirement-specialized products such as testamentary substitutes and property management trusts, and will organize an exclusive team to support this approach.

Moving forward, the Future Planning Center 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 providing them with practical, customized solutions.

Investment Product Department

The Investment Product Department (IPD) includes: the Fund Product Team, which is tasked with launching and marketing public fund products; the Fund System Team, which is in charge of post-management systems and ensuring full disclosure to customers in the selling processes; the Structured Product Team, which launches and manages PWM-exclusive private equity funds; the Bancassurance Team, which is in charge of bancassurance operations; 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 provide product marketing tools and customer-centered creative and innovative product platforms.

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.

Our strategic directions are to "Preemptively secure future WM growth foundations", "Differentially develop asset management platforms", and "Systematically strengthen frontline office-centered sales capacity".

The Structured Product Team reinforced its asset management foundations, enabling customers to directly reflect their investment needs in product planning by upgrading its customized product support system (an order-made product platform) for PWM customers. It has also developed and supplied investment products containing various underlying assets, including stocks, bonds, exchange rates, and real estate from South Korea and other countries. As a result, in 2015 we sold a total of 120 private equity funds amounting to KRW 713.9 billion.

Despite the prolonged slowdowns in the domestic fund market, we achieved new fund sales of KRW 3.84 trillion in 2015. 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 2015 we outperformed other banks in the equity linked deposit (ELD) market. Our ELD sales amounted to KRW 201.1 billion resulting in a balance of KRW 281.8 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.

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.

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

Our strategic goal for 2016 is to improve customer value by building customer-centered differentiated investment product platforms. 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 increasing non-direct channel-only products and creating new businesses such as the stable introduction of iron 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 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.

Wealth Management Strategy Department

The Wealth Management Strategy Department was inaugurated in April 2015 as part of our efforts to practice "Compassionate Finance" and develop a win-win cycle with customers by improving their earnings rate.

The Wealth Management Strategy Department has three teams working in the areas of investment strategy, portfolio strategy and customer yield management with seventeen experts in each field, all of whom play a key role



in improving customer yields.

The Investment Strategy Team is in charge of financial market analyses and investment strategies, while the Portfolio Strategy Team develops products preemptively based on SFG's investment strategies, and suggests product recommendations. The Customer Yield Management Team is tasked with post-customer asset management, and yield measurement and evaluations.

In 2015, the Wealth Management Strategy Department selected top priorities to pursue, and continued with its efforts to improve customer yields on the basis of its key capabilities.

First, we increased personnel exchanges with other financial institutions and recruited the industry's top-tier experts, including fund analysts, to fortify its expertise in investment and product strategies. Based on this, we provided the monthly *WM Investment Guide*, which details the Shinhan Financial Group's investment strategy house views through elaborate market analyses, and published more than 250 reports identifying key issues in the market.

We also offered more than forty top-pick funds by sector through market sensing with insight in 2015, while seeking out promising sectors and strategically expanding their value, based on clear product strategies. As a result, we normalized our customer portfolios and improved customer yields.

At the same time, we introduced a Fund Counsel Specialist Team to manage customer yields on a non-face-to-face basis, a first in the domestic banking industry, and implemented close yield management for our over 500,000 customers who had previously been insufficiently represented in terms of management. Through this, we achieved fair returns and rebalanced a total of 98,000 customers, holding under-performing equity funds amounting to KRW 1.19 trillion.

We also introduced a Customer Assets Performance Analysis System to strengthen our customer asset management and raise return on investment (ROI), and opened a new window for differentiated customer management through unprecedented strategies which included measuring total yields by customer, targeting all of the products in which customers invested -- ranging from deposits and installment savings to funds and trusts, another first in the banking industry -- and suggesting customized investment strategies through performance measurement and analysis.

Our strategic goal for 2016 is to "Rank first in customer yields" through enhanced expertise and well-organized asset management. In order to achieve this goal, we have outlined three core tasks to pursue.

The first task is to enhance our expertise in investment strategies. To this end, we will strengthen our network of consulting firms, and improve our investment strategy verification system by introducing information infrastructures. We will also preemptively deal with changes in the global financial market and suggest clear countermeasures to our frontline offices by operating contingency plans to respond to emergency market crises following the expansion of volatility in the securities markets at home and abroad.

Second, we will develop and foster our differentiated signature funds with a focus on global asset allocation funds, based on research into mid- to long-term promising sectors.

Last, but not least, we will establish principles on standardized customer yield management, and continue to upgrade our frontline office-centered evaluation programs and systems.

In addition to these efforts, in 2016 we will continue to play a pivotal role in customer asset management as a key department that will use innovation and creativity to help Shinhan rank first in customer yields.

Treasury

The year 2015 began with the majority of market participants expecting that the world economy would show a gradual recovery, led by advanced countries. It was accordingly anticipated that the speed and timing of interest rate hikes in the U.S. would be important variables. However, the world economy displayed an increased downward tendency. For example, the Euro zone and Japan maintained their monetary easing policies, while failing to show clear growth signs. China was faced with greater than expected slowdowns in its growth, and newly emerging countries were exposed to the risk of falling oil and raw materials prices due to a decline in global demand.

While a few emerging countries showed vulnerabilities with their currency account deficits and increasing overseas debts, South Korea continued with its current account surpluses and maintained stable currency values. Based on this external soundness, Moody's Investors Service upgraded the country's issuer and bond ratings to Aa2 from Aa3 and changed the outlook to stable from positive.

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 Basel Committee on Banking Supervision (BCBS) 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.

In this landscape, the Treasury Department established a number of liquidity management strategies to help the bank preemptively cope with the liquidity coverage ratio (LCR) 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. We managed to achieve all of these goals while still securing sufficient collateral through purchasing maturing bonds.

In the foreign currency sector, we established annual foreign-currency ALM plans, and developed optimal annual target portfolios for each asset and business division. This allowed us to manage our foreign-currency liquidity operations in a stable manner, despite volatilities like falling oil prices, slowing economic growth in China, and interest rate hikes in the U.S.

We were able to secure preemptive and stable foreign currency liquidity and confirm differentiated investor awareness about Shinhan Bank by successfully floating USD 600 million worth of global bonds and JPY 1.2 billion worth of Samurai Bonds in 2015. We achieved this despite uncertainties, including destabilizing geopolitical factors, remaining 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.

Although a gradual recovery is anticipated this year, led by developed countries, the world economy has been unstable since the financial meltdown. Consequently, benchmark interest rate hikes by the Federal Reserve will likely be made at an easy pace, considering market situations. However greater instabilities, including a rise in unsolved geopolitical risks, additional decreases in international oil prices, and a slowing economic growth in China, will likely expand the world economy's risk of downturn.

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.

Corporate & Investment Banking (CIB)

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 Group has been committed to building stable systems, by making diverse attempts and accumulating capabilities in order to bring about qualitative improvements.

The CIB 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. Under the Group's cooperative 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 total solution services in all areas of banking and securities, based on our strong relationship with our corporate customers.

Marking its fourth anniversary in 2015, the CIB Group strategically pursued SFG's "creative asset management" based on its further stabilized collaboration system. This is a new asset management paradigm developed to increase the earnings rate of customer assets as well as the bank's assets. As a consequence, we have produced tangible results centering on the fund business. In 2016, we will continue with our efforts to secure long-term growth drivers in the CIB sector through creative asset management.

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

Even in the challenging business environment of 2015, the CIB Group focused on risk management and securing growth engines. As a result, it posted KRW 314.2 billion in earnings before taxes, in terms of financial gains.

customers' funding needs. Instead, it also assisted in improving corporate customers' financial structure by utilizing equity financing, "advanced structured finance", 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 2015, the CIB Group focused on risk management and securing growth engines. As a result, it posted KRW 314.2 billion in earnings before taxes, in terms of financial gains.

By department, the Corporate and Investment Banking Planning Office and the Corporate and Investment Banking Service Department together posted KRW 137.5 billion in earnings before taxes, while the Investment Banking Division and the Merchant Banking Department generated KRW 132.2 billion and KRW 44.5 billion respectively. Such balanced growth was more meaningful in that it was achieved through an asset rebalancing strategy of reducing high-risk assets by KRW 2 trillion and increasing low-risk assets by KRW 1 trillion. The CIB Group's total deposits surged by KRW 17 trillion to KRW 62 trillion as of the end of 2015.

We also received the grand prize in the M&A Financing category at the Korea IB Awards, and ranked first among commercial banks in the loan syndicate market for three years in a row. Our representative deal was the IB market-leading, super-scale KRW 4.3 trillion M&A arrangement for the nation's second ranking hypermarket.

In addition, we successfully launched a global RM system with a focus on the top five domestic business groups and their affiliates, in order to expand our global boundary. This led to the growth of global total loans by 16.7% and income by 2.6% over the year.

In the IB sector we created new funds, including a Global Energy Infrastructure Fund of KRW 150.0 billion and a Global Healthcare Fund of KRW 50.0 billion, to support overseas corporate expansion opportunities. As for the KRW 200.0 billion Japan Solar Fund that we established, which reflects the needs of Korean-based companies wishing to enter the Japanese photovoltaic market, we are considering including more regions in its coverage such as Miyazaki, Misasa, and Wakayama. We expect to continue creating results by using the Japanese local bank-level competitive financing capacity through Shinhan Bank Japan.

The CIB Group is continuously expanding its territory by strengthening its collaboration platforms. We also raised customer yields by offering prime-quality IB products with proven profitability and stability through collaboration with retail banking and pension business divisions in the bank. This was done by creatively utilizing our loan assets in the low interest rate market situation. For these new collaboration platforms, we established a product supply account to supply KRW 213.0 billion worth of products (including retirement pensions of KRW 113.0 billion and pension funds of KRW 100.0 billion).

We produced many different outcomes from investment and loan hybrid finance during the year. These included leading the creation of two technological value evaluation and investment funds worth KRW 140.0 billion for the purpose of investment in FinTech companies and SMEs with technologies and growth potential.

We also participated in Bull Capital China Fund 2 and IMM Rose Gold Fund 3, strategic affiliation-type indirect investments, and the Yeongnam Combined Cycle Power plant (CCPP) project and a highway private investment project. As a differentiation initiative, we created the JKL Growth Strategy Fund (worth KRW 123.5 billion) to support the growth of established companies.

Finally, we opened five Creative Finance Plaza outlets (new corporate banking platforms), including three in the Metropolitan area and two in provinces. The Plaza carried out a total of 185 collaboration deals through joint operations by the RMs of the Bank and Shinhan Investment in the eight months since its inauguration.

In addition to the above-mentioned results, we made significant achievements as an "IB Solution Provider"



within the Shinhan Financial Group.

Our keywords for 2016 are producing earnings through creativity and collaboration. The CIB Group will make diversified efforts to ensure sustainable growth with differentiated strategies amidst the industry's current low interest rate, low growth, and low margin trends, and intensified competition, by avoiding vertical growth and shifting its paradigm to efficiency-oriented vertical growth.

Second, we will pursue three key imperatives to upgrade our global platforms and produce outcomes: activate the global RM system; expand global project financing (PF) by stage; and tap into the global corporate banking market.

Our third approach will be to find new markets to lead in the IB sector. This will include participating in secondary markets, small- and medium-sized upstream and downstream projects derived from main deals, and new private sector projects such as the Build-Transfer-Operate adjusted (BTO-a) and the Build-Transfer-Operate risk sharing (BTO-rs). We will also tap the logistics center and office PF market and develop new platforms by reinforcing our R&D activities.

Fourth, we will expand the network of the Creative Finance Plaza, launched in 2015, so that we can build mid- to long-term win-win partnerships between financial institutions and companies. This will involve identifying the IB needs of established companies and SMEs that have been relatively neglected in the direct financing market, and supplying funds required for corporate growth in the form of investments, loans, and financial intermediation in a timely manner.

Finally, we will continue to provide our retail customers with stable and highly profitable products by actively utilizing our supply of IB products and the sales power of the bank's retail banking.

We have secured CIB market leadership with creative thinking thus far, and we will continue to evolve and grow in 2016 by exploring new territories, improving various applicable systems, and building a stronger organizational culture.

Institutional Banking

Institutional customers of Shinhan bank 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 2015, we were designated again as a bank for court deposits, firming up our presence in the court banking market. We also retained institutions with whom our contracts were due to expire, solidifying our core foundation in the institutional banking market.

In the military market, we are gradually increasing our market share by using strategic methods such as the development of various financial products despite being a latecomer to the marketplace. We provide a broad range of financial services for military officials, including salary transfers, installment savings, and credit loans which can be easily applied for via mobile devices. Through such differentiated strategies, we are dedicated to maintaining our leading position in the institutional banking market.

In 2016, the Institutional Banking Group will continue to perform its role as a keystone of Shinhan Bank by establishing its strategic goal to "Develop new markets and build a bank-wide value chain".

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 continue to invigorate business transactions with college students and military officers with a view to leading future markets.

We will develop a new financial ecosystem centered on institutions. While we used to focus on horizontal relations with institutions, now we are upgrading our financial systems to allow us to activate not only institution-related fund transactions, but also financial transactions with their affiliates and retail transactions with their employees.

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 office-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, in 2016, we will continue to act as the keystone of Shinhan Bank, based on our expertise, experience, and passion for our unique institutional banking operations.

Risk Management

The Risk Management Group of Shinhan Bank aims to maximize shareholder value and seek both soundness and stability by managing risks. 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 objectively analyzing and reviewing 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 actively coping with changing regulations imposed by financial authorities, 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 III 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. As for household loans, we manage risk by promoting the sale of securitized mortgage loans and increasing loans centering on prime-quality borrowers, to relieve excessive concentration on mortgage loans from a portfolio level. On an individual level, we 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 trading accounts, 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 monitors these limits and other operational situations from an independent perspective and reports to the Credit Policy Committee on a monthly basis. 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 Value at Risk (VaR) methodologies and standard methods. We can calculate the market risk with 99% accuracy by using historical simulation methods. We manage 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 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 analyze portfolio risks and hedging strategies. We also strengthen our risk management functions further by continuously elaborating our market risk measurements. 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 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

The Risk Management Group of Shinhan Bank aims to maximize shareholder value and seek both soundness and stability by managing risks. Our guiding philosophy is that our employees must find a “golden mean” between risk and profits for our continuing sustainable growth.

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 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, including liquidity ratios, 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.

In order to comply with the Basel III liquidity coverage ratio (LCR) regulations, it also calculates and manages risk at the end of every month and reports any risk to management and to the Risk Policy Committee.

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.



By using these systems, we 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 2015, we carried out validation tests on our retail and wholesale risk models, and regular validation tests in several areas, including: our retail, wholesale, and SOHO credit assessment systems; the PD/LGD/CCF calculation 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 early warning, loan loss provision, credit cost, and asset soundness risk systems.

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 SFG, the Bank, and its overseas network share a consistent risk management structure, and helping them to establish credit risk model and major risk indicator monitoring system.

To this end, we continue to upgrade our global risk management systems by streamlining their risk management organizations, establishing risk exposures, and standardizing risk management according to type. We also help our overseas subsidiaries and branches to establish and execute improvement plans for their shortcomings by monitoring their risk management conditions.

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.

Management Discussion & **Analysis**



Financial Highlights

	KRW in Billions		USD in Millions ¹⁾	
	2015	2014	2015	2014
Bank Account				
For the Year				
Total Operating Income	5,110.8	5,171.7	4,360.8	4,704.9
Operating Income	2,325.4	2,253.6	1,984.1	2,050.3
Net Income	1,489.7	1,455.2	1,271.0	1,324.3
At Year-End				
Total Assets	285,007.4	255,646.3	243,180.4	232,574.9
Total Loans	209,651.5	188,325.5	178,883.5	171,329.6
Total Deposits	212,975.2	189,639.9	181,719.4	172,525.4
Total Stockholders' Equity	20,839.4	20,476.9	17,781.0	18,628.9
Financial Ratios ²⁾				
Return on Average Assets	0.49	0.60		
Return on Average Equity	6.71	7.50		
NPL Ratio by FSS	0.80	1.03		
Net Interest Margin	1.50	1.74		
BIS Capital Adequacy Ratio	14.67%	15.43%		
(Tier 1 Capital Ratio)	12.45%	13.34%		
(Tier 2 Capital Ratio)	2.23%	2.10%		

Note1) Translated into US dollars at the rates of KRW 1099.2/USD 1 and KRW 1172.0 /USD 1 respectively--those prevailing on December 31, 2014 and December 31, 2015

Note2) Based on separate financial statements.

Overview

In 2015, Shinhan Bank retained its status as a stable and successful leading bank, despite uncertainties in the financial environment at home and abroad. The Bank maintained the industry's highest-level profitability and asset quality in its overall management.

In particular, SHB firmed up its foundations that will allow it to grow into a world-class bank, based on its global performance. More than 10% of its bank-wide earnings were achieved from its global operations. It also transformed into a representative bank in Asia by building an overseas network with 140 operations in 19 countries around the world. This was done by acquiring Bank Metro Express (BME) and Centratama Nasional Bank (CNB) in Indonesia, and by advancing into Dubai and the Philippines.

SHB was ranked first in the evaluation of banking innovation by the Financial Services Commission, and was named the best institution for small loan finance by the Financial Supervisory Service for the third consecutive year. SHB was recognized by customers as the best bank again in both direct and non-direct channels, sweeping the first rankings in customer satisfaction surveys by the top five evaluation agencies for the second straight year, while winning a triple crown in customer satisfaction index surveys in the call center category as well.

Overall, SHB's top priority was to achieve long-term shared growth with its customers and society, rather than seeking temporary expedients to resolve short-term difficulties. As a result, and like previous years, the Bank recorded stable earnings growth in 2015.

Condensed Income Statements

[KRW in Billions, Accumulated]

	FY2014	FY2015	Increase	YoY
Total Operating Income (a=b+c)	5,171.7	5,110.8	-60.8	-1.18%
Interest Income (b)	4,367.1	4,164.7	-202.4	-4.64%
Non-interest Income (c)	804.5	946.1	141.6	17.60%
General and Admin Expenses (d)	2,918.0	2,785.4	-132.6	-4.54%
Operating Income before Provisioning (e=a-d)	2,253.6	2,325.4	71.7	3.18%
Non-operating Income(f)	38.4	141.3	102.9	268.08%
Pre-provision Income (g=e+f)	2,292.0	2,466.7	174.7	7.62%
Provision for Credit Losses (h)	456.2	591.6	135.4	29.68%
Income before Taxes (i=g+h)	1,835.8	1,875.1	39.3	2.14%
Income Tax (j)	380.1	385.1	4.9	1.30%
Consolidated Net income(m=i-j)	1,455.7	1,490.0	34.3	2.36%
Net income Attributable to Controlling Interest	1,455.2	1,489.7	34.4	2.37%
Net income Attributable to Non-Controlling Interest	0.4	0.3	-0.1	-22.14%

Shinhan Bank's net income increased by 2.4% year-on-year to reach KRW 1.49 trillion at the end of 2015. By minimizing profit losses, SHB realized stable earnings despite an inevitable decrease in interest income due to a drop in net interest margins following the benchmark interest rate reductions. Household and corporate loans grew by more than 10%, while the portion of earnings by global operations exceeded 10% of bank-wide earnings.

Condensed Balance Sheets

[KRW in Billions]

	2014. 12	2015. 12	Increase	YoY
Assets	255,646.3	285,007.4	29361.1	11.49%
Currency & Due from Banks	15,860.1	16,891.4	1031.3	6.50%
Trading Assets	8,316.3	9,056.8	740.5	8.90%
Financial Assets at FVTPL	-	-	-	-
Derivative Instruments Assets	1,309.1	1,617.5	308.4	23.56%
Loans	188,325.5	209,651.5	21326.0	11.32%
Available for Sales Securites	22,363.6	24,460.6	2097.0	9.38%
Hold to Maturity Securities	8,012.1	10,105.1	2092.9	26.12%
Tangible Fixed Assets	2,036.1	1,986.5	-49.6	-2.43%
Intangible Fixed Assets	180.3	315.2	135.0	74.86%
Investment Using Equity Method	211.3	232.5	21.3	10.06%
Deferred Tax Assets	90.6	77.7	-12.8	-14.18%
Current Tax Asset	7.0	7.4	0.4	5.35%
Investment Real Estate	738.6	765.6	27.0	3.66%
Other Assets	8,190.3	9,835.9	1,645.6	20.09%
Sundry Assets	5.5	3.6	-1.8	-33.66%
Liabilities	235,169.4	264,168.1	28998.7	12.33%
Deposits	189,639.9	212,975.2	23335.3	12.31%
Trading Liabilities	428.9	463.8	34.8	8.12%
Financial Liability at FVTPL	6.1	13.5	7.4	120.04%
Derivative Instruments Liability	1,256.4	1,573.4	317.0	25.23%
Borrowings	12,802.8	12,998.5	195.7	1.53%

(KRW in Billions)

	2014. 12	2015. 12	Increase	YoY
Trading Corporate Bonds in Won	16,581.4	20,020.6	3439.1	20.74%
Allowance for Severance and Retirement Benefits	246.0	154.8	-91.2	-37.08%
Temporary Account for Ex-CHB	298.7	296.1	-2.6	-0.88%
Deferred Tax Liabilities	9.3	9.9	0.6	6.25%
Current Tax Liabilities	170.7	40.0	-130.7	-76.55%
Policy Reserves	-	-	-	-
Other Allowances	13,729.1	15,622.4	1893.3	13.79%
Sundry Liabilities	-	-	-	-
Stockholder's Equity	20,476.9	20,839.4	362.5	1.77%
Controlling Interest	20,473.6	20,830.4	356.8	1.74%
Capital Stock	7,928.1	7,928.1	-	-
Hybrid Bond	1,100.2	801.3	-299.0	-27.17%
Capital Surplus	403.2	403.2	-	-
Capital Adjustment	-0.8	-29.3	-28.5	3384.65%
Accumulated Other Comprehensive Income, Net of Taxes	237.4	-59.9	-297.3	-125.25%
Retained Earnings	10,805.6	11,787.2	981.6	9.08%
Non-controlling Interest	3.3	8.9	5.7	172.56%

Through consolidation efforts, including SHB, overseas subsidiaries, and companies subject to consolidated accounting, SHB's total bank account assets rose by 11.5% over the year to approximately KRW 285.0 trillion. This was caused by a rise in loans of KRW 21.3 trillion, which in turn was led by the growth of mortgage loans by more than 10.0% and continuously increasing 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 12%, owing to the growth of low-cost deposits.

Interest Income and Margin

(KRW in Billions, Accumulated)

	FY2014	FY2015	Increase	YoY
Interest earning assets	202,968.8	221,026.4	18057.6	8.90%
Interest Revenue	7,572.5	6,756.3	-816.2	-10.78%
Loans	6,342.2	5,664.5	-677.7	-10.69%
Securities/Others	1,230.3	1,091.9	-138.4	-11.25%
Interest bearing liabilities	185,905.9	205,634.0	19728.1	10.61%
Interest Expense	4,040.4	3,434.4	-606.0	-15.00%
Deposits	3,235.1	2,701.0	-534.1	-16.51%
Debentures/Borrowings	805.3	733.4	-71.9	-8.92%
Net Interest Income¹⁾	3,532.1	3,321.9	-210.2	-5.95%
Interest Income in Won	3,436.7	3,209.0	-227.7	-6.63%
Interest Income in FC	95.4	112.9	17.5	18.37%
Net Interest Spread in Won	1.86%	1.65%	-0.21%	-11.33%
Average Lending Rate	4.05%	3.31%	-0.74%	-18.17%
Average Deposit Rate	2.18%	1.66%	-0.52%	-23.63%
Net Interest Margin	1.74%	1.50%	-0.24%	-13.62%
NIM in Won	1.85%	1.60%	-0.25%	-13.75%
NIM in FC	0.56%	0.57%	0.01%	1.22%

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 decreased by 4.6% over the year to KRW 4.16 trillion.

Although it was certain that interest income would decrease due to a drop in net interest margins (NIMs) following the benchmark interest rate reductions, SHB managed to realize stable interest income by minimizing profit losses through the steady growth of household and corporate loans.

NIMs decreased by 24 basis points over the year due to sharp market interest rates declines in the wake of benchmark interest rate cuts on two occasions during the first half of 2015. SHB was able to prepare for the falling interest income, however, due to the growth of SME loans with relatively higher profitability and a rise in liquid key deposits (low-cost deposits).

SHB plans to continue its efforts to prepare against the falling NIMs and improve interest income. This will be done by improving operating profit margins through the proper growth of quality loans and by managing funding costs, including a continuous rise in liquid key deposits.

G&A Expenses

(KRW in Billions, Accumulated)

	FY2014	FY2015	Increase	YoY
Employee Benefits	1,734.9	1,659.6	-75.3	-4.34%
Salaries & Employee Benefits	1,527.0	1,472.9	-54.1	-3.54%
Termination Benefits	106.2	59.5	-46.7	-43.94%
Provision for Current Year Severance and Retirement Benefits	101.7	127.2	25.4	24.99%
Depreciation	202.9	165.4	-37.6	-18.51%
Other General and Administrative Expenses	980.1	960.4	-19.7	-2.01%
Occupancy, Furniture & Equipment Expenses	897.9	882.2	-15.7	-1.75%
Taxes	82.2	78.3	-4.0	-4.83%
G&A Expenses	2,918.0	2,785.4	-132.6	-4.54%

G&A expenses dropped by 4.5% over the year to KRW 2.79 trillion. This reflected SHB's steady efforts to achieve cost savings, as well as decreases in voluntary retirement expenses, and performance-related and other compensation payment. The cost income ratio of SFG and SHB stood at 52.7% and 54.5% respectively, following the effective management of G&A expenses.

Summary of Loans and Deposits

(KRW in Billions)

	2014. 12	2015. 12	Increase	YoY
Loans				
Bank Account	179,606.3	199,077.6	19471.3	10.84%
Loans in Won	160,024.9	176,810.0	16785.1	10.49%
Retail	78,577.4	88,084.8	9507.4	12.10%
Mortgage	47,556.3	52,054.2	4497.9	9.46%
Others	31,021.0	36,030.6	5009.5	16.15%
Corporate	81,447.5	88,725.2	7277.7	8.94%
SME	59,889.4	67,336.3	7446.9	12.43%
(SOHO)	30,469.4	34,223.0	3753.6	12.32%
Large Corp. & Public	21,558.1	21,388.9	-169.2	-0.78%
Loans in FC	6,955.9	8,114.4	1158.5	16.65%
Bills Bought in FC	4,558.5	5,519.0	960.4	21.07%
Call Loans, RPs	5,018.2	5,971.4	953.1	18.99%
Others	4,483.3	4,006.1	-477.2	-10.64%
Loan Loss Allowance(Δ)	1,434.6	1,343.2	-91.4	-6.37%
Trust Account	433.7	454.3	20.6	4.75%
Merchant A/C and Other Consolidating Entities	8,285.5	10,119.6	1834.1	22.14%
Total Loans (Consolidated)	188,325.5	209,651.5	21326.0	11.32%
Loan to Deposit Ratio ¹⁾	97.1%	98.8%	1.7%	1.75%

Note1) Based on monthly average balance, excluding CDs

(KRW in Billions)

	2014. 12	2015. 12	Increase	YoY
Deposits				
Bank Account	172,049.5	193,377.4	21327.9	12.40%
Low Cost Deposits	62,012.9	74,325.1	12312.1	19.85%
Demand	18,755.2	21,858.4	3103.2	16.55%
Low Cost Saving	43,257.7	52,466.7	9208.9	21.29%
Time Deposits	92,519.1	97,940.0	5420.8	5.86%
Installment Deposits	8,789.9	8,500.8	-289.0	-3.29%
CDs	1,872.9	4,072.7	2199.8	117.46%
RPs & Bills Sold	377.8	391.2	13.4	3.54%
Deposits in FC	6,476.9	8,147.8	1670.8	25.80%
Trust Account	19,590.7	24,092.9	4502.2	22.98%
Merchant A/C and Other Consolidating Entities	-2,000.3	-4,495.2	-2494.9	124.72%
Total Deposits	189,639.9	212,975.2	23335.3	12.31%
Deposits in FC	3.8%	4.2%	0.4%	11.92%

SHB's deposits swelled by KRW 23.3 trillion or 12.3% from the previous year, as the preference for risk-free assets continued following intensifying global volatility. Deposits continue to grow, centering on liquid key deposits behind the expanded market liquidity, and this contributes significantly to SHB protecting itself against falling NIMs through the stable funding cost management. Total loans grew by KRW 21.3 trillion, while achieving balanced growth in corporate and household loans.

Asset Quality

(KRW in Billions)

	2014. 12	2015. 12	Increase	YoY
Total Asset				
Normal	182,862.6	199,533.8	16671.2	9.12%
Precautionary	1,181.2	854.6	-326.6	-27.65%
Substandard	995.3	849.9	-145.3	-14.60%
Doubtful	215.2	452.5	237.3	110.25%
Estimated Loss	711.8	312.4	-399.4	-56.12%
Total	185,966.1	202,003.2	16037.1	8.62%
Bad Loan Ratio	0.50%	0.38%	-0.1	-24.04%
Substandard & Below ratio	1.03%	0.80%	-0.2	-22.66%
Precautionary & Below ratio	1.67%	1.22%	-0.4	-26.75%
Allowance + Reserve	2,963.3	2,789.8	-173.5	-5.86%
Allowance	1,442.3	1,348.1	-94.2	-6.53%
Reserve	1,521.0	1,441.7	-79.3	-5.22%
Coverage Ratio Against				
Bad Loan	155.58%	176.25%	20.67%	13.29%
Substandard & Below	154.16%	172.76%	18.60%	12.07%
Precautionary & Below	95.48%	112.97%	17.49%	18.32%

The ratio of non-performing loans to total loans decreased by 0.23% points over the year to 0.80%. This marked the lowest level since 2010, proving SHB's differentiated risk management abilities once again. The delinquency ratio stood at 0.33%, the lowest ever recorded. The NPL coverage ratio was also maintained at a satisfactory level of 154.0%. Substandard and below loans declined by KRW 307.5 billion, while precautionary and below loans went down by KRW 326.6 billion.

Delinquency Ratio by Sector

(KRW in Billions)

	2014. 12	2015. 12	Increase	YoY
Total Loans	174,575.8	191,559.1	16983.3	9.73%
Retail	78,946.0	88,431.6	9485.6	12.02%
(Mortgage)	53,986.5	60,424.5	6438.1	11.93%
Corporate	95,629.9	103,127.6	7497.7	7.84%
SME	62,581.6	70,382.4	7800.8	12.46%
(SOHO)	30,910.9	34,634.9	3724.0	12.05%
Large Corp.	33,048.3	32,745.2	-303.1	-0.92%
Total Delinquent Loans¹⁾	543.7	639.7	96.1	17.67%
Retail	184.0	166.1	-17.8	-9.70%
(Mortgage)	93.1	66.2	-26.8	-28.83%
Corporate	359.7	473.6	113.9	31.66%
SME	331.8	289.2	-42.6	-12.83%
(SOHO)	115.2	97.6	-17.6	-15.30%
Large Corp.	28.0	184.4	156.5	559.69%
Delinquency Ratio_Total Loan¹⁾	0.31%	0.33%	0.02%	7.24%
Retail	0.23%	0.19%	-0.04%	-19.38%
(Mortgage)	0.17%	0.11%	-0.06%	-36.41%
Corporate	0.38%	0.46%	0.08%	22.09%
SME	0.53%	0.41%	-0.12%	-22.49%
(SOHO)	0.37%	0.28%	-0.09%	-24.41%
Large Corp.	0.08%	0.56%	0.48%	565.80%

Note 1) Principal or interest delinquent for 1 month and over

Delinquency rates for household loans and small- and medium-sized enterprise (SME) loans were maintained at 0.19% and 0.41% respectively, the industry's lowest levels. This was attributable to SHB's steady efforts to manage problematic business types and the continued normalization of companies under workout programs.

Delinquency Ratio by Industry(SME)¹⁾

(KRW in Billions)

	2014. 12	2015. 12	Increase	YoY
Manufacturing	0.41%	0.42%	0.01%	2.61%
Constructions	0.63%	0.61%	-0.02%	-2.61%
Wholesales & Retails	0.34%	0.56%	0.22%	62.17%
Accommodation & Restaurants	0.43%	0.79%	0.36%	83.88%
Trans and Storage	0.23%	0.34%	0.11%	43.61%
Telecommunication	0.16%	0.38%	0.22%	141.20%
Finance and Insurance	0.00%	0.12%	0.12%	6118.79%
Real estate/ Rent	1.02%	0.36%	-0.66%	-64.58%
Science and Technology	0.13%	0.13%	-	0.63%
Educational Service	0.43%	0.54%	0.11%	25.97%
Health and Social benefits	0.19%	0.08%	-0.11%	-57.50%
Entertainments and Sports	0.99%	0.14%	-0.85%	-86.16%
Others	0.30%	0.31%	0.01%	2.90%
SME Total	0.53%	0.41%	-0.12%	-22.49%

Note 1) Principal or interest delinquent for 1 month and over

Capital Adequacy

(KRW in Billions)

	2014. 12	2015. 12(e)	Increase	YoY
Tier I Capital	18,101.8	18,106.0	4.2	0.02%
Common Equity Tier I	16,999.5	17,300.3	300.8	1.77%
Paid in Capital	7,928.1	7,928.1	-	-
Capital Surplus	403.2	403.2	-	-
Retained Earnings	9,061.5	10,022.4	960.9	10.60%
Others	237.2	-87.9	-325.1	-137.08%
Deductions(-)	630.4	965.3	335.0	53.14%
Additional Tier I	1,102.3	805.7	-296.5	-26.90%
Tier II Capital	2,845.6	3,240.6	395.0	13.88%
Total BIS Capital	20,947.4	21,346.6	399.2	1.91%
RWA	135,714.8	145,478.0	9763.2	7.19%
Credit Risk-Weighted Assets	121,328.8	125,947.0	4,618.2	3.81%
Market Risk-Weighted Assets	5,178.3	5,573.7	395.4	7.64%
Operation Risk-Weighted Assets	9,207.7	9,152.9	-54.8	-0.60%
BIS Capital Adequacy Ratio	15.43%	14.67%	-0.76%	-4.90%
Tier I	13.34%	12.45%	-0.89%	-6.69%
Common Equity Tier I	12.53%	11.89%	-0.64%	-5.06%
Tier II	2.10%	2.23%	0.13%	6.24%

Note) Applied the Basel III capital requirements in December 2013

The Basel III-based BIS ratio stood at 14.7% at the end of 2015, falling by 0.7% points from the previous year. Common stocks were maintained at a stable level, decreasing by 0.6% points to 11.9%. Retained earnings increased due to the realization of stable earnings. Capital ratios edged down marginally, caused by a relatively significant rise in risk-weighted assets following the growth of assets. SHB plans to maintain proper capital ratios through effective risk asset management and by continuously realizing profits.

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CORPORATE DATA (As of December 31, 2015)

- **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 : 899 branches and offices
- Overseas: 140 outlets in 19 countries
(10 overseas branches, 11 local subsidiaries, 3 representative offices)

- **Number of Customers:**

24,102,636

- **Number of Employees:**

17,883

- **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%)

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



SHINHAN BANK

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