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# DRAWING A SUSTAINABLE FUTURE

SHINHAN FINANCIAL GROUP CSR REPORT 2017

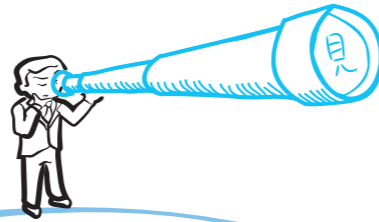


## 'Different Approaches to Finance, Benefiting the World'

### Shinhan Financial Group's promise for a sustainable future

#### Cover Story

The cover page of the Shinhan Financial Group CSR Report 2017 displays the prize-winning photo of Park Dong-chul, a winner of the 24th Shinhan 'Natural Environmental Photography Contest' which was launched by Shinhan Bank in 1994 to advocate the importance of protecting the nature and environment. The contest has gained renown as Korea's largest environmental photography contest.



Shinhan Financial Group has continued to pioneer a new path for the Korean financial industry. In 2001, we established the first private financial holding company in Korea and succeeded in enlargement and diversification. We have become Korea's leading financial group based on our balanced business portfolio between banking and non-banking businesses. 'Compassionate Finance, Your Companion for the Future' is our mission representing a virtuous cycle of shared prosperity where the value of 'customers', 'Shinhan', and the 'society' increases together. Based on the mission, we are pushing ahead with Creating Shared Value (CSV) management initiatives that satisfy both corporate economic value and social community value through our core business of financing.






We strive to strengthen inclusive and productive financial support for the working-class and SMEs to be their reliable partner, practice responsible financing activities by ensuring environmental and social sustainability in our support projects and engage in leading and responsible management by contributing to the vitalization of green finance investing in the renewable energy and environment sectors.

We will continue to spread compassionate hope for mutual growth and shared prosperity through creative finance as we lead the paradigm of the future.

#### INTERACTIVE USER GUIDE

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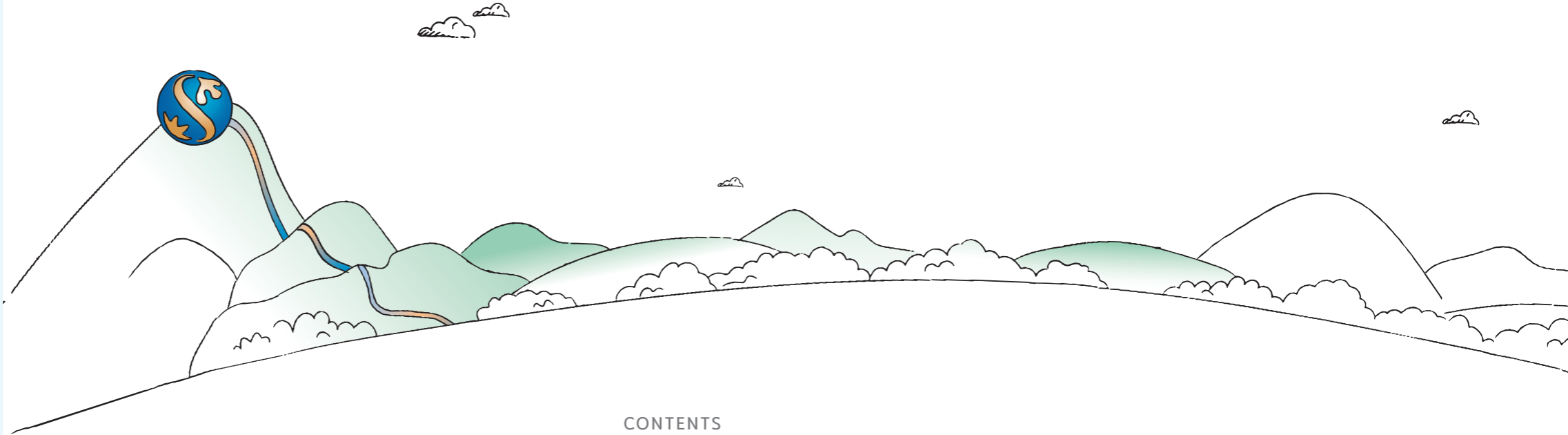
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# ESG Competencies

Shinhan Financial Group has continuously made efforts to fulfill its responsibility as a corporate citizen as it grew together with local society since its early founding days. We have engaged in sustainable management activities and made achievements in terms of stable governance, a systematic management succession program, expansion of financial support for socially marginalized groups and SMEs, and participation in various renewable energy markets both at home and abroad such as solar power, turbine power, etc. Our efforts have been highly recognized by investors who pursue a long-term value creation and ESG rating agencies.

## Governance

In order to protect the interests of its shareholders, financial service consumers and other stakeholders and promote long-term development, Shinhan Financial Group is equipped with a corporate governance structure that reflects both its growth history and organizational culture while securing independence, expertise, and transparency.

### Independence

Operations of the Board of Directors, as the group's permanent supreme decision-making organ, are centered around its independents, one of whom also presides over the board meetings in accordance with a provision enacted in March 2010, to enhance the independence of the board and help it effectively keep tabs on management. The term of independent directors is less than 2 years and their reappointments are allowed, but the total term is limited not to exceed 6 years as stated in the Act on Corporate Governance of Financial Companies.

#Awarded an S rating for corporate governance in KCGS' ESG assessment (a first among listed companies)

#83% share of independent directors in the BOD

#All members of Audit Committee and Remuneration Committee are from independent directors

### Diversity and Expertise

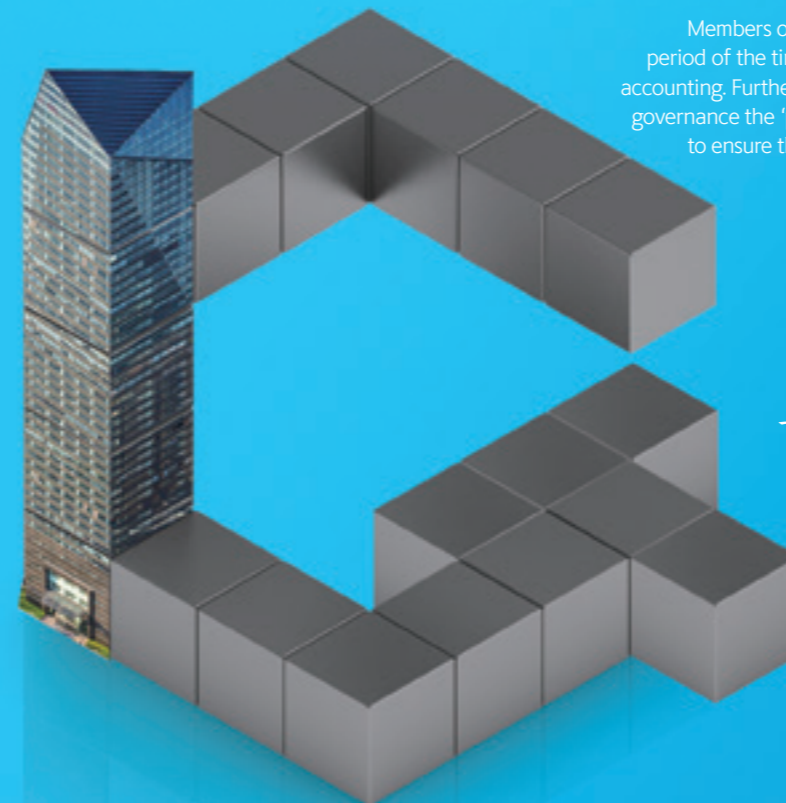
Members of the Board of Directors are individuals that have served a certain period of the time in the five sectors of finance, management, economy, law, and accounting. Furthermore, we have specified in our internal regulations on corporate governance the 'principle of diversity' in the composition of the Board of Directors to ensure that the board members do not unfairly represent certain interests.

#The Board manages 8 sub-committees in total  
#Appointed a female board chair for the first time among financial companies (\*10)

### Transparency and Protection of Shareholders Rights

We disclose to all our stakeholders any information related to our corporate governance by publishing an annual report on corporate governance and releasing it on our website. Also, we have made concerted efforts to enhance shareholder value by operating a cumulative voting scheme designed to protect our minority shareholders along with a system that allows shareholders to exercise their voting rights in writing at general shareholders meetings.

#System to promote the exercise of shareholder voting rights  
#Disclosure of Corporate Governance Charter



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# ESG Competencies

## Digital

We are making efforts to enhance the efficiency of our operational processes by utilizing digital technologies while providing differentiated customer experiences based on innovation in our service channels and strengthening the competitiveness of digitally specialized products and services. In conjunction with these developments, we strive to upgrade our overall information protection compliance system to improve IT infrastructure stability and the data protection level of the financial industry along with the rapid development of ICT.

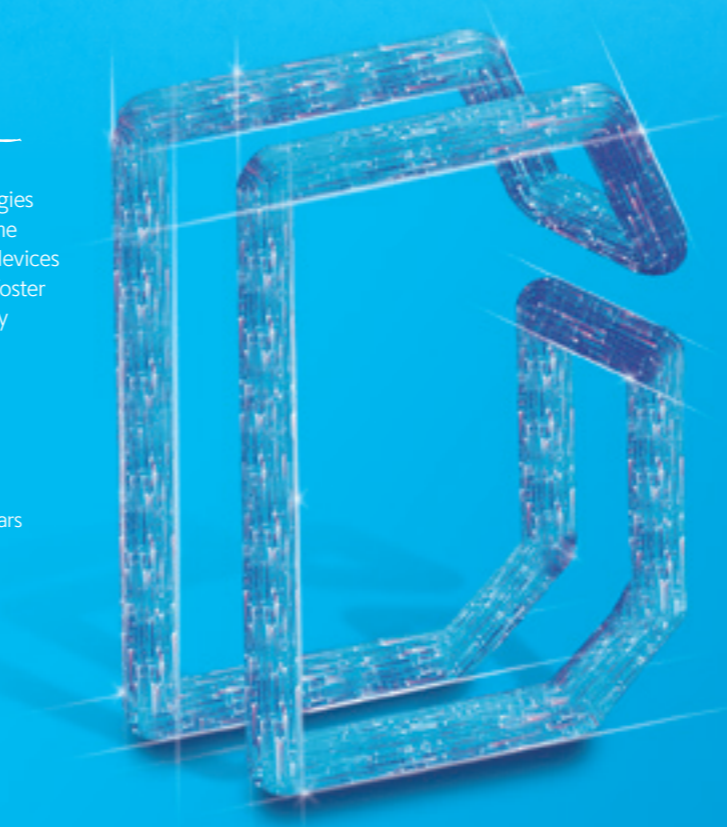
### Acceleration of Digital Transformation

We are committed to improving the efficiency of our operational process and automating such processes by utilizing digital technologies as transactions through the Internet or mobile channels have become commonplace and business activities towards customers via smart devices have picked up pace. We are also deploying a digital ecosystem to foster promising start-ups through mutual collaboration, while strategically responding to disruptive digital business models in the market.

#Installing 130 digital counters providing deposits, loans, and currency exchange services

#Cooperated with 61 startups and established 21 biz models through Shinhan Future's Lab

#Plan to transform 1,000 SFG employees into digital professionals in 3 years



### Information Security in the Digital Era

Artificial intelligence (AI), Big Data, and cloud computing are actively studied and the importance of data security is increasing along with rapid digital transformation. We are preparing for the safety in the digital era by holding meetings with outside experts to discuss future threats and information security issues and review our preparedness and by conducting security checks carried out by security specialists.

#Operation of the SHG data protection compliance system (since '14)

#771 data protection checklists in 16 domains in total

#Provided data protection training for SHG employees and business partners for 158,060 hours



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# ESG Competencies

## Inclusive, Productive Financial Support

We implement the 'Society of Hope Project' for financing support for low-income groups and for the growth of SMEs, expand products and services to relieve financial and interest burdens of the working class, and actively provide substantial financial support for SMEs to grow further by creating a virtuous circle of startup, growth, and job creation, with the aim of driving the income of our economy and realizing the social value of innovative growth.

### Financing Support for the Working Class

Shinhan Bank was listed as No. 1 in the banking sector in terms of cumulative amounts lent through the New Hope Spore Loan and Mid-interest Rate Loan for the Working Class. We have 50 branches, which is the largest number among banks in the market, provide dedicated call centers and the 'Credit Loan 119 Program' which is meant for debt adjustment for financing support for the working class.

#KRW 2.6387 Trillion lent through the New Hope Spore Loan (cumulative)  
 #Product purchases, donations, and loans for social enterprises



### Society of Hope Project

In December 2017, Shinhan Financial Group decided to implement the 'Society of Hope Project' designed to intensively inject its resources to support the income-earning activities of disadvantaged groups and the growth of SMEs. The project supports customers with low credit ratings, women experiencing career disruption, restoration of families in crisis, youth overseas employment, urban regeneration projects of local governments, and provide trainings for the youth in preparation of the fourth industrial revolution to realize shared values encompassing local communities and vulnerable social groups along with efforts to nurture the social economy.

#Plan to inject KRW 270 billion in 3 years by 2020  
 #Support about 330,000 local residents and disadvantaged people

### Support for Venture Businesses and Innovative Companies

We strive to foster global hidden champions with technical prowess in the startup stage by utilizing technological finance support and providing consulting services related to intellectual property. We also support temporarily distressed SMEs to stabilize their business, establish joint platforms with the government and public institutions to strengthen our support for the growth of the industries of the future.

#Net increase of KRW 3.7 trillion won in loans for SMEs (No. 1 among commercial banks)  
 #No. of SME clients increased to 4,144  
 #Provision of 167 consulting services to SMEs according to their development stage

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# ESG Competencies

## Risk Management on Environmental & Social Aspects

We thoroughly assess the environmental and social impacts of financial support as a part of strategic directions to respond to industrial and technological changes along with social and environmental demands, discover new markets, and readjust our portfolios and implement an environmental and social risk management system by conducting reviews in compliance with global standards for large-scale Project Financing (PF).

### Management of Risky Areas in Environmental and Social Performance

We selected 12 risky areas of environmental and social issues including global warming, fine dust, biodiversity, industrial safety and health, etc. based on the International Finance Corporation (IFC) guidance to manage the group's exposure to those areas. We also conduct monitoring with various perspectives such as industrial and technical changes and regulatory trends caused by environmental and social issues and exclude or provide optional financing support for projects engaging in areas with huge environmental and social impact.

#Environmental and social issues – destruction of ecosystems, air, water, and marine pollution, child labor, health, migration of indigenous people, mass destruction, and hazardous substances



### Environmental and Social Reviews

As for project financing with a huge impact on the environment and society, we conduct a series of reviews such as target selection, risk level classification, environmental and social impact assessment based on the Equator Principles to evaluate environmental and social risks of the project and manage such risks by adding mitigation options to the contract terms.

#Preliminary review->classification->environmental and social impact assessment->follow-up management process

#Management of environmental destruction and human rights violation to conduct PF



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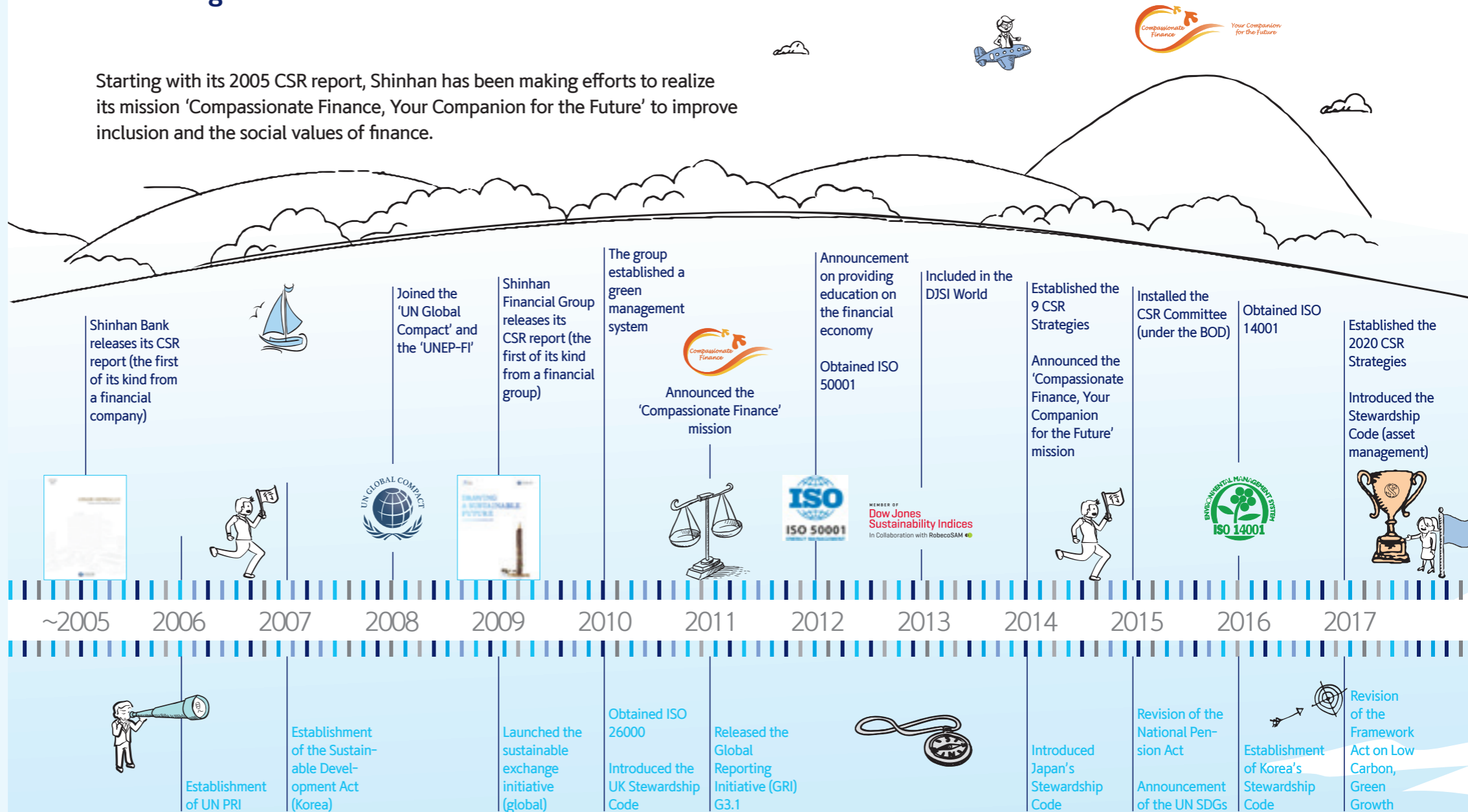
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# CSR Management Track Record

Starting with its 2005 CSR report, Shinhan has been making efforts to realize its mission 'Compassionate Finance, Your Companion for the Future' to improve inclusion and the social values of finance.



## CEO Message

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Ever since the company was established in 1982 to uphold its founding mission to 'Benefit the world through the power of finance' with novel thinking, Shinhan has continued to pioneer a new path for the Korean financial industry through innovations and changes in unconventional ways.

We have established various industry leading standards such as the management principles of customer satisfaction, internet banking services, unmanned branches, Retail Revolution, and others and continued to grow in both quantity and quality since the establishment of the first private financial holding company in Korea in 2001 based on its excellent risk management competency. Today, we successfully solidified our status as Korea's leading financial group.

In 2017, when a new era of volatility, uncertainty, complexity and ambiguity (VUCA) fully unfolds, we continued our efforts to leap forward as Asia's leading financial group implementing the "2020 SMART Project".

Furthermore, we successfully deployed solid and harmonious foundations for growth to maximize the group's value as the establishment of its 13th subsidiary Shinhan REITs Management, expansion of its matrix system for major group business lines including Group & Global Investment Banking (GIB), Shinhan Wealth Management (WM), and Global Markets & Securities (GMS) Business Divisions, and development of the One Shinhan Strategy which is an implementation system of sharing its group resources as if it were one united company.

We have accelerated the implementation of glocalization strategies such as acquisition of the

retail division of ANZ Bank in Vietnam, acquisition of overseas subsidiary in Mexico, and introduction of a "Country Head system" to promote stable localization and advancement into global markets at the same time and to create synergies across the world.

Meanwhile, we have established a foothold for digital transformation by developing the group-wide digital response system and partnering with leading ICT companies at home and abroad to create a financial ecosystem.

In order to continue Shinhan culture's creativity and its advancement, we worked hard to help our employees maintain a healthy work-life balance. We also sought to nurture future talents by expanding the Smart Work System to the entire group, operating in-house venture programs, and developing the Shinhan system for fostering management leaders.

In particular, all executives and employees of Shihan Financial Group were committed to practicing its 'Compassionate Finance, Your Companion for the Future' mission to increase the value of 'customers', 'Shinhan', and the 'society' together. Along with efforts for compassionate finance to provide inclusive and productive financial support for the working class and self-employed persons, and SMEs, we closely cooperated with government agencies to play a leading role in reinvigorating green finance and green management.

Our efforts to be a responsible corporate citizen has been widely accepted by the public. Shinhan Financial Group was listed among the '100 Most Sustainable Global Corporations' of the Davos



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Forum for 6 consecutive years, included in the DJSI World for 5 consecutive years, and selected for the Carbon Management Honors Club of CDP Korea in the 4 consecutive years, and awarded an S rating in the corporate governance assessment by the Korea Corporate Governance Service (KCGS) of the Korea Exchange.

We have been able to achieve such outstanding management performance and bring meaningful results socially responsible management practices through compassionate finance because of the solid trust and support from our customers, shareholders, and various stakeholders. I would like to take this opportunity to thank you on behalf of the executives and employees of Shinhan Financial Group.

The financial industry is experiencing unprecedented changes with the emergence of the fourth industrial revolution represented by hyper-connectivity and hyper-intelligence. Previous methods for success have now become outdated, so it is the time for us to set higher goals and embark on new creative challenges to wisely overcome the current business environment.

To that end, we adopted a 'Higher Vision, Innovative Shinhan!' as our management slogan of this year. Centering on the 2020 SMART Project, we will speed up the implementation of key tasks with a higher vision so that our efforts will bring substantial results, while pursuing last year's strategies established under the motto 'add speed to the creativity' consistently.

We will diversify our strategies for future growth to secure business opportunities in advance, increase the group-wide Glocalization activities based on various strategies for advancing into overseas markets. Also, we will accelerate Digital Transformation at the level of the entire group and provide a differentiated customer experience through integrated group platforms. We plan to upgrade our proven risk management competency in order to establish a solid crisis management system.

First and foremost, we will implement the 'Society of Hope Project' to make a positive impact on our society through our core business of financing and create a virtuous circle of shared prosperity along with

all stakeholders. We plan to inject KRW 270 billion by 2020 to engage in various and practical activities of the project including support for the recovery of customers with low credit ratings, employment of women experiencing career disruption, establishment of after-school child care centers for elementary students, urban regeneration projects of local governments, and trainings for the youth in preparation of the fourth industrial revolution and to actively support economic independence of low-income and socially marginalized groups and new challenges of venture businesses and startup owners.

We have a proud history of pioneering a new path for the Korean financial industry. We urge you to continue to trust and support Shinhan in the future. We will work harder to be a responsible corporate citizen that grows and develops together with our society through creative finance to lead the paradigm of the future. We look forward to your continued interest and support.

Thank you.

Chairman & CEO of Shinhan Financial Group **Cho Yong-byung**



A Shinhan Bank event that was hosted to encourage new employees

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## 2020 CSR Roadmap

### 2020 CSR Strategies for Compassionate Finance

Shinhan Financial Group established the 2020 CSR Strategies to fulfil corporate social responsibilities based on its 'Compassionate Finance, Your Companion for the Future' mission. The 2020 CSR Strategies set a new direction for 'Responsible growth,' 'Social partnerships,' and 'Investments for the future' (The Three Pillars) and suggests the Six Strategical Directions (Commitments) with the aim of creating a virtuous circle of benefitting the world.





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Shinhan Financial Group increases the value experienced by various stakeholders and contributes to the sustainability of the entire society by implementing customer-centered 2020 CSR strategies. In 2017, we have achieved outstanding corporate social responsibility records based on its Six Strategic Directions. We plan to make further efforts for the balanced development of each sector by 2020.



Customer Value
<ul style="list-style-type: none"> <li>- Enhance customer satisfaction and trust by reflecting diversified customer demands</li> <li>- Innovate customer experiences with sophisticated technologies and a digital environment</li> <li>- Improvement of financial understanding via financial economic education</li> <li>- Protect customer information and data by building a fair and secure system</li> </ul>

Shinhan Value
<ul style="list-style-type: none"> <li>- Expand the individual/corporate customer basis from a long-term perspective</li> <li>- Secure differentiated human resources through talent nurturing programs</li> <li>- Improving employees' quality of life by establishing the smart work system</li> <li>- Secure a new growth engine by expanding a creative and open culture</li> </ul>

Society Value
<ul style="list-style-type: none"> <li>- Contribute to social innovation and job stability by creating a startup ecosystem</li> <li>- Assist the economic independence of financially disadvantaged groups by expanding financing support</li> <li>- Contribute to the capital reallocation based on eco-friendly products and ESG investment</li> <li>- Mitigate environmental impact by reducing GHG emissions and managing energy use</li> </ul>

## Major Achievements of 2017 CSR Strategic Goals

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◆ : Achieved (+3% compared to target) / ■ : Achieved (+1~3% compared to target) / ▣ : In progress (-1~3% compared to target)

	Strategic Indicators	Unit	2017 Goal	2017 Result	Progress	Key Performances	4-Year Achievement Plan
Responsible Growth	① Customer satisfaction score	Points	93.6	93.8	■	- On-site education to enhance the CS competency of branches and complete sale monitoring - Improve convenience in using mobile channels	Customer satisfaction increases by more than 0.2 point per year
	② Subscription rate of digital financing services	%	65	66.8	■	- Expansion of online product lineups - Enhancement of easy mobile banking services including one-click service, biometric authentication, etc.	Share of digital channel customers increased by 72.2%
	③ Number of participants in financial economic education	thousand people	635	638	■	- Provide the remote video career mentoring program for the first time among financial institutions - One company-one school partnering and expansion of financial economic education for retirees and university students	Number of participants in financial economic education reached 1 million (accumulated during the period of '12~'20)
	④-1 Ethical compliance training completion rate	%	98	98	■	- Provide ethical compliance cyber lectures to employees of all group companies	98% of employees completed compliance training and signed the ethical practice oath
	④-2 Rate of signing the Ethical Practice Oath	%	98	99	■	- Distribute the Compliance Letter to employees of all group companies	
Social Partnerships	⑤ Financing support for the working group	KRW trillion	1.47	1.89	◆	- Hold a contest to accept stories from applicants who have received the New Hope Spore Loan and publish their stories - Systemize on/offline processes of the Shinhan Hug Loan Linked Service	Financing support of KRW 6.3 trillion for the working group
	⑥ Support the creation of the startup ecosystem	KRW trillion	+1.6	+4.4	◆	- Technological finance support, corporate loans to SMEs and venture companies to start their business	Financing support of KRW 6.6 trillion for SMEs and venture companies
	⑦ Share of female managers	%	22.5	22.7	■	- Support for female leadership and talented women career development	Share of female manager gradually increases to 24%
	⑧ Participation rate of the smart work system	%	50	71.7	◆	- Group-wide implementation of the Smart Work System (as of Sept. '17)	Over 65% of employees participated in the program
	⑨ Loans and investment in eco-friendly industries	KRW trillion	0.46	0.73	◆	- Shinhan Bank-Environment Ministry-Environmental Industry and Technology Institute signed on 'agreement on the vitalization of green financing' - Support IPO listing, corporate bond issuance, and investment for manufacturers related to the eco-friendly energy sector	Injected KRW 1.3 trillion to support the eco-friendly industry
Investments for the Future	⑩ GHG emissions	tCO <sub>2</sub> eq	98,273	97,630	■	- Set the GHG reduction target for large buildings (10.6% reduction from the base year ('10~'12) - Hold quarterly working councils on environment/energy management and monitoring of GHG emissions	Plan to reduce GHG emissions by 4.5% by 2030 (base year: '16)



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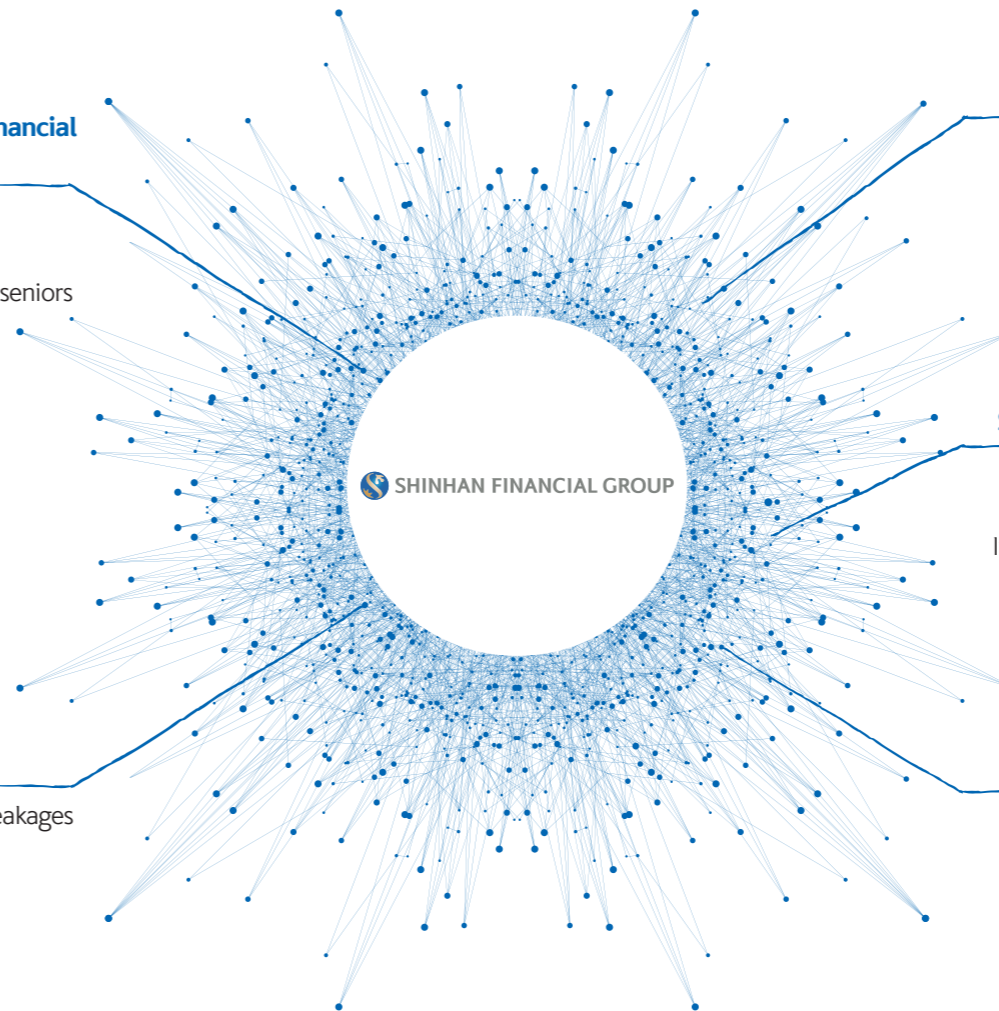
The fourth industrial revolution led by digital transformation is characterized by ICT development and rapid digitalization, urging the financial industry to play new roles. Hence, the multifaceted roles of inclusive finance that can drive sustainable growth of the society as a whole are increasingly important. Shinhan is leading such efforts to create new financial markets and an innovative financial ecosystem by implementing its 2020 CSR strategies.

**Demands for social responsibility of the financial service industry**

- Support for and strategic partnerships with ICT businesses based on its policy
- Respond to the need of convenient services for seniors and marginalized groups
- Secure an institutional safety net for socially marginalized groups
- Introduce the stewardship code led by the national pension plan

**Digital Transformation**

- Increase in security incidents and information leakages
- Emergence of Big data and AI-based platforms



**Strengthened movement for financial consumer protection**

- Increase of responsible consumers and their actions
- Reinforced regulations related to incomplete sales and unfair trading practices

**Strive for the work-life balance of employees**

- Employees' demands for human rights in the workplace and enhanced quality of life
- Introduce the smart office system by utilizing digital technologies

**Increasing public awareness on environmental mitigation**

- Replacing paper reports with e-documents
- Demands for GHG emissions management

# Materiality Assessment

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Shinhan Financial Group has been conducting materiality assessments and identifying critical issues from the aspects of customers, Shinhan, and the society based on the Five Part Materiality Test of the AA1000SES (Stakeholder Engagement Standards) along with the definition of Materiality in the guidelines of the Global Reporting Initiative (GRI) Standards. We have continued to improve our evaluation system by considering the 2020 CSR strategies and strategical directions, which are newly adopted in 2017, and impacts on stakeholders comprehensively.



**1 Determination of the issue pool**

- Analyze the practices of Korean companies in the same field and the world's leading companies
- Refer to companies in other industries with high scores in external assessments including DJSI
- Internal review on last year's core agendas

**2 Materiality assessment methodology**

- Analysis on economic, social, and environmental impacts
  - \*Global external assessment and CSR guidelines
  - \*Strategic connectivity (KPIs)
- Stakeholder impact
  - \*Key issues
  - \*Media research

**3 Reflection of strategies, trends, and stakeholder opinions**

- Reflect detailed implementation tasks and objectives in consideration of the group's strategical directions and guidelines
- Identify major trends related to the financial industry: social responsibility of financial companies, digital finance, etc.
- Identify stakeholder expectations



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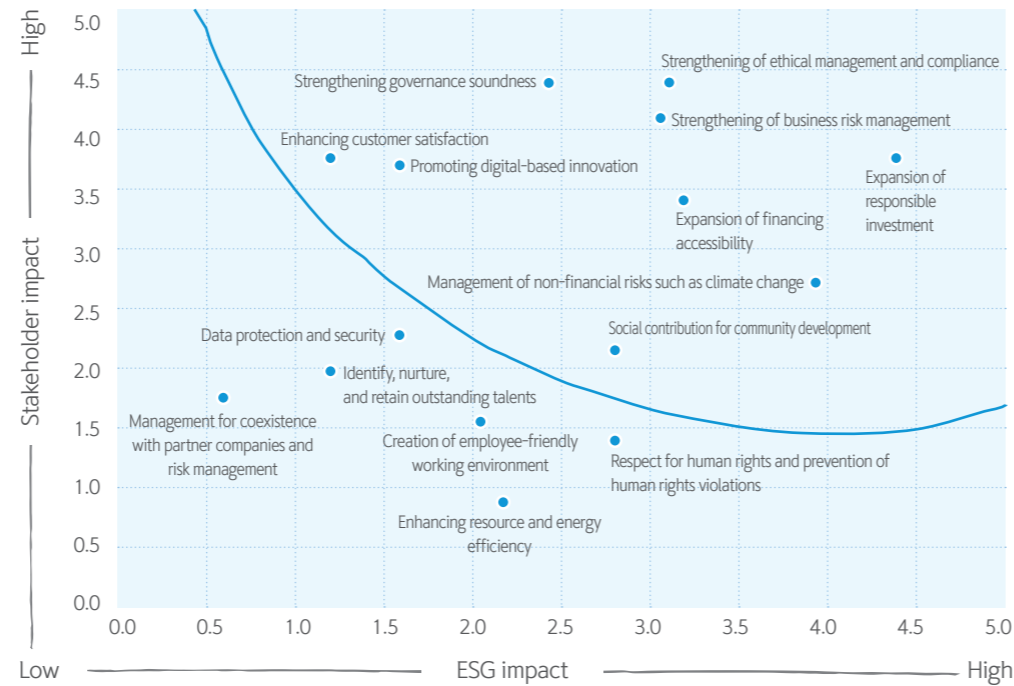
The materiality assessment was performed and 9 core issues were derived and reported in line with the 2020 CSR strategies as a result. We report mid/long term and potential issues altogether to enhance our sustainability activities.

**4 Materiality assessment matrix**

- Conduct the assessment based on stakeholder impact, and economic, social, and environmental impacts
- Identified 9 core issues and 4 mid/long term and potential issues
- Assessed the impact of Shinhan's business activities on the economy, society, and environment as well as stakeholders' decisions

**5 Core issues and mapping of the 2020 CSR strategies**

- Main objectives, performance, and KPIs of core issues are reported in line with the 2020 CSR strategies
- Related pages: See pages 12~14



Strategy	Core agenda	Mid to long/potential issues
Provide solutions to increase customer value	- Strengthening of business risk management - Promoting digital-based innovation - Enhancing customer satisfaction	
Fair and Ethical Business	- Strengthening of ethical management and compliance - Strengthening the soundness of corporate governance	Data protection and security
Improvement of Financial Inclusion	- Expansion of financing accessibility	Respect for human rights and prevention of human rights violations
Establishment of a Creative and Open Culture		Creation of an employee-friendly working environment
Realization of Positive Social Responsibility	- Expansion of responsible investment - Social contribution for community development	Enhancing resource and energy efficiency
Risk Management Considering the Environment and Society	- Management of non-financial risks such as climate change	

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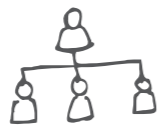
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Shinhan Financial Group engages in responsible management activities to enhance the value of customers, shareholders, and investors. We are also making efforts to improve the satisfaction level of employees and business partners who are directly involved in our business activities and grow together. Meanwhile, we are practicing our 'Compassionate Finance, Your Companion for the Future' mission by communicating and sharing with communities, NGOs, government institutions and others to create a virtuous circle for Shinhan and the wider society.

Customers	Major expectations	Response of Shinhan Financial Group	Communication channels
	Product development based on customer opinions	Released the 'Shinhan nonparticipating protection-type LTC insurance policy' by reflecting customer demand for a product that provides both security and asset saving programs ('17 customer panel opinion)	<ul style="list-style-type: none"> <li>- Employee suggestions</li> <li>- Labor associations</li> <li>- Intranet</li> </ul>
	Product development responding to market changes	'Shinhan DREAM installment plan' providing thematic products with prime interests tailored to the conditions of shop-owners	
		'Shinhan With Pet installment plan' for customers with companion animals along with the increasing number of single-person households and an aging population	
	Enhancing service convenience	Shinhan Double DREAM installment plan providing high interest benefits for customers satisfying intuitive (simple) preferential treatment requirements	
Protection of socially marginalized customers	'Shinhan SOL (credit, Jeonse loans)' based on automated and simplified processes requiring no paper work		
	Provide smart banking services to foreigners with time and language constraints		
Shareholders-Investors	Major expectations	Response of Shinhan Financial Group	Communication channels
	Reinforcing fiduciary obligations	Shinhan BNPP adopted the Stewardship Code	<ul style="list-style-type: none"> <li>- Investor consulting</li> <li>- Activities to engage with investors</li> </ul>
	Consideration of long-term shareholder value	Secure a basis for sustainable growth through ESG risk management and socially responsible investment	
	Improving corporate governance	Awarded an 'S' rating in the corporate governance assessment by KCGS for the first time among Korean companies	
Employees	Major expectations	Response of Shinhan Financial Group	Communication channels
	Improving communications with employees and departments	Formed Wealth Management Innovators (WMIs) to discover ideas for WM projects and apply them to actual business activities	<ul style="list-style-type: none"> <li>- Customer Evaluation Group</li> <li>- Homepage VOC</li> <li>- Shinhan Poll</li> </ul>
		Share cases of practicing 'compassionate finance' activities and opinions each month via its mobile platform 'S-talk'	
	Work-life balance	Shinhan Bank runs on-site childcare centers for workers in Seoul and 3 other metropolitan areas (capacity to accommodate 200 children)	
		Expand the implementation of an autonomous work system, 'Smart Work System 2.0'	
Strengthening employee competency	Installing the Shinhan Digital Innovation Institute (SDII) to enhance employees' digital competency and provide competency-based trainings according to their given duties		
Female talent nurturing	Develop a mid/long term roadmap to nurture female talents (▲creating a diversity-based organizational culture ▲developing programs to nurture female talents ▲flexible personnel management system, etc.)		






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Partner Companies	Major expectations	Response of Shinhan Financial Group	Communication channels
	Communication with business partners	Shinhan Bank invited its best business partners for meetings to discuss the coexistence	<ul style="list-style-type: none"> <li>- Meetings for coexistence</li> <li>- Transaction satisfaction surveys</li> </ul>
		Shinhan Card invited business partners to celebrate its 10th anniversary of foundation	
	Welfare support for partner companies	Opened the 'Children's Financial Experience Class' for children of partner company employees	
		Shinhan Card provided healing programs for the call center employees of business partners	
		Shinhan Card hosted the 'LEAD BY Concert' by inviting about 300 call center employees of SME partners and outsourcing companies	
Local Society and NGOs	Major expectations	Response of Shinhan Financial Group	Communication channels
	NGO partnerships	Shinhan Card donated and participated in campaigns to solve the sanitation and drinking water problems of underdeveloped countries jointly with Good Neighbors (NGO)	<ul style="list-style-type: none"> <li>- Meetings with local communities and NGOs</li> <li>- Homepage VOC</li> </ul>
		Shinhan Bank and ChildFund Korea signed the 'Shinhan youth happiness voucher' project to support the youth from vulnerable groups	
	Support for local communities and small entrepreneurs	Support the vitalization of local communities and small entrepreneurs through the Shinhan SOHO community and partnerships with local governments	
	Social contributions for local communities	Shinhan Bank donated 800 pieces of office furniture to social welfare facilities	
	Support Sports and Mecenat Sponsorships	Shinhan Bank S-Birds Basketball Team and professional sports team located in Incheon opened sports classrooms for children with developmental disabilities	
Global policy for social contribution activities	Shinhan Bank releases the global CSR guidebook		
Government	Major expectations	Response of Shinhan Financial Group	Communication channels
	Expansion of inclusive financial policies	Expanded the New Hope Spore Loan, Mid-interest Rate Loan, and other mid-interest rate loan programs for people with mid/low credit ratings by injecting KRW 300 billion	<ul style="list-style-type: none"> <li>- Consulting Groups Related to the Policies of Financial Authorities</li> </ul>
		Write-off specific law bonds worth KRW 445.1 billion in 2017	
		Hired seniors with financial backgrounds and provided them with financial education (the project will be continued by 2020)	
	Environmental policy	Plan to develop funds supporting massive solar power generation projects and other related ESS projects in accordance with the government's 3020 plan	
Signed an 'agreement on the vitalization of green financing' with the Environmental Industry and Technology Institute under the Ministry of Environment			
Job creation	'Shinhan Do Dream Project' for youth employment and other job creation activities as well as investment and financing for innovative businesses		



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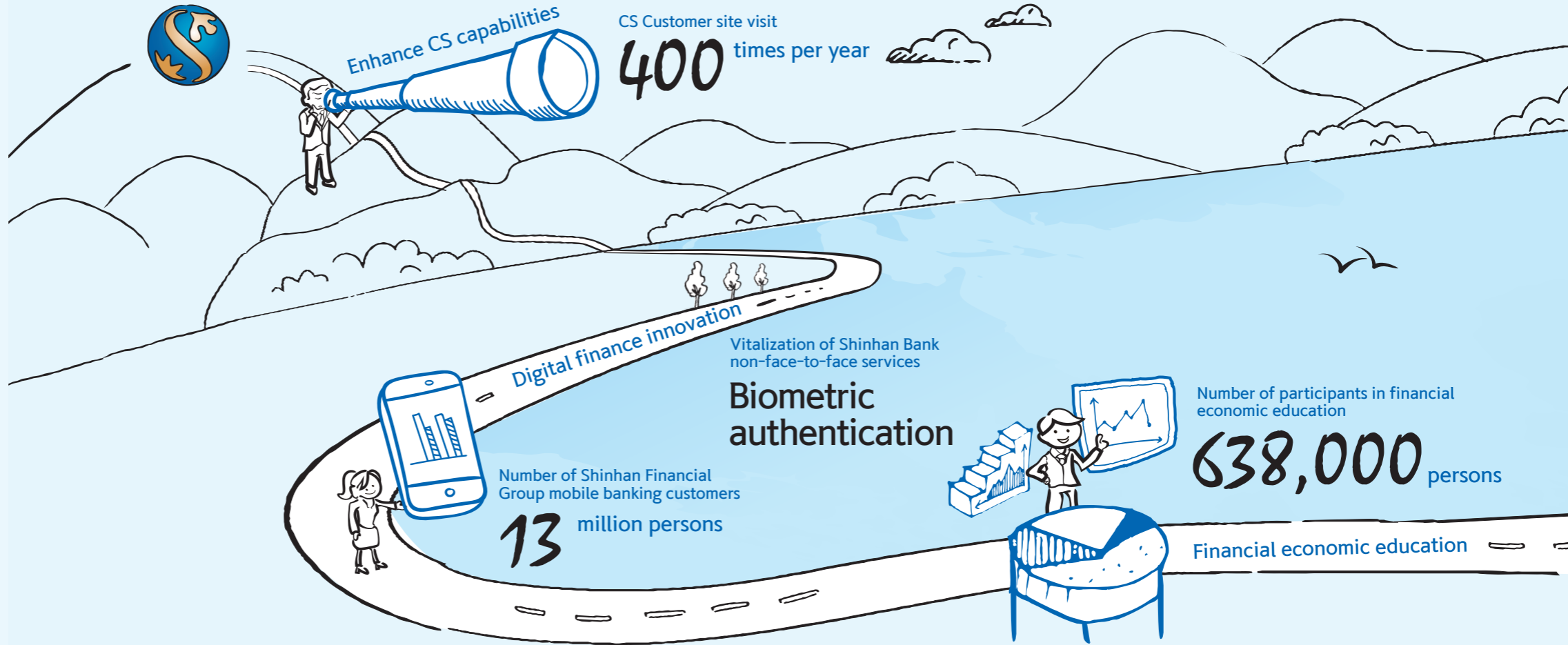
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# Provide Solutions to Improve Customer Value



Shinhan Financial Group strives to improve service capabilities to deliver the best customer satisfaction and provide new customer value through digital transformation and financial economic education.



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## Compassionate Finance Experienced by Customers

Shinhan Financial Group is committed to being the most reliable financial partner for customers based on its 'Compassionate Finance, Your Companion for the Future' mission. We do the utmost to improve our products and services from the customers' perspective so that they can experience 'compassionate finance' and create a virtuous cycle of shared prosperity for both customers and the company.



## Digital-based Innovation of the Customer Experience

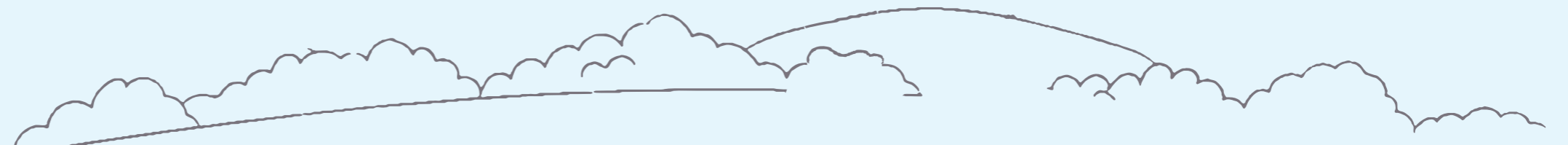
Rapid changes based on digital technologies are taking place from the aspects of customer experience along with the emergence of new digital technologies such as mobile, AI, and blockchain. Fintech, a compound of "finance" and "technology", is frequently used these days and Fintech companies are promptly engaging in the financial industry with innovative products and services that are unprecedented. Shinhan Financial Group is also exploring new and innovative opportunities utilizing digital technologies.

Shinhan Financial Group's digital transformation aims to rapidly provide financial customers with more convenient and useful services. We are focusing on identifying the inconveniences and complaints of existing financial services with the power of data and resolving issues through automation and process improvement. We will promote financial services that provide a new level of customer satisfaction by transforming customer experiences through such efforts.



## Financial Economic Education for Customers

We provide our customers with financial economic education to help them become acquainted with finance and live a better life through financial services. In particular, we provide customized education tailored to participant groups including as children, youth, and seniors to enhance their understanding of finance.





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CASE STUDY

**Building a Digital Ecosystem, Future's Lab**

Shinhan Financial Group operates 'Shinhan Future's Lab' to support startups and create a digital ecosystem. Shinhan Future's Lab aims to establish a win-win business relationship in which startups and financial companies cooperate and grow together. It also provides startups with the support they need in their early stages including investment, ICT infrastructure, financial know-how, and beyond. In return, they create new values through digital services that customers need and share with Shinhan while focusing on developing innovative technologies and ideas. Launched in 2015, the Future's Lab has cooperated with a total of 61 companies to date and developed joint business models in 21 areas.

Shinhan Financial Group has invested KRW 6.3 billion directly to provide practical support to startups. Recently, we have been expanding our cooperative network with fostering institutions in various industrial fields to provide startup companies with non-financial aid as well.

We launched 'Shinhan Future's Lab Vietnam' in 2016, the first Fintech startup fostering program operating overseas among

Korean companies. Shinhan Future's Lab Vietnam provides mentoring programs offered by both Fintech specialists in Vietnam and global mentoring groups in Korea to support Vietnamese Fintech companies and assist domestic companies' entry into the Vietnamese market.

The Shinhan Data System focuses on the commercialization of specified services and technologies in cooperation with Fintech venture companies from the Future's Lab. Currently, blockchain platforms for enterprise customers, a machine learning based server, infrastructure failure predictions, automatic operation services have been developed and Shinhan Bank servers and service of infrastructure failure predictions are being tested.

Shinhan supports startup companies from the Future's Lab and is making efforts to improve its technological competitiveness through developments in FinTech based on partnerships and substantial collaboration.



Future's Lab Vietnam

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## Compassionate Finance Experienced by Customers



### Provide customer-oriented products and services

Shinhan Financial Group improves customer satisfaction and enhances customer value by providing products with high investment yield rates.

'Shinhan BNPP Euro Covered Call' funds were receiving favorable reviews and recorded a balance of KRW 100 billion within 3 months of launch. Furthermore, and 'Shinhan BNPP Covered Call' funds released in 2016 were sold worth KRW 1.3 trillion in 2017 and demonstrated an outstanding performance.

Shinhan Bank operates a specialized fund consultation team for customers that utilizes non-face-to-face channels for the post management of customer assets.

Shinhan Investment Corp. operates the 'Customer Yield Rate Assessment System' which is the first of its kind in the industry and reflects the results to employee evaluation. Six years after its implementation, the 'Customer Yield Rate Assessment System' contributed to the constant increase of customer yield rates. The yearly yield rate for customers that received PB consultation for the last 3 years achieved an excellent performance recording 5.66% on average for 2015 and 5.76% and 10.22% for 2016 and 2017, respectively. The scope of assessment was expanded to include product sales department encompassing the entire process from product sales to customer management, contributing to the increase of the customer yield rate.

### Customer-Centered Management through Diverse Communication Programs

Shinhan releases products and improves services based on customer opinions collected after communicating with them.

We have operated the 'Customer Panel System' since 2002 to improve our systems and businesses from the customer protection perspective. We are planning to carry out comprehensive improvement activities for customers in multiple areas including digital, new finance, and installment plans by forming 'Hyper Connect (HC) Customer Panels' of various age groups of individuals from their 20s to 50s based on our new strategic directions 'Hyper Connected Management' and 'Deep Change' that were adopted in 2018.

Moreover, we are making efforts to reflect customer opinions through various communication programs. For example, we offer rewards to customers who make outstanding suggestions on work improvement through the 'Yes-Reward' program, operate the 'Hidden Voice' program through which executives directly visit customers to receive their complaints, and conducts the 'Shinhan Poll' survey for online customers.



Shinhan Card Customer Panel launch event



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CCM Certificate of Shinhan Card-Shinhan Investment Corp-Shinhan Life Insurance

**Customer-Centered Management Certification**

In recognition of various customer-centered management activities, Shinhan Card obtained the Customer Centered Management (CCM) Certificate issued by Korea Fair Trade Commission (KFTC) for the second time since 2015. Shinhan Card earned the distinction of being the only company to receive this certificate among card issuers. Furthermore, the company earned the first place in the 'Korean Standard Service Quality Index (KS-SQI)' and 'Korean Service Quality Index (KSQI)' for the excellent quality of its face-to-face customer service.

We were ranked at No. 1 in the 'National Customer Satisfaction Index (NCSI)', 'Korean Customer Satisfaction Index (KCSI)', and 'Global Customer Satisfaction Competency Index (GCSI)', which measure customer satisfaction in products and services, and continued our status as the company most beloved by customers.

**Launch of Products that Embrace Diversified Customer Demands**

Shinhan Bank develops products and services reflecting diversified customer demands.

Shinhan Bank has opened a loan window dedicated for freelancers who are suffering from unfavorable loan requirements due to job insecurity and provided them with loans at better interest rates than the ones offered by non-monetary institutions. Shinhan Bank signed an MoU with 'eLancer', an online platform for freelancers, and supported them to ensure a stable financial base. Shinhan Bank also launched the 'Shinhan Double DREAM installment plan' that provides double interest rates for single-person households, 'With Pet installment plan' for customers with companion animals, and others to meet customers' varying needs.

**Korean Standard Service Quality Index (KS-SQI)**

**Korean Standard Service Quality Index (KS-SQI)**



Awarded No. 1 by the Korean Standards Association (4 consecutive years)

**Global Customer Satisfaction Competency Index (GCSI)**



Awarded No. 1 by the Global Management Association (13 consecutive years)

**National Customer Satisfaction Index (NCSI)**



Awarded No. 1 by the Korea Productivity Center

**Korean Customer Satisfaction Index (KCSI)**



Awarded No. 1 by the Korea Management Association Consulting (4 consecutive years)

**Korean Service Quality Index (KSQI)**



Awarded No. 1 by the Korea Management Association Consulting (7 consecutive years)

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## Differentiated Customer Satisfaction through Synergy among the Group's Subsidiaries

### Provide New Solutions through Collaboration among Group Companies

Shinhan is cooperating with group subsidiaries in order to provide customers with the best products and services. We are developing joint products by identifying and removing duplicate ones and making efforts to operate a unified base system including credit assessments performed at the group level.

In 2018, we will launch the group-wide mid-range interest rate loans for our customers. To this end, Shinhan Bank, Shinhan Card, Shinhan Life Insurance, and Shinhan Savings Bank have established an integrated group-wide platform for mid-range interest rate loans.

Each subsidiary will recommend optimal loan products for customers to provide products of the best combination of loan requirements through the platform. Customers are allowed to receive loans allocated to subsidiaries at the best interest rate within their credit limit of Shinhan Financial Group. By doing so, customers can obtain reasonable mid-range interest rate loans.

Each subsidiary will recommend optimal loan products for customers to provide products of best combination of loan require-

ments through the platform. Customers are allowed to receive loans allocated to subsidiaries at the best interest rate within their credit limit of Shinhan Financial Group. By doing so, customers can get reasonable mid-range interest rate loans.

Shinhan is the first financial company attempting to establish an integrated sales channel of combining loan requirements of subsidiaries. Customers can find a comprehensive plan of loan products offered by the subsidiaries of Shinhan Financial Group through non-face-to-face channels or site visits.

Shinhan Financial Group is developing a group-wide credit assessment system with enhanced accuracy by compiling subsidiaries' card and insurance data. Shinhan Financial Group plans to expand joint sales with subsidiaries and develop related products based on the 'group-wide' credit assessment system.

Shinhan Private Wealth Management (PWM) develops and provides customized investment products tailored to customer demands. We are creating various investment products with different structure from the ones for the same investment target by launching public and private investment funds with minimum risks in cooperation with subsidiaries such as Shinhan Investment Corp. and Shinhan-BNPP Asset Management.

### IPS Department to Provide Comprehensive Asset Management Solutions

Fund Teams from the Investment Product Department of Shinhan Bank and Shinhan Investment Corp. jointly provide differentiated financial solutions to promote customer satisfaction.

With the aim to provide comprehensive and customer-centered financial services and increase cooperation among subsidiaries of the group, Shinhan Financial Group created the Investment Product & Service (IPS) Department, a group providing comprehensive asset management solutions, in 2012 for the first time among financial companies and offers various financial investment products of Shinhan to customers when they cannot find the financial products that satisfy their needs.

In 2017, the two companies successfully launched joint real estate funds. The IPS Department plans to solidify a cooperative system and expand the scope of cooperation while compensating for weaknesses. It is expected that the conversion of retail branches into hybrid service stores will be intensified as they will serve as the hubs of the future capital market. Considering this, we will further enhance our competitiveness in terms of product supply and continue to satisfy customers by launching products tailored to customer needs according to volatile market conditions.



IPS Department providing comprehensive asset management solutions

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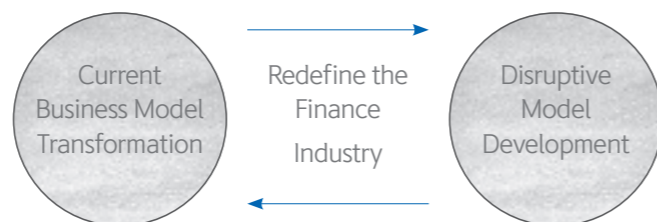
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## Innovate Customer Experience Based on Digital Technologies

### Shinhan Strategic Framework for Digital Transformation – 2 Tracks & 10 Enablers Strategy

Shinhan strengthened the company's strategic directions and detailed approaches in consideration of rapidly changing digital technologies, regulations, and competition trends. The strategic directions are composed of 2 tracks. The first track is to improve the customer experience and operational efficiency and the second track consists of accommodating Fintech and establishing innovative business models. The 10 Enablers present organizational preparedness including required technologies, capabilities, and governance structure.

#### 2 Tracks: Business Model Innovation



#### 10 Enablers: Organizational Preparedness



#### Digital Channel and Service Innovation

Shinhan Financial Group continues to improve digital channels so that customers may promptly use its services.

As of 2017, the number of customers who use Shinhan Financial Group's mobile banking services is approximately 13 million, while Shinhan FAN Pay, an application card service of Shinhan Card, has attracted about 9.43 million customers, the largest figure among domestic card companies, leading the mobile easy payment service market. Shinhan Financial Group operates an integrated group-wide platform where customers can enjoy services offered by subsidiaries such as bank, card, financial investment, and life insurance. Meanwhile, the cumulative number of loyalty platform Shinhan FAN Club members exceed 7.81 million and Shinhan Financial Group's integrated mobile platform 'Exciting Bout' has 2.2 million customers.

Furthermore, Shinhan Financial Group has created new customer value by installing digital counters at all of its branches. With the adoption of digital counters, the processing time of banking business was reduced from 15 minutes to 7 minutes, contributing to the improvement of customer satisfaction.

We successfully shortened the time required to prepare documents with simplified formats, gather write and auto-type functions and provided options to magnify the display on PC screen for seniors, which received favorable reviews.

Shinhan Bank started 'Big Data-based advisory services' through digital counters for the first time in the Korean banking industry. These are new kinds of consulting services through tablet PCs based on customer data analysis and customers are provided with data related to financial services according to the analysis of information they entered such as gender, age group, and residence. They can use highly reliable consulting services based on the data they have entered and check financial products subscribed by others with similar backgrounds. We plan to support our customers to establish detailed financial plans according to their life cycle such as marriage, educational expenses, purchase of real estate, and later life preparation. As a part of such efforts, we publish the 'report on financial lives of ordinary people' each year to provide various information on the financial lives of ordinary people.





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In order to improve the convenience of non-face-to-face services, we are operating smart branches, integrated platforms combining windows and digital channels (smart lounge), leading digital finance by creating an environment in which customers can access banking services after business hours such as weekends and holidays.

Shinhan Financial Group is promoting digital transformation so that customers can experience changes. We are launching products and services incorporating AI, algorithms, and other new digital technologies and expanding cooperation with new markets and companies with new technologies in order to provide customers innovative financial services such as Fintech, and the fourth industrial revolution. Furthermore, we are expanding investment in the development of new digital technologies and new approaches related to cloud computing, blockchain, Open API, and big data.

Shinhan Card has garnered highly favorable responses by providing discount coupons based on customer location through the adoption of Geofencing technology. Additionally, Shinhan Bank has joined hands with LG U+ and GS Caltex to establish an online mobile payment platform using automobiles. Meanwhile, Shinhan Life has launched Internet-based health insurance products for customers with diabetes in collaboration with providers of blood glucose management services.

In 2017, Shinhan Financial Group has been increasing business partnerships with global ICT companies to expand the digital ecosystem led by the company. We are having discussions with Amazon, PayPal, and other global ICT leaders regarding new methods of finance and developing processes so that customers more conveniently use Shinhan financial services on their channels.



Shinhan executives paid a visit to Amazon in the US

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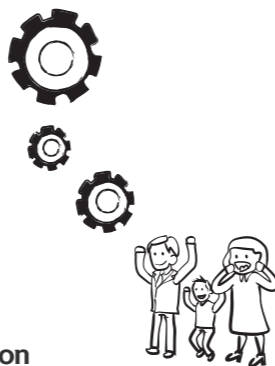
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AI-based Service Expansion

Artificial Intelligence (AI) and Virtual Reality (VR) are applied to finance and our daily lives and Shinhan Financial Group responds to such trends preemptively and explores opportunities to innovate customer experience significantly. We continue our efforts to develop AI-based Robo-Advisors and improve the completion of existing services to become an IT-based financial company.

Shinhan Financial Group provides asset management services utilizing technologies to serve more customers. The asset management service was provided only to certain customers with large assets in the past. However, we are now able to deliver a quality service to general customers through algorithms and digital channels.

Shinhan Bank and Shinhan Investment Corp. launched an asset management service 'M-Folio' through Robo-Advisors in 2016 and have provided the service to 30,000 customers. The Robo-Advisors is a representative mutual growth model jointly developed by Fintech companies.

Shinhan Financial Group is developing AI-based asset management service to recommend promising global financial products to customers. We plan to improve the asset management quality by predicting the progress of global financial markets and growth potential of various products based on Watson, IBM's AI platform for business.

Furthermore, we are making efforts to provide 24/7/365 financial services through AI-based chatbot and Robotics Process Automation (RPA) and invest heavily to significantly reduce service processing time.

AI-based Consumption Management Service, Shinhan Card's 'FAN Pay-bot'

Shinhan Card's 'FAN Pay-bot' is an AI-based secretarial service that helps consumers to have a smart lifestyle through analysis of individual consumption patterns. To analyze dating expenses in the past, for instance, customers had to classify expense items by themselves as the items are categorized as 'movie theater', 'family restaurant', 'amusement park', etc. However, AI-based 'FAN Pay-bot' identifies and provides proper expense items for dating based on analysis and learning of the classification of expense items, helping customers manage their consumption patterns more easily and accurately.

Banking Everywhere, VR Wealth Lounge

The VR technology will transform the domain of digital channel services. Shinhan Financial Group is preparing for next-generation branches that provide innovative level of conveniences for totally different customer experience through digital technologies such as Amazon Go.

Shinhan Bank unveiled 'VR Wealth Lounges', virtual branch offices using VR and augmented reality (AR) technologies for the first time among Korean financial companies. VR Wealth Lounge is a virtual bank branch office appeared on the mobile phone screen. Three large 3D screens and a virtual bank employee are displayed to provide visual data and audio guidance while using the service. VR Wealth Lounge is the starting point of future finance where customer can enjoy transactions and financial consulting services whenever and wherever they go as they visit a bank branch office. We plan to incorporate new technologies in the near future and provide differentiated customer experience in various areas including finance, culture, education, etc.





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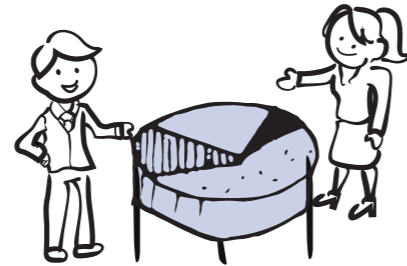
## Financial Economic Education to Improve Financial Understanding

### Provide Financial Economic Education for Future Generations

Shinhan Bank provides financial experiences to children through the Shinhan mobile platform SOL along with the rapidly changing financial environment. Shinhan Bank also adopted programs to allow children to directly implement services offered by the company such as 'Currency exchange for everyone' through tablet PCs to help them get acquainted with banking services.

The 'Shinhan Youth Financial Economic Education Center', Korea's first venue dedicated to financial education opened in 2013, provided about 35,000 students with customized financial experience training programs as of now.

In 2017, Shinhan became the sole provider of the 'remote video career mentoring' program through its digital platforms among financial institutions. To make this happen, the company signed on a business agreement with Korea Research Institute for Vocational Education and Training (KRIVET), established education systems at the Shinhan Youth Financial Economic Education Center, and provided free-semester programs for career development to 51 schools.



In 2017, Shinhan became the sole provider of the 'remote video career mentoring' program through its digital platforms among financial institutions. To make this happen, the company signed on a business agreement with Korea Research Institute for Vocational Education and Training (KRIVET), established education systems in Shinhan Youth Financial Economic Education Center, and provided free-semester programs for career development to 51 schools.

Shinhan-BNPP Asset Management provides financial education programs for the children of 'Shinhan BNPP Mother's Love Installment Investment Trust Fund No. 1' customers. Fund performance report



Shinhan Children's Financial Experience Class



Shinhan Savings Bank's Finance Classroom for Seniors

and educational materials tailored to children customers are released each month and an economic letter for economic education is sent each week, providing them with an opportunity to get acquainted with financial markets. Also, the company operates children's financial economic education programs and a finance camp in conjunction with professional childhood education institutions.

### Expansion of Financial Economic Education for Seniors

Shinhan Life Insurance visits elderly care centers across the country to provide lectures and the topics are selected centering on items that seniors need to know for their later years such as the latest financial information, retirement planning, taxation, inheritance, and prevention of financial fraud to offer customized programs.

Shinhan Savings Bank also provides financial economic education to seniors of local communities to avoid voice phishing and fake deposit bank passbook. Shinhan Bank's Future Design Center offers programs related to retirement plan such as cash flow and asset management after retirement for customers in their 50s who are retirees or would-be retirees. Shinhan Bank operates the 'Couple Retirement Classroom' for general customers and 'Future Design Camp' for corporate clients and the bank's finance lecturers are equipped with sufficient financial theory and field experience.

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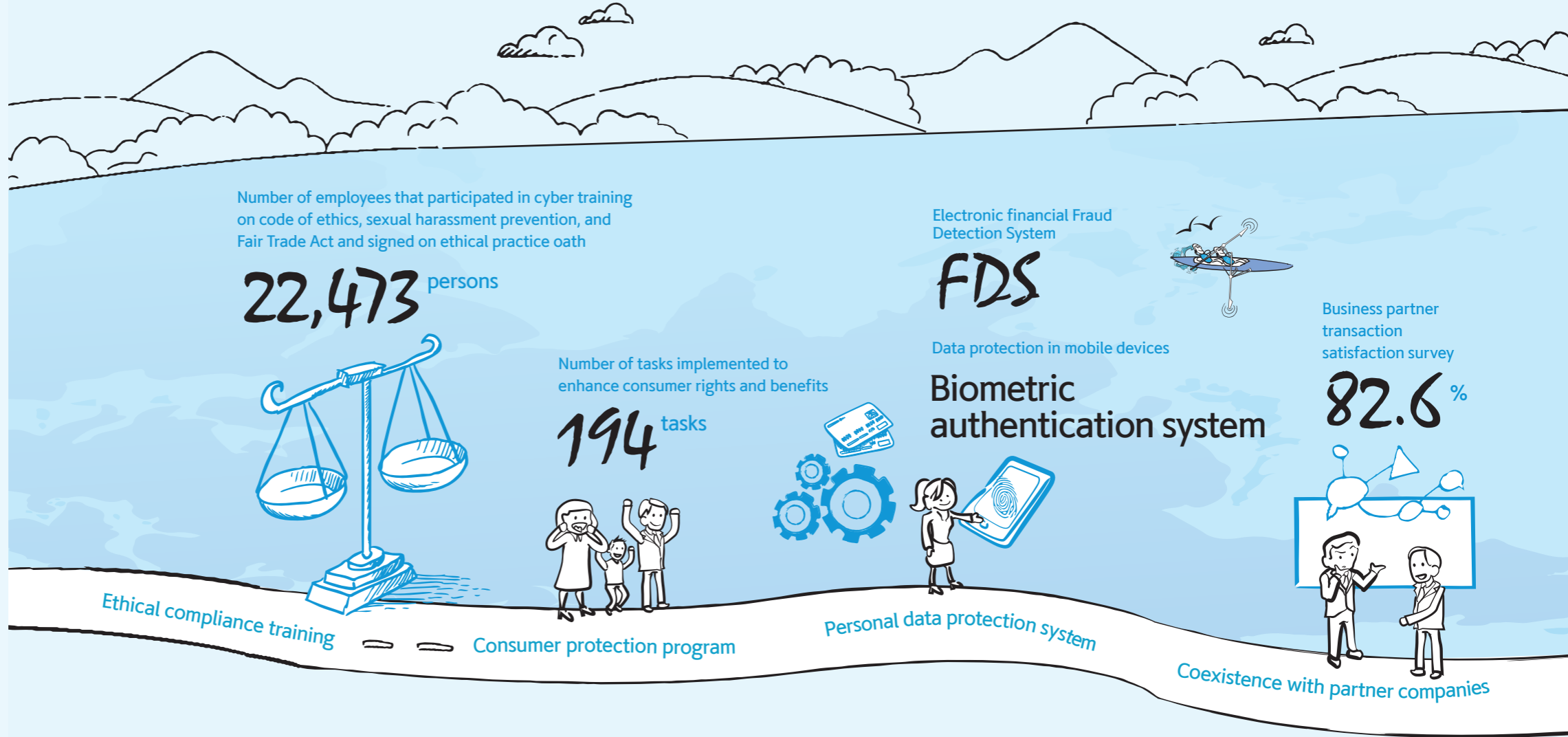
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# Fair and Ethical Business

Shinhan Financial Group builds trust with customers and the society by providing ethical and safe financial services and promotes shared prosperity with business partners by establishing a culture of fair trade.



Number of employees that participated in cyber training on code of ethics, sexual harassment prevention, and Fair Trade Act and signed on ethical practice oath

**22,473** persons



Number of tasks implemented to enhance consumer rights and benefits

**194** tasks



Electronic financial Fraud Detection System

**FDS**



Data protection in mobile devices

**Biometric authentication system**



Business partner transaction satisfaction survey

**82.6%**



Ethical compliance training

Consumer protection program

Personal data protection system

Coexistence with partner companies



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## Enhancing Trust by Strengthening Ethical Management

Establishment of ethics standards and their applications are being more reinforced both at home and abroad. Hence, the importance of reinforcement is growing regarding ethics standards along with willing legal compliance and carrying out ethical management to improve credibility with stakeholders.

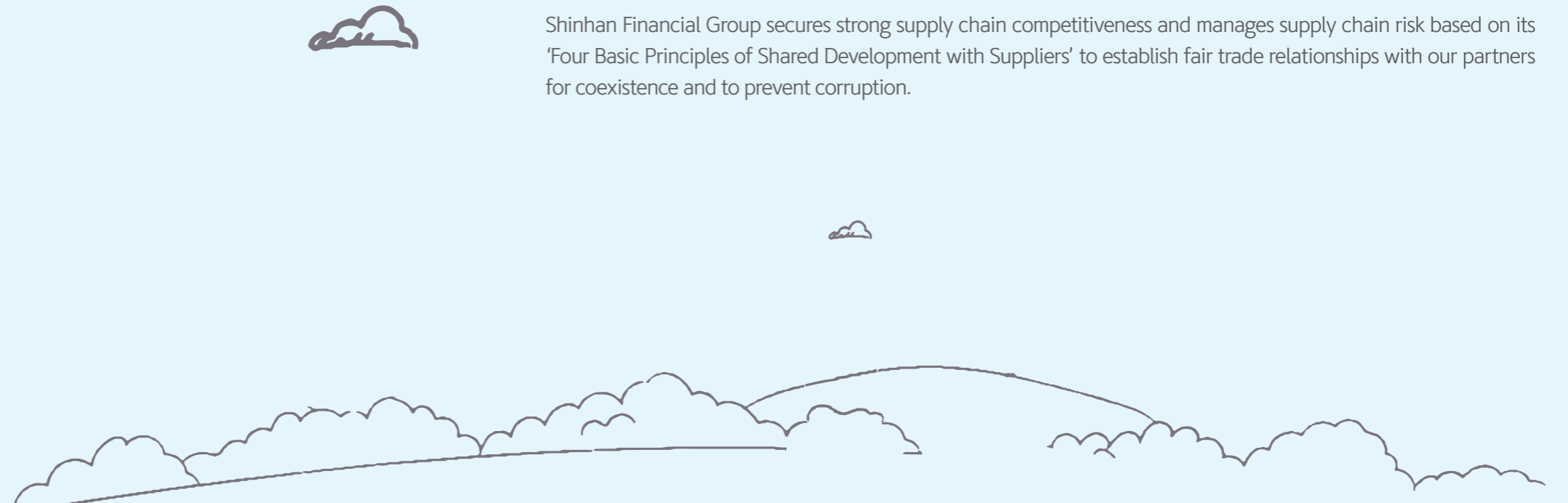
Shinhan Financial Group is upgrading ethical compliance programs and various monitoring activities for all employees within the group to quickly respond to the reinforced legal regulations as it sets its goal to become a quality ethical corporation that is demanded by stakeholders and continues to reinforce the standards of its ethical management.

## Expanding the Scope and Areas of Ethical Management

As the management environment changes due to digitalization and globalization of management systems, customer information leaks and financial accidents committed by employees are increasingly noticed and the scopes of management and area regarding ethical management are also being expanded.

Shinhan Financial Group eradicates incomplete sales and strengthens internal control to protect financial consumers. Also, itIt also operates the information protection compliance system and other systems incorporating new technologies to manage precious customer information safely.

Shinhan Financial Group secures strong supply chain competitiveness and manages supply chain risk based on its 'Four Basic Principles of Shared Development with Suppliers' to establish fair trade relationships with our partners for coexistence and to prevent corruption.





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### CASE STUDY

## Data Protection, the First Step for Safe Financial Transactions

The importance of data protection is growing in preparation for the leakage of personal information of customers and financial crimes along with the increasing number of customers using financial services through digital channels. Data leaks involving a large number of customer information and shutdowns of transaction systems lead to significant reputation damage to the related financial company and massive costs to the entire company due to customer compensation and system repair, etc. Financial institutions are introducing new technologies such as AI, big data, and cloud computing to control data protection risks and innovate their security capabilities.

Shinhan Financial Group establishes a collaborative system with outside data protection specialists in order to respond to information protection risks. We operate the Future Treats Council with the attendance of experts from academia, business, and public institutions to gather threat information regularly and conduct frequent security checks with a group of white-hat hackers each year. Also, the group's subsidiaries jointly developed a data protection portal for security checks at the group level by collecting data of core business areas. We upgraded the integrated security control system to strengthen comprehensive security control functions.

The Fraud Detection System (FDS) is a fraudulent transaction detection system that identifies and blocks financial fraud by comprehensively analyzing information about access to electronic financial transactions, transaction details, etc. Shinhan Card conducts fine-tuned control on e-transactions by categorizing them as 10 items including highly-risky business, day and night transaction, multiple and small amount transactions, face-to-face and non-face-to-face transactions. Recently, Shinhan Card maximizes the detection rate by applying deep learning and AI solutions, and the latest machine learning algorithms. After adopting AI-based machine learning methods, its accuracy rate of detecting illegal use of credit cards in the category of overseas offline transactions increased by 6.5%p from 89.5% to 95% in the second half of 2017.

Shinhan Financial Group also strengthened its security level by utilizing the self-developed security software Patch Management System (PMS) to protect customers' information. With such efforts, the group does its best to keep all major software to their latest versions and prevent malicious programs from abusing weak points.

We also adopted the biometric authentication to strengthen user identification system for the protection of personal data and successfully upgraded our data protection level. The biometric information of customers is stored in their mobile devices such as smartphones and the authentication related information is stored in the system server of the Korea Financial Telecommunications and Clearings Institute (KFTC) to reinforce security. Also, individual group subsidiaries are making efforts with data scattering, data encryption for reception and transmission, and distribution of temperature sensing films to avoid the exposure of numbers in security cards.





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## Enhancing Trust by Strengthening Ethical Management

### Ethical Management Organization and Code of Ethics

Ethical management of Shinhan Financial Group is being supervised by the legal compliance managers of the holding company in accordance with the 'Act on Corporate Governance of Financial Companies'. Legal compliance managers of each subsidiary hold bimonthly meet-

ings to discuss key issues related to internal control and ethical management and working level meetings are being held to specify and apply items discussed during meetings with legal compliance managers.

Shinhan Financial Group has internalized the concept of ethical management as part of the corporate culture by establishing the 'Shinhan Financial Group Code of Ethics' and emphasized the need for employees to comply with the basic principles in order to reinforce their ethical awareness. The group also enacted and is operating the 'Employee Code of Conduct' as ethical standards for engaging in business activities to improve practices sticking to the principles while conducting their given tasks.

### Ethical Compliance Program and Training

Each year, Shinhan Financial Group provides joint ethical compliance education via online at the group level. In 2017, Shinhan Financial Group conducted pop-up trainings nine times under the theme of financial incident prevention cases and each subsidiary continues to provide its own ethical compliance education in consideration of the characteristics of



CoP training on ethical compliance

its business. Regular compliance education encompassing the headquarters, sales branches and overseas branches is provided and self-inspections are carried out through internal control monitoring activities.

### Internal Control System and Structure

The internal control of Shinhan Financial Group is being supervised by the legal compliance managers of the holding company. The subsidiary legal compliance managers are regularly informed through the legal compliance audit report and internal transaction report in order to manage and oversee the internal control activities to determine whether they are being carried out appropriately while also conducting yearly themed inspections regarding the subsidiaries and on-site inspection of internal control execution.

In early 2017, each subsidiary reviewed the status of internal control systems and operation of the previous year and reported the result to the board of directors. The first competency building training for employees of the internal control department of each subsidiary was provided twice in February and August of 2017. Shinhan Financial Group plans to provide the training on a regular basis at least twice per year.

### Bolstering the Whistle-blowing System

Each subsidiary operates the insider reporting system (Whistle-blowing system) to allow employees to report regulatory violations such as laws and regulations, bylaws, and code of ethics in order to prevent incidents and further loss to the company in advance. As of 2017, 15 cases were reported and all cases were closed.

Not only Shinhan employees, but also partner companies and customers can participate in the reporting system and whistle blowers can reports directly to the full-time auditor through various channels such as in-person visits, landline numbers, and e-mail. We have also enacted regulations on protecting the reporting person not to disclose the identify and secrecy of reporting persons and encouraged employee participation in the insider reporting system by posting guidelines on the system and its process through the intranet board biannually.

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**Expanding Education Regarding Disturbances of the Market Order**

Each subsidiary reinforces training and monitoring activities to ensure that employees fully understand the regulations regarding the Amendment of Financial Investment Service and Capital Markets Act (effective as of July 1, 2015) for the purpose of regulating the actions that lead to disturbance of market order as well as to ensure that no employees violate these regulations. In 2017, the group-wide educational materials were developed and provided to all subsidiaries to conduct training for related employees.

We classify and constantly monitor subsidiaries' departments that are highly likely to handle undisclosed information and develop and review checklists to protect conflicts of interest among departments. Moreover, we prevent unfair trades by expanding the range of people subject to compliance with the financial investment product transaction reporting system to include both employees of relevant departments and their immediate family members.

**Implementation of Money Laundering Prevention Activities**

Shinhan Financial Group complies with the recommendations of the Financial Action Task Force (FATF), an international money laundering prevention institution, as well as the Act on Reporting and Use of Certain Financial Transaction Information and implements obligations to prevent money laundering and terrorist financing by monitoring transactions.

Under these circumstances, Shinhan Bank has launched the Money Laundering Risk Assessment System in order to devise the process for preliminary identification and mitigation of risks regarding possible money laundering within bank. Department within the headquarters that are highly exposed to risk were analyzed to identify the essence of risk factors and measure the probability of occurrence. The branches were subjected to an analysis of the business environment, customer characteristics, types of customers to quantify the money laundering risk factors, and established a response strategy to implement anti-money laundering activities.

Through this, we were able to diagnose company-wide risks regarding the organization, work environment, work process, employees, and information system and improved countermeasures against these threats as we continue to reinforce internal control activities related to the prevention of money laundering.



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## Reinforcing the 'Financial Customer Protection' System

### Financial consumer protection status

**2** consecutive years

**Good** grades in all categories

### Establishing a System to Protect Consumer Rights and Benefits

A paradigm shift is taking place to reinforce the protection of financial customers for the sustainable development of global financial industry and social demands for protecting the rights and benefits of financial customers are increasing as well. In the middle of such a paradigm shift, qualitative differences between customer protection systems among financial companies has been recognized as part of corporate competitiveness.

Shinhan Financial Group installs the 'Financial Customer Protection Center', an organization dedicated to financial customer protection activities and appoints the Chief Consumer Officer (CCO) under the immediate control of the Chief Executive Officer to ensure the independence in carrying out his or her duties. Shinhan Financial Group also shares consumer protection issues through quarterly meetings of the 'Financial Customer Protection Council', a consultative body of related agencies and established the 'VOC Committee' under the council to gather customer suggestions and complaints to reflect on the policies, systems, and business activities of the company.

Shinhan Bank shares customer complaints without making any adjustments, discusses measures for improvement during monthly directors' meeting organized by the president of the bank and reflects the result to its businesses. The bank also permanently operates consumer protection council centering on heads of departments and collects big data related to customer complaints, actively engaging in activities to protect the rights and benefits of financial customers.

Meanwhile, Shinhan Bank is increasing the number of contents posted on the 'Financial Customer Portal' in its homepage and 'Financial Customer Protection Channel' of S Bank in line with the increasing number of customers accessing to financial services through online channels. Also, Shinhan Bank launched push notifications on regarding safety information to protect consumers in order to provide them instant damage prevention information through mobile messages. It plans to establish a more sophisticated customer complaint handling process by utilizing big data.

Shinhan Card upgraded its 'Soboro System 2.0', a comprehensive system to provide customer protection related information which was launched in 2016 for the first time among card issuers, to add a real-time complaint monitoring function and simplified the menu and structure to improve employee accessibility and convenience in using the system. Likewise, Shinhan Card does its utmost to enhance the competency of voluntary customer protection.

Thanks to such efforts, Shinhan Bank and Shinhan Card achieved 'good' grades in all categories for 2017 assessment of financial consumer protection status conducted by Financial Supervisory Service (FSS). Shinhan Bank became the first bank in the market to achieve 'good' grades in all categories for 2 consecutive years and Shinhan Card maintained its status as the best in the industry for 3 consecutive years.

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**Establishing the Complete Sales Process**

Efforts to protect customers by establishing an internal prevention system and operating its process to minimize customer complaints of financial companies are increasingly important these days. Shinhan Financial Group strives to protect customers in advance through the institution and system to eradicate incomplete sales.

Shinhan Life Insurance upgraded its complaint handling system to register all customer complaints to VOC for intensive monitoring of cases with types that are highly likely to spread dissatisfaction. Shinhan Investment Corp. provides the 'subscription withdrawal' service within 5 days of purchase and the 'zero complaint' service that returns investment principals for incomplete sales of financial products to protect its customers.

**Complete Sales Process**

Establishing a sales process guide system	Conducting Happy Calls after sales	Constant Management of the Customer Yield Rate and Indicators
<ul style="list-style-type: none"> <li>-Prior review by the customer protection team in developing new products and establishing marketing policies</li> <li>-Operate a prior consultation process with related departments to correct problems</li> <li>-Suspend product releases and marketing campaigns, request to submit measures for improvement when problems are found</li> <li>-Deduct complaint assessment scores without prior consultations</li> </ul>	<ul style="list-style-type: none"> <li>- Conduct Happy Calls regarding the sales process after product sales</li> <li>- Reinforce monitoring of tasks relevant to elderly investors and high-risk products</li> </ul>	<ul style="list-style-type: none"> <li>- The organization dedicated to yield rate management is in charge of the same task in the product development department</li> <li>- Shinhan Life Insurance, the 'Product Quality Index System'</li> <li>- Manage the share of incomplete sales and other indicators related to outside complaints, employees with high scores in the customer protection related index are granted certificates, and suspend the recruitment of insurance planners recording an excessive number of incomplete sales</li> </ul>

**Responding to the Customer Protection Regulatory Environment**

The Financial Supervisory Service amended the 'Best Practices for Financial Consumers' in January, 2017, urging the provision of comprehensive and systematic measures to protect vulnerable groups. Also, more issues related to financial consumer protection are reported along with the increase in sales of derivatives and other high-risk products. Shinhan Financial Group is responding to such changes so that financially vulnerable groups including seniors and people with disabilities do not suffer disadvantages and inconveniences during transactions.

Shinhan Bank implements comprehensive measures to protect financial consumers each year and completed 194 tasks to enhance the rights and benefits of customers in 2017. Based on such efforts, Shinhan Bank carried out various activities including reinforcing a process to protect investors vulnerable to Bancassurance products (seniors), developing products supporting financially marginalized groups and SMEs, and operating 'joint heart windows' for seniors and people with disabilities.

Shinhan Investment Corp. separately marked financial products whether they belong to the ones requiring particular attentions to be sold to seniors and stipulated a checklist validation process for seniors in the product development stage. To conduct Happy Calls for the complete sales, seniors and others of the financially vulnerable brackets are thoroughly checked by 100 percent, and dedicated counters for them were installed in branches.



Shinhan Life Insurance selected employees with an outstanding record of consumer protection



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## Safe Management of Financial Information

### The Group-Wide Information Protection Compliance System

Shinhan Financial Group stipulates the information protection responsibility of financial companies and continues to improve its institutions and systems to provide safe financial services to customers. Also, the group operates the Future Threats Council to discuss and check issues related to new technologies and information protection along with external specialists to safely use the information in digital era, responding to digital innovation.

Shinhan Financial Group has been operating the information protection compliance system at the group level since 2014, which is composed of massive management processes encompassing personal data protection and all ICT security areas, instead of simple regulatory responses for compliance. Based on the system, the group maintains a high level of information protection achieving the duty of good faith and due diligence by 100% through the process of setting clear goals and objectives, checks and improvement.

Shinhan Financial Group operates internal systems to avoid credit information leakages and improves its information protection management system by identifying and evaluating weak points each year. In 2017, the group conducted site inspections on its subsidiaries and checked the management status and responses to practical information leaks.

As the group expands its operation to the global level, it is developing information protection systems by country. We have established global compliance standards to provide stable support for global businesses and develop an information protection system conforming to domestic regulations. We have provided guidelines based on the analysis of laws and regulations of the country and conducted on-site inspections.

### Personal Information Protection Measures

We disclose the 'Personal Information Handling Policy' to inform individuals regarding the collection and use of personal information and measures to secure safety to protect the information provided by customers. We designated departments and managers in charge of personal information protection to promptly and accurately deal with opinions and complaints related to the personal information protection that may arise when customers use our services. Based on this, we carry out activities to help customers exercise their rights of credit information and contents related to the protection of rights of information principles are notified through our homepage for better customer access.

There is also liability insurance (legal limit of KRW 2 billion) in case of critical incidents such as personal information leakages and we are fulfilling basic responsibilities to protect the personal information of our customers. We have accumulated an appropriation fund as a measure corresponding to the liability insurance.

### Shinhan Bank, the First Bank in the Market that Manages Biometric Information Separately

Shinhan Bank has been using palm vein recognition as a method to identify the user at the 'Smart Lounge', a window for self-banking services, since December, 2015.

In 2017, Shinhan Bank began to store part of the biometric authentication information in the Korea Financial Telecommunications and Clearings Institute (KFTC) to reduce the risks of hacking, tampering and forgery. This contributed to creating a biometric based financial ecosystem where customers are safe from various financial incidents such as fake deposit bank passbooks and others.



Shinhan Bank separately stores the biometric information

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## Partnership Based on Fair Trade

### Principles of Shared Development with Suppliers

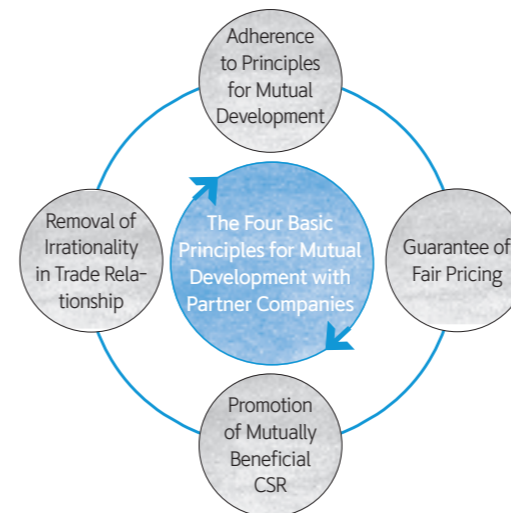
Fair trading and anti-corruption are critical components that financial companies and subsidiaries of financial groups must comply with in order to create profits based on customer trust. When opaque transactions are taking place due to connections with suppliers, it is highly likely to generate issues for partner companies to carry out the terms and conditions of contracts, not to mention of the failure to fulfill social responsibilities.

Efforts for shared development with partner companies has another positive meaning in that they can serve as exemplary models and criteria for fair transactions and anti-corruption. Hence, Shinhan Financial Group is promoting adherence to principles for mutual development, removal of irrationality in trade relationships, guarantee of fair price, and mutually beneficial CSR based on 'The Four Basic Principles of Shared Development with Suppliers' for fair and responsible trading with its partner companies.

### Adherence to Principles for Mutual Development

Shinhan Financial Group conducts fair trading without discrimination with all partner companies in trading relationships. In principle, restriction in bidding and discriminatory evaluations based on company size differences are prohibited and clear standards regarding contract methods are revealed when conducting a trade with a partner company to allow for transparency. Shinhan Bank discloses its biddings through its website and clearly states for a partner relationship that can grow through mutual respect within its contracts with partner companies.

Shinhan Card attaches the corporate integrity agreement, code of conducts for suppliers, privacy and data protection requirements for suppliers in every contract, conducts a fair bidding process, and selects suppliers based on purchasing rules and regulations. In December, 2017, Shinhan Card amended the entire contract provisions for fair and proper contracts for its business and purchasing duties and responsibilities are stipulated in the standard form of contract.



### Removal of Irrationality in Trade Relationships

Shinhan Financial Group conducts satisfaction surveys with partner companies to improve on any irrationality in trade relationships and trade convenience. The trade relationship improvement activities such as improvements to the purchasing procedure, the establishment of work process, planning of group-wide events, and work inefficacy are performed based on the survey results. The 2017 survey results revealed that 82.6% of the companies are either very satisfied or satisfied with the trades and Shinhan Financial Group has been evaluated positively by its partner companies in terms of its efforts to improve relationships with them (respondents: 228 suppliers, response rate: 30.2%).

Also, we are communicating regarding distress at work sites and improvements through various communication channels such as invitation seminars, meetings, and satisfaction surveys with partner companies. Shinhan Bank listens to the voices of representatives and employees of small and medium sized partner companies through discussion meetings for mutual development and shares plans for mutual development and coexistence. Shinhan Card also holds events to address any complaints regarding trade relationships and share plans for reinforcing coexistence and new ICT technology trends through meetings by inviting the representatives. The items or content that are suggested through each communication channel are reflected in management activities to discover and remove any irrationality in trade relationships.

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**Guarantee of Fair Prices**

Shinhan Financial Group makes an effort to pay fair prices throughout all steps from bidding to payment. Preliminary briefing sessions and overviews of the entire schedule are mandatory in the bidding stage, and we are continuing to reduce the number of private contracts that cannot guarantee a fair price.

We notify the priority candidates for negotiation on the day of bidding and guarantee fair pricing by not renegotiating a quote that has been submitted within expected price range. As for the payment process, the payment schedule has been reduced from 30 days to 15 days for a speedy payment process. We also strive to establish sustained fair-trade relationships by not having separate meetings that are irrelevant to the work.

Shinhan Life Insurance avoids to select the lowest bidder (excluding the comprehensive assessment of the bidding) to enhance trade transparency, concludes reasonable contracts, and continues to reduce the number of private contracts based on the plan to increase the share of bid contracts by 30% by 2020. Also, pre-contract deposits are exempted for suppliers who concluded deals within 3 years and separate biddings are made per item to provide opportunities to various suppliers. Shinhan Card contributes to



Shinhan Card-partner company discussion meetings for mutual development

stabilizing profit models of suppliers by concluding multi-year contracts for outstanding partner companies as well.

**Promotion of Mutually Beneficial CSR**

Since 2014, the ICT department of Shinhan Card has been selecting 10 outstanding partner companies among 200 ICT suppliers each year to provide support for shared prosperity and seek for new options for mutual development. Also, the company jointly engages in social contribution activities with its partners to practice compassionate finance by utilizing their ICT expertise. In 2017, Shinhan Card provided education to get acquainted with smart devices and enhance the awareness on electronic financial frauds (explaining voice phishing cases and prevention education, etc.) for vulnerable groups in informatization.

**Outstanding partner company selection criteria of Shinhan Card ICT Dept.**

Selection criteria	Exclusion criteria
<ul style="list-style-type: none"> <li>- Transaction records of the previous year</li> <li>- Constant trade performance for over 5 years</li> <li>- Provide additional points in case of participating in new or strategic projects</li> <li>- Provide additional points for the need to enhance strategic ICT alliance</li> </ul>	<ul style="list-style-type: none"> <li>- Corporate credit rate is below B</li> <li>- Insincere implementation during the transaction period</li> <li>- Large companies whose paid-in capital is over KRW 5 billion</li> </ul>



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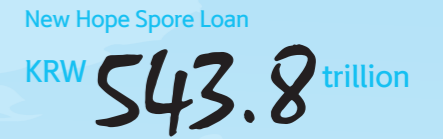
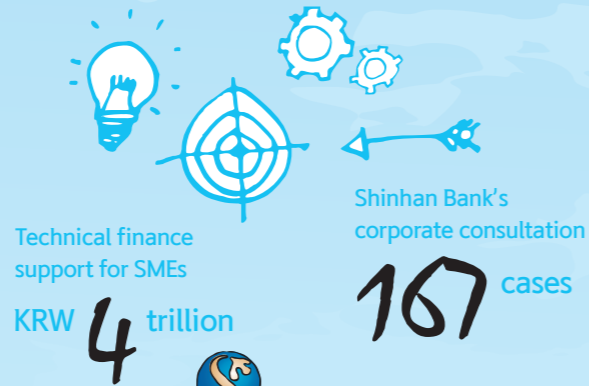
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# Improvement of Financial Inclusion

Shinhan Financial Group provides various products and services embracing SMEs, the working class, the underprivileged, and socially marginalized groups to create a virtuous circle of enhancing values of Shinhan and the society.



SMEs, the working class, and startups

Services for socially marginalized customers

Financial Services for the Underprivileged

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## Improving Social Value of the Financial Services Industry

There is a growing demand for social responsibility of the financial services industry with regard to redistribution of wealth as polarization has emerged as a global issue. Based on this background, providing products and services for financially disadvantaged groups who have difficulties in accessing financial services has become an opportunity for financial institutions to improve their brand values and secure potential customers.

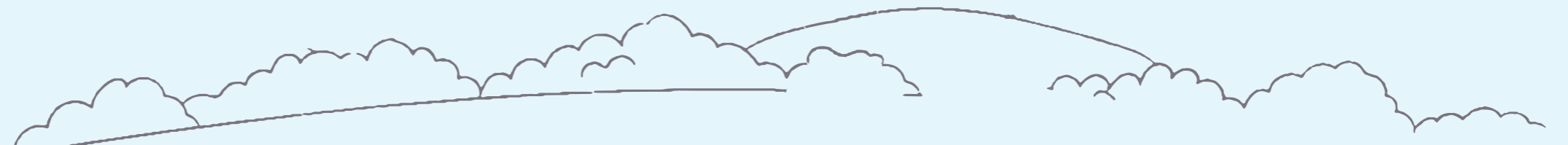
Shinhan Financial Group is fulfilling the social responsibility of a financial company through services embracing all members of the society.

Shinhan Financial Group provides corporate financing to SMEs and startups with an opportunity for growth and creates an ecosystem of mutual prosperity. We are also dealing with the financial hardships of the working class through products and services tailored to their demands.

## Improving the Convenience of Financial Transactions

Demands for the service improvement for more convenient financial transactions are increasing as the share of financially disadvantaged groups is growing along with prevalent trends of the aging population in the social structure.

Shinhan Financial Group is aligning its products and systems so that all customers including the elderly and the disabled as well as foreigners can use convenient and useful services.



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CASE STUDY

Sharing New Hopes by Writing a Letter

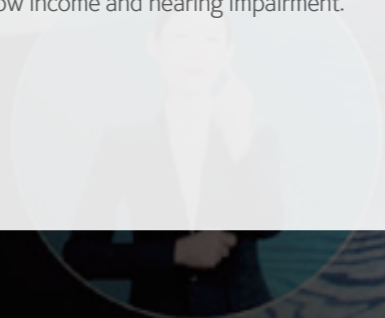
It is true that accessing financial services has become easier. However, it is still difficult for people with low credit scores or low income to receive loans. Based on this background, the New Hope Spore Loan, a finance product for the working class is providing a small help but big hope to customers who are under difficult circumstances.

A customer handed over a small note to Lee Kwang-pyo, an employee of Shinhan Bank working at the Seongsu-dong branch. The customer was a hearing-impaired person and his message read as follows, "Please, write down what you say, I have a hearing loss."

His name was Choi Jun-suh and he needed emergency loans to live on but was rejected several times due to disadvantages of low income and hearing impairment.

He joined the company only 2 months ago and his bank account balance was not enough to meet the loan requirements. However, Shinhan Bank provided the New Hope Spore Loan to him in recognition of his diligent efforts demonstrated in previous workplaces, despite many unfavorable conditions.

Likewise, Shinhan Financial Group intends to deliver a voice of hope to more customers through New Hope Spore Loans. Shinhan will be your financial partner who truly supports your future in order to build a hopeful society where everyone lives a happy life.





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## Mutual Growth with SMEs and Startup Businesses

### Support for the Growth of SMEs

Fostering SMEs as the backbone of national economy is one of key roles of financial companies contributing to a virtuous circle for the society through compassionate financial activities. Small and medium-sized companies are still facing unfavorable conditions in conducting their businesses, although the society's perspective on them is changing and there is a growing number of policies and instruments being implemented to support SMEs. Hence, the SME and Venture Financing Department of Shinhan provides financing support and consulting services to them according to the stages of corporate life cycles through business agreements with external agencies. In line with government policies, Shinhan Financial Group offers financing supports that are tailored to the purposes of job creation, companies engaging in new growth engine industries, ones with outstanding technologies, and the ones creating social and economic values in order to encourage their growth.

Shinhan Financial Group is also expanding partnership agreements with public institutions and other external agencies and developing low-interest loan products. Shinhan Bank has jointly developed and provided guarantee secured loan programs with Korea Credit Guarantee Fund (KODIT) and Korea Technology Finance Corporation (KOTEC) as well as funds at low interest rates along with the Ministry of Employment and Labor (MOEL) and Ministry of Trade, Industry and Energy (MOTIE) according to the government direction to support SMEs.

### Providing Comprehensive and Customized Solutions

Shinhan Financial Group supports the long-term growth of SMEs through corporate solutions in consideration of their various business circumstances.

Shinhan 'Creative Finance Plaza' is a unique organization of Shinhan Financial Group specializing in the provision of comprehensive solutions based on distinctive features of subsidiaries including Shinhan Investment, Bank, Life Insurance and Capital and expertise of IB. Creative Finance Plaza recommends optimal financial solutions and specialized products and services to unlisted companies, small and medium-sized enterprises. Currently, 14 Creative Finance Plazas are installed to form a nationwide network and relationship managers (RMs) of Creative Finance Plazas and banks cooperate together to provide corporate financing services to small and medium-sized enterprises in need of capital based on their operating areas.

In 2017, Shinhan Bank conducted a total number of 167 corporate consulting cases to offer professional consultancy services in specific areas including finance, accounting, taxation, management, global operation, and management succession.

### Expansion of Synergies with Startups and Venture Businesses

The ICT industry that is mainly led by startups not only poses new challenges but also creates opportunities to financial markets. Shinhan Financial Group utilizes its platform to create an ecosystem of coexistence with startups and venture businesses and discover new growth engines. We also expand our supports in the form of investment and loans and increase the possibility of successful businesses through financing solutions so that they can grow into solid medium-sized companies.

In December 2017, Shinhan Bank and Korea Venture Business Association concluded a 'strategic agreement to support the innovative growth of venture businesses' to create a cooperative network to discover and support venture businesses with outstanding technologies and provide prime rates to companies with superior performances. Shinhan Bank launched 'loans for leading companies of new growth industries' to support promising businesses equipped with technical prowess and growth potential sufficient to lead the fourth industrial revolution. It also has installed Do Dream Space and operated programs to foster startups with the goals of training 300 persons and supporting the launch of 20 startup businesses each year.

Shinhan Bank's corporate consultation

167 cases

Technological Finance Support (Tech Credit Bureau Loan)

6,798 companies

KRW 4 trillion\*

\* Total 21,688 cases, KRW 12.3 trillion (as of the end of 2017)

Relationship-oriented Finance\*

964 companies

KRW 480.40 billion

\* Supply fund utilizing the information on technological capacity and business outlook

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Support for Small Entrepreneurs for Their Successful Business

Independent business owners and small entrepreneurs, who form the backbone of the Korean economy, are facing difficulties due to intensified market competition and long-term economic depression. Shinhan Financial Group is expanding its support for small entrepreneurs that is previously centered on loans in order to provide fundamental solutions and root for their success. We are also contributing to ensuring liquidity by providing financial support such as the Loan for Promotion Fund for Small Entrepreneur Market along with the Special Guarantee Loan for Company Restructuring and Job Support. Meanwhile, we provide non-financial services to reinforce the competitiveness through supporting startup lecture halls, and business district consultation utilizing Shinhan's business district system.

'Project S', which was designed to support small entrepreneurs for their successful business, provides three differentiated programs. To be specific, 'Shinhan SOHO Community' regularly updates sales tips and the latest market trends via online and 'Shinhan Secrets of Success Seminar for Independent Business Owners' and 'Shinhan SOHO Incubation Program' provide trainings for

practical business activities. 'Project S' is different from Shinhan's loan-based and one-dimensional support in the past and directly supports small-scale business owners to succeed and grow further in various fields by helping them to enhance their capabilities.



The 2nd Workshop on Shinhan SOHO Incubation Program'

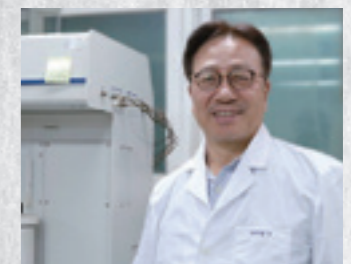
Supporting Partner of SMEs and Venture Businesses, the Shinhan Bank SME-Venture Business Dept.

Micropore was established in 2000 with the goal of developing materials based on its porous ceramic foam patent. However, its business activities were limited to sample sales and unable to make profits due to the manual production process.

Owing to the boom of the display industry, the device industry was becoming more active as well and which served as an opportunity for the company. Our samples were considered as a potential replacement of insulation material for S Display's products. However, Micropore, as a small-sized company, was in a vary unfavorable condition at that time. We did not have proper equipment and facilities for mass production and were inexperienced to develop a business plan to attract investment. After much consideration, Park Jae-gu, the CEO of the company and professor, visited Shinhan Bank and finally discovered a breakthrough to attract investors.

The Corporate Consulting Team under the SME-Venture Business Department of Shinhan Bank designated consultants to conduct a precise analysis on our business potential. They helped us to develop a business plan from the investor perspective with our technological capacity and marketability during the analysis and continued to provide consulting services throughout the entire process of investment.

As a result, Micropore successfully concluded MoUs for investments with venture capitals, attracting investment worth KRW 3 billion in total. We are currently in the stages of plant purchases and equipment ordering. It is very difficult for a university-based startup to attract investments as it takes a long time for research and development. However, Micropore was able to secure a new opportunity for growth thanks to thorough analysis and consulting services of Shinhan.



Park Jae-gu, Micropore CEO and Hanyang University Professor

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## Inclusive Finance for Financially Disadvantaged Groups

### Microfinance Support

1,575 cases

KRW 17.82 billion\*

\*10,558 cases and KRW 138.2 billion in total

#### Shinhan Microfinance Foundation for the Working Class

In October 2009, Shinhan Financial Group announced participation in the Microfinance Project for the first time among financial companies and launched the Shinhan Microfinance Foundation. The Shinhan Microfinance has been supplying small loans for opening businesses and operating funds without collateral or guarantees for the financially disadvantaged groups, who are unable to receive loans from major financial institutions due to low credit ratings and low income.

### Developing Products to Support the Working Class

Protecting marginalized groups in financial blind spots and providing them with stable financial services are basic social responsibilities of financial companies. Shinhan Financial Group practices compassionate finance as a partner of customers who shares and grows together through products supporting the working class and improves the quality of their lives by providing multiple products. Shinhan Financial Group offers products, services, and solutions tailored to the needs of the working class and disadvantaged groups and promotes inclusive finance that contributes to removing financial blind spots.

Shinhan has arranged a business agreement with the Korea Inclusive Finance Agency in July 2017, and became the first financial group providing microfinance, public and private debt adjustments, and job support for the working class. Our efforts were recognized by the Financial Supervisory Service (FSS) as best practices in financial support for the working class.

In 2017, we surpassed our financing target of the 'New Hope Spore Loan', a product for the working class and customers with low credit ratings and low income, and were selected as the 'most outstanding institution with regard to activities for supporting the working class finance' for 5 consecutive years. The New Hope Spore Loan is a loan program available in all banks dedicated to the working class who have to rely on products with high interest rates provided by non-monetary institutions or lenders due to low credit ratings and low income. According to the FSS, the total amount of financing through the New Hope Spore Loan was KRW 3 trillion in 2017, a 32% increase compared to previous year. Among them, Shinhan Bank accounted for KRW 543.8 billion.

Shinhan Bank was the first Korean financial company which launched 'Sunny New Hope Spore Loan', a mobile-only product that does not require any paperwork or branch visits, setting an example for the industry. The bank also financed KRW 109.3 bil-

lion through 'the Mid-Interest Rate Loan for the Working Class', a representative mid-interest rate loan program, reaching the No. 1 spot in the banking industry.

Shinhan Card launched the 'Deep Dream' card, a card tailored to the lifestyle of the working class to mark the 10th anniversary of integration. Deep Dream card with benefits of saving money on living expenses to the highest level in the country was widely accepted by the working class and the number of card issued exceeded 500,000 as of December 2017. Shinhan Savings Bank is also doing its best to expand financing support for the working class based on synergies of Shinhan Financial Group. Shinhan Savings Bank operates Hug Loan Linked Services to provide loans to customers who were unable to receive the same service through Shinhan Bank.

### Providing Services to Support the Working Class

Shinhan is not only continuing to provide financial supports to the working class but also promoting options to relieve financial difficulties of customers with poor credit management capabilities. We have reinforced our roles as a financial consultant to vitalize debt adjustments of customers to help their financial independence.

Shinhan Bank collectively wrote off all bad loans of the socially marginalized groups including the beneficiaries of national basic livelihood, disabled people and the elderly worth KRW 440 billion and provided debtors with a service to inquire about their debt status in order to help them recover their credit status.

Efforts to improve customers' financial knowledge are made as well to prevent the lack of credit management and the ensuing difficulties. Shinhan employees are trained to build counseling competencies to manage credit risks of customers and we are also promoting financing support for the working class through various channels.



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**A Society in Which Differences are Accepted**

Shinhan Financial Group strives to introduce technologies and improves practices so that all customers can use convenient and safe services regardless of their age, disability, and nationality. We have established non-face-to-face channels tailored to the elderly, people with disabilities, and foreigners and created an environment where anyone can utilize financial services through a situational response service and directory and manuals for call center.

For the first time among Korean banks, Shinhan Bank released 'Future Design for You', a mobile app providing customers who are in the retirement age group with financial and non-financial information in January 2017. The app was designed to have larger font size and more easily accessible menus compared to the existing mobile banking applications to create a better experience for senior customers. Customers are also provided with detailed retirement consulting services through Korea's first one-stop retirement planning platform 'Future Design for You'.

We provided open banking services to visually impaired customers and adopted smart OTP for hearing impaired customers so that they can easily access to our online services by improving the use procedure.

For foreign customers, we operate a directory for the call center dedicated to foreign customers providing translation and consulting services in foreign languages. We have provided 6 foreign language services including English, Japanese, Chinese, Vietnamese, Mongolian, and Thai and three more languages (Russian, Cambodian, and Filipino) are added in May. Foreign customers can also enjoy foreign language services in our mobile platforms. In particular, 'Wongok Foreign Exchange' in Ansan city, Gyeonggi Province, has developed and provided financial services tailored to the needs of foreign customers.

**Joint Heart Window for Seniors and People with Disabilities**

Joint Heart Windows are installed in about 690 branches of retail and financial centers across the country and dedicated employees trained to protect senior customers who are vulnerable to financial transactions are stationed to explain prime rate programs and other products tailored to senior customers. Recently, Shinhan Bank has expanded and operated the counter to provide inclusive services to people with disabilities as well by changing its name to the 'Joint Heart Window for Seniors and People with Disabilities'.

Shinhan Bank created 'Sign Language Consultation Services' and installed telephones dedicated to disabled customers in key branches to provide them with better services. For visually impaired customers, the bank has adopted the terms and conditions in braille and established a process to report complaints in braille by making the application of VOICE1 (text to speech conversion code) to the terms and conditions and product manuals as mandatory.



Shinhan Bank practices inclusive finance

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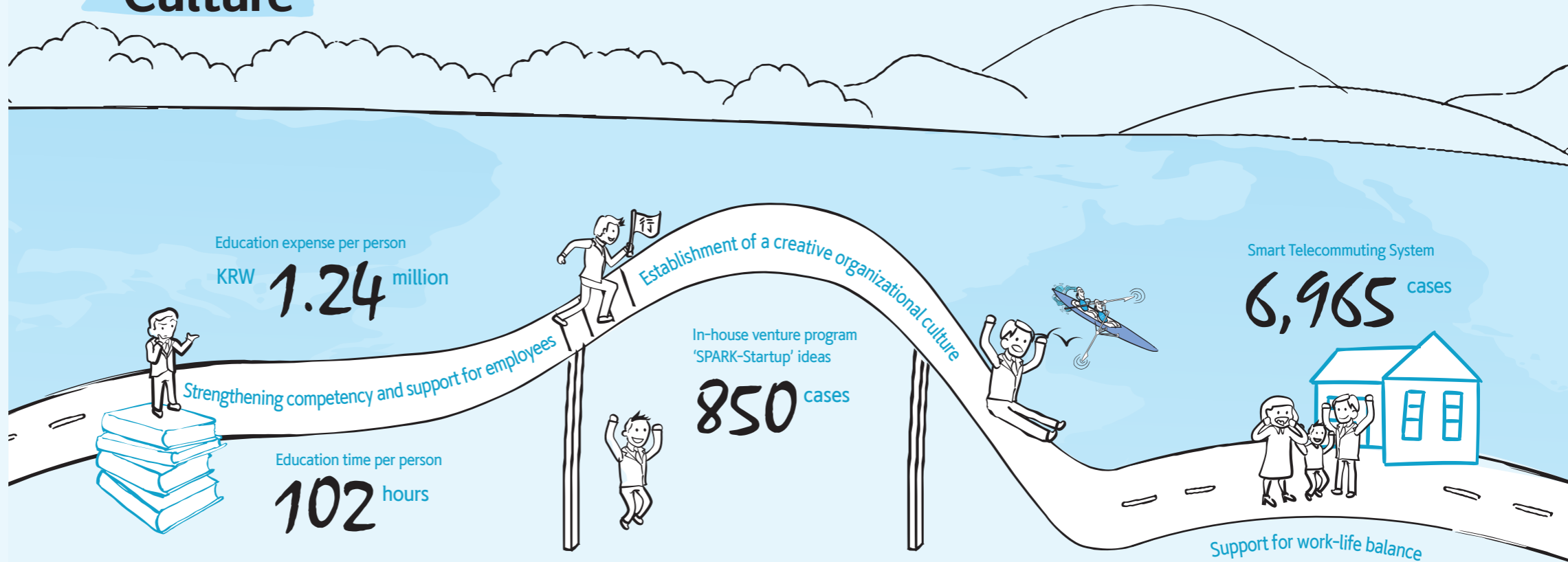
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# Establishment of a Creative and Open Culture

Shinhan Financial Group strengthens employee competency and promotes changes through a creative and innovative corporate culture. Also, we strive to create an employee-friendly working environment to make a company in which all employees are happy.



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## Fostering Financial Talents for Creation and Innovation

Shinhan Financial Group is fostering talents with digital competencies with the firm belief that 'people' are the fundamental sources of innovation and change.

We provide platforms where employees demonstrate their creativity from the perspective of an organizational culture and encourage a communicative culture to establish a flexible and creative organization. To this end, we create our unique culture that identifies changes of the era and takes the initiative.

## Smart Working System for the Work-Life Balance of Employees

Employee happiness is linked to customer satisfaction. Shinhan Financial Group supports the work-life balance of our employees to create a virtuous cycle of maximizing customer satisfaction by establishing a happy corporate culture.

To this end, we are implementing the smart working system and expanding its scope to improve the quality of life for more employees. Also, we are providing systems and institutions for maternity protection and promoting a corporate culture in which mother, child, and all family members are happy.





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CASE STUDY

Open Culture to Respect Diversity

Creating a flexible organizational culture and a corporate culture that respects diversity are increasingly important along with rapid ICT changes and globalization of the corporate market. Furthermore, there are growing trends to attract and retain talents with various experiences and values, promote to utilize female talents, and build a culture of gender equality in the workplace to enhance corporate adaptability and creativity.

Shinhan Financial Group is pushing for 'measures to foster female talents' to nurture female business leaders to increase the contribution of women employees with outstanding creativity, empathy, communication capabilities to the organization as well as corporate diversity and flexibility for sustainable growth. In December 2017, for instance, we have installed a task force as the group level to nurture female managers, analyzed related systems, benchmarked the best practices of leading businesses and developed a mid-term roadmap with the aim of fostering female talents. We plan to establish a cooperative channel among subsidiaries through the Shinhan Women Leaders Forum and Women's Committee within the group to come up with detailed plans for implementation.

Shinhan Financial Group will emphasize an organizational culture of recognizing diversity to foster female talents, set gender equality goals, and develop a monitoring system to track the status of goal achievement. Furthermore, we are making efforts to support the work-family balance for employees and improve working conditions to create an infrastructure that allows women to freely showcase their abilities and avoids their career disruption. Specifically, we are planning to develop a plan to foster women managers and expand the plan to our global network in the future from the long-term perspective so that we can remove stereotypes of gender roles and provide inspiring role models for women leaders.

Women middle managers (manager or higher positions)

2,489 persons

22.7%



Shinhan Bank's communication brand Do Dream

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## Nurturing of Technology and Trend-oriented Talent

### Strengthening Employee Competency in Technology and Trends

Reinforcing the digital competency of employees has been selected as an important strategic task as the group as a whole is being managed in terms of a talent pool. Shinhan Financial Group is also operating a digitally innovative organization and a digital training program for employees. In July 2017, Shinhan Digital Innovation Institute (SDII), a group of experts to concentrate its new digital technology competencies was launched. SDII is composed of 5 labs (AI, blockchain, Open API, cloud computing, and digital experience) and 57 employees of the holding company and subsidiaries with expertise in related fields are participating in SDII to promote the group's digital transformation strategies. Furthermore, Shinhan Financial Group has installed a master's degree program dedicated to digital financial engineering to develop experts on the core financial technologies of the future. We are planning to secure 1,000 digitally talented employees and about 100 experts by 2020.

### Establishment of the SFG-Korea University' Digital Financial Engineering Master's Degree Course

Shinhan Financial Group and Korea University signed on an agreement to install a master's degree course in the Digital Financial Engineering Department of the same university combining digital theories and financial practices and opened a first lecture in April 2017. Both parties recognized the urgent need of fostering talents in order to respond to the rapidly changing digital environment and installed the Digital Financial Engineering Master's Degree program providing digital theories of Korea University and practical experiences in the financial businesses of Shinhan Financial Group for the first time in Korea.

More than 500 employees applied to participate in the program during the enrollment period in March, representing a heightened interest in the development of digital capabilities, and 30 attendees were ultimately selected. Korea University plans to provide in-depth training programs by strengthening the teaching staff with lecturers of its Graduate School of ICT, ones from other Graduate Schools, and the best civil experts in the same field.



### Fostering Financial Talents

Each subsidiary of Shinhan Financial Group provides various education and training programs to enhance employee digital capabilities and brace for the new era of change.

Shinhan Bank is reinforcing the competency of its professional workforce in the field of asset management and corporate financing for developing professional manpower with consulting capabilities and developing talent that can respond to environmental changes in the future through ensuring job flexibility. Shinhan Bank has established intensified courses for corporate financing and asset management to educate its employees and operated its 'Career Plus School' program for those who hope to work in certain positions in the departments at the headquarters (IB, Dealer, Risk, Digital Banking, Big Data, IPS). Shinhan Savings Bank also established the RM school to enhance RM capabilities and the understanding on loan sales of employees.

Education time per person

101.9 hours

Education expense per person

KRW 1.24 million



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## Creative and Communicative Culture Leading the Future

### Operation of a Creative Organization to Discover New Growth Engines

Shinhan Financial Group strives to enrich employees' creative capacities for constant change and innovation. We operate various creative groups to develop a process that employees voluntarily provide creative ideas, and leaders support the realization of such ideas.

Shinhan WM group launched its first Wealth Management Innovators (WMIs) in March 2017. WMIs are composed of employees dedicated to seek new changes in the WM business and they discover and recommend creative ideas in various fields and carry out roles as windows for communication with sites and the WM group.

Shinhan Bank operates in-house venture program 'SPARK-Startup' in which employee can freely provide and realize finance-related ideas. Shinhan Card has invited employees to participate in a venture program titled 'In-house Venture 220M VOLT' and operated 3 venture business teams (VEN) in areas of weddings, medical contents, and P2P based on the selected ideas after incubation and review.

### Expansion of Communicative Culture for Change and Innovation

Shinhan Financial Group emphasizes a value of communication for change and innovation by removing barriers between subsidiaries and ranks to expand the communicative culture. The opinion leader group S-Force and Young-Force, a group equivalent to that of the deputy manager level, were established to carry out activities to continue Shinhan culture's creativity and its advancement. In addition, there is S-SQUARE, which discusses major items on the agenda within Shinhan Bank and makes suggestions to employees, and the Smart Work Campaign which shares the management philosophies of the CEO with employees and makes an effort to reflect employee opinions in the company policy.

#### Do Dream Your Heart, Shinhan Bank's Communication Brand 'Do Dream'

'Do Dream' is a communication brand of Shinhan Bank and it has more meanings than just a simple communication event. 'Do Dream' is an open window where the President of the Bank meets employees regardless of ranks and positions. Shinhan Bank intends to develop various channels to freely discuss with employees at sites by removing invisible barriers to communication. Shinhan expects to become an unparalleled leading bank in the rapidly changing financial environment by unleashing the power of communication.

### Shinhan Bank's In-house 'SPARK-Startup', a Creative and Innovative Platform for Employees

Shinhan Bank's 'Donggodongrak Trust', which was released by the first in-house venture team, has sold KRW 575.4 billion as of November 2017. The product was developed based on the idea of an in-house venture team, which was to link customer profits to bank's yield rates together, and recorded as the first achievement of 'SPARK-Startup' with a yield rate of 4.37% as of October 2017.

The secret to success in the product was the determination of our employees to practice compassionate finance to develop a product that customers wish to purchase after putting a lot of thought from the customer perspective. It was a result of Shinhan's differentiated support for the successful establishment of the program as well. For instance, employees whose idea is ultimately selected are provided with an independent office and are allowed to select their working hours by themselves. When the project is completed, they are allocated to departments related to the project in order to support their career development and incentives are provided as well based on the result.

In 2017, 850 ideas were submitted to SPARK and 2 ideas were selected to be developed as startup businesses in the end. The ideas include credit loans for merchant stores based on big data such as card sales, and an investment trust product based on various types of real estate. Two teams of task force members established business models in detail by October and they are now developing products from November.





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## Smart Working System for Work-life Balance

### Smart Work System Usage Status

Flexible Commuting System

**12,928** persons  
**1,160,231** cases

Smart Working Center

**621** persons  
**6,770** cases

Smart Working Center

**265** persons  
**6,965** cases

## Smart Working System Leading to Employee Satisfaction and Customer Trust

Shinhan Financial Group intends to realize a corporate culture of creating a great place to work so that employee satisfaction can lead to the best customer service.

Shinhan Bank has implemented the Smart Work System in July of 2016 to expand the creative and innovative culture through changes in the way of working. Therefore, employees were able to work without being limited in terms of time and space by implementing Smart Working Centers, the Smart Telecommuting System, and the Flexible Commuting System. The scope of the Smart Work System has expanded in 2017. For instance, the Flexible Commuting System was expanded by requiring employees to use the system for more than three times per week, which was stipulated to use it for two times per week. Also, 105 employees who were subject to the Smart Telecommuting System were officially appointed. Shinhan plans to further discover smart telecommuting duties to increase the number of employees under the program and reinforce flexible working hours in line with the Flexible Commuting System.

### Shinhan Card DT, Transformation to an Innovative Organization

Digital Transformation (DT), an independent digital unit of Shinhan Card, is radically transforming the corporate culture in innovative ways. First, it simplified the previous 6-job level structure as manager, pro, etc. and introduced and implemented a flexible working system and autonomous working hour system. Based on this, Shinhan Card plans to transform itself as an organization similar to startup businesses with an organizational culture and working environment that are equal to the leading ICT companies at home and abroad.

Second, we have established a horizontal naming system for the first time among Korean financial institutions and which is an innovative system to break down the vertical organization culture and structure of commands and orders and vitalize communication and cooperation. Moreover, we plan to improve the productivity of digital talents through the flexible working system and get rid of the employee dress code entirely to invigorate a young, job-based, and dynamic organizational culture.



Smart Working Center of Shinhan Bank

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### Better Work-life Balance of Employees through Maternity Protection and Childcare Support

Shinhan provides various welfare systems with regard to childcare and parenting to support the work-life balance of employees. Along with the maternity leave, we provide a series of working hour systems including a shortening of daily working hours for pregnant employees by 2 hours and the flexible working hour system, etc. In addition, Shinhan Card systemized all regulations and institutions related to pregnancy at work such as vacations for prenatal diagnosis, maternity leave before after delivery and others in order to support the maternity protection systematically and proactively.

Shinhan Card has introduced the Flexible Commuting System to reduce working hours so that employees can strike a balance between work and childcare through the Shinhan i-Care program, guaranteed menstrual leave for fertile women and provided fertility leave and the cost of fertility treatment. We also provide pregnant employees with designated chairs to help them reduce pregnancy fatigue. We plan to extend the period of maternity leave and introduce infertility leave to reinforce childcare support for employees.

We are also strengthening childcare support for employees by expanding childcare facilities. Shinhan Bank is currently operating 4 company daycare centers in the metropolitan area and has admitted more children and installed new centers to build an envi-

ronment to accommodate 200 children. In 2018, we plan to maximize synergy effects by building childcare centers for employees of Shinhan Financial Group from the One Shinhan perspective.

### Operation of Employee Welfare Programs

Shinhan Financial Group implements various systems and programs to improve employees' health and welfare.

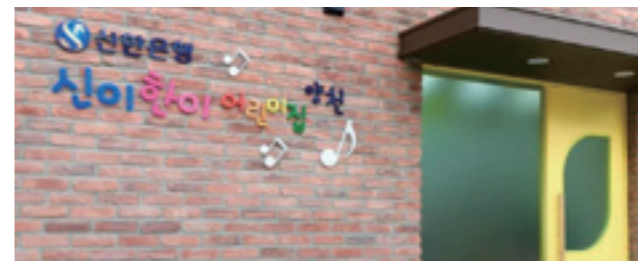
Shinhan Bank operated a health improvement program titled 'Reducing Biological Age' for the systematic management of employee health. The company provided the estimation of the biological age of vital organs, exercise tips to stay young, and diet methods to promote a healthy lifestyle among employees and create a health workplace. Shinhan plans to introduce the Shinhan mental health diagnosis program in 2018 to expand its support for mental health of employees such as stress and depression management, parenting, and improving marital relationships. Also, the employee health checkup system, medical expense support system, and employee marathon and walkathon events are operated at the group level.

Shinhan encourages in-house club activities for employees to develop their hobbies and pursue happiness. Shinhan has implemented a club incubation program and Communication Up program along with clubs within the company. As of 2017, 1,155 employees are actively participating in 33 clubs.

Meanwhile, we have established various welfare facilities such as a cafeteria, cafe, and gyms to improve the working environment and convenience for employees. We also provide leisure resorts at home and abroad to provide employees with an opportunity for rest and refreshment.



Health promotion campaign, Hangang Night Walk 15K



Shini Hani Children's Homes in Yangcheon

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Participation in Local Communities and Social Contribution Activities

Expansion of Responsible Investment

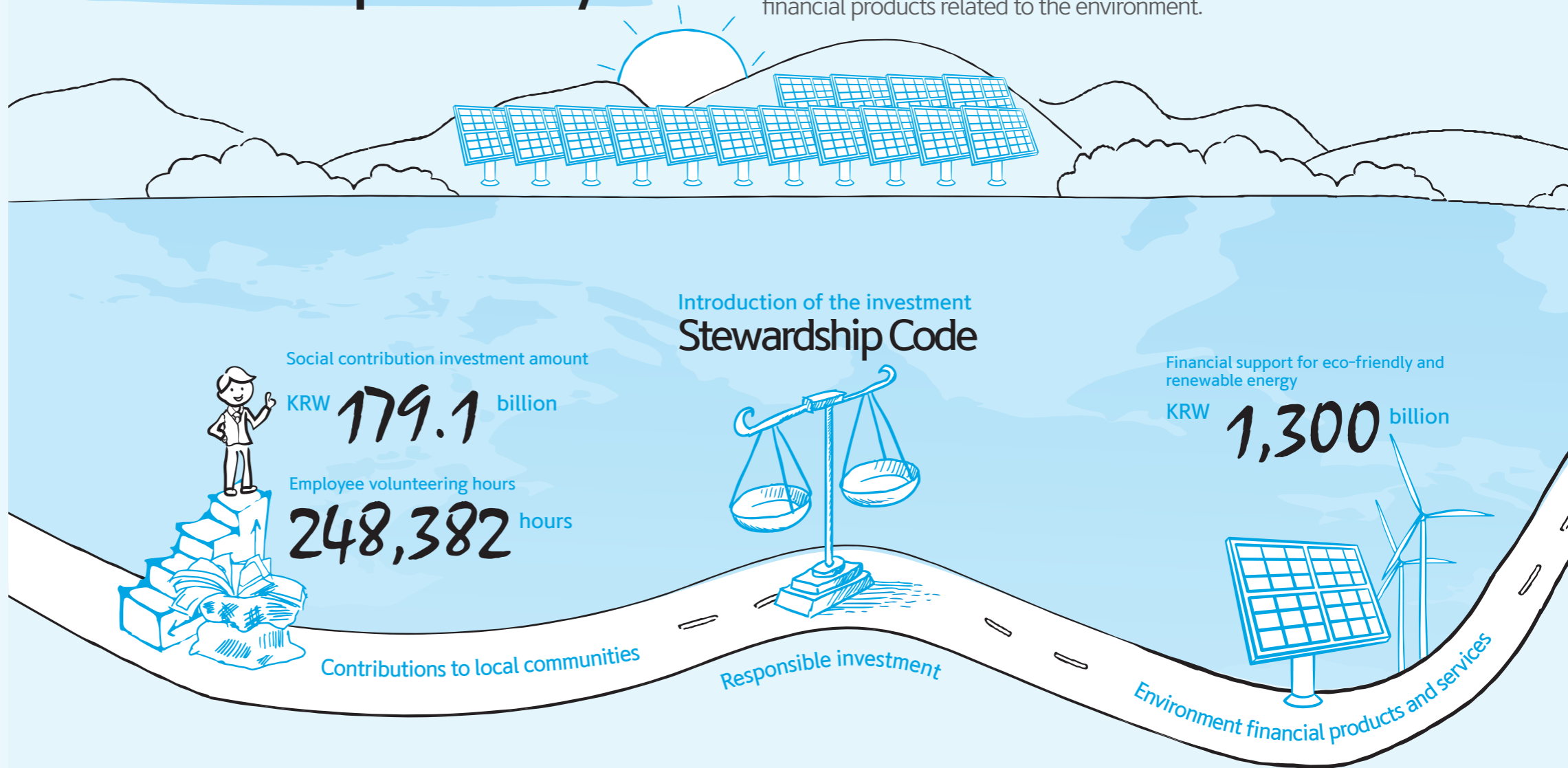
Providing Green Financial Products and Services

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# Realization of Positive Social Responsibility

Shinhan Financial Group engages in various social contribution activities for local communities, introduces the Stewardship Code to fulfill social responsibilities relevant to its core business of financing, and operates financial products related to the environment.





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## Increasing Community Investment

Shinhan Financial Group promotes compassionate finance that increases the values of both Shinhan and society together and creates synergies.

Shinhan Financial Group recognizes 'social contribution' as a 'mutually beneficial activity' that raises values for the customers, Shinhan, and society and designated the 3 major fields of social contribution that includes 'welfare, culture, and the environment', while performing volunteer work and donations in the form of activities relevant to our core business of 'financing'.

## Expanding Responsible Investments and Green Financial Products

The introduction of the Stewardship Code became a hot issue in 2017, as the National Pension Service prepared to adopt the Code, emphasizing fiduciary duties and social responsibility. In addition, the importance of corporate non-financial factors is growing as various stakeholders including customers, shareholders, and investors begin to consider not only profits but also its positive impact on society.

Shinhan Financial Group has responded to such market changes by creating new business opportunities while resolving social issues through the development of eco-friendly products and services, vitalization of green finance in partnership with public institutions, and operation of SRI funds. Furthermore, it has been contributing to the spread of environmental management throughout society.



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Compassionate Finance,

Your Companion for the Future

'Society of Hope Project'

Shinhan Financial Group launched a new social contribution project to practice its mission 'Compassionate Finance, Your Companion for the Future' with the spirit of 'benefiting the world through the power of finance'. The 'Society of Hope Project' represents the determination of Executives and the Board of Directors that all subsidiaries of Shinhan will lead the efforts for the sustainable growth of the Korean economy and realization of social values.

Shinhan Financial Group plans to engage in 'mutually beneficial activities' that raise values for the customers, Shinhan, and society and support income-led growth and innovation through the 'Society of Hope Project'. It is a social contribution program of injecting KRW 270 billion by 2020 in total to support the income earning activities of socially marginalized and low-income groups and the growth of SMEs.

We are helping customers with low credit ratings, employment of women with low-income, youth seeking work overseas, establishment of after-school childcare centers for their economic independence. We also aim to contribute to enhancing

individual and institutional capabilities by supporting urban regeneration projects and youth training for the fourth industrial revolution from the perspective of innovative growth. All subsidiaries of Shinhan Financial Group will continue to implement the 'Society of Hope Project' by 2020 to be engaged in more strategic and developed social contributions.



Financial Recovery Program for People with Low Credit Ratings

Shinhan Financial Group has arranged a business agreement with the Ministry of Employment and Labor (MOEL) to provide a financial recovery program for people with low credit ratings as its first 'Society of Hope Project'. Among 5,000 applicants who are participating in the Successful Employment Package Program of MOEL, those who are subject to be engaged in the second stage of career training are provided with partial living expenses for 6 months to the maximum by the Credit Management Consulting Team of Shinhan Credit Information, besides training allowances. Shinhan Credit Information also provides them with credit and financial consulting services. The Credit Management Consulting Team has been expanded and operated to provide more active and engaged consulting services since early March.

Providing Support for After-school Child Care Centers for Women Experiencing Career Disruption

Shinhan Financial Group has signed an MoU with the Ministry of Gender Equality and Family and invested KRW 5 billion to support about 5,000 socially marginalized women experiencing career disruption to continue their work. Also, we will implement a project to 'establish after-school child care centers by injecting KRW 9.5 billion to build basic facilities that are favorable to parenting within the community.

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## Participation in Local Communities and Social Contribution Activities

Social contribution expenses

KRW **1,791** million

Employee volunteering hours per person

**248,382** hours

## Social Contribution System and Activities

Shinhan Financial Group has been conducting businesses to support social minorities, disadvantaged groups along with the culture and arts, and the environment, and providing volunteer activities based on its coexistence, sympathy, and symbiosis which are its philosophy on social contribution.

The 'Grand Festival of Volunteer Work' consisting of various activities for mutual coexistence with local communities was first held in 2008, and all group employees attend the event between April and May each year. The 2016 Grand Festival of Volunteer Work was held under the slogan of 'Global One Shinhan' and overseas employees carried out various volunteer activities in welfare facilities in their regions such as Vietnam and India.

Our efforts for social contribution in consideration of the environment are constantly made in various forms. Shinhan Bank has installed sunlight power generation equipment in 26 welfare facilities and started the rooftop garden project since 2009. We also donated and recycled unused PCs belonging to the company and our employees, contributing to energy resource conservation and reuse.

The social contributions of Shinhan Financial Group have been creating a ripple effect across society and performance through continuous support over a long period of time to bring actual changes to the local community. The fund of KRW 100 billion endowed from the group was used to establish the 'Shinhan Scholarship Foundation' in 2006 and it has given out scholarships amounting to KRW

22.6 billion to 6,031 students since its establishment. The scholarship program helps to identify prominent students who are suffering from harsh living conditions, in order to help them fulfill their potential.

Shinhan Bank is improving the facilities of senior welfare centers and senior community centers to improve the quality of life of the elderly in the era of the silver generation. Shinhan Bank has made a business alliance with the Ministry of Health and Welfare and the Korea Association of Senior Welfare Centers to build THE Dream guest rooms with the aim to establish a cooperative system for senior welfare and installed its first Shinhan THE Dream guest room in the municipal welfare center for seniors in Yongsan.

Shinhan Card has been operating the 'Arumin', the first website dedicated to donations operated in the financial industry as well as the first social contribution brand of the Korean card industry, for over 10 years. As of the end of 2017, over 270,000 customers have participated to collect KRW 5.2 billion in total. This has helped us to lead the way for the culture of small donations as an exemplary channel of donation in the financial industry.

Meanwhile, Shinhan Life Insurance has designated October as the period of '1004DAY Grand Festival of Volunteer Work' and has been engaging in volunteer activities to practice sharing with local communities since 2011. The company conducted the 'Compassionate Wall Painting' project in 2017.



Shinhan Financial Group's volunteer work – Creating Clean Cities Together



Shinhan Life Insurance's 1004 Grand Festival of Volunteer Work – Compassionate Wall Painting



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Incheon Shinhan Bank S-Birds Women's Basketball Team

**Sports Sponsorships**

Shinhan Financial Group is making efforts to vitalize the sports culture and support athletes and related infrastructure in Korea. In 2017, Shinhan Bank has concluded a contract with the Korea Baseball Organization (KBO) to become the title sponsor of the KBO league worth KRW 24 billion for 3 years. Shinhan became

the first financial company supporting the KBO and recorded the largest amount among the professional sports league sponsors in Korea. Also, it served as an opportunity for Shinhan to get closer to the public by becoming involved with the national pastime.

Shinhan Financial Group launched the 'Shinhan Rookie Sponsorship Program' in 2011, which is a program that sponsors prominent Korean sports athletes over the long term. We are also sponsoring Kwang Ki Lee, and Magnus Kim who are all prominent ski athletes, despite skiing being an unpopular event in Korea, but the sport will be featured at the Winter Olympics to be held in Pyeongchang in Gangwon-do in 2018. Furthermore, Shinhan supported the Korea Basketball Tournament, the most prestigious game among amateur basketball competitions as an official sponsor of the women's basketball league in 2017 and 2018.

**Global Social Contribution**

Shinhan strives to strengthen its social contribution activities in overseas to create bigger social impact.

In 2017, we published the CSR Guide for Global Shinhan and released it to 150 Shinhan networks in 20 countries. We expect that the CSR Guide for Global Shinhan will provide directions in our social contribution efforts overseas by discovering sustainable social contribution projects that support and fulfill the needs of the regions.

Shinhan Bank's volunteer group visited children's hospitals in Yangon and Yankin of Myanmar along with volunteers from Seoul National University Hospital to provide medical volunteer services and distribute advanced medical technologies. We also provided a children's fund in Vietnam and 7 other countries and engaged in scholarship programs and various social contributions activities in overseas.

**Shinhan Financial Group, Youth Vocational Training Center in Vietnam**

In 2013, Shinhan Financial Group opened the Vocational Training Center in Ho Chi Minh City, Vietnam. The center provided about 2,500 young Vietnamese with employment and entrepreneurship education programs with an injection of KRW 1.4 billion. Youth from low-income families living in the city were also able to benefit from career training programs including those in Korean language, accounting, computer repair and computer on office automation (OA). Program participants were young people who were unemployed and failed to enter higher educational institutions due to their poor family background or those who came to the city seeking for jobs. We supported them to get a job by providing education for free.

After graduating from high school in Long An Province, Wing Knoc Bao Win was living in difficult conditions to take care of his elderly parents and other family members. One day he had been given a chance to learn the Korean language and computer OA for 8 months in the center and began to work as an intern. With his enhanced Korean language skills, he later joined a Korean company in Long An Province as an interpreter as well as quality assurance manager and was able to enjoy a better life.

Shinhan will continue to provide vocational training to students and youth from low-income families in Vietnam to help them gain higher incomes and economic independence.



The 8th graduation ceremony that took place at the youth vocational training center in Vietnam

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## Expansion of Responsible Investment

### Efforts to Increase Responsible Investment

Shinhan is making various efforts to expand responsible management factors in its investment environment. For instance, Shinhan BNPP Asset Management utilizes external consulting agencies to assess the non-financial factors of each business for corporate analysis as its investment target. We regularly review corporate analysis data, attend relevant seminars, and immediately reflect governance or social and environment issues to the responsible investment portfolio when they occur. We are further seeking options to apply non-financial factors to our research materials and data.

In December 2017, we introduced the Stewardship Code containing contents related to socially responsible investment. Also, we plan to foster socially responsible investment funds on a consistent basis. Socially responsible investment funds are strategically selected centering on the ones with a huge growth potential, although the value of assets management is relatively small. We will do our best to attract pension funds and institutional funds in the future.

Meanwhile, we are providing the customers with marketing and education programs at the group level to raise their awareness on responsible investment. Through these efforts, we are enhancing customers' understanding on non-financial factors and actively promoting the fact that expansion of socially responsible investment is linked to their higher yields.

Fund Name	AUM (KRW million)	Net Assets (KRW million)	Item	Period (as of Feb. 28, 2018)						
				3M	6M	9M	1Yr	24M	36M	YTD
Tops Beautiful SRI Securities Trust No. 1	6,503.10	4,362.61	Yield rates	1.94	8.38	9.88	23.61	39.3	35.79	-0.02
			Excess earnings	3.80	5.75	6.57	8.32	13.91	14.4	1.50
			BM	-1.85	2.63	3.31	15.3	25.39	21.39	-1.53

The performance of Shinhan BNPP 'Tops Beautiful SRI Fund', a strategic fund of Shinhan, continued to exceed the benchmark's return in 2017. Shinhan BNPP Asset Management operates a portfolio focusing on the ones with higher scores on non-financial factors by combining internal and external research data and materials and maintains outstanding performances as all of the 3-year performances are in the top 25%. In 2018, we will actively reflect factors relevant to responsible investment to maintain our performances in the upper ranks of the class.

Shinhan Life Insurance applies the asset management methods considering both social and environmental, and ethical factors and sticks to the principle of developing responsible products and services that increase the core value of insurance. Under the background of low interest rates and low growth, Shinhan Life Insurance plans to strengthen the competitiveness of variable insurance products by utilizing SRI funds and other relevant funds from the long-term perspective and contribute to the long-term growth of the society in general.

The company gradually increases and rebalances the scale of funds under management by comparing the assets and performance of ESG ETF related products of other management companies regularly. The company also reviews the possibility of partially

including other funds besides them if it is considered that the value of ESG investment is higher than other assets to diversify the company's portfolio. Based on this, Shinhan plans to strengthen socially responsible investment and increase the yield rates of variable products from the long-term aspect.

### Shinhan Life Insurance' SRI-based variable insurance products

(Unit: KRW million)

Product	Units	Monthly premium
Shinhan Non-participating variable universal whole life insurance for living expenses	4,723	1,414
Shinhan PowerPlus non-participating variable annuity insurance	1,165	372
Shinhan SafePlus non-participating variable annuity insurance	695	168
Shinhan non-participating variable universal whole life insurance for 6 major diseases	506	83
Shinhan S-Life variable universal whole life insurance	201	55
Total	7,290	2,092

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### Introduction of the 'Stewardship Code' to Implement Our Stewardship Responsibilities

Societal demands pertaining to shareholder return and corporate governance are increasing and the importance of transparent corporate management is being emphasized centering on the Korea Fair Trade Committee (KFTC). Recently, movements to adopt the Stewardship Code have been intensifying across the globe and South Korea's National Pension Service plans to introduce the Stewardship Code in the second half of 2018 as well.

Under such changing investment environments, Shinhan BNPP Asset Management prepares to adopt the Stewardship Code in December 2017 to lead a sound investment culture and improve profits from the long-term perspective.

The Stewardship Code clearly states the stewardship responsibilities and its introduction is expected to contribute to building a culture of long-term investment and sustainable growth. The stewardship responsibilities represent shareholder activities of reviewing core corporate management items such as strategies and performances, risk management, environment, society, and governance. Shinhan plans to communicate with the Executives of companies that are our asset management and investment targets in accordance with the proxy voting guideline.

Investment in companies and assets satisfying social and environmental demands leads to better performance for the long term. Moreover, this coincides with Shinhan's mission, 'Compassionate Finance, Your Companion for the Future' and offers higher yield rates for customers.

#### 'Stewardship Code' Principles (summarized version)

1. Shinhan BNPP Asset Management, as a steward of assets entrusted by its clients, beneficiaries, etc., to take care of and manage, should formulate and publicly disclose a clear policy to faithfully implement its responsibilities.
2. Shinhan BNPP Asset Management should formulate and publicly disclose an effective and clear policy as to how to resolve actual or potential problems arising from conflicts of interest in the course of its stewardship activities.
3. Shinhan BNPP Asset Management should regularly monitor investee companies in order to enhance investee companies' mid- to long-term value and thereby protect and raise their investment value.
4. While Shinhan BNPP Asset Management should aim to form a consensus with investee companies, where necessary, it should formulate internal guidelines on the timeline, procedures, and methods for stewardship activities.
5. Shinhan BNPP Asset Management should formulate and publicly disclose a voting policy that includes guidelines, procedures, and detailed standards for exercising votes in a faithful manner, and publicly disclose voting records and the reasons for each vote so as to allow the verification of the appropriateness of its voting activities.
6. Shinhan BNPP Asset Management should regularly report its voting and stewardship activities to its clients or beneficiaries.
7. Shinhan BNPP Asset Management should have the capabilities and expertise required to implement stewardship responsibilities in an active and effective manner.

See the Stewardship Code of Shinhan BNP Paribas Asset Management (p. 74)



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## Providing Green Financial Products and Services

### Loan products and billings (as of the end of 2017)

(Unit: KRW million)

Loan for companies with outstanding green environmental management

6,150

New green corporate loan

101,057

### Eco-friendly Products and Services to Promote the Transition to a Low Carbon Economy

Shinhan Financial Group implements policies to expand renewable energy PFs, eco-friendly funds, and green loan products based on its core business. The '2020 CSR Strategies', mid- to long-term strategies of Shinhan Financial Group proposed in 2017, set goals for climate change related projects to inject KRW 1.3 trillion in the form of loans and investment in green industries.

Shinhan Bank, Shinhan Investment Corp., Shinhan Life Insurance, and Shinhan Capital have provided deposit and loan products related to climate change from the beginning of the market and continued their investment on renewable energy as alternative options to the investment of owners' equity. Based on this, they launched the Group & Global Investment Group (GIB) to maximize the One Shinhan capacity and jointly invested KRW 100 billion to create a blind fund. 'Shinhan BNPP Future Energy Private Equity Fund No. 1' will be engaged in various transactions relevant to renewable energy for the next 22 years with the fund.

Shinhan Bank has built a cooperative system for green finance centering on the SME and Venture Financing, Corporate Banking Client, and Project Financing Departments. Shinhan Bank is also engaged in PF activities at home and abroad, and provided brokerage and consulting services.

#### Green Finance Cooperation System

- Green finance product development and marketing
- Provision of target lists, designation and registration of target companies
- Carrying out renewable energy PFs at home and abroad
- Brokerage and financial consulting services to domestic and foreign renewable energy generation projects such as solar energy, wind power, etc.

### Vitalization of Green Finance by Expanding Partnerships with Environment-related Public Institutions

Shinhan Financial Group has established a cooperation platform with the government and public institutions related to the environment to vitalize green finance and support the industries that will led the future economic growth. For instance, Shinhan Financial Group arranged a business agreement with Korea Energy Agency for the vitalization of the energy storage system (ESS) industry.

We have extended our policy support for ESS to expand its distribution as a technological foundation of the new energy industry and provided loans to both ESS suppliers and demanders under the 'warranty agreement on new energy industry' and which became the only financial support program specializing in the ESS industry (with 34 cases worth KRW 31.6 billion in total as of 2017). We are also actively participating in private-public consultative bodies related to energy chaired by the Minister and Vice Minister of Trade, Industry and Energy including new energy industry convergence alliance and the financial investment committee on new energy industry.

We have launched the 'loan for companies with outstanding green environmental management' in April 2017, concluded a 'business agreement for the vitalization of green financial products' with the Korea Environmental Industry and Technology Institute, a subsidiary public institution of the Ministry of Environment, to link the environmental data provided by the government institution (enVinance) with our loan qualification process. Companies exhibiting excellent green environmental management performance are provided with loans at prime rates and other preferred services.

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**Participating in Renewable Energy Projects**

Solar energy is a stable asset to pursue a relatively high rate of return and a representative renewable energy source that can help to mitigate global warming effects and reduce CO2 emissions. In 2017, Shinhan Financial Group financed various renewable energy projects contributing to expanding renewable energy generation facilities.

Shinhan will further develop funds that can invest in solar power projects and ones related to solar power ESS and secure investment opportunities preemptively in accordance with the government's action plan to implement the 'renewable energy 3020'. Also, demands for non-solar renewable sources such as wind power, biofuels, fuel cells, waste-to-energy, and others are increasing and which expands the investment on such areas as well. We participate in various projects in countries with a high consumption of eco-friendly energy including Japan, the US, Portugal and others.



The 12MW solar power plant in Hamada in Shimane Prefecture Japan

**Financing support for the eco-friendly industry**

(unit: KRW 100 million)

Product	Subsidiary	2015	2016	2017
Loan	Shinhan Bank	223.3	160.9	121.9
Fund	Shinhan BNP Paribas Asset Management	-	258.8	602.8
Project financing (home/abroad)	Shinhan Bank	1,916.0	2,272.0	2,306.0
	Shinhan Investment Corp.	-	3.0	1,780.0
Total		2,139.3	2,694.2	4,810.6

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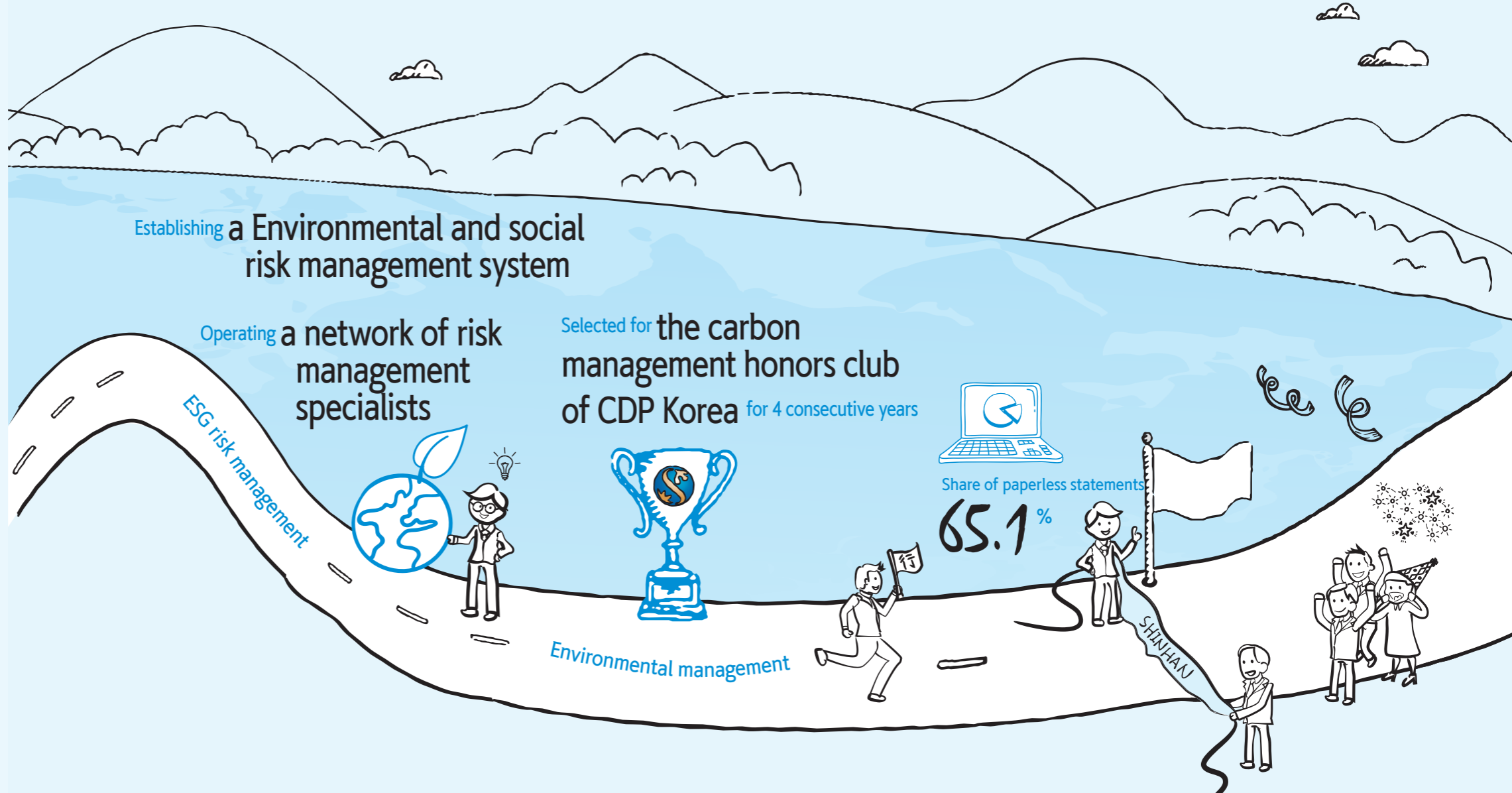
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# Environmental and Social Risk Management

Shinhan Financial Group has managed potential risks in consideration of the Environmental, Social and Governance (ESG) criteria and established eco-friendly operating processes to build a sustainable society.





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## ESG Risk Management

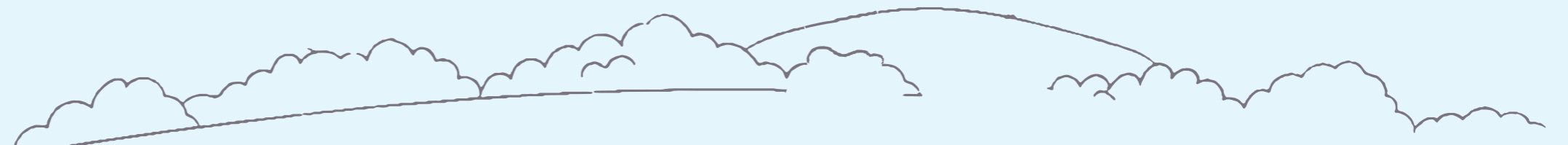
The scope of risk management continues to be expanded due to rapidly changing internal and external environments surrounding the financial industry, diversified customer demands, and increasing corporate social responsibilities. Shinhan Financial Group's risk management efforts not only encompass traditional financial risks but also various others that can threaten the survival of a company such as natural disasters, industrial safety and health, and environmental pollution.

To be specific, Shinhan Financial Group operates loans and investment policies in consideration of the Environmental, Social and Governance (ESG) issues for the sustainable development of corporates and industry and for the reputational risk management of the company. Also, we are responding to reinforced regulatory changes such as adoption of the Stewardship Code and reflecting EST related factors in its business operation process.

## Environmental Management

Fulfilling the environmental responsibility poses both challenges and opportunities to a corporate from the long-term perspective along with global movements for reducing carbon emissions based on UN Climate Change Paris Agreement and reinforced environmental polices of the new government.

Shinhan Financial Group has adopted an integrated green management system for systematic and efficient management of resources that are useful to its management activities. Also, we have built an eco-friendly business process, operated eco-friendly buildings, and adopted innovative technologies, effectively mitigating its impact on the environment. Meanwhile, we continue to preemptively reinforce monitoring and employee activities in order to respond to the constantly changing environmental polices and demands of external stakeholders.



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Integrated ESG Risk Management

Shinhan Financial Group operates loan and investment policies in consideration of ESG issues to fulfill the social responsibility of a financial institution through sustainable finance and recognize risk factors related to the Environmental, Social and Governance (ESG) in determining its intent of loan and investment. To this end, we have introduced the Environmental & Social risk management policy framework (ESRM) and established the sector policy to designate and manage risky areas that are critical to the environment and society and create many issues and implemented the Environmental & Social risk review procedure (ESRP) for risk assessment and management of large-scale projects' financing.

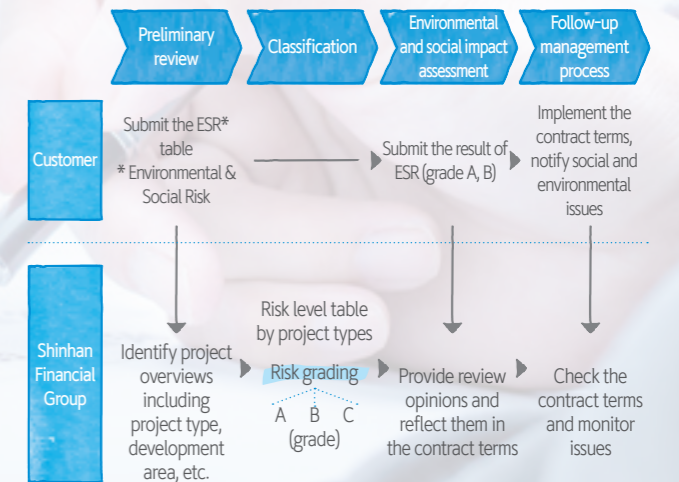
Designation and Management of Risky Areas

Shinhan has designated and managed areas and industries with huge social and environmental risks including GHG emissions, settlement violations and habitat destruction, industrial safety and health. By doing so, we have excluded areas that pose a negative impact on the environment and society significantly from our financial support and provided optional financing support for projects related to fossil fuel uses including climate change and fine dust. We have selected 12 risky areas based on the International Finance Corporation (IFC) guidance, excluded them from our financial support, and operated optional financing support as our policies.



Environmental & Social Risk Review Procedure (ESRP)

As for project financing, we grade risk levels according to the social and environmental impact of the potential development project and reflect the result of ESRP in our investment decision. Also, we prohibit loans to unhealthy types of businesses such as manufacturers of unhealthy entertainment tools, adult entertainment bars, and loan shark establishments on principle, and any new applications must be approved by the loan review committee. We conduct a series of reviews such as target selection, risk level classification, environmental and social impact assessment based on the Equator Principles to evaluate environmental and social risks of the project.



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## ESG Risk Management

### Risk Management System

Shinhan Financial Group has established the basic principles of risk management that comply with its management strategies through the Risk Management Committee.

The Risk Management Council of each subsidiary and risk-related affairs committee along with teams dedicated to risk management establish and carry out specific policies relevant to risk policies and strategies at the group level.

We have prepared a group-wide threat management system through the integrated analysis of threatening situations based on scenarios and various preliminary alert index monitoring in order to determine the threat level through threat recognition and effect analysis as well as to execute a subsequent response plan. The Group Risk Council will share these relevant contents and consider the level of importance of such matters to execute a group-wide response through the Group Risk Management Committee.

We also operate the 'Risk Expert Network' which involves participation from risk management managers and experts from each subsidiary. The Risk Expert Network holds a meeting at least once

per month on a regular basis and conducts learning, research, and debate on topics. Through the network, the status on risks against the group are shared and creative solutions to maximize the synergy within the group are made.

Shinhan Financial Group is upgrading its risk management system continuously in order to respond flexibly to changes in trends of digital financing and business and to prepare loan management strategies based on the risk level. In 2017, Shinhan Bank developed the Asset and Liability Management (ALM) system that manages assets and liabilities comprehensively and focused on strengthening its risk management capabilities.

#### Consideration of ESG Risks in Investment Decisions

Shinhan Financial Group considers environmental, social and governance risks and other various non-financial factors in its investment decisions.

- For loans supplied to global restaurant chains listed on the KOSDAQ, we noticed the expiration of loan maturity date and withdrew all our loans due their reputational risks caused by embezzlement and malpractice of CEOs and obstruction of business.
- We found a massive accounting fraud of an electrical contractor specializing in electrical works for nuclear power plants, a SME that was not subject to external audit, during the process of regular credit evaluation and downgraded its credit rating.
- We detected habitual gambling of the CEO of a small-sized blue chip company manufacturing cosmetics during the qualification process for new loans and withdrew previous ones by reflecting illegal activities of the CEO in our investment decisions.

### Financial Risks

Credit Risk	Risk that may occur due to debtor's bankruptcy, non-compliance of contract by the counterpart, etc.
Market Risk	Risk due to changes of market elements such as interest rate, stock prices, exchange rates, product prices, etc.
Interest Rate Risk	Risk that may affect financial situations such as changes of net asset values due to changes in interest rates
Liquidity Risk	Risk where a problem may occur in payment due to lack of asset liquidity

### Non-financial Risks

Operational Risk	Risk due to an inappropriate workforce, incorrect business procedures, system error or external incident
Strategy Risk	Risk due to disadvantageous business decisions, implementation of inappropriate decisions, lack of response measures to changes in the business environment, etc.
Reputational Risk	Risk due to unfavorable views of customers and shareholders, etc. due to weak management, financial accidents, social conflicts, etc.
Legal Risk	Risk that may occur due to misunderstanding of various contract documents or lawsuits
Environmental Risk	Risk that may result in fines or business losses due to lack of response to environment-related laws and regulations



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## Environment Management

### Establishment of the Integrated Green Management System

Shinhan Financial Group promotes environmental management throughout the entire group by the 'CSR Committee' which is a sub-committee within the Board of Directors. Each subsidiary has the 'Integrated Green Management System' that quantitatively measures and manages the amount of greenhouse gas emissions and energy usage with indicators. Shinhan Bank has established an 'environmental and energy management council' mainly consisting of members from its strategic planning department to continue our efforts in reducing GHG emissions and energy usage. We plan to expand and operate the council to the group level in 2018.

We have established the environment and energy management policy and managed and monitored 12 environmental indicators including water, waste, green purchase, paper, etc. Likewise, we are promoting our policy for energy reduction systematically while simultaneously responding to the demands of external stakeholders for the public disclosure of environmental information. Thanks to such an excellent system, we have earned ISO14001 certification and joined the UNEF Financial Initiative (FI) to disclose the environmental information.

### Environmental performance indicators

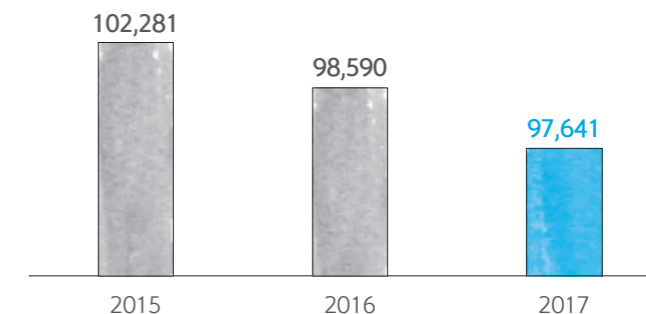
Operating performance			Management performance		
Resource management	Energy and GHG management	Waste management	Green management education	Green products and services	Social contribution
Paper usage	Energy usage	Amount of waste generated	Green management education	Green product purchase rate	Social contribution result
Water usage	GHG emissions	Waste recycling rate		Green product result	
Water recycling rate	Business travel distance				

In recognition of our continuous efforts and interest to prevent climate and environmental changes, Shinhan has been the first Korean financial company to be selected as a member of the Carbon Management Honors Club, a global sustainability assessment system related to climate change by CDP Korea, for 4 years in a row as of October 2017. CDP refers to the Carbon Disclosure Project, a global project led by the financial industry that demands to disclose the information of listed companies in terms of responses to climate change at the request of global financial investment institutions.

Shinhan Financial Group became the only Korean financial company to obtain 'Leadership A' in this year's assessment and was accredited for having the best level of response system to climate change.

### GHG emissions of Shinhan Financial Group

(unit: tCO<sub>2</sub>eq)



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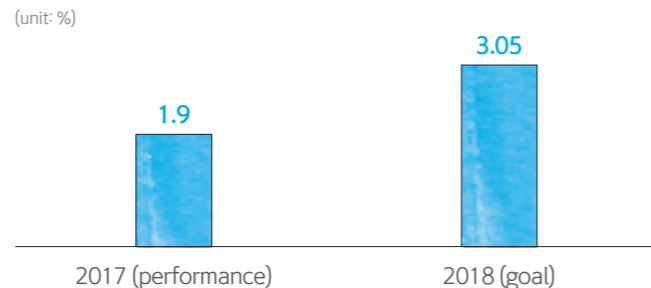
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### Greenhouse Gas and Energy Target Management System

Shinhan Bank is assigned an annual target goal in terms of reducing greenhouse gas emissions from the government as a company subject to the 'Greenhouse Gas Energy Target Management System' and proceeds to perform activities for reduction to contribute to achieving the national goal for greenhouse gas reduction. Shinhan Bank has established yearly interim emissions reduction targets to keep the company on track to meet the national goal of reducing 37% of emissions from the business-as-usual (BAU) level by 2030 and monitored related activities.

Shinhan Bank, Goal for Greenhouse Gas Reduction (compared to expected emissions)



In 2017, the company was assigned emission allowances of 112,046 tons by the government and achieved even more at about 27.1% or 30,396 tons, which equals to 1.9% reduction compared to last year, through the willing participation from all of our employees.

Efforts to save energy include the intensive control of indoor temperatures during the summer and winter, replacing lights with LED lamps, and control of ventilation system operation. To the branch level, practicing items to save energy are distributed and energy saving and cooling temperature checklists are officially delivered to branches to encourage them to reduce energy consumption. Also, electronic visual displays are installed to the headquarters and other large buildings to indicate and constantly monitor the amount of energy usage and posters related to energy saving practices are placed to raise employee awareness about energy conservation.

### Environmental Communication

Shinhan has been conducting internal and external group training as well as online education for all employees every year in order to enhance their capabilities in environmental management. The contents of employee training and education include global climate change, GHG, and environmental and renewable energy policy of the government to help them understand the status, trends, and major issues of the environment. We also encouraged employees to take the energy saving for environment oath and launched an energy saving campaign to raise employee awareness about environmental management and conducted a survey on environmental management.

Shinhan Bank is the first Korean bank to have published an environmental report while making it available through the company's website. Our environmental report contains environmental management strategies, systems, and other quantitative

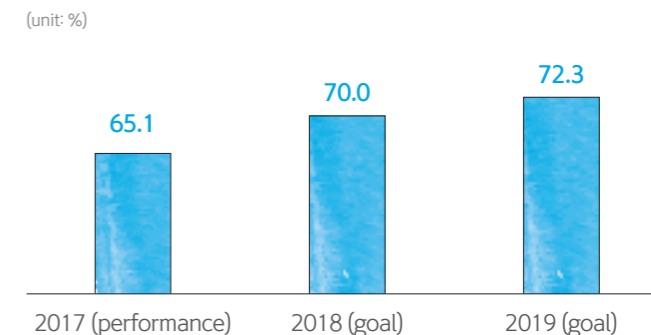
data and materials as well as environmental indicators and energy saving performance compared to the targets, which are mandatory items of the Environment Ministry's 'Env-Info System' and our voluntary activities. All items are faithfully developed and transparently disclosed to the public through the report.

### Expansion of Eco-friendly Tasks and Services

Shinhan Bank has conducted 140 financial transactions without paper through 'Smart Lounges', accounting for 90% of the trades made over the counter and which means that 13 million paperless trades have been made. If we saved 1 sheet of A4 (4.37g) per trade, this is equivalent to saving about 57 tons of paper. Shinhan Bank plans to expand the number of Smart Lounges as well as their scope of transactions to continuously save paper documents.

Shinhan Card has set the target of reducing invoices through the postal mail and increased the issuance of paperless invoices each year as well.

Shinhan Card, Paperless Bill Performance and Goal (share of digital statements)



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### Implementation of the Building Energy Management System

Shinhan Financial Group has participated as a consulting institution regarding financial products in the 'Alliance for Zero Energy Building' jointly launched by the Ministry of Land, Infrastructure and Transport and the Ministry of Trade, Industry and Energy in order to enhance energy efficiency in buildings and realize zero-energy buildings in the future. Based on this, we are responding to the environmental policies of the government and mitigating environmental impacts of building operations.

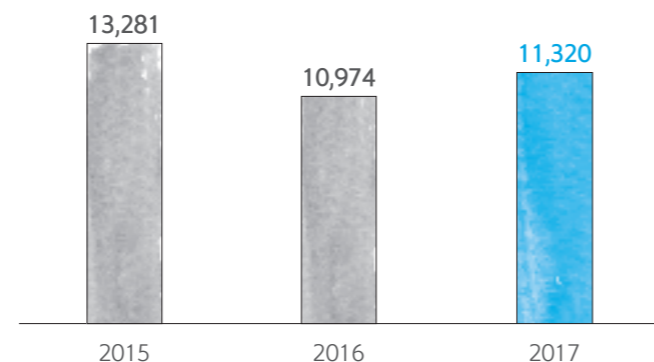
We have implemented the Building Energy Management System (BEMS) to major large buildings. The BEMS conducts performance assessment regarding the data it collects in real-time and corrects inefficiently operated items, while determining the optimal operation conditions to reduce energy usage. We have set the reduction targets and they are: 5.0% reduction for environmental indicators (water, waste, paper, and food waste) compared to last year, and 11% from the baseline (year 2010 to 2012). Based on this, each department has established action plans for environmental and

energy management and implemented them. Such outstanding management and efforts are evidenced by the acquisition of ISO 14001, the international standard for energy management system, and we continue to operate the environment and management system.

The Shinhan Data Center that integrates and manages data of Shinhan Financial Group has designed its building to the gold grade for LEED certification of the US Green Building Council (USGBC), an international certification agency for accrediting environmentally-friendly buildings, with the aim of building the 'optimal green data center', and enhanced energy efficiency and minimized GHG emissions. Also, LED lights were installed for the majority of lighting fixtures in locations such as lobbies, electronic equipment rooms, and underground parking lots and this has resulted in a reduction of 1,344,054kWh in terms of energy usage for the year. Furthermore, energy consumption was reduced by 83,217MJ through the solar thermal power, while 95,820kWh was generated and used through photovoltaic power.

### Shinhan Bank, Number of Replaced LED Lights

(Unit: bulbs)



(Unit: tCO<sub>2</sub>eq)

Item	Description	Projected 2017 GHG reduction
Building energy efficiency increase	Energy consumption reduction by replacing lights of the headquarters and major buildings, and all branches of Shinhan Bank with LED lamps	297
Energy saving practices	Energy performance compared to the reduction targets by operating the Energy management system (ISO50001) for large buildings	1,378
Green data center operation	Energy consumption reduction through installation of the photovoltaic power generation system to buildings, LED lights, the Building Energy Management System (BEMS), and the ice thermal storage system.	208

### Renewable Energy Consumption

Renewable Energy	Unit	2017 Generation/Consumption
Solar Thermal Power	Mcal	19,889
	MJ	83,217
Photovoltaic Power	Costs Saved (KRW)	1,106,833
	kWh	95,820
	Costs Saved (KRW)	13,901,122



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Asset Management Stewardship Code

Asset Management Proxy Voting Policy

## Shinhan Financial Group CSR Policy Report

Shinhan Financial Group has been dedicated to creating a sound society by fulfilling its responsibility as a corporate citizen to grow together with local society since its early founding days. Starting with its 2005 CSR report, the first of its kind from a financial company, Shinhan Financial Group has been leading the way for responsible management through establishing CSR strategies, participating in global initiatives, and operating the CSR committee within the Board of Directors.

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## Shinhan Financial Group Environmental Management Standards

Efficient usage of resources and minimization of greenhouse gas emissions

Efficient usage of resources and energy
Introduce and operate a systematic management system for the efficient usage of energy and resources necessary for the group's management and make efforts to advance performances through continued improvement activities.
Decrease of greenhouse gas emissions
Systematically manage the greenhouse gas emissions coming from the usage of resources and energy and promote investments and campaigns to decrease greenhouse gas emissions.
Considering the environmental efficiency of products and facilities
Purchase more green products (those with environmental marks, GR marks, high energy efficiency products, etc.) that have less environmental effects and use high energy efficiency materials when constructing new facilities or additional facilities.

Development and support for green financial products

Financing support for green companies
Reflect environment related factors and lower the interest rate for companies that have earned certifications related to green energy and the low carbon and high-efficiency new growth industry, and environmental management. At the same time, we are also developing green financial products that provide benefits such as lower commissions to support them and refrain from providing financing support that can harm the environment.
Financing support for green consumers
Develop green financial products that can provide practical benefits to support customers of financial products such as checking/savings account, cards, insurance, and other financial products which increase the efficiency of resources and energy and contribute to environmental improvement.
Expansion of investment in green industries
Actively invest in national and private businesses for low carbon green growth to faithfully fulfill our role as a financial institution that secures new growth engines for the nation.

Reinforcement of green communication

Reinforcement of green management capability for employees
The management should provide education and training to reinforce green management capability for all employees and ensure that regular communication takes place regarding environmental management issues.
Reinforcement of green partnerships with partner companies
Provide support for the program to reinforce environmental management capability of partner companies that directly and indirectly affect the group subsidiaries in terms of environmental management performance and establish and operate a system for green supply chain management.
Disclosure of environmental management performance and cooperation with external parties
Disclose the group's environmental management performance to stakeholders based on objective information by systematically managing the environmental management information and actively participate in partnership programs and support projects in cooperation with external parties to fulfill corporate social responsibility.
Determining the demands of stakeholders and response to demands
Determine the issues within and outside of the group regarding the environmental and energy management along with the demands and expectations of stakeholders and carry out activities for improvement.

Shinhan Financial Group (hereafter referred to as 'the group') recognizes that environmental issue is a factor that has significant impact on the sustainable development of a company and promotes the minimization of greenhouse gas emissions through the efficient usage of resources and energy, operation of green financial products to support green industries and green lifestyles, and reinforcement of green communication with stakeholders.



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## Shinhan BNP Paribas Asset Management Stewardship Code

### Principle 01

Shinhan BNPP Asset Management, as a steward of assets entrusted by its clients, beneficiaries, etc., to take care of and manage, should formulate and publicly disclose a clear policy to faithfully implement its responsibilities.

Shinhan BNPP Asset Management has formulated and implemented the "Stewardship Code of Shinhan BNP Paribas Asset Management" to fulfill its stewardship responsibilities.

- Shinhan BNPP Asset Management, a main subsidiary of Shinhan Financial Group, intends to create a virtuous cycle of coexistence that increases the value of customers and society together to practice the group's mission of "Compassionate Finance, Your Companion for the Future". In particular, Shinhan BNPP Asset Management will carry out its stewardship responsibilities in good faith to provide more value to the customers as a collective investment business entity in accordance with the "Capital Market and Financial Investment Services Act".
- For the purpose of effective implementation of the stewardship responsibilities, we carry out various shareholder activities within the scope of "not influencing on the company's business control" and our shareholder engagement include exercise of voting rights in a faithful manner, checks on the probability of occurrence of issues, constructive dialogues, and providing active comments by attending general shareholders' meeting.
- The Stewardship Code of Shinhan BNPP Asset Management shall be applied to all collective investment schemes, concentrating on the ones that are managed according to principles for socially responsible investment.

### Principle 02

Shinhan BNPP Asset Management should formulate and publicly disclose an effective and clear policy as to how to resolve actual or potential problems arising from conflicts of interest in the course of its stewardship activities.

- Shinhan BNPP Asset Management recognizes the importance of making efforts to identify and prevent actual or potential conflicts of interest in the course of its stewardship activities and conducts its business by prioritizing investor interests. We have formulated and implemented the "Conflict of Interest Regulation" to avoid conflicts of interest that may arise while conducting all types of financial investment businesses including activities related to our stewardship responsibilities.
- A collective investment business entity may face a conflict of interest not to promote investor interests in good faith while fulfilling its stewardship responsibilities due to its relationships with investee companies. Hence, persons in charge of businesses monitor and manage potential conflicts of interest as follows.
  - Investors and the company
  - Investors and shareholders of the company
  - Investors and businesses related to the company
  - Investors and employees of the company
  - Special investors and other investors
- All persons responsible for businesses identify potential conflicts of interest and if they consider that such a case may take place, they seek advice from a compliance manager in advance to handle the business after reducing the possibility to the level that does not cause any problem in protecting investor interests.

### Principle 03

Shinhan BNPP Asset Management should regularly monitor investee companies in order to enhance investee companies' mid- to long-term value and thereby protect and raise its investment value.

- Shinhan BNPP Asset Management accurately monitors the status of its investee companies through financial analysis and on-site visit and checks the validity of reviews.
- In order to early detect risk factors that may significantly damage the investment value of investee companies, we regularly monitor both financial factors such as the financial structure, management performance, etc. that may affect the value and sustainable growth of the investee companies and non-financial factors including the environment, society, governance, management strategies, etc. in order to enhance their value and sustainable growth and thereby promote investor interests.
- When risk factors and other considerations are found through our efforts to preemptively detect such factors that may significantly damage the value of our investee companies, we seek proper ways to deal with such problems through constructive dialogues via consultations before holding a general shareholders' meeting.

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Principle 04

While Shinhan BNPP Asset Management should aim to form a consensus with investee companies, where necessary, it should formulate internal guidelines on the timeline, procedures, and methods for stewardship activities.

- Shinhan BNPP Asset Management aims to form a consensus with its investee companies regarding major financial and non-financial management items to improve their mid- to long-term values based on policies on investment and its stewardship responsibilities.
- To understand the status of investee companies accurately and form a consensus, we communicate with them in earnest to deliver our opinions as an investor and monitor their status from various aspects to increase their value and support the sustainable growth.
- Corporate management and finance
  - Measures to increase ROM
  - Measures to utilize idle funds
  - Shareholder return policy (such as the dividend payout ratio, self-tender, etc.)
  - Policies on activities related to governance structure changes (appointment of independent directors, buying and selling shares, capital finance, etc.)
  - All decision-making items that may greatly affect shareholder values
  - Items related to information disclosures of companies including investee companies
  - Request to disclose information on support for subsidiaries and related companies
  - Request to disclose information on the equity acquisition of overseas branches
  - Request to disclose information about the impact of equity investment on shareholder values
  - Whether decisions are made in accordance with the Environment, Social, Governance (ESG) criteria
- If concerns regarding investee companies still remain, despite efforts to form a consensus with them through sufficient dialogues and other various methods, we review whether to conduct shareholder activities aggressively for in-depth judgment such as requests to submit the required or additional information, provide their positions and future plans, deliver our concerns, actively express our opinions in general shareholders' meetings, meeting with Executives, and others, within the boundary of related laws and regulations, if necessary.
- If we acquire confidential or material information about our investee companies in the course of active shareholder engagement to fulfill our stewardship responsibilities, we request our investee companies to disclose such information immediately, give notification to and consult with our compliance officer. The compliance officer may impose a ban on trading of the concerned item or attach condition to its trade.

Principle 05

Shinhan BNPP Asset Management should formulate and publicly disclose a voting policy that includes guidelines, procedures, and detailed standards for exercising votes in a faithful manner, and publicly disclose voting records and the reasons for each vote so as to allow the verification of the appropriateness of its voting activities.

- In exercising voting rights for stocks which are part of the collective investment property, a collective investment business entity shall exercise its voting rights to protect investor interests in accordance with the Capital Market and Financial Investment Business Act (Article 87-1 of the Act).
- Shinhan BNPP Asset Management has established and complied with the "Proxy Voting Guidelines". The exercise of voting rights, whether to vote for, against, or neutral, is determined based on the result of an in-depth review of its investee company, and dialogues and engagement. We exercise our voting rights with the decision whether the concerned item contributes to the best interest of investors through sustainable growth and increasing value of our investee company. To make this happen, we intend to use external consulting services on the exercise of voting rights. However, the final decision will be made based on our responsibilities and judgement as a steward.
- Also, we publicly disclose our policies and guidelines on the exercise of voting rights over collective investment schemes and our voting records and reasons for each vote (yes or no votes, or neutral position and detailed reasons, reasons for not exercising voting rights, etc.) on our homepage so that investors can monitor our stewardship activities.

Principle 06

Shinhan BNPP Asset Management should regularly report its voting and stewardship activities to its clients or beneficiaries.

- Shinhan BNPP Asset Management discloses our voting activities over the corporation that issued the stocks worth over KRW 10 billion or 5% of the total assets of each collective investment scheme and the details through its quarterly business report in accordance with the Capital Market and Financial Investment Business Act.
- We disclose our steward activities on our homepage including the inquiries, submission of written opinions, and reactions and responses of our investee companies to our recommendations to help investors easily find our activities in detail and enhance the transparency and responsibility of our shareholder engagement. However, all or part of such activities may not be disclosed when we decide that not disclosing such information is necessary in consideration of protecting the value of shareholders and our investee companies, and other surrounding circumstances in general.

Principle 07

Shinhan BNPP Asset Management should have the capabilities and expertise required to implement stewardship responsibilities in an active and effective manner.

- Persons in charge of asset management and research of Shinhan BNPP Asset Management engage in activities of financial analysis and on-site visits to increase their understanding of investee companies and the operating environment for more effective shareholder engagement.
- We are well aware of the importance to be equipped with capabilities and expertise for mid-to long-term development and enhancement of sustainability of our investee companies based on active engagement in conversations and shareholder engagement so that we can increase our understanding of investee companies and carry out constructive shareholder activities. To this end, we participate in job training and education programs as well as seminars, forums, and other events at home and abroad to maintain the capabilities and expertise required to implement our stewardship responsibilities in faithful manner.

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## Governance Report

### Governance Structure Principles and Policies

In order to protect the interests of its shareholders, financial service consumers and other stakeholders and promote long-term development, Shinhan Financial Group is equipped with a corporate governance structure that reflects both its growth paths and corporate culture while securing transparency, soundness, and stability.

As a result, it was awarded an A+ rating by the Korea Corporate Governance Service (KCGS) of the Korea Exchange in its integrated assessment of environmental, social, and governance criteria for three consecutive years from 2015 to 2017. In particular, it was the first and only Korean company among businesses subject to the assessment to be awarded on S rating in the corporate governance assessment. The KCGS said that it has provided a S rating to Shinhan Financial Group as its independent directors secured a certain level of independence from Executives and the largest shareholder to conduct their roles and responsibilities. Details on the governance structure and Board of Directors can be found on our homepage. Our governance structure principles and policies are as follows.

### Transparency

We disclose to all our stakeholders any information related to our corporate governance by publishing an annual report on corporate governance and releasing it through on our homepage and the website of the Korea Federation of Banks. The scope of information includes all of the internal policies related to our corporate governance such as the Articles of Incorporation, the regulations of the sub-committees and the Board of Directors (hereinafter referred to as the Board of Directors and others), and their detailed activities. In particular, we have made concerted efforts to enhance shareholder value by introducing a cumulative voting scheme designed to protect our minority shareholders along with a system that allows shareholders to exercise their voting rights in writing at general shareholders' meeting. Also, we provided a live broadcasting of general shareholders' meetings to shareholders to offer them fair and timely information.

### Independence and Soundness

Shinhan Financial Group has organized and maintains the Board of Directors equipped with the independence necessary to realize a sound corporate governance. We have faithfully followed such statutes as the Commercial Act and the Financial Holding Companies Act as well as our own internal rules and regulations, including our Articles of Incorporation and internal code of corporate governance, and the regulations of the Board of Directors. Specifically, we have stipulated regulations indicating reasons for the disqualification of independent directors and further strengthened the independence of the Board of Directors by enacting a provision that requires an independent director to preside over the board meetings. We also established a system to enhance the independence of the board. The term of independent directors cannot be extended in excess of 6 years through reappointment and the aggregate term served as an independent director of us or any of our subsidiaries shall not exceed 9 years as stated in the Act on Corporate Governance of Financial Companies.

#### Reasons for disqualification of directors 「Article 382-3 of the Commercial Act」

1. Directors, executive directors and employees who are engaged in the regular business of the relevant company, or directors, auditors, executive directors and employees who have engaged in the regular business of the relevant company within the latest two years;
2. The principal, his/her spouse, lineal ascendants, and lineal descendants, in cases where the largest shareholder is a natural person;
3. Directors, auditors, executive directors and employees of the corporation, in cases where the largest shareholder is a corporation;
4. The spouses, lineal ascendants, and lineal descendants of directors, auditors and executive directors;
5. The directors, auditors, executive directors and employees of a parent company or a subsidiary company of the relevant company;
6. Directors, auditors, executive directors and employees of a corporation which has a significant interest in the relevant company, such as business relations with the company;
7. Directors, auditors, executive directors and employees of another company for which directors, executive directors and employees of the relevant company serve as directors and executive directors.



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### Stability (Checks and Balances)

To maintain a stable corporate governance based on the principle of checks and balances between Executives and the Board of Directors, Shinhan Financial Group has delegated the authority for making and executing decisions to the Board of Directors and the management separately, while requiring the management to report on decision implementation status to the Board of Directors. Shinhan has provided a framework so that the Board can fully implement its checks and balances activities by ensuring an 83% share of independent directors in the Board of Directors, which exceeds the majority provision stipulated in the related laws and regulations. In addition, we have actively supported board operations—which are mainly led by independent directors—by ensuring that the majority of the sub-committees of the Board of Directors are composed of independent directors. We guarantee the 2-year term of independent directors upon their initial appointment as a measure of restraint and the term is renewed each year under the agreement at the general shareholders' meeting if they fulfill their responsibility.

### Diversity and Expertise

Shinhan Financial Group strives to ensure that its corporate governance maintains diversity and expertise by stipulating provisions in its internal regulations on corporate governance for the 'principle of diversity' in the composition of the Board of Directors. This is to make certain that the board members do not share a certain common background or unfairly represent certain interests.

We also fill our Board of Directors with members who represent the five sectors of finance, management, economy, law, and accounting which the best practices present as general expertise requirements in order to ensure diversity and expertise in the governance structure. Consumer protection, IT and other areas related to financial business are added to the composition besides the five sectors listed above. In addition, we consider the diversity requirements such as gender, race, ethnicity, and nationality in the composition of board members and steadily increase the number of female candidates for the appointment of independent directors.

### Expertise-based categorization of the Board of Directors

(unit: persons)

Classification	Finance	Management	Economics	Accounting	Law	Total
Before the regular general meeting of shareholders in Mar '17	4	2	4	1	1	12
After the regular general meeting of shareholders in Mar '17	5	1	4	1	1	12

### Number of female candidates for independent director positions

(unit: persons)

Classification	Number of female candidates for independent director positions	Increase compared to previous term
As of Feb '15	11	
As of Aug '15	14	+3
As of Feb '16	39	+25
As of Dec '16	49	+10
As of Aug '17	42	-7 <sup>Note)</sup>

Note) Compared to the previous term, the total number of independent director candidates decreases by 34 and the share of female candidates increases: 22.7% in Dec '16 ->23.1% in Aug '17)

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**Status of the Board of Directors**

Shinhan Financial Group originates from Shinhan Bank, which was incorporated as Korea's first commercial bank in July 1982 with only 341 minority private investors, all of whom were Korean-Japanese shareholders (100% equity investment, paid-in capital of KRW 25.9 billion). In addition, Shinhan Financial Group, inaugurated as Korea's first private-sector financial holding company in 2001, has secured the foundation for a new leap forward by forging a strategic alliance with BNP Paribas Group. To reflect such growth paths and corporate culture in its corporate governance, Shinhan Financial Group's Board of Directors is partially composed of independent directors who are professional business managers, the Korean-Japanese and financial service experts recommended by BNP Paribas, its strategic alliance partner.

Base date: Mar 31, '18

Classification	Name	Nationality	Initial appointment date	Work experience	Professional	Term	BOD participation rate (2017)
Executive Director	Cho Yong-byoung	Korea	Mar 23, 2017	CEO, Shinhan BNP Paribas Asset Management President & CEO, Shinhan Bank Chairman & CEO, Shinhan Financial Group (current)	Finance, Management	3 years	100
Independent Directors/Chairman of the Board	Park Cheul	Korea	Mar 23, 2017	Senior Deputy Governor, Bank of Korea Chairman & CEO, Leading Investment & Securities Co., Ltd.	Finance, Economics, Management	1 year	100
	Lee Sang-kyung	Korea	Mar 23, 2017	Constitutional Court Judge CEO & Attorney, the law firm Wonjeon	Law	1 year	100
	Lee Manwoo	Korea	Mar 23, 2017	KICPA, AICPA Professor, Korea University Business School	Management, Accounting	1 year	100
	Yuki Hirakawa	Japan	Mar 23, 2017	CEO, Hirakawa Industry Development Co., Ltd. CEO, Level River Co., Ltd. (current)	Management, Global	1 year	100
	Philippe Avril	France	Mar 23, 2017	Chief Country Officer BNP Paribas, Tokyo Branch CEO & Representative Director BNP Paribas Securities (Japan) Ltd.	Finance, Management, Global	1 year	87
	Lee Jeong-il	Korea	Mar 24, 2016	Vice Chairman, Korean Chamber of Commerce & Industry in Japan CEO, Pyeongcheon Corp. (current)	Management	2 years	100
	Lee Steven Sung-ryang	USA	Mar 24, 2016	Professor, School of Economics, Dongguk University (current) Director, Research Institute of Social Science, Dongguk University (current)	Management, Global	2 years	100
	Lee Heun-ya	Korea	Mar 24, 2016	Executive Director, Korean Chamber of Commerce & Industry in Japan CEO, Marushin Corp.	Management, Economics	2 years	100
	Park Ansoon	Korea	Mar 23, 2017	Vice Chairman, the Korean Residents Union in Japan (current) Chairman, Taisei Group Co., Ltd. (current)	Management	2 years	100
	Joo Jaeseong	Korea	Mar 23, 2017	CEO, Woori Finance Research Institute Senior Deputy Governor of Banking & Non-banking sector, Financial Supervisory Service (current)	Finance, Management, Consumer Protection, Risk Management	2 years	100
Non-Executive Director	Wi Sung-ho	Korea	Mar 23, 2017	CEO, Shinhan Card President & CEO, Shinhan Bank	Finance, Management	2 years	100

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**Process and Criteria for the Appointment of Independent Directors**

Independent directors are elected at the general shareholders' meeting with the recommendation by the Independent Director Recommendation Committee and Shinhan Financial Group makes sure that independent directors with financial experience and expertise in various areas can be included in the committee based on the independence requirements stated in the related laws and regulations. When recommending independent director candidates, we do not discriminate based on gender, race, ethnicity or country of birth, and nationality in consideration of the diversity requirements to form the candidate pool. We have provided negative and affirmative requirements as the qualification requirements to appoint independent directors with expertise and know-how. As for the negative requirements, independent directors of Shinhan Financial Group shall not hold concurrent positions in subsidiaries of the group or other companies in accordance with Article 39-2 of the Articles of Incorporation and Article 23-2 of the Internal Code of Corporate Governance. Also, the criteria described in the Best Practices are included in Article 39-1 of the Articles of Incorporation and Article 23-1 of the Internal Code of Corporate Governance as its affirmative requirements for independent directors.

The Independent Director Recommendation Committee recommends the candidates after verifying that they are qualified to meet the requirements specified in the related rules and regulations through a fair and transparent process and fully utilizes recommendations by shareholders, stakeholders, and external advisory agencies, if necessary. See the maintenance of satisfying independent director qualification requirements section of 2017 annual report on governance and remuneration structure to find the evaluation items on candidates for independent director positions, whether they are qualified to meet the requirements and the grounds.

**Seven Principles on the Appointment of Independent Directors**

1. Expertise: An individual that is equipped with sufficient experience and expertise in related areas such as finance, economy, management, accounting, and law that are required to carry out the duty
2. Fairness in carrying out duties: An individual that is not influenced by special interests and is able to conduct his or her duty for the interest of all shareholders and financial consumers
3. Ethical responsibility: An individual that has a proper sense of ethics and responsibility to conduct his or her duty
4. Faithfulness: An individual that is able to make efforts required to carry out the duty of an independent director in good faith
5. Diversity: Nationality, gender, age, experience, background and harmonization with current board members
6. Compatibility to Shinhan Financial Group: An individual that is able to share the vision, growth paths, and corporate culture and contribute to the development of Shinhan
7. Effectiveness: An individual that can converge the competitive edges of various industries in consideration of paradigm shifts in the financial industry

**Management and Monitoring of Conflicts of Interest**

Article 4-1-6 of the Internal Code of Corporate Governance stipulates 'items related to the monitoring of activities of conflict of interest between the company and majority shareholder and employees' as the authority of the Board of Directors and Article 10-1-7 of the Regulations of the Board of Directors prescribes 'transaction approval between directors and the company' as a matter that is subject to the resolution of the BOD. Currently, the President and CEO of Shinhan Bank is participating in the Board as a non-executive director and it means that transactions between the company and Shinhan Bank constitute transactions between a director and the company. In order to supervise such activities of conflicts of interest, we restricted the voting right of the President and CEO of Shinhan Bank, the non-executive director, and adopted a special resolution method requiring that over the two-thirds of registered directors vote in favor of the concerned agenda to manage and monitor activities related to conflicts of interest.



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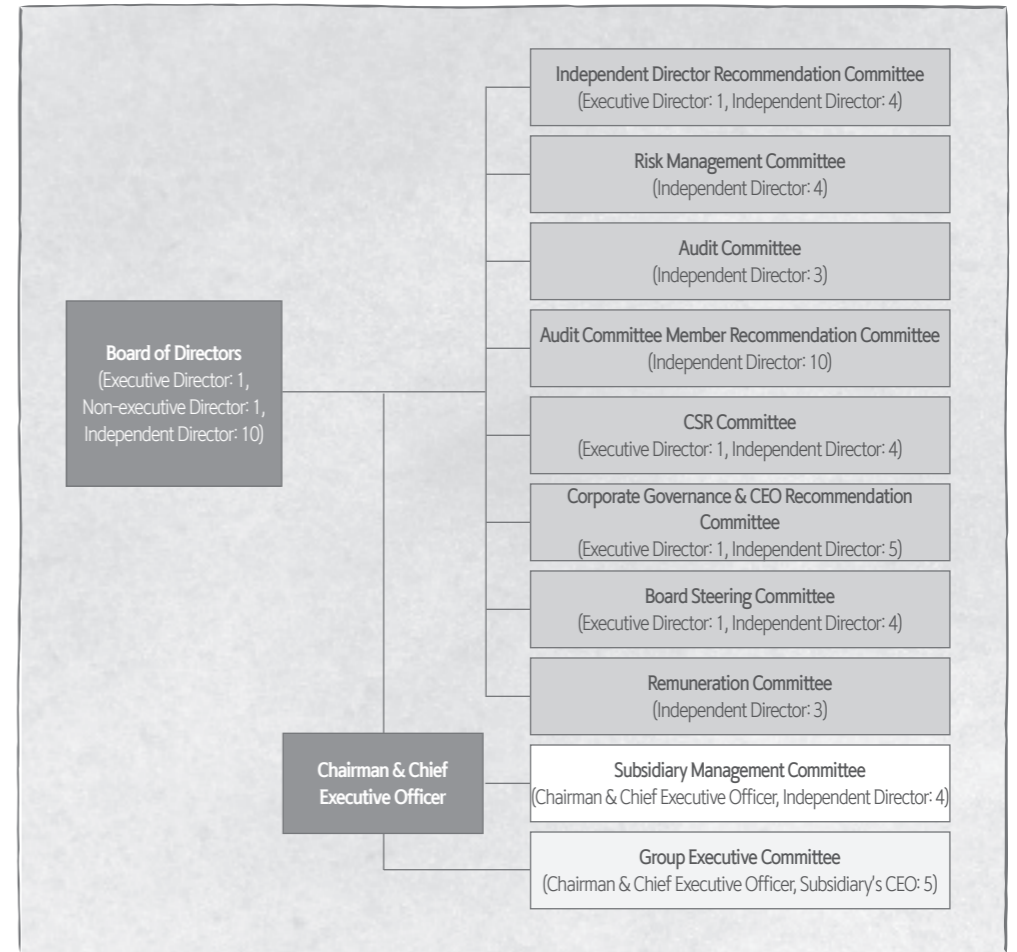
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**Activities of the Board of Directors**

In 2017, 15 Board of Directors meetings were held (4 quarterly BOD meetings and 11 temporary BOD meetings) with an average participation rate of 97%. There are 8 sub-committees of the Board of Directors. Among them, the Independent Director Recommendation Committee, Corporate Governance & CEO Recommendation Committee, Audit Committee, Remuneration Committee, Risk Management Committee, Audit Committee Member Recommendation Committee are installed in accordance with the Act on Corporate Governance of Financial Companies and the remaining two sub-committees are created by the BOD in order to enhance its expertise, independence, and efficiency. Independent directors shall attend more than 75% of the BOD meetings and their performances on BOD activities are reviewed.



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### Evaluation of the Board of Directors

The Board of Directors evaluates the adequacy of resolutions and reporting items, level of management information provided, its roles and responsibilities, and others with regard to the operation of the board each year and refers the result to its operation in accordance with the Internal Code of Corporate Governance (evaluation of the performance of Board of Directors and others). Also, all members of the board are evaluated on their performances in conjunction with an external assessment agency to ensure the fairness and independence of the evaluation based on operating performance (including the appropriateness of the meeting duration, agendas, and frequency of the meetings) and their given roles (for the activities relevant to the authority of the board defined in the Internal Code of Corporate Governance of the Shinhan Financial Group). Meanwhile, all sub-committees are subject to the evaluation with regard to their operation including the adequacy of resolutions and reporting items, level of management information provided, its roles and responsibilities, and others at least once per year and the result are reflected to their operation and such evaluation is carried out by all members of sub-committees and the external assessment agency.

### Evaluation of Independent Directors

The initial term of independent directors is 2 years, provided that the term of re-election shall not exceed one year. In case of recommending independent directors for reappointment, annual performance evaluation results are reflected (in accordance with Article 24-4 of the Internal Code of Corporate Governance, and Article 10-3 and 10-7 of the Regulation of Independent Director Recommendation Committee). Currently, an internal evaluation of independent directors is conducted based on the methods agreed upon by the board with the help of an external assessment agency to ensure the objectiveness and anonymity of the evaluation. Evaluations of independent directors for their performance in 2017 were conducted during January of 2018. As for the independent directors who were considered for reappointment, the result of their performance evaluation was reported to the 3rd Independent Director Recommendation Committee meeting which was held on February 7, 2018 to reflect it to the board's decision on their reappointments. The performance evaluation of independent directors is composed of a self-assessment, the board's review (assessment by all independent directors excluding the person subject to the assessment) and employee review and the evaluation indicators include items related to expertise, fairness in carrying out duties, ethical responsibility, and faithfulness. In addition, opinions on each independent director are described comprehensively to reflect quantitative factors to the assessment.

### Performance Assessment and Compensation

The compensation system for inside directors is determined by the Remuneration Committee and the Board of Directors and the amount of variable compensation is decided based on both annual and long-term operating and financial performance of the group. As for independent directors, their compensation system is determined by the Board of Directors and the total amount of remuneration by us varies depending on the number and level of participation in meetings of the board and sub-committees. The compensation cap of directors is approved at an annual shareholders' meeting and the Board of Directors determines the details within the maximum ceiling for the year. As for inside directors, details on the compensation for the group Executives including internal directors are additionally reviewed by the Remuneration Committee, which consists of independent directors only.

### Remuneration Committee

In accordance with Article 3 and 4 of the Regulation of Remuneration Committee and Article 15 of the Internal Code of Corporate Governance, members of the Remuneration Committee shall be composed of more than 3 and less than 5 individuals and independent directors shall hold the majority of seats to operate the committee independently from the Executives. The Remuneration Committee conducted an independent evaluation on the adequacy of design and operation of the remuneration system apart from the Executives as stated in supplement provisions that were decided in the 2nd Remuneration Committee meeting held on February 21, 2017 and confirmed that the compensation policy and operation of Shinhan complied with the Act on Corporate Governance of Financial Companies and other related regulations.

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### Remuneration System

The compensation limit of the Board of Directors is determined at the general shareholders' meeting by resolution and compensation is paid fairly and transparently according to the compensation rules after the shareholders' resolution. The information on the employee compensation system including the remuneration information of directors and auditors are disclosed transparently through an annual report on the governance and remuneration structure. In particular, the annual compensation for internal and independent directors of the board and individual annual compensation paid by us to our directors and auditors whose annual compensation is over KRW 500 million is disclosed in an annual report on the business plan and governance.

### Key Performance Indicators for CEOs and Executives

To assess the financial performance of the CEOs of the holding company, Shinhan applies its key performance indicators (KPI) concerning shareholder value (total shareholder return), profitability (ROE and ROA), soundness (NPL), risk (RAROC), efficiency (CIR), and others. To assess their non-financial performance, we are evaluating their achievement in strategic tasks in line with the strategic directions of Shinhan (Digital Transformation, Globalization, Proactive Risk Management, etc.). Executives of the holding company are evaluated on their performances based on the group's KPIs and the implementation rate of key strategic tasks according to their duties. As for the CEOs and Executives of subsidiaries, all KPIs of the group, company, and their duties, as well as strategic tasks of their duties are reflected in their performance assessment in certain ratios. Hence, both financial indicators of the group, company, and their duties and non-financial evaluation factors including the 10 CSR strategic goals including customer satisfaction, digital finance subscription rate, number of financial economic education, and ethics compliance education completion rate are reflected in their performance evaluation.

### Criteria for Deferred Compensation, Alignment, Clawback, and Guarantee of Performance-based Compensation

The performance-based compensation consists of performance units and performance shares. The performance units are paid by cash in a lump sum based on the operating and financial performance of the company of the previous year and performance shares are provided in the form of deferred compensation based on the 4-year performance after it is initially granted. Among the performance-based compensation, the performance shares are subject to adjustment based on the average performance of 4 years after they are initially granted and the final amount is determined according to the market price of the company's shares at the end of adjustment period. The total amount to be paid can be adjusted if a corporate loss takes place before the payment or the company fails to achieve the expected performance. Also, the plan is designed to adjust the amount to be paid when the market price of the company's share falls due to decreasing corporate value.

### Payment Methods of Performance-based Compensation

Among performance-based variable pay plans for CEOs and Executives, the performance units are paid by cash and the performance shares are operated in equity-based products. The equity-based products accounts for more than 50% of the total variable compensation.

### Employee Compensation Status (based on the holding company)

Classification	Total amount of employee compensation (A) <small>note 1</small>	Earnings before taxes (B) <small>note 2</small>	Ratio (A/B)	Number of employees (C)	Employee average compensation (A/C)
Previous year (2016)	213	31,406	0.68%	168	1.27
Current year (2017)	191	31,705	0.60%	164	1.17

Note 1) It refers an earned income listed in the statement of payment submitted to the tax office in accordance with Article 20 of the Income Tax Act based on the number of active employees by the end of the current year

Note 2) State an amount of the (t-1) period on a consolidated basis of the group (example: if the current year is 2017, state the EBT by the end of 2016)



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### Compensation Status of All Directors and Auditors

The criteria for compensation for directors is determined by the Board of Directors within the compensation cap approved by shareholders and the amount refers to the total compensation limit of registered directors (including independent directors). The performance shares are separately approved according to the number of shares issued. The aggregate remuneration and benefits-in-kind paid by us to all our 12 directors and auditors is KRW 1.85 billion and the details of the payment are as follows.

(Unit: KRW million)

Classification	Number of directors and auditors	Total amount of compensation	Average compensation amount per person
Registered directors (independent directors and Audit Committee members excluded)	2	1227	551
Independent directors (Audit Committee members excluded)	7	412	61
Members of Audit Committee	3	211	70
Auditors	-	-	-

Note) Number of directors and auditors: average compensation amount per person as of the end of 2017: total compensation amount/number of persons converted for the term

### Individual Annual Compensation for Directors and CEOs

WE disclosed the status of individual annual compensation for directors and CEOs whose total compensation amount paid by us was over KRW 500 million in 2017. The total amount of compensation for our Chairman and Chief Executive Officer was KRW 620 million, consisting of salary and wages. In addition, he was granted 15,196 performance shares in 2017. The exercisability of these performance shares will be determined based on a review of our business performance and share price movements during a 4-year period from 2017 to 2020.

(Unit: KRW million)

	Types of remuneration and benefits-in-kind	Total amount	Criteria and method of calculation
Cho Yong-byoung, Chairman & Chief Executive Officer	Earned income/wage	619	Wages were determined by the resolution of the Board of Directors and Remuneration Committee by considering rank, post, and contribution to the group comprehensively within the compensation cap decided at the general shareholders' meeting. To be specific, the basic salary was determined as KRW 4.5 million and allowances for expenses with regard to business activities was determined as KRW 3.5 million. Determined to provide KRW 6.7 million each month by dividing the total amount of annual wages into 12 according to the result of management performance evaluation and remuneration regulation.
	Earned income/other incomes	1	Other welfare benefits

### CEO-to-Employee Pay Ratio

In 2017, the CEO pay ratio in comparison to the median paid employees was 5.9 to 1.

(Unit: KRW million)

CEO's total compensation	Median employee compensation	Ratio
620	105	5.90

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Status of shares held by the Executive Director and CEOs

Base date: Dec 31, 2017

(Unit: shares)

Name	Number of shares held
Cho Yong-byoung (Chairman)	12,000
Lee Dong-hwan (Executive)	25,895
Jin Ok-dong (Executive)	13,937
Heo Young-taek (Executive)	500
Woo Young-woong (Executive)	9,038
Lee Chang-gu (Executive)	1,064
Kim Im-geun (Executive)	1,851
Jang Dong-ki (Executive)	68
Choi Kyong-rok (Independent Director)	883,662
Yuki Hirakawa (Independent Director)	1,975
Wi Sung-ho (President of Shinhan Bank)	14,259
Kim Hwa-nam (Independent Director)	161,712

Status of shareholders with over 5% of shares

Base date: Dec 31, 2017

(Unit: shares)

Classification	Shareholder's name	Number of owned shares	Share ratio
Shareholders holding over 5% of shares	National Pension Service	45,285,762	9.55%
	BlackRock Fund Advisors	24,320,723	5.13%
Employee's Stock Ownership Association		22,324,027	4.71%

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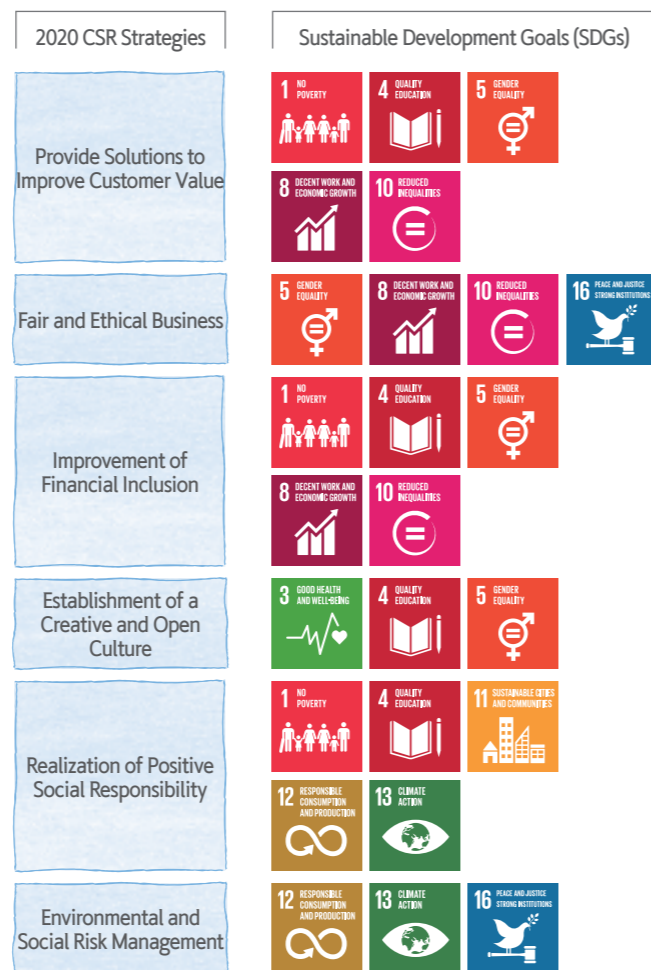
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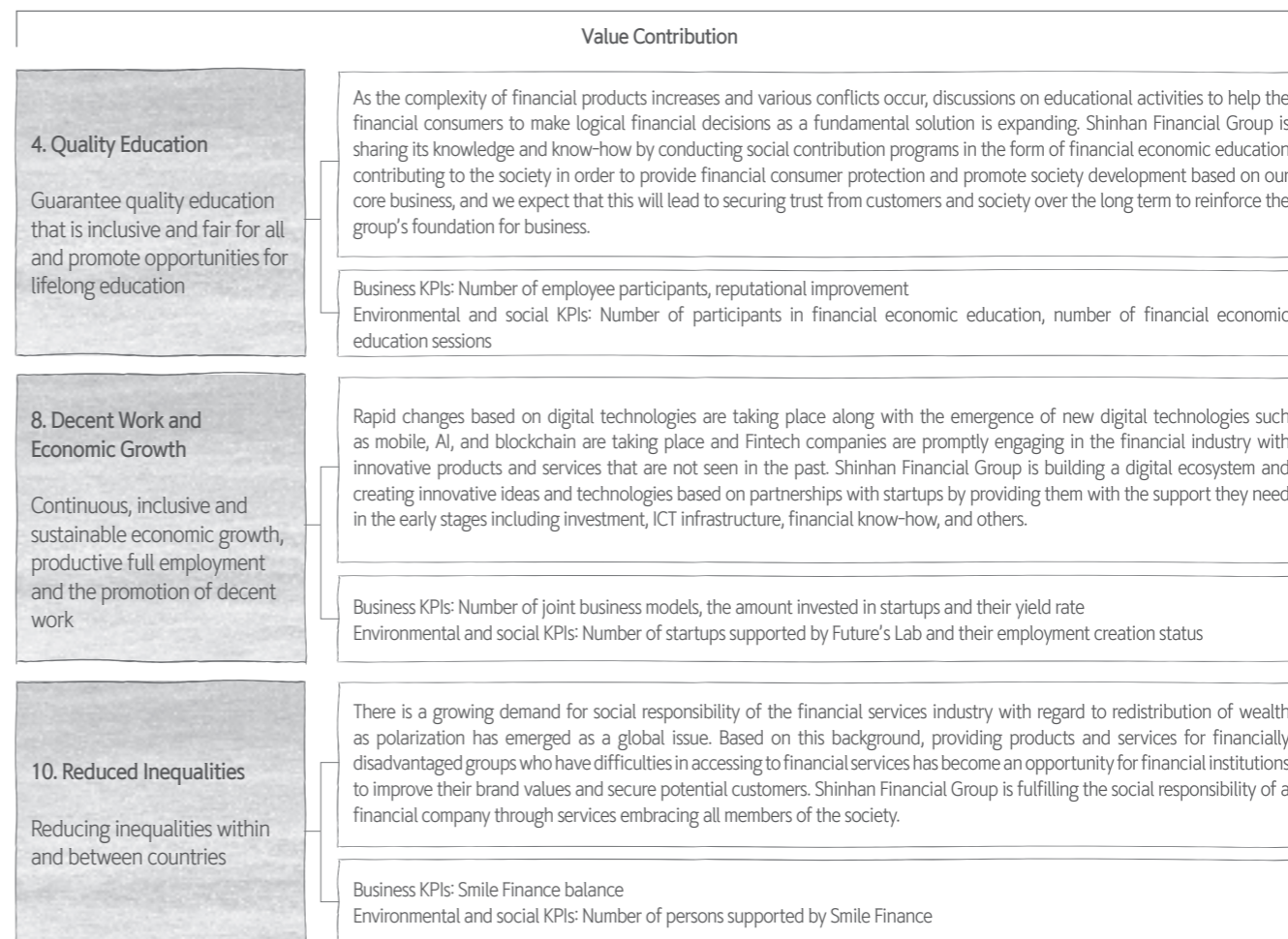
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## Sustainable Development Goals



The 2020 CSR Strategies of Shinhan Financial Group have contributed to the implementation of the UN Sustainable Development Goals (SDGs). We are participating in carrying out the three major tasks, 'Quality Education', 'Decent Work and Economic Growth', and 'Reduced Inequalities' based on its core business of financing and increasing the value of Shinhan and society.





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## Primary Goal 4. Quality Education

Shinhan Financial Group has been implementing SDGs in line with its 2020 CSR Strategies. We have established primary goals of '4. Quality Education', '8. Decent Work and Economic Growth', '10. Reduced Inequalities' and conducted various activities.

### 4 QUALITY EDUCATION



### QUALITY EDUCATION

**Guarantee quality education that is inclusive and fair for all and promote opportunities for lifelong education**

Shinhan provides financial economic education to improve financial understanding of socially marginalized groups through finance. Also, we are making efforts to provide education to the youth, customers, and employees to help them acquire techniques for sustainable growth.



Shinhan Bank's Shinhan Museum Summer Vacation Program

SDG	Major Progress by Shinhan Financial Group	
<p>4.4. Substantially increase the number of adolescents and adults with professional skills, vocational skills, and other adequate techniques required for employment, decent work, and business activities of corporations by 2030</p>	<p>In order to respond to the rapidly changing digital environment, Shinhan Financial Group and Korea University jointly installed Korea's first Digital Financial Engineering Master's Degree program combining digital theories of the university and financial practices of Shinhan. The first lecture was held in the end of April, 2017 under the theme of the 'fourth industrial revolution and financial innovation'. We will continue to make efforts to foster outstanding digital talents.</p>	
<p>4.5 Eliminate gender disparities in education, educate the vulnerable groups including people with disabilities, people receiving financial assistance, and children living in poor conditions, and achieve universal access to vocational training by 2030</p>	<p>As a part of social contribution projects based on its core business, Shinhan Bank has established the 'Shinhan Youth Financial Economic Education Center', Korea's first venue dedicated to financial education having the same environment as an actual branch of the bank, in September 2013 and provided financial economic education programs tailored to various age groups. We strive to provide quality financial education to marginalized groups in education including children from low-income families, youth and North Korean refugees, and young people with developmental disabilities.</p>	
<p>4.7. Provide support so that all learners can acquire the knowledge and technologies required to expand sustainable development by educating them on sustainable development and lifestyle, human rights, gender equality, expansion of peace and a non-violent culture, global citizenship, cultural diversity, and cultural contribution for sustainable development by 2030</p>	<p>Shinhan Bank opened its first Shinhan THE Dream guest room in the municipal welfare center for seniors in Yongsan along with the Ministry of Health and Welfare and the Korea Association of Senior Welfare Centers for the welfare for the elderly. By doing so, we improved facilities of the welfare center by installing recycled PCs and others, contributing to improving the quality of life in the era of the silver generation. We will continue to provide learning and cultural spaces for seniors to create a healthy environment improving their quality of life to realize the welfare in various aspects. Also, Shinhan Life Insurance has been engaging in volunteer activities for seniors living along in conjunction with 49 senior welfare centers across the country since 2013.</p>	

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## Primary Goal 8. Decent Work and Economic Growth






### Decent Work and Economic Growth

Promote continuous, inclusive, and sustainable economic growth and increase full and productive employment and decent work for all.

Shinhan Financial Group intends to practice finance supporting the growth of businesses, youth, and marginalized groups. We are supporting the growth of venture businesses and local communities through financial assistance and contributing to creating decent work for the youth.



Future's Lab Demo Day

SDG	Major Progress by Shinhan Financial Group
<p>8.2 Increase economic productivity through diversification, technological improvement, and innovation, focusing on high value-added and labor-intensive areas</p>	<p>Shinhan Card plans to implement the 'Connected Car' project in which transactions are made in the car in order to boost sales by releasing potential demands through technological innovation of the smart settlement service. Also, Shinhan Bank's 'Future's Lab' which fosters and supports FinTech companies extended its scope of support in 2017 to include companies related to the fourth industrial revolution such as Bio technology and Internet of Things (IoT), striving to nurture high value-added industries.</p> 
<p>8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training</p>	<p>Shinhan Bank has implemented an inclusive social financing project 'Shinhan Do Dream project' by injecting KRW 9 trillion. The 'Do Dream spaces' have installed to provide the youth with offices and study room as well as various education contents to support for the network activation in order to practically help them get a job and start their business. Shinhan Bank has installed a Big Data Center and provided Big Data related to finance to startups as well as Amazon's web-based cloud computing services and data analysis tools. Likewise, we offer support for the youth and venture businesses, contributing to job creation and national economic growth.</p> 
<p>8.9 By 2030, devise and implement policies to promote sustainable tourism which creates jobs, promotes local culture and products</p>	<p>Jeju Bank has implemented a FinTech project providing differentiated financial services based on the characteristics of Jeju, a special tourist zone, by combining its financial services with the tourism industry. For instance, the bank has implemented 'Jeju O2O project' providing accommodation reservation, discount on tourist destinations, financial services for rental cars, and others in partnerships with local franchises such as traditional markets, food trucks, street vendors, etc. It has also issued Jeju traffic welfare cards and contributed to vitalizing the local economy.</p> 



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## Primary Goal 10. Reduced Inequalities



### Reduced Inequalities

Reducing inequalities within and between countries

Shinhan Financial Group strives to reduce inequalities by helping the economic independence of the working class and socially marginalized groups through financing for the working class. Also, we are making efforts to fulfill the corporate social responsibility by reducing inequalities with investment and volunteer activities in foreign countries.



Shinhan Bank, overseas volunteer activities in Indonesia

SDG

10.2 By 2030, empower and promote the social, economic and political inclusion of all irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

10. b Recommend to support financial flow including foreign direct investments (FDIs) to countries with the highest demand such as least-developed countries, African countries, island countries, landlocked states according to their national plan and policies

10.3 Ensure equal opportunity and reduce inequalities of outcome, including through eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and actions in this regard

Major Progress by Shinhan Financial Group

Shinhan Savings Bank operates Shinhan Hope Centers, counters dedicated to financial consulting services for the working class and marginalized groups, and works hard to expand its financial consulting to financially disadvantaged groups. Shinhan Savings Bank also expands financial support for the working class with Hug Loan Linked Services in line with Shinhan Bank and established the Hug Loan Only channel, contributing to reducing financial inequalities.



Shinhan Bank's volunteer group has been engaging in various social contribution activities for the welfare of local communities and medical welfare in Indonesia, Myanmar and other countries. Shinhan Card's Arumin overseas volunteer group has installed Arumin libraries and volunteered for housing construction and education. Likewise, Shinhan strives to reduce inequalities between countries through overseas volunteering and investment.



Shinhan Card is operating the Customer Protection Team, a control tower of managing problematic consumers and protecting counselors who are working at call centers and counters of financial companies and are emotionally stressed at work due to sexual harassment, violent language, and threats. A system is activated when a consumer with malicious complaints begins to issue malicious complaints to a counselor to separate him or her from ordinary customers. We are constantly protecting counselors through an employee assistance program (EAP).





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## Report on Human Rights

### Promise to Respect Human Rights

Shinhan Financial Group declared that it shall comply with all laws and regulations related to employment and labor of the regions where its sites are located, support the basic principles of human rights protection and respect for human rights stated in the 'Universal Declaration of Human Rights' of the UN Human Rights Council and 'Guiding Principles on Business and Human Rights', and strive to comply with the above principles. Also, we promote mutually growing relationships through fair transactions with business partners including suppliers and service providers and conduct business with them in a mutually equal position. Specifically, we are making efforts to eliminate factors violating human rights that may occur in all areas of our businesses including financial product sales, provision of financial services, and others, and to seek for remedies immediately and efficiently if such case takes place. By doing so, we are leading the effort for the management in favor of human rights. Our promise to respect human rights is also applied to our subsidiaries, associated companies and limited partnership company, and business partners in contractual relationship.

Reference) Universal Declaration of Human Rights,  
Guiding Principles on Business and Human Rights

<p>Labor Rights Protection</p>	<ul style="list-style-type: none"> <li>· We provide a safer and more pleasant work environment to employees and prevent illegal labor practices such as forced labor, and child labor.</li> <li>· Observe working hours: We define working hours and overtime according to the standard stated in labor laws and regulations of the region where our place of business is located and provide overtime pay when employees work overtime exceeding the designated working hours.</li> <li>· Proper payment of wages: We provide wages higher than the minimum amount defined in the labor laws and regulations of the regions where our place of business is located.</li> <li>· Prohibition of discrimination: We do not discriminate based on school network, local network, age, gender, race, or religion in terms of personnel management related to employment, employment retention, evaluation and promotion, and payment of wages.</li> </ul>	<ul style="list-style-type: none"> <li>· Employees</li> <li>· Partner companies</li> <li>· Local communities</li> </ul>
<p>ESG Screening in Investments</p>	<ul style="list-style-type: none"> <li>· We restrict sales and investment activities including investment, loans, and savings for certain regions, industries, companies or individuals that have the possibility of forced labor or child labor.</li> <li>· We restrict sales and investment activities including investment, loans, and savings for certain regions, industries, companies or individuals that may violate human rights of indigenous people due to significant social and environmental impacts.</li> </ul>	<ul style="list-style-type: none"> <li>· Employees</li> <li>· Partner companies</li> <li>· Local communities</li> </ul>
<p>Access to financial services</p>	<ul style="list-style-type: none"> <li>· Provision of fair services: We do not provide discriminatory financial services based on gender, race, religion, or political preferences.</li> <li>· Information protection: We take technical measures required to prevent the violation of human rights caused by customer information leakage in advance and collect the minimum level of data to conduct sales activities.</li> <li>· Protection of financially disadvantaged groups: We provide additional information and guidance services for seniors, people with disabilities, and marginalized groups who are restricted in their usage and access to financial services.</li> </ul>	<ul style="list-style-type: none"> <li>· Customers</li> <li>· Local communities</li> </ul>

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### Human Rights Principles to Protect Stakeholder Interests

Respecting for human rights of all stakeholders provides a background for Shinhan Financial Group to achieve its mission 'Compassionate Finance, Your Companion for the Future', and for employees, customers and all members of society to prosper and grow together. The human rights principles of Shinhan Financial Group represent our belief that all people deserve to enjoy their basic rights and freedom and we will strive to keep that faith. As one of the most influential companies supporting the growth of local communities and a financial service provider, and partners of our suppliers, Shinhan Financial Group complies with all employment and labor related laws and regulations of the regions where our sites are located and supports the basic principles for protection and respect for human rights stated in the 'Universal Declaration of Human Rights' of the UN Human Rights Council and 'Guiding Principles on Business and Human Rights'.

Stakeholder	Human rights principles for key stakeholders
Employees	<ul style="list-style-type: none"> <li>· We do not discriminate based on school network, local network, age, gender, race, or religion.</li> <li>· We fairly evaluate and compensate employees according to their performance, provide fair opportunities of self-development based on talents and capabilities.</li> <li>· We continue to provide a safer and more pleasant work environment to improve the health of all our employees.</li> </ul>
Customers	<ul style="list-style-type: none"> <li>· We do not provide discriminatory financial services based on gender, race, religion, or political preferences.</li> <li>· We do not demand that our customers provide excessive information and take technical and physical measures to ensure privacy protection.</li> <li>· We respect the demands and expectation of customers and develop and provide the best products and services.</li> </ul>
Shareholders and investors	<ul style="list-style-type: none"> <li>· We maintain the accuracy and reliability of accounting documents to ensure transparency in management.</li> <li>· We provide the information required for shareholders and investors fairly and in a timely manner in accordance with related laws and internal regulations.</li> <li>· We respect the reasonable demands and recommendations of shareholders and investors and maintain a mutually trusting relationship.</li> </ul>
Partner companies	<ul style="list-style-type: none"> <li>· We highly regard the value of partner companies as a companion for coexistence.</li> <li>· We do not solicit to purchase products and services of the group in selecting its partner companies.</li> <li>· We conduct business in a mutually equal position rather than in a superior position.</li> </ul>
Local communities	<ul style="list-style-type: none"> <li>· We are aware of our responsibility for the development of the local community and actively participate in social contribution activities as a member the local community.</li> <li>· We do not unfairly discriminate unfairly socially marginalized groups within local society when it comes to providing financial products and services, employment opportunities, and participating in financial education programs.</li> <li>· We determine our loans and investments for large-scale projects that can cause potential issues for local environment and society by considering their potential side effects.</li> </ul>
Government institutions and relevant associations	<ul style="list-style-type: none"> <li>· We comply with the laws and regulations of a country where our sites are placed, strengthen internal control to achieve compliance management, fulfill the taxation obligation and liability for tax payment.</li> <li>· We prevent transactions with false or borrowed name accounts and illegal money laundering transactions to make a sound and transparent society.</li> <li>· We strictly comply with the Political Funds Act that prohibits the political donations of corporates or entities and do not provide political funds.</li> </ul>

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## Process of Managing Factors that Affect Human Rights

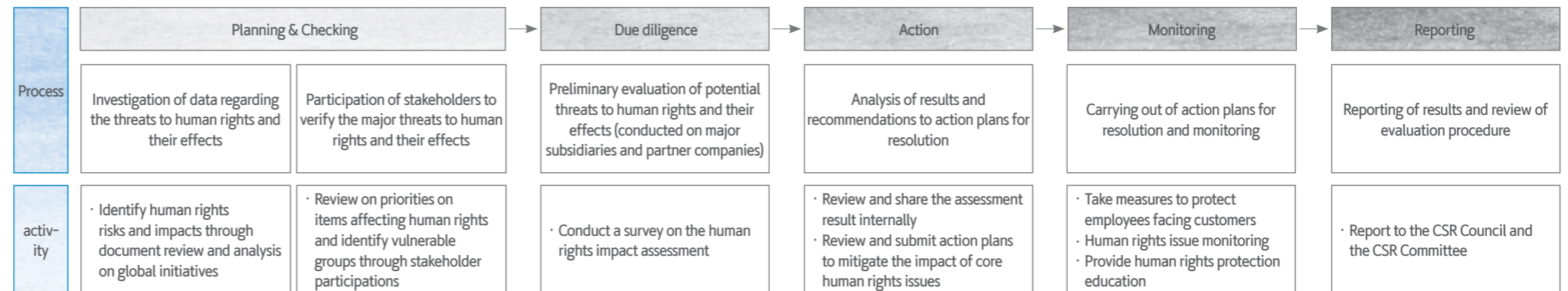
### Human Rights Principles to Protect Stakeholder Interests

Shinhan evaluates the actual and potential items that may affect human rights through its management activities. We have been conducting a human rights risk assessment on major subsidiaries and partner companies since 2016. Also, an analysis of global initiatives and macro trends along with benchmarking, media surveys, and participation of stakeholders took place in order to verify the potential threats to human rights.

Based on this, we have confirmed 8 human rights issues that may occur in our value chain while conducting business. The confirmed potential threats to human rights were distributed in various areas including loan, saving, insurance, and project financing and key stakeholders were partner companies, employees, customers and local communities. Corrective measures and mitigation plans to prevent each issue in advance were established by the concerned subsidiary, relevant departments, and partner companies.

To resolve these confirmed issues, the subsidiaries have conducted lectures on the protection of customers' personal information to put emphasis on complying with personal information processing guidelines. The partner companies are also making efforts to deal with issues related to human rights to conduct their business through reinforcing communication programs between labor and management, improving working conditions. They particularly strengthened internal guidelines on the management of records. Shinhan Financial Group reports the results of monitoring of assessment and management of factors that affect human rights to the Group CSR Council which is composed of CEOs of subsidiaries along with the CSR Committee within the board of directors, for them to review.

Process of Managing Factors that Affect Human Rights





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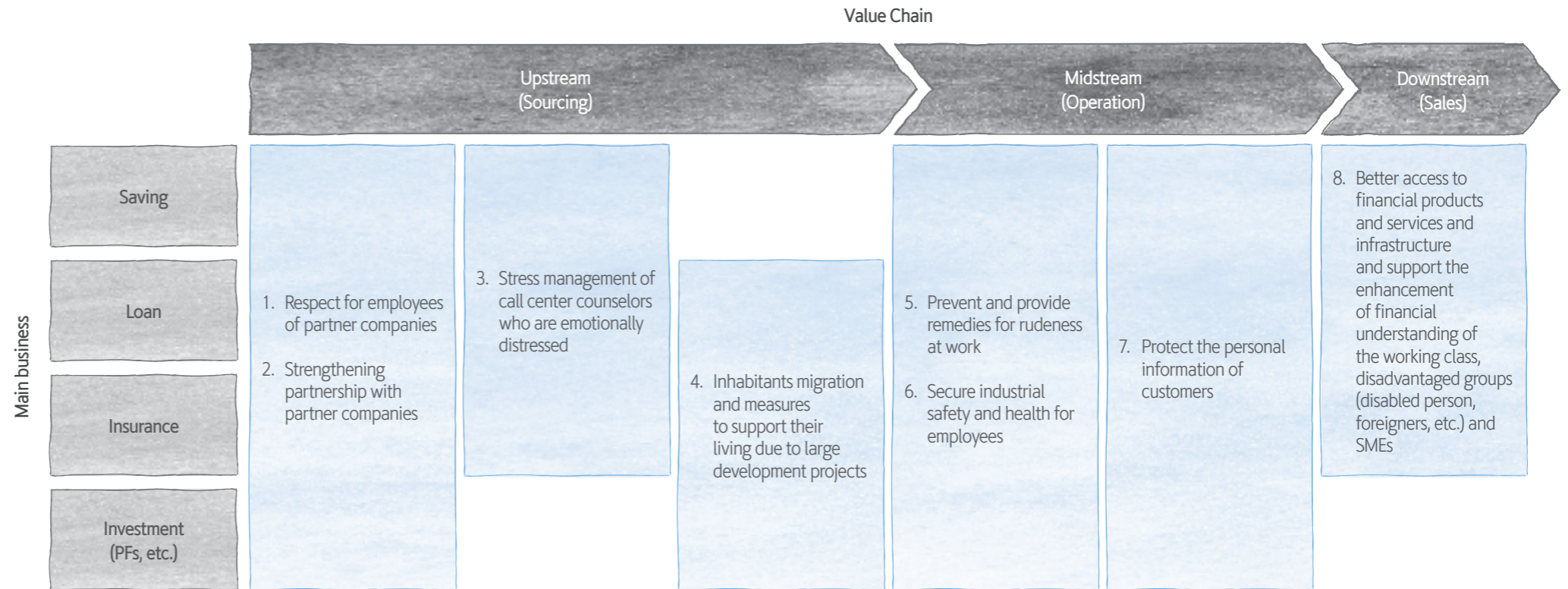
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## Potential Human Rights Issues in Value Chain

Shinhan Financial Group is aware that sales and business activities to provide financial products and services directly and indirectly affect the human rights of stakeholders. Hence, we are making efforts to prevent potential issues related to human rights in the corporate value chain. In an effort to fulfill the corporate human rights responsibility, we reviewed any potential human rights violations and abuses of all our 13 subsidiaries, while identifying potential human rights issues of partner companies through VOC for our partners and items related to human rights in the 'satisfaction survey' of major partner companies (228 businesses). We have found 8 potential issues that may arise while conducting business and reported their details, impact assessment and the result, and efforts to carryout preventive measures transparently.



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## Impact Assessment on Potential Human Rights Issues in the Value Chain

Human rights issues	Stakeholders	Impact assessment and prevention tools	Result of 2017 impact assessment and preventive measures
1. Respect for employees of partner companies	Third-party contract workers	Satisfaction survey for employees of partner companies	<ul style="list-style-type: none"> <li>Conducted a satisfaction survey for partner companies in business relations with general affairs departments in the Shinhan holding company, Bank, Card, Investment, and Life Insurance</li> <li>- 69 companies responded (30.2% among the total 228 companies), 82.6% of respondents answered favorably</li> <li>· Vitalizing fair communication through various programs for mutual prosperity</li> </ul>
2. Strengthening partnership with partner companies		VOC channels for partner companies	<ul style="list-style-type: none"> <li>· Request to improve unfair trade relationships and report on employee irregularities such as demanding bribes and gifts, etc.</li> </ul>
3. Stress management of call center counselors who are emotionally distressed	Company employees and third-party contract workers	A system to protect emotionally distressed employees	<ul style="list-style-type: none"> <li>· Offer a recess after responding to consumers with problematic behaviors</li> <li>- Average monthly operating duration for 2017: First half (0.8h/5h), Second half (4.2h/25h)</li> <li>· Customers who use slang and provide mentions of sexual harassment, defamation and threats are warned and their calls are switched &amp; operate a counseling group dedicated to consumers with malicious complaints</li> <li>· Operate an employee assistance program (EAP) handling their difficulties at work permanently &amp; the Dream Counseling Center to boost the mental health of counselors</li> </ul>
	Employee	Mental health diagnosis	<ul style="list-style-type: none"> <li>· Diagnosis and counseling on stress, depression, parenting skills and family life</li> </ul>
4. Inhabitants migration and measures to support their living due to large development projects	Indigenous people, immigrant workers	Social and environmental risk management system	<ul style="list-style-type: none"> <li>· Conduct a social and environmental impact assessment to determine financing of a development project</li> </ul>
5. Prevent and provide remedies for rudeness at work	Employee	Whistle-blower system	<ul style="list-style-type: none"> <li>· Number of reports: 15 (number of processed cases: 15)</li> </ul>
		Employee engagement survey	<ul style="list-style-type: none"> <li>· 2017 engagement survey result: 50% answered favorably (male: 59%, female: 38%, employee participation rate: 96.4%)</li> <li>· Operate programs to improve communication with (happiness community, tips for meeting etiquettes, etc.) and competencies of all employees</li> </ul>
6. Secure industrial safety and health for employees	Employee	In-depth analysis on the result of diagnosis and health risk assessment	<ul style="list-style-type: none"> <li>· Provide Follow-up management and management programs for each symptom</li> <li>- Notify employees suspected of suffering from risky diseases and link them to tertiary hospitals for medical checkups &amp; early detection of critical diseases in a high-risk group and risk prevention</li> <li>· Achieved 100% of re-examination rate</li> </ul>
7. Protect the personal information of customers	Customers	Check the information protection status of subsidiaries and partner companies	<ul style="list-style-type: none"> <li>· Security check targets: 458 posts (sales branches, outsourcing companies, and partner companies)</li> <li>· Conduct a third-party review, on-site investigation, and self-inspection with a security checklist</li> <li>· Corrective action completion rate: 100% (store and destroy confidential documents, data masking to protect personal information, etc.)</li> </ul>
8. Better access to financial products and services and infrastructure and support the enhancement of financial understanding of the working class, disadvantaged groups (disabled person, foreigners, etc.) and SMEs	Children, indigenous people, immigrant workers	Expand the scope of financial support Financial economic education Improvement on the financial infrastructure	<ul style="list-style-type: none"> <li>· Support for the working class, vulnerable groups, SMEs, venture businesses, and innovative companies</li> <li>· Financial and economic education: 124,568 persons participated (1,779 times)</li> <li>· Deployed employees for disabled customers to sales branches, operated sign language consultation services in key branches (4 stores), developed the terms and conditions and product manuals in braille.</li> </ul>

Scope	Evaluation rate	Potential risk detection rate	Corrective action implementation rate
Company employees	100%	5.10%	100%
Children-indigenous people-immigrant workers-local communities	100%	1.32%	100%
Partner companies-third-party contract workers	100%	2.72%	100%

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## UN Global Compact

Shinhan Bank joined the UN Global Compact in May of 2008 to reflect international standards regarding sustainable management into its policies and to showcase its desire to promote socially responsible management at home and abroad. We will lead the way for a healthy financing culture based on compliance with the 10 principles in the 4 areas of human rights, labor, environment, and anti-corruption and disclose our performance and progress in a transparent manner.

	Principles	Activities
Human Rights	Principle 1 : Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2 : make sure that they are not complicit in the abuse of human rights.	Enactment and posting of the human rights declaration, education on the protection of human rights, operation of the distress consultation channel, activities to prevent sexual harassment and rudeness at the workplace, etc.
Labour Standards	Principle 3 : Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4 : the elimination of all forms of forced and compulsory labor; Principle 5 : the effective abolition of child labor; and Principle 6 : the elimination of discrimination in respect to employment and occupation.	Assuring labor union activity, prohibiting child labor and forced labor in accordance with the law, practicing the personnel policy of not allowing discrimination in the cases of employment, rewarding, and evaluations, etc.
Environment	Principle 7 : Businesses should support a precautionary approach to environmental challenges; Principle 8 : Undertake initiatives to promote greater environmental responsibility; and Principle 9 : Encourage the development and diffusion of environment-friendly technologies.	Development of environment-friendly financial products and services, established an environmental management system, signed on the Global Investor Statements on Climate Change, encouraged affiliates to conduct the eco-friendly management, participated in CDP, developed the 'Sustainable Banking Principles' led by UNEP FI, participated in the Core Group, etc.
Anti-Corruption	Principle 10 : Businesses should work against corruption in all its forms, including extortion and bribery.	The enactment and implementation of the Shinhan Financial Group's Code of Ethics, operation of the fair trade compliance program, ethical practice oath, etc.



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## Quantitative Data – Economy

### Economic Value Generated and Distributed (GRI 201-1)

Scope: Holding Company  
Unit: KRW billion  
Note: Consolidate basis

#### Economic Value Generated

	2015	2016	2017
Sales	30,674.5	31,989.7	38,432.5
Pre-tax profit	3,140.6	3,170.5	3,796.3
Net profit	2,367.2	2,774.8	2,917.7

Net profit : Based on shares of controlling company

#### Distribution of Economic Value

		2015	2016	2017
Shareholders/ Investors	Dividends and Interests	5,067.7	4,718.5	4,643.3
	Employees	Payroll	1,833.9	1,827.0
Benefits		644.3	688.5	753.5
Government	Corporate tax	694.6	345.6	848.1
Local communities	Investment for social contribution	81.1	49.4	179.1
Partner companies	Purchases and services	1,548.9	1,452.8	1,482.7

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Operating Profit and Corporate Tax by Country (GRI 201-1)

Scope: Holding Company  
Unit: KRW billion  
Note: Consolidate basis

	2015			2016			2017			
	Sales	Operating profit	Corporate tax	Sales	Operating profit	Corporate tax	Sales	Operating profit	Corporate tax	
Domestic	29,891.8	2,727.9	633.9	31,018.8	2,876.1	284.0	37,253.2	3,503.5	759.9	
Overseas	Japan	141.1	49.7	17.0	169.8	72.0	23.1	176.4	103.0	29.0
	China	200.2	15.6	4.1	230.1	12.8	4.1	284.4	35.1	9.9
	Vietnam	125.9	74.7	18.0	148.8	62.8	12.6	194.5	60.2	11.9
	US	78.3	20.6	5.5	91.7	29.1	10.3	108.8	36.5	15.4
	Other Total	237.1	84.7	16.1	330.5	55.9	11.4	415.2	90.4	22.0
<b>Total</b>	<b>30,674.5</b>	<b>2,973.1</b>	<b>694.6</b>	<b>31,989.7</b>	<b>3,108.6</b>	<b>345.6</b>	<b>38,432.5</b>	<b>3,828.7</b>	<b>848.1</b>	

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Defined benefit plan obligations and other requirement plans (GRI 201-3)

Scope: Group  
Unit: KRW billion

	2015	2016	2017
Present value of defined benefit liabilities	1,567.9	1,690.0	1,695.2
Fair value of external accumulated assets	-1,341.8	-1,559.1	-1,688.1
Recognized liabilities from defined benefit plan	226.1	130.9	7.1

Compliance (GRI 206-1)

Scope: Group

Anti-competitive practices

Year	Penalty and corrective action	Description
2014	Disciplinary caution to the institution	- Unhealthy sales activities while reporting small bond prices
2015	- None	
2016	- None	
2017	Disciplinary warning and penalty KRW 852.2 million	- Violation of bans on trust property transactions and linked transactions - Violation of bans on transactions to avoid the transaction restrictions between trust properties - Violation on the process of handling collective order of trust property - Failed to seek approval for ex-post investment in relation to the acquisition of other company's shares
	Penalty KRW 37.5 million	- Violation of bans on provisions and acceptance of improper profit in property

Membership fee of relevant associations (GRI 101-13)

Scope: Group  
Unit: KRW million

	2014	2015	2016	2017
<b>Total fees of relevant associations</b>	<b>10,727</b>	<b>11,054</b>	<b>12,797</b>	<b>13,191</b>
Korea Federation of Banks	6,074	6,477	8,600	8,340
Credit Finance Association	1,711	1,780	1,765	2,087
Korea Financial Investment Association	1,226	1,277	1,273	1,374
Korea Life Insurance Association	592	704	723	880
Korea Chamber of Commerce & Industry	1,124	816	436	510

Note) Shinhan Financial Group strictly complies with the Political Funds Acts of Korea prohibiting donations of corporates or entities. However, the group pays membership fees to relevant associations.

Social Contribution (GRI 413-1)

Scope: Group  
Unit: KRW billion, persons, hours

	2015	2016	2017
<b>Total amount of investment for social contribution</b>	<b>81.1</b>	<b>49.4</b>	<b>179.1</b>
Investment in local communities	25.1	7.4	49.0
Charitable donation	42.2	36.6	96.1
Commercial initiatives	13.8	5.4	34.0
<b>Employee volunteering</b>			
Number of employees that participated in volunteering	68,393	69,981	68,969
Employee volunteering hours	259,519	266,325	248,382

Others) In-kind support: KRW 111 million, operating cost: KRW 2,503 million



## Quantitative data - Customer

### Customer satisfaction (GRI 102-43)

Scope: Shinhan Bank, Shinhan Card  
Unit: points

Shinhan Bank				
		2015	2016	2017
Internal	Customer satisfaction (self-survey)	95.9	95.8	96.2
External	NCSI	76	75	76
	KS-SQI	74.7	73.9	75
	KCSI	76.9	77.7	78.7
	KSQI	93	94	94
	GCSI	72.9	73.1	73.3
Shinhan Card				
		2015	2016	2017
Internal	Customer satisfaction (self-survey)	86.4	87.2	87.6
External	KS-SQI	74.5	73	74.3
	KCSI	74.5	75.1	77.1
	KSQI	92	94	94

### Customer Complaint Processing (GRI 102-43)

Scope: Shinhan Bank, Shinhan Card, Shinhan Investment Corp., Shinhan Life Insurance, Jeju Bank  
Unit: cases

	2015	2016	2017
Total number of cases	2,464	2,307	2,175
Number of processed cases (%)	100	100	100

Note) Types of complaints: loans, savings, currency exchange, credit cards, products, price, services, usage and follow-up management, sales, bonds, consultation, electronics, etc.

### Information Protection (GRI 419-1)

Scope: Group  
Unit: cases, hours, persons

#### Data breaches

	2015	2016	2017
Number of cases of customer information leakages	0	0	0

#### Information protection education

		2015	2016	2017
Employees	Training hours	161,950	133,768	133,738
	Number of participants	22,661	21,752	20,927
External/business partners	Training hours	23,530	25,197	24,322
	Number of participants	5,153	5,367	5,436

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## Quantitative data - Employees

### Number of employees (GRI 102-8)

Scope: Group  
Unit: persons

		2015		2016		2017	
		Female	Male	Female	Male	Female	Male
Total Number of employees		9,739	12,743	9,522	12,644	9,308	12,414
Contract terms	Management	5	165	6	167	8	185
	Regular employees	9,175	11,538	9,046	11,440	8,893	11,262
	Contract workers	559	1,042	470	1,039	407	967
Age	Below age of 30	2,575	1,041	2,159	1,009	1,961	1,017
	30 ~ 50 years of age	7,028	9,660	7,180	9,284	7,132	9,117
	Over age of 50	136	2,044	183	2,353	215	2,281
Years of work	Below 5 years	3,059	3,151	2,250	2,849	1,681	2,621
	5 ~ 10 years	2,404	2,081	2,955	2,316	3,023	2,383
	10 ~ 15 years	1,675	1,719	1,563	1,649	1,538	1,498
	15 ~ 20 years	1,005	1,789	957	1,565	1,203	1,685
	Above 20 years	1,595	4,008	1,795	4,269	1,863	4,227
Total number of turnovers and retirees		1,136	1,110	827	956	793	1,137
Number of voluntary turnovers		161	171	192	248	352	553

Note) Management: Director ~ CEO  
Voluntary turnovers: (excluded) honorary retirement, regular retirement, disciplinary dismissal, transfer within group, (included) voluntary retirement

### Diversity among employees (GRI 102-8)

Scope: Group  
Unit: persons

		2015		2016		2017	
		Female	Male	Female	Male	Female	Male
Female leadership	Management	5	165	6	167	8	185
	Upper-level managers	2,230	8,404	2,332	8,334	2,489	8,326
	Manager	734	1,576	709	1,468	732	1,447
Veteran employees		417	672	425	662	405	648
Disabled employees		56	163	55	153	57	152

Note) Management: Director ~ CEO  
Upper-level manager: Manager ~ General Manager

### Strengthening of Employees' Capabilities (GRI 404-1)

Scope: Group  
Unit: hours, KRW million

	2015	2016	2017
Total education hours	2,796,091	2,352,974	2,054,556
Total education expenses	16,862.5	22,713.2	25,030.3
Education time per person	135.0	114.9	101.9
Education expense per person	0.81	1.11	1.24

### Improvement of ethical awareness (GRI 412-2)

Scope: Group  
Unit: persons, hours

		2017
Number of participants	Cyber training	22,019
	Signing on ethical compliance oath	21,893
Training hours	Cyber training	27,013
	Human rights training	3,670

Note) Human rights training: training on preventing sexual harassment during the cyber courses

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Employee Safety and Health (GRI 403-2)

Scope: Group  
Unit: Persons

	2015	2016	2017
Number of industrial accidents	4	2	5
Absence from industrial accidents	169	5	79
Absenteeism	0.0030	0.0001	0.0015
Total missed work hours	1,352	40	632
Total work hours	44,968,000	44,336,000	43,444,000
Accident rate (%)	0.0178	0.009	0.023

Maternity leave status (GRI 401-3)

Scope: Group  
Unit: Persons

	2015		2016		2017	
	Female	Male	Female	Male	Female	Male
Employees scheduled to return to work in the current year after maternity leave	726	9	790	11	879	12
Employees that returned to work in the current year after maternity leave	633	8	715	8	796	10
Share of employees that returned to work in the current year after maternity leave (%)	87	89	91	73	91	83
Returning employees that served over 12 months after maternity leave in the previous year	362	2	412	8	485	7
Share of returning employees that served over 12 months after maternity leave in the previous year (%)	69	100	65	100	68	88

Labor union (GRI 102-41)

Scope: Group  
Unit: %

As of 2017, the membership ratio of labor unions and labor associations of Shinhan Financial Group is at 98.22%.

Membership ratio of labor unions (%)

	2015	2016	2017
Shinhan Bank	100.0	100.0	100.0
Shinhan Card	81.0	83.0	91.0
Shinhan Investment Corp.	100.0	100.0	100.0
Shinhan Life Insurance	98.0	98.0	96.0
Jeju Bank	99.7	99.1	98.8

Membership ratio of labor associations (%)

	2015	2016	2017
Shinhan Financial Holding	100.0	100.0	100.0
Shinhan BNP Paribas Asset Management	100.0	100.0	100.0
Shinhan Capital	100.0	100.0	100.0

Employee engagement (GRI 102-43)

Scope: Shinhan Bank  
Unit: %

	2015	2016	2017
Employee engagement	33	60	50
Response ratio	90.9	95.9	96.4



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Employee health, Safety, and Welfare

Information on Stress Management	<ul style="list-style-type: none"> <li>- Operate the Open Counseling Center (<a href="https://counselorshinhan.com">https://counselorshinhan.com</a>) to diagnose mental health problems and resolve distress of employees</li> <li>- Provide counseling cases via the 'Happy Letter'</li> <li>- Newly added 'mental health diagnosis' items to achieve the work-life balance for employees through stress management and create a healthy organizational culture</li> </ul>
Stress Management Training	<ul style="list-style-type: none"> <li>- Operate the stress management program for employees and conduct health campaigns for their stress relief (twice per year)</li> <li>- Provide counseling services to sales branch employees, employee complaint reporting and handling services via online, and support employees to visit external counseling centers, if necessary</li> <li>- Provide an immediate treatment of employees with tuberculosis and other infectious diseases upon the outbreak and medical checkups for their colleagues to eliminate the potential infection control risks</li> <li>- Operate meditation and healing programs for highly-stressed employees (three times per year), and provide support of external counseling centers</li> </ul>
Plans to Create a Healthy Workplace Environment	<ul style="list-style-type: none"> <li>- Operate 'Shinhan e-Health Solution', a health management system to support comprehensive health management of employees and provide training on health information</li> <li>- Install automated external defibrillators (AEDs) and provide training on the use of AEDs in case of emergency</li> <li>- Furnish flu gun sterilizers, infrared cameras, masks, and hand sanitizers in preparation of emerging infectious diseases</li> <li>- Branches with bad environmental conditions (hospitals, basements, industrial complexes, etc.) were selected for additional medical examinations of occupational lung diseases</li> <li>- Provide KRW 100,000 in addition for a medical checkup and cover the full cost of re-examination for employees aged 46 and over since 2015</li> </ul>
Ergonomic Workplace	<ul style="list-style-type: none"> <li>- Provide employees with office chairs with a synchronized tilting function where the backrest and the seat of the chair move independently so as not to strain the body</li> </ul>
Lighting	<ul style="list-style-type: none"> <li>- Install LED lights in all branches to keep an appropriate luminous intensity for the protection of employees' eyes and flexible lighting instruments according to working conditions</li> </ul>

Noise	<ul style="list-style-type: none"> <li>- Install silence machines in offices subject to high noise levels, such as call centers and telephone exchange offices</li> </ul>
Indoor Air Quality	<ul style="list-style-type: none"> <li>- Install and operate anion generators to maintain a good air quality in the working space of the head office</li> <li>- Air purifiers provided to branches when requested</li> </ul>
Humidity	<ul style="list-style-type: none"> <li>- Check and centrally control the temperature and humidity in building</li> </ul>
Temperature	<ul style="list-style-type: none"> <li>- Implement a 'temperature control operation plan' to keep an appropriate indoor temperature at 25°C</li> </ul>
Fitness facilities	<ul style="list-style-type: none"> <li>- Operate fitness centers in which professional health trainers are stationed at the headquarters and Gangnam annex</li> </ul>
Health and Nutrition Support for Employee	<ul style="list-style-type: none"> <li>- Operate various health improvement programs such as an employee health checkup system, medical expense support system, and employee marathon tournament for health</li> </ul>
Flexible Working Hours	<ul style="list-style-type: none"> <li>- The Smart Work System was adopted in July 2016 and employees can freely choose to come to work between 7-11 am for 3 times per week based on the system</li> </ul>
Teleworking	<ul style="list-style-type: none"> <li>- Implementation of the Smart Work System including working from home as of July 2016</li> </ul>
Child Care Centers or Contributions	<ul style="list-style-type: none"> <li>- Shinhan Bank runs on-site child care centers for workers in Seoul and 3 other metropolitan areas, providing childcare services from 7 am to 9:30 pm</li> </ul>
Paid Maternity Leave	<ul style="list-style-type: none"> <li>- Provide a paid maternity leave for 100 days exceeding the minimum mandatory paid leave days of 90 days</li> </ul>
Paid Paternity Leave	<ul style="list-style-type: none"> <li>- Provide a paid paternity leave for 2 years exceeding the minimum mandatory paid paternity leave period of 1 year</li> </ul>
Others	<ul style="list-style-type: none"> <li>- Predict the risk of heart and brain disease through the health risk assessment in order to discover critical illnesses of employees early</li> <li>- Establish the 'Shinhan Career Consulting Center', which is the first of its kind in the financial industry, and support the lives of employees after retirement through life planning programs for active employees and former employee programs for retired employees</li> </ul>

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## Quantitative data – Responsible Finance

**Financing Support for the Working Class (GRI FS7)** Scope: Shinhan Bank, Shinhan Savings Bank, Shinhan Life Insurance Unit: KRW billion

Shinhan Bank				
	2015	2016	2017	Note
New hope spore loan	369	472	543.8	1. Accumulated amount: KRW 2.0946 trillion
Mid-interest rate loan for the working class	-	60	109.4	
Household debt healing program	514	633	769	2. Credit loan: 26,386 cases worth KRW 491 billion, housing loan: 610 cases worth KRW 141.7 billion
Microfinance	18	18	18	3. Accumulated amount: KRW 138.2 billion
Shinhan hug loan	-	128	235.9	3. Based on accumulated amount
Korea Inclusive Finance Agency	-	8	4.1	
New hope installment savings	219	353	239	

Unit: KRW billion

Shinhan Savings Bank				
	2015	2016	2017	Note
Sunshine loan	10	84	186	
Mid-interest rate loan for the working class	-	11.9	24.78	
Shinhan hug loan	24.2	41	57	

Shinhan Life Insurance				
	2015	2016	2017	Note
Premium discount for socially vulnerable groups	46	47	63	12,579 cases for people with disabilities, multi-child families, and low-income families, etc.
Payment of premiums for disaster-affected families	9	4	20	24 cases for 2 times per family damaged by heavy rain and earthquakes
Strengthening payments of unclaimed insurance benefits (hidden benefits)	35,741	37,883	31,130	55,212 cases of notifying matured and dormant insurance money and payment management
Microinsurance	5	6	-	Support the payment of arrears of protection-type insurance policies for low-income seniors

Unit: KRW million

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Financing Support for SOHO · SMEs (GRI FS7)

Scope: Shinhan Bank, Shinhan Investment Corp., Shinhan Capital  
Unit: KRW billion

Shinhan Bank				
	2015	2016	2017	Note
Special appearance as a Local Credit Guarantee Foundation	-	10	11.9	
Long term healing program	369	209	184.9	
Relational financing	149	553	633.2	Accumulated amount: 1.1857 trillion, 1,812 companies (848 companies recorded net increase in '17)
Acquisition of performance-sharing private equity convertible bonds	10	21	61.6	
Tech credit bureau loans	5,500	7,900	3,998	
Loans for the promotion fund of the small entrepreneur market	-	160	248.9	
Special guaranteed loans for corporate restructuring and job search support	-	153	48.8	Special guaranteed loans for the restructuring of the shipbuilding industry, job creation, revitalization of domestic demand

Shinhan Investment Corp.				
	2015	2016	2017	Note
Capital increase	-	182	339	
Mezzanine finance (including corporate bonds)	-	198	115	

Shinhan Capital				
	2015	2016	2017	Note
General loans for small and mid-sized companies	1,176	1,377	1,587	Converted to annual amount
Lease and installment for small and mid-sized companies	403	291	216	
Investment in technology-based companies and startups	184	378	432	

Social enterprise support (GRI FS7)

Scope: Shinhan Bank  
Unit: KRW billion

Shinhan Bank				
	2015	2016	2017	Note
Loans	171	156	207	
Purchase of goods	4	3.2	1.4	
Sponsorships and donations	3	1.8	1.4	



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Eco-friendly Products (FS8)

Scope: Shinhan Bank, Shinhan BNP Paribas Asset Management  
Unit: KRW million

Shinhan Bank				
		2015	2016	2017
Loans <sup>1)</sup>	New green corporate loan	201,563	144,429	101,057
	Green remodeling interest subsidy loan	13,636	11,652	12,842
	Green energy factoring	8,183	4,854	1,829
	Loan for companies with outstanding green environmental management	-	-	6,150

Note 1) Balance at the end of 2017

Shinhan BNP Paribas Asset Management				
		2015	2016	2017
Funds	Shinhan BNPP Private Equity Green Energy Special Asset Investment Trust No. 1 ~ 4	-	105,113	247,486
	Shinhan BNPP Future Energy Specialized-Type Private Equity Special Asset Investment Trust No. 1 <sup>2)</sup>	-	-	22,267
	Shinhan BNPP Japanese Solar Power Special Asset Investment Trust	-	93,358	115,230
	Shinhan BNPP Japanese Solar Power Special Senior Loan Asset Investment Trust No. 1~ 2	-	-	92,596
	Shinhan BNPP Global Solar Energy Private Equity Special Asset Investment Trust	-	40,916	39,115
	Shinhan BNPP US' Nevada Solar Power Special Asset Investment Trust	-	-	86,066
	Shinhan BNPP Private Equity SRI Securities Investment Trust No. 1	-	13,575	-
	Shinhan BNPP Tops Beautiful SRI Securities Trust No. 1	-	5,371	-

Note 2) Plan to invest AUM KRW 100 billion by 2019 (Shinhan Bank: KRW 40 billion, Life Insurance: KRW 30 billion, Investment: KRW 20 billion, and Capital: KRW 10 billion)/ management company: Shinhan BNPP Asset Management

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Renewable Energy (FS8)

Scope: Shinhan Bank, Shinhan Investment Corp.  
Unit: KRW 100 million

Shinhan Bank			
	2015	2016	2017
Power-Construction project	1,187	1,507	381
Japanese solar power project	729	649	427
Philippine's Angat hydro power project	-	116	-
US' IGCC power plant project and investment fund	-	-	1,282
UK's Race Bank wind farm	-	-	216

Shinhan Investment Corp.			
total	2015	2016	2017
Loans for the sunlight power generation project in Youngju, Gyeongnam province	-	3	-
Structured refinancing of RCPS for POSCO Energy <sup>1)</sup>	-	-	500
Natural Gas Combined Cycle Power Generation Project in America <sup>2)</sup>	-	-	1,280

Note 1) Participated in financing of green energy suppliers

Note 2) Investment in the construction of the eco-friendly IGCC power plant replacing an outdated fossil fuel power station in North America

Project financing (FS11)

Scope: Shinhan Bank, Shinhan Investment Corp.  
Unit: cases

		2015	2016	2017
Project financing		9	15	23
Industrial categories	Roads	2	2	5
	Harbors	-	1	0
	Energy	6	11	16
	Others (dormitories, etc.)	1	1	2
Number of projects reviewed (evaluated) from the social/environmental perspectives		6	8	10

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Fossil fuel exposure (FS11)

Scope: Shinhan Bank  
Unit: KRW 100 million

Shinhan Bank		2015	2016	2017
Mining industry	Coal mining industry	1,317	915	1,331
	Crude oil and natural gas mining industry	41	53	1,446
	Service industry related to crude oil and natural gas mining	1,013	1,517	1
<b>Narrow exposure</b>		<b>2,371</b>	<b>2,539</b>	<b>2,778</b>
Manufacturing industry	Corks and related product manufacturing industry	95	30	31
	Briquettes and other coal product manufacturing industry	506	226	105
	Crude oil refining and processing industry	9,872	12,219	9,679
	Lubricant and grease manufacturing industry	1,809	378	532
	Other petroleum oil refinement retreatment industry	495	263	288
Electricity, gas, steam, and water industries	Thermal power generation industry	10,569	13,166	12,247
	Gas manufacturing and pipe supplying industries	5,531	5,666	6,315
<b>Wide exposure</b>		<b>28,877</b>	<b>31,947</b>	<b>29,196</b>
<b>Fossil fuel exposure</b>		<b>31,249</b>	<b>34,485</b>	<b>31,974</b>
Ratio of fossil fuel exposure compared to total loan amounts within the group(%)		1.3	1.38	1.21



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## Quantitative data - Environment

### Page usage (GRI 301-1)

Scope: Group  
Unit: ton

	2014	2015	2016	2017
Total paper usage	812.9	849.8	764.7	666.3

### Energy usage (GRI 302-1)

Scope: Group  
Unit: GJ

	2014	2015	2016	2017
Electricity	283,662	318,481	319,939	339,793
Gas	44,324	47,068	53,108	53,648
Gasoline	156,159	160,716	142,845	146,508
Diesel	875	2,058	1,986	1,603
<b>Total energy intensity <sup>1)</sup></b>	<b>24.0</b>	<b>26.0</b>	<b>25.8</b>	<b>27.4</b>

Note 1) Based on the headquarters of Shinhan Bank

### Water usage (GRI 303-1)

Scope: Group  
Unit: m<sup>3</sup>

	2014	2015	2016	2017
Waterworks	186,562	236,098	195,745	192,981
Underground water	63,321	58,170	64,970	72,813

### Waste (GRI 306-2)

Scope: Group  
Unit: ton

	2014	2015	2016	2017
<b>General waste</b>	<b>258.3</b>	<b>297.4</b>	<b>334.0</b>	<b>324.8</b>
<b>Recyclable waste <sup>1)</sup></b>	<b>188.3</b>	<b>231.0</b>	<b>214.1</b>	<b>117.4</b>
Paper	171.3	216.7	188.0	88.2
Styrofoam	0.0	0.0	2.5	0.0
Glass	10.8	8.3	15.7	19.7
Cans	0.5	0.6	0.7	0.9
Plastic	5.7	5.4	7.3	8.6

Note 1) Based on the headquarters of Shinhan Bank

### Environmental Investment

Scope: Shinhan Bank  
Unit: KRW million

	2015	2016	2017
<b>Environmental investment amount</b>	<b>5,790</b>	<b>5,790</b>	<b>4,455</b>
Purchase of eco-friendly IT products	4,310	4,310	2,409
Purchase of LED lights	1,480	1,480	737
Replacement of outdated facilities	0	0	1,309

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GHG emissions (GRI 305-1~3)

Scope: Group  
Unit: tCO<sub>2</sub>eq

		2014	2015	2016	2017	Scope of each indicator	
Scope1		17,972.20	17,793.10	16,732.10	16,733.30	All group affiliates excluding Jeju Bank	
Scope2		85,860.60	84,487.70	81,858.00	80,897.20	All group affiliates excluding Jeju Bank	
GHG emission intensity (Scope 1+2)		5.1	5.0	4.9	4.9	Regular employees excluding Jeju Bank	
Scope3		746.50	18,652.60	18,501.70	19,462.50		
Business trips	Airline (Domestic)	94.98	73.45	95.76	181.79	Shinhan Financial Holding Company, Shinhan Bank, Shinhan Card, Shinhan Investment Corp., Shinhan Life Insurance, Shinhan BNP Paribas Asset Management, Shinhan Capital	
	Train	122.73	233.69	117.31	188.61		
	Bus	16.92	48.66	30.49	47.47		
Cash-in-transit	Diesel	371.50	396.98	409.77	418.63	Shinhan Bank	
	LPG	-	4.30	3.09	0.73		
Purchase of Products and Services	Printing paper	-	4,883.16	5,031.39	4,581.18	Shinhan Financial Holding Company, Shinhan Bank, Shinhan Card, Shinhan Investment Corp., Shinhan Life Insurance, Shinhan BNP Paribas Asset Management, Shinhan Capital	
	Credit cards	-	11,800.33	11,800.33	13,128.78		Shinhan Card
	Savings accounts	-	201.70	191.55	175.80		Shinhan Bank
Capital goods	Laptops	-	314.05	0.12	2.34	Shinhan Bank	
	PC desktop	-		180.53	28.21		
	Monitors	-		79.56	142.96		
	Printers	-		66.08	122.28		
	LED lights	-		415.55	226.41		176.09

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Scope: Group  
Unit: tCO<sub>2</sub>eq

		2014	2015	2016	2017	Scope of each indicator
Waste	Credit cards	-	121.73	113.28	126.03	Shinhan Card
	Savings accounts	-	4.34	4.12	3.78	Shinhan Bank
	General waste (Incineration)	35.71	36.57	41.08	26.87	Shinhan Bank, Shinhan Investment Corp., Shinhan Life Insurance, Shinhan Capital, Jeju Bank
	Recyclable waste (Paper)	20.56	26.01	22.56	20.59	Shinhan Bank (Headquarters)
	Recyclable waste (Styrofoam)	-	-	0.05	0.00	
	Recyclable waste (Styrofoam)	1.06	0.81	1.54	1.92	
	Recyclable waste (Cans)	0.01	0.01	0.01	0.02	
	Recyclable waste (Plastic)	0.11	0.1	0.13	0.16	
Water	Waterworks	61.94	91.15	64.99	64.07	Shinhan Financial Holding Company, Shinhan Bank (Headquarters, Gwanggyo Building, 100th Anniversary Center), Shinhan Card (Yeoksam Building, Dongsan Building), Shinhan Investment Corp. (Headquarters and 3 Branches), Shinhan BNP Paribas Asset Management (Headquarters), Shinhan Capital (Headquarters), Jeju Bank (Headquarters and 18 Branches)
	Underground water	21.02		21.57	24.17	Shinhan Bank (Headquarters), Shinhan Investment Corp. (Headquarters)



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## Independent Assurance Statement

### Introduction

Shinhan Financial Group commissioned DNV GL Business Assurance Korea, Ltd. ("DNV GL"), part of DNV GL Group, to undertake independent assurance of 'Shinhan Financial Group CSR Report 2017' (the "Report"). The Shinhan Financial Group have sole responsibility for the preparation of the Report. The responsibility of DNV GL in performing the assurance work is to the management of Shinhan Financial Group in accordance with the terms of reference. DNV GL's assurance engagements are based on the assumption that the data and information provided by Shinhan Financial Group for our review have been prepared in good faith.

### Scope of assurance

The scope of assurance includes a review of sustainability activities and non-financial performance data over the reporting period from 1st January to 31st December 2017. This also includes

- Evaluation of the Report for the adherence to the AccountAbility principles set forth in the AA1000AccountAbility Principles Standard(APS) 2008
- Evaluation of the process for determining material topics for reporting and the management approach to material topics and the process for generating, gathering and managing the quantitative and qualitative data in the Report
- Review of data gathering process for the selected data

### Basis of our opinion

We've performed our work based on the DNV GL's assurance methodology VeriSustain™<sup>1</sup> and AA1000AS:2008. We applied the Moderate level of assurance and Type 1 of assurance engagement. Type 2 engagement was applied to the selected data sets. The audit was carried out from April till June 2018. The site visits were made to Shinhan Financial Group's headquarters in Seoul, Korea. We undertook the following activities as part of the assurance process

- challenged the sustainability-related statements and claims made in the Report and assessed the robustness of the underlying data management system, information flow and controls

- interviewed representatives of Shinhan Financial Holding Company and subsidiaries
- conducted document reviews, data sampling and interrogation of supporting databases and associated management systems
- reviewed the materiality assessment report

### Limitations

The assurance engagement excludes the sustainability management, performance and reporting practices of Shinhan Financial Holding company's other subsidiaries, associated companies, suppliers, and contractors except Shinhan Financial Holding Company and its 7 subsidiaries (Shinhan Bank, Shinhan Card, Shinhan Investment Corp., Shinhan Life Insurance, Shinhan BNP Paribas Asset Management, Shinhan Capital, and Jeju Bank). DNV GL did not interview external stakeholders as part of this Assurance Engagement. The audited financial statements, the announcement disclosed at the website of Korea Financial Supervisory Service (<http://dart.fss.or.kr>) and data on the website of Shinhan Financial Holding Company and its 7 subsidiaries are not included in the scope of the assurance engagement. Limited depth of evidence gathering including inquiry and analytical procedures and limited sampling at lower levels in Shinhan Financial Holding Company were applied. The baseline data for Environmental and Social performance except the selected data are not verified, while the aggregated data at the corporate level are used for the verification. DNV GL expressly disclaims any liability or co-responsibility for any decision which a person or an entity may make based on this Assurance Statement.

### Conclusion

On the basis of the work undertaken, nothing comes to our attention to suggest that the information and data in the Report are not properly stated. Further opinions with regards to the adherence to the Principles of AA1000APS (2008) are made below

Note1) The VeriSustain protocol is available upon request at DNV GL Website ([www.dnvgl.com](http://www.dnvgl.com))

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**Foundation Principle of Inclusivity**

Shinhan Financial Group has identified internal and external stakeholder groups such as Employees, Customers, Shareholders & Investors, Suppliers, Local communities & NGOs, and Regulators. Shinhan Financial Group engages with the stakeholders through various channels. The examples of engagement approaches, major expectations and concerns from stakeholder groups and Shinhan Financial Group's corresponding responses are described in the Report.

**Principle of Materiality**

Shinhan Financial Group has formed a sustainability issue pool by analyzing stakeholders' opinion, peers' reports and conducting media research etc. The material topics are prioritized by evaluating the issues in terms of significance and relevance with Shinhan Financial Group. The output of the materiality assessment process brings out material topics.

**Principle of Responsiveness**

Shinhan Financial Group monitors and reports performances on material topics drawn by the materiality assessment process in the Report. Balanced reporting on the financial (economical) and the non-financial (social and environmental) performances is made. Shinhan Financial Group states the business strategies (2020 CSR strategy) and strategic objectives in the Report.

Further opinions on the report quality is as follows;

**Report quality: Accuracy and Reliability**

DNV GL verified the accuracy and reliability of the selected data (Greenhouse gas emissions, Water consumption, Waste volume, Business travel distance, Occupational accident rate, Absentee rate, monetary value and number of transactions of Microfinance and Microinsurance) in the Report through sampling. The audit team did not identify any intentional errors or misleading descriptions. The data provided in the report was gathered from the subsidiaries and processed by Shinhan Financial Holding Company to meet the purpose. The assurance team conducted interviews with the responsible

individuals and reviewed the process of data gathering and data processing and verified the supporting documents and records. The depth of data verification is limited to the input data in the data gathering templates submitted by respective subsidiaries. The personnel responsible for the data control can demonstrate to trace the origin of the selected data and interpretation of the selected data in a reliable manner. The assurance team concludes that the selected data are results of stable and repetitive activities.

**Competence and Independence**

DNV GL applies its own management standards and compliance policies for quality control, in accordance with ISO/IEC 17021:2011 - Conformity Assessment Requirements for bodies providing audit and certification of management systems, and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We have complied with the DNV GL Code of Conduct during the assurance engagement and maintain independence where required by relevant ethical requirements. This engagement work was carried out by an independent team of sustainability assurance professionals. DNV GL was not involved in the preparation of statements or data included in the report except for this Assurance Statement. DNV GL maintains complete impartiality toward stakeholders interviewed during the assurance process. During 2017~2018, DNV GL has verified the greenhouse gas emissions and has certified ISO 14001:2015 and ISO 50001:2011 in Shinhan Bank. Verification and Certification services which DNV GL provided to Shinhan Bank are not considered as a conflict of independence or impartiality of CSR report verification.



June 2018  
Seoul, Korea

In Kyoon Ahn  
Country Representative DNV GL Business Assurance Korea, Ltd. *Ahn Kyoon*

## ABOUT THIS REPORT

### Reporting Principles

This report complies with Sustainability Reporting Guidelines of Global Reporting Initiative (GRI) and fulfills the conditions in accordance with the Core Option. The financial information included in this report follows the Korean International Financial Reporting Standards (K-IFRS), which use the unit of the Korean Won (KRW and ₩).

### Reference Standards

This paper reports on the establishment and activity of SDGs based on corporate behavior guidelines regarding SDGs and their performance along with their progress on human rights activities according to UN Guiding Principles on Business and Human Rights (UNGP).

### Reporting Period and Scope

The reporting period of this report is from January 1, 2017 to December 31, 2017. Some qualitative activities and results from 2018 have also been included. For identifying trends, data for the previous 2 to 5 years have been reported. The scope of report includes 8 group affiliates of Shinhan Financial Holding Company, Shinhan Bank, Shinhan Card, Shinhan Investment Corp., Shinhan Life Insurance, Shinhan BNP Paribas Asset Management, Shinhan Capital, and Jeju Bank, which amount to 99.35% of all group affiliates in terms of sales volume. In order to minimize the confusion of readers, separate explanations are given for issues requiring attention on the scope of reporting, and abbreviations of the company names are used for reader's convenience.

### Reliability of the Report

To improve the reliability of the report, it went through a verification process in accordance with the AA1000AS (2008) assurance standard based on its principles of inclusivity, materiality, and responsiveness by a global verification institute DNV GL. The format of the engagement was structured to meet the AA1000AS Type 1 and certain performance related information was verified according to the Type 2 of the same assurance standard. The result of verification can be found in page 113 to 114 of the report.



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