

SHINHAN FINANCIAL GROUP CO LTD

Form 20-F

April 29, 2016

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As filed with the Securities and Exchange Commission on April 29, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission File Number: 001-31798

Shinhan Financial Group Co., Ltd.

(Exact name of registrant as specified in its charter)

N/A
(Translation of registrant's
name into English)

The Republic of Korea
(Jurisdiction of
incorporation or organization)

20, Sejong-daero 9-gil, Jung-gu

Seoul 04513, Korea

(Address of principal executive offices)

Yu Sunghun, +822 6360 3071(T), irshy@shinhan.com, +822 6360 3098 (F), 20, Sejong-daero 9-gil, Jung-gu, Seoul 04513, Korea

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange on Which Registered:
Common stock, par value Won 5,000 per share	New York Stock Exchange*
American depositary shares	New York Stock Exchange

* Not for trading, but only in connection with the listing of American depositary shares on the New York Stock Exchange, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of Shinhan Financial Group's classes of capital or common stock as of the close of the last full fiscal year covered by this Annual Report: 474,199,587 shares of common stock, par value of Won 5,000 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued Other

by the International Accounting Standards Board

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court: Yes No

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CERTAIN DEFINED TERMS, CONVENTIONS AND CURRENCY OF PRESENTATION

Unless otherwise specified or the context otherwise requires:

the terms we, us, our, Shinhan Financial Group, SFG and the Group mean Shinhan Financial Group and its consolidated subsidiaries; and

the terms Shinhan Financial Group Co., Ltd., our company and our holding company mean Shinhan Financial Group Co., Ltd.

All references to Korea or the Republic contained in this annual report are to the Republic of Korea. All references to the Government are to the government of the Republic of Korea. References to the Financial Services Commission are to the Financial Services Commission of Korea, and references to the Financial Supervisory Service are to the Financial Supervisory Service of Korea, the executive body of the Financial Services Commission.

The fiscal year for us and our subsidiaries ends on December 31 of each year. Unless otherwise specified or the context otherwise requires, all references to a particular year are to the year ended December 31 of that year.

The currency of the primary economic environment in which we operate is Korean Won.

In this annual report, unless otherwise indicated, all references to Won or W are to the currency of the Republic of Korea, and all references to U.S. Dollars, Dollars, \$ or US\$ are to the currency of the United States of America. Unless otherwise indicated, all translations from Won to Dollars were made at ₩1,169.3 to US\$1.00, which was the noon buying rate in the City of New York on December 31, 2015 for cable transfers according to the H.10 statistical release of the Federal Reserve Board (the Noon Buying Rate). On April 12, 2016, the Noon Buying Rate was ₩1,144.5 to US\$1.00. The Noon Buying Rate has been volatile recently and the U.S. Dollar amounts referred to in this report should not be relied upon as an accurate reflection of our results of operations. We expect this volatility to continue in the near future. No representation is made that the Won or U.S. Dollar amounts referred to in this report could have been or could be converted into Dollars or Won, as the case may be, at any particular rate or at all.

Unless otherwise indicated, the financial information presented in this annual report has been prepared on a consolidated basis in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Any discrepancies in the tables included herein between totals and sums of the amounts listed are due to rounding.

FORWARD LOOKING STATEMENTS

This annual report includes forward-looking statements, as defined in Section 27A of the U.S. Securities Act, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act), including statements regarding our expectations and projections for future operating performance and business prospects. The words believe, expect, anticipate, estimate, project and similar words used in connection with any discussion of future operating or financial performance identify forward-looking statements. In addition, all statements other than statements of historical facts included in this annual report are forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that

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could cause actual results to differ materially from those described in the forward-looking statements. This annual report discloses, under the caption "Item 3.D. Risk Factors" and elsewhere, important factors that could cause actual results to differ materially from our expectations ("Cautionary Statements"). Included among the factors discussed under the caption "Item 3.D. Risk Factors" are the following risks related to our business, which could cause actual results to differ materially from those described in the forward-looking statements: the risk of adverse impacts from an economic downturn; increased competition; market volatility in securities and derivatives markets, interest or foreign exchange rates or indices; other factors impacting our operational plans; or legislative and/or regulatory developments. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this annual report. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**ITEM 3.A. Selected Financial Data**

The selected consolidated income statement and balance sheet data set forth below for the years ended December 31, 2011, 2012, 2013, 2014 and 2015 have been derived from our consolidated financial statements which have been prepared in accordance with IFRS as issued by the IASB. Our consolidated financial statements as of and for the years ended December 31, 2011, 2012, 2013, 2014 and 2015 have been audited by independent registered public accounting firm KPMG Samjong Accounting Corp.

You should read the following data with the more detailed information contained in Item 5. Operating and Financial Review and Prospects and our consolidated financial statements included in Item 18. Financial Statements. Historical results are not necessarily indicative of future results.

Consolidated Income Statement Data

	Year Ended December 31,					
	2011	2012	2013	2014	2015	2015 ⁽¹⁾
	(In billions of Won and millions of US\$, except per common share data)					
Interest income	₩ 13,781	₩ 13,999	₩ 12,591	₩ 12,061	₩ 11,130	\$ 9,518
Interest expense	(6,701)	(7,019)	(5,986)	(5,271)	(4,437)	(3,794)
Net interest income	7,080	6,980	6,605	6,790	6,693	5,724
Fees and commission income	3,557	3,491	3,490	3,561	3,897	3,332
Fees and commission expense	(1,798)	(1,948)	(2,103)	(2,091)	(2,276)	(1,946)
Net fees and commission income	1,759	1,543	1,387	1,469	1,621	1,386
Net insurance loss	(119)	(211)	(383)	(413)	(432)	(370)
Dividend income	209	174	156	176	308	264
Net trading income (loss)	(132)	608	75	262	(344)	(294)
Net foreign currency transaction gain	14	280	296	224	78	67

Net gain (loss) on financial instruments designated at fair value through profit or loss	172	(532)	(122)	(361)	460	393
Net gain on sale of available-for-sale financial assets	846	536	701	681	772	661
Impairment losses on financial assets	(983)	(1,416)	(1,340)	(1,174)	(1,264)	(1,081)
General and administrative expenses	(3,983)	(4,062)	(4,203)	(4,463)	(4,475)	(3,827)
Net other operating expenses	(538)	(724)	(540)	(536)	(444)	(380)
Operating income	4,325	3,176	2,632	2,655	2,973	2,543
Equity method income	58	28	7	31	21	18
Other non-operating income (loss), net	(38)	25	37	182	147	125
Profit before income taxes	4,345	3,229	2,676	2,868	3,141	2,686

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	Year Ended December 31,					
	2011	2012	2013	2014	2015	2015 ⁽¹⁾
	(In billions of Won and millions of US\$, except per common share data)					
Income tax expense	(957)	(739)	(621)	(668)	(695)	(594)
Profit for the year	₩ 3,388	₩ 2,490	₩ 2,055	₩ 2,200	₩ 2,446	\$ 2,092
Other comprehensive income (loss) for the year, net of income tax						
Items that are or may be reclassified to profit or loss:						
Foreign currency translation adjustments for foreign operations	₩ 16	₩ (85)	₩ (58)	₩ (13)	₩ (6)	\$ (6)
Net change in unrealized fair value of available-for-sale financial assets	(461)	13	(269)	136	(266)	(227)
Equity in other comprehensive income of associates	3	4	(5)	6	12	10
Net change in unrealized fair value of cash flow hedges	1	16	6	(16)	3	3
Other comprehensive income (loss) of separate account		1	(2)	6	2	2
	(441)	(51)	(328)	119	(255)	(218)
Items that will never be reclassified to profit or loss:						
Remeasurements of defined benefit liability	(115)		19	(154)	(82)	(70)
	(115)		19	(154)	(82)	(70)
Total other comprehensive loss, net of income tax	(556)	(51)	(309)	(36)	(337)	(288)
Total comprehensive income for the year	₩ 2,832	₩ 2,439	₩ 1,746	₩ 2,164	₩ 2,109	\$ 1,804
Net income attributable to:						
Equity holders of the Group	₩ 3,215	₩ 2,320	₩ 1,898	₩ 2,081	₩ 2,367	\$ 2,024
Non-controlling interest	173	170	157	119	79	68
Total comprehensive income attributable to:						
Equity holders of the Group	2,660	2,267	1,591	2,046	2,034	1,740
Non-controlling interest	172	172	155	118	75	64
Earnings per share:						
Basic earnings per share in Won and US\$ ⁽²⁾	6,195	4,681	3,810	4,195	4,789	4.10
	6,065	4,681	3,810	4,195	4,789	4.10

Dilutive earnings per share in Won and
US\$(³)

Notes:

- (1) Won amounts are expressed in U.S. Dollar at the rate of ₩1,169.3 to US\$1.00, the Noon Buying Rate in effect on December 31, 2015 for the convenience of readers. No representation is made that the Won or U.S. Dollar amounts referred to above could have been or could be converted into U.S. Dollars or Won, as the case may be, at any particular rate or at all.
- (2) Basic earnings per share are calculated by dividing net income available to holders of our common shares by the weighted average number of common shares issued and outstanding for the relevant period.

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- (3) Dilutive earnings per share are calculated in a manner consistent with basic earnings per share, while giving effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common shares were converted into or exercised for common shares. Common shares issuable upon conversion of redeemable convertible preferred shares are potentially dilutive.

Consolidated Balance Sheet Data

	2011	2012	2013	2014	2015	2015 ⁽¹⁾
	(In billions of Won and millions of US\$, except per common share data)					
Assets						
Cash and due from banks	₩ 14,731	₩ 13,507	₩ 16,473	₩ 20,585	₩ 22,024	\$ 18,836
Trading assets	11,954	16,654	18,033	24,362	22,638	19,361
Financial assets designated at fair value through profit or loss	1,801	2,542	3,361	2,737	3,244	2,774
Derivative assets	2,319	2,171	1,717	1,568	1,995	1,706
Loans, net	192,573	200,289	205,723	221,618	246,441	210,760
Available-for-sale financial assets	34,106	36,284	33,597	31,418	33,966	29,048
Held-to-maturity financial assets	11,895	11,660	11,031	13,373	16,192	13,848
Property and equipment, net	2,994	3,108	3,214	3,147	3,039	2,599
Intangible assets, net	4,203	4,195	4,226	4,153	4,275	3,656
Investments in associates	249	299	329	342	393	336
Current tax receivable	9	14	6	11	10	8
Deferred tax assets	29	100	196	228	164	140
Investment properties, net	275	779	690	268	209	178
Other assets, net	10,888	13,283	12,451	14,203	15,946	13,637
Assets held for sale	16	54	243	9	4	3
Total assets	₩ 288,042	₩ 304,939	₩ 311,290	₩ 338,022	₩ 370,540	\$ 316,890
Liabilities						
Deposits	₩ 163,016	₩ 173,296	₩ 178,810	₩ 193,710	₩ 217,676	\$ 186,160
Trading liabilities	704	1,371	1,258	2,689	2,136	1,826
Financial liabilities designated at fair value through profit or loss	3,298	4,822	5,909	8,996	8,916	7,625
Derivative liabilities	1,972	1,904	2,019	1,718	2,599	2,223
Borrowings	20,033	19,537	20,143	22,974	21,734	18,587
Debt securities issued	39,737	38,838	37,491	37,335	41,221	35,253
Liability for defined benefit obligations	275	222	118	309	226	193
Provisions	870	748	750	694	699	598
Current tax payable	568	254	239	257	142	121
Deferred tax liabilities		42	15	10	11	10

Liabilities under insurance contracts	10,867	13,420	15,662	17,776	20,058	17,154
Other liabilities	19,843	21,574	19,021	21,040	23,312	19,936
Total liabilities	₩ 261,183	₩ 276,028	₩ 281,435	₩ 307,507	₩ 338,730	\$ 289,686

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	2011	2012	2013	2014	2015	2015 ⁽¹⁾
	(In billions of Won and millions of US\$, except per common share data)					
Equity						
Capital stock	₩ 2,645	₩ 2,645	₩ 2,645	₩ 2,645	₩ 2,645	\$ 2,262
Hybrid bond	239	537	537	537	737	630
Capital surplus	9,887	9,887	9,887	9,887	9,887	8,456
Capital adjustments	(393)	(393)	(393)	(393)	(424)	(362)
Accumulated other comprehensive income	1,189	980	673	638	305	261
Retained earnings	10,830	12,714	14,189	15,869	17,690	15,127
Total equity attributable to equity holders of the Group	24,397	26,370	27,538	29,184	30,840	26,374
Non-controlling interest	2,462	2,541	2,317	1,331	970	830
Total equity	₩ 26,859	₩ 28,911	₩ 29,855	₩ 30,515	₩ 31,810	\$ 27,204
Total liabilities and equity	₩ 288,042	₩ 304,939	₩ 311,290	₩ 338,022	₩ 370,540	\$ 316,890

Note:

- (1) Won amounts are expressed in U.S. Dollar at the rate of ₩1,169.3 to US\$1.00, the Noon Buying Rate in effect on December 31, 2015 for the convenience of readers. No representation is made that the Won or U.S. Dollar amounts referred to above could have been or could be converted into U.S. Dollars or Won, as the case may be, at any particular rate or at all.

Dividends

	Year Ended December 31,				
	2011	2012	2013	2014	2015
	(In Won and US\$)				
Cash dividends per share of common stock:					
In Korean Won	₩ 750	₩ 700	₩ 650	₩ 950	₩ 1,200
In U.S. Dollars ⁽¹⁾	\$ 0.65	\$ 0.66	\$ 0.62	\$ 0.87	\$ 1.03
Cash dividends per share of preferred stock:					
In Korean Won	₩ 4,996	₩ 5,580	₩ 5,580	₩ 5,580	₩ 5,580
In U.S. Dollars ⁽¹⁾	\$ 4.31	\$ 5.25	\$ 5.29	\$ 5.12	\$ 4.77

Note:

- (1) Won amounts for 2011, 2012, 2013, 2014 and 2015 are expressed in U.S. Dollar at the rate of ₩1,158.5, ₩1,063.2, ₩1,055.3, ₩1,090.9, and ₩1,169.3 respectively, to US\$1.00, the Noon Buying Rate in effect on December 31, 2011, 2012, 2013, 2014 and 2015, respectively, for the convenience of readers. No representation is made that the Won or U.S. Dollar amounts referred to above could have been or could be converted into U.S. Dollars or Won, as the case may be, at any particular rate or at all.

Table of Contents**Selected Statistical Information*****Profitability Ratios and Other Data***

	2011	Year Ended December 31,				2015
		2012	2013	2014	(Percentages)	
Net income attributable to the Group as a percentage of:						
Average total assets ⁽¹⁾	1.09%	0.82%	0.66%	0.68%	0.62%	
Average total Group stockholders' equity ⁽¹⁾	10.89	8.83	7.03	7.25	7.08	
Dividend payout ratio ⁽²⁾	20.39	16.77	19.47	24.66	30.25	
Net interest spread ⁽³⁾	2.34	2.11	1.95	1.93	1.78	
Net interest margin ⁽⁴⁾	2.80	2.57	2.36	2.31	2.08	
Efficiency ratio ⁽⁵⁾	82.53	85.98	88.25	87.31	88.15	
Cost-to-income ratio ⁽⁶⁾	44.79	47.45	52.41	55.32	52.74	
Cost-to-average assets ratio ⁽¹⁾⁽⁷⁾	7.23	6.54	6.48	6.09	6.56	
Equity to average asset ratio ⁽¹⁾⁽⁸⁾	9.97	9.31	9.43	9.36	8.72	

Notes:

- (1) Average total assets, liabilities and stockholders' equity are based on (a) daily balances for Shinhan Bank and (b) quarterly balances for other subsidiaries.
- (2) Represents the ratio of total dividends declared on common and preferred stock and hybrid bonds as a percentage of net income attributable to the Group.
- (3) Represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
- (4) Represents the ratio of net interest income to average interest-earning assets.
- (5) Represents the ratio of non-interest expense to the sum of net interest income and non-interest income. Efficiency ratio is used as a measure of efficiency for banks and financial institutions. Efficiency ratio may be reconciled to comparable line-items in our income statements for the periods indicated as follows:

	2011	Year Ended December 31,				2015
		2012	2013	2014	(In billions of Won, except percentages)	
Non-interest expense (A)	₩ 20,505	₩ 19,802	₩ 20,100	₩ 19,733	₩ 23,368	
<i>Divided by</i>						
The sum of net interest income and non-interest income (B)	24,845	23,031	22,776	22,601	26,509	
Net interest income	7,080	6,980	6,605	6,790	6,693	
Non-interest income	17,765	16,051	16,171	15,811	19,816	

Efficiency ratio ((A) as a
percentage
of (B))

82.53%

85.98%

88.25%

87.31%

88.15%

- (6) Represents the ratio of general and administrative expenses to the sum of net interest income, net fee and commission income, net gain on financial assets and liabilities at fair value through profit or loss and net other operating income.
- (7) Represents the ratio of non-interest expense to average total assets.
- (8) Represents the ratio of average stockholders' equity to average total assets.

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	As of December 31,				
	2011	2012	2013	2014	2015
	(In billions of Won, except percentages)				
Total gross loans	₩ 195,055	₩ 202,916	₩ 207,987	₩ 223,879	₩ 248,429
Total allowance for loan losses	₩ 2,577	₩ 2,800	₩ 2,476	₩ 2,501	₩ 2,318
Allowance for loan losses as a percentage of total loans	1.32%	1.38%	1.19%	1.12%	0.93%
Impaired loans ⁽¹⁾	₩ 2,457	₩ 2,658	₩ 2,386	₩ 2,127	₩ 1,902
Impaired loans as a percentage of total loans	1.26%	1.31%	1.15%	0.95%	0.77%
Allowance as a percentage of impaired loans	104.88%	105.34%	103.77%	117.58%	121.87%
Total non-performing loans ⁽²⁾	₩ 1,416	₩ 1,695	₩ 1,197	₩ 1,286	₩ 1,333
Non-performing loans as a percentage of total loans	0.73%	0.84%	0.58%	0.57%	0.54%
Allowance as a percentage of total assets	0.89%	0.92%	0.80%	0.74%	0.63%

Notes:

- (1) Impaired loans include (i) loans for which the borrower has defaulted under Basel standards applicable during the relevant period and (ii) loans that qualify as troubled debt restructurings applicable during the relevant period.
- (2) Non-performing loans are defined as loans, whether corporate or retail, that are past due more than 90 days.

Capital Ratios

	As of December 31,				
	2011	2012	2013	2014	2015
	(Percentages)				
Group BIS ratio ⁽¹⁾	11.41%	12.46%	13.43%	13.05%	13.39%
Total capital adequacy ratio of Shinhan Bank	15.26	15.83	16.29	15.43	14.75
Adjusted equity capital ratio of Shinhan Card ⁽²⁾	25.81	27.43	30.41	29.69	28.88
Solvency ratio for Shinhan Life Insurance ⁽³⁾	324.02	287.70	253.06	230.69	204.19

Notes:

(1)

Under the guidelines of the Financial Services Commission applicable to financial holding companies, the minimum requisite capital ratio applicable to us is the Bank for International Settlement (BIS) ratio of 8%. This computation is based on our consolidated financial statements in accordance with IFRS. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

- (2) Represents the ratio of total adjusted shareholders equity to total adjusted assets and is computed in accordance with the guidelines issued by the Financial Services Commission for credit card companies. Under these guidelines, a credit card company is required to maintain a minimum adjusted equity capital ratio of 8%. This computation is based on the consolidated financial statements of the credit card company prepared in accordance with IFRS. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Credit Card Companies Capital Adequacy.
- (3) Solvency ratio is the ratio of the solvency margin to the standard amount of solvency margin as defined and computed in accordance with the guidelines issued by the Financial Services Commission for life insurance companies. Under these guidelines, Shinhan Life Insurance is required to maintain a minimum solvency ratio of 100%. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Insurance Companies Capital Adequacy.

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The Financial Services Commission regulations require that capital ratios be computed based on our consolidated financial statements under IFRS and regulatory guidelines. The following table sets forth our capital ratios computed on the basis of our consolidated financial statements under IFRS and the regulatory guidelines of the Financial Services Commission.

	As of December 31,		
	2013	2014	2015
	(In millions of Won, except percentages)		
Risk-weighted assets	₩ 190,716,648	₩ 198,832,860	₩ 203,274,542
Total risk-adjusted capital	₩ 25,605,827	₩ 25,937,968	₩ 27,216,448
Tier I capital	₩ 21,538,399	₩ 22,174,353	₩ 23,194,191
Tier I common equity capital	₩ 19,119,612	₩ 20,678,971	₩ 21,882,816
Capital adequacy ratio (%)	13.43%	13.05%	13.39%
Tier I capital adequacy ratio (%)	11.29%	11.15%	11.41%
Common equity capital adequacy ratio (%)	10.03%	10.40%	10.77%

Exchange Rates

The following table sets forth, for the periods and dates indicated, certain information concerning the Noon Buying Rate in Won per US\$1.00.

Year Ended December 31,	At End of Period Average⁽¹⁾		High	Low
	(Won per US\$1.00)			
2011	1,158.5	1,105.2	1,197.5	1,049.2
2012	1,063.2	1,119.6	1,185.0	1,063.2
2013	1,055.3	1,094.6	1,161.3	1,050.1
2014	1,090.9	1,054.0	1,117.7	1,008.9
2015	1,169.3	1,133.7	1,196.4	1,063.0
October	1,140.5	1,143.2	1,180.0	1,120.9
November	1,149.4	1,153.5	1,172.7	1,136.5
December	1,169.3	1,169.9	1,188.0	1,140.7
2016 (through April 12)	1,144.5	1,182.9	1,242.6	1,138.9
January	1,210.0	1,203.3	1,217.0	1,190.4
February	1,238.1	1,216.2	1,242.6	1,186.1
March	1,229.6	1,181.6	1,229.6	1,138.9
April (through April 12)	1,144.5	1,150.5	1,158.4	1,142.0

Source: Federal Reserve Board

Note:

- (1) The average rate for annual and interim periods were calculated by taking the simple average of the Noon Buying Rates on the last day of each month during the relevant period. The average rates for the monthly periods (or portion thereof) were calculated by taking the simple average of the daily Noon Buying Rates during the relevant month (or portion thereof).

We have translated certain amounts in Korean Won, which appear in this annual report, into U.S. Dollars for convenience. This does not mean that the Won amounts referred to could have been, or could be, converted into U.S. Dollars at any particular rate, the rates stated above, or at all. Unless otherwise stated, translations of Won amounts to U.S. Dollars are based on the Noon Buying Rate in effect on December 31, 2015, which was ₩1,169.3 to US\$1.00. On April 12, 2016, the Noon Buying Rate in effect was ₩1,144.5 to US\$1.00.

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ITEM 3.B. Capitalization and Indebtedness

Not applicable.

ITEM 3.C. Reasons for the Offer and Use of Proceeds

Not applicable.

ITEM 3.D. Risk Factors

An investment in the American depositary shares representing our common shares involves a number of risks. You should carefully consider the following information about the risks we face, together with the other information contained in this annual report, in evaluating us and our business.

Risks Relating to Our Overall Business

Difficult conditions and turbulence in the Korean and global economy and financial markets may adversely affect our business, asset quality, capital adequacy and earnings.

Most of our assets are located in, and we generate most of our income from, Korea. Accordingly, our business and profitability are largely dependent on the general economic and social conditions in Korea, including interest rates, inflation, exports, personal expenditures and consumption, unemployment, demand for business products and services, debt service burden of households and businesses, the general availability of credit, the asset value of real estate and securities and other factors affecting the financial well-being of our corporate and retail customers.

The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy. In light of the ongoing general uncertainty about economic and political conditions in Europe, signs of cooling economy for China and the continuing geopolitical and social instability in various parts of the Middle East, including Iraq, Syria and Yemen, as well as in the former republics of the Soviet Union, including Russia and Ukraine, among others, significant uncertainty remains as to the global economic prospects in general and has adversely affected, and may continue to adversely affect, the Korean economy. In addition, as the Korean economy matures, it is increasingly exposed to the risk of a scissor effect, namely being pursued by competitors in less advanced economies while not having fully caught up with competitors in advanced economies, which risk is amplified by the fact that Korean economy is heavily dependent on exports. The Korean economy also continues to face other difficulties, including sluggishness in domestic consumption and investment, volatility in the real estate market, rising household debt, potential declines in productivity due to aging demographics and low birth rates, and a rise in youth unemployment. Any future deterioration of the global and Korean economies could adversely affect our business, financial condition and results of operations.

In particular, difficulties in financial and economic conditions could result in significant deterioration in the quality of our assets and accumulation of higher provisioning, allowances for loan losses and charge-offs as an increasing number of our corporate and retail customers declare bankruptcy or insolvency or otherwise face increasing difficulties in meeting their debt obligations. For example, in 2011 and 2012, the continuing slump in the real estate market and the shipbuilding industry led to increased delinquency among our corporate borrowers in the construction, real estate leasing, shipbuilding and shipping industries, and in certain cases, even insolvency, workouts, recovery proceedings and/or voluntary arrangements with creditors, as was the case for the current and former member companies of the STX Group, Keangnam Enterprises Co., Ltd., Dongbu Steel Co., Ltd., and Sambu Construction Co.,

Ltd. During the same period, the sustained slump in the real estate market also led to increased delinquency among our retail borrowers, and in particular, borrowers with collective loans for pre-sale of newly constructed apartment units.

Accordingly, Shinhan Bank's delinquency ratio (based on delinquency of one or more month and net of charge-offs and loan sales) increased from 0.48% as of December 31, 2010 to 0.60% as of December 31, 2011

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and 0.61% as of December 31, 2012. However, primarily due to a modest rebound in the housing market recently and Shinhan Bank's active efforts to reduce its exposure to such troubled industries and other at-risk borrowers through preemptive risk management policies and increased lending to borrowers with high-quality credit profiles as part of Shinhan Bank's strategic initiative to improve its asset quality, Shinhan Bank's delinquency ratio decreased to 0.39% as of December 31, 2013 and further to 0.31% as of December 31, 2014, and remained stable at 0.33% as of December 31, 2015. There is no assurance, however, that Shinhan Bank will not experience further loan losses from borrowers in the troubled industries since the quality of loans to such borrowers may further deteriorate due to the continued slump in these industries or for other reasons. As for Shinhan Card, its delinquency ratio under the Financial Services Commission guidelines increased from 2.01% as of December 31, 2010 to 2.27% as of December 31, 2011, and further to 2.64% as of December 31, 2012 largely as a result of an increase in its assets, before stabilizing and decreasing to 2.15%, 2.18% and 1.69% as of December 31, 2013, 2014 and 2015, respectively, largely as a result of its enhanced preemptive risk management and controlled asset growth as well as the sale of large non-performing loans to improve its asset quality.

Moreover, as was the case during the global financial crisis of 2008-2009, depending on the nature of the difficulties in the financial markets and general economy, we may be forced to scale back certain of our core lending activities and other operations and/or borrow money at a higher funding cost or face a tightening in the net interest spread, any of which may have a negative impact on our earnings and profitability. Furthermore, while we and our principal subsidiaries currently maintain a capital adequacy ratio at a level higher than the required regulatory minimum, there is no guarantee that an even higher capital requirement will not be imposed by the Government in case of a renewed economic crisis.

In addition, given the highly integrated nature of financial systems and economic relationships worldwide, there may be other unanticipated systemic or other risks that may not be presently predictable. Any of these risks, if materialized, may have a material adverse effect on our business, liquidity, financial condition and results of operations.

Competition in the Korean financial services industry is intense, and may further intensify.

Competition in the Korean financial services industry is, and is likely to remain, intense, including as a result of the sustained low interest rate environment (which narrows opportunities to make profit based on the spread between lending rates and funding rates), the continuing sluggishness in the general economy, the growing maturation and saturation of the industry as a whole, the entry of new market participants and deregulation, among others.

In the banking sector, Shinhan Bank competes principally with other national commercial banks in Korea, but also faces competition from a number of additional banking institutions, including branches and subsidiaries of foreign banks operating in Korea, regional banks, government-owned development banks and Korea's specialized banks, such as Korea Development Bank, the Industrial Bank of Korea and the National Association of Agriculture and Fisheries, as well as various other types of financial service providers, including savings institutions (such as mutual savings and finance companies, credit unions and credit cooperatives), investment companies (such as securities brokerage firms, merchant banking corporations and asset management companies) and life insurance companies. As of December 31, 2015, Korea had six major nationwide domestic commercial banks (including Citibank Korea Inc. and Standard Chartered Bank Korea Limited, both of which are domestic commercial banks acquired by global financial institutions), six regional commercial banks and branches and subsidiaries of 40 foreign banks. Foreign financial institutions, many of which have greater experiences and resources than we do, may continue to enter the Korean market and compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions.

In the small- and medium-sized enterprise and retail banking segments, which have been Shinhan Bank's traditional core businesses, competition is expected to increase further. In recent years, Korean banks, including Shinhan Bank, have increasingly focused on stable asset growth based on quality credit, such as corporate

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borrowers with high credit ratings, loans to small office, home office (SOHO) with high levels of collateralization, and mortgage and home equity loans within the limits of the prescribed loan-to-value ratios and debt-to-income ratios. This common shift in focus toward stable growth based on less risky assets has intensified competition as banks compete for the same limited pool of quality credit by engaging in price competition or by other means, although Shinhan Bank has traditionally focused, and will continue to focus, on enhancing profitability rather than increasing asset size or market share, and has avoided, to the extent practicable, engaging in price competition by way of lowering lending rates. In addition, such competition may result in lower net interest margin and reduced overall profitability, especially if the low interest rate environment were to continue for a significant period of time. Therefore, if competing financial institutions seek to expand market share by lowering their lending rates, Shinhan Bank may suffer customer loss, especially among customers who select their lenders principally on the basis of lending rates. In response thereto or for other strategic reasons, Shinhan Bank may subsequently lower its lending rates to stay competitive, which could lead to a decrease in its net interest margins and outweigh any potential positive impact on the net interest margin from a general rise in market interest rates. Any future decline in Shinhan Bank's customer base or its net interest margins could have an adverse effect on our results of operations and financial condition.

In the credit card sector, Shinhan Card competes principally with existing monoline credit card companies, credit card divisions of commercial banks, consumer finance companies, other financial institutions and, recently, credit card service providers allied with mobile telecommunications service providers in Korea. Competition has been historically intense in this sector and the market has shown signs of saturation as existing and new credit card service providers make significant investments and engage in aggressive marketing campaigns and promotions to acquire new customers and target customers with high credit quality. While competition has subsided somewhat recently due to stricter government regulations, such as curbs on excessive marketing expenses, competition remains intense and credit card issuers may continue to compete with Shinhan Card for customers by offering lower interest rates and fees, higher credit limits, more attractive promotions and incentives and alternative products such as phone cards, gift cards and low-interest consumer loan products. As a result, Shinhan Card may lose customers or service opportunities to competing credit card issuers and/or incur higher marketing expenses. In addition, the Government regulations adopted in 2012 mandating lower merchant fees chargeable to small- and medium-sized enterprises (which are subject to revision every three years) and the Government guidelines issued in 2013 suggesting lower standard interest rates for cash advances and card loans have reduced, and are likely to continue to limit, the revenues of credit card companies, including Shinhan Card. Most recently, in November 2015, the Government announced a further reduction in the merchant fees chargeable to small- and medium-sized enterprises with effect from January 31, 2016, and this is expected to place downward pressure on Shinhan Card's results of operations for 2016 and beyond. Furthermore, the Government's recent guidelines to bolster consumer protection and protect customers' personal data in the aftermath of data leaks at certain credit companies (not including Shinhan Card) may result in additional compliance costs for Shinhan Card. Customer attrition, together with any further lowering of fees or reduction in base and market interest rates and/or additional expenses from more extensive marketing and promotional campaigns that Shinhan Card might implement to acquire and retain customers, could reduce its revenues and earnings. Furthermore, the average credit quality of Shinhan Card's customers may deteriorate if customers with higher credit quality borrow from our competitors rather than Shinhan Card and it may become more difficult for Shinhan Card to attract and maintain quality customers. In general, the growth, market share and profitability of Shinhan Card's operations may decline or become negative as a result of market saturation in this sector, interest rate competition, pressure to lower fee rates and incur higher marketing expenses, as well as Government regulation and social and economic developments in Korea that are beyond our control, such as changes in consumer confidence levels, spending patterns or public perception of credit card usage and consumer debt. If Shinhan Card fails to maintain or attract new cardholders or increase the card usage by existing customers or experiences deterioration in its asset quality and a rise in delinquency, our business, financial condition and results of operations may be adversely affected.

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In other financial services sectors, our other subsidiaries also compete in a highly fragmented market. Some of our competitors, particularly the major global financial institutions, have greater experience and resources than we do.

Consolidation among our rival institutions and the Government's privatization efforts may also add competition in the markets in which we and our subsidiaries conduct business. A number of significant mergers and acquisitions in the industry have taken place in Korea over the past decade, including the acquisition of Hanmi Bank by an affiliate of Citibank in 2004, Standard Chartered Bank's acquisition of Korea First Bank in 2005, Chohung Bank's merger with Shinhan Bank in 2006, and Hana Financial Group's acquisition of Korea Exchange Bank in 2012 and the resulting merger of Hana Bank and Korea Exchange Bank in September 2015. Moreover, in 2014, pursuant to the implementation of the Government's privatization plan with respect to Woori Finance Holdings (now merged into Woori Bank) and its former subsidiaries, Woori Financial, Woori Asset Management and Woori F&I were acquired by KB Financial Group, Kiwoom Securities and Daishin Securities, respectively, and Woori Investment & Securities, Woori Aviva Life Insurance and Woori FG Savings Bank were acquired by NongHyup Financial Group. In 2015, the Government decided to sell a 30% to 40% interest in Woori Bank to multiple investors in separate blocks ranging from 4% to 10% each. Although such attempts have stalled, most recently in January 2016 when discussions with three Saudi Arabian sovereign funds broke off, the Government is expected to continue efforts to sell minority stakes of Woori Bank. In addition, in October 2014, the Government's ownership interest in the holding companies of Kwangju Bank and Kyongnam Bank were acquired by JB Financial Group and BS Financial Group (now BNK Financial Group), respectively. In the securities brokerage sector, Mirae Asset agreed in January 2016 to acquire KDB Daewoo Securities, which, if successfully consummated, will create the largest brokerage company in Korea by assets. Any of these developments may place us at a competitive disadvantage and outweigh any potential benefit to us in the form of opportunities to acquire new customers who are displeased with the level of services at the newly reorganized entities or to provide credit facilities to corporate customers who wish to maintain relationships with a wide range of banks in order to diversify their sources of funding. We expect that such consolidation and other structural changes in the financial industry will continue. Other financial institutions may seek to acquire or merge with other entities, and the financial institutions resulting from such consolidation may, by virtue of their increased size and business scope, provide greater competition for us. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability.

Regulatory reforms and the general modernization of business practices in Korea have also led to increased competition among financial institutions in Korea. From early 2009, financial investment companies with a dealing license and/or brokerage license are allowed to provide secondary services in connection with securities investments such as settlement and remittance services relating to customer deposits. In addition, in the second half of 2015, the Financial Services Commission began to take steps to adopt the account switch service, which allows customers to manage or switch their automatic payment transfer accounts in a more convenient way. For example, the Financial Services Commission introduced the integrated automatic payment transfer management system, which enables customers to change the bank account through which automatic payment transfers are made by following simple steps online or visiting a bank branch, with the banks being responsible for implementing the change should the customer decide to switch banks. Prior to the introduction of the account switch service, customers had the onus of making arrangements with each of the involved banks as well as the payment recipient to make the change. Under the new system, it is expected that customers will find it easier to switch from one bank to another. Currently, the service only applies to limited types of payment transfers, but the Financial Services Commission plans to expand the service with respect to all types of payment transfers by June 2016. Furthermore, effective March 2016, the Financial Services Commission introduced the individual savings account (ISA) system, as part of its efforts to lower the regulatory barrier between the banking and securities sectors. The ISA is an integrated account that enables account holders to manage a number of different financial products, including cash deposits, funds and securities investment accounts, from a single account, the income from which will be eligible for tax benefits. Since this new system does not allow an individual to hold multiple ISA accounts, competition among banks and securities firms to retain existing

customers and attract new customers is expected to intensify. As a result, Shinhan Bank may face difficulties in increasing or retaining its

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deposits, which in turn may result in an increase in its cost of funding and a decrease in its settlement and remittance service fee revenue. As the reform of the financial sector continues, competition may become more intense among existing banks, insurance companies, securities companies and other financial organizations, and may lead to significant changes in the current Korean financial market.

Furthermore, as the Korean economy further develops and new business opportunities arise, more competitors may enter the financial services industry. For example, as online service providers and technology companies with large-scale user networks, such as Kakao Corp., NAVER and Samsung Electronics, recently make significant inroads in providing virtual payment services through a system based on a growing convergence of financial services and technology commonly referred to as fintech, competition for online customers is growing not just among commercial banks, but also from online and mobile payment service providers. Also, widespread consumer acceptance of mobile phone payment services in lieu of credit card services could add to competitive threat to the existing credit card service providers, including our credit card subsidiary. In addition, the Government recently announced its plans to allow Internet-only banks to operate in Korea. As of the date hereof, two business consortiums, Kakao consortium and KT consortium, have been granted preliminary permission by the Government to operate Internet-only banks. These consortiums are expected to apply for final permission during the second half of 2016 and commence operations within six months of the final permission being granted by the Government. Internet-only banks may have advantages over traditional banks as the former can pass savings in labor and overhead costs to their customers by offering higher interest rates on deposit accounts, lower loan costs and reduced service fees. Accordingly, commercial banks will likely face increasing pressure to upgrade their service platforms to attract and maintain online users, which represents a growing customer base compared to traditional customers who have primarily conducted banking in-person at physical banking branches.

Recently, following the global financial crisis, the Government has subjected Korean financial institutions to stricter regulatory requirements and guidelines in areas of asset quality, capital adequacy, liquidity and residential and other lending practices, which has had a dampening effect on competition. The Financial Services Commission implemented the capital requirements of Basel III, whose minimum requirements were phased in sequentially from December 1, 2013 through full implementation by January 1, 2015, based on the guidelines set forth in the amended Regulation on the Supervision of the Banking Business and the Detailed Regulation on the Supervision of the Banking Business. In addition, the Financial Services Commission is currently implementing the Basel III requirements relating to liquidity coverage ratio and capital conservation buffer, each of which will be fully phased in by January 1, 2019. Furthermore, the Financial Services Commission announced that it would implement the Basel III requirements relating to countercyclical capital buffer, which was initially set at 0% on March 30, 2016 but may be subject to change upon quarterly review by the Financial Services Commission. However, there is no assurance that these measures will have the effect of curbing competition or that the Government will not reverse or reduce such measures or introduce other deregulatory measures, which may further intensify competition in the Korean financial services industry. For further details on the capital requirements applicable to us, see Item 4.B. Business Overview
Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

If, despite our efforts to adapt to the changing macroeconomic environment and comply with new regulations, we are unable to compete effectively in the changing business and regulatory environment, our profit margin and market share may erode and our future growth opportunities may become limited, which could adversely affect our business, financial condition and results of operations.

We and our subsidiaries need to maintain our capital ratios above minimum required levels, and the failure to so maintain could result in the suspension of some or all of our operations.

We and our subsidiaries in Korea are required to maintain specified capital adequacy ratios. For example, effective January 1, 2015, we and our banking subsidiaries in Korea are required to maintain a minimum common equity Tier I capital adequacy ratio of 4.5%, a Tier I capital adequacy ratio of 6.0% and a total capital

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(BIS) ratio of 8.0%. These ratios measure the respective regulatory capital as a percentage of risk-weighted assets on a consolidated basis and are determined based on guidelines of the Financial Services Commission. In addition, our subsidiaries Shinhan Card, Shinhan Life Insurance and Shinhan Investment are required to maintain a consolidated adjusted equity capital ratio of 8.0%, a solvency ratio of 100% and a net equity ratio of 100%, respectively.

While we and our subsidiaries currently maintain capital adequacy ratios in excess of the respective required regulatory minimum levels, we or our subsidiaries may not be able to continue to satisfy the capital adequacy requirements for a number of reasons, including an increase in risky assets and provisioning expenses, substitution costs related to the disposal of problem loans, declines in the value of securities portfolios, adverse changes in foreign currency exchange rates, changes in the capital ratio requirements, the guidelines regarding the computation of capital ratios, or the framework set by the Basel Committee on Banking Supervision (the Basel Committee) upon which the guidelines of the Financial Services Commission are based, or other adverse developments affecting our asset quality or equity capital.

In December 2010, the Basel Committee issued final rules in respect of (i) a global regulatory framework for more resilient banks and banking systems and (ii) an international framework for liquidity risk measurement, standards and monitoring, which together are commonly referred to as Basel III. Under Basel III, Tier I capital is defined to include common equity Tier I and additional Tier I capital. Common equity Tier I capital is a new category of capital primarily consisting of common stock, capital surplus, retained earnings and other comprehensive income (progressively phased into the capital ratio calculation over several years). The new minimum capital requirements, including the minimum common equity Tier I requirement of 4.5% and additional mandatory capital conservation buffer requirement of 2.5%, are currently being implemented in phases until January 1, 2019. Additional discretionary countercyclical capital buffer requirements are also expected to be phased in, which will range at the discretion of national regulators between 0% and 2.5% of risk-weighted assets. Basel III also introduces a minimum leverage ratio requirement. In January 2016, the Group of Central Bank Governors and Heads of Supervision, the oversight body of the Basel Committee, (i) endorsed a new market risk framework that will take effect from 2019 by revising the standards on minimum capital requirements for market risk, (ii) agreed to complete its work to address the problem of excessive variability in risk-weighted assets by the end of 2016, and (iii) agreed on the use of a Tier I definition of capital for the calculation of the leverage ratio and the minimum leverage ratio level of 3%. The final calibration of the leverage ratio and any further adjustments to its definition are currently expected to be completed within 2016, and full compliance therewith is expected to be required beginning January 1, 2018.

In order to implement the capital requirements under Basel III in Korea, the Regulation on the Supervision of the Banking Business was amended, effective December 1, 2013. Under the amended Regulation on the Supervision of the Banking Business, effective from January 1, 2015, commercial banks in Korea are required to maintain a minimum common equity Tier I ratio of 4.5%, a minimum Tier I capital ratio of 6.0% and a minimum total capital (BIS) ratio of 8.0%. The Regulation on the Supervision of the Banking Business was further amended on December 26, 2014, to implement the liquidity coverage ratio requirements under Basel III in increments of 5% annually, from 80% as of January 1, 2015 to 100% as of January 1, 2019. Capital conservation buffer requirements are also being phased in from January 1, 2016 in increments of 0.625% annually, to the effect that commercial banks in Korea will be required to maintain a capital conservation buffer of 2.5% as of January 1, 2019. If a commercial bank fails to maintain such capital conservation buffer requirements, such bank will be subject to certain restrictions relating to its use of income, such as distributing dividends and purchasing treasury stock. The Financial Services Commission also announced that it would implement the Basel III requirements relating to countercyclical capital buffer, which was initially set at 0% on March 30, 2016 but may be subject to change upon quarterly review by the Financial Services Commission. Most recently, in December 2015, the Financial Services Commission designated us, Hana Financial Group, KB Financial Group and NongHyup Financial Group as domestic systemically important bank holding companies and Woori Bank as a domestic systemically important bank and introduced more stringent capital

requirements for these financial

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institutions. According to these new regulations, such financial institutions are required to maintain an additional capital buffer of 0.25% starting on January 1, 2016, with such buffer to increase by 0.25% annually to 1.00% by January 1, 2019.

We and our banking subsidiaries are currently, and have been, in full compliance with Basel III requirements as implemented in Korea since its introduction in December 2013. However, there is no assurance that we will continue to be able to be in compliance with Basel III requirements. New requirements under Basel III may require an increase in the credit risk capital requirements in the future, which may require us or our subsidiaries to either improve asset quality or raise additional capital. In addition, if the capital adequacy ratios of us or our subsidiaries were to fall below the required levels, the Financial Services Commission might impose penalties ranging from a warning to suspension or revocation of our or our subsidiaries' business licenses. In order to maintain the capital adequacy ratios above the required levels, we or our subsidiaries may be required to raise additional capital through equity financing, but there is no assurance that we or our subsidiaries will be able to do so on commercially favorable terms or at all and, even if successful, any such capital raising may have a dilutive effect on our shareholders with respect to their interest in us or on us with respect to our interest in our subsidiaries.

Liquidity, funding management and credit ratings are critical to our ongoing performance.

Liquidity is essential to our business as a financial intermediary, and we may seek additional funding in the near future to satisfy liquidity needs, meet regulatory requirements, enhance our capital levels or fund the growth of our operations as opportunities arise.

For example, Basel III includes an international framework for liquidity risk measurement, standards and monitoring, as noted above, including a new minimum liquidity standard, known as the liquidity coverage ratio (LCR), which is designed to ensure that banks have an adequate stock of unencumbered high quality liquid assets (HQLA) that can be easily and speedily converted into cash in the private marketplace to survive a significant stress scenario lasting 30 calendar days. The LCR is computed as (a) the value of a banking organization's HQLA, divided by (b) its total expected net cash outflows over the next 30 calendar days under stress scenarios. The minimum LCR is 100%. In January 2013, the Basel Committee released a revised formulation of the LCR, one of two quantitative liquidity measures approved in December 2010 as part of Basel III. The Basel Committee extended the timetable for full phase-in of the LCR to the effect that the minimum LCR was set at 60% as of January 1, 2015 and thereafter rises in annual increments of 10% so that the minimum LCR will be 100% as of January 1, 2019. In December 2014, the Financial Services Commission promulgated regulations to implement the liquidity requirements of Basel III, including raising the minimum LCR to 80% as of January 1, 2015 and thereafter by annual increments of 5% so that the minimum LCR for commercial banks in Korea will be 100% as of January 1, 2019.

A substantial part of the liquidity and funding requirements for our banking subsidiaries is met through short-term customer deposits, which typically roll over upon maturity. While the volume of our customer deposits has generally been stable over time, customer deposits have from time to time declined substantially due to the popularity of other, higher-yielding investment opportunities, namely stocks and mutual funds, for example, during times of bullish stock markets. During such times, our banking subsidiaries were required to obtain alternative funding at higher costs. There is no assurance that a similar development will not occur in the future. In addition, in recent years, we have faced increasing pricing competition from our competitors with respect to our deposit products. If we do not continue to offer competitive interest rates to our deposit customers, we may lose their business, which has traditionally provided a stable and low-cost source of funding. In addition, even if we are able to match our competitors' pricing, doing so may result in an increase in our funding costs, which may have an adverse impact on our results of operations.

We and our subsidiaries also raise funds in capital markets and borrow from other financial institutions, the cost of which depends on market rates and the general availability of credit and the terms of which may limit our

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ability to pay dividends, make acquisitions or subject us to other restrictive covenants. While we and our subsidiaries are not currently facing liquidity difficulties in any material respect, if we or our subsidiaries are unable to obtain the funding we need on terms commercially acceptable to us for an extended period of time for whatever reason, we may not be able to ensure our financial viability, meet regulatory requirements, implement our strategies or compete effectively.

Credit ratings affect the cost and other terms upon which we and our subsidiaries are able to obtain funding. Domestic and international rating agencies regularly evaluate us and our subsidiaries, and their ratings of our and our subsidiaries' long-term debt are based on a number of factors, including our financial strength as well as conditions affecting the financial services industry and the Korean economy in general. There can be no assurance that the rating agencies will maintain our current ratings or outlooks. There is no assurance that Shinhan Bank, Shinhan Card, any of our other major subsidiaries or our holding company will not experience a downgrade in their respective credit ratings and outlooks for reasons related to the general Korean economy or reasons specific to such entity. Any downgrade in the credit ratings and outlooks of us and our subsidiaries will likely increase our cost of funding, limit our access to capital markets and other borrowings, or require us to provide additional credit enhancement in financial transactions, any of which could adversely affect our liquidity, net interest margins and profitability, and in turn, our business, financial condition and results of operations.

Changes in interest rates, foreign exchange rates, bond and equity prices, and other market factors have affected and will continue to affect our business, results of operations and financial condition.

The most significant market risks we face are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realized between lending and borrowing costs. Changes in foreign currency exchange rates, particularly in the Korean Won to U.S. Dollar exchange rates, affect the value of our assets and liabilities denominated in foreign currencies, the reported earnings of our non-Korean subsidiaries and income from foreign exchange dealings, and substantial and rapid fluctuations in exchange rates may cause difficulty in obtaining foreign currency-denominated financing in the international financial markets on commercial terms acceptable to us or at all. The performance of financial markets may affect bond and equity prices and, therefore, cause changes in the value of our investment and trading portfolios. While we have implemented risk management systems to mitigate and control these and other market risks to which we are exposed, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on our business, financial condition and results of operations.

Of particular importance is the change in the base and market interest rates. Since 2009, Korea, like many other countries, has experienced a low interest rate environment despite some marginal fluctuations, in part due to the Government's policy to stimulate the economy through active rate-lowering measures. Between 2009 and 2014, the base interest rate set by the Bank of Korea remained within the band between 2.00% and 3.25%. In an effort to support Korea's economy in light of the recent slowdown in Korea's growth and uncertain global economic prospects, the Bank of Korea reduced the base interest rate to 1.75% in March 2015 and further reduced such rate to the historic low of 1.50% in June 2015, which has since remained unchanged. Interest rate movements, in terms of magnitude and timing as well as their relative impacts on our assets and liabilities, have a significant impact on our net interest margin and profitability, particularly with respect to our financial products that are sensitive to such movements. For example, if the interest rates applicable to our loans (which are recorded as assets) increase at a slower pace or by a thinner margin than the interest rates applicable to our deposits (which are recorded as liabilities), our net interest margin will shrink and our profitability will be negatively affected. In addition, the relative size and composition of our variable rate loans and deposits (as compared to our fixed rate loans and deposits) may also impact our net interest margin. Furthermore, the difference in the average term of our interest-earning assets (primarily loans) compared to our interest-bearing liabilities (primarily deposits) may also impact our net interest margin. For example, since our

deposits tend to have longer terms, on average, than those of our loans, our deposits are on average less sensitive to movements in the base interest rates on which our deposits and loans tend to be pegged, and therefore, a decrease in the base

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interest rates tends to decrease our net interest margin while an increase in the base interest rates tends to have the opposite effect. While we continually manage our assets and liabilities to minimize our exposure to interest rate volatility, such efforts by us may not mitigate the impact of interest rate volatility in a timely or effective manner, and our net interest margin, and in turn our financial condition and results of operations, could suffer significantly.

We cannot assure you when and to what extent the Government will in the future adjust the base interest rate, to which the market interest rate correlates. A decision to adjust the base interest rate is subject to many policy considerations as well as market factors, including the general economic cycle, inflationary levels, interest rates in other economies and foreign currency exchange rates, among others. In general, a decrease in interest rates adversely affects our interest income due to the different maturity structure for our assets and liabilities as discussed above. In contrast, if there were to be a significant or sustained increase in interest rates, all else being equal, such movement would lead to a decline in the value of traded debt securities and could also raise our funding costs, while reducing loan demand, especially among retail customers. Rising interest rates may therefore require us to re-balance our assets and liabilities in order to minimize the risk of potential mismatches in our asset liability management and to maintain our profitability. In addition, rising interest rates may adversely affect the Korean economy and the financial condition of our corporate and retail borrowers, including holders of our credit cards, which in turn may lead to deterioration of asset quality for our credit portfolio. Since most of our retail and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rates will increase the funding costs of our borrowers and may adversely affect their ability to make payments on their outstanding loans.

We may incur losses associated with our counterparty exposures.

We face the risk that counterparties will be unable to honor contractual obligations to us or our subsidiaries. These parties may default on their obligations to us or our subsidiaries due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swaps or other derivative contracts under which counterparties have obligations to make payments to us or our subsidiaries or in executing currency or other trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. Any realization of counterparty risk may adversely affect our business, operations and financial condition.

Risks Relating to Our Banking Business***We have significant exposure to small- and medium-sized enterprises, and financial difficulties experienced by such enterprises may result in a deterioration of our asset quality.***

Our banking activities are conducted primarily through our wholly-owned subsidiary, Shinhan Bank. One of our core banking businesses has historically been and continues to be lending to small- and medium-sized enterprises (as defined in Item 4.B. Business Overview – Our Principal Activities – Corporate Banking Services – Small- and Medium-sized Enterprises Banking). Our loans (before allowance for loan losses and deferred loan origination costs and fees) to such enterprises amounted to ₩55,062 billion as of December 31, 2013, ₩59,889 billion as of December 31, 2014 and ₩67,336 billion as of December 31, 2015, representing 26.5%, 26.8% and 27.1%, respectively, of our total loan portfolio as of such dates.

Compared to loans to large corporations, which tend to be better capitalized and better able to weather business downturns, or loans to individuals and households, which tend to be secured with homes and with respect to which the borrowers are therefore less willing to default, loans to small- and medium-sized enterprises have historically had a relatively higher delinquency ratio. Many small- and medium-sized enterprises represent sole proprietorships or small businesses dependent on a relatively limited number of suppliers or customers and tend to be affected to a greater

extent than large corporate borrowers by fluctuations in the Korean and global economy. In addition, small- and medium-sized enterprises often maintain less sophisticated financial records than large corporate borrowers. Therefore, it is generally more difficult for banks to judge the level of risk

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inherent in lending to these enterprises, as compared to large corporations. In addition, many small- and medium-sized enterprises are dependent on business relationships with large corporations in Korea, primarily as suppliers. Any difficulties encountered by those large corporations would likely hurt the liquidity and financial condition of related small- and medium-sized enterprises, including those to which we have exposure, also resulting in an impairment of their ability to repay loans. As large Korean corporations continue to expand into China, Southeast Asia and other countries with lower labor costs and other expenses through relocating their production plants and facilities to such countries, such development may have a material adverse impact on such small- and medium-sized enterprises.

Financial difficulties experienced by small- and medium-sized enterprises as a result of, among other things, recent economic difficulties in Korea and globally and aggressive marketing and intense competition among banks to lend to this segment in recent years, coupled with our efforts to counter asset quality deterioration through conservative lending policy, have led to a fluctuation in the asset quality of our loans to this segment. As of December 31, 2013, 2014 and 2015, Shinhan Bank's delinquent loans to small- and medium-sized enterprises were ~~₩320 billion~~, ~~₩322 billion~~ and ~~₩308 billion~~, respectively, representing delinquency ratios (net of charge-offs and loan sales) of 0.55%, 0.53%, and 0.46% respectively. If the ongoing difficulties in the Korean or global economy were to continue or aggravate, the delinquency ratio for our loans to small- and medium-sized enterprises may rise.

Of particular concern is our significant exposure to enterprises in the real estate and leasing and construction industries. As of December 31, 2015, Shinhan Bank had outstanding loans (before allowance for loan losses and deferred loan origination costs and fees) to enterprises in the real estate and leasing and construction industries (many of which are small- and medium-sized enterprises) of ₩19,061 billion and ₩2,797 billion, respectively, representing 9.0% and 1.3%, respectively, of its total loan portfolio as of such date. We also have other exposure to borrowers in these sectors of the Korean economy, including extending guarantees for the benefit of such companies and holding debt and equity securities issued by such companies. In addition, Shinhan Bank has exposure to borrowers in the shipbuilding and shipping industries, which have yet to stage a meaningful turnaround, and those in the petrochemical industries, which have recently been facing challenges due to declining fuel prices.

The enterprises in the real estate development and construction industries in Korea, which are heavily concentrated in the housing market, continue to experience difficulties despite the Government's policy measures designed to stimulate the real estate market and a moderate recovery in demand in the housing market, due to ongoing economic sluggishness in Korea and globally and the demographic changes in the Korean population. We also have limited exposure to real estate project financing, particularly by construction companies that have built residential units in provinces outside the metropolitan Seoul area, which have experienced a relatively low rate of pre-sales, the proceeds from which the construction companies primarily rely on as a key source for liquidity and cash flow.

Any of the foregoing developments may result in deterioration in the asset quality of our banking subsidiaries. See Item 4.B. Business Overview – Description of Assets and Liabilities – Credit Exposures to Companies in Workout and Recovery Proceedings. We have been taking active steps to curtail delinquency among our small- and medium-sized enterprise customers, including by way of strengthening loan application review processes and closely monitoring borrowers in troubled sectors. Despite such efforts, there is no assurance that the delinquency ratio for our loans to small- and medium-sized enterprises will not rise in the future, especially if the Korean economy were to face renewed difficulties and, as a result, the liquidity and cash flow of these borrowers deteriorate. A significant rise in the delinquency ratios among these borrowers would lead to increased charge-offs and higher provisioning and reduced interest and fee income, which would have a material adverse effect on our business, financial condition and results of operations.

Table of Contents***A decline in the value of the collateral securing our loans or our inability to fully realize the collateral value may adversely affect our credit portfolio.***

Most of our mortgage and home equity loans are secured by borrowers' homes, other real estate, other securities and guarantees (which are principally provided by the Government and other financial institutions), and a substantial portion of our corporate loans are also secured, including by real estate. As of December 31, 2015, the secured portion of Shinhan Bank's loans (before allowance for loan losses and deferred loan origination costs and fees) amounted to ₩98,645 billion, or 49.1% of its total loans. There is no assurance that the collateral value will not materially decline in the future. Shinhan Bank's general policy for mortgage and home equity loans is to lend up to 40% to 70% of the appraised value of the collateral and to periodically re-appraise such collateral. However, if the real estate market in Korea experiences a downturn, the value of the collateral may fall below the outstanding principal balance of the underlying mortgage loans. Borrowers of such under-collateralized mortgages or loans may be forced to pay back all or a portion of such mortgage loans or, if unable to meet the collateral requirement through such repayment, sell the underlying collateral, which sales may lead to a further decline in the price of real estate in general and set off a chain reaction for other borrowers due to the further decline in the value of collateral. Declines in real estate prices reduce the value of the collateral securing our mortgage and home equity loans, and such reduction in the value of collateral may result in our inability to cover the uncollectible portion of our secured loans. A decline in the value of the real estate or other collateral securing our loans, or our inability to obtain additional collateral in the event of such decline, may result in the deterioration of our asset quality and require us to make additional loan loss provisions. In Korea, foreclosure on collateral generally requires a written petition to a Korean court. Foreclosure procedures in Korea generally take 10 to 14 months from initiation to collection depending on the nature of the collateral, and foreclosure applications may be subject to delays and administrative requirements, which may result in a decrease in the recovery value of such collateral. There can be no assurance that we will be able to realize the full value of collateral as a result of, among others, delays in foreclosure proceedings, defects in the perfection of collateral and general declines in collateral value. Our failure to recover the expected value of collateral could expose us to significant losses.

Guarantees received in connection with our real estate financing may not provide sufficient coverage.

Primarily through Shinhan Bank, we, alone or together with other financial institutions, provide financing to real estate development projects, which are concentrated largely in the construction of residential complexes. Developers in Korea commonly use project financing to acquire land and pay for related project development costs. As a market practice, lenders in project financing, including Shinhan Bank, generally receive from general contractors a performance guarantee for the completion of projects by the developers as well as a payment guarantee for the loans raised by a special purpose financing vehicle established by the developers in order to procure the construction orders, as the developers tend to be small and highly leveraged. As of December 31, 2015, the total outstanding amount of Shinhan Bank's real estate project financing-related exposure was approximately ₩1.6 trillion, which represents a significant decrease over the years as Shinhan Bank has actively reduced new exposures in this area in light of the sustained downturn in the Korean real estate market. However, if defaults were to significantly increase under our existing loans to real estate development projects and the general contractors fail to pay the guaranteed amount necessary to cover the amount of our financings, this may have an adverse effect on our business, financial condition and results of operations.

A limited portion of our credit exposure is concentrated in a relatively small number of large corporate borrowers, and future financial difficulties experienced by them may have an adverse impact on us.

Of Shinhan Bank's 10 largest corporate exposures as of December 31, 2015, three were companies that are or were members of the main debtor groups as identified by the Governor of the Financial Supervisory Service, which are largely comprised of *chaebols*. As of such date, the total amount of Shinhan Bank's exposures to the main debtor

groups was ₩21,359 billion, or 15.1%, of its total exposures. As of that date, Shinhan Bank's single largest outstanding exposure to a main debtor group amounted to ₩4,166 billion, or 2.9%, of its total exposures. Largely due to the continued stagnation in the shipbuilding and construction industries, in 2013, current and

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former member companies of the STX Group, one of the leading conglomerates in Korea, entered into voluntary arrangements with their creditors (including Shinhan Bank) to improve their credit situation, and Keangnam Enterprises Co., Ltd., a large construction company in Korea, entered into workout proceedings in the same year and subsequently filed for recovery proceedings in March 2015. Dongbu Steel Co., Ltd. and Sambu Construction Co., Ltd. also experienced significant hardship and entered into workout or recovery proceedings in 2015. Additionally, in October 2015, creditors of Daewoo Shipbuilding & Marine Engineering Co., led by Korea Development Bank, announced a restructuring plan that includes additional cash injection and extensive streamlining measures. Partly as a result of its active past efforts to reduce exposure to the shipbuilding and construction sectors, Shinhan Bank currently has limited exposure to the aforementioned troubled companies. However, if the credit quality of Shinhan Bank's exposure to large corporations, including those in the main debtor groups, declines, Shinhan Bank may be required to record additional loan loss provisions in respect of loans and impairment losses in respect of securities, which would adversely affect its financial condition, results of operations and capital adequacy. Shinhan Bank cannot assure you that the allowances it has established against these exposures will be sufficient to cover all future losses arising from such exposures, especially in the case of a prolonged or renewed economic downturn.

A limited number of the main debtor groups to which Shinhan Bank has credit exposure are subject to restructuring programs or are otherwise making significant efforts to improve their financial conditions, such as by obtaining intragroup loans and entering into agreements to further improve their capital structures. There is no assurance that there will not be future restructuring with Shinhan Bank's major corporate customers or that such restructuring will not result in significant losses to Shinhan Bank with less than full recovery. In addition, if the Government decides to pursue an aggressive restructuring policy with respect to distressed companies, Korean commercial banks, including Shinhan Bank, may face a temporary rise in delinquencies and an intensified pressure for additional provisioning. Furthermore, bankruptcies or financial difficulties of large corporations, including *chaebol* groups, may have the adverse ripple effect of triggering delinquencies and impairment of Shinhan Bank's loans to small- and medium-sized enterprises that supply parts or labor to such corporations. If Shinhan Bank experiences future losses from its exposure to large corporations, including *chaebol* groups, it may have a material adverse impact on Shinhan Bank's business, financial condition and results of operations. See Item 4.B. Business Overview Description of Assets and Liabilities Loans Loan Portfolio Exposure to Main Debtor Groups.

The asset quality of our retail loan portfolio may deteriorate.

In recent years, consumer debt, including lending to households and small unincorporated businesses, has continued to increase in Korea. Shinhan Bank's portfolio of retail loans is comprised of two principal product types, namely secured retail loans (which are primarily comprised of mortgage and home equity loans secured by real estate) and general purpose loans (which are unsecured loans and tend to carry a higher credit risk). As of December 31, 2015, Shinhan Bank's retail loan portfolio (before allowance for loan losses and deferred loan origination costs and fees) was ₩90,426 billion, or 42.9% of its total loans outstanding. As of December 31, 2013, 2014 and 2015, Shinhan Bank's non-performing retail loans were ₩132 billion, ₩141 billion and ₩148 billion, respectively, representing non-performing loan ratios (net of charge-offs and loan sales) of 0.18%, 0.18% and 0.16%, respectively.

Our large exposure to consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers. For example, a rise in unemployment, an increase in interest rates or a decline in housing prices in Korea could adversely affect the ability of consumers to make payments and increase the likelihood of potential defaults. Economic difficulties in Korea that hurt consumers could result in increasing delinquencies and a decline in the asset quality of the our household loan portfolio, which may in turn require us to record higher provisions for credit loss and charge-offs and may materially and adversely affect our financial condition and results of operations.

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Any deterioration in the asset quality of our guarantees and acceptances will likely have a material adverse effect on our financial condition and results of operations.

In the normal course of banking activities, we make various commitments and incur certain contingent liabilities in the form of guarantees and acceptances. Financial guarantees, which are contracts that require us to make specified payments to reimburse the beneficiary of the guarantee for a loss such beneficiary incurs because the debtor in respect of which the guarantee is given fails to make payments when due in accordance with the terms of the relevant debt instrument, are recognized initially at fair value, and such initial fair value is amortized over the life of the financial guarantee. Other guarantees are recorded as off-balance sheet items in the notes to our financial statements and those guarantees that we have confirmed to make payments are recorded on the statements of financial position. As of December 31, 2015, we had aggregate guarantees and acceptances of ₩13,120 billion, for which we provided allowances for losses of ₩80 billion. Such guarantees and acceptances include refund guarantees provided by us to shipbuilding companies, which involve guaranteeing a refund payment of the initial cash payment (typically 25% of the contract amount for ship orders) received by shipbuilders from buyers in the event that such shipbuilders are unable to deliver the ships in time or otherwise default under the shipbuilding contracts. Small- and medium-sized shipbuilding companies continue to face financial difficulties due to the sluggishness of the global economy and the resulting slowdown in shipbuilding orders, which has increased the risk that they may default on their shipbuilding contracts and we may have to make payments under the refund guarantees. The refund guarantees provided by us to small- and medium-sized shipbuilding companies amounted to ₩88 billion as of December 31, 2015. If there is significant deterioration in the quality of assets underlying our guarantees and acceptances, our allowances may be insufficient to cover actual losses resulting in respect of these liabilities, or the losses we incur on the relevant guarantees and acceptances may be larger than the outstanding principal amount of the underlying loans.

Risks Relating to Our Credit Card Business

Future changes in market conditions as well as other factors, such as stricter regulation, may lead to reduced revenues and deterioration in the asset quality of credit card receivables.

As of December 31, 2013, 2014 and 2015, Shinhan Card's interest-earning credit card assets amounted to ₩19,626 billion, ₩20,550 billion and ₩21,323 billion, respectively. Our large exposure to credit card and other consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers in general. For example, a rise in unemployment, an increase in interest rates, a downturn in the real estate market, or a general contraction or other difficulties affecting the Korean economy may lead Korean consumers to reduce spending (a substantial portion of which is conducted through credit card transactions), which in turn leads to reduced earnings for our credit card business, as well as to higher default rates on credit card loans, deterioration in the quality of our credit card assets and increased difficulties in recovering written-off assets from which a significant portion of Shinhan Card's revenues is derived. Any of these developments could have a material adverse effect on our business, financial condition and results of operations.

Increasing consumer and corporate spending and borrowing on our card products and growth in card lending balances depend in part on Shinhan Card's ability to develop and issue new or enhanced card and prepaid products and increase revenue from such products and services, as well as the level of discretionary income among our cardholders, which is largely affected by macroeconomic factors beyond our control. In addition, credit card companies in Korea, including Shinhan Card, may not be able to enjoy any rapid growth in revenue over the long term due to the maturing nature of the credit card industry, in part due to oversaturation of credit card service providers. Shinhan Card's future earnings and profitability also depend on its ability to attract new cardholders, reduce cardholder attrition, increase merchant coverage and capture a greater share of customers' total credit card spending in Korea and overseas. Shinhan Card may not be able to manage and expand cardholder benefits in a cost-effective manner or contain the growth of marketing,

promotion and reward expenses to a commercially reasonable level. If Shinhan Card is not successful in increasing customer spending, maintaining or expanding its market position and asset growth, or containing costs or cardholder benefits, its financial condition, results of operations and cash flow could be negatively affected.

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In addition, Government regulations aimed at protecting small- and medium-sized enterprises, such as the reduction of fees chargeable to small- and medium-sized merchants, may have a material adverse effect on our revenues from Shinhan Card. In January 2012, the Government expanded the definition of a small- and medium-sized merchant to include those with annual sales of up to ₩200 million and, effective September 2012, lowered fees chargeable to such merchants from 1.8% to 1.5% with respect to credit cards. In January 2015, the Government further expanded the definition of a small- and medium-sized merchant to include those with annual sales of more than ₩200 million and up to ₩300 million, and imposed a cap on fees chargeable to such merchants at 2.0% with respect to credit cards. Most recently, in November 2015, the Government announced a further reduction in the merchant fees chargeable to small- and medium-sized enterprises with respect to credit cards, effective January 31, 2016, from 2.0% to 1.3% for merchants with annual sales of more than ₩200 million and up to ₩300 million, and from 1.5% to 0.8% for merchants with annual sales of up to ₩200 million. Pursuant to the Specialized Credit Financial Business Act, the rates of fees chargeable to merchants are subject to review and revision every three years.

In 2013, the Government also implemented measures regulating marketing costs in order to control excessive marketing campaigns and curtail undue marketing expenses, which had the effect of impeding revenue growth for credit card companies, but also reduced or slowed the growth in their marketing expenses. In addition, effective December 2013, the Government introduced guidelines to curb the interest rates that credit card companies, including Shinhan Card, may charge on card loans and cash advances. Furthermore, the Government also provides tax incentives, among others, for the use of check cards (where the amounts paid with check cards are instantly debited from the customer's bank accounts) to encourage the use of check cards in lieu of credit cards in an attempt to preempt a potential rise in delinquency among credit card users, and if check cards are widely used in lieu of credit cards, this would reduce interest income from credit cards, which generally have a longer repayment period than that of check cards, and may have an adverse impact on Shinhan Card's revenues and results of operations.

Risks Relating to Our Other Businesses

We may incur significant losses from our investments and, to a lesser extent, trading activities due to market fluctuations.

We enter into and maintain large investment positions in fixed income products, primarily through our treasury and investment operations. These activities are described in Item 4.B. Business Overview Our Principal Activities Other Banking Services. We also maintain smaller trading positions, including equity and equity-linked securities and derivative financial instruments as part of our operations. Taking these positions entails making assessments about financial market conditions and trends. The revenues and profits we derive from many of these positions and related transactions are dependent on market prices, which are beyond our control. When we own assets such as debt or equity securities, a decline in market prices, for example, as a result of fluctuating market interest rates or stock market indices, can expose us to trading and valuation losses. If market prices move in a way that we have not anticipated, we may experience losses. In addition, when markets are volatile and subject to rapid changes in price directions, actual market prices may be contrary to our assessments and lead to lower than anticipated revenues or profits, or even result in losses, with respect to the related transactions and positions.

We may generate losses from our brokerage and other commission- and fee-based business.

We, through our investment and other subsidiaries, currently provide, and seek to expand the offerings of, brokerage and other commission- and fee-based services. Downturns in stock markets typically lead to a decline in the volume of transactions that we execute for our customers and, therefore, a decline in our non-interest revenues. In addition, because the fees that we charge for managing our clients' portfolios are often based on the size of the assets under management, a downturn in the stock market, which has the effect of reducing the value of our clients' portfolios or

increasing the amount of withdrawals, also generally reduces the fees we receive from our securities brokerage, trust account management and other asset management services. Even in the

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absence of a market downturn, below-market performance by our securities, trust account or asset management subsidiaries may result in increased withdrawals and reduced cash inflows, which would reduce the revenue we receive from these businesses. In addition, protracted declines in asset prices can reduce liquidity for assets held by us and lead to material losses if we cannot close out or otherwise dispose of deteriorating positions in a timely way or at commercially reasonable prices.

Other Risks Relating to Us as the Holding Company

Our ability to continue to pay dividends and service debt will depend on the level of profits and cash flows of our subsidiaries.

We are a financial holding company with minimal operating assets other than the shares of our subsidiaries. Our primary source of funding and cash flow is dividends from, or disposition of our interests in, our subsidiaries or our cash resources, most of which are currently the result of borrowings. Since our principal assets are the outstanding capital stock of our subsidiaries, our ability to pay dividends on our common and preferred shares and service debt will mainly depend on the dividend payments from our subsidiaries.

Companies in Korea are subject to certain legal and regulatory restrictions with respect to payment of dividends. For example, under the Korean Commercial Code, dividends may only be paid out of distributable income, which is calculated by subtracting the aggregate amount of a company's paid-in capital and certain mandatory legal reserves from its net assets, in each case as of the end of the prior fiscal year. In addition, financial companies in Korea, including banks, credit card companies, securities companies and life insurers, such as our subsidiaries, must meet minimum capital requirements and capital adequacy ratios applicable to their respective industries before dividends can be paid. For example, under the Banking Act of 1950, as amended (the Banking Act), a bank is required to credit at least 10% of its net profit to a legal reserve each time it pays dividends on distributable income until such time when this reserve equals the amount of its total paid-in capital, and under the Banking Act, the Specialized Credit Financial Business Act and the regulations promulgated by the Financial Services Commission, if a bank or a credit card company fails to meet its required capital adequacy ratio or is otherwise subject to the management improvement measures imposed by the Financial Services Commission, then the Financial Services Commission may restrict the declaration and payment of dividend by such a bank or credit card company. In addition, if our or our subsidiaries capital adequacy ratios fall below the required levels, our ability to pay dividends may be restricted by the Financial Services Commission.

Damage to our reputation could harm our business.

We are one of the largest and most influential financial institutions in Korea by virtue of our financial track records, market share and the size of our operations and customer base. Our reputation is critical to maintaining our relationships with clients, investors, regulators and the general public. Our reputation can be damaged in numerous ways, including, among others, employee misconduct (including embezzlement), cyber or other security breaches, litigation, compliance failures, corporate governance issues, failure to properly address potential conflicts of interest, the activities of customers and counterparties over which we have limited or no control, prolonged or exacting scrutiny from regulatory authorities and customers regarding our trade practices, or uncertainty about our financial soundness and our reliability. If we are unable to prevent or properly address these concerns, we could lose our existing or prospective customers and investors, which could adversely affect our business, financial condition and results of operations.

Our risk management policies and procedures may not be fully effective at all times.

In the course of our operations, we must manage a number of risks, such as credit risks, market risks and operational risks. We seek to monitor and manage our risk exposures through a comprehensive risk management platform, encompassing centralized risk management organization and credit evaluation systems, reporting and monitoring systems, early warning systems and other risk management infrastructure, using a variety of risk management strategies and techniques. See Item 4.B. Business Overview Risk Management. Although we

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devote significant resources to developing and improving our risk management policies and procedures and expect to continue to do so in the future, our risk management practices may not be fully effective at all times in eliminating or mitigating risk exposures in all market environments or against all types of risk, including risks that are unidentified or unanticipated. For example, from time to time, a limited number of our and our subsidiaries' personnel have engaged in embezzlement of substantial amounts for an extended period of time before such activities were detected by our risk management systems. In response to these incidents, we have strengthened our internal control procedures by, among others, implementing a real-time monitoring system, but there is no assurance that such measures will be sufficient to prevent similar employee misconducts in the future. Management of credit, market and operational risk requires, among others, policies and procedures to record properly and verify a large number of transactions and events, and we cannot assure you that these policies and procedures will prove to be fully effective at all times against all the risks we face.

We may experience disruptions, delays and other difficulties relating to our information technology systems.

We rely on our information technology systems to seamlessly provide our wide-ranging financial services as well as for our daily operations, including billing, online and offline financial transactions settlement and record keeping. We continually upgrade, and make substantial expenditures to upgrade, our group-wide information technology system, including in relation to customer data-sharing and other customer relations management systems, particularly in light of the heightened cyber security risks from advances in technology. Despite our best efforts, however, we may experience disruptions, delays, cyber or other security breaches or other difficulties relating to our information technology systems, and may not timely upgrade our systems as currently planned. Any of these developments may have an adverse effect on our business, particularly if our customers perceive us to not be providing the best-in-class cyber security systems and failing to timely and fully rectify any glitches in our information technology systems.

Our activities are subject to cyber security risk.

Our activities have been, and will continue to be, subject to an increasing risk of cyber-attacks, the nature of which is continually evolving. Cyber security risks include unauthorized access, through system-wide hacking or other means, to privileged and sensitive customer information, including passwords and account information, and illegal use thereof. Cyber security risk is generally on the rise as a growing number of our customers increasingly rely on our Internet- and mobile phone-based banking services for various types of financial transactions. While we vigilantly protect customer data through encryption and other security programs and have made substantial investments to build and upgrade our systems and defenses to address the growing threats from cyber-attacks, there is no assurance that such data will not be subject to future security breaches. In addition, there can be no assurance that we will not experience a leakage of customer information or other security breaches as a result of illegal activities by our employees, outside consultants or hackers, or otherwise.

For example, in March 2013, we experienced a temporary interruption in providing online financial services due to large-scale cyber-attacks by unidentified sources on the security systems of major broadcasting networks and financial institutions in Korea. The interruption of our online financial services lasted approximately 90 minutes, after which our online system resumed without further malfunction. The Financial Supervisory Service conducted an investigation into the incident and found that Shinhan Bank and Jeju Bank had not properly maintained their information technology administrator accounts and vaccine servers. As a result, in December 2013, the Financial Supervisory Service notified Shinhan Bank and Jeju Bank of an institutional caution (which does not give rise to significant sanctions unlike in the case of repeated institutional warnings) and imposed disciplinary actions against five of Shinhan Bank's employees and three of Jeju Bank's employees. We do not believe such incident resulted in any material loss or leakage of customer information or other sensitive data.

Major financial institutions in Korea have also fallen victim to large-scale data leakage in the past. In December 2013, it was reported that there was a leakage of personal information of approximately 130,000 customers of Standard Chartered Bank and Citibank in Korea, which leakage was attributed to a third party sub-contractor in the case of Standard Chartered Bank, and an employee in the case of Citibank. In addition, in

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January 2014, it was reported that there was a leakage of personal information of approximately 100 million customers of NH Card, Lotte Card and KB Card in Korea due to illegal access to such information by an employee of a third party credit information company in the course of developing information technology programs for these three credit card companies.

Other than the cyber security attack in March 2013 as discussed above, we have not experienced any material security breaches in the past, including any similar large scale leakage of customer information. In order to minimize the risk of security breaches related to customer and our other proprietary information, we have taken a series of group-wide preventive measures, such as the adoption and implementation of a best-in-class information security system and reinforcement of internal control measures. We are fully committed to maintaining the highest standards of cyber security and consumer protection measures and upgrading them continually. We have implemented the ISO 27001-certified security management system for us and all our subsidiaries, and we have obtained the Information Security Management System certification for most of our subsidiaries. We believe such certifications represent third-party validations that we are in compliance with best-in-class international standards on matters of information security. Our security management system continuously monitors for signs of potential cyber-attacks and is designed to provide early warning alerts to enable prompt action by us. We also provide intensive employee training to our information technology staff and other employees on cyber security and have adopted advanced security infrastructure (including through hiring a highly competent team of information security experts) for online financial services such as mandatory website certification and keyboard security functions. In addition, in compliance with applicable regulations we currently carry insurance to cover cyber security breaches up to ₩3 billion in relation to our banking business and up to ₩3 billion in the aggregate and up to ₩1 billion per incident for our securities investment business and have set aside a reserve of ₩1 billion for our credit card business. In addition, in light of the growing use of smart phones and other mobile devices to access financial services, we have implemented security measures (including encryptions and service terminal monitoring) to provide a secure mobile banking service as well as to prevent illegal leakage or sharing of customer data and otherwise enhance customer privacy. We are also keenly aware of the litigation and regulatory sanctions risks that may arise from security breaches and are aggressively reinforcing a group-wide culture that stresses safety and good custodianship as among our highest priorities. Furthermore, we are actively taking steps to implement preventive and other steps recommended or required by the regulatory authorities in relation to actual and potential financial scams. However, given the unpredictable and continually evolving nature of cyber security threats due to advances in technology or other reasons, there is no assurance that, notwithstanding our best efforts at maintaining the best-in-class cyber security systems, we will not be vulnerable to major cyber security attacks in the future.

The public is developing heightened awareness about the importance of keeping their personal data private, and the financial regulators are placing greater emphasis on data protection by financial service providers. For example, under the Personal Information Protection Act, as amended in July 2015, financial institutions, as personal information manager, may not collect, store, maintain, utilize or provide resident registration numbers of their customers, unless other laws or regulations specifically request or permit the management of resident registration numbers. Further, under the Use and Protection of Credit Information Act, as amended in March 2015, a financial institution has a higher duty to protect all information that it collects from its customers and to treat such information as credit information. Such regulations have considerably restricted a financial institution's ability to transfer or provide the information to its affiliate or holding company, and treble damages can be imposed on a financial institution for a leakage of such information. In addition, under the Electronic Financial Transaction Act, as last amended in January 2016, a financial institution is primarily responsible for compensating its customers harmed by the financial institution's cyber security breach, even if the breach is not directly attributable to the financial institution. We maintain an integrated system that closely monitors customer information to ensure compliance with data protection laws and regulations.

If a cyber or other security breach were to happen with respect to us or any of our subsidiaries, it may result in litigation by affected customers or other third parties (including class actions), compensation for any losses suffered by victims of cyber security attacks, reputational damage, loss of customers, heightened regulatory

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scrutiny and related sanctions, more stringent compliance with the present and future regulatory restrictions, and other costs related to damage control, reparation and reinforcement of information security systems, any of which may have a material adverse effect on our business, results of operations and financial condition.

Our customers may become victims to voice phishing or other financial scams, for which we may be required to make monetary compensation and suffer damage to our business and reputation.

In recent years, financial scams known as voice phishing have been on the rise in Korea. While voice phishing takes many forms and has evolved over time in terms of sophistication, it typically involves the scammer making a phone call to a victim under false pretenses (for example, the scammer pretending to be a member of law enforcement, an employee of a financial institution or even an abductor of the victim's child) and luring the victim to transfer money to an untraceable account controlled by the scammer. More recently, voice phishing has increasingly taken the form of the scammer hacking or otherwise wrongfully obtaining personal financial information of the victim (such as credit card numbers or Internet banking login information) over the telephone or other means and illegally using such information to obtain credit card loans or cash advances through automated telephone banking or Internet banking. Reportedly, a substantial number of such scammers belong to international criminal syndicates with bases overseas, such as China, with operatives in Korea.

In response to the growing incidents of voice phishing, regulatory authorities have undertaken a number of steps to protect consumers against voice phishing and other financial scams. There is no assurance, however, that the regulatory activities will have the desired effect of substantially eradicating or even containing the incidents of voice phishing or other financial scams. For example, following an investigation in November and December 2011 of major credit card companies, including Shinhan Card, as to their compliance with regulations on card loan-related voice phishing and the scope of damage suffered by customers as a result of voice phishing, the Financial Supervisory Service issued a number of guidelines for credit companies to comply with in order to minimize damage from voice phishing, including, among others, (i) strengthening identity verification procedures for card loan applications that are made online or through the automated response system, (ii) delaying the timing of loan payout by a few hours following the approval of card loan application, and (iii) giving an option to customers to block card loan applications. In May 2012, Shinhan Card completed all necessary steps to fully comply with these additional guidelines and has been in full compliance since then.

Although the financial institutions are often not legally at fault for the damage suffered by victims of voice phishing, the compensation scheme was adopted largely in consideration of social responsibility among financial institutions and that the financial institutions were not required to, and therefore in many instances did not, confirm the personal identity of the card loan or cash advance applicants prior to the adoption of such scheme. On December 8, 2011, Shinhan Card began implementing a mandatory outcall procedure to verify the personal identity of applicants for card loans and cash advances if not requested in person. In January 2012, financial institutions, the Financial Supervisory Service, the police and other related institutions formed a joint committee to prevent voice phishing incidents and implemented preventive measures such as enforcing a 10 minute delay for withdrawal of credit card loans of ₩3 million or more from an automated teller machine. In addition, Shinhan Card and our other subsidiaries have established a fraud detection system that identifies any questionable transactions based on deviations from a customer's conventional transaction patterns.

Partly as a result of these efforts, the claims that Shinhan Card received in 2015 in relation to voice phishing amounted only to an aggregate amount of ₩0.37 billion from 11 customers, for which Shinhan Card reserved as other provisioning ₩0.11 billion to cover its potential liability. Accordingly, we do not believe that the currently outstanding claims in relation to voice phishing will have a material adverse impact on our business, financial condition or results of operations. Additionally, other than voice phishing incidents and the recent cyber security

attacks as discussed above, we have not experienced any material security breaches in the past. However, given continual advances in technology and the increasing sophistication of the financial scammers, there is no assurance that we will be able to prevent future financial scams, or that the frequency and scope of financial scams will not rise. If financial scams involving us and our subsidiaries were to continue or to become more

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prevalent, it may result in compensation for any losses suffered by victims thereof, reputational damage, loss of customers, heightened regulatory scrutiny and related sanctions, compliance with the present and future regulatory restrictions, and other costs related to damage control, reparation and reinforcement of our preventive measures, any of which may have a material adverse effect on our business, results of operations and financial condition.

Legal claims and regulatory risks arise in the conduct of our business.

In the ordinary course of our business, we are subject to regulatory oversight and potential legal and administrative liability risk. We are also subject to a variety of other claims, disputes, legal proceedings and government investigations in Korea and other jurisdictions where we are active. See Item 8.A. Consolidated Statements and Other Financial Information – Legal Proceedings. These types of proceedings may expose us to substantial monetary and/or reputational damages and legal defense costs, injunctive relief, criminal and civil penalties and the potential for regulatory restrictions on our businesses. The outcome of these matters cannot be predicted and they could adversely affect our future business.

While we plan to rigorously defend our positions in the lawsuits or other regulatory proceedings against us, it is difficult to predict the final outcome of such cases. The total amount in dispute may increase during the course of litigation and other lawsuits may be brought against us based on similar allegations. Accordingly, these lawsuits and other proceedings may have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Law, Regulation and Government Policy

We are a heavily regulated entity and operate in a legal and regulatory environment that is subject to change, and violations could result in penalties and other regulatory actions.

As a financial services provider, we are subject to a number of regulations that are designed to maintain the safety and soundness of Korea's financial system, to ensure our compliance with economic and other obligations and to limit our risk exposure. These regulations may limit our activities, and changes in these regulations may increase our costs of doing business. Regulatory agencies frequently review regulations relating to our business and implement new regulatory measures, including increasing the minimum required provisioning levels or capital adequacy ratios applicable to us and our subsidiaries from time to time. We expect the regulatory environment in which we operate to continue to change. Changes in regulations applicable to us, our subsidiaries and our or their business or changes in the implementation or interpretation of such regulations could affect us and our subsidiaries in unpredictable ways and could adversely affect our business, financial condition and results of operations.

Upon implementation of the Government-proposed Financial Consumer Protection Act (currently pending at the National Assembly's subcommittee for review of the bill), financial instrument distributors will be subject to heightened investor protection measures, including stricter distribution guidelines, improved financial dispute resolution system, increased liability for damages borne by direct financial instrument distributors and newly imposed penalty surcharges. We may also become subject to other restrictions on our operations as a result of future changes in laws and regulations, including more stringent liquidity and capital requirements under Basel III, which are being adopted in phases in Korea in consideration of, among others, the pace and scope of international adoption of such requirements. Any of these regulatory developments may have a material adverse effect on our ability to expand operations or adequately manage our risks and liabilities. For further details on the principal laws and regulations applicable to us as a holding company and our principal subsidiaries, see Item 4.B. Business Overview – Supervision and Regulation.

In addition, violations of law and regulations could expose us to significant liabilities and sanctions. For example, the Financial Supervisory Service conducts periodic audits on us and, from time to time, we have received institutional warnings from the Financial Supervisory Service. If the Financial Supervisory Service

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determines as part of such audit or otherwise that our financial condition, including the financial conditions of our operating subsidiaries, is unsound or that we have violated applicable law or regulations, including Financial Services Commission orders, or if we or our operating subsidiaries fail to meet the applicable requisite capital ratio or the capital adequacy ratio, as the case may be, set forth under Korean law, the Financial Supervisory Service may ask the Financial Services Commission to order, among other things, cancellations of authorization, permission or registration of the business, suspensions of a part or all of the business, closures of branch offices, recommendations for dismissal of officers or suspensions of officers from performing their duties, or may order, among other things, institutional warnings, institutional cautions, reprimanding warnings on officers, cautionary warnings on officers or cautions on officers. From time to time, our subsidiaries, including Shinhan Bank and Shinhan Card, have been subject to investigations and/or sanctions from the Financial Supervisory Service. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings. Any such investigation and/or sanctions imposed on us or our subsidiaries could adversely impact our reputation, business, results of operations or financial condition.

The Government may encourage targeted lending to certain sectors in furtherance of policy objectives, and we may take this factor into account.

The Government has encouraged and may in the future encourage targeted lending to certain types of enterprises and individuals in furtherance of government initiatives. The Government, through its regulatory bodies such as the Financial Services Commission, from time to time announces lending policies to encourage Korean banks and financial institutions, including us and our subsidiaries, to lend to particular industries, business groups or customer segments, and, in certain cases, has provided lower cost funding through loans made by the Bank of Korea for further lending to specific customer segments.

For example, the Government has taken and is taking various initiatives to support small- and medium-sized enterprises and low-income individuals, who were disproportionately affected by the downturn in the Korean and global economy in the late 2000s and have yet to fully recover. As part of these initiatives, the Financial Supervisory Service has recently encouraged banks in Korea to increase lending to small- and medium-sized enterprises in order to ease the financial burden on such enterprises amid sluggish economic recovery, and partly as a result of government policy, in February 2015, banks in Korea announced their commitment to increase lending to small- and medium-sized enterprises by ₩38.4 trillion in the aggregate (comprised of a ₩19.9 trillion commitment by major commercial banks, ₩6.8 trillion commitment by regional banks and a ₩11.7 trillion commitment by government-controlled policy banks) by the end of 2015 in anticipation of growing liquidity difficulties among such enterprises in light of the sustained sluggishness of the general economy. The financial regulators have also adopted several measures designed to improve certain lending practices of the commercial banks which practices were perceived as having an unduly prohibitive effect on extending loans to small- to medium-sized enterprises. In addition, as a way of supporting the Government's initiative to assist promising start-ups and venture companies, in February 2015 the financial regulators announced that they would encourage the banks in Korea to increase lending to technology companies in the small- to medium-sized enterprise segment by an annual target of ₩20 trillion and to enhance technology-related credit review capabilities.

Furthermore, in response to an increasing level of consumer debt and amid concerns over the debt-servicing capacity of retail borrowers if interest rates were to rise, the Financial Services Commission announced in February 2014 that it plans to increase the proportion of fixed interest rate loans and installment principal repayment-based loans within the total housing loans extended by commercial banks (which loans have historically been, for the most part, variable interest rate loans with the entire principal being repaid at maturity, which is usually rolled over on an annual basis). According to this plan, the target proportion for fixed interest rate loans was set at 20%, 35%, 37.5% and 40% and the target proportion for installment principal repayment-based housing loans was set at 20%, 35%, 40% and 45%, each by the end of 2014, 2015, 2016 and 2017, respectively. In addition, an expanded tax deduction limit for interest

repayment is granted for loans with maturity of 10 years or more (compared to 15 years or more prior to this plan). The Financial Services Commission announced that it would examine whether banks meet their targets on an annual basis.

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In furtherance of the policy to expand the proportion of fixed rate housing loans, the Financial Services Commission implemented Relief Debt Conversion program from March 24 to March 27, 2015 and from March 30 to April 3, 2015, respectively, under which borrowers of eligible housing loans (namely, loans that have been in existence for one year or more since the original loan date, with no delinquency in the past six months, with principal amounts of ₩500 million or less and for houses valued at ₩900 million or less that are on a floating rate basis and/or an interest payment only basis) might convert such loans to new fixed rate loans in respect of which the borrowers would be required to repay the principal and interest in installment for a term of 10, 15, 20 or 30 years without a grace period, provided that the new loans pass the maximum loan-to-value ratio of 70% (irrespective of the location of the property) and the maximum debt-to-income ratio of 60% (only in respect of apartment units located in the greater Seoul metropolitan area, subject to certain exceptions). The borrowers were allowed to convert the original loans only at the banks that extended such loans. The banks holding the newly converted fixed rate loans are required to sell such loans to Korea Housing Finance Corporation, a government-controlled entity, which will then securitize such loans and issue mortgage-backed securities (backed by such loans) to be purchased by the banks who sold the loans in proportion to the amounts of the loans sold, and the banks will be required to hold such securities for a period of one year, after which the bank can sell or dispose of such securities in the market or otherwise. According to the Financial Supervisory Commission, under this program, approximately 345,000 borrowers converted loans in the aggregate amount of ₩31.5 trillion to fixed rate loans, of which Shinhan Bank accounted for approximately 13.6%. Due in large part to such initiatives, fixed interest rate loans and installment principal repayment-based loans accounted for 33.6% and 37.5%, respectively, of the total housing loans extended by commercial banks in Korea as of September 30, 2015, according to data published by the Government in December 2015. Fixed interest rate and installment principal repayment-based housing loans accounted for 36.2% and 39.1%, respectively, of the housing loans extended by Shinhan Bank as of December 31, 2015, exceeding the Government's target proportions for 2015.

In the event that market interest rates increase from those applicable during this program's implementation in March and April 2015, we may experience valuation or realization losses on the mortgage-backed securities to be held by Shinhan Bank. Due to the prevailing interest rate environment and other market conditions, we also may not be able to sell or otherwise dispose of the mortgage backed securities in the market or otherwise in amounts or at prices commercially reasonable to us. In addition, as a result of this program we may incur additional costs from recalibrating our asset portfolio and asset-liability management policy. Any of these developments could adversely affect our results of operations and financial condition.

We, on a voluntary basis, may factor the existence of the Government's policies and encouragements into consideration in making loans although the ultimate decision whether to make loans remains with us and is made based on our internal credit approval procedures and risk management systems independently of Government policies. In addition, in tandem with providing additional loans to small- and medium-sized enterprises and low-income individuals, Shinhan Bank takes active steps to mitigate the potential adverse impacts from making bad loans to enterprises or individuals with high risk profiles as a result of such arrangement, such as by strengthening its loan review and post-lending monitoring processes. However, we cannot assure you that such arrangement did not or will not, or similar or other government-led initiatives in the future will not, result in a suboptimal allocation of our loan portfolio from a risk-reward perspective compared to what we would have allocated based on purely commercial decisions in the absence of such initiatives. The Government may implement similar or other initiatives in the future to spur the overall economy or encourage the growth of targeted industries or relief to certain segments of the population. Specifically, the Government may introduce lending-related initiatives or enforce existing ones in a heightened fashion during times when small- and medium-sized enterprises or low-income households on average are facing an increased level of financial distress or vulnerability due to an economic downturn, which makes lending to them in the volume and the manner suggested by the Government even riskier and less commercially desirable. Accordingly, such policy-driven lending may create enhanced difficulties for us in terms of risk management, deterioration of our asset quality and reduced earnings, compared to what would have been in the absence of such

initiatives, which may have an adverse effect on our business, financial condition and results of operations.

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The Government may also encourage investments in certain institutions in furtherance of policy objectives, and we may not recoup our investments therein in a timely or otherwise commercially reasonable manner.

In addition to targeted lending, the Government may from time to time encourage or request the financial institutions in Korea, including us and our subsidiaries, to make investments in, or provide other forms of financial support to, certain institutions in furtherance of the Government's policy objectives. In response thereto, we have made and will continue to make the ultimate decision on whether, how and to what extent we will comply with such encouragements or requests based on our internal risk assessment and in accordance with our risk management systems and policies. At the same time, as a leading member of the financial service industry in Korea and as a responsible corporate citizen we will also fully give due consideration to such encouragements or requests from the Government, especially in relation to the long-term benefit arising from furthering the policy objective of maintaining a sound financial system, even if complying with such requests may involve additional short-term costs and risks to a limited extent.

For example, to deal with a growing number of non-performing loans in the wake of the global financial crisis of 2008-2009, the Government sponsored the establishment of United Asset Management Company Ltd. (UAMCO) in October 2009 through capital contributions from six major policy and commercial banks, namely Shinhan Bank, Kookmin Bank, KEB Hana Bank, Industrial Bank of Korea, Woori Bank and Nonghyup Bank. Shinhan Bank has committed to contribute ₩175 billion of capital to UAMCO, of which ₩85 billion has been contributed to date. As of the date hereof, Shinhan Bank holds a 17.5% equity interest in UAMCO, while five other policy and commercial banks each holds an interest ranging from 15.0% to 17.5%.

UAMCO seeks to achieve financial improvement of struggling companies through a wide range of restructuring programs, including debt restructuring, capital injection, asset sales, corporate reorganization, workouts and liquidation and bankruptcy proceedings. UAMCO is the largest purchaser in Korea of non-performing financial assets generally. Shinhan Bank sold non-performing assets to UAMCO in the amount of ₩89.8 billion, ₩326.1 billion and ₩39.1 billion in 2013, 2014 and 2015, respectively.

The Government originally planned to dispose of UAMCO during 2015 and establish a new company that specializes in corporate restructuring, but the Government scrapped such plans and instead decided to reorganize UAMCO and expand its restructuring business. As part of an effort to strengthen its balance sheet, UAMCO has recently announced its intention to receive additional capital contributions from two new shareholders, Korea Development Bank and the Export-Import Bank of Korea, and two of the existing shareholders, Woori Bank and Nonghyup Bank, by the end of June 2016. With an enlarged capital base following the planned capital contributions, it is expected that UAMCO will play a more active role in the restructuring of the Korean corporate sector. The Government is also considering an amendment of the Financial Investment Services and Capital Markets Act of Korea to facilitate the business activities of UAMCO.

If UAMCO is successful in its expanded restructuring activities, it is anticipated that financial institutions including us will be able to further enhance their financial soundness by transferring more non-performing loans to UAMCO rather than directly engaging in the restructuring activities of the troubled borrowers. However, Shinhan Bank or other banks may be requested by the Government to make additional capital contributions or loans to UAMCO, which may entail unanticipated costs. Additionally, given the generally poor quality of our non-performing assets, there is no assurance that we will be able to sell such assets held by us to UAMCO on commercially reasonable terms and on a timely basis. Furthermore, there is no assurance that in furtherance of similar or other policy objectives, the Government may not request or otherwise encourage us or our subsidiaries to provide similar or other investments or provide other financial support for which we are not duly compensated or otherwise take up additional risk that we would not normally have undertaken, which may have an adverse effect on our business, financial condition and results of operations.

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The level and scope of government oversight of our retail lending business, particularly regarding mortgage and home equity loans, may change depending on the economic or political climate.

Real estate comprises the most significant asset for a substantial number of households in Korea, and the movements of the housing price have generally had a significant impact on the direction of domestic economy. Accordingly, regulating housing prices, either in terms of attempting to stem actual or anticipated excessive speculation during times of a suspected housing price bubble and spur the pricing and/or volume of real estate transactions during times of a depressed real estate market by way of tax subsidy, guidelines to lending institutions or otherwise, has been a key policy initiative for the Government.

For example, during the early to mid-2000s, the Government adopted several regulatory measures, including in relation to retail banking, to stem a rise in speculation in real estate investments generally and in select areas. Some of the measures undertaken in the past include requiring financial institutions to impose stricter debt-to-income ratio and loan-to-value ratio requirements for mortgage loans for real property located in areas deemed to have engaged in a high level of speculation, raising property tax on real estate transactions for owners of multiple residential units, adopting a ceiling on the sale price of newly constructed housing units and recommending that commercial banks restrain from making further mortgage and home equity lending, among others. In addition, amid a prolonged slump in the housing market in Korea, in April 2013, the Government announced the Real Estate Comprehensive Countermeasure, which provides, among other things, for (i) reduced capital gains tax and (ii) exemption of acquisition tax for first-time homebuyers. In addition, in November 2013, the Government announced a permanent reduction in acquisition tax, with retrospective application from August 2013. Prior to such reduction, acquisition tax was assessed on a differentiated scale based on whether the homebuyer was purchasing a primary home or a secondary home, with the former being assessed an acquisition tax of 2% for the purchase of homes under ₩900 million and 4% for homes exceeding ₩900 million, and the latter being assessed an acquisition tax of 4% regardless of the price of the home. Under the new regulatory structure, the differentiated tax scale for primary homes and secondary homes is eliminated, and all homebuyers are assessed an acquisition tax of 1% for the purchase of homes under ₩600 million, 2% for homes exceeding ₩600 million but less than ₩900 million and 3% for homes exceeding ₩900 million. Furthermore, in February 2014, the Financial Services Commission announced that it plans to increase the proportion of fixed interest rate loans and installment principal repayment-based loans within the total housing loans extended by commercial banks. See The Government may encourage targeted lending to certain sectors in furtherance of policy objectives, and we may take this factor into account. In addition, in order to rationalize the regulations on the housing loans, the Financial Supervisory Service provided the administrative instructions in July 2014 that all financial institutions including banks under the Banking Act are subject to the maximum loan-to-value ratio of 70% (irrespective of the location of the property) and the maximum debt-to-income ratio of 60% (only in respect of apartment units located in the greater Seoul metropolitan area, subject to certain exceptions), from August 1, 2014. Furthermore, in December 2014 the National Assembly also passed several bills that are designed to stimulate the real estate market.

While any Government measure that is designed to stimulate growth in the real estate sector may result in growth of, and improved profitability for, our retail lending business (particularly with respect to mortgage and home equity loans) at least for the short term, such measure could also result in unintended consequences, including potentially excessive speculation resulting in a bubble for the Korean real estate market and a subsequent market crash. In contrast, if the Government were to change the direction of its stimulative measures (for example, in order to preemptively curtail an actual or anticipated bubble in the real estate market), such change in policy may result in a contraction of the real estate market, a decline in real estate prices and consequently, a reduction in the growth of, and profitability for, our retail and/or other lending businesses, as well as otherwise have an adverse effect on our business, financial condition and results of operations or profitability. See Risks Relating to Our Banking Business A decline in the value of the collateral securing our loans or our inability to fully realize the collateral value may

adversely affect our credit portfolio.

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Risks Relating to Korea

Unfavorable financial and economic conditions in Korea and globally may have a material adverse impact on our asset quality, liquidity and financial performance.

We are incorporated in Korea, where most of our assets are located and most of our income is generated. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea, and our business, results of operations and financial condition are substantially dependent on developments relating to the Korean economy. As Korea's economy is highly dependent on the health and direction of the global economy, and investors' reactions to developments in one country can have adverse effects on the securities price of companies in other countries, we are also subject to the fluctuations of the global economy and financial markets. Factors that determine economic and business cycles in the Korean or global economy are for the most part beyond our control and inherently uncertain. In addition to discussions of recent developments regarding the global economic and market uncertainties and the risks relating to us as provided elsewhere in this section, factors that could have an adverse impact on Korea's economy in the future include, among others:

continued volatility or deterioration in Korea's credit and capital markets;

difficulties in the financial sectors in Europe, China and elsewhere and increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;

declines in consumer confidence and a slowdown in consumer spending and corporate investments;

adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. Dollar, the Euro or the Yen exchange rates or revaluation of the Chinese Renminbi), interest rates, inflation rates or stock markets;

increasing levels of household debt;

increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers;

continuing adverse conditions in the economies of countries and regions that are important export markets for Korea, such as the United States, Europe, Japan and China, or in emerging market economies in Asia or elsewhere;

the economic impact of any pending or future free trade agreements;

social and labor unrest;

further decreases in the market prices of Korean real estate;

increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;

geopolitical uncertainty and risk of further attacks by terrorist groups around the world, including the actions of the so-called Islamic State ;

the occurrence of severe health epidemics in Korea and other parts of the world, including the recent Ebola and Middle East Respiratory Syndrome (MERS) outbreaks;

deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy;

political uncertainty or increasing strife among or within political parties in Korea, and political gridlock within the government or in the legislature, which prevents or disrupts timely and effective policy making;

hostilities involving oil-producing countries in the Middle East and North Africa and any material disruption in the supply of oil or increase in the price of oil; and

the occurrence of natural or man-made disasters in Korea (such as the sinking of the Sewol ferry in April 2014, which significantly dampened consumer sentiment in Korea for months) and other parts of the world, particularly in trading partners of Korea.

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Any future deterioration of the Korean economy could have an adverse effect on our business, financial condition and results of operations.

Tensions with North Korea could have an adverse effect on us, the price of our common shares and our American depositary shares.

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, there continues to be uncertainty regarding the long-term stability of North Korea's political leadership since the succession of Kim Jong-un to power following the death of his father in December 2011, which has raised concerns with respect to the political and economic future of the region.

In addition, there continues to be heightened security tension in the region stemming from North Korea's hostile military and diplomatic actions, including in respect of its nuclear weapons and long-range missile programs. Some examples from recent years include the following:

On February 7, 2016, North Korea launched a rocket, claimed by them to be carrying a satellite intended for scientific observation. The launch was widely suspected by the international community to be a cover for testing a long-range missile capable of carrying a nuclear warhead. On February 18, 2016, U.S. President Barack Obama signed into law mandatory sanctions on North Korea to punish it for its recent nuclear and missile tests, human rights violations and cyber crimes. The bill, which marks the first measure by the United States to exclusively target North Korea, is intended to seize the assets of anyone engaging in business related to North Korea's weapons program, and authorizes US\$50 million over five years to transmit radio broadcasts into the country and support humanitarian assistance projects. On March 2, 2016, the United Nations Security Council voted unanimously to adopt a resolution to impose sanctions against North Korea, which include inspection of all cargo going to and from North Korea, a ban on all weapons trade and the expulsion of North Korean diplomats who engage in illicit activities. Also, on March 4, 2016, the European Union announced that it would expand its sanctions on North Korea, adding additional companies and individuals to its list of sanction targets.

On January 6, 2016, North Korea announced that it had successfully conducted its first hydrogen bomb test, hours after international monitors detected a 5.1 magnitude earthquake near a known nuclear testing site in the country. The claims have not been verified independently. The alleged test followed a statement made in the previous month by Kim Jong-un, who claimed that North Korea had developed a hydrogen bomb.

In August 2015, two Korean soldiers were injured in a landmine explosion near the South Korean demilitarized zone. Claiming the landmines were set by North Koreans, the South Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas. High-ranking officials from North and South Korea subsequently met for discussions and entered into an agreement on August 25, 2015 intending to deflate military tensions.

From time to time, North Korea has fired short- to medium-range missiles from the coast of the Korean peninsula into the sea. Most recently in March 2015, North Korea fired seven surface-to-air missiles into waters off its east coast in apparent protest of annual joint military exercises being held by Korea and the United States.

In December 2014, North Korea allegedly hacked into Sony's network to prevent the airing of the movie *The Interview* which unfavorably portrays the North Korean leader, which has prompted the United States to consider implementing additional economic sanctions against North Korea.

In December 2013, Jang Sung-taek, a relative of Kim Jong-un, who was widely speculated to be the second in command after Kim Jong-un, was executed on charges of sedition. There are reports that

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such development may cause further political and social instability in North Korea and/or adoption of more hostile policies that could engender further friction with North Korea and the rest of the world.

In April 2013, North Korea blocked South Koreans from entering the industrial complex in the border city of Kaesong. In the same month, the United States deployed nuclear-capable carriers in the South Korean air and sea space. In September 2013, however, Korea and North Korea reached an agreement and resumed operation of the Kaesong Industrial Complex, and have since made efforts to improve the business environment of the complex, including by building radio frequency identification data transfer systems and launching internet service, among others. In February 2014, the U.S. Congressional Research Service reported that Korea's approach toward the expansion and internationalization of the Kaesong Industrial Complex could conflict with U.S. legislative efforts to expand its sanctions on North Korea. On February 10, 2016, in retaliation of North Korea's recent launch of a long-range rocket, South Korea announced that it would halt its operations of the Kaesong Industrial Complex to impede North Korea's utilization of funds from the industrial complex to finance its nuclear and missile programs. In response, North Korea announced on February 11, 2016 that it would expel all South Korean employees from the industrial complex and freeze all South Korean assets in the complex.

In March 2013, North Korea stated that it had entered a state of war with Korea, declaring the 1953 armistice invalid, and put its artillery at the highest level of combat readiness to protest the Korea-United States allies military drills and additional sanctions imposed on North Korea for its missile and nuclear tests.

North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 to February 2013, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council unanimously passed resolutions that condemned North Korea for the nuclear tests and expanded sanctions against North Korea, most recently in March 2013.

In December 2012, North Korea launched a satellite into orbit using a long-range rocket, despite concerns in the international community that such a launch would be in violation of the agreement with the United States as well as United Nations Security Council resolutions that prohibit North Korea from conducting launches that use ballistic missile technology.

North Korea's economy also faces severe challenges, including severe inflation and food shortages, which may further aggravate social and political tensions within North Korea. In addition, reunification of Korea and North Korea could occur in the future, which would entail significant economic commitment and expenditure by Korea that may outweigh any resulting economic benefits of reunification.

There can be no assurance that the level of tension on the Korean peninsula will not escalate in the future or that the political regime in North Korea may not suddenly collapse. Any further increase in tension or uncertainty relating to the military, political or economic stability in the Korean peninsula, including a breakdown of diplomatic negotiations over the North Korean nuclear program, occurrence of military hostilities, heightened concerns about the stability of North Korea's political leadership or its actual collapse, a leadership crisis, a breakdown of high-level contacts or accelerated reunification could have a material adverse effect on our business, financial condition and results of operations, as well as the price of our common shares and our American depositary shares.

Risks Relating to Our American Depositary Shares

There are restrictions on withdrawal and deposit of common shares under the depositary facility.

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the depositary bank's custodian in Korea and obtain American depositary shares, and holders of American depositary shares may surrender American depositary shares to the depositary bank and receive shares of our common

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stock. However, under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of American depositary shares (including deposits in connection with the initial and all subsequent offerings of American depositary shares and stock dividends or other distributions related to these American depositary shares) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. We have consented to the deposit of outstanding shares of common stock as long as the number of American depositary shares outstanding at any time does not exceed 40,432,628. As a result, if you surrender American depositary shares and withdraw shares of common stock, you may not be able to deposit the shares again to obtain American depositary shares.

Ownership of our shares is restricted under Korean law.

Under the Financial Holding Companies Act, any single shareholder (together with certain persons in a special relationship with such shareholder) may acquire beneficial ownership of up to 10% of the total issued and outstanding shares with voting rights of a bank holding company controlling national banks such as us. In addition, any person, except for a non-financial business group company (as defined below), may acquire in excess of 10% of the total voting shares issued and outstanding of a financial holding company which controls a national bank, provided that a prior approval from the Financial Services Commission is obtained each time such person's aggregate holdings exceed 10% (or 15% in the case of a financial holding company controlling regional banks only), 25% or 33% of the total voting shares issued and outstanding of such financial holding company. The Government and the Korea Deposit Insurance Corporation are exempt from this limit. Furthermore, certain non-financial business group companies (i.e., (i) any same shareholder group with aggregate net assets of all non-financial business companies belonging to such group of not less than 25% of the aggregate net assets of all members of such group; (ii) any same shareholder group with aggregate assets of all non-financial business companies belonging to such group of not less than ₩2 trillion; or (iii) any mutual fund in which a same shareholder group identified in (i) or (ii) above owns more than 4% of the total shares issued and outstanding of such mutual fund) may not acquire beneficial ownership in us in excess of 4% of our outstanding voting shares, provided that such non-financial business group companies may acquire beneficial ownership of up to 10% of our outstanding voting shares with the approval of the Financial Services Commission under the condition that such non-financial business group companies will not exercise voting rights in respect of such shares in excess of the 4% limit. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restrictions on Financial Holding Company Ownership. To the extent that the total number of shares of our common stock that you and your affiliates own together exceeds these limits, you will not be entitled to exercise the voting rights for the excess shares, and the Financial Services Commission may order you to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in a fine of up to ₩50 million, plus an additional charge of up to 0.03% of the book value of such shares per day until the date of disposal.

Holders of our ADSs will not have preemptive rights in certain circumstances.

The Korean Commercial Code and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the depositary bank, after consultation with us, may make the rights available to you or use reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The depositary bank, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares; or

the offering and sale of those shares is exempt from or is not subject to the registration requirements of the U.S. Securities Act.

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We are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission. If a registration statement is required for you to exercise preemptive rights but is not filed by us, you will not be able to exercise your preemptive rights for additional shares and you will suffer dilution of your equity interest in us.

Holders of our ADSs will not be able to exercise dissent and appraisal rights unless they have withdrawn the underlying shares of our common stock and become our direct stockholders.

Under Korean law, in some limited circumstances, including the transfer of the whole or any significant part of our business and the merger or consolidation of us with another company, dissenting stockholders have the right to require us to purchase their shares under Korean law. However, under our deposit agreement, holders of our American depositary shares do not have, and may not instruct the depositary as to the exercise of, any dissenter's rights provided to the holders of our common shares under Korean law. Therefore, if holders of our American depositary shares wish to exercise dissenting rights, they must withdraw the underlying common stock from the American depositary shares facility (and incur charges relating to that withdrawal) and become our direct stockholders prior to the record date of the stockholders' meeting at which the relevant transaction is to be approved, in order to exercise dissent and appraisal rights.

The market value of your investment in our ADSs may fluctuate due to the volatility of the Korean securities market.

Our common stock is listed on the KRX KOSPI Division of the Korea Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the Stock Market Division of the Korea Exchange. The Stock Market Division of the Korea Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the Stock Market Division of the Korea Exchange has prescribed a fixed range in which share prices are permitted to move on a daily basis. Like other securities markets, including those in developed markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

The Government has the potential ability to exert substantial influence over many aspects of the private sector business community, and in the past has exerted that influence from time to time. For example, the Government has promoted mergers to reduce what it considers excess capacity in a particular industry and has also encouraged private companies to publicly offer their securities. Similar actions in the future could have the effect of depressing or boosting the Korean securities market, whether or not intended to do so. Accordingly, actions by the government, or the perception that such actions are taking place, may take place or has ceased, may cause sudden movements in the market prices of the securities of Korean companies in the future, which may affect the market price and liquidity of our common stock and ADSs.

Your dividend payments and the amount you may realize upon a sale of your ADSs will be affected by fluctuations in the exchange rate between the U.S. Dollar and the Won.

Investors who purchase the American depositary shares will be required to pay for them in U.S. Dollars. Our outstanding shares are listed on the Korea Exchange and are quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the American depositary shares will be paid to the depositary bank in Won and then converted by the depositary bank into U.S. Dollars, subject to certain conditions. Accordingly, fluctuations in the

exchange rate between the Won and the U.S. Dollar will affect, among other things, the amounts a registered holder or beneficial owner of the American depositary shares will receive from the depositary bank in respect of dividends, the U.S. Dollar value of the proceeds which a holder or owner would receive upon sale in Korea of the shares obtained upon surrender of American depositary shares and the secondary market price of the American depositary shares.

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If the Government deems that certain emergency circumstances are likely to occur, it may restrict the depositary bank from converting and remitting dividends in Dollars.

If the Government deems that certain emergency circumstances are likely to occur, it may impose restrictions such as requiring foreign investors to obtain prior Government approval for the acquisition of Korean securities or for the repatriation of interest or dividends arising from Korean securities or sales proceeds from disposition of such securities. These emergency circumstances include any or all of the following:

sudden fluctuations in interest rates or exchange rates;

extreme difficulty in stabilizing the balance of payments; and

a substantial disturbance in the Korean financial and capital markets.

The depositary bank may not be able to secure such prior approval from the government for the payment of dividends to foreign investors when the Government deems that there are emergency circumstances in the Korean financial markets.

Other Risks

We are generally subject to Korean corporate governance and disclosure standards, which differ in significant respects from those in other countries.

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which differ in many respects from standards applicable in other countries, including the United States. As a reporting company registered with the Securities and Exchange Commission and listed on the New York Stock Exchange, we are, and in the future will be, subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002. However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the New York Stock Exchange. For significant differences, see Item 16G. Corporate Governance. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in less than satisfactory corporate governance practices or disclosure to investors in certain countries.

You may not be able to enforce a judgment of a foreign court against us.

We are a corporation with limited liability organized under the laws of Korea. All or substantially all of our directors and officers and other persons named in this annual report reside in Korea, and all or a substantial portion of the assets of our directors and officers and other persons named in this annual report and substantially all of our assets are located in Korea. As a result, it may not be possible for holders of the American depository shares to effect service of process within the United States, or to enforce against them or us in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

We may become a passive foreign investment company (PFIC), which could result in adverse U.S. tax consequences to U.S. investors.

Based upon the past and projected composition of our income and valuation of our assets, we do not believe that we were a PFIC for 2015, and we do not expect to be a PFIC in 2016 or to become one in the foreseeable future, although there can be no assurance in this regard. If, however, we become a PFIC, such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor. For example, if we become a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and

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will become subject to burdensome reporting requirements. Our PFIC status is determined on an annual basis and depends on the composition of our income and assets. Specifically, we will be classified as a PFIC for U.S. tax purposes if either: (i) 75% or more of our gross income in a taxable year is passive income, or (ii) the average percentage of our assets by value in a taxable year which produce or are held for the production of passive income (which generally includes cash) is at least 50%. Special rules treat certain income earned by a non-U.S. corporation engaged in the active conduct of a banking business as non-passive income. See Item 10.E. Taxation Certain United States Federal Income Tax Consequences Passive Foreign Investment Company Rules. We cannot assure you that we will not be a PFIC for 2016 or any future taxable year.

ITEM 4. INFORMATION ON THE COMPANY

ITEM 4.A. History and Development of the Company

Introduction

We are one of the leading financial institutions in Korea in terms of total assets, revenues, profitability and capital adequacy, among others. Incorporated on September 1, 2001, we are the first privately-held financial holding company to be established in Korea. Since inception, we have developed and introduced a wide range of financial products and services in Korea and aimed to deliver comprehensive financial solutions to clients through a convenient one-portal network. According to reports by the Financial Supervisory Service, we are the largest financial services provider in Korea as measured by consolidated total assets as of December 31, 2015 and operate the fourth largest banking business (as measured by consolidated total bank assets as of December 31, 2015) and the largest credit card business (as measured by the total credit purchase volume in 2015) in Korea.

We have experienced substantial growth through several mergers and acquisitions. Most notably, our acquisition of Chohung Bank in 2003 has enabled us to have the fourth largest banking operations in Korea. In addition, our acquisition in March 2007 of LG Card, the then largest credit card company in Korea, has enabled us to have the largest credit card operations in Korea and significantly expand our non-banking business capacity so as to achieve a balanced business portfolio.

We currently have 13 direct subsidiaries and 24 indirect subsidiaries offering a wide range of financial products and services, including commercial banking, corporate banking, private banking, credit card, asset management, brokerage and insurance services. We believe that such breadth of services will help us to meet the diversified needs of our present and potential clients. We currently serve approximately 18.3 million active customers, which we believe is the largest customer base in Korea, through approximately 25,623 employees at approximately 1,448 network branches group-wide. While substantially all of our revenues have been historically derived from Korea, we aim to serve the needs of our customers through a global network of 156 offices in the United States, Canada, the United Kingdom, Japan, the People's Republic of China, Germany, India, Hong Kong, Vietnam, Cambodia, Kazakhstan, Singapore, Mexico, Uzbekistan, Myanmar, Poland, Indonesia, Philippines and Dubai.

Our registered office and corporate headquarters are located at 20, Sejong-daero 9-gil, Jung-gu, Seoul 04513, Korea and our telephone number is +822 6360 3000.

Our Strategy

Since our inception in 2001, we have pursued the following objectives as the core of our long-term strategy: (i) balanced growth in our banking and non-banking businesses, (ii) continued creation of value by identifying new business opportunities and gaining a competitive edge through differentiating our business model from that of our competitors, and (iii) becoming the market leader in Korea and a world-class financial holding company through enhancement of our management systems and core competencies.

Following the global financial crisis that began in the second half of 2008, a new set of challenges for financial service providers such as us and our subsidiaries has emerged in the form of a new normal in the

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business environment with the following general trends: (i) demographic changes due to declining birth rates and increasingly aging population, (ii) prolonged periods of low growth and low interest rates, (iii) rapid innovation in the financial industry as a result of advancements in information and communication technology (ICT) and digital finance technologies, and (iv) amplifying effects of challenges and opportunities globally. Constant changes in the global markets demand that financial service providers consistently develop new financial trends, ensure customer satisfaction by offering competitive products and services in the continued low-interest rate environment, maintain a sound infrastructure that can withstand external shocks, and enhance social responsibility and accountability.

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

More specifically, our key strategic priorities currently include the following:

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

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

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

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

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

as business channels, processes and marketing.

Establish a strong organizational culture based on the Shinhan Way. We will further upgrade our policies and operating system according to our value of future-oriented compassionate finance. We aim to further invigorate the group's creative and proactive culture while nurturing a new generation of leaders based on the Shinhan Way.

At the subsidiary level, we plan to implement the following strategies with respect to our core business lines:

in commercial banking, our primary objective is to challenge ourselves to reach a new level of excellence. Commercial banking is our principal business line and has the highest level of profitability in Korea based on its strong risk management capacity. Equipped with an extensive branch network

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and a broad customer base, our commercial banking business serves as the key sales and distribution channel for the various financial products and services we provide. We seek to solidify our brand and market position in commercial banking by offering our customers differentiated value creation strategies, strengthening our competitiveness in areas of core competencies, developing new trends in the financial sector and enhancing organizational capacity. Our plan is to further optimize risk management to address the volatility of the business environment and to continue reinforcing our commercial banking operations high profitability and central role in strengthening group-wide synergy.

in credit card business, our primary objectives are to further solidify our market leadership as the largest credit card service provider in Korea and to become the industry trendsetter. With such goals, we will strive to preemptively address rapid developments in the technology environment such as fintech and mobile payment services and overcome the industry's low structural growth and weakened profitability. To this end, we plan to boost our competitiveness in the mobile payment service market and increase strategic alliances based on our mobile platform. Additionally, through an overall expansion of our credit card business, we aim to diversify revenue models and become even more active in entering overseas markets. We also seek to bolster our customer service by solidifying our industry leadership in the credit card industry and improve profitability by utilizing our resources strategically.

in securities business, our primary objectives are to enhance our market position and to provide innovative products and services to our customers. We seek to establish a solid platform for providing leading brokerage and financial advisory services in Korea and foster a customer-centric corporate culture. We will actively incorporate collaborative platforms such as PWM (Private Wealth Management) and the Creative Finance Plaza and strive to increase our customers' rate of return by developing competitive business models and capturing promising business opportunities. Furthermore, to ensure reliable asset management for our customers, we plan to steadily update our risk management capabilities.

in life insurance business, our primary objective is to attain market recognition while procuring a stable source of revenue in the long term by improving the competitiveness of our life insurance program. To establish our life insurance program as the standard for the industry, we aim to broaden the reach of our operations to all business sectors and strengthen our execution capacity. Our strategy is to maximize customer value by encouraging compassionate, innovative and digital finance, augment corporate value by expanding the whole life insurance portfolio and fortifying financial solidity and increase community value by enforcing model business practices, instituting a good working environment and improving brand value.

Our History and Development

On September 1, 2001, we were formed as a financial holding company under the Financial Holding Companies Act, as a result of acquiring all of the issued shares of the following four entities from their former shareholders in exchange for shares of our common stock: (i) Shinhan Bank, a nationwide commercial bank listed on the Korea Exchange, (ii) Shinhan Securities Co., Ltd., a securities brokerage company listed on the Korea Exchange, (iii) Shinhan Capital Co., Ltd., a leasing company listed on the Korea Exchange Korean Securities Dealers Automated Quotations (KRX KOSDAQ), and (iv) Shinhan Investment Trust Management Co., Ltd., a privately held investment trust management company. On September 10, 2001, the common stock of our holding company was listed on what is currently the KRX KOSPI Market.

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Since our inception, we have expanded our operations, in large part, through strategic acquisitions or formation of joint ventures. Our key acquisitions and joint venture formations are described as below:

Date of Acquisition	Entity	Principal Activities	Method of Establishment
April 2002	Jeju Bank	Regional banking	Acquisition from Korea Deposit Insurance Corporation
July 2002	Shinhan Investment Corp. ⁽¹⁾	Securities and investment	Acquisition from the SsangYong Group
August 2002	Shinhan BNP Paribas Investment Trust Management Co., Ltd. ⁽²⁾	Investment advisory	50:50 joint venture with BNP Paribas
August 2003	Chohung Bank	Commercial banking	Acquisition from creditors
December 2005	Shinhan Life Insurance	Life insurance services	Acquisition from shareholders
March 2007	LG Card	Credit card services	Acquisition from creditors
January 2012	Tomato Mutual Savings Bank ⁽³⁾	Savings bank	Purchase and assumption of assets and liabilities from creditors
January 2013	Yehanbyoul Savings Bank ⁽⁴⁾	Savings bank	Acquisition from Korea Deposit Insurance Corporation

Notes:

- (1) Renamed as Shinhan Investment Corp. from Goodmorning Shinhan Securities Co., Ltd. effective August 2009.
- (2) In January 2009, SH Asset Management Co., Ltd. and Shinhan BNP Paribas Investment Trust Management merged to form Shinhan BNP Paribas Asset Management Co., Ltd.
- (3) Shinhan Hope Co., Ltd. was established on December 12, 2011, to purchase and assume certain assets and

liabilities of Tomato Mutual Savings Bank. On December 28, 2011, Shinhan Hope Co., Ltd. obtained a savings bank license, changed its name to Shinhan Savings Bank and became our direct subsidiary.

- (4) In January 2013, we entered into a share purchase agreement with Korea Deposit Insurance Corporation for the acquisition of Yehanbyoul Savings Bank, a savings bank located in Korea, for ₩45.3 billion, and received regulatory approval to merge Yehanbyoul Savings Bank into our existing subsidiary Shinhan Saving Bank. On April 1, 2013, Shinhan Savings Bank and Yehanbyoul Savings Bank merged into a single entity, with Yehanbyoul Savings Bank being the surviving entity and the newly merged bank being named Shinhan Savings Bank.

ITEM 4.B. Business Overview

Unless otherwise specifically mentioned, the following business overview is presented on a consolidated basis under IFRS.

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Our Principal Activities

We provide comprehensive financial services, principally consisting of the following:

commercial banking services, consisting of:

retail banking, which primarily focuses on making loans to or receiving deposits from individual customers (including high net-worth individuals and families) and, to a lesser extent, not-for-profit institutions such as hospitals, airports and schools;

corporate banking, which primarily focuses on making loans to or receiving deposits from for-profit corporations, including small- and medium-sized enterprises, and providing investment banking services to corporate clients;

international banking, which primarily focuses on management of overseas subsidiaries and branch operations and other international businesses; and

other banking, which consists of treasury business (including internal asset and liability management and other non-deposit funding activities), securities investing and trading and derivatives trading, as well as administration of the overall banking operations.

credit card services;

securities brokerage services;

life insurance services;

asset management services, including brokerage and trading of various securities, related margin lending and deposit and trust services, and other asset management services; and

other services, including leasing and equipment financing, regional banking services, savings banking services, loan collection and credit reporting, collective investment administrative services and financial system development services as well as engaging in private equity investments through formation of private equity funds on a private placement basis.

In addition to the above-mentioned business activities, we, at the holding company level, have the wealth management planning office and corporate & investment banking business department, whose primary function is to support cross-divisional management with respect to these specific functional areas.

Our principal business activities are not subject to any material seasonal trends. While we have a number of overseas branches and subsidiaries, substantially all of our assets are located, and substantially all of our revenues are generated, in Korea.

Deposit-Taking Activities

Principally through Shinhan Bank, we offer many deposit products that target different customer segments with features tailored to each segment's financial and other profiles. Our deposit products consist principally of the following:

Demand deposits. Demand deposits do not accrue interest or accrue interest at a lower rate than time or savings deposits and allow the customer to deposit and withdraw funds at any time. If interest-bearing, demand deposits have interest accruing at a fixed or variable rate depending on the period and the amount of deposit. Demand deposits constituted approximately 13.7%, 13.6% and 14.6% of our total deposits as of December 31, 2013, 2014 and 2015, respectively. Demand deposits paid average interest of 0.65%, 0.57% and 0.44% in 2013, 2014 and 2015, respectively.

Savings deposits. Savings deposits allow the customer to deposit and withdraw funds at any time and accrue interest at an adjustable interest rate, which is typically lower than the rate applicable to time or installment deposits. Savings deposits constituted approximately 23.5%, 26.5% and 28.6% of our total deposits as of December 31, 2013, 2014 and 2015, respectively, and paid average interest of 0.96%, 0.87% and 0.70% in 2013, 2014 and 2015, respectively.

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Time deposits. Time deposits generally require the customer to maintain a deposit for a fixed term during which the deposit accrues interest at a fixed rate or a variable rate based on certain financial indexes, including the Cost of Funds Index (COFIX) published by the Korean Federation of Banks. If the deposit is withdrawn prior to the end of the fixed term, the customer is paid a lower interest rate than that originally offered. The term typically ranges from one month to five years. Time deposits constituted approximately 61.8%, 58.7% and 54.8% of our total deposits as of December 31, 2013, 2014 and 2015, respectively, and paid average interest of 3.00%, 2.58% and 2.03% in 2013, 2014 and 2015, respectively.

Other deposits. Other deposits consist mainly of certificates of deposit. Certificates of deposit typically have maturities from 30 days to two years. Interest rates on certificates of deposit are determined based on the length of the deposit and prevailing market interest rates. Certificates of deposit are sold at a discount to their face value, reflecting the interest payable on the certificates of deposit. Certificates of deposit constituted approximately 1.0%, 1.1% and 2.1% of our total deposits as of December 31, 2013, 2014 and 2015, respectively and paid average interest of 2.01%, 1.32% and 1.20% in 2013, 2014 and 2015, respectively.

We also offer deposits which provide the customer with preferential rights to housing subscriptions under the Housing Law and Rules on Housing Supply (the Housing Law), and eligibility for mortgage and home equity loans. These products include:

Housing subscription time deposits. These deposit products are special purpose time deposits providing the customer with a preferential right to subscribe for new private housing units under the Housing Law. This law provides various measures supporting the purchase of housing units and the supply of such housing units by construction companies. If a potential home-buyer subscribes for these deposit products and holds them for a certain period of time set forth in the Housing Law, such deposit customer obtains the right to subscribe for new private housing units on a priority basis. Such preferential rights are neither transferable nor marketable in the open market. These products accrue interest at a fixed rate for one year and at an adjustable rate after one year, which are consistent with other time deposits. Required deposit amounts per account range from ₩2 million to ₩15 million depending on the size and location of the housing unit. These deposit products target high- and middle-income households as customers.

Housing subscription installment savings deposits. These deposit products are monthly installment savings products providing the customer with a preferential right to subscribe for new private housing units under the Housing Law. Such preferential rights are neither transferable nor marketable in the open market. These deposits require monthly installments of ₩50,000 to ₩500,000, have maturities between three and five years and accrue interest at fixed rates depending on the term, which rates are consistent with other installment savings deposits. These deposit products target low- and middle-income households as customers. For information on our deposits in Korean Won based on the principal types of deposit products we offer, see Description of Assets and Liabilities Funding Deposits.

The rate of interest payable on our deposit products may vary significantly, depending on average funding costs, the rate of return on our interest-earning assets, prevailing market interest rates among financial institutions and other major financial indicators.

We also offer court deposit services for litigants in Korean courts, which involve providing effectively an escrow service for litigants involved in certain types of legal or other proceedings. Chohung Bank historically was a dominant provider of such services since 1958, and following the acquisition of Chohung Bank, we continue to hold a dominant

market share in these services. Such deposits typically carry interest rates lower than the market rates (by approximately 0.5% per annum) and amounted to ₩6,680 billion, ₩6,443 billion and ₩6,480 billion as of December 31, 2013, 2014 and 2015, respectively.

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The Monetary Policy Committee of the Bank of Korea imposes a reserve requirement on Won currency deposits at commercial banks at rates ranging from 0% to 7%, based generally on maturity and the type of deposit instrument. See *Supervision and Regulation* *Principal Regulations Applicable to Banks* *Liquidity*.

The Depositor Protection Act provides for a deposit insurance system under which the Korea Deposit Insurance Corporation guarantees repayment of eligible bank deposits to depositors up to ₩50 million per depositor and ₩50 million per insured under the defined contribution retirement pension per bank. See *Supervision and Regulation* *Principal Regulations Applicable to Banks* *Deposit Insurance System*.

Retail Banking Services

Overview

We provide retail banking services primarily through Shinhan Bank, and, to a significantly lesser extent, through Jeju Bank, a regional commercial bank. Our retail loans, before allowance for loan losses and deferred loan origination costs and fees and excluding credit card receivables, amounted to ₩96,018 billion as of December 31, 2015.

Retail banking services include mortgage and home equity lending and retail lending as well as demand, savings and fixed deposit-taking, checking account services, electronic banking and automatic teller machines (ATM) services, bill paying services, payroll and check-cashing services, currency exchange and wire fund transfer. We believe that providing modern and efficient retail banking services is important to maintaining our public profile and as a source of fee-based income. Accordingly, we believe that our retail banking services and products will become increasingly important in the coming years as the domestic banking sector further develops and becomes more complex.

Retail banking has been and will continue to remain one of our core businesses. Our strategy in retail banking is to provide prompt and comprehensive services to retail customers through increased automation and improved customer service, as well as a streamlined branch network focused on sales. The retail segment places an emphasis on targeting high net worth individuals.

Retail Lending Activities

We offer various retail loan products, consisting principally of loans to individuals and households. Our retail loan products target different segments of the population with features tailored to each segment's financial profile and other characteristics, including customer's occupation, age, loan purpose, collateral requirements and the duration of the customer's relationship with Shinhan Bank. Our retail loans consist principally of the following:

Mortgage and home equity loans, which are mostly comprised of mortgage loans that are used to finance home purchases and are generally secured by the housing unit being purchased; and

Other retail loans, which are loans made to customers for any purpose other than mortgage and home equity loans and the terms of which vary based primarily upon the characteristics of the borrower and which are either unsecured or secured, or guaranteed by deposits or by a third party. Other retail loans also include advance loans extended on an unsecured basis to retail borrowers the use of proceeds for which is restricted to financing of home purchases prior to the completion of the construction.

As of December 31, 2015, our mortgage and home equity loans and other retail loans accounted for 57.3% and 42.7% of our total Won-denominated retail loans (excluding credit card loans), respectively.

For secured loans, including mortgage and home equity loans, our policy is to lend up to 40% to 70% of the appraisal value of the collateral, after taking into account the value of any lien or other security interest that has

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priority over our security interest (other than petty claims). The loan-to-value ratio of secured loans is updated on a monthly basis using the most recent appraisal value of the collateral. As of December 31, 2015, the loan-to-value ratio of mortgage and home equity loans of Shinhan Bank was approximately 52.86%. As of December 31, 2015, substantially all of our mortgage and home equity loans were secured by residential property.

Under the administrative instructions of the Financial Supervisory Service effective August 1, 2014, our banking subsidiaries (i) are subject to a limit on loan-to-value ratio of 70% when extending home mortgage loans; (ii) are required to comply with a limit on debt-to-income ratio of 60% in extending home mortgage loans (amounting to more than ₩100 million) for the purchase of new apartments that are secured by such apartments if they are located in the greater Seoul metropolitan area, excluding some areas such as island areas; and (iii) are required to apply greater flexibility in determining the debt-to-income ratio by considering the expected earnings potential. In addition, the supervising authorities in Korea from time to time issue administrative instructions to Korean banks, which have the effect of regulating the access of borrowers to housing loans and, as such, demand for real estate properties. For example, the Financial Supervisory Service issued administrative instructions to financial institutions to (except in limited circumstances) verify the borrower's ability to repay based on proof of income prior to making a mortgage and home equity loan regardless of the type or value of the collateral or the location of the property, which has had the effect of practically barring the grant of any new mortgage and home equity loans to borrowers without verifiable income.

Our banking subsidiaries extend mortgage and home equity loans in compliance with the applicable regulations and administrative instructions by the relevant supervising authorities.

The following table sets forth a breakdown of our retail loans.

	As of December 31,		
	2013	2014	2015
	(In billions of Won, except percentages)		
Retail loans ⁽¹⁾			
Mortgage and home-equity loans	₩ 46,908	₩ 50,652	₩ 54,983
Other retail loans	30,242	34,278	41,035
Percentage of retail loans to total gross loans	37.1%	37.9%	38.7%

Note:

(1) Before allowance for loan losses and deferred loan origination costs and fees and excludes credit card receivables.

The total mortgage and home equity loans amounted to ₩54,983 billion as of December 31, 2015, and as of such date, consisted of amortizing loans (whose principal is repaid by part of the installment payments) in the amount of ₩46,635 billion and non-amortizing loans in the amount of ₩8,348 billion. In addition, as of December 31, 2015, we also provided lines of credit in the aggregate outstanding amount of ₩1,030 billion for non-amortizing loans.

Pricing

The interest rates payable on Shinhan Bank's retail loans are either periodically adjusted floating rates (based on a base rate determined for three-month, six-month or twelve-month periods derived using an internal transfer price system, which reflects the market cost of funding, as adjusted to account for expenses related to lending and the profit margin of the relevant loan products) or fixed rates that reflect the market cost of funding, as adjusted to account for expenses related to lending and the profit margin. Fixed rate loans, which have maturities of up to 30 years for retail loans and 15 years for corporate loans are offered only on a limited basis and at a premium to floating rate loans. For unsecured loans, which Shinhan Bank provides on a floating or fixed rate basis, interest rates thereon reflect a margin based on, among other things, the borrower's credit score as

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determined during its loan approval process. For secured loans, the credit limit is based on the type of collateral, priority with respect to the collateral and the loan-to-value ratio. Shinhan Bank may adjust the pricing of these loans to reflect the borrower's current and/or expected future contribution to Shinhan Bank's profitability. The interest rate on Shinhan Bank's loan products may become adjusted at the time the loan is extended. If a loan is terminated within three years following the date of the loan, the borrower is required to pay an early termination fee, which is typically 0.8% to 1.4% of the outstanding principal amount of and accrued and unpaid interest on the loan, multiplied by a fraction the numerator of which is the number of the remaining days on the loan until maturity and the denominator of which is the number of days comprising the term of the loan or three years, whichever is greater.

As of December 31, 2015, Shinhan Bank's three-month, six-month and twelve-month base rates were approximately 1.67%, 1.69% and 1.73%, respectively. As of December 31, 2015, Shinhan Bank's fixed rates for mortgage and home equity loans with a maturity of five years and seven years were approximately 3.35% and 4.45%, respectively, and Shinhan Bank's fixed rates for other retail loans with a maturity of one year ranged from 4.31% to 14.00%, depending on the credit scores of its customers.

As of December 31, 2015, 72.5% of Shinhan Bank's total retail loans were floating rate loans and 27.5% were fixed rate loans. As of the same date, 64.3% of Shinhan Bank's retail loans with maturity of more than one year were floating rate loans and 35.7% were fixed rate loans.

The interest rate charged to customers by our banking subsidiaries is based, in part, on the cost of funds index, or COFIX, which is published by the Korean Federation of Banks. COFIX is computed based on the weighted average interest of select funding products (including time deposits, housing and other installment savings deposits, repos, discounted bills and senior non-convertible financial debentures) of eight major Korean banks (comprised of Shinhan Bank, Kookmin Bank, Woori Bank, KEB Hana Bank, Nonghyup Bank, Industrial Bank of Korea, Citibank Korea Inc. and Standard Chartered Bank Korea Limited). Each bank then independently determines the interest rate applicable to its respective customers by adding a spread to the COFIX based on the difference between the COFIX and such bank's general funding costs, administration fees, the customer's credit score, the maturity of the loan and other customer-specific premiums and discounts based on the customer relationship with such bank. These interest rates are typically adjusted on a monthly basis.

Private Banking

Historically, we have focused on customers with high net worth. Our retail banking services include providing private banking services to high net worth customers who seek personal advice in complex financial matters. Our aim in private banking is to help enhance wealth accumulation by, and increase the financial sophistication of, our high net-worth clients by offering them portfolio and fund management, tax consulting and real estate management services, among others. Since the end of 2011, in order to preemptively respond to evolving customer needs and promote asset growth by inducing greater synergy between commercial banking and investment advisory services offered by Shinhan Investment, Shinhan Bank launched private wealth management centers which combine certain branches of Shinhan Bank with those of Shinhan Investment in same locations. Shinhan Bank's strength in private banking has been widely recognized by a number of significant industry awards in recent years, including the Best Wealth Manager in Korea and Best Private Bank in Korea awards by The Asset magazine in 2015, and the Best Private Bank in Korea at the Global Private Banking Awards 2015 co-sponsored by Professional Wealth Management and The Banker.

As of December 31, 2015, Shinhan Bank operated 27 private banking centers nationwide, including 18 in Seoul, three in the suburbs of Seoul and six in cities located in other regions in Korea. As of December 31, 2015, Shinhan Bank had approximately 6,684 private banking customers, who typically are required to have ₩500 million in deposits with

us to qualify for private banking services.

Table of Contents**Corporate Banking Services***Overview*

We provide corporate banking services, primarily through Shinhan Bank, to small- and medium-sized enterprises, including enterprises known as SOHO (standing for small office, home office), which are small enterprises operated by individuals or households, and, to a lesser extent, to large corporations, including corporations that are affiliated with *chaebols*. We also lend to government-controlled enterprises.

The following table sets forth the balances and percentage of our total loans (before allowance for loan losses and deferred loan origination costs and fees) attributable to each category of our corporate lending business as of the dates indicated.

	As of December 31,					
	2013		2014		2015	
	(In billions of Won, except percentages)					
Small- and medium-sized enterprises loans ⁽¹⁾	₩ 55,062	26.5%	₩ 59,889	26.8%	₩ 67,336	27.1%
Large corporate loans	31,412	15.1	33,381	14.9	33,742	13.6
Others ⁽²⁾	26,698	12.8	27,538	12.3	32,796	13.2
Total corporate loans	₩ 113,172	54.4%	₩ 120,808	54.0%	₩ 133,874	53.9%

Notes:

(1) Represents the principal amount of loans extended to corporations meeting the definition of small- and medium-sized enterprises under the Basic Act on Small- and Medium-sized Enterprises and its Presidential Decree.

(2) Includes loans to governmental agencies, loans to banks and other corporate loans.

Small- and Medium-sized Enterprises Banking

Under the Basic Act on Small- and Medium-sized Enterprises (the SME Basic Act) and the related Presidential Decree, as amended effective from February 3, 2015, in order to qualify as a small- and medium-sized enterprise, (i) the enterprise's total assets at the end of the immediately preceding fiscal year must be less than ₩500 billion, (ii) the enterprise must meet the standards prescribed by the Presidential Decree in relation to the average and total annual sales revenues applicable to the type of its main business, and (iii) the enterprise must meet the standards of management independence from ownership as prescribed by the Presidential Decree, including non-membership in a conglomerate as defined in the Monopoly Regulations and Fair Trade Act. However, if any entity which was a small- and medium-sized enterprise as defined in the SME Basic Act prior to the latest amendment no longer meets such definition following such amendment, such entity will be deemed a small- and medium-sized enterprise for purposes of the SME Basic Act until March 31, 2018. Non-profit enterprises with a number of regular employees not exceeding 300 or revenue of less than ₩30 billion that satisfy certain requirements prescribed in the Basic Act on Small- and

Medium-sized Enterprises and its Presidential Decree may qualify as a small- and medium-sized enterprise. Furthermore, cooperatives and federations of cooperatives as prescribed by the Presidential Decree are deemed as small- and medium-sized enterprises, effective from April 15, 2014. As of December 31, 2015, we made loans to 245,947 small- and medium-sized enterprises for an aggregate amount of ₩67,336 billion (before allowance for loan losses and deferred loan origination costs and fees).

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We believe that Shinhan Bank, whose traditional focus has been on small- and medium-sized enterprises lending, is well-positioned to succeed in the small- and medium-sized enterprises market in light of its marketing capabilities (which we believe have provided Shinhan Bank with significant customer loyalty) and its prudent risk management practices, including conservative credit rating systems for credit approval. To maintain or increase its market share of small- and medium-sized enterprises lending, Shinhan Bank:

has accumulated a market-leading expertise and familiarity as to customers and products. We believe Shinhan Bank has an in-depth understanding of the credit risks embedded in this market segment and to develop loan and other products specifically tailored to the needs of this market segment;

operates a relationship management system to provide customer service that is tailored to small-and medium-sized enterprises. Shinhan Bank currently has relationship management teams in 190 banking branches, of which two are corporate banking branches and 188 are hybrid banking branches designed to serve both retail customers and, to a limited extent, corporate customers. These relationship management teams market products, and review and approve smaller loans with less credit risks; and

continues to focus on cross-selling loan products with other products. For example, when Shinhan Bank lends to small- and medium-sized enterprises, it also explores opportunities to cross-sell retail loans or deposit products to the employees of these enterprises or to provide financial advisory services.

Large Corporate Banking

Large corporate customers consist primarily of member companies of *chaebols* and financial institutions. Our large corporate loans amounted to ₩33,742 billion (before allowance for loan losses and deferred loan origination costs and fees) as of December 31, 2015. Large corporate customers tend to have better credit profiles than small- and medium-sized enterprises, and accordingly, Shinhan Bank has expanded its focus on these customers as part of its risk management policy.

Shinhan Bank aims to be a one-stop financial solution provider that also partners with its corporate clients in their corporate expansion and growth endeavors. To that end, Shinhan Bank provides a wide range of corporate banking services, including investment banking, real estate financing, overseas real estate project financing, large development project financing, infrastructure financing, structured financing, equity investments/venture investments, mergers and acquisitions consulting, securitization and derivatives services, including securities and derivative products and foreign exchange trading. Shinhan Bank, through Shinhan Asia Limited, a subsidiary in Hong Kong, also arranges financing for, and offers consulting services to, Korean companies expanding their business overseas, particularly in Asia.

Electronic Corporate Banking

Shinhan Bank offers to corporate customers a web-based total cash management service known as Shinhan Bizbank. Shinhan Bizbank supports substantially all types of banking transactions ranging from basic transaction history inquiries and fund transfers to opening letters of credit, trade finance, payment management, collection management, sales settlement service, acquisition settlement service, business-to-business settlement service, sweeping, pooling, ERP interface service, host-to-host banking solutions, SWIFT SCORE service and global cash and liquidity management service. In addition, Shinhan Bank provides customers with integrated and advanced access to its

financial services through its Inside Bank program, which combines Internet banking, capital management services and enterprise resource planning to better serve corporate customers. The Inside Bank program also seeks to provide customized financial services to meet the comprehensive needs of target corporate customers ranging from conglomerates to small enterprises in various industries, with the goal of enhancing convenience to our corporate customers in accessing our financial services as well as assisting them to strategically manage their funds.

Table of Contents*Corporate Lending Activities*

Our principal loan products for corporate customers are working capital loans and facilities loans. Working capital loans, which include discounted notes and trade financing, are generally loans used for general working capital purposes. Facilities loans are provided to finance the purchase of equipment and construction of manufacturing plants. As of December 31, 2015, working capital loans and facilities loans amounted to ₩57,093 billion and ₩39,803 billion, respectively, representing 58.9% and 41.1% of our total Won-denominated corporate loans. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three years in the case of unsecured loans and five years in the case of secured loans. Facilities loans have a maximum maturity of 10 years, are typically repaid in semiannual installments per annum and may be entitled to a grace period not exceeding one-third of the loan term with respect to the first repayment; facilities loans with a term of three years or less may be paid in full at maturity.

Loans to corporations may be unsecured or secured by real estate, deposits or guaranty certificates. As of December 31, 2015, secured loans and guaranteed loans (including loans secured by guaranty certificates issued by credit guarantee insurance funds) accounted for 58.7% and 10.3%, respectively, of our Won-denominated loans to small- and medium-sized enterprises. As of December 31, 2015, 47.1% of the corporate loans were secured by real estate.

When evaluating whether to extend loans to corporate customers, Shinhan Bank reviews their creditworthiness, credit score, value of any collateral and/or third party guarantee. The value of collateral is computed using a formula that takes into account the appraised value of the collateral, any prior liens or other claims against the collateral and an adjustment factor based on a number of considerations including, with respect to property, the average value of any nearby property sold in a court-supervised auction during the previous year. Shinhan Bank revalues collateral when a secured loan is renewed or if a trigger event occurs with respect to the loan in question.

Pricing

Shinhan Bank determines the price for its corporate loan products based principally on their respective cost of funding and the expected loss rate based on the borrower's credit risk. As of December 31, 2015, 51.9% of Shinhan Bank's corporate loans with outstanding maturities of one year or more had variable interest rates as determined by the applicable market rates.

More specifically, interest rates on Shinhan Bank's corporate loans are generally determined as follows:

Interest rate = (Shinhan Bank's periodic market floating rate *or* reference rate) *plus* transaction cost *plus* credit spread *plus* risk premium *plus or minus* discretionary adjustment.

Depending on the market condition and the agreement with the borrower, Shinhan Bank may use either its periodic market floating rate or the reference rate as the base rate in determining the interest rate for the borrower. As of December 31, 2015, Shinhan Bank's periodic market floating rates (which are based on a base rate determined for a three-month, six-month, one-year, two-year, three-year or five-year period, as applicable, as derived using Shinhan Bank's market rate system) were 1.67% for three months, 1.69% for six months, 1.73% for one year, 1.78% for two years, 1.84% for three years and 2.02% for five years. As of the same date, Shinhan Bank's reference rate was 5.75%. The reference rate refers to the base lending rate used by Shinhan Bank and is determined annually by Shinhan Bank's Asset & Liability Management Committee based on, among others, Shinhan Bank's funding costs, cost efficiency ratio and discretionary margin.

Transaction cost reflects the standardized transaction cost assigned to each loan product and other miscellaneous costs, including contributions to the Credit Guarantee Fund, and education taxes. The Credit Guarantee Fund is a statutorily created entity that provides credit guarantees to loans made by commercial banks and is funded by mandatory contributions from commercial banks in the amount of approximately 0.35% of all loans (excluding certain loans such as facility loans) made by them.

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The credit spread is added to the periodic floating rate to reflect the expected loss based on the borrower's credit rating and the value of any collateral or payment guarantee. In addition, Shinhan Bank adds a risk premium which takes into account the potential of unexpected loss that may exceed the expected loss from the credit rating assigned to a particular borrower.

A discretionary adjustment rate is added or subtracted to reflect the borrower's current and/or future contribution to Shinhan Bank's profitability. If additional credit is provided by way of a guarantee, the adjustment rate is subtracted to reflect such change in the credit spread. In addition, depending on the price and other terms set by competing banks for similar borrowers, Shinhan Bank may reduce the interest rate to compete more effectively with other banks.

International Business

Shinhan Bank also engages in treasury and investment activities in international capital markets, principally including foreign currency-denominated securities trading, foreign exchange trading and services, trade-related financial services, international factoring services and foreign banking operations through its overseas branches and subsidiaries. Shinhan Bank aims to become a leading bank in Asia and expand its international business by focusing on further bolstering its overseas network, localizing its overseas operations and diversifying its product offerings, particularly in terms of asset management, in order to meet the various financing needs of its current and potential customers overseas.

Other Banking Services

Other banking businesses carried on by Shinhan Bank include treasury business (including internal asset and liability management and other non-deposit funding activities), trading of, and investment in, debt securities and, to a lesser extent, equity securities for its own accounts, derivative trading activities, as well as managing back-office functions.

Treasury

Shinhan Bank's treasury division provides funds to all of Shinhan Bank's business operations and ensures the liquidity of its operation. To secure stable long-term funds, Shinhan Bank uses fixed and floating rate notes, debentures, structured financing, and other advanced funding methods. As for overseas funding, Shinhan Bank closely monitors the feasibility of raising funds in currencies other than the U.S. Dollar, such as the Japanese Yen and the Euro. In addition, Shinhan Bank makes call loans and borrows call money in the short-term money market. Call loans are short-term lending among banks and financial institutions in either Korean Won or foreign currencies with a minimum transaction amount of ₩100 million and maturities of typically one day.

Securities Investment and Trading

Shinhan Bank invests in and trades securities for its own accounts in order to maintain adequate sources of liquidity and to generate interest income, dividend income and capital gains. Shinhan Bank's trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Korean government agencies, local governments or certain government-invested enterprises, debt securities issued by financial institutions and equity securities listed on the KRX KOSPI Market and KRX KOSDAQ Market of the Korea Exchange. For a detailed description of our securities investment portfolio, see Description of Assets and Liabilities Investment Portfolio.

Derivatives Trading

Shinhan Bank provides to its customers, and to a limited extent, trades for its proprietary accounts, a range of derivatives products, which include:

interest rate swaps, options, and futures relating to Korean Won interest rate risks and LIBOR risks, respectively;

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cross-currency swaps, largely for Korean Won against U.S. Dollars, Japanese Yen and Euros;

equity and equity-linked options;

foreign currency forwards, options and swaps;

commodity forwards, swaps and options;

credit derivatives; and

KOSPI 200 indexed equity options.

Shinhan Bank's outstanding derivatives commitments in terms of notional amount were ~~₩122,842 billion~~, ~~₩106,498 billion~~ and ~~₩132,785 billion~~ in 2013, 2014 and 2015, respectively. Such derivative operations generally focus on addressing the needs of Shinhan Bank's corporate clients to enter into derivatives contracts to hedge their risk exposure and entering into back-to-back derivatives to hedge Shinhan Bank's risk exposure that results from such client contracts.

Shinhan Bank also enters into derivative contracts to hedge the interest rate and foreign currency risk exposures that arise from its own assets and liabilities. See [Description of Assets and Liabilities](#) - Derivatives.

Trust Account Management Services

Overview

Shinhan Bank's trust account management services involve management of trust accounts, primarily in the form of money trusts. Trust account customers are typically individuals seeking higher rates of return than those offered by bank account deposits. Because deposit reserve requirements do not apply to deposits held in trust accounts as opposed to deposits held in bank accounts, and regulations governing trust accounts tend to be less strict, Shinhan Bank is generally able to offer higher rates of return on trust account products than on bank deposit products. However, in recent years, due to the ongoing low interest environment, Shinhan Bank has not been able to offer attractive rates of return on its trust account products.

Trust account products generally require higher minimum deposit amounts than those required by comparable bank account deposit products. Unlike bank deposit products, deposits in trust accounts are invested primarily in securities (consisting principally of debt securities and beneficiary certificate for real estate financing) and, to a lesser extent, in loans, as the relative shortage of funding sources require that trust accounts be invested in a higher percentage of liquid assets.

Under the Banking Act, the Financial Investment Services and Capital Markets Act and the Trust Act, assets in trust accounts are required to be segregated from other assets of the trustee bank and are unavailable to satisfy the claims of the depositors or other creditors of such bank. Accordingly, trust accounts that are not guaranteed as to principal (or as to both principal and interest) are accounted for and reported separately from the bank accounts. See [Supervision and Regulation](#). Trust accounts are regulated by the Trust Act and the Financial Investment Services and Capital Markets

Act, and most national commercial banks offer similar trust account products. Shinhan Bank earns income from trust account management services, which is recorded as net trust management fees.

As of December 31, 2013, 2014 and 2015, Shinhan Bank had total trust assets of ₩26,342 billion, ₩30,986 billion, and ₩37,304 billion respectively, comprised principally of securities investments of ₩5,195 billion, ₩6,239 billion, and ₩7,688 billion respectively; real property investments of ₩4,723 billion, ₩5,913 billion, and ₩7,576 billion respectively; and loans with an aggregate principal amount of ₩466 billion, ₩434 billion, and ₩454 billion respectively. Securities investments consisted of corporate bonds, government-related bonds and other securities, primarily commercial paper. As of December 31, 2013, 2014 and 2015, debt securities

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accounted for 18.3%, 18.9% and 19.2%, respectively, and equity securities constituted 1.4%, 1.3% and 1.4%, respectively, of Shinhan Bank's total trust assets. Loans made by trust accounts are similar in type to those made by bank accounts, except that they are made only in Korean Won. As of December 31, 2013, 2014 and 2015, approximately 54.5%, 57.9% and 53.3%, respectively, of the amount of loans from the trust accounts were collateralized or guaranteed. In making investment from funds received for each trust account, each trust product maintains investment guidelines applicable to each such product which set forth, among other things, company-, industry- and security-specific limitations.

Trust Products

In Korea, trust products typically take the form of money trusts, which are discretionary trusts over which (except in the case of a specified money trust) the trustees have investment discretion subject to applicable law and is commingled and managed jointly for each type of trust account. The specified money trusts are established on behalf of customers who give specific directions as to how their trust assets should be invested.

Money trusts managed by Shinhan Bank's trust account business amounted to ~~₩16,830 billion~~, ~~₩19,591 billion~~ and ~~₩24,093 billion~~ as of December 31, 2013, 2014 and 2015, respectively.

Shinhan Bank offers variable rate trust products through its retail branch network. As of December 31, 2013, 2014 and 2015, Shinhan Bank's variable rate trust accounts amounted to ~~₩13,531 billion~~, ~~₩16,121 billion~~ and ~~₩20,443 billion~~, respectively, of which principal guaranteed variable rate trust accounts amounted to ~~₩3,298 billion~~, ~~₩3,469 billion~~ and ~~₩3,649 billion~~, respectively. Variable rate trust accounts offer their holders variable rates of return on the principal amount of the deposits in the trust accounts and do not offer a guaranteed return on the principal of deposits, except in the limited cases of principal guaranteed variable rate trust accounts, for which payment of the principal amount is guaranteed. Shinhan Bank charges a lump sum or a fixed percentage of the assets held in such trusts as a management fee, and, depending on the trust products, is also entitled to additional fees in the event of early termination of the trusts by the customer. Korean banks, including Shinhan Bank, are currently allowed to guarantee the principal of the following types of variable rate trust account products: (i) existing individual pension trusts, (ii) new individual pension trusts, (iii) existing retirement pension trusts, (iv) new retirement pension trusts, (v) pension trusts and (vi) employee retirement benefit trusts. Shinhan Bank also offers an insignificant amount of guaranteed fixed rate trust products (amounting to ~~₩1.0 billion~~, ~~₩1.0 billion~~ and ~~₩1.0 billion~~ as of December 31, 2013, 2014 and 2015, respectively), which provide to its holders a guaranteed return of the principal as well as a guaranteed fixed rate of return. These products are carry-overs from past offerings, and Shinhan Bank no longer offers guaranteed fixed rate trust products.

*Credit Card Services**Products and Services*

We currently provide our credit card services principally through our credit card subsidiary, Shinhan Card, and to a limited extent, Jeju Bank.

Shinhan Card offers a wide range of credit card and other services, principally consisting of the following:

credit card services, which involve providing cardholders with credit up to a preset limit to purchase products and services. Repayment for credit card purchases may be made either (i) on a lump-sum basis,

namely, in full at the end of a monthly billing cycle or (ii) on a revolving basis subject to a minimum monthly payment. The minimum monthly payment for holders of credit cards issued before December 30, 2014 is the lesser of (x) 5% to 20% of the amount outstanding (depending on the cardholder's credit) or (y) ₩30,000. The minimum monthly payment for holders of credit cards issued on or after December 30, 2014 is the lesser of (x) 10% to 20% of the amount outstanding (depending on the cardholder's credit) or (y) ₩50,000. Currently, the outstanding credit card balance subject to the revolving basis payments generally accrues interest at the effective annual rates of approximately 5.44% to 24.94%.

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cash advances, which enable the cardholders to withdraw cash subject to a preset limit from an ATM machine or a bank branch. Repayments for cash advances may be made either on a lump-sum basis or, in the case of credit cards issued before December 30, 2014, on a revolving basis. Currently, the lump-sum cash advances generally accrue interest at the effective annual rates of approximately 6.14% to 26.64% and the revolving cash advances generally accrue interest at a minimum rate of (x) 5% to 20% of the outstanding balance (depending on the cardholder's credit) or (y) ₩30,000.

installment purchases, which provide customers with an option to purchase products and services from select merchants on an installment basis for which repayments must be made in equal amounts over a fixed term generally ranging from two months to 24 months, and for certain limited types of cards, up to 36 months. Currently, the outstanding installment purchase balances generally accrue interest at the effective annual rates of approximately 9.5% to 20.9%.

card loans, which enable cardholders to receive, up to a preset limit, a loan which is generally unsecured. Repayment of card loans is made generally by (i) repaying principal and interest in equal amounts on an installment basis over a fixed term of two to 36 months, (ii) repaying the principal and interest amounts in full at maturity, or (iii) making interest-only payments during the initial grace period of either three months or six months and repaying the principal and interest amounts on a monthly installment basis over the remaining period of typically two to 30 months. Currently, the outstanding card loan balances generally accrue interest at the effective annual rates of approximately 6.3% to 24.7%. Delinquent credit card receivables can also be restructured into loans, which we classify as card loans, and these loans generally accrue interest at the effective annual rates of approximately 17.0% to 27.8% over a fixed term whose maximum is 72 months.

Shinhan Card derives revenues from annual membership fees paid by credit cardholders, interest charged on credit card balances, fees and interest charged on cash advances and card loans, interest charged on late and deferred payments and merchant fees paid by retail and service establishments. Merchant fees and interest on cash advances constitute the largest source of revenue.

The annual membership fees for credit cards vary depending on the type of credit card and the benefits offered thereunder. For standard credit cards and most of the affinity and co-branded cards, Shinhan Card charges an annual membership fee ranging from ₩2,000 to ₩1,000,000 per credit card, depending on the type of the card and the cardholder profile. Certain government affinity cards have no annual membership fee. If Shinhan Card's customers make cash advances using ATMs of a financial institution other than Shinhan Card, Shinhan Card also charges a usage fee for such cash advances in an amount equivalent to the fees charged by such financial institution for the use of its ATM plus costs to cover Shinhan Card's related administration expenses.

Any accounts that are unpaid when due are deemed to be delinquent accounts, for which Shinhan Card levies a late charge in lieu of the interest rates applicable prior to default. The late charge rate currently ranges from 23.0% to 27.9% per annum.

Merchant discount fees, which are processing fees Shinhan Card charges to merchants, can be up to the regulatory limit of 2.5% of the purchased amount depending on the merchant used, with the average charge for credit cards being 1.85% in 2015. For small- and medium-sized merchants, the applicable regulations impose reduced fee rates of 0.8% (in the case of merchants with annual sales of ₩200 million or less) and 1.3% (in the case of merchants with annual sales of more than ₩200 million and up to ₩300 million), respectively, of the purchased amount.

Although making payments on a revolving basis is more common in many other countries, this payment method is still in its early stages of development in Korea. Cardholders in Korea are generally required to repay their purchases within approximately 14 to 44 days of purchase depending on their payment cycle, except in the case of installment purchases where the repayment term is typically three to six months. Accounts that remain

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unpaid after this period are deemed to be delinquent, and Shinhan Card levies late charges on and closely monitors such accounts. For purchases made on an installment basis, Shinhan Card charges interest on unpaid amounts at rates that vary according to the terms of repayment.

Cardholders are required to settle their outstanding balances in accordance with the terms of the credit cards they hold. Cardholders are required to select the monthly settlement date when they open the credit card account and may subsequently change the settlement but no more than once every two months. Settlement dates at or around the end of each month are the most popular since salaries are typically paid at the end of the month.

In addition to credit card services, Shinhan Card also offers check cards, which are similar to debit cards in the United States and many other countries, to retail and corporate customers. A check card can be used at any of the merchants that accept credit cards issued by Shinhan Card and the amount charged to a check card is directly debited from the cardholder's designated bank account. Check cards have a low risk of default and involve minimal funding costs. Although Shinhan Card does not charge annual membership fees on check cards, merchants are charged fees on the amount purchased using check cards at a rate between 0.50% and 2.50%, depending on the type of business, which is lower than the corresponding fee charged for credit card use.

Credit Card Products

Shinhan Card offers a wide range of credit card products tailored for credit cardholders' lives and to satisfy their preferences and needs. Credit card products offered by Shinhan Card include:

cards that provide additional benefits such as frequent flyer miles and reward program points that can be redeemed by the customer for complementary services, prices and cash;

platinum cards and other preferred membership cards, which have higher credit limits and provide additional services in return for higher annual membership fees;

cards with additional features to preferred customers, such as revolving credit cards, travel services and insurance;

cards with fraud detection and security systems to prevent the misuse of credit cards and to encourage the use of credit cards over the Internet;

corporate and affinity cards that are issued to employees or members of particular companies or organizations; and

mobile phone cards allowing customers to conduct wireless credit card transactions through their mobile phones.

Customers and Merchants

In addition to internal growth through cross-selling, we seek to enhance our market position by selectively targeting new customers with high net worth and solid credit quality through the use of a sophisticated and market-oriented risk management system. We also seek to provide a wide variety of differentiated products and services tailored to our customers' individualized needs through precision analysis and customer segmentation based on the big data we have compiled on our approximately 22 million customers. We have also formed a team dedicated to the fintech business by actively pursuing technology developments and strategic alliances with key partners. Shinhan Card screens its credit card applicants and sets individualized credit limits for such applicants according to internal guidelines based on a comprehensive credit scoring system.

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The following table sets forth the number of customers of Shinhan Card and the number of merchants at which Shinhan Card can be used for purchases as of the dates indicated.

	As of December 31,		
	2013	2014	2015
	(In thousands, except percentages)		
Shinhan Card:			
Number of credit card holders ⁽¹⁾	13,493	12,578	12,163
Personal accounts	13,385	12,468	12,052
Corporate accounts	108	110	111
Active ratio ⁽²⁾	93.7%	97.1%	97.9%
Number of merchants	2,392	2,491	2,513

Notes:

- (1) Represents the number of cardholders whose card use is not subject to suspension or termination as of the relevant date.
- (2) Represents the ratio of accounts used at least once within the last six months to the total accounts as of year-end.

Installment Finance

Shinhan Card provides installment finance services to customers to facilitate purchases of durable consumer goods such as new and used cars, appliances, computers and other home electronics products. Revenues from installment finance operations accounted for 2.0% of Shinhan Card's total operating revenue in 2015. Shinhan Card pays the merchants when Shinhan Card's customers purchase such goods, and the customers remit monthly installment payments to Shinhan Card over a number of months, generally up to 36 months (and, in the case of installment financings for automobile purchases, up to 72 months), as agreed with the customers. For installment finance products for new cars, Shinhan Card historically charged, in addition to interest, an initial financing fee of up to 9.9% of the purchase price, depending on the customer's credit score, the installment period and installment amount. Initial financing fees charged in connection with installment finance products for new cars, however, were abolished effective March 2, 2013 pursuant to the Financial Consumer Report (Automobile Financings) issued by the Financial Supervisory Service on January 29, 2013. Shinhan Card has installment financing arrangements with over 10,000 merchants in Korea, including major car dealers, manufacturers and large retailers with nationwide networks, such as electronics goods stores.

Shinhan Card promptly processes installment financing applications and, based on the extensive credit information it possesses or can access, it is able to offer flexible installment payment terms tailored to individual needs of the customers. Shinhan Card also devotes significant efforts to developing and maintaining its relationships with merchants, which are the most important source of referrals for installment finance customers. Shinhan Card makes prompt payments to merchants for goods purchased by the installment finance customers.

Auto Lease

Shinhan Card currently provides auto leasing financing to retail customers and corporations. Revenues from auto lease operations accounted for 0.8% of Shinhan Card's total operating revenue in 2015.

Securities Brokerage Services

Overview

Through Shinhan Investment, we provide a wide range of financial investment services to our diversified customer base including corporations, institutional investors, governments and individuals. Financial investment

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services offered by Shinhan Investment range from securities brokerage services, investment advice and financial planning services, and investment banking services such as underwriting and M&A advisory services. Subject to market conditions, Shinhan Investment also engages in equity- and stock index-linked derivatives sales and brokerage, proprietary trading and brokerage services for futures involving interest rates, currency and commodities as well as foreign exchange margin trading.

As of December 31, 2015, according to internal data, Shinhan Investment's annual market share of Korean equity brokerage market was 5.92% (consisting of 2.83% in the retail segment, 0.58% in the institutional segment and 2.51% in the international segment) in terms of total brokerage volume, ranking third among securities firms in Korea. As of the same date, according to internal data, Shinhan Investment held the second largest annual market share in the options brokerage segment and the third largest annual market share in the KOSPI 200 futures segment of 5.90% and 5.69%, respectively, in terms of total brokerage volume with respect to these products.

Products and Services

Shinhan Investment provides principally the following services:

retail client services. These services include equity and bond brokerage, investment advisory and financial planning services to retail customers, with a focus on high net worth individuals. The fees generated include brokerage commissions for the purchase and sale of securities, asset management fees, interest income from credit extensions (including in the form of stock subscription loans), margin transaction loans and loans secured by deposited securities.

institutional client services:

brokerage services. These services include brokerage of stocks, corporate bonds, futures and options provided to Shinhan Investment's institutional and international customers and sale of institutional financial products. These services are currently supported by a team of approximately 82 research analysts that specialize in equity, bonds and derivatives research.

investment banking services. These services include a wide array of investment banking services to Shinhan Investment's corporate customers, such as domestic and international initial public offerings, mergers and acquisitions advisory services, bond issuances, underwriting, capital increase, asset-backed securitizations, issuance of convertible bonds and bonds with warrants, structured financing, issuance of asset-backed commercial papers and project financings involving infrastructure, real estate and shipbuilding.

Shinhan Investment also engages, to a limited extent, in proprietary trading in equity and debt securities, derivative products and over-the-counter market products.

With respect to brokerage services, in the face of intense competition in the domestic brokerage industry, Shinhan Investment primarily focuses on strengthening profitability through service differentiation and efficient management of its distribution network rather than enlarging its market share indiscriminately through lowering fees and commissions. Shinhan Investment's service differentiation efforts include offering its customers opportunities to

purchase stocks in a wide range of countries (currently more than 25 countries), leveraging synergy opportunities afforded by affiliation with other Shinhan entities such as offering brokerage accounts maintained at Shinhan Bank and Shinhan Capital.

With respect to investment banking services, Shinhan Investment concentrates on equity capital markets, debt capital markets, project finance and mergers and acquisitions. To a limited extent, Shinhan Investment also engages in private equity investments through formation of private equity funds by soliciting investors on a private placement basis. To better serve its international customers, Shinhan Investment has established three overseas service centers in Hong Kong, New York and Vietnam. In July 2015, we acquired a 100% stake in Nam An Securities, a Vietnamese securities services firm that provides investment banking and asset management services.

Table of Contents***Life Insurance Services***

We provide life insurance products and services primarily through Shinhan Life Insurance. Shinhan Life Insurance provides its services through diversified distribution channels consisting of financial planners, telemarketers, agency marketers and bancassurance specialists. As of December 31, 2013, 2014 and 2015, Shinhan Life Insurance had total assets of ₩19,379 billion, ₩21,940 billion and ₩24,545 billion and net profits of ₩76 billion, ₩81 billion and ₩100 billion, respectively. In 2016, we expect the life insurance industry to continue to be adversely affected by recent unfavorable changes in applicable regulations, such as the lowering of the cap on deferral of expenses incurred in connection with new insurance contracts, which regulations were implemented in 2013, and to the extent the low interest rate environment persists, we expect Shinhan Life Insurance to experience limited growth, if any, in net profit.

Other Services

Through our other subsidiaries, we also provide asset management, leasing and equipment financing, regional banking, savings banking, loan collection and credit reporting, collective investment administration and financial system development services. Through Shinhan Private Equity (in addition to Shinhan Investment), we are also engaged in private equity investments through formation of private equity funds by soliciting investors on a private placement basis.

Asset Management Services

In addition to personalized wealth management services provided as part of our private banking and securities brokerage services, we also provide asset management services through Shinhan BNP Paribas Asset Management, a joint venture with BNP Paribas Investment Partners, of which we and BNP Paribas Investment Partners hold 65:35 interests, respectively. Shinhan BNP Paribas Asset Management ranked fifth among asset managers in Korea in terms of assets under management as of December 31, 2015, and provides a wide range of investment products, including traditional equity/fixed income funds as well as alternative investment products, to retail and institutional clients. As a joint venture with BNP Paribas Investment Partners, we believe Shinhan BNP Paribas Asset Management derives significant benefits from BNP Paribas's global network of investment professionals and expertise in the asset management industry. As of December 31, 2015, Shinhan BNP Paribas Asset Management had assets under management amounting to approximately ₩37,808 billion. To a limited extent, Shinhan Investment also provides asset management services for discretionary accounts, see Securities Brokerage Services.

In 2016, we expect the activity level in the asset management industry, including fund formation activities, to remain similar to 2015 due to uncertainties surrounding the domestic and international economy. The sustained low interest rate environment and continuing sluggishness in the general economy has led to lower expected returns for financial investments, and we therefore do not expect a significant increase in investments in domestic equity/fixed income funds and other traditional investment products. However, we expect an increased interest in globally diversified investment portfolios due to an increasing demand for broader asset allocation amidst continuing uncertainty in the financial markets.

Leasing and Equipment Financing

We provide leasing and equipment financing services to our corporate customers mainly through Shinhan Capital. Shinhan Capital provides customers with leasing, installment financing and new technology financing, equipment leasing, and corporate credit financing. Shinhan Capital's strength has traditionally been in leasing of ships, printing machines, automobiles and other specialty items, but it also offers other leasing and financing services, such as corporate restructuring services for financially troubled companies, project financing for real estate and infrastructure

development, corporate leasing and equipment financing.

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Regional Banking

We provide regionally focused commercial banking services, primarily in Jeju Island of Korea, through a majority-owned banking subsidiary, Jeju Bank. Jeju Bank provides retail banking, corporate banking, treasury and trust account management services through a network of 38 branches as of December 31, 2015.

Savings Banking

Through Shinhan Savings Bank, we provide savings banking services in accordance with the Mutual Savings Bank Act to customers that generally would not, due to their credit profile, qualify for our commercial banking services or who seek higher returns on their deposits than those offered by our commercial banking subsidiaries. Established in December 2011, Shinhan Savings Bank offers savings and other deposit products with relatively higher interest rates and loans (usually in relatively small amounts and on customer-tailored terms and including loans for which we receive credit support from the Government) primarily to small- to medium-sized enterprises and low income households who would not generally qualify for our commercial banking services. Shinhan Savings Bank has assumed the assets and liabilities of Tomato Savings Bank, which we acquired in January 2012, and has merged into Yehanbyoul Savings Bank, which we acquired in March 2013, with Yehanbyoul Savings Bank as the surviving entity with its name changed to Shinhan Savings Bank. Both Tomato Savings Bank and Yehanbyoul Savings Bank were facing liquidity troubles due to difficulties in the real estate project financing business as a result of the prolonged slump in the Korean real estate market at the time we acquired them. We closely monitor the business activities and product offerings of Shinhan Savings Bank to ensure its financial soundness.

Loan Collection and Credit Reporting

We centralize credit collection and credit reporting operations for our subsidiaries through Shinhan Credit Information Co. Ltd., which also provides similar services to third party customers. Shinhan Credit Information's services include debt collection, credit inquiries, credit reporting, civil application/petition services and process agent services, among others. Shinhan Credit Information also manages participants in credit recovery programs and provides support to the Kookmin Happy Fund, which is a Government-established fund that supports retail borrowers with low credit scores by purchasing defaulted loans from creditors or providing credit guarantees to enable such borrowers to refinance at lower rates.

Collective Investment Administration Services

We provide integrated collective investment administration services through Shinhan AITAS Co., Ltd. Shinhan AITAS provides general management service, asset management systems, accounting systems and trading systems to asset management companies and institutional investors. The target customers for these collective investment administration services are asset managers, investment advisors and institutional investors, and Shinhan AITAS seeks to provide a comprehensive service package including the computation of the reference value for funds, evaluation of fund performance, provision of trading systems and fund-related legal administrative services.

Private Equity

To a limited extent, through Shinhan Private Equity, we are also engaged in private equity investments through formation of private equity funds. The private equity funds receive funding from investors on a private placement basis, which funds are then invested in equity securities in companies for a variety of reasons, including management control, business turnaround or corporate governance improvements.

Financial System Development Services

We provide financial system development services through Shinhan Data Systems, which offers system integration, system management, IT outsourcing, business process outsourcing and IT consulting services.

Table of Contents**Our Distribution Network**

We offer a wide range of financial services to retail and corporate customers through a variety of distribution networks and channels established by our subsidiaries. The following table presents the geographical distribution of our distribution network based on the branch offices and other distribution channels of our principal subsidiaries, as of December 31, 2015.

<i>Distribution Channels in Korea</i> ⁽¹⁾	Shinhan Bank	Jeju Bank	Shinhan Card	Shinhan Investment	Shinhan Life Insurance	Total
Seoul metropolitan	371	2	6	54	50	483
Gyeonggi province	200		4	18	33	255
Six major cities:	169	1	7	22	52	251
Incheon	56		1	3	15	75
Busan	39	1	2	6	14	62
Gwangju	13		1	3	8	25
Daegu	28		1	4	6	39
Ulsan	13		1	3	2	19
Daejeon	20		1	3	7	31
Sub-total	740	3	17	94	135	989
Others	159	35	11	14	52	271
Total	899	38	28	108	187	1,260

Note:

(1) Includes our main office and those of our subsidiaries.

Banking Service Channels

Our banking services are primarily provided through an extensive branch network, specializing in retail and corporate banking services, as complemented by self-service terminals and electronic banking, as well as an overseas services network.

As of December 31, 2015, Shinhan Bank's branch network in Korea comprised of 900 service centers, consisting of our headquarters, 668 retail banking service centers, nine corporate banking service centers primarily designed to serve large corporate customers and 222 hybrid banking branches designed to serve retail as well as small-business corporate customers. Shinhan Bank's banking branches are designed to provide one-stop banking services tailored to their respective target customers.

Retail Banking Channels

In Korea, many retail transactions are conducted in cash or with credit cards, and conventional checking accounts are generally not offered or used as widely as in other countries such as the United States. An extensive retail branch network has traditionally played an important role as the main platform for a wide range of banking transactions. However, a growing number of customers are turning to other service channels to meet their banking needs, such as Internet banking, mobile banking and other forms of non-face-to-face platforms. In response to such changes, Shinhan Bank has recently been focused on reorganizing its retail branch network, including shifting, merger or closure of certain branches that are considered redundant.

Recently, one of the key initiatives at Shinhan Bank has been to target high net worth individuals through private banking. Our private banking services are provided principally through private banking relationship managers who, within target customer groups, assist clients in developing individual investment strategies. We

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believe that such relationship managers help us foster enduring relationships with our clients. Private banking customers also have access to Shinhan Bank's retail branch network and other general banking products Shinhan Bank offers through its retail banking operations.

Corporate Banking Channels

Shinhan Bank currently provides corporate banking services through corporate banking service centers primarily designed to serve large corporate customers and hybrid banking branches designed to serve retail as well as small-business corporate customers. Small- and medium-sized enterprises have traditionally been Shinhan Bank's core corporate customers and we plan to continue to maintain Shinhan Bank's strength vis-à-vis these customers.

Self-Service Terminals

In order to complement its banking branch network, Shinhan Bank maintains an extensive network of automated banking machines, which are located in branches and in unmanned outlets. These automated banking machines consist of ATMs, cash dispensers and passbook printers. In December 2015, Shinhan Bank introduced a new generation of automated self-service machines called digital kiosks, which are currently being test-run at 17 branches in the Seoul metropolitan area. These digital kiosks feature biometric authentication technology and can perform a wide range of services that are unavailable through traditional ATMs, such as opening new accounts, issuance of debit and check cards, foreign currency exchange and overseas remittance of foreign currency. As of December 31, 2015, Shinhan Bank had 6,816 ATMs, three cash dispensers and 24 digital kiosks. Shinhan Bank has actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. In 2015, automated banking machine transactions accounted for a substantial portion of total deposit and withdrawal transactions of Shinhan Bank in terms of the number of transactions and fee revenue generated, respectively.

Electronic Banking

Shinhan Bank's Internet banking services are more comprehensive than those available at the counter, including such services as 24 hour account balance posting, real-time account transfer, overseas remittance and loan requests. Shinhan Bank also offers mobile banking services in order to enable customers to make speedy, convenient and secure banking transactions using mobile phones. As of December 31, 2015, Shinhan Bank had approximately 15,321,000 subscribers to its Internet banking services and approximately 10,027,000 users of its smart banking apps, representing an increase of 7.1% and 16.5%, respectively, compared to December 31, 2014. Shinhan Bank continues to experience a rise in the number of online and mobile banking users. Shinhan Bank began offering online and mobile banking initially with a view to saving costs rather than increasing revenues, but is currently exploring ways to leverage the possibility of increase revenues through online and mobile banking given that these services offer customers with easier and more convenient access to banking services without limitations of time and space as well as offer tailored and customized service to each customer. In December 2015, Shinhan Bank launched Sunny Bank, a new mobile platform that is more user friendly and easier to access than the previous platform. Sunny Bank utilizes non-face-to-face identity authentication technology, which allows users to open new bank accounts, apply for loans and use other services through the Sunny Bank mobile application without having to visit a physical bank branch.

Table of Contents*Overseas Distribution Network*

The table below sets forth Shinhan Bank's overseas banking subsidiaries and branches as of December 31, 2015.

Business Unit	Location	Year Established or Acquired
<i>Subsidiaries</i>		
Shinhan Asia Ltd.	Hong Kong SAR, China	1982
Shinhan Bank Europe GmbH ⁽¹⁾	Frankfurt, Germany	1994
Shinhan Bank America	New York, U.S.A.	2003
Shinhan Bank (China) Limited	Beijing, China	2008
Shinhan Khmer Bank PLC	Phnom Penh, Cambodia	2007
Shinhan Bank Kazakhstan Limited	Almaty, Kazakhstan	2008
Shinhan Bank Canada	Toronto, Canada	2009
Shinhan Bank Japan ⁽²⁾	Tokyo, Japan	2009
Shinhan Bank Vietnam Ltd. ⁽³⁾	Ho Chi Minh City, Vietnam	2011
PT Bank Metro Express	Jakarta, Indonesia	2015
PT Centratama Nasional Bank	Surabaya, Indonesia	2015

Business Unit	Location	Year Established or Acquired
Banco Shinhan de Mexico ⁽⁴⁾	Mexico City, Mexico	2015
<i>Branches</i>		
New York	U.S.A.	1989
Singapore	Singapore	1990
London	United Kingdom	1991
Mumbai	India	1996
Hong Kong	China	2006
New Delhi	India	2006
Kancheepuram	India	2014
Pune	India	2014
Manila	Philippines	2015
Dubai	United Arab Emirates	2015
<i>Representative Offices</i>		
Mexico	Mexico City, Mexico	2008
Uzbekistan	Tashkent, Uzbekistan	2009
Myanmar	Yangon, Myanmar	2013
Poland ⁽¹⁾	Wroclaw, Poland	2014

Notes:

- (1) Shinhan Bank Europe GmbH established a representative office in Poland in 2014.
- (2) While Shinhan Bank established the subsidiary in Japan in 2009, Shinhan Bank has provided banking services in Japan through a branch structure since 1986.
- (3) Prior to the establishment of this subsidiary in 2011, Shinhan Bank provided banking services in Vietnam through a branch since 1995.
- (4) Banco Shinhan de Mexico obtained a preliminary license in August 2015. As of the date of this annual report, Banco Shinhan de Mexico's application for full business license is pending.

Currently, our overseas subsidiaries and branches are primarily engaged in trade financing and local currency funding for Korean companies and Korean nationals in the overseas markets, as well as providing

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foreign exchange services in conjunction with Shinhan Bank's headquarters. On a limited basis, these overseas branches and subsidiaries also engage in investment and trading of securities of foreign issuers. In the future, as part of our globalization efforts, we plan to expand our coverage of local customers in the overseas markets by providing a wider range of services in retail and corporate banking, and to that end, we have increasingly established subsidiaries in lieu of branches in select markets and in 2011 merged two of our Vietnam banking subsidiaries in order to enhance our presence and enable greater flexibility in its service offerings in these markets. We plan to maintain our focus on organic growth, while we may selectively pursue acquisitions in markets where it is difficult to obtain local banking licenses through greenfield entry. In furtherance of this objective, Shinhan Bank acquired a 97.8% stake in Bank Metro Express and a 75% stake in Centratama Nasional Bank, two commercial banks in Indonesia, in November and December 2015, respectively. We are currently contemplating the combination of the two banks with the goal of facilitating its penetration into the emerging Indonesian market. Shinhan Bank also opened additional branches in the Philippines and United Arab Emirates in the second half of 2015 and established a local subsidiary in Mexico in October 2015, and is planning to open an additional branch in Australia in 2016. We plan to continue our efforts to expand our overseas banking service network and global operations.

Credit Card Distribution Channels

Shinhan Card primarily uses three distribution channels to attract new credit card customers: (i) the banking and credit card branch network, (ii) sales agents, and (iii) business partnerships and affiliations with vendors.

The branch network for our credit card operations consisted of 899 branches as of December 31, 2015 of Shinhan Bank and 28 card sales branches of Shinhan Card. The use of the established distribution network of Shinhan Bank is part of the group-wide cross-selling efforts of selling credit card products to existing banking customers. In 2015, the number of new cardholders acquired through our banking distribution network accounted for approximately 23% of the total number of new cardholders. We believe that the banking distribution network will continue to provide a stable and low-cost venue for acquiring high-quality credit cardholders.

The sales agents represented the most significant source of Shinhan Card's new cardholders in 2015, and the number of new cardholders acquired through sales agents accounted for approximately 52% of the total number of Shinhan Card's new cardholders in 2015. As of December 31, 2015, Shinhan Card had 2,888 sales agents, who were independent contractors. These sales agents assist prospective customers with the application process and customer service. Compensation of these sales agents is generally tied to the transaction volume of the customers introduced by them, and we believe this system helps to enhance profitability.

As a way of acquiring new cardholders, Shinhan Card also has business partnership and affiliation arrangements with a number of vendors, including gas stations, major retailers, airlines and telecommunication and Internet service providers. Shinhan Card plans to continue to leverage its alliances with such vendors to attract new cardholders.

In November 2014, as an initial step to exploring potential opportunities overseas, Shinhan Card established its first overseas subsidiary in Kazakhstan, LLP MFO Shinhan Finance, as Kazakhstan was deemed to have relatively low entry barriers to foreign financial institutions, high growth potential for retail operations and the possibility of leveraging Shinhan Bank's network. LLP MFO Shinhan Finance, a wholly-owned subsidiary of Shinhan Card, obtained its business license in the first half of 2015 and commenced its operations in July 2015 including installment financing and credit loans. It is expected to offer additional services such as financing leases beginning in 2017.

In December 2015, Shinhan Card acquired a majority stake in PT Swadharma Indotama Finance, a multi finance company in Indonesia, and changed its legal name to PT Shinhan Indo Finance. PT Shinhan Indo Finance engages in retail operations including installment financing and financial leases and is expected to obtain its credit card business

license by the end of 2016 to offer credit card services.

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Securities Brokerage Distribution Channels

Our securities brokerage services are conducted principally through Shinhan Investment. As of December 31, 2015, Shinhan Investment had 108 service centers nationwide, and three overseas subsidiaries based in Hong Kong, New York and Vietnam to service our corporate customers.

Approximately 50% of our brokerage branches are located in the Seoul metropolitan area with a focus on attracting high net worth individual customers as well as enhancing synergy with our retail and corporate banking branch network. We plan to continue to explore new business opportunities, particularly in the corporate customer segment, through further cooperation between Shinhan Investment and Shinhan Bank.

Insurance Sales and Distribution Channels

We sell and provide our insurance services primarily through Shinhan Life Insurance. Shinhan Life Insurance, in addition to distributing bancassurance products through our bank branches, also distributes a wide range of life insurance products through its own branch network, an agency network of financial planners and telemarketers, as well as through the Internet. As of December 31, 2015, Shinhan Life Insurance had 187 branches and 11 customer support centers. These branches are staffed by financial planners, telemarketers, agent marketers and bancassurance to meet the various needs of our insurance and lending customers. Our group-wide customer support centers arrange for policy loans (namely loans secured by the cash surrender value of the underlying insurance policy) for our insurance customers and, to a limited extent, other loans to other customers, and also handle insurance payments.

Information Technology

We dedicate substantial resources to maintaining a sophisticated information technology system to support our operations management and provide high quality customer service. Our information and technology system is operated at a group-wide level based on comprehensive group-wide information collection and processing. We also operate a single group-wide enterprise information technology system known as enterprise data warehouse for customer relations management capabilities, risk management systems and data processing. We continually upgrade our group-wide information technology system in order to apply the best-in-class technology to our risk management systems to reflect the changes in our business environment as well as enhance differentiation from our competitors.

In 2013, we completed the construction of the Integrated Data Center, which is responsible for comprehensive management of information technology systems for our subsidiaries on a groupwide basis. This center ensures a stable use of a central information processing facilities for at least 15 years and is designed to maximize operational and cost efficiency as well as enhance information security by combining the various data centers previously used by our subsidiaries. All of our subsidiaries have completed relocation of their information management capabilities to this center by the first half of 2014.

In order to enhance security and trustworthiness of the financial services provided by us, we continually seek to enhance a group-wide set of standards for information security and upgrading the related systems. In 2008, we established group-wide information systems and policies, which have since been continually updated and upgraded. In 2014, we further upgraded the groupwide information security control tower to a best-in-class level and replaced most of our internal information security staff with highly qualified outside experts in order to reinforce our security defense capabilities in the event of cyber breaches. In addition, we have newly established a team within our group to provide specialized data protection and related support services to our smaller operating subsidiaries, and we take active measures to preemptively forestall any security breaches through mock trials.

At the subsidiary level, we also continue to upgrade the information technology systems for each of our subsidiaries to enhance the quality of our customer service specific to such subsidiary and thereby bolster their

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respective competitiveness, including with respect to electronic and mobile banking (including by means of smartphones), online consultation, expanded sales services and customized informational services. In addition, we have recently strengthened our indirect service channels through a major upgrade of the corporate online banking services and expansion of mobile phone-based product offerings and sales and service networks in light of the growing base of customers who increasingly access financial services through their mobile phones. We also established in April 2015 a new credit evaluation system with enhanced precision in assessing the creditworthiness of our corporate customers, which has enabled us to manage our credit risk more effectively. Furthermore, we have expanded, and will continue to expand, our information technology systems to support the sales and operational capabilities of our overseas subsidiaries and branches through a global customer management system as well as provide country-specific financial services.

The information technology system for each of our subsidiaries is currently backed up on a real-time basis. In 2014, we converted the pre-existing data center to a back-up and disaster recovery center for all our subsidiaries' operations in order to provide customer services in a continued seamless manner even in the case of an interruption at Shinhan Data Center. We believe that our centralized back-up systems enable more efficient back-up at a higher level of security.

Competition

Competition in the Korean financial services industry is, and is likely to remain, intense, including as a result of the sustained low interest rate environment (which narrows opportunities to make profit based on the spread between lending rates and funding rates), the continuing sluggishness in the general economy, the growing maturation and saturation of the industry as a whole, the entry of new market participants and deregulation, among others.

In the banking sector, Shinhan Bank competes principally with other national commercial banks in Korea, but also faces competition from a number of additional banking institutions, including branches and subsidiaries of foreign banks operating in Korea, regional banks, government-owned development banks and Korea's specialized banks, such as Korea Development Bank, the Industrial Bank of Korea and the National Association of Agriculture and Fisheries, as well as various other types of financial service providers, including savings institutions (such as mutual savings and finance companies, credit unions and credit cooperatives), investment companies (such as securities brokerage firms, merchant banking corporations and asset management companies) and life insurance companies. As of December 31, 2015, Korea had six major nationwide domestic commercial banks (including Citibank Korea Inc. and Standard Chartered Bank Korea Limited, both of which are domestic commercial banks acquired by global financial institutions), six regional commercial banks and branches and subsidiaries of 40 foreign banks. Foreign financial institutions, many of which have greater experiences and resources than we do, may continue to enter the Korean market and compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions.

In the small- and medium-sized enterprise and retail banking segments, which have been Shinhan Bank's traditional core businesses, competition is expected to increase further. In recent years, Korean banks, including Shinhan Bank, have increasingly focused on stable asset growth based on quality credit, such as corporate borrowers with high credit ratings, loans to SOHO with high levels of collateralization, and mortgage and home equity loans within the limits of the prescribed loan-to-value ratios and debt-to-income ratios. This common shift in focus toward stable growth based on less risky assets has intensified competition as banks compete for the same limited pool of quality credit by engaging in price competition or by other means, although Shinhan Bank has traditionally focused, and will continue to focus, on enhancing profitability rather than increasing asset size or market share, and has avoided, to the extent practicable, engaging in price competition by way of lowering lending rates. In addition, such competition may result in lower net interest margin and reduced overall profitability, especially if the low interest rate environment were to

continue for a significant period of time. Therefore, if competing financial institutions seek to expand market share by lowering their lending rates, Shinhan Bank may suffer customer loss, especially among customers who select their lenders principally on the

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basis of lending rates. In response thereto or for other strategic reasons, Shinhan Bank may subsequently lower its lending rates to stay competitive, which could lead to a decrease in its net interest margins and outweigh any potential positive impact on the net interest margin from a general rise in market interest rates. Any future decline in Shinhan Bank's customer base or its net interest margins could have an adverse effect on our results of operations and financial condition.

In the credit card sector, Shinhan Card competes principally with existing monoline credit card companies, credit card divisions of commercial banks, consumer finance companies, other financial institutions and, recently, credit card service providers allied with mobile telecommunications service providers in Korea. Competition has been historically intense in this sector and the market has shown signs of saturation as existing and new credit card service providers make significant investments and engage in aggressive marketing campaigns and promotions to acquire new customers and target customers with high credit quality. While competition has subsided somewhat recently due to stricter government regulations, such as curbs on excessive marketing expenses, competition remains intense and credit card issuers may continue to compete with Shinhan Card for customers by offering lower interest rates and fees, higher credit limits, more attractive promotions and incentives and alternative products such as phone cards, gift cards and low-interest consumer loan products. As a result, Shinhan Card may lose customers or service opportunities to competing credit card issuers and/or incur higher marketing expenses. In addition, the Government regulations adopted in 2012 mandating lower merchant fees chargeable to small- and medium-sized enterprises (which are subject to revision every three years) and the Government guidelines issued in 2013 suggesting lower standard interest rates for cash advances and card loans have reduced, and are likely to continue to limit, the revenues of credit card companies, including Shinhan Card. Most recently, in November 2015, the Government announced a further reduction in the merchant fees chargeable to small- and medium-sized enterprises with effect from January 31, 2016, and this is expected to place downward pressure on Shinhan Card's results of operations for 2016 and beyond. Furthermore, the Government's recent guidelines to bolster consumer protection and protect customers' personal data in the aftermath of data leaks at certain credit companies (not including Shinhan Card) may result in additional compliance costs for Shinhan Card. Customer attrition, together with any further lowering of fees or reduction in base and market interest rates and/or additional expenses from more extensive marketing and promotional campaigns that Shinhan Card might implement to acquire and retain customers, could reduce its revenues and earnings. Furthermore, the average credit quality of Shinhan Card's customers may deteriorate if customers with higher credit quality borrow from our competitors rather than Shinhan Card and it may become more difficult for Shinhan Card to attract and maintain quality customers. In general, the growth, market share and profitability of Shinhan Card's operations may decline or become negative as a result of market saturation in this sector, interest rate competition, pressure to lower fee rates and incur higher marketing expenses, as well as Government regulation and social and economic developments in Korea that are beyond our control, such as changes in consumer confidence levels, spending patterns or public perception of credit card usage and consumer debt. If Shinhan Card fails to maintain or attract new cardholders or increase the card usage by existing customers or experiences deterioration in its asset quality and a rise in delinquency, our business, financial condition and results of operations may be adversely affected.

In other financial services sectors, our other subsidiaries also compete in a highly fragmented market. Some of our competitors, particularly the major global financial institutions, have greater experience and resources than we do.

Consolidation among our rival institutions and the Government's privatization efforts may also add competition in the markets in which we and our subsidiaries conduct business. A number of significant mergers and acquisitions in the industry have taken place in Korea over the past decade, including the acquisition of Hanmi Bank by an affiliate of Citibank in 2004, Standard Chartered Bank's acquisition of Korea First Bank in 2005, Chohung Bank's merger with Shinhan Bank in 2006, and Hana Financial Group's acquisition of Korea Exchange Bank in 2012 and the resulting merger of Hana Bank and Korea Exchange Bank in September 2015. Moreover, in 2014, pursuant to the implementation of the Government's privatization plan with respect to Woori Finance Holdings (now merged into

Woori Bank) and its former subsidiaries, Woori Financial, Woori Asset

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Management and Woori F&I were acquired by KB Financial Group, Kiwoom Securities and Daishin Securities, respectively, and Woori Investment & Securities, Woori Aviva Life Insurance and Woori FG Savings Bank were acquired by NongHyup Financial Group. In 2015, the Government decided to sell a 30% to 40% interest in Woori Bank to multiple investors in separate blocks ranging from 4% to 10% each. Although such attempts have stalled, most recently in January 2016 when discussions with three Saudi Arabian sovereign funds broke off, the Government is expected to continue efforts to sell minority stakes of Woori Bank. In addition, in October 2014, the Government's ownership interest in the holding companies of Kwangju Bank and Kyongnam Bank were acquired by JB Financial Group and BS Financial Group (now BNK Financial Group), respectively. In the securities brokerage sector, Mirae Asset agreed in January 2016 to acquire KDB Daewoo Securities, which, if successfully consummated, will create the largest brokerage company in Korea by assets. Any of these developments may place us at a competitive disadvantage and outweigh any potential benefit to us in the form of opportunities to acquire new customers who are displeased with the level of services at the newly reorganized entities or to provide credit facilities to corporate customers who wish to maintain relationships with a wide range of banks in order to diversify their sources of funding. We expect that such consolidation and other structural changes in the financial industry will continue. Other financial institutions may seek to acquire or merge with other entities, and the financial institutions resulting from such consolidation may, by virtue of their increased size and business scope, provide greater competition for us. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability.

Regulatory reforms and the general modernization of business practices in Korea have also led to increased competition among financial institutions in Korea. From early 2009, financial investment companies with a dealing license and/or brokerage license are allowed to provide secondary services in connection with securities investments such as settlement and remittance services relating to customer deposits. In addition, in the second half of 2015, the Financial Services Commission began to take steps to adopt the account switch service, which allows customers to manage or switch their automatic payment transfer accounts in a more convenient way. For example, the Financial Services Commission introduced the integrated automatic payment transfer management system, which enables customers to change the bank account through which automatic payment transfers are made by following simple steps online or visiting a bank branch, with the banks being responsible for implementing the change should the customer decide to switch banks. Prior to the introduction of the account switch service, customers had the onus of making arrangements with each of the involved banks as well as the payment recipient to make the change. Under the new system, it is expected that customers will find it easier to switch from one bank to another. Currently, the service only applies to limited types of payment transfers, but the Financial Services Commission plans to expand the service with respect to all types of payment transfers by June 2016. Furthermore, effective March 2016, the Financial Services Commission introduced the ISA system, as part of its efforts to lower the regulatory barrier between the banking and securities sectors. The ISA is an integrated account that enables account holders to manage a number of different financial products, including cash deposits, funds and securities investment accounts, from a single account, the income from which will be eligible for tax benefits. Since this new system does not allow an individual to hold multiple ISA accounts, competition among banks and securities firms to retain existing customers and attract new customers is expected to intensify. As a result, Shinhan Bank may face difficulties in increasing or retaining its deposits, which in turn may result in an increase in its cost of funding and a decrease in its settlement and remittance service fee revenue. As the reform of the financial sector continues, competition may become more intense among existing banks, insurance companies, securities companies and other financial organizations, and may lead to significant changes in the current Korean financial market.

Furthermore, as the Korean economy further develops and new business opportunities arise, more competitors may enter the financial services industry. For example, as online service providers and technology companies with large-scale user networks, such as Kakao Corp., NAVER and Samsung Electronics, recently make significant inroads in providing virtual payment services through a system based on a growing convergence of financial services and

technology commonly referred to as fintech, competition for online customers is growing not just among commercial banks, but also from online and mobile payment service providers. Also, widespread consumer acceptance of mobile phone payment services in lieu of credit card services could add to

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competitive threat to the existing credit card service providers, including our credit card subsidiary. In addition, the Government recently announced its plans to allow Internet-only banks to operate in Korea. As of the date hereof, two business consortiums, Kakao consortium and KT consortium, have been granted preliminary permission by the Government to operate Internet-only banks. These consortiums are expected to apply for final permission during the second half of 2016 and commence operations within six months of the final permission being granted by the Government. Internet-only banks may have advantages over traditional banks as the former can pass savings in labor and overhead costs to their customers by offering higher interest rates on deposit accounts, lower loan costs and reduced service fees. Accordingly, commercial banks will likely face increasing pressure to upgrade their service platforms to attract and maintain online users, which represents a growing customer base compared to traditional customers who have primarily conducted banking in-person at physical banking branches.

Recently, following the global financial crisis, the Government has subjected Korean financial institutions to stricter regulatory requirements and guidelines in areas of asset quality, capital adequacy, liquidity and residential and other lending practices, which has had a dampening effect on competition. The Financial Services Commission implemented the capital requirements of Basel III, whose minimum requirements were phased in sequentially from December 1, 2013 through full implementation by January 1, 2015, based on the guidelines set forth in the amended Regulation on the Supervision of the Banking Business and the Detailed Regulation on the Supervision of the Banking Business. In addition, the Financial Services Commission is currently implementing the Basel III requirements relating to liquidity coverage ratio and capital conservation buffer, each of which will be fully phased in by January 1, 2019. Furthermore, the Financial Services Commission announced that it would implement the Basel III requirements relating to countercyclical capital buffer, which was initially set at 0% on March 30, 2016 but may be subject to change upon quarterly review by the Financial Services Commission. However, there is no assurance that these measures will have the effect of curbing competition or that the Government will not reverse or reduce such measures or introduce other deregulatory measures, which may further intensify competition in the Korean financial services industry

If, despite our efforts to adapt to the changing macroeconomic environment and comply with new regulations, we are unable to compete effectively in the changing business and regulatory environment, our profit margin and market share may erode and our future growth opportunities may become limited, which could adversely affect our business, financial condition and results of operations. See Item 3.D. Risk Factors Risks Relating to Our Overall Business Competition in the Korean financial services industry is intense, and may further intensify and Item 4.B. Business Overview Supervision and Regulation Financial Investment Services and Capital Markets Act.

Table of Contents**Description of Assets and Liabilities****Loans**

As of December 31, 2015, our total gross loan portfolio was ₩248,429 billion, which represented an increase of 11.0% from ₩223,879 billion at December 31, 2014. The increase in our portfolio primarily reflects a 10.82% increase in corporate loans and a 13.1% increase in retail loans.

Loan Types

The following table presents our loans by type for the periods indicated. Except where specified otherwise, all loan amounts stated below are before deduction for loan loss allowances. Total loans reflect our loan portfolio, including past due amounts.

	2011	2012	As of December 31, 2013			2014	2015
			(In billions of Won)				
Corporate							
Corporate loans ⁽¹⁾	₩ 98,598	₩ 101,162	₩ 102,823	₩ 112,145	₩ 125,155		
Public and other ⁽²⁾	4,930	3,107	2,525	2,135	2,191		
Loans to banks ⁽³⁾	2,557	4,557	6,103	4,684	4,653		
Lease financing	1,639	1,699	1,721	1,844	1,875		
Total Corporate	107,724	110,525	113,172	120,808	133,874		
Retail							
Mortgages and home equity	44,399	46,130	46,908	50,652	54,983		
Other retail ⁽⁴⁾	25,052	28,407	30,242	34,278	41,035		
Total Retail	69,451	74,537	77,150	84,930	96,018		
Credit cards	17,880	17,854	17,665	18,141	18,537		
Total loans ⁽⁵⁾	₩ 195,055	₩ 202,916	₩ 207,987	₩ 223,879	₩ 248,429		

Notes:

- (1) Consists primarily of working capital loans, general purpose loans, bills purchased and trade-related notes and excludes loans to public institutions and commercial banks.
- (2) Consists of working capital loans and loan facilities to public institutions and non-profit organizations.
- (3) Consists of interbank loans and call loans.
- (4) Consists of general unsecured loans and loans secured by collateral other than housing to retail customers.

- (5) As of December 31, 2011, 2012, 2013, 2014 and 2015, approximately 88.8%, 89.6%, 90.0%, 89.1% and 89.4% of our total gross loans, respectively, were Won-denominated.

Loan Portfolio

The total exposure of us or our banking subsidiaries to any single borrower and exposure to any single group of companies belonging to the same conglomerate is limited by law to 20% and 25%, respectively, of the Net Total Equity Capital (as defined in Supervision and Regulation).

Table of Contents*Twenty Largest Exposures by Individual Borrower*

As of December 31, 2015, our 20 largest exposures, consisting of loans, securities and guarantees and acceptances, totaled ₩45,520 billion. The following table sets forth our total exposures to these top 20 borrowers as of December 31, 2015.

	Loans in Won Currency	Loans in Foreign Currency	Securities	Guarantees and Acceptances	Others	Total Exposure	Impaired Loans and Guarantees and Acceptances
(In billions of Won)							
The Bank of Korea	₩ 3,430	₩	₩ 6,858	₩	₩	₩ 10,288	₩
Ministry of Strategy and Finance			7,970			7,970	
Korea Development Bank	16	55	5,382			5,453	
Korea Housing Finance Corporation.			4,963			4,963	
Industrial Bank of Korea.	568		1,390			1,958	
Korea Deposit Insurance Corporation.			1,914			1,914	
Hyundai Heavy Industries Co., Ltd.	47	33	1	1,261		1,342	
Samsung Electronics Co., Ltd.		1,134	15			1,149	
Samsung Heavy Industries Co., Ltd	150	4	10	901		1,065	
Kookmin Bank.	475		562			1,037	
Korea Securities Finance Corporation.	125		869			994	
Woori Card Co., Ltd	199	59	731	1		990	
Korea Land & Housing Corporation			949			949	
Nonghyup Bank.	348	12	547	6		913	
Hyundai Steel Co., Ltd	675	43	41	41		800	
Export-Import Bank of Korea			790	6		796	
Hotel Lotte Co., Ltd.		398	149	241		788	
Hyundai Samho Heavy Industries Co., Ltd	2	56		713		771	
KEB Hana Bank	137	32	553			722	
LG Electronics Inc.	48	55	77	478		658	

Total	₩ 6,220	₩ 1,881	₩ 33,771	₩ 3,648	₩	₩ 45,520	₩
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Table of Contents*Exposure to Main Debtor Groups*

As of December 31, 2015, our total exposure to the main debtor groups as identified by the Governor of the Financial Supervisory Service amounted to 31,835 billion. The main debtor groups are largely comprised of *chaebols*. The following table shows, as of December 31, 2015, our total exposures to the ten main debtor groups to which we have the largest exposure.

Main Debtor Groups	Loans in Won Currency	Loans in Foreign Currency	Securities	Guarantees and Acceptances	Others	Total Exposure	Amounts of Impaired Loans and Guarantees and Acceptances
							(In billions of Won)
Samsung	₩ 424	₩ 1,857	₩ 666	₩ 1,523	₩	₩ 4,470	₩
Hyundai Motors	1,437	1,407	1,161	278		4,283	
Lotte	410	1,040	1,293	484	2	3,229	
Hyundai Heavy Industries	206	144	31	2,576		2,957	1
SK	469	377	901	1,133		2,880	
LG	463	464	306	757		1,990	
LS	193	366	171	740		1,470	
Hanwha	625	238	215	231		1,309	
GS	380	97	342	154		973	
Hyosung	238	490	33	150		911	
Total	₩4,845	₩ 6,480	₩ 5,119	₩ 8,026	₩ 2	₩ 24,472	₩ 1

Loan Concentration by Industry

The following table shows the aggregate balance of our corporate loans by industry concentration as of December 31, 2015.

Industry	Aggregate Loan Balance (In billions of Won)	Percentage of Total Corporate Loan Balance (Percentages)
Manufacturing	₩ 39,569	29.6%
Real estate, leasing and service	19,236	14.4
Retail and wholesale	16,250	12.1
Finance and insurance	10,459	7.8

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Hotel and leisure		5,904	4.4
Transportation, storage and communication		4,005	3.0
Construction		2,820	2.1
Other service ⁽¹⁾		12,486	9.3
Other ⁽²⁾		23,145	17.3
Total	₩	133,874	100.0%

Notes:

- (1) Includes other service industries such as publication, media and education.
- (2) Includes other industries such as agriculture, forestry, mining, electricity and gas.

Table of Contents**Maturity Analysis**

The following table sets out the scheduled maturities (presented in terms of time remaining until maturity) of our loan portfolio as of December 31, 2015. The amounts below are before deduction of attributable loan loss reserves. In the case of installment payment loans, maturities have been adjusted to take into account the timing of installment payments.

	As of December 31, 2015			
	1 Year or Less	Over 1 Year but Not More Than 5 Years	Over 5 Years⁽¹⁾	Total
	(In billions of Won)			
Corporate:				
Corporate loans	₩ 88,295	₩ 31,501	₩ 5,359	₩ 125,155
Public and other	1,556	511	124	2,191
Loans to banks	4,006	480	167	4,653
Lease financing	696	1,177	2	1,875
Total corporate	₩ 94,553	₩ 33,669	₩ 5,652	₩ 133,874
Retail:				
Mortgage and home equity	₩ 8,026	₩ 12,283	₩ 34,674	₩ 54,983
Other retail	27,559	10,990	2,486	41,035
Total retail	₩ 35,585	₩ 23,273	₩ 37,160	₩ 96,018
Credit cards	₩ 16,465	₩ 1,848	₩ 224	₩ 18,537
Total loans	₩ 146,603	₩ 58,790	₩ 43,036	₩ 248,429

Note:

(1) Includes overdue loans.

We may roll over our corporate loans (primarily consisting of working capital loans and facility loans) and retail loans (to the extent not payable in installments) after we conduct our standard loan reviews in accordance with our loan review procedures. Working capital loans may be extended on an annual basis for an aggregate term of three to five years for unsecured loans and five years for secured loans. Facilities loans, which are generally secured, may generally be extended once for a maximum of five years from the initial loan date. Retail loans may be extended for additional terms of up to 12 months for an aggregate term of ten years from the initial loan date for both unsecured loans and

secured loans.

Interest Rate Sensitivity

The following table presents a breakdown of our loans in terms of interest rate sensitivity as of December 31, 2015.

	As of December 31, 2015		
	Due Within 1 Year⁽¹⁾	Due After 1 Year	Total
	(In billions of Won)		
Fixed rate loans ⁽¹⁾	₩ 70,135	₩ 43,434	₩ 113,569
Variable rate loans ⁽²⁾	76,468	58,392	134,860
Total loans	₩ 146,603	₩ 101,826	₩ 248,429

Notes:

- (1) Fixed rate loans are loans for which the interest rate is fixed for the entire term of the loan.
 (2) Variable or adjustable rate loans are for which the interest rate is not fixed for the entire term of the loan.

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For additional information regarding our management of interest rate risk, see Risk Management.

Nonaccrual Loans and Past Due Accruing Loans

Except in the case of repurchased loans, we generally recognize interest income on nonaccrual loans using the rate of interest used to discount the future cash flows of such loans for the purpose of measuring impairment loss. Generally, we discontinue accruing of interest on loans (other than repurchased loans) when payment of interest and/or principal becomes past due by 90 days. Loans (other than repurchased loans) are not reclassified as accruing until interest and principal payments are brought current.

We generally do not request borrowers to make immediate repayment of the whole outstanding principal balances and related accrued interest on loans whose interest payments are past due for one to 14 days in the case of commercial loans and one to 30 days in the case of retail loans.

Interest foregone is interest due on nonaccrual loans that has not been accrued in our books of account. In 2011, 2012, 2013, 2014 and 2015 we would have recorded gross interest income of ₩131 billion, ₩163 billion, ₩119 billion, ₩113 billion and ₩79 billion respectively, on loans accounted for on a nonaccrual basis throughout the respective years, or since origination for loans held for part of the year, had the loans been current with respect to their original contractual terms. The amount of interest income on those loans that was included in our net income in 2011, 2012, 2013, 2014 and 2015 were ₩66 billion, ₩70 billion, ₩58 billion, ₩53 billion and ₩39 billion, respectively.

The following table shows, at the dates indicated, the amount of loans that are placed on a nonaccrual basis and accruing loans which are past due one day or more. The term accruing but past due one day includes loans which are still accruing interest but on which principal or interest payments are contractually past due one day or more. We continue to accrue interest on loans where the total amount of loan outstanding, including accrued interest, is fully secured by cash on deposits.

	As of December 31,				
	2011	2012	2013	2014	2015
	(In billions of Won)				
Loans accounted for on a nonaccrual basis⁽¹⁾					
Corporate	₩ 1,621	₩ 1,642	₩ 1,660	₩ 1,358	₩ 1,235
Retail	239	416	217	233	228
Credit cards	152	215	108	152	93
Sub-total	2,012	2,273	1,985	1,743	1,556
Accruing loans which are contractually past due one day or more as to principal or interest					
Corporate	224	245	194	183	176
Retail	482	354	436	374	316
Credit cards	576	633	524	466	399
Sub-total	1,282	1,232	1,154	1,023	891
Total	₩ 3,294	₩ 3,505	₩ 3,139	₩ 2,766	₩ 2,447

Note:

- (1) Represents either loans that are troubled debt restructuring or loans for which payment of interest and/or principal became past due by 90 days or more (adjusting for any overlap due to loans that satisfy both prongs so as to avoid double counting).

Table of Contents***Troubled Debt Restructurings***

The following table presents, at the dates indicated, our loans which are troubled debt restructurings. These loans mainly consist of corporate loans that have been restructured through the process of workout and recovery proceedings. See Credit Exposures to Companies in Workout and Recovery Proceedings. These loans accrue interest at rates lower than the original contractual terms, or involve the extension of the original contractual maturity as a result of a variation of terms upon restructuring.

	2011	As of December 31, (In billions of Won)			
		2012	2013	2014	2015
Loans classified as troubled debt restructurings (excluding nonaccrual and past due loans)	₩ 75	₩ 173	₩ 71	₩ 173	₩ 244
Loans classified as troubled debt restructurings (including nonaccrual and past due loans)	₩ 1,009	₩ 868	₩ 756	₩ 635	₩ 714

The following table presents, for the periods indicated and with respect to the restructured loans, the amounts that would have been recorded as our interest income under the original contract terms of the restructured loans, and the amounts that were actually recorded as our interest income for such loans under the restructured contractual terms of such loans.

	2011	2012	2013	2014	2015
	(In billions of Won)				
Interest income under the original contractual terms of the restructured loans ⁽¹⁾	₩ 42	₩ 74	₩ 68	₩ 21	₩ 22
Interest income under the restructured contractual terms of the restructured loans ⁽¹⁾	₩ 14	₩ 20	₩ 15	₩ 12	₩ 6

Note:

(1) Includes nonaccrual and past due loans.

The following table presents a breakdown of the outstanding balance and specific allowance for loan losses as of December 31, 2011, 2012, 2013, 2014 and 2015 of corporate loans classified as troubled debt restructurings (including nonaccrual and past due loans) by the type of restructuring to which such loans are subject.

		As of December 31,				
2011	2012	2013	2014	2015		
Outstanding	Outstanding	Outstanding	Outstanding	Outstanding	Outstanding	
Balance	Allowance	Balance	Allowance	Balance	Allowance	
(In billions of Won)						

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Workout	₩ 752	₩ 351	₩ 683	₩ 276	₩ 571	₩ 266	₩ 476	₩ 471	₩ 506	₩ 215
Recovery Proceedings	250	38	185	20	185	75	159	144	208	63
Others ⁽¹⁾	7	5								
Total	₩ 1,009	₩ 394	₩ 868	₩ 296	₩ 756	₩ 341	₩ 635	₩ 615	₩ 714	₩ 278

Note:

(1) Principally consists of loans subject to corporate turnaround or corporate reorganization pursuant to the Debtor Rehabilitation and Bankruptcy Act (also known as the Consolidated Insolvency Act).

The following table presents the outstanding balance and specific allowance for loan losses as of December 31, 2011, 2012, 2013, 2014 and 2015 of retail loans (including nonaccrual and past due loans) subject to credit rehabilitation programs for retail borrowers. All such loans became modified under credit rehabilitation programs and became beneficiaries of maturity extension and interest rate reductions, while a substantially limited portion

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of such loans also became beneficiaries of debt forgiveness and deferral. For more information on the credit rehabilitation program, see Credit Exposures to Companies in Workout and Recovery Proceedings Credit Rehabilitation Programs for Delinquent Consumer and Small- and Medium-sized Enterprise Borrowers.

	As of December 31,									
	2011		2012		2013		2014		2015	
	Outstanding	Allowance	Outstanding	Allowance	Outstanding	Allowance	Outstanding	Allowance	Outstanding	Allowance
	(In billions of Won)									
Retail loans subject to credit rehabilitation programs ⁽¹⁾ :	₩ 68	₩ 54	₩ 60	₩ 46	₩ 41	₩ 30	₩ 45	₩ 27	₩ 61	₩ 40

Note:

(1) Includes nonaccrual and past due loans.

The following table presents, as of the dates indicated and with respect to corporate loans, the amounts of restructured loans that were considered impaired and classified as nonaccrual pursuant to our general interest accrual policy as described in Accrual Policy for Restructured Loans. The table also presents, for the periods indicated and with respect to corporate loans, the amounts of total charge-off on restructured loans and the amounts of charge-off as part of debt-to-equity conversions

	As of and for the year ended December 31,				
	2011	2012	2013	2014	2015
	(In billions of Won)				
Impaired and nonaccrual restructured loans	₩ 934	₩ 695	₩ 685	₩ 462	₩ 470
Total charge-off of restructured loans	₩ 259	₩ 263	₩ 153	₩ 55	₩ 259
Charge-off as part of debt-to-equity conversion	₩ 46	₩ 84	₩ 29	₩ 32	₩ 51

Credit Exposures to Companies in Workout and Recovery Proceedings

Our credit exposures to restructuring are monitored and managed by our Corporate Credit Collection Department. As of December 31, 2015, 0.3% of our total loans, or ₩714 billion (of which ₩470 billion was classified as nonaccrual and ₩244 billion was classified as accruing), was under restructuring. Restructuring of our credit exposures generally takes the form of workout and recovery proceedings.

Workout

Under the old Corporate Restructuring Promotion Act, which expired on December 31, 2015, all creditors that are financial institutions were required to participate in a creditors' committee. The old Corporate Restructuring Promotion Act was mandatorily applicable to a wide range of financial institutions in Korea, including commercial banks, insurance companies, asset management companies, securities companies, merchant banks, the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation. Under this act, the approval of financial

institution creditors holding not less than 75% of the total debt outstanding of a borrower was required for such borrower's restructuring plan, including debt restructuring and provision of additional funds, which plan would be binding on all the financial institution creditors of the borrower, provided that any financial institution creditor that disagrees with the final restructuring plan approved by the creditors' committee has the right to request the creditors' committee to purchase its claims at a mutually agreed price. In the event that the creditors' committee and the dissenting financial institution creditor fail to come to an agreement, the act provided that a mediation committee consisting of seven experts be formed to resolve the matter.

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The above-mentioned old Corporate Restructuring Promotion Act expired on December 31, 2015, and a new Corporate Restructuring Promotion Act, which modified and expanded the old act in several respects, was passed in the National Assembly of Korea on March 3, 2016. The new Corporate Restructuring Promotion Act has extended the definition of borrower subject to the act from any enterprise whose total amount of credit granted from financial institution creditors is at least ₩50 billion to any enterprise that is a corporation under the Korean Commercial Code or any other entity performing commercial activities. The new Corporate Restructuring Promotion Act has also extended the definition of creditor who may participate in a creditors committee from financial institution creditors to all creditors who have claims to the borrower through granting of credit. Under the new act, the creditors that constitute the creditors committee shall be determined at the committee's initial assembly based on the approval of creditors that hold 75% or more of the total debt outstanding held by creditors notified of such initial assembly. Although creditors that are not financial institutions or possess less than 1% of the total amount of claims to the borrower may not be notified of the assembly of the creditors committee, if such creditors wish to participate, they shall not be excluded from the committee. Also, resolutions of the creditors committee shall be adopted by the approval of creditors holding 75% or more of the total debt outstanding to the creditors of the committee. However, if a single creditor holds 75% or more of the total debt outstanding to the creditors of the committee, resolutions shall be adopted by a vote of 40% or more of the total number of creditors of the committee, including such single creditor. The new Corporate Restructuring Promotion Act is set to expire on June 30, 2018.

The total loan amount currently undergoing workout as of December 31, 2015 was ₩506 billion.

Recovery Proceedings

Under the Debtor Rehabilitation and Bankruptcy Act, which took effect on April 1, 2006, court receiverships have been replaced with recovery proceedings. In a recovery proceeding, unlike court receivership proceedings where the management of the debtor company was vested in a court appointed receiver, the existing chief executive officer of the debtor company may continue to manage the debtor company, provided, that (i) neither fraudulent conveyance nor concealment of assets existed, (ii) the financial failure of the debtor company was not due to gross negligence of such chief executive officer, and (iii) no creditors meeting was convened to request, based on reasonable cause, a court-appointed receiver to replace such chief executive officer. Recovery proceeding may be commenced by any insolvent debtor. Furthermore, in an effort to meet the global standards, international bankruptcy procedures have been introduced in Korea under which a receiver of a foreign bankruptcy proceeding may, upon receiving Korean court approval of the ongoing foreign bankruptcy proceeding, apply for or participate in a Korean bankruptcy proceeding. Similarly, a receiver in a domestic recovery proceeding or a bankruptcy trustee is allowed to perform its duties in a foreign country where an asset of the debtor is located to the extent the applicable foreign law permits.

Any composition, corporate reorganization, bankruptcy and rehabilitation proceedings for individual debtors pending as of April 1, 2006, the effective date of the Debtor Rehabilitation and Bankruptcy Act, continue to proceed in accordance with the respective applicable laws.

As of December 31, 2015, the total loan amount subject to recovery proceedings was ₩208 billion. No loan amount was subject to court receivership or composition proceedings.

Loans in the process of workout and recovery proceedings are reported as nonaccrual loans on our statements of financial position as described in Nonaccrual Loans and Past Due Accruing Loans above since generally, they are past due by more than 90 days and interest does not accrue on such loans. Restructured loans that meet the definition of a troubled debt restructuring are reported as troubled debt restructurings as described above in Troubled Debt Restructurings. Such restructured loans are reported as either loans or securities on our statements of financial position depending on the type of instrument we receive as a result of the restructuring.

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Credit Rehabilitation Programs for Delinquent Consumer and Small- and Medium-sized Enterprise Borrowers

In light of the gradual increase in delinquencies in credit card and other consumer credit, the Korean government has implemented a number of measures intended to support the rehabilitation of the credit of delinquent consumer borrowers. These measures may affect the amount and timing of our collections and recoveries on our delinquent consumer credits.

Upon application to the Credit Counseling and Recovery Service and approval of a majority of unsecured and secured creditor financial institutions, a qualified credit delinquent person with outstanding debts to financial institutions in an aggregate amount not exceeding ₩1.5 billion may participate in an individual work-out program designed to restructure such person's debt and rehabilitate such person's credit.

Under the Debtor Rehabilitation and Bankruptcy Act, a qualified individual debtor with outstanding debts in an aggregate amount not exceeding threshold amounts of ₩500 million of unsecured debt and/or ₩1 billion of secured debt may restructure his or her debts through a court-supervised debt restructuring that is binding on creditors.

Under the guidelines of the Financial Supervisory Service, Korean banks, including us, operate a fast track program to provide liquidity assistance to small- and medium-sized enterprises on an expedited basis. Under the fast track program we established, which is effective until the end of 2016, we provided liquidity assistance to small- and medium-sized enterprise borrowers applying for such assistance, in the form of new short-term loans or maturity extensions or interest rate adjustments with respect to existing loans, after expedited credit review and approval by us.

Under the guidelines of the Financial Services Commission, Korean banks, including us, also operate a pre-workout program, including a credit counseling and recovery service, for retail borrowers with short-term outstanding debt. Our pre-workout program is generally available to retail borrowers meeting all of the following requirements: (i) borrowings from at least two financial institutions not exceeding ₩1.5 billion in the aggregate (₩1.0 billion in secured borrowings and ₩0.5 billion in unsecured borrowings); (ii) payment default of more than 30 days but less than 90 days including payment default of not exceeding 30 days in case where the borrower's annual income is not exceeding ₩40 million and there was payment default of not less than 30 days, within one year prior to the application for the pre-workout program. Retail borrowers who fail any of these requirements, have previously participated in the pre-workout program or have lost eligibility in the course of participating in a previous pre-workout program are ineligible to participate in the pre-workout program.

Once a borrower is deemed to be eligible to participate in the pre-workout program, we promptly sell the collateral underlying such borrower's secured loans to mitigate our losses, and we may restructure such borrower's unsecured loans (regardless of their type) as follows:

Extension of maturity: Based on considerations of the type of loan, the total loan amount, the repayment amount and the probability of repayment, the maturity of unsecured loans may be extended by up to 10 years and maturity of secured loans may be extended by up to 20 years with a grace period not exceeding three years.

Interest rate adjustment: The interest rate of the loan may be adjusted to 70% of the original interest rate or 5% per annum, whichever is higher; *provided that* if the original interest rate is less than 5% per annum, no adjustment applies. The adjusted interest rate applies to the principal amount following any adjustment

thereto as part of the pre-workout program, and no interest accrues on the interest already accrued or fees payable.

Debt forgiveness: Debt forgiveness under the pre-workout program is limited to (i) the default interest accrued prior to the application for the pre-workout program and (ii) the regular and default interest accrued following such application but before the approval of the program.

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Deferral: If the foregoing three measures are deemed to be insufficient in terms of providing meaningful assistance to a qualifying borrower due to layoff, unemployment, business closure, disaster or earnings loss, loan repayment may be deferred for a maximum of one year, *provided that* the pre-workout committee may extend such deferral period every six months, for a period not to exceed six months, upon the borrower's application. The deferral period is not counted toward the repayment period, and interest accrues at 3% per annum during the deferral period.

In 2015, the aggregate amount of our retail credit (including credit card receivables) provided by Shinhan Bank which became subject to the pre-working program was ₩54 billion. We believe that our participation in such pre-workout program has not had a material impact on the overall asset quality of our retail loans and credit card portfolio or on our results of operations and financial condition to date.

Loan Modification Programs for Loans under Troubled Debt Restructuring

We generally offer the following types of concessions in relation to restructured loans: reduction of interest rate, forgiveness of overdue interest, extension of the term for repayment of principal, conversion of debt into equity or the combination of the foregoing. The nature and degree of such concessions vary depending on, among other things, the creditworthiness of the borrower, the size of loans being restructured, the existing terms of the loans and other factors deemed relevant by the relevant creditors' committee. We generally do not restructure an existing loan into multiple new loans.

The following table presents a breakdown of the gross amount of loans under restructuring as of December 31, 2011, 2012, 2013, 2014 and 2015 by our loan modification programs, as further categorized according to the loan category and performing versus non-performing status at each fiscal year end.

Modification Programs	December 31, 2011		
	Non-Performing	Performing	Total
	(In billions of Won)		
Extension of due date for principal and interest	₩ 43	₩ 340	₩ 383
Reduction of interest rate	40	213	253
Forgiveness of principal		1	1
Equity conversion		46	46
Additional lending ⁽¹⁾	1	97	98
Others ⁽²⁾	63	165	228
Total	₩ 147	₩ 862	₩ 1,009

Modification Programs	December 31, 2012		
	Non-Performing	Performing	Total
	(In billions of Won)		
Extension of due date for principal and interest	₩ 4	₩ 142	₩ 146
Reduction of interest rate	90	322	412
Forgiveness of principal			

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Equity conversion	3		3
Additional lending ⁽¹⁾		179	179
Others ⁽²⁾	51	77	128
Total	₩ 148	₩ 720	₩ 868

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Modification Programs	December 31, 2013		
	Non-Performing	Performing	Total
	(In billions of Won)		
Extension of due date for principal and interest	₩ 2	₩ 81	₩ 83
Reduction of interest rate	54	283	337
Forgiveness of principal			
Equity conversion			
Additional lending ⁽¹⁾	27	169	196
Others ⁽²⁾	37	103	140
Total	₩ 120	₩ 636	₩ 756

Modification Programs	December 31, 2014		
	Non-Performing	Performing	Total
	(In billions of Won)		
Extension of due date for principal and interest	₩ 4	₩ 3	₩ 7
Reduction of interest rate	52	260	312
Forgiveness of principal	10		10
Equity conversion			
Additional lending ⁽¹⁾	1	198	199
Others ⁽²⁾	61	46	107
Total	₩ 128	₩ 507	₩ 635

Modification Programs	December 31, 2015		
	Non-Performing	Performing	Total
	(In billions of Won)		
Extension of due date for principal and interest	₩	₩ 87	₩ 87
Reduction of interest rate	119	368	487
Forgiveness of principal			
Equity conversion			
Additional lending ⁽¹⁾	4	19	23
Others ⁽²⁾	87	30	117
Total	₩ 210	₩ 504	₩ 714

Notes:

- (1) Represents additional loans provided to the borrower at favorable terms as part of the restructuring package, which may include extension of the due date or reduction of interest rate, among others.
- (2) Principally consists of restructured loans whose restructuring terms were not determined as of the date indicated. A loan is deemed to be subject to restructuring upon the commencement of the recovery proceedings or when the relevant creditors' committee or our credit officer determines that the borrower will be subject to workout, and in many cases the restructuring terms for such loans are not determined at the time such loans are deemed to be subject to restructuring.

Debt-to-equity Conversion

We distinguish between loans that we consider to be collectible under modified terms and loans that we consider to be uncollectible regardless of any modification of terms. With respect to loans in the latter category, we convert a portion of such loans into equity securities following negotiation with the borrowers and charge off the remainder of such loans as further described below. The equity securities so converted are recorded at fair value, based on the market value of such securities if available or the appraisal value of such securities by an outside appraiser if a market value is unavailable. In 2015, our loans restructured into equity securities amounted to ₩51 billion, of which ₩29 billion was subsequently treated as charge-off and ₩22 billion was treated as the new cost basis of the equity securities.

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Debt-to-equity conversion generally has two primary benefits. One, the debt-to-equity conversion reduces the amount of loans and related interest expenses of the borrower, resulting in lesser debt burden and greater liquidity for the borrower, a greater likelihood of its exit from restructuring and the repayment of its obligations to us. Two, in the case of a successful turnaround of the borrower, we are entitled to the upside gains from the increase in the value of the equity securities so converted. Notwithstanding these benefits, however, the resulting impact from the debt-to-equity conversion on our interest income is generally not material as the loans being converted as part of restructuring are generally deemed to be uncollectible regardless any modification of terms. As for the impact on our asset classification, we generally apply the same asset classification standards to both non-restructured and restructured loans. As for restructured loans, we also consider additional factors such as the borrower's adherence to its business plans and execution of the self-help measures, among others, to the extent applicable. In consideration of such criteria, we generally classify loans subject to workout as precautionary. For a general discussion of our loan classifications, see *Supervision and Regulation* Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

Evaluation of Loan Modification Programs

We currently do not conduct a systematic or quantitative evaluation of the success of any particular concession by type, whether historically, relative to each other or relative to other financial institutions in Korea, although we do monitor on an individual basis the compliance by the borrower with the modified terms of the restructured loans. This is principally due to the following reasons.

One, in the case of large corporations subject to or about to be subject to restructuring, which represents the most significant restructuring cases in Korea, the restructuring process is generally not driven by us, but by a creditors committee involving several large creditor financial institutions, and in the case of very large corporations or corporations that are members of large business conglomerates, the process frequently involves the guidance of the Government in light of the potential ripple effects of the restructuring on the general economy. Hence, it is difficult for us to collect data that would help us to evaluate the success of a particular concession based on the credit profile of the borrower and the type of concessions offered.

Two, the unavailability of systematic analysis notwithstanding, our general sense is that the restructuring cases in Korea have, to a large part, been successful as measured in terms of the ability of the borrowers to exit restructuring programs relatively quickly and further that the failed cases have not been particularly material. As a result, to date, we have not found it particularly necessary or helpful to expend the time and resources required to conduct a systematic analysis for purposes of evaluating the success of concessions by the type of a particular concession offered.

We do, however, measure the success of concessions in limited ways, that is, principally in terms of how well the borrower complies with the terms and conditions of the restructuring plan as agreed between the borrower and its creditor institutions. A restructuring plan typically includes a business plan and self-help measures to be undertaken by the borrower. We monitor the borrower's compliance with the restructuring plan on a periodic basis (namely, annual, semiannual or quarterly in accordance with the terms of the restructuring plan) and evaluate the success thereof principally in terms of three attributes: (i) the progress in the execution of the business plan, (ii) the progress in the execution of the self-help measures and (iii) other qualitative factors such as major developments in the general economy, the regulatory environment, the competitive landscape, the quality of senior management and personnel, and transparency in management. We also closely monitor the cash inflows and outflows of the borrower, and the creditors' committee typically has the right to participate in decision-making related to major spending and borrowings by the borrower.

Accrual Policy for Restructured Loans

For purposes of our accrual policy, we classify restructured loans principally into (i) loans subject to workout pursuant to the Corporate Restructuring Promotion Act and (ii) loans subject to recovery proceedings

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pursuant to the Debtor Rehabilitation and Bankruptcy Act, which is the comprehensive bankruptcy-related law in Korea. See Credit Exposures to Companies in Workout and Recovery Proceedings. As for loans subject to workout, our general policy is to discontinue accruing interest on a loan when payment of principal and/or interest thereon becomes past due by 90 days or more, as described above in Nonaccrual Loans and Past Due Accruing Loans. Interest is recognized on these loans on a cash basis (i.e., when collected) from the date such loan is reclassified as non-accruing, and such loans are not reclassified as accruing until the overdue principal and/or interest amounts are paid in full. This general policy also applies to loans subject to workout even if such loans are restructured loans. In the case of loans subject to recovery proceedings, we discontinue accruing interest immediately upon the borrowers becoming subject to recovery proceedings (even if such loans are not yet delinquent) in light of the heightened uncertainty regarding the borrower's ability to repay, interest on such loans are recognized on a cash basis and such loans are not reclassified as accruing until the borrower exits recovery proceedings. Accordingly, under our accrual policy, the number of payments made on a nonaccrual restructured loan is not a relevant factor in determining whether to reinstate such loan to the accrual status.

Determination of Performance of Restructured Loans

In determining whether a borrower has satisfactorily performed its obligations under the existing loan terms, we principally review the payment history of the borrower, namely whether the borrower has been delinquent by one day or more pursuant to our general interest accrual policy. In determining whether a borrower has shown the capacity to continue to perform under the restructured terms, we primarily rely upon the assessment of our credit officers (or the creditors' committee in the case of large corporate borrowers with significant outstanding loans) of the likelihood of the borrower's ability to repay under the restructured terms, which assessment takes into account the size of the loans in question, the credit profile of the borrower, the original terms of the loans and other factors deemed relevant by the relevant credit officers. Depending on various factors such as the size of the loans in question and the credit profile of the borrower, we or the relevant creditors' committee, as the case may be, sometimes engage an outside advisory firm to perform further due diligence in order to supplement the aforementioned assessment. In certain cases, the borrowers also submit self-help proposals to facilitate obtaining the approval for restructuring, which measures are then also taken into consideration by our credit officers or the relevant creditors' committees, as the case may be, in determining their future capacity to continue to perform under the restructured terms.

Charge-off of Restructured Loans

As for loans that we consider to be collectible under modified terms (for example, by extending the due date for the payment of principal and/or interest or reducing the interest rate below the applicable interest rate to a rate below the prevailing market rate, or a combination of the foregoing), we generally restructure such loans under the modified terms and do not charge off any portion of such loans.

As for loans that we consider to be uncollectible regardless of any modification of terms, we negotiate with the borrower to have a portion of such loans converted into equity securities (usually common stock) of the borrower in consideration, among others, of (i) the degree to which such conversion will alleviate the debt burdens and liquidity concerns of the borrower, (ii) our potential upside from the gain in the value of the equity securities compared to the likelihood of collection if the loans were not converted into equity securities, and (iii) the borrower's concerns regarding its shareholding structure subsequent to such conversion. We then charge off the remainder of the loans not converted into equity securities. The value of the equity securities so converted is recorded at fair value, based on the market value of such securities if available or the appraisal value of such securities by an outside appraiser if a market value is unavailable.

Since we generally do not accrue interest on loans subject to recovery proceedings while we generally accrue interest on loans subject to workout unless past due by 90 days or more, charge-off is not a relevant factor we consider when determining the accrual status of a particular restructured loan.

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We continue to accrue interest on restructured loans if we conclude that repayment of interest and principal contractually due on the entire debt is reasonably assured. Such conclusion is reached only after we have carefully reviewed the borrower's ability to repay based on an assessment, among others, of various factors such as the size of the loans in question and the credit quality of the borrower by our credit officer or the relevant creditors' committee as supplemented by the due diligence by outside advisory firms, as the case may be.

Potential Problem Loans

In 2012, in order to enable a more systematic and real-time monitoring of loans with a significant potential of non-repayment, we have upgraded our early warning system. This system enables our management to determine potential problem loans to include all loans which have caused our management to have serious doubt as to the ability of the borrowers to comply with their respective loan repayment terms.

We classify potential problem loans as loans that are designated as early warning loans and reported to the Financial Supervisory Service. The early warning loans designation applies to borrowers that have been (i) identified by our early warning system as exhibiting signs of credit risk based on the relevant borrower's financial data, credit information and/or transactions with banks and, following such identification and (ii) designated by our loan officers as potential problem loans on their evaluation of known information about such borrowers' possible credit problems. Such loans are required to be reported on a quarterly basis to the Financial Supervisory Service. If a borrower's loans are designated as early warning loans pursuant to the process described above and included in our quarterly report to the Financial Supervisory Service, we consider this to be an indication of serious doubt as to such borrower's ability to comply with repayment terms in the near future. As of December 31, 2015, we had ₩771 billion of potential problem loans.

Provisioning Policy

We conduct periodic and systematic detailed reviews of our loan portfolios to identify credit risks and to establish the overall allowance for loan losses. Our management believes the allowance for loan losses reflects the best estimate of the probable loan losses incurred as of the date of each statement of financial position.

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

If there is objective evidence that a financial asset, such as a loan or receivable, has suffered impairment loss, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow (excluding anticipated future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

In assessing collective impairment, we rate and classify financial assets based on credit risk assessment or credit rating assessment process that takes into account asset type, industry, regional location, collateral type, delinquency and other relevant factors.

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Future cash flow of financial assets applicable to collective impairment assessment is estimated by using statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, as adjusted for management's judgment as to whether current economic and credit conditions are such that the impairment losses are likely to be greater or less than suggested by historical modeling. When adjusting future cash flow based on historical modeling, we ensure that such adjustments are in line with changes and trends of observable data. Methodologies and assumptions used to estimate future cash flow are evaluated on a regular basis in order to reduce any discrepancy between impairment loss estimation and actual loss. See Item 5.A. Operating Results Critical Accounting Policies Impairment of Financial Assets Allowance for Loan Losses.

Corporate Loans

We review corporate loans annually for potential impairment through a formal credit review. In addition, our loan officers consider the credits for impairment throughout the year if there is an indication that an impairment event has occurred.

Under IFRS, a loan is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and if the loss event had a negative effect on the estimated future cash flows of that asset and can be estimated reliably. We consider, among others, the following loans to be impaired:

loans whose principal or interest amount is more than 90 days past due;

loans that by reason of non-performance becomes subject to write-off, charge-off, debt restructuring (including recovery proceedings and workout) or bankruptcy;

loans to customers whose credit record shows past instances of delinquency, enforcement of guarantee or subrogation; and

loans to customers who become finally insolvent by an order to suspend settlement of personal checks, corporate checks or promissory note.

Loan loss allowances for corporate loans are established based on whether a particular loan is impaired. Corporate loans with relatively small balances are evaluated collectively for impairment as they are managed collectively.

Loans individually identified for review and considered impaired

Consistent with the internal credit risk monitoring policies, we evaluate impaired loans with relatively large balances (typically more than ₩3 billion) individually for impairment. Loan loss allowances for these loans are generally established by discounting the estimated future cash flows (both principal and interest) we expect to receive using the loan's effective interest rate. We consider the likelihood of all possible outcomes in determining our best estimate of expected future cash flows. Management consults closely with individual loan officers and reviews the cash flow assumptions used to ensure these estimates are valid.

We establish allowances for impaired corporate loans when the discounted cash flow of the loan is lower than its carrying amount. The allowance is equal to the difference between the discounted cash flow amount of the loan and its

carrying amount.

We may also measure impairment by reference to the loan's observable market price; however this information is not commonly available in Korea.

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Loans collectively evaluated for impairment

We also establish allowances for impaired corporate loans with relatively small balances (typically ₩3 billion or less). We manage these loans on a portfolio basis and therefore collectively evaluate them for impairment since it is impractical to analyze each such loan on an individual basis. The allowance for such loans is determined based on loss factors taking into consideration past performance of the portfolio, previous loan loss history and charge-off information.

We identify loss factors based on the discounted cash flow (DCF) model using a statistical tool with look-back periods longer than a year. For impaired corporate loans whose amounts are relatively small, we use the collective DCF model, under which cash flow projections for the relevant loans are not individually computed for each borrower, but are collectively computed for a group of loans sharing similar characteristics (for example, retail versus corporate, secured versus unsecured, and so forth), except that, when we discount the projected cash flow at the present value, we apply the interest rate effective prior to impairment specific to each borrower.

Loans not specifically identified as impaired

We establish allowances collectively for non-impaired corporate loans to reflect losses incurred within the portfolio which have not yet been specifically identified as impaired. We use the probability of default / loss-given default method, also known as the Advanced Internal Rating-Based approach under Basel II, to calculate the historical loss rate on migration analysis based on measurable long-term risk factors such as probability of default from risk grading and loss given default based on the Basel II framework.

As for the probability of default-based loan grouping, corporate loans are grouped into different risk classes based on the credit rating assigned by the relevant credit evaluation model, and retail loans are grouped into different risk classes based on the type of the loan, maturity structure and the duration of delinquency.

As for the loss given default-based loan grouping, secured loans are grouped into different risk classes based on the type of collateral, the location of the collateral and the loan-to-value ratio to which they are subject, and unsecured loans are grouped into different risk classes based on the type of the loan.

Retail Loans

We consider the following retail loans to be impaired for an individual assessment of impairment:

loans whose principal or interest amount is more than 90 days past due;

loans that by reason of non-performance becomes subject to write-off, charge-off, debt restructuring (including recovery proceedings and workout) or bankruptcy;

loans to customers whose credit record shows past instances of delinquency, enforcement of guarantee or subrogation; and

loans to customers who become finally insolvent by an order to suspend settlement of personal checks, corporate checks or promissory note.

The provisioning policy for retail loans is similar to that for corporate loans, except that different groupings are used for retail loans for purposes of determining probability of default and loss-given default in that all retail loans, regardless of their size, are collectively (rather than individually) assessed due to difficulties in obtaining personal information, such as personal income and assets.

For loan losses for retail loans, we also establish allowances based on loss factors taking into consideration the historical performance of the portfolio, previous loan loss history and charge-off information over a nine-year look-back period for loans secured by real estate and a four-year look-back period for unsecured loans and other secured loans.

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We further adjust the loss factors based on factors that may impact loss recognition which have not been adequately captured by our historical analysis. These factors include:

changes in economic and business conditions such as levels of unemployment and housing price;

changes in the nature and volume of the portfolio, including any concentration of credits; and

external factors such as regulatory or government requirements.

Credit Cards

We establish an allowance for the credit card portfolio using a roll-rate model. A roll-rate model is a statistical tool used to monitor the progression of loans based on aging of the balance and established loss rates. The actual loss rates derived from this model are used to project the percentage of losses within each aging category based on performance over a five-year look-back period.

The expected percentage of loss reflects estimates of both the default probability within each loan aging category and the magnitude of loss. Generally, loans that are six months or more past due are charged off. We consider adjusting our loan loss rate for the magnitude of loss after accounting for the historical recovery of charged off credits when establishing the allowance.

We segment our credit card portfolio into several product types and perform separate roll-rate analysis for such product types to reflect the different risks and characteristics of each such product type.

We further consider adjusting the results from the roll-rate analysis based on factors that may impact loss recognition which have not been adequately captured by our historical analysis. These factors include:

delinquency levels of cardholders;

government policies toward the credit card industry; and

key retail performance indicators (such as ratios of household debt to disposable income and household liabilities to financial assets).

The actual amount of incurred loan losses may vary from the estimate of incurred losses due to changes in economic conditions or industry or geographic concentrations. We also monitor differences between estimated and actual incurred loan losses through procedures including detailed periodic assessments by senior management of both individual loans and credit portfolios and the models used to estimate incurred loan losses in those portfolios.

We determine whether credit card loans are impaired using criteria similar to those used for corporate loans, except that upon the closure of business by merchants using our credit card services, the related credit card loans are deemed impaired.

We consider a credit card or card loan to be delinquent if payment on such account is not received when first due and the amount outstanding is greater than ₩10,000. Our general policy is to be proactive in its collection procedures. We believe that card accounts which are in early stages of delinquency are easier to collect than those accounts which have been delinquent for a longer period of time and, therefore, we emphasize collections at an early stage of delinquency although we increase the level of collection efforts as the delinquency period increases with respect to the relevant account. Efforts to collect from cardholders whose account balances are up to 30 days past due include the use of non-face-to-face channels such as texting and calling and are generally made by our credit support centers at Shinhan Card. Our credit support centers classify delinquent customers based upon three criteria: the expected level of difficulty in collection, the nature of the customer and the customer's contribution to Shinhan Card's profitability. By implementing collection activities tailored to each such category of customers, we seek to maximize efficiency in our collection efforts.

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For card accounts with balances that are more than 30 days past due, we generally assign collection to our collection branches. During the first two months of their appointment, these collection branches rely on postal or telephone notice and take measures to locate and provisionally attach accounts receivables or other properties of the delinquent cardholders. After the initial two-month period, the collection branches commence compulsory execution procedures against the delinquent cardholders' accounts receivables or other properties to secure the amount of outstanding balances. During the entire period managed by branches, we offer restructured card loan and reduction programs. For card accounts that are charged off, we outsource collection to external collection centers such as Shinhan Credit Information, which is our subsidiary, and Mirae Credit Information Services Corp.

Loan Aging Schedule

The following table shows our loan aging schedule (excluding accrued interest) for all loans as of the dates indicated.

As of December 31,	Current		Past Due Up to 3 Months		Past Due 3-6 Months		Past Due More Than 6 Months		Total Amount
	Amount	%	Amount	%	Amount	%	Amount	%	
(In billions of Won, except percentages)									
2011	₩ 192,120	98.50	₩ 1,519	0.77	₩ 597	0.31	₩ 819	0.42	₩ 195,055
2012	199,658	98.39	1,563	0.77	579	0.29	1,116	0.55	202,916
2013	205,282	98.70	1,508	0.73	420	0.20	777	0.37	207,987
2014	221,273	98.84	1,320	0.59	706	0.32	580	0.26	223,879
2015	245,997	99.02	1,098	0.44	781	0.31	553	0.22	248,429

Non-Performing Loans

Non-performing loans are defined as loans past due by more than 90 days. The following table shows, as of the dates indicated, the amount of the total non-performing loan portfolio and as a percentage of our total loans.

	As of December 31,				
	2011	2012	2013	2014	2015
(In billions of Won, except percentages)					
Total non-performing loans	₩ 1,416	₩ 1,695	₩ 1,197	₩ 1,286	₩ 1,333
As a percentage of total loans	0.73%	0.84%	0.58%	0.57%	0.54%

Table of Contents**Analysis of Non-Performing Loans**

The following table sets forth, for the periods indicated, the total non-performing loans by the borrower type.

	As of December 31,											
	2011			2012			2013			2014		
	Non-Performing Loans ⁽¹⁾	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans ⁽¹⁾	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans ⁽¹⁾	Ratio of Non-Performing Loans	Total Loans	Non-Performing Loans ⁽¹⁾	Ratio of Non-Performing Loans	Total Loans
(In billions of Won, except percentages)												
08	₩ 739	0.75%	₩ 101,162	₩ 769	0.76%	₩ 102,823	₩ 529	0.51%	₩ 112,145	₩ 551	0.49%	₩ 125,155
30	8	0.16	3,107	9	0.29	2,525			2,135			2,191
57			4,557			6,103			4,684			4,653
39	5	0.31	1,699	8	0.47	1,721	11	0.64	1,844	15	0.81	1,875
24	752	0.70	110,525	786	0.71	113,172	540	0.48	120,808	566	0.47	133,874
09	55	0.12	46,130	60	0.13	46,908	41	0.09	50,652	56	0.11	54,983
52	164	0.65	28,407	315	1.11	30,242	174	0.58	34,278	173	0.50	41,035
51	219	0.31	74,537	375	0.50	77,150	215	0.28	84,930	229	0.27	96,018
30	445	2.49	17,854	534	2.99	17,665	442	2.50	18,141	491	2.71	18,537
55	₩ 1,416	0.73%	₩ 202,916	₩ 1,695	0.84%	₩ 207,987	₩ 1,197	0.58%	₩ 223,879	₩ 1,286	0.57%	₩ 248,429

Note:

(1)

The number of days past due of restructured credit card loans is calculated from the first date of non-payment regardless of subsequent modification of terms.

Table of Contents**Non-Performing Loans by Industry**

The following table sets forth a breakdown of our non-performing corporate loans by industry as of December 31, 2015.

Industry	Aggregate Non-Performing Corporate Loan Balance (In billions of Won)	Percentage of Total Non-Performing Corporate Loan Balance (Percentages)
Construction	₩ 179	26.3%
Manufacturing	170	25.0
Real estate, leasing and service	99	14.6
Retail and wholesale	66	9.7
Finance and insurance	45	6.6
Hotel and leisure	25	3.7
Transportation, storage and communication	21	3.1
Other service ⁽¹⁾	24	3.5
Other ⁽²⁾	51	7.5
Total	₩ 680	100.0%

Notes:

(1) Includes other service industries such as publication, media and education.

(2) Includes other industries such as agriculture, forestry, mining, electricity and gas.

Top 20 Non-Performing Loans

As of December 31, 2015, our 20 largest non-performing loans accounted 29.7% of our total non-performing loan portfolio. The following table shows, at the date indicated, certain information regarding our 20 largest non-performing loans.

			As of December 31, 2015		
Industry			Gross Principal Outstanding	Allowance for Loan Losses	
			(In billions of Won)		
1	Borrower A	Construction	₩ 88	₩	4

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2	Borrower B	Construction	43	42
3	Borrower C	Finance and insurance	36	7
4	Borrower D	Real estate, leasing and service	30	22
5	Borrower E	Manufacturing	29	3
6	Borrower F	Real estate, leasing and service	23	
7	Borrower G	Construction	18	3
8	Borrower H	Manufacturing	18	3
9	Borrower I	Real estate, leasing and service	17	
10	Borrower J	Manufacturing	16	
11	Borrower K	Construction	10	
12	Borrower L	Finance and insurance	10	2
13	Borrower M	Manufacturing	10	10
14	Borrower N	Other service	9	4
15	Borrower O	Real estate, leasing and service	8	
16	Borrower P	Other service	8	1
17	Borrower Q	Transportation, storage, and communication	6	
18	Borrower R	Other service	6	3
19	Borrower S	Other service	6	
20	Borrower T	Construction	5	
			₩	396
			₩	104

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Non-Performing Loan Strategy

One of our primary objectives is to prevent our loans from becoming non-performing. Through our corporate credit rating system, which is designed to prevent our loan officers from extending new loans to borrowers with high credit risks based on the borrower's credit rating, we seek to reduce credit risk related to future non-performing loans. Our early warning system is designed to bring any sudden increase in a borrower's credit risk to the attention of our loan officers, who then closely monitor such loans.

If a loan becomes non-performing notwithstanding such preventive mechanism, an officer at the branch level responsible for monitoring non-performing loans will commence due diligence on the borrower's assets, send a notice demanding payment or a notice that we will take or prepare for legal action.

At the same time, we also initiate our non-performing loan management process, which includes:

identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;

identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and

to a limited extent, identifying commercial loans subject to normalization efforts based on the cash-flow situation of the borrower.

Once the details of a non-performing loan are identified, we pursue early solutions for recovery. Actual recovery efforts for non-performing loans are handled by the relevant department, depending on the nature of such loans and the borrower, among others. The officers or agents of the responsible departments and units use a variety of methods to resolve non-performing loans, including:

making phone calls and paying visits to the borrower to request payment;

continuing to assess and evaluate assets of our borrowers; and

if necessary, initiating legal action such as foreclosures, attachment and litigation.

In order to promote speedy recovery on loans subject to foreclosures and litigation, the branch responsible for handling these loans may transfer them to the relevant unit at headquarters.

Our policy is to commence legal action within one month after default on promissory notes and four months after delinquency of payment on other types of loans. For loans to insolvent or bankrupt borrowers or when we conclude that it is not possible to recover through normal procedures, we take prompt legal actions regardless of the grace period.

In addition to making efforts to collect on these non-performing loans, we take other measures to reduce the level of our non-performing loans, including:

selling non-performing loans to third parties including the Korea Asset Management Corporation;

entering into asset-backed securitization transactions with respect to non-performing loans;

managing retail loans that are three months or more past due through Shinhan Credit Information under an agency agreement; and

using third-party collection agencies including credit information companies.

In 2015, we sold non-performing loans in the amount of ₩205 billion to third parties, including ₩112 billion transferred to Ivy Hankang Ltd., a real estate project financing company wholly owned by KCC Corporation. Loans transferred to third parties generally meet the criteria of true sale and are derecognized accordingly.

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The following table presents a roll-forward of our non-performing loans in 2015.

	(In billions of Won)	
Non-performing loans as of December 31, 2014	₩	1,286
Additional non-performing loans due to delinquency		884
Loans sold		(205)
Loans charged off		(376)
Loans modified and returned to performing		(44)
Other adjustments ⁽¹⁾		(212)
Non-performing loans as of December 31, 2015	₩	1,333

Note:

- (1) Represents loans paid down or paid off and loans returned to performing other than as a result of modification. We do not separately collect and analyze data relating to non-performing loans other than those that were sold, charged off, modified and returned to performing, or transferred to held-for-sale investment portfolio.

Allocation of Allowance for Loan Losses

The following table presents, as of the dates indicated, the allocation of our loan loss allowance by loan type.

	As of December 31,									
	2011		2012		2013		2014		2015	
	(In billions of Won, except percentages)									
	Loans %		Loans %		Loans %		Loans %		Loans %	
	of		of		of		of		of	
	Total		Total		Total		Total		Total	
	Amount	Loans	Amount	Loans	Amount	Loans	Amount	Loans	Amount	Loans
Corporate										
Corporate loans	₩ 1,634	63.4%	₩ 1,700	60.7%	₩ 1,576	63.7%	₩ 1,502	60.1%	₩ 1,357	58.5%
Public and other	19	0.7	14	0.5	10	0.4	11	0.4	8	0.4
Loan to banks	13	0.5	11	0.4	5	0.2	12	0.5	10	0.4
Lease financing	14	0.5	33	1.2	21	0.9	26	1.0	29	1.3
	1,680	65.2	1,758	62.8	1,612	65.1	1,551	62.0	1,404	60.6

Total
corporate

Retail

Mortgages
and home
equity

	19	0.7	23	0.8	26	1.1	31	1.2	33	1.4
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Other retail	202	7.8	275	9.8	190	7.7	198	7.9	206	8.9
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Total retail	221	8.6	298	10.6	216	8.7	229	9.2	239	10.3
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Credit cards

	676	26.2	744	26.6	648	26.2	721	28.8	675	29.1
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Total
allowance
for loan
losses

	₩ 2,577	100.0%	₩ 2,800	100.0%	₩ 2,476	100.0%	₩ 2,501	100.0%	₩ 2,318	100.0%
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Our total allowance for loan losses decreased by ₩183 billion, or 7.32%, to ₩2,318 billion as of December 31, 2015 from ₩2,501 billion as of December 31, 2014, primarily due to improvement in asset quality of our corporate loans largely resulting from an increase in the sale, transfer and charge-offs of non-performing loans.

Our total allowance for loan losses increased by ₩25 billion, or 1.01%, to ₩2,501 billion as of December 31, 2014 from ₩2,476 billion as of December 31, 2013, primarily as a result of an increase in the volumes of the credit card purchase and credit card loans and an increase in the loss rate of credit card loans mainly due to deterioration of the asset quality for such loans.

Table of Contents**Analysis of Allowance for Loan Losses**

The following table presents an analysis of our loan loss experience for each of the years indicated.

	2011	2012	2013	2014	2015
	(In billions of Won, except percentages)				
Balance at the beginning of the period	₩ 2,852	₩ 2,585	₩ 2,800	₩ 2,476	₩ 2,501
Amounts charged against income	864	1,325	1,082	895	1,022
Gross charge-offs:					
Corporate:					
Corporate loans	(960)	(844)	(799)	(515)	(731)
Public and other	(1)	(1)			(2)
Loan to banks					
Lease financing	(14)	(19)	(33)	(16)	(60)
Retail:					
Mortgage and home equity	(1)	(4)	(4)	(3)	
Other retail	(80)	(130)	(242)	(153)	(128)
Credit cards	(447)	(486)	(657)	(500)	(520)
Total gross charge-offs	(1,503)	(1,484)	(1,735)	(1,187)	(1,441)
Recoveries:					
Corporate:					
Corporate loans	75	75	150	177	88
Public and other		6		11	
Loan to banks					
Lease financing	2	2	1	2	1
Retail:					
Mortgage and home equity	6				3
Other retail	37	32	28	19	24
Credit cards	283	257	217	182	171
Total recoveries	403	372	396	391	287
Other	(39)	2	(67)	(74)	(51)
Net charge-offs	(1,139)	(1,110)	(1,406)	(870)	(1,205)
Balance at the end of the period	₩ 2,577	₩ 2,800	₩ 2,476	₩ 2,501	₩ 2,318
Ratio of net charge-offs during the period to average loans outstanding during the period	0.78%	0.55%	0.68%	0.41%	0.51%
Loan Charge-offs					

Our gross charge-offs increased by 21.4% from ₩1,187 billion in 2014 to ₩1,441 billion in 2015, primarily due to our ongoing efforts to improve asset quality. Our gross charge-offs decreased from ₩1,735 billion in 2013 to ₩1,187 billion in 2014, primarily due to a decrease in charge-off of corporate loans as a result of a slowdown in the deterioration in the asset quality for corporate loans in 2014 as compared to 2013, which was primarily due to a decrease in impaired assets following a substantial charge-off of impaired loans to shipbuilding and construction companies in 2013.

In 2015, the charge-off on restructured loans amounted to ₩310 billion, of which ₩51 billion was related to loans converted into equity securities as part of restructuring. With respect to a loan that we consider to be uncollectible regardless of any modification of terms, we convert a portion of such loan into equity securities following negotiation with the borrower and charge off the remainder of such loan as previously discussed in Troubled Debt Restructurings Charge-off of Loans Subject to Restructuring. The equity securities so converted are recorded at fair value, based on the market value of such securities if available or the appraisal value of such securities by an outside appraiser if a market value is unavailable.

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We attempt to minimize loans to be charged off by practicing a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans. For charge-off of restructured loans, see [Loan Modification Programs for Loans under Restructuring](#) [Charge-off of Restructured Loans](#) above.

Loans to be Charged-off

Loans are charged off if they are deemed to be uncollectible by falling under any of the following categories:

loans for which collection is not foreseeable due to insolvency or bankruptcy, dissolution or the termination of the debtor's business;

loans for which collection is not foreseeable due to the death or disappearance of debtors;

loans for which collection expenses exceed the collectable amount;

loans for which collection is not possible through legal or any other means;

payments in arrears in respect of credit cards that are overdue for more than six months;

payments outstanding on unsecured retail loans that are overdue for more than 12 months;

payments in arrears in respect of leases that are overdue for more than 12 months;

the portion of loans classified as estimated loss, net of any recovery from collateral, which is deemed to be uncollectible.; or

domestic loans that are required by the Financial Supervisory Service to be charged-off, or loans held by our foreign subsidiaries or branches for which a charge-off or special provisioning is required by the relevant regulatory authority.

Timeline for Charge-off

Shinhan Bank's loans to be charged-off must be charged-off within one year of the month they are deemed to be uncollectible. If such loans are not charged-off within one year, the reason for the delay must be reported to Shinhan Bank's Audit Department.

Procedure for Charge-off Approval

An application for Shinhan Bank's loans to be charged-off is submitted by the relevant branch or department to the Credit Collection Department. The Credit Collection Department refers the application to the Audit Department for their review to ensure compliance with the Bank's internal procedures for charge-offs. The Credit Collection Department, after reviewing the application to confirm that it meets relevant requirements, seeks approval from the Financial Supervisory Service for the charge-offs, which is typically granted. Once the Financial Supervisory Service approves (except for household loans with estimated losses of ₩5 million or less, whose charge-off is considered automatically approved by the Financial Supervisory Service), loans are charged-off upon approval by the President of Shinhan Bank. As for Shinhan Card, it generally charges off receivables that are 180 days past due following internal review.

Treatment of Loans Charged-off

Once loans are charged off, they are derecognized from our statements of financial position and are classified as charged-off loans. We continue collection efforts in respect of these loans through third-party collection agencies, including the Korea Asset Management Corporation, and Shinhan Credit Information, which is our subsidiary. The General Manager of the Credit Collection Department must report to the Financial Supervisory Service the amounts of loans permanently written off or recovered during each reporting period.

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Treatment of Collateral

When we determine that a loan collateralized by real estate cannot be recovered through normal collection channels, we generally petition a court to foreclose and sell the collateral through a court-supervised auction within one month after default and insolvency and within four months after delinquency. However, this procedure does not apply to companies under restructuring, recovery proceedings, workout or other court proceedings where there are restrictions on such auction procedures. Filing of such petition with the court generally encourages the debtor to repay the overdue loan. If a debtor ultimately fails to repay and the court grants its approval for foreclosure, we sell the collateral and recover the principal amount and interest accrued up to the sales price, net of expenses incurred from the auction. Foreclosure proceedings under the laws and regulations of Korea typically take seven months to one year from initiation to collection depending on the nature of the collateral.

Financial Statement Presentation

Our financial statements report as charges-offs all unsecured retail loans, which are overdue for more than 12 months. Leases are charged off when past due for more than twelve months. For collateral dependent loans, we charge off the excess of the book value of the subject loan over the amount received or to be received from the sale of the underlying collateral when the collateral is sold as part of a foreclosure proceeding and its sale price becomes known through court publication as part of such proceeding.

Investment Portfolio

Investment Policy

We invest in and trade Won-denominated and, to a lesser extent, foreign currency-denominated securities for our own account in order to:

maintain the stability and diversification of our assets;

maintain adequate sources of back-up liquidity to match our funding requirements; and

supplement income from our core lending activities.

When making an investment decision with respect to particular securities, we consider macroeconomic trends, industry analysis and credit evaluation, among others.

Our securities investment activities are subject to a number of regulatory guidelines, including limitations prescribed under the Financial Holding Companies Act and the Banking Act. Generally, a financial holding company is prohibited from acquiring more than 5% of the total issued and outstanding shares of another finance-related company (other than its direct and indirect subsidiaries). Furthermore, under these regulations, Shinhan Bank must limit its investments in shares and securities with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and national government bonds) to 100.0% of the sum of Tier I and Tier II capital (less any deductions) of Shinhan Bank. Generally, Shinhan Bank is also prohibited from acquiring more than 15.0% of the shares with voting rights issued by any other corporation (other than for the purpose of establishing or acquiring a subsidiary). Further information on the regulatory environment governing our investment activities is set out in

Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Investments in Property,
Principal Regulations Applicable to Banks Restrictions on Shareholdings in Other Companies, Principal Regulations
Applicable to Financial Holding Companies Liquidity and Principal Regulations Applicable to Financial Holding
Companies Restrictions on Shareholdings in Other Companies.

Table of Contents**Book Value and Fair Value**

The following table sets out the book value and fair value of investments in our investment portfolio as of the dates indicated.

	As of December 31, 2013		As of December 31, 2014		As of December 31, 2015	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
	(In billions of Won)					
Financial assets designated at fair value						
Marketable equity securities	₩ 2,173	₩ 2,173	₩ 1,318	₩ 1,318	₩ 1,364	₩ 1,364
Debt securities:						
Korean treasury and governmental agencies	172	172	60	60	104	104
Debt securities issued by financial institutions	229	229	539	539	837	837
Corporate debt securities	780	780	816	816	937	937
Debt securities issued by foreign government						
Mortgage-backed and asset-backed securities	7	7	4	4	2	2
Others						
Total Fair Value Through Profit and Loss	₩ 3,361	₩ 3,361	₩ 2,737	₩ 2,737	₩ 3,244	₩ 3,244
Available-for-sale securities						
Marketable equity securities	₩ 4,888	₩ 4,888	₩ 4,562	₩ 4,562	₩ 4,929	₩ 4,929
Debt securities:						
Korean treasury and governmental agencies	3,707	3,707	3,083	3,083	3,606	3,606
Debt securities issued by financial institutions	12,842	12,842	11,922	11,922	15,594	15,594
Corporate debt securities	10,594	10,594	10,515	10,515	6,723	6,723
Debt securities issued by foreign government	589	589	589	589	676	676
Mortgage-backed and asset-backed securities	977	977	747	747	2,438	2,438
Total Available-for-sale	₩ 33,597	₩ 33,597	₩ 31,418	₩ 31,418	₩ 33,966	₩ 33,966
Held-to-maturity securities						
Debt securities:						
	₩ 5,585	₩ 5,828	₩ 7,723	₩ 8,344	₩ 9,432	₩ 10,413

Korean treasury and governmental agencies						
Debt securities issued by financial institutions	1,406	1,426	1,574	1,607	1,264	1,315
Corporate debt securities	3,785	3,874	3,860	4,049	2,902	3,136
Debt securities issued by foreign government	135	135	62	62	97	97
Mortgage-backed and asset-backed securities	120	117	154	160	2,497	2,528
Total Held-to-maturity	₩ 11,031	₩ 11,380	₩ 13,373	₩ 14,222	₩ 16,192	₩ 17,489
Trading Securities						
Marketable equity securities	₩ 2,693	₩ 2,693	₩ 2,861	₩ 2,861	₩ 3,043	₩ 3,043
Debt securities:						
Korean treasury and governmental agencies	866	866	1,942	1,942	3,255	3,255
Financial institutions	6,035	6,035	8,312	8,312	6,826	6,826
Corporations	7,676	7,676	10,731	10,731	9,256	9,256
Mortgage-backed and asset-backed securities	679	679	189	189	104	104
Debt securities issued by foreign governments	7	7	103	103	5	5
Other trading assets	77	77	224	224	149	149
Total Trading	₩ 18,033	₩ 18,033	₩ 24,362	₩ 24,362	₩ 22,638	₩ 22,638
Total securities	₩ 66,022	₩ 66,371	₩ 71,890	₩ 72,739	₩ 76,040	₩ 77,337

Table of Contents**Maturity Analysis**

The following table categorizes our securities by maturity and weighted average yield as of December 31, 2015.

	As of December 31, 2015														
	1 Year or Less		Over 1 but within 5		Over 5 but within 10 Years		Over 10 Years		Total						
	Weighted		Weighted	Weighted		Weighted	Weighted	Weighted	Weighted	Weighted					
	Carrying Average	Yield ⁽¹⁾	Carrying Average	Yield ⁽¹⁾	Carrying Average	Yield ⁽¹⁾	Carrying Average	Yield ⁽¹⁾	Carrying Average	Yield ⁽¹⁾	Carrying Average	Yield ⁽¹⁾			
	Amount		Amount		Amount		Amount		Amount		Amount				
(In billions of Won, except percentages)															
Financial assets designated at fair value:															
Korean treasury securities and government agencies	₩	41	1.61%	₩	53	1.70%	₩	10	1.97%	₩	0.00%	₩	104	1.69%	
Debt securities issued by financial institutions		20	2.21%		606	2.09%		211	2.82%		0.00%		837	2.28%	
Corporate debt securities		75	0.90%		757	2.11%		105	2.32%		0.00%		937	2.04%	
Mortgage Backed Securities and asset Backed Securities		2	1.97%			0.00%			0.00%		0.00%		2	1.97%	
Total	₩	138	1.32%	₩	1,416	2.09%	₩	326	2.64%	₩	0.00%	₩	1,880	2.13%	
Available-for-sale securities:															
Korean treasury securities and government agencies	₩	451	2.17%	₩	2,345	2.18%	₩	717	2.62%	₩	93	2.62%	₩	3,606	2.28%
Debt securities issued by financial institutions		6,374	2.06%		8,817	1.99%		393	3.23%		10	4.52%		15,594	2.05%
Corporate debt securities		1,423	2.54%		4,569	2.39%		661	2.75%		70	2.90%		6,723	2.46%
Debt securities issued by foreign governments		279	1.89%		283	6.80%		46	8.25%		68	4.21%		676	4.52%
		644	1.71%		1,717	1.92%		77	2.76%			0.00%		2,438	1.89%

Mortgage-backed securities and asset-backed securities

Total	₩ 9,171	2.11%	₩ 17,731	2.18%	₩ 1,894	2.93%	₩ 241	3.23%	₩ 29,037	2.22%
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Held-to-maturity securities:

Korean treasury securities and government agencies	₩ 683	3.73%	₩ 4,786	3.42%	₩ 673	2.91%	₩ 3,290	3.42%	₩ 9,432	3.41%
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Debt securities issued by financial institutions	315	4.32%	459	3.59%	329	4.17%	161	4.26%	1,264	4.01%
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Corporate debt securities	480	3.22%	1,342	3.50%	412	3.71%	668	3.60%	2,902	3.50%
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Debt securities issued by foreign governments		7.59%	10	6.68%	53	4.93%	34	7.66%	97	6.09%
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Mortgage-backed securities and asset-backed securities	40	2.10%	1,491	2.29%	858	2.41%	108	3.37%	2,497	2.37%
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Total	₩ 1,518	3.65%	₩ 8,088	3.24%	₩ 2,325	3.09%	₩ 4,261	3.51%	₩ 16,192	3.33%
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Trading securities:

Korean treasury securities and government agencies	₩ 360	1.63%	₩ 2,280	1.80%	₩ 525	2.14%	₩ 90	2.17%	₩ 3,255	1.84%
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Debt securities issued by financial institutions	3,707	1.74%	3,046	1.88%	20	2.37%	53	3.27%	6,826	1.81%
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Corporate debt securities	7,599	1.61%	1,643	2.24%	13	2.73%	1	2.69%	9,256	1.72%
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Debt securities issued by foreign governments		0.00%	5	1.03%		0.00%		0.00%	5	1.03%
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Mortgage-backed securities and asset-backed securities	43	1.87%	31	2.18%	30	2.31%		0.00%	104	2.09%
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Total	₩ 11,709	1.66%	₩ 7,005	1.94%	₩ 588	2.17%	₩ 144	2.58%	₩ 19,446	1.78%
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Total	₩ 22,536		₩ 34,240		₩ 5,133		₩ 4,646		₩ 66,555	
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Note:

(1) The weighted-average yield for the portfolio represents the yield to maturity for each individual security, weighted using its amortized cost.

Table of Contents**Concentrations of Risk**

The following table presents securities held by us whose aggregate book value exceeded 10% of our stockholders equity as of December 31, 2015. As of December 31, 2015, 10% of our stockholders equity was ₩3,181 billion.

Name of issuer:	As of December 31, 2015	
	Book Value	Fair Value
	(In billions of Won)	
Ministry of Strategy and Finance	₩ 15,409	₩ 15,675
The Korea Development Bank	₩ 9,774	₩ 9,774
The Bank of Korea	₩ 5,206	₩ 5,213
The Korea Housing Finance Corp	₩ 4,918	₩ 4,943

All of the above entities are either an agency of the Korean government or an entity controlled by the Korean government.

Credit-Related Commitments and Guarantees

In the normal course of our operations, we make various commitments and guarantees to meet the financing and other business needs of our customers. Commitments and guarantees are usually in the form of, among others, commitments to extend credit, commercial letters of credit, standby letters of credit and performance guarantees. The contractual amount of these financial instruments represents the maximum possible loss amount if the account party draws down the commitment or we should fulfill our obligation under the guarantee and the account party fails to perform under the contract.

The following table sets forth our credit-related commitments and guarantees as of the dates indicated.

	2013	As of December 31,	
		2014	2015
	(In billions of Won)		
Commitments to extend credit	₩ 73,464	₩ 74,449	₩ 75,443
Commercial letters of credit	3,045	2,987	2,377
Other ⁽¹⁾	26,743	28,742	22,327
Total	₩ 103,252	₩ 106,178	₩ 100,147

Note:

(1)

Consists of financial guarantees, performance guarantees, liquidity facilities to special purpose entities, acceptances, guarantee on trust accounts and endorsed bills.

We have credit-related commitments that are not reflected on our statements of financial position, which primarily consist of commitments to extend credit and commercial letters of credit. Commitments to extend credit, including credit lines, represent unfunded portions of authorizations to extend credit in the form of loans. These commitments expire on fixed dates and a customer is required to comply with predetermined conditions to draw funds under the commitments. Commercial letters of credit are undertakings on behalf of customers authorizing third parties to make drawdowns up to a stipulated amount under specific terms and conditions. They are generally short-term and collateralized by the underlying shipments of goods to which they relate.

We also have guarantees that are recorded on our statements of financial position at their fair value at inception which are amortized over the life of the guarantees. Such guarantees generally include standby letters of credit, other financial and performance guarantees and liquidity facilities to special purpose entities. Standby

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letters of credit are irrevocable obligations to pay third-party beneficiaries when our customers fail to repay loans or debt instruments, which are generally in foreign currencies. A substantial portion of these standby letters of credit are secured by collateral, including trade-related documents. Other financial and performance guarantees are irrevocable assurances that we will pay beneficiaries if our customers fail to perform their obligations under certain contracts. Liquidity facilities to special purpose entities are irrevocable commitments to provide contingent liquidity credit lines to special purpose entities established by our customers in the event that a triggering event such as shortage of cash occurs.

The commitments and guarantees do not necessarily represent our exposure since they often expire unused.

Derivatives

As discussed under **Business Overview** **Our Principal Activities** **Other Banking Services** **Derivatives Trading** above, we engage in derivatives trading activities primarily on behalf of our customers so that they may hedge their risks and also enter into back-to-back derivatives with other financial institutions to cover exposures arising from such transactions. In addition, we enter into derivatives transactions to hedge against risk exposures arising from our own assets and liabilities, some of which are nontrading derivatives that do not qualify for hedge accounting treatment.

The following shows, as of December 31, 2015, the gross notional or contractual amounts of derivatives held or issued for (i) trading and (ii) nontrading that qualify for hedge accounting.

	As of December 31, 2015		
	Underlying Notional Amount⁽¹⁾	Estimated Fair Value Assets	Estimated Fair Value Liabilities
	(In billions of Won)		
Trading:			
Foreign exchange derivatives:			
Future and forward contracts	₩ 55,448	₩ 807	₩ 608
Swaps	19,643	395	535
Options	2,430	18	11
Sub-total	77,521	1,220	1,154
Interest rate derivatives:			
Future and forward contracts	2,089		
Swaps	76,669	474	471
Options	1,231	10	12
Sub-total	79,989	484	483
Credit derivatives:			
Swaps	1,154	15	20
Sub-total	1,154	15	20

Equity derivatives:			
Swaps and forward contracts	3,708	18	519
Options	8,970	64	84
Future contracts	385		1
Sub-total	13,063	82	604
Commodity derivatives:			
Swaps and forward contracts	1,147	10	154
Options	28	1	

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	As of December 31, 2015		
	Underlying Notional Amount ⁽¹⁾	Estimated Fair Value Assets	Estimated Fair Value Liabilities
	(In billions of Won)		
Future contracts	56		
Sub-total	1,231	11	154
Total	₩ 172,958	₩ 1,812	₩ 2,415
Nontrading:			
Hedge accounting:			
Foreign exchange derivatives:			
Swaps	₩ 2,465	₩ 124	₩ 23
Future and forward contracts	1,230	5	35
Interest rate derivatives:			
Swaps	7,680	53	126
Total	₩ 11,375	₩ 182	₩ 184

Note:

(1) Notional amounts in foreign currencies were converted into Won at prevailing exchange rates as of December 31, 2015.

Funding

We obtain funding from a variety of sources, both domestic and foreign. Our principal source of funding is customer deposits obtained from our banking operations, and we from time to time issue equity and debt securities, including preferred shares. In addition, our subsidiaries acquire funding through call money, borrowings from the Bank of Korea, other short-term borrowings, corporate debentures and other long-term debt, including debt and equity securities issuances, asset-backed securitizations and repurchase transactions, to complement, or if necessary, replace funding through customer deposits. For further details relating to funding by us and our subsidiaries, see Item 5.B. Liquidity and Capital Resources.

Deposits

Although the majority of our bank deposits are short-term, the majority of our depositors have historically rolled over their deposits at maturity, providing our banking operation with a stable source of funding.

The following table shows the average balances of our deposits and the average rates paid on our deposits for the periods indicated.

	2013		2014		2015	
	Average Balance ⁽¹⁾	Average Rate Paid	Average Balance ⁽¹⁾	Average Rate Paid	Average Balance ⁽¹⁾	Average Rate Paid
(In billions of Won, except percentages)						
Interest-bearing deposits:						
Demand deposits	₩ 19,531	0.65%	₩ 21,871	0.57%	₩ 26,365	0.44%
Savings deposits	40,139	0.96	45,622	0.87	56,083	0.70
Time deposits	112,134	3.00	112,469	2.58	113,932	2.03
Other deposits	1,680	2.01	2,151	1.32	3,555	1.20
Total interest-bearing deposits	₩ 173,484	2.26%	₩ 182,113	1.89%	₩ 199,935	1.43%

Note:

- (1) Average balances are based on (a) daily balances of Shinhan Bank and (b) quarterly balances for other subsidiaries.

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For a breakdown of deposit products, see Our Principal Activities Deposit-taking Activities, except that cover bills sold are recorded on short-term borrowings and securities sold under repurchase agreements are recorded as secured borrowings.

Certificates of Deposit and Other Time Deposits

The following table presents the balance and remaining maturities of certificates of deposit and other time deposits which had a fixed maturity in excess of ₩100 million or more as of December 31, 2015.

	As of December 31, 2015		
	Certificates of Deposit	Other Time Deposits	Total
	(In billions of Won)		
Maturing within three months	₩ 1,466	₩ 30,923	₩ 32,389
After three but within six months	861	17,776	18,637
After six but within 12 months	1,474	33,739	35,213
After 12 months	270	4,258	4,528
Total	₩ 4,071	₩ 86,696	₩ 90,767

A majority of our certificates of deposit accounts and other time deposits issued by our foreign offices is in the amount of US\$100,000 or more.

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The following table presents information regarding our short-term borrowings (borrowings with an original maturity of one year or less) for the periods indicated.

Average Balance Outstanding	2013			2014			Average Balance Outstanding	2014			Average Balance Outstanding
	Highest Weighted Balances at Any Month-end	Average Interest Rate ⁽²⁾	Year-end Interest Rate	Average Balance Outstanding	Highest Weighted Balances at Any Month-end	Average Interest Rate ⁽²⁾		Year-end Interest Rate	Average Balance Outstanding	Highest Weighted Balances at Any Month-end	
1,373	₩ 1,531	0.97%	0.10 - 1.25%	₩ 1,478	₩ 1,251	₩ 1,478	0.84%	0.10 - 1.00%	₩ 2,073	₩ 1,712	₩ 2,073
2,397	3,335	2.93	0.01 - 5.08	2,649	2,942	3,729	2.35	0.10 - 9.00	643	2,368	5,000
5,540	9,925	1.52	0.00 - 6.17	12,809	10,750	12,901	1.03	0.00 - 8.91	11,463	8,010	13,000
9,310	₩ 14,791	1.80%		₩ 16,936	₩ 14,943	₩ 18,108	1.27%		₩ 14,179	₩ 12,090	₩ 20,000

(In billions of Won, except for percentages)

Notes:

- (1) Average balances are based on (a) daily balances of Shinhan Bank and (b) quarterly balances for other subsidiaries.
- (2) Weighted-average interest rates are calculated by dividing the total interest expenses by the average amount borrowed.
- (3) Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.
- (4) Other short-term borrowings included borrowings from trust accounts, bills sold, and borrowings in domestic and foreign currencies.

Our short-term borrowings have maturities of less than one year which are generally unsecured with the exception of borrowings from the Bank of Korea, which are generally secured with available-for-sale or held-to-maturity securities held by us.

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Risk Management

Overview

As a financial services provider, we are exposed to various risks relating to our lending, credit card, insurance, securities investment, trading and leasing businesses, our deposit taking and borrowing activities and our operating environment. The principal risks to which we are exposed are credit risk, market risk, interest rate risk, liquidity risk and operational risk. These risks are recognized, measured and reported in accordance with risk management guidelines established at our holding company level and implemented at the subsidiary level through a carefully stratified checks-and-balances system.

We believe that our risk management system has been instrumental to building our reputation as a well-managed and prudent financial service provider and withstanding various external shocks. In particular, during the global financial crisis of 2008 and 2009, we believe our risk management provided effective early warning signals which helped us to proactively reconfigure our asset portfolio and substantially reduce our exposure to troubled debtors and thereby avoid what could have been a substantially greater credit loss during such crisis, and we are carefully upgrading and refining our risk management system in the face of current and potential economic difficulties at global, regional and domestic levels.

Our group-wide risk management philosophy is to instill a culture of effective risk management and awareness at all levels of our organization and pursue a proper balance between risk and return in our business activities in order to achieve a sustainable growth. In particular, our group-wide risk management is guided by the following core principles:

carrying out all business activities within prescribed risk tolerance levels and prudently balancing profitability and risk management;

standardizing the risk management process and monitoring compliance at a group-wide level;

operating a prudent risk management decision making system backed by active participation by management;

creating and operating a risk management organization independent of business activities;

operating a performance management system that enhances clear and prompt identification of risks when making business decisions;

aiming to achieve preemptive and practical risk management; and

prudent preparation for known and unknown contingencies.

We take the following steps to implement the foregoing risk management principles:

risk capital management Risk capital refers to capital necessary to compensate for losses in case of a potential risk being realized, and risk capital management refers to the process of asset management based on considerations of risk exposure and risk appetite for our total assets so that we can maintain an appropriate level of risk capital. As part of our risk capital management, we and our subsidiaries have adopted and maintain various risk planning processes and reflect such risk planning in our business and financial planning. We also maintain a risk limit management system to ensure that risks in our business do not exceed prescribed limits.

risk monitoring We proactively, preemptively and periodically review risks that may impact our overall operations, including through a multidimensional risk monitoring system. Currently, each of our subsidiaries is required to report to the holding company any factors that could have a material impact on group-wide risk management, and the holding company reports to our chief risk officer and other members of our senior management the results of risk monitoring weekly, monthly and on an *ad hoc* basis as needed. In addition, we perform preemptive risk management through a risk dashboard

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system under which we closely monitor any increase in asset size, risk levels and sensitivity to external factors with respect to the major asset portfolios of each of our subsidiaries, and to the extent such monitoring yields any warning signals, we promptly analyze the causes and, if necessary, formulate and implement actions in response thereto.

risk review Prior to entering any new business, offering any new products or changing any major policies, we review any relevant risk factors based on a prescribed risk management checklist and, in the case of changes for which assessment of risk factors is difficult, perform reasonable decision-making in order to avoid taking any unduly risky action. The risk management departments of all our subsidiaries are required to review all new businesses, products and services prior to their launch and closely monitor the development of any related risks following their launch, and in the case of any action that involves more than one subsidiary, the relevant risk management departments are required to consult with the risk management team at the holding company level prior to making any independent risk reviews.

crisis management We maintain a group-wide risk management system to detect the early warnings signals of any crisis and, in the event of a crisis actually happening, to respond on a timely, efficient and flexible basis so as to ensure our survival as a going concern. Each of our subsidiaries maintains crisis planning for three levels of contingencies, namely, alert, imminent crisis and crisis, determination of which is made based on quantitative and qualitative monitoring and consequence analysis, and upon the occurrence of any such contingency, is required to respond according to a prescribed contingency plan. At the holding company level, we maintain and install a crisis detection and response system which is applied consistently group-wide, and upon the occurrence of an imminent crisis or crisis event at a subsidiary level, we directly take charge of the situation at the holding company level so that we manage it on a concerted group-wide basis.

Organization

Our risk management system is organized along the following hierarchy (from top to bottom): at the holding company level, the Group Risk Management Committee, the Group Risk Management Council, the Group Chief Risk Officer and the Group Risk Management Team, and at the subsidiary level, the Risk Management Committee, the Chief Risk Officer and the Risk Management Team of the relevant subsidiary. The Group Risk Management Committee, which is under the supervision of our holding company's board of directors, sets the basic group-wide risk management policies and strategies. Our Group Chief Risk Officer reports to the Group Risk Management Committee, and the Group Risk Management Council coordinates the risk management policies and strategies at the group level as well as at the subsidiary level among each of our subsidiaries. Each of our subsidiaries also has a separate Risk Management Committee, Risk Management Working Committee and Risk Management Team, whose tasks are to implement the group-wide risk management policies and strategies at the subsidiary level as well as to set risk management policies and strategies specific to such subsidiary in line with the group-wide guidelines. We also have the Group Risk Management Team, which supports our Chief Risk Officer in his or her risk management and supervisory role.

In order to maintain the group-wide risk at an appropriate level, we use a hierarchical risk limit system under which the Group Risk Management Committee assigns reasonable risk limits for the entire group and each of our subsidiaries, and the Risk Management Committee and the Risk Management Working Committee of each of our subsidiaries manage the subsidiary-specific risks by establishing and managing risk limits in more detail by type of risk and type of product for each department and division within such subsidiary. Further details follow.

At the holding company level:

Group Risk Management Committee The Group Risk Management Committee consists of three outside directors of our holding company. The Group Risk Management Committee convenes at least quarterly and on an *ad hoc* basis as needed. Specifically, the Group Risk Management Committee does

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the following: (i) establish the overall risk management policies consistent with management strategies, (ii) set reasonable risk limits for the entire group and each of our subsidiaries, (iii) approve appropriate investment limits or permissible loss limits, (iv) enact and amend risk management regulations, and (v) decide other risk management-related issues the board of directors or the Group Risk Management Committee sees fit to discuss. The results of the Group Risk Management Committee meetings are reported to the board of directors of our holding company. The Group Risk Management Committee makes decisions through affirmative votes by a majority of the committee members.

Group Risk Management Council Comprised of the Group Chief Risk Officer, Group Risk Management Team head, and Chief Risk Officers of each of our subsidiaries, the Group Risk Management Council provides a forum for risk management executives from each subsidiary to discuss our group-wide risk management guidelines and strategy in order to maintain consistency in the group-wide risk policies and strategies.

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

Group Risk Management Team This team provides support and assistance to the Group Chief Risk Officer in carrying out his or her responsibilities.

At the subsidiary level:

Risk Management Committee In order to maintain group-wide risk at an appropriate level, we have established a hierarchical risk limit system where the Group Risk Management Committee establishes risk limits for us and our subsidiaries, and each of our subsidiaries establishes and manages risk limits in more detail by type of risk and type of product for each department and division within such subsidiary. In accordance with the group risk management policies and strategies, the Risk Management Committee at the subsidiary level establishes its own risk management policies and strategies in more detail and the respective risk management department implements those policies and strategies.

Risk Management Team The Risk Management Team, operating independently from the business units of each of our subsidiaries, monitors, assesses, manages and controls the overall risk of its operations and reports all major risk-related issues to the Group Risk Management Team at the holding company level, which then reports to the Group Chief Risk Officer.

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The following is a flowchart of our risk management system at the holding company level and the subsidiary level.

Credit Risk Management

Credit risk, which is the risk of loss from default by borrowers, other obligors or other counterparties to the transactions that we have entered into, is the greatest risk we face. Our credit risk management encompasses all areas of credit that may result in potential economic loss, including not just transactions that are recorded on our balance sheets, but also off-balance-sheet transactions such as guarantees, loan commitments and derivatives transactions. A substantial majority of our credit risk relates to the operations of Shinhan Bank and Shinhan Card.

Credit Risk Management of Shinhan Bank

Shinhan Bank's credit risk management is guided by the following principles:

achieve a profit level corresponding to the level of risks involved;

improve asset quality and achieve an optimal mix of asset portfolios;

avoid excessive loan concentration in a particular borrower or sector;

closely monitor the borrower's ability to repay the debt; and

provide financial support to advance the growth of select customers.

Major policies for Shinhan Bank's credit risk management, including Shinhan Bank's overall credit risk management plan and credit policy guidelines, are determined by the Risk Policy Committee of Shinhan Bank, the executive decision-making body for management of credit risk. The Risk Policy Committee is headed by the Chief Risk Officer, and also comprises of the Chief Credit Officer and the heads of each business unit. In order to separate the loan approval functions from credit policy decision-making, Shinhan Bank has a Credit Review Committee that performs credit review evaluations with a focus on improving the asset quality of and profitability from the loans being made, and operates separately from the Risk Policy Committee. Both the Risk Policy Committee and the Credit Review Committee make decisions by a vote of two-thirds or more of the attending members of the respective committees, which must constitute at least two-thirds of the respective committee members to satisfy the respective quorum.

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Shinhan Bank complies with credit risk management procedures pursuant to internal guidelines and regulations and continually monitors and improves these guidelines and regulations. Its credit risk management procedures include:

credit evaluation and approval;

credit review and monitoring; and

credit risk assessment and control.

Credit Evaluation and Approval

All loan applicants and guarantors are subject to credit evaluation before approval of any loans. Credit evaluation of loan applicants are carried out by senior officers of Shinhan Bank specifically charged with granting loan approvals. Loan evaluation is carried out by a group rather than by an individual reviewer through an objective and deliberative process. Credit ratings of loan applicants and guarantors influence loan interest rates, the level of internal approval required, credit exposure limits, calculation of potential losses and estimated cost of capital, and therefore are determined objectively and independently by the relevant business unit. Shinhan Bank uses a credit scoring system for retail loans and a credit-risk rating system for corporate loans.

Each of Shinhan Bank's borrowers is assigned a credit rating, which is based on a comprehensive internal credit evaluation system that considers a variety of criteria. For retail borrowers, the credit rating takes into account the borrower's biographic details, past dealings with Shinhan Bank and external credit rating information, among other things. For corporate borrowers, the credit rating takes into account financial indicators as well as non-financial indicators such as industry risk, operational risk and management risk, among other things. The credit rating, once assigned, serves as the fundamental instrument for Shinhan Bank's credit risk management, and is applied to a wide range of credit risk management processes, including credit approval, credit limit management, loan pricing and computation of allowance for loan losses. Shinhan Bank has separate credit evaluation systems for retail customers, SOHO customers and corporate customers, which are further segmented and refined to meet Basel II requirements, which requirements have not changed under Basel III. See Item 5.A. Operating Results Critical Accounting Policies Impairment of Financial Assets Allowance for Loan Losses.

Retail Loans

Loan applications for retail loans are reviewed in accordance with Shinhan Bank's credit scoring system and the objective statistics models for secured and unsecured loans maintained and operated by Shinhan Bank's Retail Banking Division. Shinhan Bank's credit scoring system is an automated credit approval system used to evaluate loan applications and determine the appropriate pricing for the loan, and takes into account factors such as a borrower's personal information, transaction history with Shinhan Bank and other financial institutions and other relevant credit information. The applicant is assigned a score, which is used to determine (i) whether to approve the applicant's loan, (ii) the amount of loan to be granted, and (iii) the interest rates thereon. The applicant's score also determines whether the applicant is approved for credit, conditionally approved, subject to further assessment, or denied. If the applicant becomes subject to further assessment, the appropriate discretionary body, either at the branch level or at the headquarter level, makes a reassessment based on qualitative as well as quantitative factors, such as credit history, occupation and past relationship with Shinhan Bank.

For mortgage and home equity loans and loans secured by real estate, Shinhan Bank evaluates the value of the real estate offered as collateral using a proprietary database, which contains information about real estate values throughout Korea. In addition, Shinhan Bank uses up-to-date information provided by third parties regarding the real estate market and property values in Korea. While Shinhan Bank uses internal staff from the processing centers to appraise the value of the real estate collateral, Shinhan Bank also hires certified appraisers

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to review and co-sign the appraisal value of real estate collateral that have an appraisal value exceeding ₩3 billion, as initially determined by the processing centers. Shinhan Bank also reevaluates internally, on a summary basis, the appraisal value of collateral at least every year.

For loans secured by securities, deposits or other assets other than real estate, Shinhan Bank requires borrowers to observe specified collateral ratios in respect of secured obligations:

Corporate Loans

Shinhan Bank rates all of its corporate borrowers using internally developed credit evaluation systems. These systems consider a variety of criteria (quantitative, qualitative, financial and non-financial) in order to standardize credit decisions and focus on the quality of borrowers rather than the size of loans. The quantitative considerations include the borrower's financial and other data, while the qualitative considerations are based on the judgment of Shinhan Bank's credit officers as to the borrower's ability to repay. Financial considerations include financial variables and ratios based on customer's financial statements, such as return on assets and cash flow to total debt ratios, and non-financial considerations include, among other things, the industry to which the borrower's businesses belong, the borrower's competitive position in its industry, its operating and funding capabilities, the quality of its management and controlling stockholders (based in part on interviews with its officers and employees), technological capabilities and labor relations.

In addition, in order to enhance the accuracy of its internal credit reviews, Shinhan Bank also considers reports prepared by external credit rating services, such as Nice Information Service and Korea Enterprise Data, and monitors and improves the effectiveness of the credit risk-rating systems using a database that it updates continually with actual default records.

Based on the scores calculated under the credit rating system, which takes into account the evaluation criteria described above and the probability of default, Shinhan Bank assigns the borrower one of 23 grades (from the highest of AAA to the lowest of D3). Grades AA through B are further broken down into +, 0 or -. Grades AAA through B- are classified as normal, grade CCC precautionary, and grades CC through D3 non-performing. The credit risk-rating model is further differentiated by the size of the corporate borrower and the type of credit facilities.

Loan Approval Process

Loans are generally approved after evaluations and approvals by the relationship manager at the branch level as well as the committee of the applicable business unit at Shinhan Bank. The approval limit for retail loans is made based on Shinhan Bank's automated credit scoring system. In the case of large corporate loans, approval limits are also reviewed and approved by a Credit Officer at the headquarter level. Depending on the size and the importance of the loan, the approval process is further reviewed by the Credit Officer Committee or the Master Credit Officer Committee. If the loan is considered significant or the amount exceeds the discretion limit of the Master Credit Officer Committee, further evaluation is made by the Credit Review Committee, which is Shinhan Bank's highest decision-making body in relation to credit approval. The Credit Review Committee's evaluation and approval of loan limits vary depending on the credit ratings of the borrowers as determined by Shinhan Bank's internal credit rating system. For example, for borrowers with a credit rating of B-, the Credit Review Committee evaluates and approves unsecured loans in excess of ₩10 billion and secured loans in excess of ₩15 billion, whereas for borrowers with a credit rating of AAA, the Credit Review Committee evaluates and approves unsecured loans in excess of ₩40 billion and secured loans in excess of ₩90 billion. The Credit Review Committee holds at least two meetings a week to approve applications for large-sized loans whose principal amounts exceed prescribed levels set by it.

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The chart below summarizes the credit approval process of our banking operation. The Master Credit Officer and the Head of Business Division do not make individual decisions on loan approval, but are part of the decision-making process at the group level.

The reviewer at each level of the review process may in its discretion approve loans up to a maximum amount per loan assigned to such level. The discretionary loan approval limit for each level of the loan approval process takes into account the total amount of loans extended to the borrower, the credit level of the applicant based on credit review, the existence and value of collateral and the level of credit risk established by the credit rating system. The discretionary loan amount approval limit ranges from ₩30 million for unsecured retail loans with a credit rating of B-, which are subject to approvals by the retail branch manager, to ₩90 billion for secured loans with a credit rating of AAA, which are subject to approvals by the Master Credit Officer Committee. Any loans exceeding the maximum discretionary loan amount approval limit must be approved by the Credit Review Committee.

Credit Review and Monitoring

Shinhan Bank continually reviews and monitors existing credit risks primarily with respect to borrowers. In particular, Shinhan Bank's automated early warning system conducts daily examination for borrowers using over 193 financial and non-financial factors, and the relationship manager and the credit officer must conduct periodic loan review and report to an independent loan review team which analyzes in detail the results and adjusts credit ratings accordingly. Based on these reviews, Shinhan Bank adjusts a borrower's credit rating, credit limit, applied interest rates and credit policies. In addition, the group credit rating of the borrower's group, if applicable, may be adjusted following a periodic review of the main debtor groups, mostly comprised of *chaebols*, as identified by the Governor of the Financial Supervisory Service based on their outstanding credit exposures, of which 63 were identified as such as of December 31, 2015. Shinhan Bank also continually reviews other factors, such as industry-specific conditions for the borrower's business and its domestic and overseas asset base and operations, in order to ensure that the assigned ratings are appropriate. The Credit Review Department provides credit review reports, independent of underwriting, to the Chief Risk Officer on a monthly basis.

The early warning system performs automatic daily checks for borrowers to whom Shinhan Bank has more than ₩1 billion of total exposure or ₩500 million of credit exposure. When the early warning system detects a warning signal, the results of such monitoring are reviewed by the Credit Review Department in the case of a borrower to whom Shinhan Bank has more than ₩2 billion of exposure, and the relationship manager and the Credit Officer in the case of a borrower to whom Shinhan Bank has ₩2 billion or less of exposure. In addition, Shinhan Bank carries out a planned review of each borrower in accordance with changing credit risk factors based on the changing economic environment. The results of such planned review are continually reported to the Chief Risk Officer of Shinhan Bank.

The early warning system performs automatic daily checks for borrowers to whom Shinhan Bank has more than ₩1 billion of total exposure (which represents the total outstanding amount due from a borrower, net of collateral for deposit, installment savings, guarantees and import guarantee money) or ₩500 million of net credit

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exposure (which represents total exposure net of effective collateral). When the early warning systems detects a warning signal, such signal and other findings from the monitoring are reviewed by the Credit Review Department in the case of a borrower to whom Shinhan Bank has more than ₩2 billion of exposure, and by the relationship manager and the Credit Officer in the case of a borrower to whom Shinhan Bank has ₩2 billion or less of exposure. In addition, Shinhan Bank carries out a preemptive review of each borrower in accordance with changes in credit risk factors based on changes in the economic environment. The results of such preemptive review are continually reported to the Chief Risk Officer of Shinhan Bank.

Depending on the nature of the signals detected by the early warning system, a borrower may be classified as deteriorating credit and become subject to evaluation for a possible downgrade in rating, or may be initially classified as showing early warning signs or become reinstated to the normal borrower status. For borrowers classified as showing early warning signs, the relevant relationship manager gathers information and conducts a review of the borrower to determine whether the borrower should be classified as a deteriorating credit or whether to impose management improvement warnings or implement joint creditors management. If the borrower becomes non-performing, Shinhan Bank's collection department directly manages such borrower's account in order to maximize recovery rate, and conducts auctions, court proceedings, sale of assets or corporate restructuring as needed.

Pursuant to the foregoing credit review and monitoring procedures and in order to promptly prevent deterioration of loan qualities, Shinhan Bank classifies potentially problematic borrowers into (i) borrowers that show early warning signals, (ii) borrowers that require precaution, (iii) borrowers that require observation and (iv) normal borrowers, and treats them differentially accordingly.

In order to curtail delinquency among its corporate customers, Shinhan Bank takes primarily the following measures: (i) systematic monitoring of borrowers with sizable outstanding loans, (ii) heightened monitoring of borrowers with bad credit history and/or belonging to troubled industries and (iii) assignment of industry-specific lending caps, as adjusted for whether specific industries are particularly sensitive to general business cycles and/or are troubled at a given time.

Systematic monitoring of borrowers with sizable outstanding loans. Shinhan Bank currently applies a heightened monitoring system to corporate borrowers with outstanding loans (other than guaranteed loans and loans secured by specified types of collaterals such as deposits with us or letters of credit) in the aggregate amount of ₩1 billion or more and borrowers with net outstanding loans (i.e., the outstanding loan amount minus the fair value of collaterals (other than as aforesaid) securing such loans) in the aggregate amount of ₩500 million or more. Under this monitoring system, each such borrower is assigned one of the following ratings:

Normal borrower a borrower with a credit rating of B- or above that are deemed to carry a low risk of default;

Borrower that requires observation a borrower that carries some risk of potential default and therefore requires periodic monitoring to detect any elevation of such risk;

Borrower that requires precaution a borrower with an elevated risk of default and therefore requires detailed reassessment of the credit quality of such borrower and precaution in extending any further loans;

Borrower with early warning signs a borrower with a high level of default risk; and

Problematic or reorganized borrower a borrower currently in default and either subject to workout or restructuring or showing no signs of recovery.

Shinhan Bank conducts systematic monitoring of the foregoing borrowers at intervals depending on the borrower's credit rating (for example, every 12 months for normal borrowers with a credit rating of AAA to A, every nine months for normal borrowers with a credit rating of A- to BBB+, every six months for a credit rating of BBB to B- and every three months for borrowers with a credit rating of CCC or below and borrowers

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not deemed to be normal). In addition, the loan reviewer may request more frequent monitoring if the borrower is showing signs of deteriorating credit quality. For borrowers with outstanding loan amounts of ₩2 billion or more, Shinhan Bank also monitors the revenues and earnings of such borrower on a quarterly basis within 10 weeks following the end of each quarter.

Heightened monitoring of borrowers with bad credit history and/or belonging to troubled industries. In addition to the systematic monitoring discussed above, Shinhan Bank also carries out additional monitoring for borrowers that, among others, (i) are rated as requiring observation, requiring precaution or with early warning signs as noted above, (ii) have prior history of delinquency or restructuring or (iii) have borrowings that are classified as substandard or below. Based on the heightened monitoring of these borrowers, Shinhan Bank adjusts contingency planning as to how the overall asset quality of a specific industry should change for each phase of the business cycle, how Shinhan Bank should limit or reduce its exposure to such borrowers, and how our group-wide delinquency and non-performing ratio would change, among other things.

Assignment of industry-specific lending caps. Shinhan Bank currently classifies loans to corporate borrowers by industry, and caps the aggregate amount of loans to each industry, which amount varies depending on the respective industry forecasts and industry-specific loan default rates, among other factors. By doing so, Shinhan Bank seeks to avoid concentration of loans in risky industries and subject loans to risky industries to heightened monitoring and risk management.

Shinhan Bank currently places the following industries with relatively high risk profiles on the intensive management watch list for heightened monitoring and management: real estate supply, leasing and service; restaurants; lodging; construction; shipbuilding; shipping; non-metallic minerals and golf operation. For each of these industries, Shinhan Bank enforces a conservative cap on the aggregate amount of loans to such industry, and the business units responsible for exceeding such limits are penalized in their performance evaluations, which would have a negative impact on the pay and promotion of the employees belonging to such units.

Credit Risk Assessment and Control

In order to assess credit risk in a systematic manner, Shinhan Bank has developed and upgraded systems designed to quantify credit risk based on selection and monitoring of various statistics, including delinquency rate, non-performing loan ratio, expected loan loss and weighted average risk rating.

Shinhan Bank controls loan concentration by monitoring and managing loans at two levels: portfolio level and individual loan account level. In order to maintain portfolio-level credit risk at an appropriate level, Shinhan Bank manages its loans using value-at-risk (VaR) limits for the entire bank as well as for each of its business units. In order to prevent concentration of risk in a particular borrower or borrower class, Shinhan Bank also manages credit risk by borrower, industry, country and other detailed categories.

Shinhan Bank measures credit risk using internally accumulated data. Shinhan Bank measures expected and unexpected losses with respect to total assets monthly, which Shinhan Bank refers to when setting risk limits for, and allocating capital to, its business groups. Expected loss is calculated based on the probability of default, the loss given default, the exposure at default and the past bankruptcy rate and recovery rate, and Shinhan Bank provides allowance for loan losses accordingly. Shinhan Bank makes provisioning at a level which is the higher of the Financial Supervisory Service requirement or Shinhan Bank's internal calculation. Unexpected loss is predicted based on VaR, which is used to determine compliance with the aggregate credit risk limit for Shinhan Bank as well as the credit risk limit for the relevant department within Shinhan Bank. Shinhan Bank uses the Advanced Internal Rating-Based (AIRB) method as proposed by the Basel Committee to compute VaR at the account-specific level as well as to

measure risk adjusted performance.

Credit Risk Management of Shinhan Card

Major policies for Shinhan Card's credit risk management are determined by Shinhan Card's Risk Management Council, and Shinhan Card's Risk Management Committee is responsible for approving them.

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Shinhan Card's Risk Management Council is headed by the Chief Risk Officer, and also comprises of the heads of each business unit, supporting unit and relevant department at Shinhan Card. Shinhan Card's Risk Management Council convenes at least once every month and may also convene on an *ad hoc* basis as needed. Shinhan Card's Risk Management Committee is comprised of three Non-Standing Directors. Shinhan Card's Risk Management Committee convenes at least once every quarter and may also convene on an *ad hoc* basis as needed.

The risk of loss from default by the cardholders or credit card loan borrowers is Shinhan Card's greatest credit risk. Shinhan Card manages its credit risk based on the following principles:

achieve profit at a level corresponding to the level of risks involved;

improve asset quality and achieve an optimal mix of asset portfolios; and

closely monitor borrower's ability to repay the debt.

Credit Card Approval Process

Shinhan Card uses an automated credit scoring system to approve credit card applications or credit card authorizations. The credit scoring system is divided into two sub-systems: the behavior scoring system and the application scoring system. The behavior scoring system is based largely on the credit history of the cardholder or borrower, and the application scoring system is based largely on personal information of the applicant. For credit card applicants with whom we have an existing relationship, Shinhan Card's credit scoring system considers internally gathered information such as the ability to repay, total assets, the length of the existing relationship and the applicant's contribution to Shinhan Card's profitability. The credit scoring system also automatically conducts credit checks on all credit card applicants. Shinhan Card gathers information about the applicant's transaction history with financial institutions, including banks and credit card companies, from a number of third party credit reporting agencies including, among others, National Information & Credit Evaluation Inc. and Korea Credit Bureau. These credit checks reveal a list of the delinquent customers of all credit card issuers in Korea.

If a credit score assigned to an applicant is above the minimum threshold, the application is approved unless overridden based on other considerations such as delinquencies with other credit card companies. For a credit card application by a long-standing customer with a good credit history, Shinhan Card may, on a discretionary basis, approve the application notwithstanding the assigned credit score unless overridden by other considerations. All of these factors also serve as the basis for setting a credit limit for approved applications.

The following describes the process of how Shinhan Card sets credit limits for credit cards, cash advances and card loans:

Credit purchase and cash advance limits These limits are set based on the applicant's limit request and Shinhan Card's credit screening criteria. Unless a cardholder requests a reduction in the credit purchase and/or cash advance limit, Shinhan Card is required to provide prior notice to the cardholder for any reduction in such cardholder's limit. However, if the account holder defaults or the cardholder's credit limit is reduced according to the terms of the card agreement, Shinhan Card may lower the credit limit before

notifying the accountholder.

Card loan limit This limit is set monthly by Shinhan Card based on the cardholder's credit rating and transaction history. The card loan limit can be adjusted monthly based on the cardholder's credit standing without prior notification.

Monitoring

Shinhan Card continually monitors all cardholders and accounts using a behavior scoring system. The behavior scoring system predicts a cardholder's payment pattern by evaluating the cardholder's credit history,

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card usage and amounts, payment status and other relevant data. The behavior score is recalculated each month and is used to manage the accounts and approval of additional loans and other products to the cardholder. Shinhan Card also uses the scoring system to monitor its overall risk exposure and to modify its credit risk management strategy.

Loan Application Review and On-going Credit Review

When reviewing new applications and conducting an ongoing credit review for retail loans, installment purchase loans and personal leases, Shinhan Card uses criteria substantially similar to those used in the credit underwriting system and the credit review system for cardholders. For retail loans, installment purchase loans and personal leases to existing cardholders, Shinhan Card reviews their card usage history in addition to other factors such as their income, occupation and assets.

Fraud Loss Prevention

Shinhan Card seeks to minimize losses from the fraudulent use of credit cards issued by it. Shinhan Card focuses on preventing fraudulent uses and, following the occurrence of a fraudulent use, makes investigations in order to make the responsible party bear the losses. Misuses of lost credit cards account for a substantial majority of Shinhan Card's fraud-related losses. Through its fraud loss prevention system, Shinhan Card seeks to detect, on a real-time basis, transactions that are unusual or inconsistent with prior usage history and calls are made to the relevant cardholders to confirm their purchases. A team at Shinhan Card dedicated to investigating fraud losses also examines whether the cardholder was at fault by, for example, not reporting a lost card or failing to endorse the card, or whether the relevant merchant was negligent in checking the identity of the user. Fault may also lie with delivery companies that fail to deliver credit cards to the relevant applicant. In such instances, Shinhan Card attempts to recover fraud losses from the responsible party. To prevent misuse of a card as well as to manage credit risk, Shinhan Card's information technology system will automatically suspend the use of a card (i) when, as a result of ongoing monitoring, fraudulent use or loss of the card is suspected based on the accountholder's credit score, or (ii) at the request of the accountholder.

Approximately 90% of Shinhan Card's cardholders consent to Shinhan Card's accessing their travel records to detect any misuse of credit cards while they are traveling abroad. Shinhan Card also offers cardholders additional fraud protection through a fee-based texting service. At the cardholder's option, Shinhan Card notifies the cardholder of any credit card activity in his or her account by sending a text message to his or her mobile phone. This notification service allows customers to quickly and easily identify any fraudulent use of their credit cards.

Credit Risk Management of Shinhan Investment

In accordance with the guidelines of the Financial Supervisory Service, Shinhan Investment assesses its credit risks (including through VaR analyses) and allocates the maximum limit for the credit amount at risk by department. Shinhan Investment also assesses the counterparty risks in all credit-related transactions, such as loans, acquisition financings and derivative transactions and takes corresponding risk management measures. In assessing the credit risk of a corporate counterparty, Shinhan Investment considers such counterparty's corporate credit rating obtained from Shinhan Bank's internal corporate rating database. Through its risk management system, Shinhan Investment also closely monitors credit risk exposures by counterparty, industry, conglomerates, credit ratings and country. Shinhan Investment conducts credit risk stress tests on a daily basis based on probability of default and also conducts more advanced stress tests from time to time, the results of which are then reported to its management as well as the Group Chief Risk Officer to support group-wide credit risk management.

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Market Risk Management

Market risk is the risk of loss generated by fluctuations in market prices such as interest rates, foreign exchange rates and equity prices. The principal market risks to which we are exposed are interest rate risk and, to a lesser extent, foreign exchange and equity price risk. These risks stem from our trading and non-trading activities relating to financial instruments such as loans, deposits, securities and financial derivatives. We divide market risk into risks arising from trading activities and risks arising from non-trading activities.

Our market risks arise primarily from Shinhan Bank, and to a lesser extent, Shinhan Investment, our securities trading and brokerage subsidiary, which faces market risk relating to its trading activities.

Shinhan Bank's Risk Management Committee establishes overall market risk management principles for both the trading and non-trading activities of Shinhan Bank. Based on these principles, the Risk Policy Committee acts as the executive decision-making body in relation to Shinhan Bank's market risks in terms of setting its risk management policies and risk limits in relation to market risks and assets and controlling market risks arising from trading and non-trading activities of Shinhan Bank. The Risk Policy Committee consists of deputy presidents in charge of Shinhan Bank's seven business groups and Shinhan Bank's Chief Risk Officer and the Chief Financial Officer. At least on a monthly basis, the Risk Policy Committee reviews and approves reports relating to, among others, the position and VaR with respect to Shinhan Bank's trading activities and the position, VaR, duration gap and market value analysis and net interest income simulation with respect to its non-trading activities. In addition, Shinhan Bank's Risk Management Department comprehensively manages market risks on an independent basis from Shinhan Bank's operating departments, and functions as the middle office of Shinhan Bank. Shinhan Bank measures market risk with respect to all assets and liabilities in bank accounts and trust accounts in accordance with the regulations promulgated by the Financial Services Commission.

Shinhan Investment manages its market risk based on its overall risk limit established by its risk management committee as well as the risk limits and detailed risk management guidelines for each product and department established by its Risk Management Working Committee. Shinhan Investment's Risk Management Working Committee is the executive decision-making body for managing market risks related to Shinhan Investment, and determines, among other things, Shinhan Investment's overall market risk management policies and strategies, and assesses and approves trading activities and limits. In addition, Shinhan Investment's Risk Management Department manages various market risk limits and monitors operating conditions on an independent basis from Shinhan Investment's operating departments. Shinhan Investment assesses the adequacy of these limits at least annually. In addition, Shinhan Investment assesses the market risks of its trading assets. The assessment procedure is based on the standard procedures set by the Financial Supervisory Service as well as an internally developed model. Shinhan Investment assesses the risk amount and VaR, and manages the risk by setting a risk limit per sector as well as a VaR limit.

Shinhan Life Insurance manages its market risk based on its overall risk limit established by its risk management committee. Shinhan Life Insurance manages market risk in regard to assets that are subject to trading activities and foreign exchange positions.

Shinhan Card does not have any assets with significant exposure to market risks and therefore does not maintain a risk management policy with respect to market risks.

We use financial information prepared on a separate basis according to IFRS for the market risk management of our subsidiaries and, unless otherwise specified herein, financial information in this annual report presented for quantitative market risk disclosure relating to our subsidiaries have been prepared in accordance with IFRS on a

separate basis.

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Market Risk Exposure from Trading Activities

Shinhan Bank's trading activities principally consist of:

trading activities to realize short-term profits from trading in the equity and debt securities markets and the foreign currency markets based on Shinhan Bank's short-term forecast of changes in market situation and customer demand, for its own account as well as for the trust accounts of Shinhan Bank's customers; and

trading activities primarily to realize profits from arbitrage transactions involving derivatives such as swaps, forwards, futures and options, and, to a lesser extent, to sell derivative products to Shinhan Bank's customers and to cover market risk associated with those trading activities.

Shinhan Investment's trading activities principally consist of trading for customers and for proprietary accounts equity and debt securities and derivatives based on stock prices, stock indexes, interest rates, foreign currency exchange rates and commodity prices.

As a result of these trading activities, Shinhan Bank is exposed principally to interest rate risk, foreign currency exchange rate risk and equity risk, and Shinhan Investment is exposed principally to equity risk and interest rate risk.

Interest Rate Risk

Shinhan Bank's exposure to interest rate risk arises primarily from Won-denominated debt securities, directly held or indirectly held through beneficiary certificates, and, to a lesser extent, from interest rate derivatives. Shinhan Bank's exposure to interest rate risk arising from foreign currency-denominated trading debt securities is minimal since its net position in those securities is not significant. As Shinhan Bank's trading accounts are marked-to-market daily, it manages the interest rate risk related to its trading accounts using VaR, a market value-based tool.

Shinhan Investment's interest rate risk arises primarily from management of its interest rate-sensitive asset portfolio, which mainly consists of debt securities, interest rate swaps and government bond futures, and the level of such risk exposure depends largely on the variance between the interest rate movement assumptions built into the asset portfolio and the actual interest rate movements and the spread between a derivative product and its underlying assets. Shinhan Investment quantifies and manages the interest rate-related exposure by daily conducting VaR and stress tests on a marked-to-market basis.

Foreign Currency Exchange Rate Risk

Shinhan Bank's exposure to foreign currency exchange rate risk mainly relates to its assets and liabilities, including derivatives such as foreign currency forwards and futures and currency swaps, which are denominated in currencies other than the Won. Shinhan Bank manages foreign currency exchange rate risk, including the corresponding risks faced by its overseas branches, on a consolidated basis by covering all of its foreign exchange spot and forward positions in both trading and non-trading accounts.

Shinhan Bank's net foreign currency open position represents the difference between its foreign currency assets and liabilities as offset against forward foreign currency positions, and is Shinhan Bank's principal exposure to foreign currency exchange rate risk. The Risk Policy Committee oversees Shinhan Bank's foreign currency exposure for both trading and non-trading activities by establishing limits for the net foreign currency open position, loss limits and VaR

limits. Shinhan Bank centrally monitors and manages its foreign exchange positions through its FX & Derivatives Department. Dealers in the FX & Derivatives Department manage Shinhan Bank's consolidated position within preset limits through spot trading, forward contracts, currency options, futures and swaps and foreign currency swaps. Shinhan Bank sets a limit for net open positions by currency. The limits for currencies other than the U.S. Dollar, Japanese Yen, Euro and Chinese Yuan are set in a conservative manner in order to minimize trading in such currencies.

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Shinhan Investment faces foreign currency exchange rate risk in relation to the following product offerings: currency forwards, currency swaps and currency futures. Shinhan Investment centrally monitors and manages transactions involving such products through its Fixed Income, Currency & Commodities Departments. Shinhan Investment's Risk Management Working Committee, which is delegated with the authority to approve foreign currency-related transactions and limits on the related open positions, manages the related foreign exchange risk by setting nominal limits on the amounts of foreign exchange-related products and monitoring compliance with such limits on a daily basis. As of December 31, 2015, Shinhan Investment's net open position related to foreign currency-related products was US\$(116.6) million, and its open positions related to the sale of Won-U.S. Dollar forwards and Won-U.S. Dollar futures were US\$(356.8) million and US\$129.0 million, respectively.

Shinhan Capital faces considerable foreign currency exchange rate exposure in respect of its leasing business, but maintains its net exposure below US\$15 million by hedging its foreign exchange positions using forwards and currency swaps.

The net open foreign currency positions held by our other subsidiaries are insignificant.

The following table shows Shinhan Bank's net foreign currency open positions as of December 31, 2013, 2014 and 2015. Positive amounts represent long exposures and negative amounts represent short exposures.

Currency	As of December 31,		
	2013	2014	2015
	(In millions of US\$)		
U.S. Dollars	\$ 53.1	\$ 101.6	\$ (24.2)
Japanese Yen	(54.7)	(72.4)	9.6
Euro	1.8	(1.5)	(1.2)
Others	698.3	614.8	784.2
Total	\$ 698.5	\$ 642.6	\$ 768.5

Equity Risk

Shinhan Bank's equity risk related to trading activities mainly involves trading equity portfolios of Korean companies and Korea Stock Price Index futures and options. The trading equity portfolio consists of stocks listed on the KRX KOSPI Market or the KRX KOSDAQ Market of the Korea Exchange and nearest-month or second nearest-month futures contracts under strict limits on diversification as well as limits on positions. Shinhan Bank maintains strict scrutiny of these activities in light of the volatility in the Korean stock market and closely monitors the loss limits and the observance thereof. Although Shinhan Bank holds a substantially smaller amount of equity securities than debt securities in its trading accounts, the VaR of trading account equity risk is generally higher than that of trading account interest rate risk due to high volatility in the value of equity securities. As of December 31, 2013, 2014 and 2015, Shinhan Bank held ₩64.6 billion, ₩60.7 billion and ₩76.8 billion, respectively, of equity securities in its trading accounts (including the trust accounts).

Shinhan Investment's equity risk related to trading activities also mainly involves the trading of equity portfolio of Korean companies and Korea Stock Price Index futures and options. As of December 31, 2013, 2014 and 2015, the total amount of equity securities at risk held by Shinhan Investment was ₩16.1 billion, ₩49.1 billion and ₩30.1 billion, respectively.

Equity positions held by our other subsidiaries are insignificant.

Management of Market Risk from Trading Activities

The following table presents an overview of market risk, measured by VaR, from trading activities of Shinhan Bank and Shinhan Investment, respectively, as of and for the year ended December 31, 2015. For market

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risk management purposes, Shinhan Bank includes in the computation of total VaR its trading portfolio in bank accounts and assets in trust accounts, in each case, for which it guarantees principal or fixed return in accordance with the Financial Services Commission regulations.

Trading Portfolio VaR for the Year 2015

	Average	Minimum	Maximum	As of December 31, 2014
	(In billions of Won)			
Shinhan Bank:⁽¹⁾				
Interest rate	₩ 37.3	₩ 33.8	₩ 43.7	₩ 36.0
Foreign exchange ⁽²⁾	45.1	36.5	54.5	44.4
Equities	8.3	7.0	9.0	7.1
Option volatility ⁽³⁾	0.4	0.3	0.6	0.3
Less: portfolio diversification ⁽⁴⁾	(35.8)	(25.9)	(45.9)	(30.7)
Total VaR⁽⁵⁾	₩ 55.3	₩ 51.7	₩ 61.9	₩ 57.1
Shinhan Investment:⁽¹⁾				
Interest rate	₩ 6.9	₩ 2.7	₩ 16.5	₩ 7.3
Equities	19.4	10.2	64.7	19.1
Foreign exchange	5.7	2.9	10.9	7.5
Option volatility ⁽³⁾	2.6	0.2	5.2	4.4
Less: portfolio diversification ⁽⁴⁾	(11.7)	(4.1)	(32.1)	(8.5)
Total VaR	₩ 22.9	₩ 11.9	₩ 65.2	₩ 29.8

Notes:

- (1) Shinhan Bank and Shinhan Investment's ten-day VaR is based on a 99.9% confidence level.
- (2) Includes both trading and non-trading accounts as Shinhan Bank and Shinhan Investment manage foreign exchange risk on a total position basis.
- (3) Volatility implied from the option price using the Black-Scholes or a similar model.
- (4) Calculation of portfolio diversification effects is conducted on different days' scenarios for different risk components. Total VaRs are less than the simple sum of the risk component VaRs due to offsets resulting from portfolio diversification.
- (5) Includes trading portfolios in Shinhan Bank's bank accounts and assets in trust accounts, in each case, for which it guarantees principal or fixed return.

Shinhan Bank generally manages its market risk from the trading activities of its portfolios on an aggregated basis. To control its trading portfolio market risk, Shinhan Bank uses position limits, VaR limits, stop loss limits, Greek limits and stressed loss limits. In addition, it establishes separate limits for investment securities. Shinhan Bank maintains risk control and management guidelines for derivative trading based on the regulations and guidelines promulgated by

the Financial Services Commission, and measures market risk from trading activities to monitor and control the risk of its operating divisions and teams that perform trading activities. Shinhan Bank manages VaR measurements and limits on a daily basis based on automatic interfacing of its trading positions into its market risk measurement system. In addition, Shinhan Bank presets limits on loss, sensitivity, investment and stress for its trading departments and desks and monitors such limits and observance thereof on a daily basis.

Value-at-risk analysis. Shinhan Bank uses ten-day and one-day VaRs to measure its market risk. Shinhan Bank calculates (i) ten-day VaRs on a daily basis based on data for the previous 12 months for the holding periods of ten days and (ii) one-day VaRs on a daily basis based on data for the previous 12 months for the holding periods of one day. A ten-day VaR and one-day VaR are statistically estimated maximum amounts of loss that can occur for ten days and one day, respectively, under normal market conditions. If a VaR is measured using a 99% confidence level, the actual amount of loss may exceed the expected VaR, on average, once out of every 100 business days, while if a VaR is measured using a 99.9% confidence level, the actual amount of loss may exceed the expected VaR, on average, once out of 1,000 business days.

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Shinhan Bank currently uses the ten-day 99% confidence level-based VaR and stressed VaR for purposes of calculating the regulatory capital used in reporting to the Financial Supervisory Service. Stressed VaR reflects the potential significant loss in the current trading portfolio based on scenarios derived from a crisis simulation during the preceding 12 months. Shinhan Bank also uses the more conservative ten-day 99.9% confidence level-based VaR for purposes of calculating its economic capital used for internal management purposes, which is a concept used in determining the amount of Shinhan Bank's requisite capital in light of the market risk. In addition, Shinhan Bank uses the one-day 99% confidence level-based VaR on a supplemental basis for purposes of setting and managing risk limits specific to each desk or team in its operating units as well as for back-testing purposes. For Shinhan Bank, the amount of losses (either actual or virtual) exceeded the one-day 99% confidence level-based VaR amount once in 2014, by 58% on December 16, 2014, and four times in 2015. The most recent losses exceeded the one-day 99% confidence level-based VaR amount by 10% on October 12, 2015. Virtual losses represent the potential changes in the value of portfolio when simulating the same portfolio with market variables of the next trading day.

Shinhan Investment currently uses the ten-day 99.9% confidence level-based historical VaR for purposes of calculating its economic capital used for internal management purposes. In addition, Shinhan Investment applies this VaR as a risk limit for the entire company as well as individual departments and products, and the adequacy of such VaR is reviewed by way of daily back-testing. When computing VaR, Shinhan Investment does not assume any particular probability distribution and calculates it through a simulation of the full valuation method based on changes of market variables such as stock prices, interest rates and foreign exchange rates in the past one year. For Shinhan Investment, the amount of losses (either actual or virtual) did not exceed the one-day 99% confidence level-based VaR amount in 2013, but exceeded such amount three times in 2014 and six times in 2015. The most recent losses exceeded the one-day 99% confidence level-based VaR amount by 20% on August 24, 2015. The increased frequency of instances in which the amount of losses exceeded the VaR amount in 2015 was primarily because the stock market experienced unusually high volatility when such instances occurred.

Value-at-risk is a commonly used market risk management technique. However, VaR models have the following shortcomings:

VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a reliable indicator of future events, particularly those that are extreme in nature;

VaR may underestimate the probability of extreme market movements;

Shinhan Bank's VaR models assume that a holding period of generally one to ten days is sufficient prior to liquidating the underlying positions, but such assumption regarding the length of the holding period may actually prove to be inadequate;

The 99.9% confidence level does not take into account or provide indication of any losses that might occur beyond this confidence level; and

VaR does not capture all complex effects of various risk factors on the value of positions and portfolios and could underestimate potential losses.

Currently, Shinhan Bank and Shinhan Investment conduct back-testing of VaR results against actual outcomes on a daily basis.

Shinhan Bank operates an integrated market risk management system which manages Shinhan Bank's Won-denominated and foreign-denominated accounts. This system uses historical simulation to measure both linear risks arising from products such as equity and debt securities and nonlinear risks arising from other products including options. We believe that this system enables Shinhan Bank to generate elaborate and consistent VaR information and to perform sensitivity analysis and back testing in order to check the validity of the models on a daily basis. Shinhan Life also measures market risks based on a VaR analysis.

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Stress test. In addition to VaR, Shinhan Bank performs stress tests to measure market risk. As VaR assumes normal market situations, Shinhan Bank assesses its market risk exposure to unlikely abnormal market fluctuations through the stress test. Stress test is a valuable supplement to VaR since VaR does not cover potential loss if the market moves in a manner which is outside Shinhan Bank's normal expectations. Stress test projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio.

Shinhan Bank uses seven relatively simple but fundamental scenarios for stress test by taking into account four market risk components: foreign currency exchange rates, stock prices, and Won-denominated interest rates and foreign currency-denominated interest rates. For the worst case scenario, Shinhan Bank assumes instantaneous and simultaneous movements in four market risk components: appreciation of Won by 20%, a decrease in Korea Exchange Composite Index by 30% and increases in Won-denominated and U.S. Dollar-denominated interest rates by 200 basis points each, respectively. Under this worst-case scenario, the market value of Shinhan Bank's trading portfolio would have declined by ₩423 billion as of December 31, 2015. Shinhan Bank performs stress test on a daily basis and reports the results to its Risk Policy Committee on a monthly basis and its Risk Management Committee on a quarterly basis.

Shinhan Investment uses nine scenarios for stress tests by taking into account four market risk components: stock prices (both in terms of stock market indices and β -based individual stock prices), interest rates for Won-denominated loans, foreign currency exchange rates and implied volatility. As of December 31, 2015, under the worst case scenario assuming a 1% point increase in the three-year government bond yield, the market value of Shinhan Investment's trading portfolio would have fluctuated by ₩38.0 billion for one day.

Shinhan Bank sets limits on stress testing for its overall operations. Shinhan Investment sets limits on stress testing for its overall operations as well as at its department level. Although Shinhan Life Insurance does not set any limits on stress testing, it monitors the impact of market turmoil or other abnormalities. In the case of Shinhan Bank, Shinhan Investment and Shinhan Life Insurance, if the potential impact is large, their respective Chief Risk Officer may request a portfolio restructuring or other proper action.

Hedging and Derivative Market Risk

The principal objective of our group-wide hedging strategy is to manage market risk within established limits. We use derivative instruments to hedge our market risk as well as to make profits by trading derivative products within preset risk limits. Our derivative trading includes interest rate and cross-currency swaps, foreign currency forwards and futures, stock index and interest rate futures, and stock index and currency options.

While we use derivatives for hedging purposes, derivative transactions by nature involve market risk since we take trading positions for the purpose of making profits. These activities consist primarily of the following:

arbitrage transactions to make profits from short-term discrepancies between the spot and derivative markets or within the derivative markets;

sales of tailor-made derivative products that meet various needs of our corporate customers, principally of Shinhan Bank and Shinhan Investment, and related transactions to reduce their exposure resulting from those sales;

taking positions in limited cases when we expect short-swing profits based on our market forecasts; and

trading to hedge our interest rate and foreign currency risk exposure as described above.

In relation to our adoption of IAS 39, *Financial Instruments: Recognition and Measurement*, we have implemented internal processes which include a number of key controls designed to ensure that fair value is measured appropriately, particularly where a fair value model is internally developed and used to price a significant product.

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Shinhan Bank assesses the adequacy of the fair market value of a new product derived from its internal model prior to the launch of such product. The assessment process involves the following:

computation of an internal dealing system market value (based on assessment by the quantitative analysis team of the adequacy of the formula and the model used to compute the market value as derived from the dealing system);

computation of the market value as obtained from an outside credit evaluation company; and

following comparison of the market value derived from an internal dealing system to that obtained from outside credit evaluation companies, determination as to whether to use the internally developed market value based on inter-departmental consensus.

The dealing system market value, which is used officially by Shinhan Bank after undergoing the assessment process above, does not undergo a sampling process that confirms the value based on review of individual transactions, but is subject to an additional assessment procedure of comparing such value against the profits derived from the dealing systems based on the deal portfolio sensitivity.

Shinhan Investment follows an internal policy as set by its Fair Value Evaluation Committee for computing and assessing the adequacy of fair value of all of its over-the-counter derivative products. Shinhan Investment computes the fair value based on an internal model and internal risk management systems and assesses the adequacy of the fair value through cross-departmental checks as well as comparison against fair values obtained from outside credit evaluation companies.

See Item 5.A. Operating Results Critical Accounting Policies and Note 3 of the notes to our consolidated financial statements included in this annual report.

Market risk from derivatives is not significant since derivative trading activities of Shinhan Bank and Shinhan Investment are primarily driven by arbitrage and customer deals with highly limited open trading positions. Market risk from derivatives is also not significant for Shinhan Life Insurance as its derivative trading activities are limited to those within preset risk limits and are subject to heavy regulations imposed on the insurance industry. Market risk from derivatives is not significant for our other subsidiaries since the amount of such positions by our other subsidiaries is insignificant.

Market Risk Management for Non-trading Activities

Interest Rate Risk

Interest rate risk represents Shinhan Bank's principal market risk from non-trading activities. Interest rate risk is the risk of loss resulting from interest rate fluctuations that adversely affect the financial condition and results of operations of Shinhan Bank. Shinhan Bank's interest rate risk primarily relates to the differences between the timing of rate changes for interest-earning assets and that for interest-bearing liabilities.

Interest rate risk affects Shinhan Bank's earnings and the economic value of Shinhan Bank's net assets as follows:

Earnings: interest rate fluctuations have an effect on Shinhan Bank's net interest income by affecting its interest-sensitive operating income and expenses.

Economic value of net assets: interest rate fluctuations influence Shinhan Bank's net worth by affecting the present value of cash flows from the assets, liabilities and other transactions of Shinhan Bank.

Accordingly, Shinhan Bank measures and manages interest rate risk for non-trading activities by taking into account the effects of interest rate changes on both its income and net asset value. Shinhan Bank measures and manages interest rate risk on a daily and monthly basis with respect to all interest-earning assets and interest-bearing liabilities in Shinhan Bank's bank accounts (including derivatives denominated in Won which are

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principally interest rate swaps entered into for the purpose of hedging) and in trust accounts, except that Shinhan Bank measures VaRs on a monthly basis. Most of Shinhan Bank's interest-earning assets and interest-bearing liabilities are denominated in Won.

Interest Rate Risk Management

The principal objectives of Shinhan Bank's interest rate risk management are to generate stable net interest income and to protect Shinhan Bank's net asset value against interest rate fluctuations. Through its asset and liability management system, Shinhan Bank monitors and manages its interest rate risk based on various analytical measures such as interest rate gap, duration gap and net present value and net interest income simulations, and monitors on a monthly basis its interest rate VaR limits, interest rate earnings at risk (EaR) limits and interest rate gap ratio limits. Shinhan Bank measures its interest rate VaR and interest rate EaR based on simulated estimation of the maximum decrease in net asset value and net interest income in a one-year period based on various scenario analyses of historical interest rates. The Risk Policy Committee sets the interest rate risk limits for Shinhan Bank's Won-denominated and foreign currency-denominated non-trading accounts and trust accounts, and the Risk Management Committee sets Shinhan Bank's overall interest rate risk limit, in both cases, at least annually. The Risk Management Department monitors Shinhan Bank's compliance with these limits and reports the monitoring results to the Risk Policy Committee on a monthly basis and the Risk Management Committee on a quarterly basis. Shinhan Bank uses interest rate swaps to control its interest rate exposure limits.

Interest rate VaR represents the maximum anticipated loss in a net present value calculation (computed as the present value of interest-earning assets minus the present value of interest-bearing liabilities), whereas interest rate EaR represents the maximum anticipated loss in a net earnings calculation (computed as interest income minus interest expenses) for the immediately following one-year period, in each case, as a result of negative movements in interest rates. Therefore, interest rate VaR is a more expansive concept than interest rate EaR in that the former covers all interest-earning assets and all interest-bearing liabilities, whereas the latter covers only those interest-earning assets and interest-bearing liabilities that are exposed to interest rate volatility for a one-year period.

Hence, for interest rate VaRs, the duration gap (namely, the weighted average duration of all interest-earning assets minus the weighted average duration of all interest-bearing liabilities) can be a more critical factor than the relative sizes of the relevant assets and liabilities in influencing interest rate VaRs. In comparison, for interest rate EaRs, the relative sizes of the relevant assets and liabilities in the form of the one year or less interest rate gap (namely, the volume of interest-earning assets with maturities of less than one year minus the volume of interest-bearing liabilities with maturities of less than one year) is the most critical factor in influencing the interest rate EaRs.

The interest rate VaR limits are set as the sum of (i) the average of the monthly non-trading interest rate VaRs as a percentage of interest-bearing assets over a period of one year and (ii) the standard deviation at the 99% confidence level (namely, 2.33 times the standard deviation of the monthly non-trading interest rate VaRs as a percentage of interest-bearing assets).

The interest rate EaR limits are set at the maximum decrease in net interest income by (i) assuming that the estimated interest rate gap will expand to the maximum level of manageable (tolerable) situations and (ii) applying the interest rate shock scenario to the annual volatility of interest rates using past 10-year market interest rates.

On a monthly basis, we monitor whether the non-trading positions for interest rate VaR and EaR exceed their respective limits as described above.

Interest rate VaR cannot be meaningfully compared to the ten-day 99% confidence level based VaR (market risk VaR) for managing trading risk principally because (i) the underlying assets are different (namely,

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non-trading interest-bearing assets as well as liabilities in the case of the interest rate VaR, compared to trading assets only in the case of the market risk VaR), and (ii) interest rate VaR is sensitive to interest rate movements only while the market risk VaR is sensitive to interest rate movements as well as other factors such as foreign currency exchange rates, stock market prices and option volatility.

Even if comparison were to be made between the interest rate VaR and the interest rate portion only of the market risk VaR, we do not believe such comparison would be meaningful since the interest rate VaR examines the impact of interest rate movements on both assets and liabilities (which will likely have offsetting effects), whereas the interest rate portion of the market VaR examines the impact of interest rate movements on assets only.

Shinhan Bank uses various analytical methodologies to measure and manage its interest rate risk for non-trading activities on a daily and monthly basis, including the following analyses:

Interest rate gap analysis;

Duration gap analysis;

Market value analysis; and

Net interest income simulation analysis.

Interest Rate Gap Analysis

Shinhan Bank performs an interest gap analysis to measure the difference between the amount of interest-earning assets and that of interest-bearing liabilities at each maturity and re-pricing date for specific time intervals by preparing interest rate gap tables in which Shinhan Bank's interest-earning assets and interest-bearing liabilities are allocated to the applicable time intervals based on the expected cash flows and re-pricing dates.

On a daily basis, Shinhan Bank performs interest rate gap analysis for Won- and foreign currency-denominated assets and liabilities in its bank and trust accounts. Shinhan Bank's gap analysis includes Won-denominated derivatives (which are interest rate swaps for the purpose of hedging) and foreign currency-denominated derivatives (which are currency swaps for the purpose of hedging), which are managed centrally at the FX & Derivatives Department. Through the interest rate gap analysis that measures interest rate sensitivity gaps, cumulative gaps and gap ratios, Shinhan Bank assesses its exposure to future interest risk fluctuations. For interest rate gap analysis, Shinhan Bank assumes and uses the following maturities for different types of assets and liabilities:

With respect to the maturities and re-pricing dates of Shinhan Bank's assets, Shinhan Bank assumes that the maturity of Shinhan Bank's prime rate-linked loans is the same as that of its fixed-rate loans. Shinhan Bank excludes equity securities from interest-earning assets.

With respect to the maturities and re-pricing of Shinhan Bank's liabilities, Shinhan Bank assumes that money market deposit accounts and non-core demand deposits under the Financial Services Commission guidelines have a maturity of one month or less for both Won-denominated accounts and foreign currency-denominated accounts.

With respect to core demand deposits under the Financial Services Commission guidelines, Shinhan Bank assumes that they have maturities of eight different intervals ranging from one month to five years.

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The following tables show Shinhan Bank's interest rate gaps as of December 31, 2015 for (i) Won-denominated non-trading bank accounts, including derivatives entered into for the purpose of hedging and (ii) foreign currency-denominated non-trading bank accounts, including derivatives entered into for the purpose of hedging.

Won-denominated non-trading bank accounts⁽¹⁾

	As of December 31, 2015						Total
	0-3	3-6	6-12	1-2	2-3	Over 3	
	Months	Months	Months	Years	Years	Years	
	(In billions of Won, except percentages)						
Interest-earning assets	₩95,800	₩49,377	₩19,300	₩14,755	₩11,164	₩26,562	₩216,958
Fixed rates	22,092	6,542	14,017	11,640	7,657	10,286	72,234
Floating rates	72,829	42,275	3,993	2,835	3,186	16,035	141,154
Interest rate swaps	880	560	1,290	280	320	240	3,570
Interest-bearing liabilities	₩87,134	₩31,810	₩54,541	₩14,667	₩10,145	₩19,748	₩218,044
Fixed liabilities	56,802	31,277	54,321	14,637	10,043	19,048	186,128
Floating liabilities	26,762	533	219	30	102	700	28,346
Interest rate swaps	3,570	0	0	0	0	0	3,570
Sensitivity gap	8,667	17,568	(35,241)	88	1,019	6,814	(1,086)
Cumulative gap	8,667	26,234	(9,006)	(8,918)	(7,899)	(1,086)	(1,086)
% of total assets	3.99%	12.09%	(4.15)%	(4.11)%	(3.64)%	(0.50)%	(0.50)%

Foreign currency-denominated non-trading bank accounts⁽¹⁾

	As of December 31, 2015					Total
	0-3	3-6	6-12	1-3	Over 3	
	Months	Months	Months	Years	Years	
	(In millions of US\$, except percentages)					
Interest-earning assets	\$17,386	\$2,971	\$2,721	\$2,931	\$2,561	\$28,570
Interest-bearing liabilities	16,969	2,477	3,768	4,627	2,357	30,198
Sensitivity gap	417	494	(1,047)	(1,696)	204	(1,628)
Cumulative gap	417	911	(136)	(1,832)	(1,628)	(1,628)
% of total assets	1.46%	3.19%	(0.48)%	(6.41)%	(5.70)%	(5.70)%

Note:

(1) Includes merchant banking accounts.

Duration Gap Analysis

Shinhan Bank performs a duration gap analysis to measure the differential effects of interest rate risk on the market value of its assets and liabilities by examining the difference between the durations of Shinhan Bank's interest-earning assets and those of its interest-bearing liabilities, which durations represent their respective weighted average maturities calculated based on their respective discounted cash flows using applicable yield curves. These measurements are done on a daily basis and for each operating department, account, product and currency, the respective durations of interest-earning assets and interest-bearing liabilities.

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The following tables show duration gaps and market values of Shinhan Bank's Won-denominated interest-earning assets and interest-bearing liabilities in its non-trading accounts as of December 31, 2015 and changes in these market values when interest rate increases by one percentage point.

Duration as of December 31, 2015 (for non-trading Won-denominated bank accounts⁽¹⁾)

	Duration as of December 31, 2015 (In months)
Interest-earning assets	11.95
Interest-bearing liabilities	10.82
Gap	1.21

Note:

(1) Includes merchant banking accounts and derivatives for the purpose of hedging.

Market Value Analysis

Shinhan Bank performs a market value analysis to measure changes in the market value of Shinhan Bank's interest-earning assets compared to that of its interest-bearing liabilities based on the assumption of parallel shifts in interest rates. These measurements are done on a daily basis.

Market Value as of December 31, 2015 (for non-trading Won-denominated bank accounts⁽¹⁾)

	Market Value as of December 31, 2015 1% Point		
	Actual	Increase	Changes
	(In billions of Won)		
Interest-earning assets	₩ 220,483	₩ 218,418	₩ (2,065)
Interest-bearing liabilities	218,994	217,231	(1,763)
Gap	1,489	1,187	(302)

Note:

(1) Includes merchant banking accounts and derivatives for the purpose of hedging.

Net Interest Income Simulation

Shinhan Bank performs net interest income simulation to measure the effects of the change in interest rate on its results of operations. Such simulation uses the deterministic analysis methodology to measure the estimated changes

in Shinhan Bank's annual net interest income (interest income less interest expenses) under the current maturity structure, using different scenarios for interest rates (assuming parallel shifts) and funding requirements. For simulations involving interest rate changes, based on the assumption that there is no change in funding requirements, Shinhan Bank applies three scenarios of parallel shifts in interest rate: (1) no change, (2) a 1% point increase in interest rates and (3) a 1% point decrease in interest rates.

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The following table illustrates by way of an example the simulated changes in Shinhan Bank's annual net interest income for 2015 with respect to Won-denominated interest-earning assets and interest-bearing liabilities, using Shinhan Bank's net interest income simulation model, assuming (a) the maturity structure and funding requirement of Shinhan Bank as of December 31, 2015 and (b) the same interest rates as of December 31, 2015 and a 1% point increase or decrease in the interest rates.

Simulated Net Interest Income for 2015
(For Non-Trading Won-Denominated Bank Accounts⁽¹⁾)

	Assumed Interest Rates			Change in Net Interest Income		Change in Net Interest Income	
	No Change	1% Point Increase	1% Point Decrease	Amount (1% Point Increase)	% Change (1% Point Increase)	Amount (1% Point Decrease)	% Change (1% Point Decrease)
	(In billions of Won, except percentages)						
Simulated interest income	₩ 6,721	₩ 7,938	₩ 5,505	₩ 1,216	18.1%	₩ (1,216)	(18.1)%
Simulated interest expense	3,123	4,032	2,214	909	29.1%	(909)	(29.1)%
Net interest income	3,598	3,906	3,291	307	8.5%	(307)	(8.5)%

Note:

(1) Includes merchant banking accounts and derivatives entered into for the purpose of hedging. Shinhan Bank's Won-denominated interest-earning assets and interest-bearing liabilities in non-trading accounts have a maturity structure that benefits from an increase in interest rates, because the re-pricing periods for interest-earning assets in Shinhan Bank's non-trading accounts are, on average, shorter than those of the interest-bearing liabilities in these accounts. This is primarily due to a sustained low interest rate environment in the recent years in Korea, which resulted in a significant increase in demand for floating rate loans (which tend to have shorter maturities or re-pricing periods than fixed rate loans) as a portion of Shinhan Bank's overall loans, which in turn led to the shortening, on average, of the maturities or re-pricing periods of Shinhan Bank's loans on an aggregate basis. As a result, Shinhan Bank's net interest income tends to decrease during times of a decrease in the market interest rates while the opposite is generally true during times of an increase in the market interest rates.

Interest Rate VaRs for Non-trading Assets and Liabilities

Shinhan Bank measures VaRs for interest rate risk from non-trading activities on a monthly basis. The following table shows, as of and for the year ended December 31, 2015, the VaRs of interest rate mismatch risk for other assets and liabilities, which arises from mismatches between the re-pricing dates for Shinhan Bank's non-trading interest-earning assets (including available-for-sale investment securities) and those for its interest-bearing liabilities. Under the regulations of the Financial Services Commission, Shinhan Bank includes in calculation of these VaRs interest-earning assets and interest-bearing liabilities in its bank accounts and its merchant banking accounts.

		VaR for the Year 2015 ⁽¹⁾			As of December 31	
		Average	Minimum	Maximum		
		(In billions of Won)				
Interest rate mismatch	non-trading assets and liabilities	₩ 239	₩ 146	₩ 472	₩	202

Note:

- (1) One-year VaR results with a 99.9% confidence level. Computed based on Shinhan Bank's internal model. Under the internal model, non-trading assets and liabilities VaR is computed based on historical simulation at the 99.9% confidence level, namely by computing the average net present value based on the net present value distribution under historical interest rate scenarios and subtracting from such average net present value the net present value at the 0.1% percentile.

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Shinhan Card monitors and manages its interest rate risk for all its interest-bearing assets and liabilities (including off-balance sheet items) in terms of the impact on its earnings and net asset value from changes in interest rates. Shinhan Card primarily uses interest rate VaR and EaR analyses to measure its interest rate risk.

The interest rate VaR analysis used by Shinhan Card principally focuses on the maximum impact on its net asset value from adverse movements in interest rates and consists of (i) historical interest rate VaR analysis and (ii) interest rate gap analysis. The historical interest rate VaR analysis is made through simulation of net asset value based on the interest rate volatility over a fixed past period to produce expected future interest rate scenarios and computes the maximum value at risk at a 99.9% confidence level by analyzing the net present value distribution under each such scenario. As for interest rate gap analysis, Shinhan Card computes the value at risk based on the duration proxies and interest rate shocks for each time interval as recommended under the Basel Accord.

The interest rate EaR analysis used by Shinhan Card computes the maximum loss in net interest income for a one-year period following adverse movements in interest rates, based on an interest rate gap analysis using the time intervals and the middle of time band as recommended under the Basel Accord.

Shinhan Investment uses historical interest rate VaR analysis based on its internal model to monitor and manage its interest rate risk. The historical interest rate VaR analysis is made through simulation of net asset value based on the interest rate volatility over the past three years to compute the maximum value at risk at a 99.9% confidence level.

Shinhan Life Insurance monitors and manages its interest rate risk for its investment assets and liabilities based on simulations of its asset-liability management system. These simulations typically involve subjecting Shinhan Life Insurance's current and future assets and liabilities to more than 2,000 market scenarios based on varying assumptions, such as new debt purchases and target investment portfolios, so as to derive its net asset value forecast for the next one year at a 99.9% confidence level.

Interest rate risk for our other subsidiaries is insignificant.

Equity Risk

Substantially all of Shinhan Bank's equity risk relates to its portfolio of common stock in Korean companies. As of December 31, 2015, Shinhan Bank held an aggregate amount of ₩134.4 billion of equity interest in unlisted foreign companies (including ₩64.7 billion invested in unlisted private equity funds).

The equity securities in Won held in Shinhan Bank's investment portfolio consist of stocks listed on the KRX KOSPI Market or the KRX KOSDAQ Market of the Korea Exchange and certain non-listed stocks. Shinhan Bank sets exposure limits for most of these equity securities to manage their related risk. As of December 31, 2015, Shinhan Bank held equity securities in an aggregate amount of ₩1,849.9 billion in its non-trading accounts, including equity securities in the amount of ₩488.3 billion that it held, among other reasons, for management control purposes and as a result of debt-to-equity conversion as a part of reorganization proceedings of the companies to which it had extended loans.

As of December 31, 2015, Shinhan Bank held Won-denominated convertible bonds in an aggregate amount of ₩59.0 billion, Won-denominated exchangeable bonds in an aggregate amount of ₩1.2 billion and Won-denominated bonds with warrants in an aggregate amount of ₩1.9 billion, in each case, in its non-trading accounts. Shinhan Bank does not measure equity risk with respect to convertible bonds, exchangeable bonds or bonds with warrants, and the

interest rate risk of these equity-linked securities are measured together with the other debt securities. As such, Shinhan Bank measures interest rate risk VaRs but not equity risk VaRs for these equity-linked securities.

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Liquidity Risk Management

Liquidity risk is the risk of insolvency, default or loss due to disparity between inflow and outflow of funds, including the risk of having to obtain funds at a high price or to dispose of securities at an unfavorable price due to lack of available funds. Each of our subsidiaries seeks to minimize liquidity risk through early detection of risk factors related to the sourcing and managing of funds that may cause volatility in liquidity and by ensuring that it maintains an appropriate level of liquidity through systematic management. At the group-wide level, we manage our liquidity risk by conducting monthly stress tests that compare liquidity requirements under normal situations against those under three types of stress situations, namely, our group-specific internal crisis, crisis in the external market and a combination of internal and external crisis. In addition, in order to preemptively and comprehensively manage liquidity risk, we measure and monitor liquidity risk management using various indices, including the limit management index, early warning index and monitoring index.

Shinhan Bank applies the following basic principles for liquidity risk management:

raise funds in sufficient amounts, at the optimal time at reasonable costs;

maintain liquidity risk at appropriate levels and preemptively manage them through a prescribed risk limit system and an early warning signal detection system;

secure stable sources of revenue and minimize actual losses by implementing an effective asset-liability management system based on diversified sources of funding with varying maturities;

monitor and manage daily and intra-daily liquidity positions and risk exposures for timely payment and settlement of financial obligations due under both normal and crisis situations;

conduct periodic contingency analysis in anticipation of any potential liquidity crisis and establish and implement emergency plans in case of an actual crisis; and

consider liquidity-related costs, benefits of and risks in determining the pricing of our products and services, employee performance evaluations and approval of launching of new products and services.

Each of our subsidiaries manages liquidity risk in accordance with the risk limits and guidelines established internally and by the relevant regulatory authorities. Pursuant to principal regulations applicable to financial holding companies and banks as promulgated by the Financial Services Commission, we, at the holding company level, are required to maintain a specific liquidity coverage ratio and a foreign currency liquidity ratio. These ratios require us to maintain the relevant ratios above certain minimum levels.

Shinhan Bank manages its liquidity risk within the limits set on Won and foreign currency accounts in accordance with the regulations of the Financial Services Commission. The Financial Services Commission requires Korean banks, including Shinhan Bank, to maintain a liquidity coverage ratio of at least 80.0% as of January 1, 2015, 85.0% as of January 1, 2016, 90.0% as of January 1, 2017, 95.0% as of January 1, 2018 and 100.0% as of January 1, 2019.

The Financial Services Commission defines liquidity coverage ratio as high liquid assets that can be easily converted to cash, as divided by the net amount of cash outflow for the next one month period, under the stress level established according to the liquidity coverage ratio, pursuant to Regulation on the Supervision of the Banking Business, which was amended as of December 26, 2014 to implement the liquidity coverage ratio requirements under Basel III. In addition, the Financial Services Commission requires a foreign currency liquidity ratio, which is defined as foreign currency-denominated liquid assets (including marketable securities) divided by foreign currency-denominated liabilities, of at least 85.0%.

Shinhan Bank's Treasury Department is in charge of liquidity risk management with respect to Shinhan Bank's Won and foreign currency funds. The Treasury Department submits Shinhan Bank's monthly funding and asset management plans to Shinhan Bank's Asset and Liability Committee for approval, based on the analysis of various factors, including macroeconomic indices, interest rate and foreign exchange movements and maturity structures of Shinhan Bank's assets and liabilities. Shinhan Bank's Risk Management Department measures Shinhan Bank's liquidity ratio and liquidity gap ratio on a daily basis and reports whether they are in compliance with the limits to Shinhan Bank's Risk Policy Committee, which sets and monitors Shinhan Bank's liquidity ratio and liquidity gap ratio, on a monthly basis.

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The following tables show Shinhan Bank's (i) liquidity coverage ratio and (ii) liquidity status and limits for foreign currency-denominated accounts (including derivatives and merchant banking accounts), each as of December 31, 2015 in accordance with the regulations of the Financial Services Commission.

Shinhan Bank's Liquidity Coverage Ratio as of December 31, 2015

	As of December 31, 2015 (in billions of Won, except percentages)	
High liquid assets (A)	₩	40,579
Net cash outflows over the next 1 month (B)		38,983
Cash outflow		55,602
Cash inflow		16,618
Liquidity coverage ratio (A/B)		104.09%

Shinhan Bank's foreign currency-denominated accounts (including derivatives and merchant banking accounts)

Foreign Currency Denominated Accounts:	As of December 31, 2015					Total Sub-Standard or Below ⁽¹⁾	Sub- Standard or Below	Total
	7 Days or Less	1 Month or Less	3 Months or Less	6 Months or Less	12 Months or Less			
(In millions of US\$, except percentages)								
Assets:	\$ 10,860	\$ 19,367	\$ 31,925	\$ 42,752	\$ 51,871	\$ 63,777	\$ 92	\$ 63,869
Liabilities	9,812	17,227	27,206	33,743	45,404	63,227	0	63,227
For three months or less:								
Assets			31,925					
Liabilities			27,206					
Liquidity ratio			117.35%					
Limit			85.00%					

Note:

(1) Cumulative total of accounts, including accounts over one year, but excluding accounts that are sub-standard or below.

Shinhan Bank maintains diverse sources of liquidity to facilitate flexibility in meeting its funding requirements. Shinhan Bank funds its operations principally by accepting deposits from retail and corporate depositors, accessing the call loan market (a short-term market for loans with maturities of less than one month), issuing debentures and borrowing from the Bank of Korea. Shinhan Bank uses the funds primarily to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

Shinhan Card manages its liquidity risk according to the following principles: (i) provide a sufficient volume of necessary funding in a timely manner at a reasonable cost, (ii) establish an overall liquidity risk management strategy,

including in respect of liquidity management targets, policy and internal control systems, and (iii) manage its liquidity risk in conjunction with other risks based on a comprehensive understanding of the interaction among the various risks. As for any potential liquidity shortage at or near the end of each month, Shinhan Card maintains liquidity at a level sufficient to withstand credit shortage for three months.

In addition, Shinhan Card manages liquidity risk by setting and complying with specific guidelines for various measures of liquidity, including the breakdown of contractual payment obligations by maturity, overseas funding, the ratio of asset-backed securitized borrowings to the total borrowing, the ratio of requisite liquidity to reserve liquidity, and the ratio of fixed interest rate borrowings to floating interest rate borrowings. Furthermore, Shinhan Card closely monitors various indicators of a potential liquidity crisis, such as the actual liquidity gap

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ratio (in relation to the different maturities for assets as compared to liabilities), the liquidity buffer ratio. Shinhan Card also has contingency plans in place in case of any emergency or crisis. In managing its liquidity risk, Shinhan Card focuses on a prompt response system based on periodic monitoring of the relevant early signals, stress testing and contingency plan formulations. Shinhan Card identifies its funding needs on a daily, monthly, quarterly and annual basis based on the maturity schedule of its liabilities as well as short-term liquidity needs, based upon which it formulates its funding plans using diverse sources such as corporate debentures, commercial papers, asset-backed securitizations and credit line facilities. When entering into asset-backed securitizations, Shinhan Card provides sufficient credit enhancements to avoid triggering early amortization events. In addition, prior to entering into any funding transaction and related derivative transaction, Shinhan Card conducts pre-transaction risk analyses, including in respect of counterparty credit risk and its total exposure limit by country and by financial institution.

Shinhan Card also manages its liquidity risk within the limits set on Won accounts in accordance with the regulations of the Financial Services Commission. Under the Specialized Credit Financial Business Act and the regulations thereunder, credit card companies in Korea are required to maintain a Won liquidity ratio of at least 100.0%.

The following tables show Shinhan Card's liquidity status and limits for Won-denominated accounts as of December 31, 2015 in accordance with the regulations of the Financial Services Commission.

Shinhan Card's Won-denominated accounts

Won-Denominated Accounts	7 Days or 1 Month		3 Months or 6 Months		1 Year	Over	Total
	Less	Less	Less	Less	Less	1 Year	
(In billions of Won, except percentages)							
Assets	₩ 2,252	₩ 10,093	₩ 14,588	₩ 16,803	₩ 19,206	₩ 4,656	₩ 23,863
Liabilities	710	3,155	3,845	4,692	6,300	10,153	16,452
Liquidity ratio	379%						

Shinhan Investment manages its liquidity risk for its Won-denominated accounts by setting a limit of ₩300 billion on each of its seven-day and one-month liquidity gap, a limit of 110% on its three-months liquidity ratio and a limit of ₩8 billion on its liquidity VaR. As for its foreign currency-denominated accounts, Shinhan Investment manages the liquidity risk on a quarterly basis in compliance with the guidelines of the Financial Supervisory Service, which requires the one-week and one-month maturity mismatch ratios to be 0% and -10% or less, respectively, and the three months liquidity ratio to be 80% or higher.

Our other subsidiaries fund their operations primarily through call money, bank loans, commercial paper, corporate debentures and asset-backed securities. Our holding company acts as a funding vehicle for long-term financing of our subsidiaries whose credit ratings are lower than the holding company, including Shinhan Card and Shinhan Capital, to lower the overall funding costs within regulatory limitations. Under the Monopoly Regulation and Fair Trade Act of Korea, however, a financial holding company is prohibited from borrowing funds in excess of 200% of its total stockholders' equity.

In addition to liquidity risk management under the normal market situations, we have contingency plans to effectively cope with possible liquidity crisis. Liquidity crisis arises when we would not be able to effectively manage the situations with our normal liquidity management measures due to, among other reasons, inability to access our normal sources of funds or epidemic withdrawals of deposits as a result of various external or internal factors, including a collapse in the financial markets or abrupt deterioration of our credit. We have contingency plans corresponding to

different stages of liquidity crisis: namely, alert stage, imminent-crisis stage and crisis stage, based on the following liquidity indices:

indices that reflect the market movements such as interest rates and stock prices;

indices that reflect financial market sentiments, an example being the size of money market funds; and

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indices that reflect our internal liquidity condition.

Operational Risk Management

Operational risk is difficult to quantify and subject to different definitions. The Basel Committee defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from other external events. Similarly, we define operational risk as the risks related to our overall management other than credit risk, market risk, interest rate risk and liquidity risk. These include risks arising from system failure, human error, non-adherence to policy and procedures, fraud, inadequate internal controls and procedures or environmental changes and resulting in financial and non-financial loss. We monitor and assess operational risks related to our business operations, including administrative risk, information technology risk (including cyber security risk), managerial risk and legal risk, with a view to minimizing such losses.

Our holding company's Audit Committee, which consists of three outside directors, one of whom is an accounting or financial expert as required by internal control regulations under the Financial Holding Company Act, oversees and monitors our operational compliance with legal and regulatory requirements. The Audit Committee also oversees management's operations and may, at any time it deems appropriate, demand additional operations-related reporting from management and inspects our asset condition. At the holding company level, we define each subsidiary's operational process and establish an internal review system applicable to each subsidiary. Each subsidiary's operational risk is internally monitored and managed at the subsidiary level and the Group Internal Audit Department at our holding company, which reports to our Audit Committee, continuously monitors the integrity of our subsidiaries' operational risk management system. Our holding company's board of directors and the Group Risk Management Committee establish our basic policies for operational risk management at the group level. The Group Internal Audit Department at our holding company is directly responsible for overseeing our operational risk management with a focus on legal, regulatory, operational and reputational risks. The Group Internal Audit Department audits both our and our subsidiaries' operations and asset condition in accordance to our annual audit plan, which is approved by the Audit Committee, and submits regular reports to the Audit Committee pursuant to our internal reporting system. If the Group Internal Audit Department discovers any non-compliance with operational risk procedures or areas of weaknesses, it promptly alerts the business department in respect of which such non-compliance was discovered and demands implementation of corrective measures. Implementation of such corrective measures is subsequently reviewed by the Group Internal Audit Department.

To monitor and manage operational risks, Shinhan Bank maintains a system of comprehensive policies and has in place a control framework designed to provide a stable and well-managed operational environment throughout the organization. Currently, the primary responsibility for ensuring compliance with our banking operational risk procedures remains with each of the business units and operational teams. In addition, the Audit Department, the Risk Management Department and the Compliance Department of Shinhan Bank also play important roles in reviewing and maintaining the integrity of Shinhan Bank's internal control environment.

The operational risk management system of Shinhan Bank is managed by the operational risk team under the Risk Management Department. The current system principally consists of risk control self-assessment, risk quantification using key risk indicators, loss data collection, scenario management and operational risk capital measurement. Shinhan Bank operates several educational and awareness programs designed to have all of its employees to be familiar with this system. In addition, Shinhan Bank has a designated operational risk manager at each of its departments and branch offices, who serves as a coordinator between the operational risk team at the headquarters and the employees in the front office and seeking to provide centralized feedback to further improve the operational risk management system.

As of December 31, 2015, Shinhan Bank has conducted risk control self-assessments on its departments as well as domestic and overseas branch offices, from which it collects systematized data on all of its branch offices, and uses the findings from such self-assessments to improve the procedures and processes for the

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relevant departments or branch offices. In addition, Shinhan Bank has accumulated risk-related data since 2003, improved the procedures for monitoring operational losses and is developing risk simulation models. In addition, Shinhan Bank selects and monitors, at the department level, approximately 207 key risk indicators.

The Audit Committee of Shinhan Bank, which consists of one standing auditor and two outside directors, is an independent inspection authority that supervises Shinhan Bank's internal controls and compliance with established ethical and legal principles. The Audit Committee performs internal audits of, among other matters, Shinhan Bank's overall management and accounting, and supervises its Audit Department, which assists Shinhan Bank's Audit Committee. Shinhan Bank's Audit Committee also reviews and evaluates Shinhan Bank's accounting policies and their changes, financial and accounting matters and fairness of financial reporting.

Shinhan Bank's Audit Committee and Audit Department supervise and perform the following audits:

general audits, including full-scale audits performed annually for the overall operations, sectional audits of selected operations performed as needed, and periodic and irregular spot audits;

special audits, performed when the Audit Committee or standing auditor deems it necessary or pursuant to requests by the chief executive officer or supervisory authorities such as the Financial Supervisory Service;

day-to-day audits, performed by the standing auditor for material transactions or operations that are subject to approval by the heads of Shinhan Bank's operational departments or senior executives;

real-time monitoring audits, performed by the computerized audit system to identify any irregular transactions and take any necessary actions; and

self-audits as a self-check by each operational department to ensure its compliance with our business regulations and policies, which include daily audits, monthly audits and special audits.

In addition to these audits and compliance activities, Shinhan Bank's Audit Department designates operational risk management examiners to monitor the appropriateness of operational risk management frameworks and the functions and activities of the board of directors, relevant departments and business units, and conducts periodic checks on the operational risk and reports such findings.

As for Shinhan Investment, its audit department conducts an annual inspection as to whether the internal policy and procedures of Shinhan Investment relating to its overall operational risk management are being effectively complied. The inspection has a particular focus on the appropriateness of the scope of operational risks and the collection, maintenance and processing of relevant operating data. Shinhan Investment, through its operational risk management system, also conducts self-assessments of risks, collects loss data and manages key risk indicators. The operational risk management system is supervised by its audit department, compliance department and operational risk management department, as well as a risk management officer in each of Shinhan Investment's departments.

General audits, special audits, day-to-day audits and real-time monitoring audits are performed by our examiners, and self-audits are performed by the self-auditors of the relevant operational departments.

In addition to internal audits and inspections, the Financial Supervisory Service conducts general annual audits of our and our subsidiaries' operations. The Financial Supervisory Service also performs special audits as the need arises on particular aspects of our and our subsidiaries' operations such as risk management, credit monitoring and liquidity. In the ordinary course of these audits, the Financial Supervisory Service routinely issues warning notices where it determines that a regulated financial institution or such institution's employees have failed to comply with the applicable laws or rules, regulations and guidelines of the Financial Supervisory Service. We and our subsidiaries have in the past received, and expect in the future to receive, such notices and we have taken and will continue to take appropriate actions in response to such notices. For example, the Financial Supervisory Service conducted a comprehensive audit of Shinhan Bank from November to

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December 2012, and in July 2013 notified Shinhan Bank of an institutional caution (which does not give rise to significant sanctions unlike in the case of repeated institutional warnings), imposed disciplinary actions against 65 Shinhan Bank employees and assessed a fine of ₩87.5 million after finding that Shinhan Bank had illegally monitored customer accounts, breached confidentiality with respect to certain financial transactions and violated its obligation to disclose and report to the Financial Supervisory Service an investment in an affiliated company of Shinhan Bank. Furthermore, in March 2013 the Financial Supervisory Service conducted a special audit of Shinhan Bank as to incidents of alleged malfunctioning of its financial computer network and in December 2013, notified Shinhan Bank of an institutional caution and imposed disciplinary actions against five Shinhan Bank employees after finding that Shinhan Bank did not properly maintain its information technology administrator account and vaccine server. From October 2013 to November 2014, the Financial Supervisory Service also conducted a series of special audits of Shinhan Bank as to incidents of alleged illegal monitoring of customer accounts, and in February 2014, the Prosecutors' Office in Korea also commenced an investigation of Shinhan Bank with respect to same. In December 2015, the Financial Supervisory Service notified Shinhan Bank of an institutional caution and imposed disciplinary actions against three former Shinhan Bank officers after finding that Shinhan Bank had illegally monitored customer accounts, whereas in September 2015, the Prosecutors' Office determined not to prosecute the former officers of Shinhan Bank because of insufficient evidence. In addition, the Financial Supervisory Service conducted a periodic audit of Shinhan Bank from April to May 2015, and as of the date hereof, Shinhan Bank has not received any notifications in connection with such audit.

The Financial Supervisory Service also conducted a special audit of Shinhan Card, together with BC Card and KB Kookmin Card, from June to July 2013, in relation to alleged imperfect sales of insurance products, and in March 2014, issued an institutional warning against each of the three credit card companies based on a finding that card customers were provided inadequate or misleading disclosures regarding the risks relating to such products at the time of sale. The Financial Supervisory Service also imposed disciplinary actions against three Shinhan Card employees and assessed a fine of ₩10 million against Shinhan Card as well as similar sanctions against BC Card and KB Kookmin Card. In addition, the Financial Supervisory Service conducted a comprehensive audit of Shinhan Card, together with Samsung Card and Hyundai Card, in September 2014, and in November 2015, issued an institutional warning against each of the three credit card companies based on a finding that they had illegally provided personal credit information of potential new cardholders to their credit card sales agents. The Financial Supervisory Service also imposed disciplinary actions against six Shinhan Card employees and assessed a fine of ₩6 million against Shinhan Card as well as similar sanctions against Samsung Card and Hyundai Card. In December 2014, the Financial Supervisory Service also issued institutional cautions against Shinhan Life for selling insurance products without adequate disclosure and for incomplete payments of agency fees, together with a fine of ₩338 million in relation to the former case.

We consider legal risk as a part of operational risk. The uncertainty of the enforceability of obligations of our customers and counterparties, including foreclosure on collateral, creates legal risk. Changes in laws and regulations could also adversely affect us. Legal risk is higher in new areas of business where the law is often untested in the courts although legal risk can also increase in our traditional business to the extent that the legal and regulatory landscape in Korea changes and many new laws and regulations governing the banking industry remain untested. We seek to minimize legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting legal advisers. The Compliance Department operates Shinhan Financial Group's compliance system. This system is designed to ensure that all employees of Shinhan Financial Group and its subsidiaries comply with the relevant laws and regulations. The compliance system's main function is to monitor the degree of improvement in compliance with the relevant laws and regulations, maintain internal controls (including ensuring that each department has established proper internal policies and that it complies with those policies) and educate employees about observance of the relevant laws and regulations. The Compliance Department also supervises the management, execution and performance of self-audits.

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Upgrades of Risk Management System

Our recent material upgrades in relation to risk management systems are as follows.

Shinhan Bank

In order to strengthen risk management of its overseas subsidiaries and effectively comply with local and domestic regulations, Shinhan Bank is in the process of laying out a global risk management system network, which records the risk data of its overseas subsidiaries. Shinhan Bank seeks to leverage the development of this system for further overseas expansion and stable growth of existing overseas subsidiaries. To date, Shinhan Bank has completed the development of such system for its subsidiaries in China, Japan, Vietnam, the United States, Canada, India, Europe and Mexico. Shinhan Bank also plans to expand the application of this system to its other overseas subsidiaries.

Shinhan Bank has also completed development of a system to calculate stressed VaR based on Basel II standards in order to prepare for stress situations such as the global financial crisis in 2008. Shinhan Bank has received approval for such system from the Financial Supervisory Service and has been implemented since 2012.

In 2012, Shinhan Bank developed a system for improving collection and recovery of bad assets through enhanced loss given default data processing. In addition, in 2012, Shinhan Bank received approvals from the Financial Supervisory Service for upgrades to its credit evaluation modeling for risk assessment of small- to medium-sized enterprises that are not required to be audited by outside accounting firms and for SOHOs, which upgrades related to factoring in the credit profile of the head of such enterprises and SOHOs. In 2014, Shinhan Bank further upgraded the credit evaluation modeling for risk assessment of small- and medium-size enterprises that are not required to be audited by outside accounting firms by entirely revamping the modeling for enterprises subject to outside audits, enterprises that are not subject to outside auditors and enterprise heads. Such upgraded modeling was approved by the Financial Supervisory Service, and Shinhan Bank began implementation of the upgraded system since 2014. In 2014, Shinhan Bank reclassified its credit evaluation models for risk assessment of enterprises into the following four categories: (i) IFRS (enterprises subject to external audits under Korean IFRS), (ii) GAAP (enterprises subject to external audits under Generally Accepted Accounting Principles), (iii) small- and medium-size enterprises and (iv) SOHO. Such reclassification was approved by the Financial Supervisory Service, and Shinhan Bank began to implement the system in 2015.

In addition, in 2013, Shinhan Bank obtained approval from the Financial Supervisory Service to use an internal evaluation model with respect to Basel II credit risks related to Shinhan Bank's retail SOHO exposures.

Shinhan Bank also upgraded the asset and liability management system in 2012 in order to timely comply with Basel III, IFRS and other regulatory requirements as well as to upgrade the quality of risk-related data. In 2014, Shinhan Bank upgraded the liquidity coverage ratio and net stable funding ratio systems under Basel III in order to facilitate daily measurement and efficient management.

Following the approval by the Financial Supervisory Service of the advanced measurement approach for risk management, Shinhan Bank has re-established the operational risk management system in order to further enhance its operational risk management capabilities.

Shinhan Card

In 2012, Shinhan Card completed further upgrades to its credit risk measurement system in satisfaction of the Basel II standards, as well as other regulatory requirements and internal needs in order to address the ongoing volatility in the

economic and regulatory environment.

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Supervision and Regulation

Principal Regulations Applicable to Financial Holding Companies

General

The Korean financial holding companies and their subsidiaries are regulated by the Financial Holding Companies Act (last amended on July 24, 2015, Law No. 13448). In addition, Korean financial holding companies and their subsidiaries are subject to the regulations and supervision of the Financial Services Commission and the Financial Supervisory Service.

Pursuant to the Financial Holding Companies Act, the Financial Services Commission regulates various activities of financial holding companies. For instance, it approves the application for setting up a new financial holding company and promulgates regulations on the capital adequacy of financial holding companies and their subsidiaries and other regulations relating to the supervision of financial holding companies.

The Financial Supervisory Service is subject to the instructions and directives of the Financial Services Commission and carries out supervision and examination of financial holding companies and their subsidiaries. In particular, the Financial Supervisory Service sets forth liquidity and capital adequacy requirements for financial holding companies and reporting requirements pursuant to the authority delegated to the Financial Supervisory Service under the Financial Services Commission regulations, pursuant to which financial holding companies are required to submit quarterly reports on business performance, financial status and other matters prescribed in the Presidential Decree of the Financial Holding Companies Act.

Under the Financial Holding Companies Act, the establishment of a financial holding company must be approved by the Financial Services Commission. A financial holding company is required to be mainly engaged in controlling its subsidiaries by holding the shares or equities of the subsidiaries in the amount of not less than 50% of aggregate amount of such financial holding company's assets based on the latest balance sheet. A financial holding company is prohibited from engaging in any profit-making businesses other than controlling the management of its subsidiaries and certain ancillary businesses as prescribed in the Presidential Decree of the Financial Holding Companies Act which include the following businesses:

financially supporting its subsidiaries and the subsidiaries of its subsidiaries (the direct and indirect subsidiaries), including lending properties with economic values such as monies and securities, guaranteeing obligation performance and other direct or indirect transactions involving transactional credit risk;

raising capital necessary for the investment in subsidiaries or providing financial support to its direct and indirect subsidiaries;

supporting the business of its direct and indirect subsidiaries for the joint development and marketing of new product and the joint utilization of facilities or IT systems; and

pursuing any other activities exempted from authorization, permission or approval under the applicable laws and regulations.

The Financial Holding Companies Act requires every financial holding company (other than any financial holding company that is controlled by any other financial holding company) or its subsidiaries to obtain the prior approval from the Financial Services Commission before acquiring control of another company or to file with the Financial Services Commission a report within thirty days after acquiring such control. Permission to liquidate or to merge with any other company must be obtained in advance from the Financial Services Commission. A financial holding company must report to the Financial Services Commission regarding certain events including:

when there is a change of its officers;

when there is a change of its largest shareholder;

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when there is a change of principal shareholders of a bank holding company;

when the shareholding of the largest shareholder or a principal shareholder as prescribed under the Financial Holding Companies Act or a person who is in a special relationship with such largest or principal shareholder (as defined under the Presidential Decree of the Financial Holding Companies Act) changes by 1% or more of the total issued and outstanding voting shares of the financial holding company;

when there is a change of its name;

when there is a cause for dissolution; and

when it or its subsidiary ceases to control any of its respective direct and indirect subsidiaries by disposing of the shares of such direct and indirect subsidiaries.

Capital Adequacy

The Financial Holding Companies Act does not provide for a minimum paid-in capital of financial holding companies. All financial holding companies, however, are required to maintain a specified level of solvency. In addition, in its allocation of the net profit earned in a fiscal term, a financial holding company is required to set aside in its legal reserve an amount equal to at least 10% of the net income after tax each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

A financial holding company controlling banks or other financial institutions conducting banking business as prescribed in the Financial Holding Company Act (hereinafter, the bank holding company) is required to maintain a minimum consolidated equity capital ratio of 8.0%. Consolidated equity capital ratio is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with the Financial Services Commission requirements that have been formulated based on the Bank of International Settlements standards. Equity capital, as applicable to bank holding companies, is defined as the sum of Tier I capital, Tier II capital, and Tier III capital less any deductible items, each as defined under the Regulation on the Supervision of Financial Holding Companies. Risk-weighted assets is defined as the sum of credit risk-weighted assets and market risk-weighted assets.

For regulatory reporting purposes, we maintain allowances for credit losses on the following loan classifications that classify corporate and retail loans as required by the Financial Services Commission. In making these classifications, we take into account a number of factors, including the financial position, profitability and transaction history of the borrower, the value of any collateral or guarantee taken as security for the extension of credit, probability of default and loss amount in the event of default. This classification method, and our related provisioning policy, is intended to reflect the borrower's capacity to repay. To the extent there is any conflict between the Financial Services Commission guidelines and our internal analysis in such classifications, we adopt whichever is more conservative.

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The following table sets forth loan classifications according to the guidelines of the Financial Services Commission.

Loan Classification	Loan Characteristics
Normal	Loans extended to customers that, based on our consideration of their business, financial position and future cash flows, do not raise concerns regarding their ability to repay the loans.
Precautionary	Loans extended to customers that (i) based on our consideration of their business, financial position and future cash flows, show potential risks with respect to their ability to repay the loans, although showing no immediate default risk or (ii) are in arrears for one month or more but less than three months.
Substandard	(i) Loans extended to customers that, based on our consideration of their business, financial position and future cash flows, are judged to have incurred considerable default risks as their ability to repay has deteriorated; or
	(ii) the portion that we expect to collect of total loans (a) extended to customers that have been in arrears for three months or more, (b) extended to customers that have incurred serious default risks due to the occurrence of, among other things, final refusal to pay their debt instruments, entry into liquidation or bankruptcy proceedings or closure of their businesses, or (c) extended to customers who have outstanding loans that are classified as doubtful or estimated loss.
Doubtful	Loans exceeding the amount that we expect to collect of total loans to customers that:
	(i) based on our consideration of their business, financial position and future cash flows, have incurred serious default risks due to noticeable deterioration in their ability to repay; or
	(ii) have been in arrears for three months or more but less than twelve months.
Estimated loss	Loans exceeding the amount that we expect to collect of total loans to customers that:
	(i) based on our consideration of their business, financial position and future cash flows, are judged to be accounted as a loss because the inability to repay became certain due to serious deterioration in their ability to repay;

(ii) have been in arrears for twelve months or more; or

(iii) have incurred serious risks of default in repayment due to the occurrence of, among other things, final refusal to pay their debt instruments, liquidation or bankruptcy proceedings or closure of their business.

In accordance with the Regulations for the Supervision of Financial Institutions, we establish regulatory reserve for loan loss in the amount of the difference between allowance for credit losses as calculated pursuant to our provisioning policy in accordance with IFRS and allowance for credit losses based on the loan classifications set forth above as required by the Financial Services Commission. In determining consolidated equity capital ratio, we deduct regulatory reserve for loan loss from equity capital.

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Liquidity

All financial holding companies are required to match the maturities of their assets to those of liabilities in accordance with the Financial Holding Companies Act in order to ensure liquidity. Financial holding companies are required to submit quarterly reports regarding their liquidity to the Financial Supervisory Service and must:

maintain a Won liquidity ratio (defined as Won assets due within one month, including marketable securities, divided by Won liabilities due within three months) of not less than 100%;

maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 80% except for financial holding companies with a foreign currency liability to total assets ratio of less than 1%;

maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days divided by total foreign currency assets of not less than 0%, except for financial holding companies with a foreign currency liability to total assets ratio of less than 1%; and

maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month divided by total foreign currency assets of not less than negative 10% except for financial holding companies with a foreign currency liability to total assets ratio of less than 1%.

Financial Exposure to Any Single Customer and Major Shareholders

Subject to certain exceptions, the total sum of credit (as defined in the Presidential Decree of the Financial Holding Companies Act, the Bank Act, the Presidential Decree of the Financial Investment Services and Capital Markets Act, the Insurance Act, the Mutual Savings Bank Act and the Specialized Credit Financial Business Act, respectively) of a financial holding company and its direct and indirect subsidiaries which are banks, merchant banks or securities companies (Financial Holding Company Total Credit) extended to a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act will not be permitted to exceed 25% of the Net Total Equity Capital.

Net Total Equity Capital for the purpose of the calculation of financial exposure to any single customer and Major Shareholder (as defined below) as applicable to us and our subsidiaries is defined under the Presidential Decree of the Financial Holding Companies Act as

(a) the sum of:

- (i) in the case of a financial holding company, the shareholders' equity as defined under Article 24-3, Section 7(2) of the Presidential Decree of the Financial Holding Companies Act, which represents the difference between the total assets less total liabilities on the balance sheet as of the end of the most recent quarter;

- (ii) in the case of a bank, the shareholders' equity as defined under Article 2, Section 1(5) of the Bank Act, which represents the sum of Tier I and Tier II capital amounts determined according to the standards set by the BIS;
- (iii) in the case of a merchant bank, the capital amount as defined in Article 342, Section (1) of the Financial Investment Services and Capital Markets Act;
- (iv) in the case of a financial investment company, the shareholders' equity as defined under Article 37, Section 3 of the Presidential Decree of the Financial Investment Services and Capital Markets Act, which represents the total shareholders' equity as adjusted as determined by the Financial Services Commission, such as the amount of increase or decrease in paid-in capital after the end of the most recent fiscal year;
- (v) in the case of an insurance company, the shareholders' equity as defined under Article 2, Section 15 of the Insurance Act, which represents the sum of items designated by the Presidential Decree, such as paid-in-capital, capital surplus, earned surplus and any equivalent items, less the value of good will and other equivalent items;

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- (vi) in the case of a mutual savings bank, the shareholders' equity as defined under Article 2, Section 4 of the Mutual Savings Bank Act, which represents the sum of Tier I and Tier II capital amounts determined in accordance with the standards set by the Bank for International Settlements; and
- (vii) in the case of a credit card company or a specialty credit provider, the shareholders' equity as defined under Article 2, Section 19 of the Specialized Credit Financial Business Act, which represents the sum of the items designated by the Presidential Decree, such as paid-in-capital, capital surplus, earned surplus and any equivalent items;

(b) less the sum of:

- (i) the amount of shares in direct and indirect subsidiaries held by the financial holding company;
- (ii) the amount of shares in the direct and indirect subsidiaries that are cross-held by such subsidiaries; and
- (iii) the amount of shares in the financial holding company held by its direct and indirect subsidiaries.

The Financial Holding Company Total Credit to a single individual or legal entity may not exceed 20% of the Net Total Equity Capital.

Furthermore, the total sum of credits (as defined under the Financial Holding Companies Act, the Banking Act and the Financial Investment Services and Capital Markets Act, respectively) of a bank holding company and its direct and indirect subsidiaries (Bank Holding Company Total Credit) extended to a Major Shareholder (together with the persons who have special relationship with such Major Shareholder) (as defined below) generally may not exceed the smaller of (x) 25% of the Net Total Equity Capital and (y) the amount of the equity capital of the financial holding company multiplied by the shareholding ratio of such Major Shareholder, subject to certain exceptions.

Major Shareholder is defined under the Financial Holding Companies Act as follows:

(a) a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Financial Holding Companies Act) in excess of 10% (or in the case of a financial holding company controlling regional banks only, 15%) in the aggregate of the financial holding company's total issued and outstanding voting shares; or

(b) a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Financial Holding Companies Act) more than 4% in the aggregate of the total issued and outstanding voting shares of the financial holding company controlling national banks (other than a financial holding company controlling regional banks only), excluding shares related to the shareholding restrictions on non-financial business group companies as described below, where such shareholder is the largest shareholder or has actual control over the major business affairs of the financial holding company through, for example, appointment and dismissal of the officers pursuant to the Presidential Decree of the Financial Holding Companies Act.

In addition, the total sum of the Bank Holding Company Total Credit extended to all of a bank holding company's Major Shareholder may not exceed 25% of the Net Total Equity Capital. Furthermore, the bank holding company and

its direct and indirect subsidiaries that intend to extend the Bank Holding Company Total Credit to the bank holding company's Major Shareholder not less than the lesser of (i) the amount equivalent to 0.1% of the Net Total Equity Capital or (ii) ₩5 billion, with respect to a single transaction, must obtain prior unanimous board resolutions and then, immediately after the completion of the transaction, must file a report with the Financial Services Commission and publicly disclose the filing of such report (for example, through a website).

Restrictions on Transactions among Direct and Indirect Subsidiaries and Financial Holding Company

Generally, a direct or indirect subsidiary of a financial holding company may not extend credit to the financial holding company which directly or indirectly controls such subsidiary. In addition, a direct or indirect

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subsidiary of a financial holding company may not extend credit to any other single direct or indirect subsidiary of the financial holding company in excess of 10% of its stockholders' equity and to any other direct and indirect subsidiaries of the financial holding company in excess of 20% of its stockholders' equity in the aggregate. The direct or indirect subsidiaries of a financial holding company must obtain an appropriate level of collateral for the credits extended to the other direct and indirect subsidiaries unless otherwise approved by the Financial Services Commission. The appropriate level of collateral for each type of such collateral is as follows:

- (i) For deposits and installment savings, obligations of the Korean government or the Bank of Korea, obligations guaranteed by the Korean government or the Bank of Korea, obligations secured by securities issued or guaranteed by the Korean government or the Bank of Korea: 100% of the amount of the credit extended;
- (ii) (a) For obligations of local governments under the Local Autonomy Act, local public enterprises under the Local Public Enterprises Act, and investment institutions and other quasi-investment institutions under the Basic Act on the Management of Government-Invested Institution (hereinafter, the public institutions and others); (b) obligations guaranteed by the public institutions and others; and (c) obligations secured by the securities issued or guaranteed by public institutions and others: 110% of the amount of the credit extended; and
- (iii) For any property other than those set forth in the above (i) and (ii): 130% of the amount of the credit extended.

Subject to certain exceptions, a direct or indirect subsidiary of a financial holding company is prohibited from owning the shares of any other direct or indirect subsidiaries (other than those directly controlled by the direct and indirect subsidiaries in question) in common control by the financial holding company. However, a direct or indirect subsidiary of a financial holding company may invest as a limited partner in a private equity fund that is a direct or indirect subsidiary of the same financial holding company. The transfer of certain assets subject to or below the precautionary criteria between the financial holding company and its direct or indirect subsidiary or between the direct and indirect subsidiaries of a financial holding company is prohibited except for (i) the transfer to an asset-backed securitization company, typically a special purpose entity, or the entrustment with a trust company, under the Asset-Backed Securitization Act, (ii) the transfer to a mortgage-backed securitization company under the Mortgage-Backed Securitization Company Act, (iii) the transfer or in-kind contribution to a corporate restructuring vehicle under the Corporate Restructuring Investment Company Act or (iv) the acquisition by a corporate restructuring company under the Industrial Development Act.

Disclosure of Management Performance

For the purpose of protecting the depositors and investors in the subsidiaries of the financial holding companies, the Financial Services Commission requires financial holding companies to disclose certain material matters including (i) financial condition and profit and loss of the financial holding company and its direct and indirect subsidiaries, (ii) how capital was raised by the financial holding company and its direct and indirect subsidiaries and how such capital was used, (iii) any sanctions levied on the financial holding company and its direct and indirect subsidiaries under the Financial Holding Companies Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry or (iv) occurrence of any non-performing assets or financial incident which may have a material adverse effect.

Restrictions on Shareholdings in Other Companies

Subject to certain exceptions, a bank holding company may not own more than 5% of the total issued and outstanding shares of another company (other than its direct and indirect subsidiaries). If the financial holding company owns shares of another company (other than its direct and indirect subsidiaries) which is not a finance-related company, the financial holding company is required to exercise its voting rights in the same manner and same proportion as the other shareholders of the company exercise their voting rights in favor of or against any resolutions under consideration at the shareholders' meeting of the company.

Table of Contents***Restrictions on Shareholdings by Direct and Indirect Subsidiaries***

Generally, a direct subsidiary of a financial holding company is prohibited from controlling any other company; *provided* that a direct subsidiary of a financial holding company may control (as an indirect subsidiary of the financial holding company): (i) subsidiaries in foreign jurisdiction which are engaged in a financial business, (ii) certain financial institutions which are engaged in the business that the direct subsidiary may conduct without any licenses or permits, (iii) certain financial institutions whose business is related to the business of the direct subsidiary as prescribed under the Presidential Decree of the Financial Holding Companies Act (for example, the companies which a bank subsidiary may control are limited to credit information companies, credit card companies, trust business companies, securities investment management companies, investment advisory companies, futures business companies, and asset management companies), (iv) certain financial institutions whose business is related to financial business as prescribed by the regulations of the Ministry of Strategy and Finance, and (v) certain companies which are not financial institutions but whose business is related to the financial business of the financial holding company as prescribed by the Presidential Decree of the Financial Holding Companies Act (e.g. finance-related research company, finance-related information technology company, etc.). Acquisition by the direct subsidiaries of such indirect subsidiaries requires a prior permission from the Financial Services Commission or a report to be submitted to the Financial Services Commission, depending on the types of the indirect subsidiaries and the amount of total assets of the indirect subsidiaries.

An indirect subsidiary of a financial holding company is prohibited from controlling any other company, provided, however, that in the case where a company held control over another company at the time such company initially became an indirect subsidiary of a financial holding company, such indirect subsidiary shall be required to dispose of its interest in such other company within two years after becoming an indirect subsidiary of a financial holding company.

A subsidiary of a financial holding company may invest in a special purpose company as its largest shareholder for purposes of making investments under the Act on Private Investment in Social Infrastructure without being deemed as controlling such special purpose company.

In addition, a private equity fund established in accordance with the Financial Investment Services and Capital Markets Act is not considered to be a subsidiary of a financial holding company even if the financial holding company is the largest investor in the private equity fund unless the financial holding company is the asset management company for the private equity fund.

Restrictions on Transactions Between a Financial Holding Company and its Major Shareholder

A bank holding company and its direct and indirect subsidiaries are prohibited from acquiring (including acquisition by a trust account of its subsidiary bank) shares issued by such bank holding company's Major Shareholder in excess of 1% of the Net Total Equity Capital. In addition, the financial holding company and its direct and indirect subsidiaries which intend to acquire shares issued by such Major Shareholder not less than the lesser of (i) the amount equivalent to 0.1% of the Equity Capital or (ii) ₩5 billion, with respect to a single transaction, must obtain prior unanimous board resolutions and then, immediately after the acquisition, must file a report with the Financial Services Commission and publicly disclose the filing of such report (for example, through a website).

Restrictions on Financial Holding Company Ownership

Under the Financial Holding Companies Act, foreign financial institutions are permitted to establish financial holding companies in Korea. Pursuant to the Presidential Decree of the Financial Holding Companies Act, a foreign financial

institution can control a financial holding company if, subject to satisfying certain other conditions, it, together with its specially-related persons, holds 100% of the total shares in the financial holding company.

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In addition, any single shareholder and persons who stand in a special relationship with such shareholder (as defined under the Presidential Decree to the Financial Holding Companies Act) may acquire beneficial ownership of up to 10% of the total issued and outstanding shares with voting rights of a financial holding company controlling national banks (or 15% in the case of a financial holding company controlling regional banks only). The Government and the Korea Deposit Insurance Corporation are not subject to such a ceiling.

However, non-financial business group companies (as defined below) may not acquire beneficial ownership of shares of a bank holding company in excess of 4% of such financial holding company's outstanding voting shares, provided that such non-financial business group companies may acquire beneficial ownership of up to 10% of such financial holding company's outstanding voting shares with the approval of the Financial Services Commission under the condition that such non-financial business group companies will not exercise voting rights in respect of such shares in excess of the 4% limit. In addition, any person (whether a Korean national or a foreigner), with the exception of non-financial business group companies described above, may also acquire in excess of 10% of total voting shares issued and outstanding of a financial holding company which controls national bank, provided that an approval from the Financial Services Commission is obtained in instances where the total holding exceeds 10% (or 15% in the case of a financial holding company controlling regional banks only), 25% or 33% of the total voting shares issued and outstanding of such bank holding company.

Non-financial business group companies are defined under the Financial Holding Companies Act as companies, which include:

- (i) any same shareholder group with aggregate net assets of all non-financial business companies belonging to such group of not less than 25% of the aggregate net assets of all members of such group;
- (ii) any same shareholder group with aggregate assets of all non-financial business companies belonging to such group of not less than ₩2 trillion;
- (iii) any mutual fund in which a same shareholder group identified in item (i) or (ii) above holds more than 4% of the total shares issued and outstanding of such mutual fund;
- (iv) any private equity fund (x) which has a partner with limited liability that falls under item (i), (ii) or (iii) above and holds equity equivalent to 10% or greater of the total amount invested by the private equity fund, (y) which has a partner with unlimited liability that falls under item (i), (ii) or (iii) above or (z) whose affiliates belonging to an enterprise group subject to limitation on mutual investment hold in aggregate equity equivalent to 30% or greater of the total amount invested by such private equity fund; or
- (v) any investment purpose company in which a private equity fund that falls under item (iv) above acquires and holds no less than 4% of such company's shares or equity or exercises de-facto influence on such company's significant managerial matters.

Financial Investment Services and Capital Markets Act*General*

The Financial Investment Services and Capital Markets Act categorizes capital markets-related business into six different functions, as follows:

dealing (trading and underwriting of financial investment products (as defined below));

brokerage (brokerage of financial investment products);

collective investment (establishment of collective investment schemes and the management thereof);

investment advice;

discretionary investment management; and

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trusts (together with the five business set forth above, the Financial Investment Businesses). Accordingly, all financial business relating to financial investment products are reclassified as one or more of the Financial Investment Businesses described above, and financial institutions are subject to the regulations applicable to their relevant Financial Investment Businesses, irrespective of the type of the financial institution it is. For example, under the Financial Investment Services and Capital Markets Act, derivative businesses conducted by securities companies and future companies will be subject to the same regulations under the Financial Investment Services and Capital Markets Act, at least in principle.

The banking business and insurance business are not subject to the Financial Investment Services and Capital Markets Act and will continue to be regulated under separate laws; provided, however, that they may become subject to the Financial Investment Services and Capital Markets Act if their activities involve any financial investment businesses requiring a license based on the Financial Investment Services and Capital Markets Act.

Comprehensive Definition of Financial Investment Products

In an effort to encompass the various types of securities and derivative products available in the capital markets, the Financial Investment Services and Capital Markets Act sets forth a comprehensive term financial investment products, defined to mean all financial products with a risk of loss in the invested amount (in contrast to deposits, which are not financial investment products for which the invested amount is protected or preserved). Financial investment products are classified into two major categories: (i) securities (relating to financial investment products where the risk of loss is limited to the invested amount) and (ii) derivatives (relating to financial investment products where the risk of loss may exceed the invested amount). As a result of the general and open-ended manner in which financial investment products are defined, any future financial product could potentially fall under the definition of financial investment products, which would enable Financial Investment Companies (as defined below) to handle a broader range of financial products. Under the Financial Investment Services and Capital Markets Act, securities companies, asset management companies, futures companies and other entities engaging in any Financial Investment Business are classified as Financial Investment Companies.

License System

Financial Investment Companies are able to choose what Financial Investment Business to engage in (through the check the box method set forth in the relevant license application), by specifying the desired (i) Financial Investment Business, (ii) financial investment product and (iii) target customers to which financial investment products may be sold (namely, general investors or professional investors). Licenses will be issued under the specific business sub-categories described above. For example, it would be possible for a Financial Investment Company to obtain a license to engage in the Financial Investment Business of (i) dealing (ii) over the counter derivatives products (iii) only with professional investors.

Expanded Business Scope of Financial Investment Companies

Under the previous regulatory regime in Korea, it was difficult for a financial institution to explore a new line of business or expand upon its existing line of business. For example, a financial institution licensed as a securities company generally could not engage in the asset management business. In contrast, under the Financial Investment Services and Capital Markets Act, pursuant to the integration of its current business involving financial investment products into a single Financial Investment Business, a licensed Financial Investment Company is permitted to engage in all types of Financial Investment Businesses, subject to compliance with the relevant regulations, for example, maintaining an adequate Chinese Wall, to the extent required. As to incidental businesses (i.e., a financial related business which is not a Financial Investment Business), the Financial Investment Services and Capital Markets Act

generally allows a Financial Investment Company to

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freely engage in such incidental businesses by shifting away from the previous system of permitting only the listed activities towards a more comprehensive system. In addition, a Financial Investment Company is permitted (i) to outsource marketing activities by contracting with introducing brokers that are individuals but not employees of the Financial Investment Company, (ii) to engage in foreign exchange business related to their Financial Investment Business and (iii) to participate in the settlement network, pursuant to an agreement among the settlement network participants.

Improvement in Investor Protection Mechanism

While the Financial Investment Services and Capital Markets Act broadens the scope of financial businesses in which financial institutions are permitted to engage, a more rigorous investor-protection mechanism is imposed upon Financial Investment Companies dealing in financial investment products. The Financial Investment Services and Capital Markets Act makes a distinction between general investors and sophisticated investors and provides new or enhanced protections to general investors. For instance, the Financial Investment Services and Capital Markets Act expressly provides for strict know-your-customer rules for general investors and imposes an obligation on Financial Investment Companies that they should market financial investment products suitable to each general investor considering his or her personal attributes, including investment objective, net worth, and investment experience. Under the Financial Investment Services and Capital Markets Act, a Financial Investment Company can be held liable if a general investor proves (i) damages or losses relating to such general investor's investment in financial investment products solicited by such Financial Investment Company and (ii) absence of explanation, false explanation, or omission of material fact (without having to prove fault or causation). In case there are any conflicts of interest between the Financial Investment Companies and investors, the Financial Investment Services and Capital Markets Act expressly requires (i) disclosure of any conflict of interest to investors and (ii) mitigation of conflicts of interest to a comfortable level or abstention from the relevant transaction.

Other Regulatory Changes Related to Securities and Investments

The Financial Investment Services and Capital Markets Act brought changes to various rules in securities regulations including those relating to public disclosure, insider trading and proxy contests, which had previously been governed by the Securities and Exchange Act. For example, the 5% and 10% reporting obligations under the Securities and Exchange Act have become more stringent under the Financial Investment Services and Capital Markets Act. For instance, the numbers of events requiring an investor to update its 5% report have increased under the Financial Investment Services and Capital Markets Act. Previously, only a change in the shareholding of 1% or more or in the purpose of shareholding (such as an intention to influence management) could trigger the obligation to update the 5% report. The Government has issued detailed regulations stipulating additional events requiring updates to 5% reports, such as the change in the type of holding and change in any major aspect of the relevant contract. As for the 10% report filing obligation, the initial filing is expected to be required to be made within five business days of the date of the event triggering the 10% reporting obligation, compared to 10 calendar days under the previous law. The due date for reporting a subsequent change after the initial 10% report filing has been reduced from the 10th day of the first month immediately following the month in which such change took place to five business days of the date of such change. Under the previous law, there had been a limitation on the type of investment vehicles that could be used in a collective investment scheme (namely, to trusts and corporations), the type of funds that could be used for collective investments, and the types of assets and investment securities a fund could invest in. However, the Financial Investment Services and Capital Markets Act significantly liberalizes these restrictions, permitting all legal entities, including limited liability companies or partnerships, to be used for the purpose of collective investments, allowing the formation of fund complexes and permitting investment funds to invest in a wide variety of different assets and investment instruments.

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Principal Regulations Applicable to Banks

General

The banking system in Korea is governed by the Banking Act and the Bank of Korea Act of 1950, as amended (the Bank of Korea Act). In addition, Korean banks are subject to the regulations and supervision of the Bank of Korea, the Bank of Korea's Monetary Policy Committee, the Financial Services Commission and its executive body, the Financial Supervisory Service.

The Bank of Korea, established in June 1950 under the Bank of Korea Act, performs the customary functions of a central bank. It seeks to contribute to the sound development of the national economy by price stabilization through establishing and implementing efficient monetary and credit policies. The Bank of Korea acts under instructions of the Monetary Policy Committee, the supreme policy-making body of the Bank of Korea.

Under the Bank of Korea Act, the Monetary Policy Committee's primary responsibilities are to formulate monetary and credit policies and to determine the operations, management and administration of the Bank of Korea. The Financial Services Commission, established on April 1, 1998, regulates commercial banks pursuant to the Banking Act, including establishing guidelines on capital adequacy of commercial banks, and promulgates regulations relating to supervision of banks. Furthermore, pursuant to the Amendment to the Government Organization Act and the Banking Act on May 24, 1999, the Financial Services Commission, instead of the Ministry of Strategy and Finance, now regulates market entry into the banking business.

The Financial Supervisory Service is subject to the instructions and directives of the Financial Services Commission and carries out supervision and examination of commercial banks. In particular, the Financial Supervisory Service sets requirements both for the prudent control of liquidity and for capital adequacy and establishes reporting requirements pursuant to the authority delegated to it under the Financial Services Commission regulations, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the settlement of bad loans.

Under the Banking Act, approval to commence a commercial banking business or a long-term financing business must be obtained from the Financial Services Commission. Commercial banking business is defined as the lending of funds acquired predominantly from the acceptance of deposits for a period not exceeding one year or, subject to the limitation established by the Financial Services Commission, for a period between one year and three years. Long-term financing business is defined as the lending, for periods in excess of one year, of funds acquired predominantly from paid-in capital, reserves or other retained earnings, the acceptance of deposits with maturities of at least one year, or the issuance of bonds or other securities. A bank wishing to enter any business other than commercial banking and long-term financing businesses, such as the trust business, must obtain approval from the Financial Services Commission. Approval to merge with any other banking institution, to liquidate, to close a banking business or to transfer all or a part of a business must also be obtained from the Financial Services Commission.

If the Financial Services Commission deems a bank's financial condition to be unsound or if a bank fails to meet the applicable capital adequacy ratio set forth under Korean law, the Financial Services Commission may order, among others,:

capital increases or reductions;

suspension of officers performance of their duties and appointment of custodians;

stock cancellations or consolidations;

transfers of a part or all of business;

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sale of assets and bar on acquisition of high-risk assets;

closures or downsizing of branch offices or workforce;

mergers or becoming a subsidiary under the Financial Holding Companies Act of a financial holding company;

acquisition of a bank by a third party;

suspensions of a part or all of business operation; or

assignments of contractual rights and obligations relating to financial transactions.

Capital Adequacy

The Banking Act requires nationwide banks to maintain a minimum paid-in capital of ₩100 billion and regional banks to maintain a minimum paid-in capital of ₩25 billion.

In addition to minimum capital requirements, all banks including foreign bank branches in Korea are required to maintain a prescribed solvency position. A bank must also set aside as its legal reserve an amount equal to at least 10% of its net profits after tax each time it pays dividends on net profits earned until such time when the reserve equals the amount of its total paid-in capital.

Under the Banking Act, the capital of a bank is divided into two categories: Tier I and Tier II capital. Tier I capital (typically referred to as Core Capital) consists of (i) the capital that can absorb losses incurred by a bank such as capital, capital surplus and earned surplus generated from the issuance of common shares (collectively, Common Stock Capital), and (ii) the capital that can absorb the losses of a bank after depletion of the Common Stock Capital such as capital and capital surplus generated from the issuance of Tier I capital instruments satisfying the requirements designated by the Financial Supervisory Service (collectively, Other Core Capital). Tier II capital (typically referred to as Supplementary Capital) represents the capital which is equivalent to, but not included in, the Core Capital and can absorb losses incurred upon the liquidation of a bank such as capital and capital surplus generated from the issuance of Tier II capital instruments satisfying the requirements designated by the Financial Supervisory Service and allowance for bad debts set aside for loans classified as normal or precautionary.

Under the Detailed Regulations on the Supervision of the Banking Business, Tier I capital instruments must satisfy, among others, the following requirements in order to be recognized as Other Core Capital:

- (i) Tier I capital instruments shall have no maturity or maturity of not less than 30 years with conditions under which the bank may extend the maturity without changing the existing terms and conditions;
- (ii) there is no condition to promote the bank to redeem Tier I capital instruments such as a step-up provision;

- (iii) Tier I capital instruments shall constitute unsecured and subordinated obligations of the bank and rank lower than claims of holders of the Supplementary Capital and shall not be recognized as the liabilities in case of the bankruptcy under the Debtor Rehabilitation and Bankruptcy Act of Korea;
- (iv) the requirements for paying dividends shall be determined as of the issuance date and the payment of dividends or interests shall not be determined in connection with the credit rating of the bank;
- (v) Tier I capital instruments shall not be redeemed within five years from the issuance date and the bank shall be able to determine in its sole discretion whether it redeems such instruments even after five years from the issuance date; and
- (vi) the payment of dividends or interests shall be suspended from the date when the bank is designated as a insolvent financial institution under the Act on Structural Improvement of the Financial Industry of Korea or under the Depositor Protection act of Korea as applicable, or the Financial Supervisory

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Service takes measures under the Regulations on the Supervision of the Banking Business such as the managerial improvement recommendation, the managerial improvement request, the managerial improvement order and the emergency measures against the bank to the date when the above-mentioned event is removed;

- (vii) the bank shall be able to revoke in its sole discretion the payment of dividends or interests at any time;
- (viii) the revocation of the payment of dividends or interests shall not be deemed as the event of defaults, and the bank shall be able to use in its sole discretion the amount which was revoked to pay as dividends or interests to redeem any other debts of the bank then due and payable.
- (ix) Tier I capital instruments shall have a provision that requires such instruments to be either written off or converted into common shares upon the occurrence of the events (the Trigger Events) where the Financial Supervisory Service issues the managerial improvement order against the bank under Article 36 of the Regulations on the Supervision of the Banking Business on the ground that the bank would not have become viable without a write-off or conversion into common shares of such instruments or a public sector injection of capital or equivalent support or the bank is designated as a insolvent financial institution under the Act on Structural Improvement of the Financial Industry of Korea or under the Depositor Protection Act, as applicable.

Under the Detailed Regulations on the Supervision of the Banking Business, Tier II capital instruments must satisfy, among others, the following requirements in order to be recognized as Supplementary Capital:

- (i) Tier II capital instruments shall constitute unsecured and subordinated obligations of the bank and rank lower than all deposits and other senior liabilities of the bank;
- (ii) the maturity shall not be less than five years from the issuance date, and Tier II capital instruments shall not be redeemed within five years from the issuance date;
- (iii) other than the case where the bank is subject to the bankruptcy or liquidation, the holder of Tier II capital instruments shall not have the right to require bank to pay the principal or interests of such instruments earlier than the original due date thereof.;
- (iv) there is no condition to promote the bank to redeem Tier II capital instruments such as a step-up provision, and the bank shall be able to determine in its sole discretion whether to redeem such instruments prior to the maturity date;
- (v) the payment of dividends or interests shall not be determined in connection with the credit rating of the bank;

- (vi) Tier II capital instruments shall have a provision that requires such instruments to be either written off or converted into common shares upon occurrence of the Trigger Events;

- (vii) the bank or any person or entity over which the bank exercises substantial control shall not purchase the capital instruments issued by such bank nor provide, directly or indirectly, the funds to acquire the capital instruments by providing any collateral or guaranty or loan in favor of the person or entity which tries to acquire such instruments; and

- (viii) the bank shall not enhance, legally or economically, the payment priority of the capital instruments, nor provide, directly or indirectly through its affiliated company, any collateral or guaranty in favor of the person or entity which acquires such instruments.

All banks must meet standards regarding minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with the Financial Services Commission requirements that have been formulated based on the BIS Standards. These standards were adopted and became effective in 1996. Under these regulations, all domestic banks and foreign bank branches are required to meet the minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8%.

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Furthermore, as Basel III was adopted and is being implemented in stages in Korea starting December 1, 2013, all banks in Korea are required to meet minimum ratios of common stock capital (less any capital deductions) and core capital (less any capital deductions) to risk-weighted assets as set out in the Regulation on the Supervision of the Banking Business. The required minimum ratio of common stock capital (less any capital deductions) to risk-weighted assets is 4.5%, and the required minimum ratio of core capital (less any capital deductions) to risk-weighted assets is 6.0%. In addition, additional capital conservation buffer requirements are being implemented in stages from January 1, 2016 to January 1, 2019. Under such requirements, all banks in Korea are required to maintain a capital conservation buffer of 0.625% from January 1, 2016, which will be gradually increased to 1.25% on January 1, 2017, 1.875% on January 1, 2018 and 2.5% on January 1, 2019.

Under the Regulation on the Supervision of the Banking Business and the Detailed Regulations promulgated thereunder, Korean banks apply the following risk-weight ratios in respect of their home mortgage loans:

(1) for those banks adopting a standardized approach for calculating credit risk-weighted assets, the risk-weight ratio of 35% (only in the case where the loan is fully secured by a first ranking mortgage); and

(2) for those banks adopting an internal ratings-based approach for calculating credit risk-weighted assets, a risk-weight ratio calculated with reference to the probability of default, loss given default and exposure at default, each as defined in the Detailed Regulations on the Supervision of the Banking Business.

In Korea, Basel II, a convention entered into by the Basel committee in June 2004 for the purpose of improving risk management and increasing capital adequacy of banks, was implemented in January 2008. Pursuant to Basel II, operational risk, such as inadequate procedure, loss risk by employees, internal system, occurrence of unexpected event, as well as credit risk and market risk, is taken into account in calculating the risk-weighted assets, in addition to maintaining the capital adequacy ratio of 8% for banks. Under Basel II, the capital requirements for credit risk can be calculated by the internal rating based (IRB) approach or the standardized approach.

Under the standardized approach, a home mortgage loan fully secured by a first ranking mortgage over the residential property is risk-weighted at 35%.

Under the Regulation on the Supervision of the Banking Business, banks generally must maintain allowances for credit losses in respect of their outstanding loans and other credits (including confirmed guarantees and acceptances and trust account loans) in an aggregate amount covering not less than:

0.85% of normal credits (or 0.9% in the case of normal credits comprising loans to certain industries including construction, retail and wholesale sales, accommodations, restaurant, real estate and lease, 1.0% in the case of normal credits comprising loans to individuals and households, 2.5% in the case of normal credits comprising credit card loans and 1.1% in the case of normal credits comprising other credit card receivables);

7% of precautionary credits (or 10% in the case of precautionary credits comprising loans to individuals and households, 50% in the case of precautionary credits comprising credit card loans and 40% in the case of precautionary credits comprising other credit card receivables);

20% of substandard credits (or 10% in the case of substandard credits comprising assets for which a bank has the right to receive payment in priority pursuant to the Corporate Restructuring Promotion Act of Korea or Paragraph 180, Subparagraph 2 of the Debtor Rehabilitation and Bankruptcy Act of Korea (the Priority Assets), 65% in the case of substandard credits comprising credit card loans and 60% in the case of substandard credits comprising other credit card receivables);

50% of doubtful credits (or 25% in the case of doubtful credits comprising Priority Assets, 55% in the case of doubtful credits comprising loans to individuals and households and 75% in the case of doubtful credits comprising credit card loans and other credit card receivables); and

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100% of estimated loss credits (or 50% in the case of estimated loss credits comprising of Priority Assets). Furthermore, under the Regulation on the Supervision of the Banking Business, banks must maintain allowances for credit losses in respect of their confirmed guarantees (including confirmed acceptances) and outstanding non-used credit lines in an aggregate amount calculated at the same rates applicable to normal, precautionary, substandard, doubtful and estimated loss credits comprising their outstanding loans and other credits as set forth above.

Most recently, in December 2015, the Financial Services Commission designated us, Hana Financial Group, KB Financial Group and NongHyup Financial Group as domestic systemically important bank holding companies and Woori Bank as a domestic systemically important bank and introduced more stringent capital requirements for these financial institutions. According to these new regulations, such financial institutions are required to maintain an additional capital buffer of 0.25% starting on January 1, 2016, with such buffer to increase by 0.25% annually to 1.00% by January 1, 2019.

Liquidity

All banks are required to match the maturities of their assets and liabilities in accordance with the Banking Act in order to ensure adequate liquidity. Banks may not invest in excess of an amount exceeding 100% of their Tier I and Tier II capital (less any capital deductions) in stocks and other securities with a period remaining to maturity of over three years. However, this restriction does not apply to government bonds or to Monetary Stabilization Bonds issued by the Bank of Korea.

The Financial Services Commission requires Korean banks to maintain a liquidity coverage ratio of at least 80.0% as of January 1, 2015, 85.0% as of January 1, 2016, 90.0% as of January 1, 2017, 95.0% as of January 1, 2018 and 100.0% as of January 1, 2019. The Financial Services Commission defines liquidity coverage ratio as high liquid assets that can be easily converted to cash, as divided by the net amount of cash outflow for the next one month period, under the stress level established according to the liquidity coverage ratio, pursuant to the Regulation on the Supervision of the Banking Business, which was amended as of December 26, 2014 to implement the liquidity coverage ratio requirements under Basel III. The Financial Services Commission also requires Korean banks to (1) maintain a foreign currency liquidity ratio due within three months, which is defined as foreign-currency liquid assets due within three months divided by foreign-currency liabilities due within three months, of at least 85.0%, (2) maintain a ratio of foreign-currency liquid assets due within seven days (defined as foreign-currency liquid assets due within seven days less foreign-currency liabilities due within seven days, divided by total foreign-currency assets) of not less than negative 3% and (3) maintain a ratio of foreign-currency liquid assets due within a month (defined as foreign-currency liquid assets due within a month less foreign currency liabilities due within a month, divided by total foreign-currency assets) of not less than negative 10%.

The Monetary Policy Committee is authorized to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is 7.0% of average balances for Won-denominated demand deposits outstanding, 0.0% of average balances for Won-denominated employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding and 2.0% of average balances for Won-denominated time and savings deposits, mutual installments, housing installments and certificates of deposit outstanding. For foreign currency deposit liabilities, a 2.0% minimum reserve ratio is applied to savings deposits outstanding and a 7.0% minimum reserve ratio is applied to demand deposits, while a 1.0% minimum reserve ratio is applied for offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Table of Contents***Loan-to-Deposit Ratio***

In December 2009, the Financial Supervisory Service announced that it would introduce a new set of regulations on the loan-to-deposit ratio by amending the Regulation on the Supervision of the Banking Business upon its determination that the overall liquidity of banks in Korea had become unstable due to the ongoing increase in the loan-to-deposit ratio resulting from banks expanding their asset size too competitively by granting mortgages on houses and loans to small- and medium-sized enterprises over the last couple of years. The Regulation on the Supervision of the Banking Business, which was amended as of August 18, 2010 and December 26, 2014 and took effect on January 1, 2014 and January 1, 2015, respectively, requires banks with Won-denominated loans of not less than ₩2 trillion in value as of the last month of the immediately preceding quarter to maintain a ratio of Won-denominated loans (excluding certain types of loan from Korea Development Bank, Korean government or Korea Federation of Banks) to Won-denominated deposits (excluding certificates of deposit) and the balance of the covered bonds under the Act on Issuance of Covered Bonds, the maturity of which is not less than five years (only in case when such financing from the issuance of covered bonds is used in Won currency and up to 1% of Won-denominated loan) not more than 1:1. Shinhan Bank's loan-to-deposit ratio as of December 31, 2015 was 98.8%, based on monthly average balances.

Financial Exposure to Any Single Customer and Major Shareholders

Under the Banking Act, the sum of material credit exposures by a bank, namely, the total sum of its credits to single individuals, legal entities or persons sharing credit risk with such individuals or legal entities such as companies belonging to the same enterprise groups as defined under the Monopoly Regulation and Fair Trade Act that exceed 10% of the sum of Tier I and Tier II capital (less any capital deductions), must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions), subject to certain exceptions. Subject to certain exceptions, no bank is permitted to extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and such other transactions which directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital deductions) to an individual or a legal entity, and no bank may grant credit in excess of 25% of the sum of Tier I and Tier II capital (less any capital deductions) to individuals, legal entities and companies that belong to the same enterprise group as defined in the Monopoly Regulations and Fair Trade Act.

Under the Banking Act, certain restrictions apply to extending credits to a major shareholder. The definition of a major shareholder is as follows:

a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Banking Act) in excess of 10% (or in the case of regional banks, 15%) in the aggregate of the bank's total issued and outstanding voting shares; or

a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Presidential Decree of the Banking Act) more than 4% in the aggregate of the total issued and outstanding voting shares of a bank (other than a regional bank), where such shareholder is the largest shareholder or is able to actually control the major business affairs of the bank, for example, through appointment and dismissal of the chief executive officer or of the majority of the executives.

Under the Banking Act, banks are prohibited from extending credits in the amount greater than the lesser of (1) 25% of the sum of such bank's Tier I and Tier II capital (less any capital deductions) and (2) the relevant major shareholder's shareholding ratio multiplied by the sum of the bank's Tier I and Tier II capital (less any capital deductions) to a major

shareholder (together with persons who have special relationship with such major shareholder as defined in the Presidential Decree of the Banking Act). Also, no bank is allowed to grant credit to its major shareholders in the aggregate in excess of 25% of its Tier I and Tier II capital (less any capital deductions).

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When managing the credit risk of banks, among the methods for providing credit support by banks, a loan agreement, a purchase agreement for asset-backed commercial papers, purchase of subordinate beneficiary certificates, and assumption of liability by providing warranty against default under asset-backed securitization are examples of creating financial exposure to banks.

Interest Rates

Korean banks remain dependent on the acceptance of deposits as their primary source of funds. Currently, there are no legal controls on interest rates on bank loans in Korea, except for the cap of 27.9% per annum on interest rates under the Act on Lending Business.

Lending to Small- and Medium-sized Enterprises

When commercial banks (including Shinhan Bank) make Won-denominated loans to certain start-up, venture, innovative and other strategic small- and medium-sized enterprises specially designated by the Bank of Korea as priority borrowers, the Bank of Korea generally provides the underlying funding to these banks at concessionary rates for up to 50% of all such loans made to the priority borrowers subject to a monthly-adjusted limit prescribed by the Bank of Korea (currently ₩5.9 trillion) provided that if such loans to priority borrowers made by all commercial banks exceed the prescribed limit for a given month, the concessionary funding for the following month will be allocated to each commercial bank in proportion to such bank's lending to priority borrowers two months prior to the time of such allocation, which has the effect that, if a particular bank lags other banks in making loans to priority borrowers, the amount of funding such bank can receive from the Bank of Korea at concessionary rates will be proportionately reduced.

Disclosure of Management Performance

For the purpose of enforcing mandatory disclosure of management performance so that the general public, especially depositors and stockholders, will be in a better position to monitor banks, the Financial Services Commission requires commercial banks to disclose certain matters as follows:

loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to such borrower is calculated pursuant to the criteria under the Detailed Regulations promulgated under the Regulation on the Supervision of the Banking Business), except where the loan exposure to a single business group is not more than ₩4 billion;

occurrence of any financial event involving embezzlement, malfeasance or misappropriation of funds the amount of which exceeds 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) at the end of the previous month, unless the bank has lost or expects to lose not more than ₩1 billion as a result thereof, or the Governor of the Financial Supervisory Service has made a public announcement regarding such an occurrence; and

any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month,

except where the loss is not more than ₩1 billion.

Restrictions on Lending

According to the Banking Act, commercial banks are prohibited from making any of the following categories of loans:

loans made directly or indirectly on the pledge of a bank's own shares;

loans made directly or indirectly to enable a natural or a legal person to buy the bank's own shares; and

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loans made to any of the bank's officers or employees other than de minimis loans of up to (1) ₩20 million in the case of a general loan, (2) ₩50 million in the case of a general loan plus a housing loan, or (3) ₩60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions.

Recent Regulations Relating to Retail Household Loans

The Financial Services Commission implemented a number of changes in recent years to the mechanisms by which a bank evaluates and report its retail household loan balances and has proposed implementing further changes. Due to a rapid increase in the volume of loans secured by homes and other forms of housing, the Financial Services Commission and the Financial Supervisory Service implemented regulations designed to curtail extension of new or refinanced loans secured by housing, including the following:

as to loans secured by a collateral of housing (including apartments) located nationwide, the loan-to-value ratio (the aggregate principal amount of loans secured by such collateral over the appraised value of the collateral) shall not exceed 60%;

as to loans secured by collateral of housing (including apartments) located in areas of excessive investment or housing (excluding apartments) located in areas of high speculation, in each case, as designated by the government, (i) the loan-to-value ratio for loans with a maturity of not more than three years should not exceed 50% and (ii) the loan-to-value ratio for loans with a maturity of more than three years shall not exceed 60%;

as to loans secured by apartments located in areas of high speculation as designated by the government, (i) the loan-to-value ratio for loans with a maturity of not more than ten years should not exceed 40%; and (ii) the loan-to-value ratio for loans with a maturity of more than ten years shall not exceed (a) 40%, if the price of such apartment is over ₩600 million, and (b) 60%, if the price of such apartment is ₩600 million or lower;

notwithstanding foregoing, as to loans secured by a collateral of housing (including apartments), the loan-to-value ratio for loans to be amortized over the period of ten years should not exceed 70 percent;

in the case of a borrower (i) whose spouse already has a loan secured by housing or (ii) who is single and under 30 years old, the debt-to-income ratio (calculated as (i) the aggregate annual total payment amount of (x) the principal of and interest on loans secured by such apartment(s) and (y) the interest on other debts of the borrower over (ii) the borrower's annual income) of the borrower in respect of loans secured by apartment(s) located in areas of high speculation as designated by the government shall not exceed 40%;

as to loans secured by apartments with appraisal value of more than ₩600 million in areas of high speculation as designated by the government or certain metropolitan areas designated as areas of excessive investment by the government, the borrower's debt-to-income ratio shall not exceed 40%;

as to apartments located in areas of high speculation as designated by the government, a borrower is permitted to have only one new loan secured by such apartment;

where a borrower has two or more loans secured by apartments located in areas of high speculation as designated by the government, the loan with the earliest maturity date in the event of the extension of maturity must be repaid first and the number of loans must be eventually reduced to one.

the bank is prohibited from extending home equity loans to minors; and

the bank is prohibited from accepting apartments located in areas of high speculation as designated by the government as collateral for company loans with purpose of acquiring such apartments, except for unavoidable cases.

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Notwithstanding foregoing, in order to rationalize the regulations on the housing loans, the Financial Supervisory Service provided the administrative instructions in July 2014 that all financial institutions including banks under the Banking Act are subject to the maximum loan-to-value ratio of 70% (irrespective of the location of the property) and the maximum debt-to-income ratio of 60% (only in respect of apartment units located in the greater Seoul metropolitan area, subject to certain exceptions), from August 1, 2014.

Restrictions on Investments in Property

A bank may possess real estate property only to the extent necessary for conducting its business; provided that the aggregate value of such real estate property must not exceed 60% of the sum of its Tier I and Tier II capital (less any capital deductions). Any property acquired by a bank (1) through the exercise of its rights as a secured party or (2) the acquisition of which is prohibited by the Banking Act must be disposed of within one year, subject to certain exceptions.

Restrictions on Shareholdings in Other Companies

Under the Banking Act, a bank may not own more than 15% of shares outstanding with voting rights of another company, except where, among other reasons:

the company issuing such shares is engaged in a business that falls under the category of financial businesses set forth by the Financial Services Commission (including companies which business purpose is to own equity interests in private equity funds); or

the acquisition of shares by the bank is necessary for corporate restructuring of such company and is approved by the Financial Services Commission.

In the above cases, a bank must satisfy either of the following requirements:

the total investment in companies in which the bank owns more than 15% of the outstanding shares with voting rights does not exceed 15% of the sum of Tier I and Tier II capital (less any capital deductions); or

the total investment in companies in which the bank owns more than 15% of the outstanding shares with voting rights does not exceed 30% of the sum of Tier I and Tier II capital (less any capital deductions) where the acquisition satisfies the requirements determined by the Financial Services Commission.

The Banking Act provides that a bank using its bank accounts and its trust accounts is not permitted to acquire the shares issued by the Major Shareholder of such bank in excess of an amount equal to 1% of the sum of Tier I and Tier II capital (less any capital deductions).

Restrictions on Bank Ownership

Under the Banking Act, subject to certain exceptions, a single shareholder and persons who stand in a special relationship with such shareholder (as described in the Presidential Decree to the Banking Act) may acquire beneficial ownership of up to 10% of a national bank's total issued and outstanding shares with voting rights and up to 15% of a

regional bank's total issued and outstanding shares with voting rights. The government, the Korea Deposit Insurance Corporation and financial holding companies qualifying under the Financial Holding Companies Act are not subject to such ceilings. However, non-financial business group companies—namely, (1) any same shareholder group with an aggregate net assets of all non-financial companies belonging to such group of not less than 25% of the aggregate net assets of all corporations that are members of such group; (2) any group with aggregate assets of all non-financial companies belonging to such group of not less than ₩2 trillion; (3) any mutual fund in which a same shareholder group, as described in items (1) and (2) above, owns more than 4% of the total shares issued and outstanding; (4) a private equity fund (under the Financial

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Investment Services and Capital Markets Act) where (i) the general partner of such private equity fund, (ii) the limited partner whose equity holding ratio in such private equity fund is 10% or more, or (iii) the limited partners, being member companies of a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act, whose aggregate equity holding ratio in such private equity fund is 30% or more falls under either of item (1) to (3) above; or (5) a special purpose company of a private equity fund where a private equity fund, as described in item (4) above, owns 4% or more of the special purpose company's issued and outstanding shares or has actual control over the major business affairs of the special purpose company through, for example, appointment and dismissal of the officers may not acquire beneficial ownership of shares of a national bank in excess of 4% of such bank's outstanding voting shares, and must obtain the approval of the Financial Services Commission in order to acquire beneficial ownership of shares of a national bank in excess of 4% of such bank's outstanding voting shares if, through such acquisition, the non-financial business group companies become the largest shareholder of such bank or have actual control over the major business affairs of such bank through the methods set out in the Enforcement Decree of the Banking Act such as appointment and dismissal of the officers; provided that such non-financial business group companies may acquire beneficial ownership of:

up to 10% of a national bank's outstanding voting shares with the approval of the Financial Services Commission under the condition that such non-financial group companies will not exercise voting rights in respect of such shares in excess of the 4% limit; and

in the event that a foreigner, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a national bank's outstanding voting shares, up to 10% of such bank's outstanding voting shares without the approval of the Financial Services Commission, and in excess of 10%, 25% or 33% of such bank's outstanding voting shares, with the approval of the Financial Services Commission, up to the number of shares owned by such foreigner.

In addition, any person (whether a Korean national or a foreigner), with the exception of non-financial business group companies described above, may also acquire in excess of 10% of a national bank's total voting shares issued and outstanding, provided that an approval from the Financial Services Commission is obtained in instances where the total holding exceeds 10% (or 15% in the case of regional banks), 25% or 33% of the bank's total voting shares issued and outstanding.

Deposit Insurance System

The Depositor Protection Act provides, through a deposit insurance system, insurance for certain deposits of banks in Korea. Under the Depositor Protection Act, all banks governed by the Banking Act, including Shinhan Bank and Jeju Bank, are required to pay to the Korea Deposit Insurance Corporation an insurance premium on a quarterly basis at such rate as determined by the Presidential Decree to the Depositor Protection Act, which shall not exceed 0.5% of the bank's insurable deposits in any given year. The current insurance premium is 0.02% of insurable deposits for each quarter. If the Korea Deposit Insurance Corporation pays the insured amount, it will acquire the claims of the depositors within the payment amount. Under current rules, the Korea Deposit Insurance Corporation insures only up to a total of ₩50 million per an individual for deposits and interest in a single financial institution, regardless of when the deposits were made and the size of the deposits.

Trust Business

A bank that intends to enter into the trust business must obtain the approval of the Financial Services Commission. Trust activities of banks are governed by the Financial Investment Services and Capital Markets Act. Banks engaged in the banking business and trust business are subject to certain legal and accounting procedures requirements, including the following:

under the Banking Act, the Financial Investment Services and Capital Markets Act and the Trust Act, assets accepted in trust by a bank in Korea must be segregated from its other assets in the accounts of

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such bank; accordingly, banks engaged in the banking and trust businesses must maintain two separate accounts, the banking accounts and the trust accounts, and two separate sets of records which provide details of their banking and trust businesses, respectively; and

assets comprising the trust accounts are not available to depositors or other general creditors of such bank in the event the trustee is liquidated or is wound up.

In the event that a bank qualifies and operates as an asset management company, a trustee, a custodian or a general office administrator under the Financial Investment Services and Capital Markets Act, it is required to establish relevant operation and management systems to prevent potential conflicts of interest among the banking business, the asset management business, the trustee or custodian business and general office administration. These measures include:

prohibitions against officers, directors and employees of one particular business operation from serving as an officer, director and employee in another business operation, except where an officer or a director (1) serving in two or more business operations with no significant conflict of interest in accordance with the Presidential Decree on the Financial Investment Services and Capital Markets Act or (2) serving in a trustee business or a custodian business and simultaneously serving in a general office administrator business in accordance with the Financial Investment Services and Capital Markets Act;

prohibitions against the joint use or sharing of computer equipment or office equipment; and

prohibitions against the sharing of information by and among officers, directors and employees engaged in the different business operations.

A bank which qualifies and operates as an asset management company may engage in the sale of beneficiary certificates of investment trusts which are managed by such bank. However, such bank is prohibited from engaging in the following activities:

acting as trustee of an investment trust managed by such bank;

purchasing with such bank's own funds beneficiary certificates of an investment trust managed by such bank;

using in its sales activities of other collective investment securities information relating to the trust property of an investment trust managed by such bank;

selling through a financial institution established under the Banking Act beneficiary certificates of an investment trust managed by such bank;

establishing a short-term financial indirect investment vehicle; and

establishing a mutual fund.

Laws and Regulations Governing Other Business Activities

To enter the foreign exchange business, a bank must register with the Minister of the Ministry of Strategy and Finance. The foreign exchange business is governed by the Foreign Exchange Transaction Law. To enter the securities business, a bank must obtain the approval of the Financial Services Commission. The securities business is governed by regulations under the Financial Investment Services and Capital Markets Act. Pursuant to the above-mentioned laws, banks are permitted to engage in the foreign exchange business and the underwriting business for government and other public bonds.

Recently, regulatory authorities are encouraging financial institutions to lower the ATM usage fees in order to decrease the financial expense burden on consumers. Further, in light of the increasing household debt, regulatory authorities are encouraging financial institutions to gradually increase the proportion of the principal of retail loans that are subject to the fixed interest rates from the currently effective proportion of 10% of the principal amount to 15% and 30% by 2012 and 2016, respectively.

Table of Contents**Principal Regulations Applicable to Credit Card Companies*****General***

Any person, including a bank, wishing to engage in the credit card business must obtain a license from the Financial Services Commission. In addition, in order to enter the credit card business, a bank must obtain a license from the Financial Services Commission (hereinafter, a bank which obtains such license is defined as licensed bank engaged in the credit card business). The credit card business is regulated and governed by the Specialized Credit Financial Business Act. Under the Specialized Credit Financial Business Act and regulations thereunder, a company in the same conglomerate group (as defined in the Monopoly Regulation and Fair Trade Act) may engage in the credit card business even though another company in the same conglomerate group is already engaged in such business, which was previously not permitted.

The Specialized Credit Financial Business Act establishes guidelines on capital adequacy and provides for other regulations relating to the supervision of credit card companies. The Specialized Credit Financial Business Act delegates regulatory authority over credit card companies to the Financial Services Commission and its executive body, the Financial Supervisory Service.

A licensed bank engaging in the credit card business is regulated by the Financial Services Commission and the Financial Supervisory Service.

The Financial Services Commission regulates credit card companies and licensed banks engaged in the credit card business by establishing guidelines or regulations on management of such companies. Moreover if the Financial Services Commission deems the financial condition of a credit card company or a licensed bank engaged in the credit card business to be unsound or such companies fail to satisfy the guidelines or regulations, the Financial Services Commission may take certain measures to improve the financial condition of such companies.

Restrictions on Scope of Business

Under the Specialized Credit Financial Business Act, a credit card company may conduct only the following types of business: (i) credit card business as licensed or other specialized credit finance businesses as registered pursuant to the Specialized Credit Financial Business Act; (ii) the businesses ancillary to the credit card business, (for example, providing cash advance loans to existing credit card holders, issuing and settling of debit cards and issuing, selling and settling of pre-paid cards); (iii) provision of unsecured or secured loans; (iv) provision of discount on notes; (v) purchase, management and collection of account receivables originated by companies in the course of providing goods and services; (vi) provision of payment guarantee; (vii) asset management business under the Asset Backed Securitization Act; (viii) credit investigation; and (ix) other incidental businesses related to the foregoing. Under the Specialized Credit Financial Business Act, a credit card company's scope of business includes businesses that utilize existing manpower, assets or facilities in a credit card company, as designated by the Financial Services Commission. Under the current regulation established by the Financial Services Commission, a credit card company may engage in various types of business including, but not limited to, e-commerce, operation of insurance agency, delegation of card issuance, supply of payment settlement system, loan brokerage and brokerage of collective investment securities.

A credit card company's average balance of claim amounts arising from the advance of loans to credit card holders (excluding such claims arising from the re-advance of loans to credit card holders following a change in the maturity or interest rate of such loans as part of a debt restructuring) as of the end of each quarter may not exceed the sum of the following amounts:

Average balance of claims during a quarter arising from the purchase of goods or services by credit card holders with credit cards; and

Amount of debit card usage during a quarter by debit card members.

Table of Contents***Capital Adequacy***

The Specialized Credit Financial Business Act provides for a minimum paid-in capital amount of: (i) ₩20 billion in the case of a specialized credit financial business company which wishes to engage in no more than two kinds of core businesses (i.e. credit card, installment finance, leasing and new technology business) and (ii) ₩40 billion in the case of an specialized credit financial business company, which wishes to engage in three or more kinds of core businesses.

Under the Specialized Credit Financial Business Act and regulations thereof, a credit card company must maintain a capital adequacy ratio, defined as the ratio of adjusted equity capital to adjusted total asset, of 8% or more and a delinquent claim ratio, defined as the ratio of delinquent claims to total claims as set forth under the regulations relating to the Specialized Credit Financial Business Act, of less than 10%.

Under the Specialized Credit Financial Business Act and regulations thereof, the minimum ratio of allowances for losses on loans, leased assets (except assets subject to an operating lease) and suspense receivables as of the date of accounting settlement (including semiannual preliminary accounts settlement) would be 0.5% of normal assets, 1% of precautionary assets and 20% of substandard assets, 75% of doubtful assets and 100% of estimated loss assets, and the minimum ratio of allowances for losses on card assets would be 1.1% (or 2.5%, in the case of card loan assets and revolving assets) of normal assets, 40% (or 50%, in the case of card loan assets and revolving assets) of precautionary assets, 60% (or 65%, in the case of card loan assets and revolving assets) of substandard assets, 75% of doubtful assets and 100% of estimated loss assets. In addition, a credit card company has to reserve a certain amount calculated according to relevant regulations as loss allowances for unused credit limits.

Liquidity

Under the Specialized Credit Financial Business Act and regulations thereunder, a credit card company must maintain a Won liquidity ratio (Won-denominated current assets/Won-denominated current liabilities) of 100% or more. In addition, once a credit card company is registered as a foreign exchange business institution with the Minister of the Ministry of Strategy and Finance, such credit card company is required to (1) maintain a foreign-currency liquidity ratio within three months (defined as foreign-currency liquid assets due within three months divided by foreign-currency liabilities due within three months) of not less than 80%, (2) maintain a ratio of foreign-currency liquid assets due within seven days (defined as foreign-currency liquid assets due within seven days less foreign-currency liabilities due within seven days, divided by total foreign-currency assets) of not less than 0% and (3) maintain a ratio of foreign-currency liquid assets due within a month (defined as foreign-currency liquid assets due within a month less foreign-currency liabilities due within a month, divided by total foreign-currency assets) of not less than negative 10%. The Financial Services Commission requires a credit card company to submit quarterly reports with respect to the maintenance of these ratios.

Restrictions on Funding

Under the Specialized Credit Financial Business Act, a credit card company may raise funds using only the following methods: (i) borrowing from financial institutions, (ii) issuing corporate debentures or notes, (iii) selling securities held by the credit card company, (iv) transferring claims held by the credit card company, (v) borrowing and issuing foreign currency securities after registering itself as a foreign exchange business institutions under the Foreign Exchange Transactions Law, (vi) transferring claims held by the credit card company in connection with its businesses, or (vii) issuing securities backed by the claims held by the credit card company relating to its businesses.

Furthermore, a credit card company may borrow funds from offshore or issue foreign currency denominated securities once it is registered as a foreign exchange business institution with the Minister of the Ministry of Strategy and

Finance.

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A credit card company must ensure that its total asset does not exceed six times the amount of its equity capital. However, if the credit card company cannot comply with such limit due to the occurrence of unavoidable events such as drastic changes in the domestic and global financial markets, such limit of its total assets compared to the equity capital may be adjusted by a resolution of the Financial Services Commission. A non-credit card company must ensure that its total asset does not exceed ten times the amount of its equity capital.

Restrictions on Loans to Affiliate Companies

Under the Specialized Credit Financial Business Act and regulations thereof, a credit card company may not provide loans exceeding 100% of its equity capital, in the aggregate, to its specially related persons (as defined under the relevant laws) including, but not limited to, its affiliates.

Restrictions on Assistance to Other Companies

Under the Specialized Credit Financial Business Act, a credit card company may not engage in any of the following acts in conjunction with other financial institutions or companies: (i) holding voting shares under cross shareholding or providing credit for the purpose of avoiding the restrictions on loans to affiliate companies; (ii) acquiring shares under cross shareholding for the purpose of avoiding the limitation on purchase of its treasury shares under the Korean Commercial Code or the Financial Investment Services and Capital Markets Act; or (iii) other acts which are likely to have a material adverse effect on the interests of transaction parties as stipulated by the Presidential Decree to the Specialized Credit Financial Business Act, which are not yet provided.

A credit card company also may not extend credit for enabling another person to purchase the shares of such credit card company or to arrange financing for the purpose of avoiding the restrictions on loans to affiliate companies.

Restrictions on Investment in Real Estate

Under the Specialized Credit Financial Business Act and the regulations thereof, a credit card company may possess real estate only to the extent that such business conduct is designated by such laws and regulations, with certain exceptions such as for the purposes of factoring or leasing or as a result of enforcing its security rights, provided that the Financial Services Commission may limit the maximum amount a credit card company may invest in real estate investments for business purposes up to a percentage equal to or in excess of 100% of its equity capital.

Restrictions on Shareholding in Other Companies

Under the Specialized Credit Financial Business Act and the Act on the Structural Improvement of the Financial Industry, a credit card company and its affiliate financial institutions (together a group) are required to obtain prior approval of the Financial Services Commission if such credit card company, together with its affiliate financial institutions, (i) owns 20% or more of outstanding voting shares of a target company or (ii) owns 5% or more of outstanding voting shares of a target company, and shall be deemed to have control of the target company, including being the largest shareholder of such target company or otherwise.

Disclosure and Reports

Pursuant to the Specialized Credit Financial Business Act and the regulations thereof, the ordinary disclosure requirement for a credit card company is to disclose any material matters relating to management performance, profits and losses, corporate governance, competence of the employees or risk management within three months from the end of each fiscal year and within two months from the end of the first half of the fiscal year. In addition, a credit card

company is required to disclose on an on-going basis certain matters such as the

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occurrence of non-performing loans, a financial incident or losses exceeding certain amounts. In addition, under the regulations issued by the Financial Services Commission, a credit card company or a licensed bank engaging in the credit card business must submit such report as required by the Governor of the Financial Supervisory Service, with certain important matters being reported as frequently as each month. In addition, all companies engaged in the specialized credit financial business under the Specialized Credit Financial Business Act, including, without limitation, credit card companies, must file a report to the Financial Supervisory Service regarding the result of settlement of accounts within one month after the end of its fiscal year. Also, these companies are required to conduct a provisional settlement of accounts for each quarter and file a report to the Financial Supervisory Service within one month after the end of such quarter.

Risk of Loss Due to Lost, Stolen, Forged or Altered Credit Cards

Under the Specialized Credit Financial Business Act, upon notice from the holder of a credit card or a debit card of its loss or theft, a credit card company or a licensed bank engaged in the credit card business, as the case may be, is liable for any loss arising from the unauthorized use of credit cards or debit cards thereafter as well as any loss from unauthorized transactions made within 60 days prior to such notice. However, a credit card company or a licensed bank engaged in the credit card business, as the case may be, may transfer to the cardholder all or part of the risks of loss associated with unauthorized transactions made within 60 days prior to such notice, in accordance with the standard terms and conditions agreed between the credit card company or the licensed bank engaged in the credit card business, as the case may be, and the cardholder, provided that the loss or theft must be due to the cardholder's willful misconduct or negligence. Disclosure of a cardholder's password under duress or threat to the cardholder's or his/her family's life or health will not be deemed as the cardholder's willful misconduct or negligence.

Moreover, a credit card company or a licensed bank engaged in the credit card business, as the case may be, is also responsible for any losses resulting from the use of forged or altered credit cards, debit cards and pre-paid cards. However, a credit card company or a licensed bank engaged in the credit card business, as the case may be, may transfer all or part of this risk of loss to holders of credit cards in the event of willful misconduct or gross negligence by holders of such cards if the terms and conditions of the written agreement entered between the credit card company or a licensed bank engaged in the credit card business, as the case may be, and holders of such cards specifically provide for such transfer. For these purposes, disclosure of a customer's password that is made intentionally or through gross negligence, or the transfer of or giving as collateral of the credit card or debit card, is considered willful misconduct or gross negligence.

In addition, the Specialized Credit Financial Business Act prohibits a credit card company from transferring to merchants the risk of loss arising from lost, stolen, forged or altered credit cards, debit cards or pre-paid cards; provided, however, that a credit card company may enter into an agreement with a merchant under which the merchant agrees to be responsible for such loss if caused by the merchant's gross negligence or willful misconduct.

Each credit card company or a licensed bank engaged in the credit card business must institute appropriate measures such as establishing reserves, purchasing insurance or joining a cooperative association in order to fulfill its obligations related to the risk of loss arising from unauthorized use due to lost, stolen, forged or altered credit cards, debit cards or pre-paid cards.

Under the Specialized Credit Financial Business Act, the Financial Services Commission may take necessary measures to maintain credit order and protect consumers by establishing standards to be complied with by credit card companies relating to:

maximum limits for cash advances on credit cards;

restrictions on debit cards with respect to per day or per transaction usage;

aggregate issuance limits and maximum limits on the amount per card on pre-paid cards;

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calculation and determination of credit limits;

determination of the amount limit of credit cards;

provisions included in credit card agreements;

management of credit card merchants;

collection on claims; or

classification of credit card holders for purposes of determining the fees applicable to such holders.

Lending Ratio in Ancillary Business

Pursuant to the Presidential Decree of the Specialized Credit Financial Business Act, as amended in September 2013, a credit card company must maintain a quarterly average balance of receivables arising from cash advances to credit card holders (excluding cash advances incurred by re-lending to a credit card holder after modifying the terms and conditions, such as maturity or interest rate, of the original cash advance for debt rescheduling purposes) no greater than its aggregate quarterly average balance of receivables arising from credit card holders' purchase of goods and services (excluding the amount of receivables arising from the purchase of goods and services using an exclusive use card for business purposes) plus its aggregate quarterly amount of payments made by members using their debit cards.

Issuance of New Cards and Solicitation of New Card Holders

The Presidential Decree of the Specialized Credit Financial Business Act establishes the conditions under which a credit card company or a licensed bank engaged in the credit card business may issue new cards and solicit new members. Specifically, new credit cards may be issued only to the following persons that meet all of the following criteria: (i) age of 19 years or more as defined in the Korean Civil Code, or age of 18 years or more with evidence of employment as of the date of the credit card application; (ii) satisfaction of a minimum credit score as publicly announced by the Financial Services Commission, provided that the minimum personal credit score requirement will not apply in the case where (a) the credit card company can confirm through objective evidence that an applicant is sufficiently capable of paying for his or her credit card use or such applicant can provide objective evidence therefor, or (b) a credit card function is added to an existing debit card for added convenience to the card holder and the credit card function is subject to limits determined by the Financial Services Commission; (iii) satisfaction of the application scoring system for the relevant credit; and (iv) verification of personal identity.

In addition, a credit card company or a licensed bank engaged in the credit card business, as the case may be, may not engage in the following methods of soliciting credit card holders: (i) providing economic benefits or conditioning such benefits in excess of 10% of the annual credit card fee (in the case of no-annual fee credit cards, the average annual fees will be ₩10,000) in connection with issuance of credit cards; (ii) solicitation on streets and private roads as prescribed under the Road Act and Private Road Act, public place and corridors used by the general public; (iii) solicitation through visits, except those visits made upon prior consent and visits to a business area; (iv) solicitation through pyramid sales methods; and (v) solicitation through the Internet, as further discussed below.

In addition, a credit card company or a licensed bank engaged in the credit card business is required to check whether the credit card applicant has any delinquent debt owed to any other credit card company or other financial institutions which the applicant is unable to repay, and also require, in principle, with respect to solicitations made through the Internet, the certified electronic signature of the applicant. Moreover, persons who intend to engage in solicitation of credit card applicants must register with the Financial Services Commission, unless the solicitation is made by officers or employees of a credit card company or a company in business alliance with such credit card company.

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Compliance Rules on Collection of Receivable Claims

Pursuant to the Specialized Credit Financial Business Act and its regulations, a credit card company or a licensed bank engaged in the credit card business are prohibited from collecting its claims by way of:

exerting violence or threat of violence;

informing a Related Party (a guarantor of the debtor, blood relative or fiancée of the debtor, a person living in the same household as the debtor or a person working in the same workplace as the debtor) of the debtor's liability without just cause;

providing false information relating to the debtor's obligation to the debtor or his or her Related Party;

threatening to sue or suing the debtor for fraud despite lack of affirmative evidence to establish that the debtor has submitted forged or false documentation with respect to his/her capacity to make payment;

visiting or telephoning the debtor during late hours between 9:00 p.m. and 8:00 a.m.; and

utilizing other uncustomary methods to collect the receivables thereby invading the privacy or the peacefulness in the workplace of the debtor or his or her Related Party.

Principal Regulations Applicable to Financial Investment Companies

General

The securities business is regulated and governed by the Financial Investment Services and Capital Markets Act. Financial investment companies are under the regulation and supervision of the Financial Services Commission, the Financial Supervisory Service and the Securities and Futures Commission.

Under the Financial Investment Services and Capital Markets Act, a financial investment company may engage in dealing, brokerage, collective investment, investment advice, discretionary investment management or trust businesses if it has obtained relevant licenses from the Financial Services Commission.

A financial investment company may also engage in certain businesses ancillary to the primary business or certain other additional businesses by submitting a report to the Financial Services Commission at least seven days prior to the commencement of the business without obtaining any separate license. Approval to merge with any other entity or to transfer all or substantially all of a business must also be obtained from the Financial Services Commission.

Under the Act on the Structural Improvement of the Financial Industry, if the Korean government deems a financial investment company's financial condition to be unsound or if a financial investment company fails to meet the applicable Net Operating Equity Ratio (as defined below), the government may order certain sanctions, including among others, sanctions against a financial investment company or its officers or employees, capital increase or

reduction and a suspension or assignment of a part or all of business operation.

Regulations on Financial Soundness Capital Adequacy

The Financial Investment Services and Capital Markets Act sets forth various types of brokerage and/or dealing business licenses based on (i) the scope of products and services that may be provided by each type of the brokerage and/or dealing licensee and (ii) the type of customers to which such products and services may be provided. For example, a financial investment company engaged in the brokerage, dealing and underwriting businesses with retail investors as well as professional investors in connection with all types of securities is required to have a minimum paid-in capital of ₩53 billion in order to obtain a license for such brokerage, dealing and underwriting businesses.

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Under the Financial Investment Service Regulations, as amended effective as of December 12, 2014, the soundness requirement of financial investment companies changed from the previous net operating equity ratio requirement to a net equity ratio requirement. The net equity ratio is calculated according to the following formula:

$$\text{Net Equity Ratio} = (\text{Net Operating Equity} - \text{Total Risk}) / \text{Equity Capital Maintenance Requirement for Each Service Unit}$$

The terms *Net Operating Equity* and *Total Risk* for the purpose of the above-stated formula are defined and elaborated in the regulations of the Financial Services Commission. Generally, the *Net Operating Equity*, the *Total Risk* and the *Equity Capital Maintenance Requirement for Each Service Unit* are to be calculated according to the following formula:

$$\text{Net Operating Equity} = \text{Net assets (total assets} - \text{total liabilities)} - \text{the total of items that may be deducted} + \text{the total of items that may be added};$$

$$\text{Total Risk} = \text{market risk} + \text{counterparty risk} + \text{management risk}; \text{ and}$$

$$\text{Equity Capital Maintenance Requirement for Each Service Unit} = \text{Mandatory Equity Capital to be Required for Each Licensed Service Unit} \times 70\%$$

The regulations of the Financial Services Commission requires, among other things, financial investment companies to maintain the net equity ratio at a level equal to or higher than 100% at the end of the each quarter of the fiscal year.

In addition, all Korean companies, including financial investment companies, are required to set aside, as a legal reserve, 10% of the cash portion of the annual dividend or interim dividend in each fiscal year until the reserve reaches 50% of the stated capital.

Under the Financial Investment Services and Capital Markets Act and regulations thereunder, the minimum ratio of allowances for losses on loans and suspense receivables specified under such regulations is 0.5% of normal assets, 2% of precautionary assets, 20% of substandard assets, 75% of doubtful assets and 100% of estimated loss assets.

Other Provisions on Financial Soundness

The Financial Investment Services and Capital Markets Act, the Presidential Decree of the Financial Investment Services and Capital Markets Act and the regulations of the Financial Services Commission also include certain provisions which are designed to regulate certain types of activities relating to the management of the assets of a securities company, subject to certain exceptions. Such provisions include:

restrictions on the holdings by a securities company of securities issued by another company which is the largest shareholder or the major shareholder (each as defined under the Financial Investment Services and Capital Markets Act) of such securities company; and

restrictions on providing money or credit to the largest shareholder (including specially-related persons of such shareholder), major shareholders, officers and specially-related persons of the securities company.

Principal Regulations Applicable to Insurance Companies

General

Insurance companies are regulated and governed by the Insurance Business Act, as amended (the Insurance Business Act). In addition, insurance companies in Korea are under the regulation and supervision of the Financial Services Commission and its governing entity, the Financial Supervisory Service.

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Under the Insurance Business Act, approval to commence an insurance business must be obtained from the Financial Services Commission based on the type of insurance businesses, which are classified as life insurance business, non-life insurance business and third type insurance business. Life insurance business means an insurance business which deals with life insurance policies or pension insurance policies (including retirement insurance policies). Non-life insurance business means an insurance business which deals with fire insurance policies, marine insurance policies, car insurance policies, guaranty insurance policies, reinsurance policies, liability insurance policies or other insurance policies prescribed under the Presidential Decree of the Insurance Business Act. Third type insurance business means an insurance business which deals with injury insurance policies, health insurance policies or nursing care insurance policies. Under the Insurance Business Act, insurance companies are not allowed to engage in both a life insurance business and a non-life insurance business, subject to certain exceptions.

If the Korean government deems an insurance company's financial condition to be unsound or if an insurance company fails to properly manage the business as set forth under relevant Korean law, the government may order certain sanctions including, among others, sanctions against an insurance company or its officers or employees, capital increase or reduction and a suspension or assignment of a part or all of business operation.

Capital Adequacy

The Insurance Business Act requires a minimum paid-in capital of ₩30 billion for an insurance company; provided, that, the insurance company which intends to engage in only certain types of insurance policies may have a lower paid-in capital pursuant to the Presidential Decree of the Insurance Business Act.

In addition to the minimum capital requirement, an insurance company is required to maintain a Solvency Margin Ratio of 100% or more. Solvency Margin Ratio is the ratio of the Solvency Margin to the Standard Amount of the Solvency Margin. Solvency Margin is the aggregate amount of paid-in capital, reserve for dividends to policyholders, allowance for bad debt and subordinated debt amount and others similar thereto as set out in the regulation of the Financial Services Commission, less non-amortized acquisition costs, goodwill and others similar thereto as appearing in the regulation of the Financial Services Commission. The Standard Amount of Solvency Margin for life insurance companies is defined under the regulation of the Financial Services Commission and is required to comply with the risk based capital regime.

Under the Insurance Business Act, the Presidential Decree and other regulations thereunder, for each accounting period, insurance companies are required to appropriate policy reserve that is earmarked for future payments of insurance money, refund and dividends to policyholders (hereinafter collectively referred to as Insurance Money) for each insurance contract. However, if an insurance company has reinsured a portion of its insurance contracts with a creditworthy reinsurance company in order to lower its overall risk, in principle, the insurance company is not required to appropriate policy reserve for the reinsured contracts. Instead, the reinsurance company is required to appropriate such policy reserve for the reinsured contracts. However, if an insurance company transfers more than 50% of its risk to a reinsurance company, the amount of risk transferred in excess of 50% will be disallowed for purposes of calculating the solvency margin ratio. In particular, if the ratio of the risks transferred to the reinsurance company to the total risks insured by an insurance company exceeds 50%, such insurance company will be required to have net assets in relation to such risks transferred in excess of the 50% threshold for purposes of the solvency margin requirement. The Insurance Business Act was amended on January 24, 2011 to classify the insurance products into two categories: (i) reportable insurance products and (ii) voluntary insurance products. Under this amendment, only the changes to the terms and conditions of the reportable insurance products require a prior report and approval from the Financial Supervisory Service and the voluntary insurance products can be sold without prior approval from the Financial Supervisory Service. The policy reserve needs to be appropriated in accordance with the policy reserve calculation method for each insurance product as stipulated in amended Insurance Business Act.

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The policy reserve amount consists of the following: (i) premium reserves and prepaid insurance premiums which are calculated under the methods determined by the written calculation methods for insurance premiums and policy reserves by insurance types or by lapses of insurance period, with regard to the contracts for which the causes for payment of the Insurance Money have yet to occur as of the end of each accounting period; (ii) amounts for which a lawsuit is pending on the Insurance Money or amounts for which a payment has been fixed with regard to the contracts for which the causes for payment of Insurance Money have occurred as of the end of each accounting period, and amounts which have not been paid yet due to an unsettled amount for paying the Insurance Money, even if the causes for payment of the Insurance Money have already occurred; and (iii) amounts reserved by an insurance company for allocation to policyholders.

Pursuant to the regulations established by the Financial Services Commission, insurance companies are required to maintain allowances for outstanding loans, accounts receivables and other credits (including accrued income, payment on account, and bills receivables or dishonored) in an aggregate amount covering not less than 0.5% of normal credits, 2% of precautionary credits, 20% of substandard credits, 50% of doubtful credits and 100% of estimated loss credits, provided that the minimum ratio of allowances for certain type of outstanding loans by insurance companies to individuals and households (including, retail loans, housing loans, and other forms of retail loans extended to individuals not registered for business), is increased to 1% of normal credits, 10% of precautionary credits and 55% of doubtful credits. Furthermore, the regulations on insurance companies became more stringent in September 2010 by adding a requirement that insurance companies maintain allowance for bad debts in connection with real estate project financing loans in excess of 0.9% of normal credits and 7% of precautionary credits.

Variable Insurance and Bancassurance Agents

Variable insurance is regulated pursuant to the Insurance Business Act and the Financial Investment Services and Capital Markets Act. In order for an insurance company to sell variable insurance to a policyholder and operate such variable insurance, the insurance company must obtain a license with respect to collective investment business from the Financial Services Commission and register as a selling company with the Financial Services Commission. In this case, according to the Financial Investment Services and Capital Markets Act, an insurance company will be regulated as an investment trust and assets acquired in connection with variable insurance must be held by a trust company that is registered with the Financial Services Commission pursuant to the Financial Investment Services and Capital Markets Act.

According to the Financial Investment Services and Capital Markets Act, insurance companies may operate variable insurance through (i) mandating all of the management and the management instruction business to another asset management company, (ii) operating by way of discretionary investment all of the assets constituting the investment advisory assets out of the investment trust assets, or (iii) operating all of the investment trust assets into other collective investment securities, thereby allowing all of the particular variable insurance assets to be outsourced.

The Insurance Business Act permits banks, securities companies, credit card companies and other financial institutions to register as insurance agents or insurance brokers and engage in the insurance business (the Bancassurance Agents), who are currently permitted to sell all types of life and non-life insurance products, except for protection type insurance products, such as whole life insurance, critical illness insurance and automobile insurance.

Restrictions on Investment of Assets

According to the Insurance Business Act, insurance companies are prohibited from making any of the following investment of assets:

owning any real estate (excluding any real estate owned as a result of enforcing their own security interest) other than real estate for conducting its business as designated by the Presidential Decree. In

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any case, the total amount of real estate owned by an insurance company must not exceed 15% of its Total Assets, provided that investment in real estate for a separate account is limited to 15% of the assets of such separate account;

loans made for the purpose of speculation in commodities or securities;

loans made directly or indirectly to enable a natural or legal person to buy their own shares;

loans made directly or indirectly to finance political campaigns and other similar activities; and

loans made to any of the insurance company's officers or employees other than loans based on insurance policy or de minimis loans of up to (1) ₩20 million in the case of a general loan, (2) ₩50 million in the case of a general loan plus a housing loan, or (3) ₩60 million in the aggregate for general loans and housing loans.

In addition, insurance companies are not allowed to exceed the following limits in making the following investments:

with respect to holding foreign currency under the Foreign Exchange Transaction Act or owning offshore real estate, 30% of its Total Assets; and

with respect to the sum of margins for a futures exchange designated by the Presidential Decree or a foreign futures exchange, and commitment amounts of over-the-counter derivatives must not exceed 6% of its Total Assets, provided that the over-the-counter derivative trades are limited to 3%. The derivatives trades of a separate account are limited to 6% of the assets of separate account, provided that the over-the-counter derivatives trades are limited to 3%.

Regulations on Class Actions Regarding Securities

The Law on Class Actions Regarding Securities was enacted as of January 20, 2004 and last amended on May 28, 2013. The Law on Class Actions Regarding Securities governs class actions suits instituted by one or more representative plaintiff(s) on behalf of 50 or more persons who claim to have been damaged in a capital markets transaction involving securities issued by a listed company in Korea.

Applicable causes of action with respect to such suits include:

claims for damages caused by misleading information contained in a securities statement;

claims for damages caused by the filing of a misleading business report, semi-annual report, or quarterly report;

claims for damages caused by insider trading or market manipulation; and

claims instituted against auditors for damages caused by accounting irregularities.

Any such class action may be instituted upon approval from the presiding court and the outcome of such class action will have a binding effect on all potential plaintiffs who have not joined the action, with the exception of those who have filed an opt out notice with such court.

U.S. Regulations

As substantially all of our and our subsidiaries' operations are in Korea, we are primarily subject to the regulations and supervision of the Financial Services Commission and the Financial Supervisory Service. Our subsidiaries, however, have limited operations in the United States, and we own a bank in the United States. Therefore, we and our U.S. operations are subject to U.S. supervision, regulation and enforcement by relevant authorities in the United States with regard to our U.S. operations.

Table of Contents***U.S. Banking Regulations***

Our operations in the United States are subject to a variety of regulatory regimes. Shinhan Bank maintains an uninsured branch in New York, which is licensed by the New York State Department of Financial Services (Department) and registered with the banking authority of Korea. Shinhan Bank's New York branch is subject to regulation and examination by the Department under its licensing authority. In addition, the Board of Governors of the Federal Reserve System (the Federal Reserve) exercises examination and regulatory authority over Shinhan Bank's U.S. branch. We also own a non-member state chartered bank, Shinhan Bank America, which is regulated by the Department, as its chartering authority, and by the Federal Deposit Insurance Corporation (FDIC), as its primary federal banking regulator and as the insurer of its deposits. Our U.S. branch and U.S. bank subsidiary are subject to restrictions on their respective activities, as well as prudential restrictions, such as limits on extensions of credit to a single borrower, and restrictions on transactions with affiliates, among other things. We are also a financial holding company and a bank holding company under U.S. banking laws and our U.S. operations are subject to regulation, supervision and enforcement by the Federal Reserve.

Shinhan Bank's U.S. Branch

The Department, as the licensing authority of Shinhan Bank's U.S. branch, has the authority, in certain circumstances, to take possession of the business and property of Shinhan Bank located in New York. Such circumstances generally include violations of law, unsafe business practices and insolvency. If the Department exercised this authority over the New York branch of Shinhan Bank, all assets of Shinhan Bank located in New York would generally be applied first to satisfy creditors of the New York branch. Any remaining assets would be applied to satisfy creditors of other U.S. offices of Shinhan Bank, after which any residual assets of the New York branch would be returned to the principal office of Shinhan Bank, and made available for application pursuant to any Korean insolvency proceeding.

Financial Holding Company

In addition to the direct regulation of Shinhan Bank's U.S. branch by the Department and the Federal Reserve, because we operate a U.S. branch and have a subsidiary bank in the U.S., our nonbanking activities in the United States are subject to regulation by the Federal Reserve pursuant to the International Banking Act of 1978, the Bank Holding Company Act of 1956 (the BHC Act), and other laws. We have elected to be a financial holding company under the BHC Act. Financial holding companies may engage in a broader spectrum of activities than bank holding companies or foreign banking organizations that are not financial holding companies, including underwriting and dealing in securities. To maintain our financial holding company status, (i) we and our U.S. subsidiary bank located in New York are required to be well capitalized and well managed, (ii) our U.S. branch and our U.S. subsidiary bank located in New York are required to meet certain examination ratings, and (iii) our subsidiary bank in New York is required to maintain a rating of at least satisfactory under the Community Reinvestment Act of 1977 (the CRA).

A major focus of U.S. governmental policy relating to financial institutions in recent years has been aimed at fighting money laundering and terrorist financing. Regulations applicable to us and our subsidiaries impose obligations to maintain effective policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identities of clients. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious consequences for the firm, both in legal terms and in terms of our reputation.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was enacted on July 21, 2010 in response to the financial crisis, impacts the financial services industry by addressing, among other issues, systemic risk oversight, bank capital standards, the liquidation of failing systemically important institutions, OTC

derivatives, the ability of banking entities, including non-U.S. banks with branches in the U.S., like us, to engage in proprietary trading activities and invest in hedge funds and private equity (the

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so-called Volcker rule), consumer and investor protection, hedge fund registration, securitization, investment advisors, shareholder say on pay, the role of credit-rating agencies, and more. The Dodd-Frank Act requires various federal banking and financial regulatory authorities to adopt a broad range of implementing rules and regulations. Such authorities have significant discretion in drafting the implementing rules and regulations and, consequently, the full impact of the Dodd-Frank Act may not be known for years.

The Dodd-Frank Act provides regulators with tools to impose greater capital, leverage and liquidity requirements and other prudential standards, particularly for financial institutions that pose significant systemic risk and bank holding companies with greater than \$50 billion in assets. In imposing such heightened prudential standards on non-U.S. banks such as us, the Federal Reserve Board is directed to take into account the principle of national treatment and equality of competitive opportunity, and the extent to which the foreign bank holding company is subject to comparable home country standards. In February 2014, the Federal Reserve Board issued final rules applying enhanced prudential standards to foreign banking organizations, or FBOs, like us with \$50 billion or more in total global consolidated assets. The final rules represent significant changes to the way that the U.S. operations of FBOs are supervised by the Federal Reserve within the United States. In particular, the final rules:

require an FBO with both \$50 billion or more in total global consolidated assets and combined U.S. assets (excluding the total assets of each U.S. branch and agency) of \$50 billion or more to establish a U.S. top-tier intermediate holding company (IHC) over all U.S. bank and nonbank subsidiaries subject to the proposal;

subject an FBO's IHC to the same capital adequacy standards, including minimum risk based capital and leverage requirements, as those applicable to U.S. bank holding companies;

require an FBO with combined U.S. assets of \$50 billion or more to have its U.S. operations satisfy certain liquidity risk management standards, conduct liquidity stress tests, and maintain a buffer of highly liquid assets over specified time horizons, and an FBO with combined U.S. assets of less than \$50 billion would be required to conduct an internal liquidity stress test and report the results to the Federal Reserve Board on an annual basis; and

subject the largest FBOs with the most significant U.S. operations (i.e., those FBOs with \$50 billion or more in total global consolidated assets and \$50 billion or more in combined U.S. assets, excluding the assets of their U.S. branch and agency networks) to heightened compliance obligations with respect to capital plans, capital and leverage standards, capital stress testing, liquidity stress testing and risk management.

The final rules also include requirements relating to overall risk management and debt-to-equity limits for the U.S. operations of FBOs. Implementation of the final rules began June 1, 2014 with the most significant requirements to be implemented beginning July 1, 2016. Rules imposing single counterparty credit limits and early remediation requirements on FBOs have yet to be finalized. We are currently assessing the full impact of these enhanced prudential requirements on our business.

Shinhan Bank America

Shinhan Bank America, a state chartered bank that is located in New York and is not a member of the Federal Reserve, is subject to extensive regulation and examination by the Department, as its chartering authority, and by the

FDIC, as the insurer of its deposits and as its primary federal banking regulator. The federal and state laws and regulations which are applicable to banks regulate, among other things, the activities in which they may engage and the locations at which they may engage in them, their investments, their reserves against deposits, the timing of the availability of deposited funds and transactions with affiliates, among other things. Shinhan Bank America must file reports with the Department and the FDIC concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions, such as establishing branches and mergers with, or acquisitions of, other depository institutions. The Department and the

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FDIC periodically examine the bank to test Shinhan Bank America's safety and soundness and its compliance with various regulatory requirements. This comprehensive regulatory and supervisory framework restricts the activities in which a bank can engage and is intended primarily for the protection of the FDIC insurance fund and the bank's depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves. Any change in such regulations, whether by the Department, the FDIC or as a result of the enactment of legislation, could have a material adverse impact on Shinhan Bank America and its operations.

Capital Requirements. The FDIC imposes capital adequacy standards on state-chartered banks like Shinhan Bank America. In order to be considered adequately capitalized, the FDIC's current capital regulations require a minimum 3.0% Tier I leverage capital requirement for the most highly-rated state-chartered, non-member banks, with an additional cushion of at least 100 basis points required for all other state-chartered, non-member banks, which effectively will increase the minimum Tier I leverage ratio for such other banks to 4.0%. Under the FDIC's regulation, the highest-rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest rate risk exposure, excellent asset quality, high liquidity, good earnings and, in general, which are considered a strong banking organization and are rated composite 1 under the Uniform Financial Institutions Rating System. Tier I or core capital is defined as the sum of common stockholders equity (including retained earnings), non-cumulative perpetual preferred stock and related surplus, and minority interests in consolidated subsidiaries, minus all intangible assets other than certain qualifying supervisory goodwill and certain mortgage servicing rights.

The FDIC also requires that banks meet a risk-based capital standard. The current risk-based capital standard for banks requires, in order to be adequately capitalized, the maintenance of a ratio of total capital (which is defined as Tier I capital and supplementary capital) to risk-weighted assets of 8.0% and Tier I capital to risk-weighted assets of 4%. In determining the amount of risk-weighted assets, all assets, plus certain off-balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item. The components of Tier I capital are the same as for the leverage capital standard. The components of supplementary capital include certain perpetual preferred stock, certain mandatory convertible securities, certain subordinated debt and intermediate preferred stock and general allowances for loan and lease losses. Allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, the amount of capital counted toward supplementary capital cannot exceed 100% of core capital.

In order for our U.S. bank subsidiary to be classified as well capitalized, which is necessary in order for us to maintain our financial holding company status, it must have a Tier I leverage ratio of at least 5%, a Tier I risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10%. Furthermore, banks are generally encouraged to maintain even higher levels of capital during the current period of economic difficulty. In addition, the prompt corrective action framework under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), provides, among other things, for expanded regulation of insured depository institutions, including banks, and their parent holding companies. As required by FDICIA, the federal banking agencies have established five capital tiers ranging from well capitalized to critically undercapitalized for insured depository institutions. Our U.S. bank subsidiary must maintain a minimum 5% Tier I leverage ratio, a 6.5% common equity Tier I ratio, a 8% Tier I risk-based capital ratio and a 10% total risk-based capital ratio to meet the definition of well capitalized under FDICIA's prompt corrective action requirements.

As of December 31, 2015, Shinhan Bank America exceeded all of the capital ratio standards for a well capitalized bank with a Tier I leverage ratio of 14.02%, a common equity Tier I risk-based capital ratio of 18.88%, a Tier I risk-based capital ratio of 18.88% and a total risk-based capital ratio of 19.84%.

The current FDIC capital adequacy guidelines have been modified in accordance with Basel III. In July 2013, the Federal Reserve, the FDIC and the Office of the Comptroller of the Currency issued final rules (the

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Final Rules) that substantially revise the federal banking agencies' current capital rules and implement Basel III. The Final Rules, among other things, narrow the definition of capital, and increase capital requirements for specific exposures. They also include higher capital ratio requirements. In addition, consistent with the Dodd-Frank Act, they remove references to, or requirements of reliance on, credit ratings in the capital rules and replace them with alternative standards of creditworthiness. Shinhan Bank America's current capital ratios satisfy the requirements set forth in the Final Rules, effective January 1, 2015.

Activities and Investments of New York-Chartered Banks. Shinhan Bank America derives its lending, investment and other authority primarily from the applicable provisions of New York State Banking Law and the regulations of the Department, as well as FDIC regulations and other federal laws and regulations. See *Activities and Investments of FDIC-Insured State-Chartered Banks* below. These New York laws and regulations authorize Shinhan Bank America to invest in real estate mortgages, consumer and commercial loans, certain types of debt securities, including certain corporate debt securities and obligations of federal, State and local governments and agencies, and certain other assets. A bank's aggregate lending powers are not subject to percentage of asset limitations, but, as discussed below, there are limits on the amount of credit exposure that a bank may have to a single borrower or group of related borrowers. A New York-chartered bank may also exercise trust powers upon approval of the Department. Shinhan Bank America does not have trust powers.

With certain limited exceptions, Shinhan Bank America may not make loans or extend credit for commercial, corporate or business purposes (including lease financing) to a single borrower, the aggregate amount of which would be in excess of 15% of Shinhan Bank America's net worth, on an unsecured basis, and 25% of the net worth if the excess is collateralized by readily marketable collateral or collateral otherwise having a value equal to the amount by which the loan exceeds 15% of Shinhan Bank America's net worth. In calculating the amount of outstanding loans or credit to a particular borrower for this purpose, Shinhan Bank America must include its credit exposure arising from derivative transactions with the borrower.

Activities and Investments of FDIC-Insured State-Chartered Banks. The activities and equity investments of FDIC-insured, state-chartered banks are generally limited to those that are permissible for national banks. Under regulations dealing with equity investments, an insured state bank generally may not directly or indirectly acquire or retain any equity investment of a type, or in an amount, that is not permissible for a national bank. An insured state bank may, among other things, (i) acquire or retain a majority interest in a subsidiary that is engaged in activities that are permissible for the bank itself to engage in, (ii) invest as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank's total assets, and (iii) acquire up to 10% of the voting stock of a company that solely provides or reinsures directors', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions. In addition, an FDIC-insured state-chartered bank may not directly, or indirectly through a subsidiary, engage as principal in any activity that is not permissible for a national bank unless the FDIC has determined that such activities would pose no risk to the insurance fund of which it is a member and the bank is in compliance with applicable regulatory capital requirements.

Regulatory Enforcement Authority. Applicable banking laws include substantial enforcement powers available to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

Under the New York State Banking Law, the Department may issue an order to a New York-chartered banking institution to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices and to keep prescribed books and accounts. Upon a finding by the Department that any director, trustee

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or officer of any banking organization has violated any law, or has continued unauthorized or unsafe practices in conducting the business of the banking organization after having been notified by the Department to discontinue such practices, such director, trustee or officer may be removed from office by the Department after notice and an opportunity to be heard. The Department also may take possession of a banking organization under specified statutory criteria.

Prompt Corrective Action. Section 38 of the Federal Deposit Insurance Act (FDIA) provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators powers depends on whether the institution in question is well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. A bank is deemed to be (i) well capitalized if it has total risk-based capital ratio of 10.0% or greater, has a Tier I risk-based capital ratio of 8.0% or greater, has a common equity Tier I capital ratio of 6.5% or greater, has a Tier I leverage capital ratio of 5.0% or greater, and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure, (ii) adequately capitalized if it has a total risk-based capital ratio of 8.0% or greater, has a Tier I risk-based capital ratio of 6.0% or greater, has a common equity Tier I capital ratio of 4.5% or greater, has a Tier I leverage capital ratio of 4.0% or greater and does not meet the definition of well capitalized, (iii) undercapitalized if it has a total risk-based capital ratio that is less than 8.0%, has a Tier I risk-based capital ratio that is less than 6.0%, has a common equity Tier I capital ratio of less than 4.5%, or has a Tier I leverage capital ratio that is less than 4.0%, (iv) significantly undercapitalized if it has a total risk-based capital ratio that is less than 6.0%, has a Tier I risk-based capital ratio that is less than 4.0%, has a common equity Tier I capital ratio that is less than 3.0%, or has or a Tier I leverage capital ratio that is less than 3.0%, and (v) critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. The regulations also provide that a federal banking regulator may, after notice and an opportunity for a hearing, reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category if the institution is in an unsafe or unsound condition or engaging in an unsafe or unsound practice. The federal banking regulator may not, however, reclassify a significantly undercapitalized institution as critically undercapitalized.

An institution generally must file a written capital restoration plan which meets specified requirements, as well as a performance guaranty by each company that controls the institution, with an appropriate federal banking regulator within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. Immediately upon becoming undercapitalized, an institution becomes subject to statutory provisions, which, among other things, set forth various mandatory and discretionary restrictions on the operations of such an institution.

FDIC Insurance. Shinhan Bank America's deposits are insured by the FDIC. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the FDIC.

In the past several years, there have been many failures and near-failures among financial institutions. The FDIC insurance fund reserve ratio, representing the ratio of the fund to the level of insured deposits, declined due to losses caused by bank failures and the FDIC then increased its deposit insurance premiums on remaining institutions in order to replenish the insurance fund. The FDIC insurance fund balance increased throughout 2010 and turned positive in 2011. The Dodd-Frank Act requires the FDIC to increase the ratio of the FDIC insurance fund to estimated total insured deposits to 1.35% by September 30, 2020. If bank failures in the future are more costly than the FDIC currently anticipates, then the FDIC will be required to continue to impose higher insurance premiums. Such an increase would increase our non-interest expense. Thus, despite the prudent steps Shinhan Bank America may take to

avoid the mistakes made by other banks, its costs of operations may increase as a result of those mistakes by others.

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As required by the Dodd-Frank Act, the FDIC revised its deposit insurance premium assessment rates in 2011. In general, the rates are applied to a bank's total assets less tangible capital, in contrast to the former rule which applied the assessment rate to a bank's amount of deposits. The FDIC believes that while the largest banks will face higher assessments under the new system than they would under the former system, most banks, including Shinhan Bank America, will pay a lower total assessment under the new system than they would have paid under the former system.

As a result of the Dodd-Frank Act, the increase in the standard FDIC insurance limit from \$100,000 to \$250,000 was made permanent. As the Dodd-Frank Act also removed the prohibition on banks paying interest on commercial demand deposits, commercial depositors currently must choose between earning interest on their demand deposits or having the benefit of unlimited deposit insurance coverage.

The FDIC may terminate the deposit insurance of any insured depository institution, including Shinhan Bank America, if it determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances that would result in termination of Shinhan Bank America's deposit insurance.

Brokered Deposits. Under federal law and applicable regulations, (i) a well capitalized bank may solicit and accept, renew or roll over any brokered deposit without restriction, (ii) an adequately capitalized bank may not accept, renew or roll over any brokered deposit unless it has applied for and been granted a waiver of this prohibition by the FDIC and (iii) an undercapitalized bank may not (x) accept, renew or roll over any brokered deposit or (y) solicit deposits by offering an effective yield that exceeds by more than 75 basis points the prevailing effective yields on insured deposits of comparable maturity in such institution's normal market area or in the market area in which such deposits are being solicited. The term "undercapitalized insured depository institution" is defined to mean any insured depository institution that fails to meet the minimum regulatory capital requirement prescribed by its appropriate federal banking agency. The FDIC may, on a case-by-case basis and upon application by an adequately capitalized insured depository institution, waive the restriction on brokered deposits upon a finding that the acceptance of brokered deposits does not constitute an unsafe or unsound practice with respect to such institution. Shinhan Bank America had an aggregate amount of \$5 million of brokered deposits outstanding at December 31, 2015.

Community Reinvestment and Consumer Protection Laws. In connection with its lending activities, Shinhan Bank America is subject to a variety of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. Included among these are the Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, Truth-in-Lending Act, Equal Credit Opportunity Act, Fair Credit Reporting Act and CRA.

The CRA requires FDIC insured banks to define the assessment areas that they serve, identify the credit needs of those assessment areas and take actions that respond to the credit needs of the community. The FDIC must conduct regular CRA examinations of Shinhan Bank America and assign it a CRA rating of outstanding, satisfactory, needs improvement or unsatisfactory. Shinhan Bank America is also subject to provisions of the New York State Banking Law which impose similar obligations to serve the credit needs of its assessment areas. The Department and the FDIC each periodically assess a bank's compliance, and makes the assessment available to the public. Federal and New York State laws both require consideration of these ratings when reviewing a bank's application to engage in certain transactions, including mergers, asset purchases and the establishment of branch offices. A negative assessment may serve as a basis for the denial of any such application. Shinhan Bank America has received satisfactory ratings from

both the Department and the FDIC.

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The Dodd-Frank Act created a new federal Consumer Financial Protection Bureau (Bureau) with broad authority to regulate and enforce consumer protection laws. The Bureau has the authority to adopt regulations under numerous existing federal consumer protection statutes. The Bureau may also decide that a particular consumer financial product or service, or the manner in which it is offered, is an unfair, deceptive, or abusive act or practice. If the Bureau so decides, it has the authority to outlaw such act or practice. The FDIC enforces the regulations of the Bureau with regard to Shinhan Bank America.

Limitations on Dividends. The payment of dividends by Shinhan Bank America is subject to various regulatory requirements. Under New York State Banking Law, a New York-chartered stock bank may declare and pay dividends out of its net profits, unless there is an impairment of capital, but approval of the Superintendent of Banks is required if the total of all dividends declared in a calendar year would exceed the total of its net profits for that year combined with its retained net profits of the preceding two years, subject to certain adjustments.

Assessments. Banking institutions are required to pay assessments to both the FDIC and the Department to fund the operations of those agencies. The assessments are based upon the amount of Shinhan Bank America's total assets. Shinhan Bank America must also pay an examination fee to the Department when it conducts an examination.

Transactions with Related Parties. Shinhan Bank America's authority to engage in transactions with related parties or affiliates (i.e., any entity that controls or is under common control with an institution) or to make loans to certain insiders is limited by Sections 23A and 23B of the Federal Reserve Act. Section 23A limits the aggregate amount of transactions with any individual affiliate to 10% of the capital and surplus of the institution and also limits the aggregate amount of transactions with all affiliates to 20% of the institution's capital and surplus. The term affiliate includes, for this purpose, us and any company that we control other than Shinhan Bank America and its subsidiaries.

Loans to affiliates must be secured by collateral with a value that depends on the nature of the collateral. The purchase of low quality assets from affiliates is generally prohibited. Loans and asset purchases with affiliates must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with nonaffiliated companies. In the absence of comparable transactions, such transactions may only occur under terms and circumstances, including credit standards that in good faith would be offered to or would apply to nonaffiliated companies. Shinhan Bank America's authority to extend credit to executive officers, directors and 10% shareholders, as well as entities controlled by such persons, is currently governed by Regulation O of the Federal Reserve Board. Regulation O generally requires such loans to be made on terms substantially similar to those offered to unaffiliated individuals (except for preferential loans made in accordance with broad based employee benefit plans), places limits on the amount of loans Shinhan Bank America may make to such persons based, in part, on Shinhan Bank America's capital position, and requires certain approval procedures to be followed.

Standards for Safety and Soundness. FDIC regulations require that Shinhan Bank America adopt procedures and systems designed to foster safe and sound operations in the areas of internal controls, information systems, internal and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings and compensation, fees and benefits. Among other things, these regulations prohibit compensation and benefits and arrangements that are excessive or that could lead to a material financial loss. If Shinhan Bank America fails to meet any of these standards, it will be required to submit to the FDIC a plan specifying the steps that will be taken to cure the deficiency. If it fails to submit an acceptable plan or fails to implement the plan, the FDIC will require it to correct the deficiency and until corrected, may impose restrictions on it.

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The FDIC has also adopted regulations that require Shinhan Bank America to adopt written loan policies and procedures that are consistent with safe and sound operation, are appropriate for its size, and must be reviewed by its board of directors annually. Shinhan Bank America has adopted such policies and procedures, the material provisions of which are discussed above as part of the discussion of our lending operations.

U.S. Regulation of Other U.S. Operations

In the United States, Shinhan Investment America Inc., our U.S.-registered broker-dealer subsidiary, is subject to regulations that cover all aspects of the securities business, including, sales methods, trade practices among broker-dealers, use and safekeeping of clients' funds and securities, capital structure; record-keeping, the financing of clients' purchases, and the conduct of directors, officers and employees.

Shinhan Investment America Inc. is regulated by a number of different government agencies and self-regulatory organizations, including the SEC and the Financial Industry Regulatory Authority (FINRA). Our U.S. subsidiaries are also regulated by some or all of the NYSE, the Municipal Securities Rulemaking Board, the U.S. Department of the Treasury, the Federal Reserve, and the Commodities Futures Trading Commission. In addition, the U.S. states, provinces and territories have local securities commissions that regulate and monitor activities in the interest of investor protection. These regulators have a variety of sanctions available, including the authority to conduct administrative proceedings that can result in censure, fines, the issuance of cease-and-desist orders or the suspension or expulsion of the broker-dealer or its directors, officers or employees.

FINRA is dedicated to investor protection and market integrity through effective and efficient regulation and complementary compliance and technology-based services. FINRA covers a broad spectrum of securities businesses, including, registering and educating industry participants, examining securities firms, writing rules, enforcing those rules and the federal securities laws, informing and educating the investing public, providing trade reporting and other industry utilities, and administering a dispute resolution forum for investors and registered firms. It also performs market regulation under contract for the NASDAQ Stock Market, the American Stock Exchange and the Chicago Climate Exchange.

Many of the provisions of the Dodd-Frank Act discussed above will affect the operation of Shinhan Investment America, as well as our U.S. banking operations. Again, the impact of this statute on our operations will depend on the final regulations ultimately adopted by various agencies and oversight boards in coming years.

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ITEM 4.C. Organizational Structure

As of the date hereof, we have 13 direct and 24 indirect subsidiaries. The following diagram provides an overview of our organizational structure, including our significant subsidiaries and our ownership of such subsidiaries as of the date of this annual report:

- 1) Currently in liquidation proceedings.
 - 2) We and our subsidiaries currently own 36.7% in the aggregate.
 - 3) We and our subsidiaries currently own 32.6% in the aggregate.
 - 4) We and our subsidiaries currently own 34.6% in the aggregate.
 - 5) We and our subsidiaries currently own 1.8% in the aggregate.
 - 6) We and our subsidiaries currently own 93.3% in the aggregate.
- All of our subsidiaries are incorporated in Korea, except for the following:

Shinhan Asia Limited (incorporated in Hong Kong);

Shinhan Bank America (incorporated in the United States);

Shinhan Bank Canada (incorporated in Canada);

Shinhan Bank (China) Limited (incorporated in the People's Republic of China);

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Shinhan Bank Europe GmbH (incorporated in Germany);

Shinhan Bank Kazakhstan Limited (incorporated in Kazakhstan);

Shinhan Bank Japan (incorporated in Japan);

Shinhan Khmer Bank PLC (incorporated in Cambodia);

Shinhan Bank Vietnam Ltd. (incorporated in Vietnam);

LLP MFO Shinhan Finance (incorporated in Kazakhstan);

Shinhan Investment Corp., USA Inc. (incorporated in the United States);

Shinhan Investment Corp., Asia Ltd. (incorporated in Hong Kong);

Shinhan BNP Paribas Asset Management (Hong Kong) Limited (incorporated in Hong Kong).

PT Bank Metro Express (incorporated in Indonesia);

PT Centratama Nasional Bank (incorporated in Indonesia);

Banco Shinhan de Mexico (incorporated in Mexico);

Nam An Securities Co., Ltd. (incorporated in Vietnam); and

PT Shinhan Indo Finance (incorporated in Indonesia).

ITEM 4.D. Properties

The following table provides information regarding certain of our properties in Korea.

Type of Facility	Location	Area (In square meters)	
		Building	Site (If Different)
Registered office and corporate headquarters	20, Sejong-daero 9-gil, Jung-gu, Seoul 04513, Korea	59,519	5,418
Shinhan Investment Corp.	23-2, Youido-dong, Youngdungpo-gu, Seoul, Korea 150-312	70,170	4,765
Shinhan Centennial Building	117, Samgak-dong, Jung-gu, Seoul, Korea	19,697	1,389
Shinhan Bank Gwanggyo Branch	14, 1-ga, Namdaemun-ro, Jung-gu, Seoul, Korea	16,727	6,783
Shinhan Myongdong Branch	53-1, 1-ga, Myong-dong, Jung-gu, Seoul, Korea	8,936	1,014
Shinhan Youngdungpo Branch	57, 4-ga, Youngdungpo-dong, Youngdungpo-gu, Seoul, Korea	6,171	1,983
Shinhan Back Office Support Center	781, Janghang-dong, Ilsan-gu, Goyang-si, Gyeonggi-do, Korea	24,496	5,856
Shinhan Bank Back Office and Call Center	731, Yoksam-dong, Gangnam-gu, Seoul, Korea	23,374	7,964
Shinhan Bank Back Office and Storage Center	1074, Yongam-dong, Sangdang-gu, Cheongju-Si, Chungcheongbuk-do, Korea	6,019	5,376
Shinhan Card Yoksam-Dong Building	790-5, Yoksam-dong, Gangnam-gu, Seoul, Korea	7,348	1,185
Shinhan Data Center	23-2, Jukjeon-dong, Suji-gu, Yongin, Gyeonggi-do, Korea	44,676	9,114
Our subsidiaries own or lease various land and buildings for their branches and sales offices.			

As of December 31, 2015, Shinhan Bank had a countrywide network of 899 branches. Approximately 27.7% of these facilities were housed in buildings owned by us, while the remaining branches were leased properties. As of December 31, 2015, Jeju Bank had 38 branches of which we own 18 of the buildings in which the facilities are located, representing 47.4% of its total branches. Lease terms are generally from two to three years, and seldom exceed five years.

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As of December 31, 2015, Shinhan Card had 28 branches, all but one of which was leased. Lease terms are generally from one to two years. We also lease Shinhan Card's headquarters for a term of five years. As of December 31, 2015, Shinhan Investment had a nationwide network of 108 branches of which we own six of the buildings in which the facilities are located, representing 5.6% of its total branches in Korea. Lease terms are generally from one to two years. As of December 31, 2015, Shinhan Life had 187 branches which we leased for a term of generally one to two years.

The net book value of all the properties owned by us at December 31, 2015 was ₩2,705 billion. We do not own any material properties outside of Korea.

ITEM 4A. UNRESOLVED STAFF COMMENTS

We do not have any unresolved comments from the staff of the U.S. Securities and Exchange Commission regarding our periodic reports under the Securities Exchange Act of 1934, as amended.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and notes thereto included in this annual report. The following discussion is based on our consolidated financial statements, which have been prepared in accordance with IFRS.

ITEM 5.A. Operating Results

Overview

We are one of the leading financial institutions in Korea in terms of total assets, revenues, profitability and capital adequacy, among others. Incorporated on September 1, 2001, we are the first privately-held financial holding company to be established in Korea. Since inception, we have developed and introduced a wide range of financial products and services in Korea and aimed to deliver comprehensive financial solutions to clients through a convenient one-portal network. According to reports by the Financial Supervisory Service, we are the largest financial services provider in Korea as measured by consolidated total assets as of December 31, 2015 and operate the fourth largest banking business (as measured by consolidated total bank assets as of December 31, 2015 and the largest credit card business (as measured by the total credit purchase volume in 2015) in Korea.

Most of our assets are located in, and we generate most of our income from, Korea. Accordingly, our business and profitability are largely dependent on the general economic and social conditions in Korea, including interest rates, inflation, exports, personal expenditures and consumption, unemployment, demand for business products and services, debt service burden of households and businesses, the general availability of credit, the asset value of real estate and securities and other factors affecting the financial well-being of our corporate and retail customers. The Korean economy is closely integrated with, and is significantly affected by, developments in the global economy and financial markets. In recent years, the global economy and financial markets experienced adverse conditions and volatility, which also had an adverse impact on the Korean economy and in turn on our business and profitability. See Item 3.D. Risk Factors – Risks Relating to our Banking Business. Difficult conditions and turbulence in the Korean and global economy and financial markets may adversely affect our business, asset quality, capital adequacy and earnings.

We derive most of our income from interest earned on our corporate and retail loans, net of funding costs (which primarily consist of interest payable on customer deposits). Net interest income is largely a function of the average volume of loans and the net interest spread thereon.

In 2014, the average volume of retail loans grew by 6.1% from 2013, largely due to a continued increase in lending to borrowers with high credit profiles and government employees with relatively strong job security

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(such as police officers and firefighters) as part of our strategic initiative to increase the volume of lending while maintaining or improving the profit margin and asset quality for such lending, an increase in the volume of long-term housing rental deposit loans in tandem with a growing preference for long-term housing rental in lieu of home ownership due in part to the continued uncertainty in the outlook for the Korean real property market, and a substantial increase in the volume of housing mortgage loans in the second half of 2014 following the series of Government plans to stimulate the general economy and the real estate market through various monetary, fiscal and deregulatory measures as announced in the second half of 2014. In 2014, the average volume of corporate loans increased by 4.7% from 2013, largely due to the relatively stable growth in loans to small- to medium-sized enterprises (which mainly resulted from heightened marketing focus on the good-quality smaller-sized enterprises that are not required to be audited by outside directors) and loans to large corporations (which mainly resulted from an increase in demand for facility loans and acquisition financing).

In 2015, the average volume of retail loans increased by 12.2% from 2014, primarily as a result of the general decrease in market interest rates and continued increase in demand for housing loans following the implementation of government policies in the second half of 2014 designed to stimulate the real estate market, including the loosening of maximum debt-to-income and loan-to-value ratios. In addition, the volume of mortgage and home equity loans increased as more households chose to purchase homes due to a substantial increase in the amounts of long-term deposits required for house rentals and a general decrease in the supply of homes rented on long-term deposit leases. In 2015, the average volume of corporate loans increased by 8.8% from 2014, principally as a result of the general decrease in market interest rates and increased loan demand from SOHOs and small- and medium-sized enterprises on the back of the Government's policy initiatives to promote the growth of such enterprises.

From 2013 to 2014, both the average yield on interest-earning assets and the average rate on interest-bearing liabilities decreased (with the former decreasing more than the latter due to the difference in relative maturity profiles), including as a result of the decreases in the base interest rate set by the Bank of Korea in August and October 2014, while the average balance increased for both interest-earning assets and interest-bearing liabilities. While the base rate decreases in 2014 had the impact of substantially narrowing the interest rate spread, such impact was largely offset by the increase in the average balance of loans as discussed above. As a result, Shinhan Bank's net interest income remained relatively stable from ₩4,350 billion in 2013 to ₩4,367 billion in 2014. Net interest income after provision for loan losses increased by 6.1% from ₩3,677 billion in 2013 to ₩3,903 billion in 2014 due to a decrease in provisioning in reflection of the improvement of Shinhan Bank's overall asset quality. Shinhan Bank's operating income increased by 4.5% from ₩1,720 billion in 2013 to ₩1,797 billion in 2014.

From 2014 to 2015, both the average yield on interest-earning assets and the average rate on interest-bearing liabilities decreased further (with the former decreasing more than the latter due to the difference in relative maturity profiles), primarily due to the additional cuts in the base interest rate by the Bank of Korea in March and June 2015, while the average balance increased for both interest-earning assets and interest-bearing liabilities. Largely due to the greater decrease in the average yield on interest-earning assets compared to that for the average rate on interest-bearing liabilities, Shinhan Bank's net interest income decreased by 4.6% from ₩4,367 billion in 2014 to ₩4,165 billion in 2015. Net interest income after provision for loan losses amounted to ₩3,903 billion and ₩3,572 billion in 2014 and 2015, respectively. Shinhan Bank's operating income decreased by 3.5% from ₩1,797 billion in 2014 to ₩1,734 billion in 2015.

As for Shinhan Card, its operating revenue is largely dependent on the transaction volume and less sensitive to interest rate movements than our banking business, since merchant fees (representing a fixed percentage of a credit card purchase amount) provide a stable source of income and our credit card business enjoys more diversified sources of funding, including commercial paper, corporate debentures (which have maturities longer than most bank deposit products) and asset-backed securitizations. The credit card transaction volume is largely dependent on the overall

trends of the general Korean economy, such as general consumer spending patterns in Korea. Shinhan Card's operating revenues remained largely stable from ₩4,615 billion in 2013 to

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₩4,597 billion in 2014 and to ₩4,740 billion in 2015, in each case, largely due to increase in merchant fees collected due to an increase in the volume of credit purchases (especially through check cards), as well as an increase in the volume of credit card loans, which were substantially offset by a decrease in the volume of cash advances. The volume of cash advances has been in a steady decline since 2013 after we ceased allowing installment repayments and a revolving facility for cash advances. Partly as a result of a substitution effect, credit card loans have increased instead.

The following provides a discussion of the major trends surrounding the general economy and the financial services sector in Korea in 2015 and our current outlook for 2016 as they relate to our core businesses. The following discussion represents the subjective view of our management and may significantly differ from the actual results for 2016.

Trends in the Korean Economy

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

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

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

As for interest rate movements, since 2009, Korea, like many other countries, has experienced a low interest rate despite some marginal fluctuations, in part due to the Government's policy to stimulate the economy through active rate-lowering measures. Between 2009 and 2014, the base interest rate set by the Bank of Korea remained within the band between 2.00% and 3.25%. In an effort to support Korea's economy in light of the recent slowdown in Korea's growth and uncertain global economic prospects, the Bank of Korea reduced the base interest rate to 1.75% in March 2015 and further reduced such rate to the historic low of 1.50% in June 2015, which has since remained unchanged. In light of the mixed signals on the economic outlook, the Bank of Korea's policy path of interest rates in 2016 and for the foreseeable future remains uncertain.

Recent Developments and Outlook for the Korean Financial Sector

Commercial Banking

In 2015, major commercial banks in Korea generally experienced modest growth in terms of assets, principally due to a rebound in demand for loans from retail and corporate customers. The asset quality also

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improved to a limited extent in terms of delinquency and non-performing loan ratios. However, net interest margin for commercial banks generally tightened, largely due to the reduction in the Government-set base rate and increasing competition among Korean banks, particularly in relation to certain qualified fixed rate and installment payment loans.

Currently, we are not aware of any major regulatory developments that may have a material adverse effect on the commercial banking industry in Korea. However, the prolonged low-interest rate environment has presented limited opportunities for commercial banks to generate profit by taking advantage of differences between deposits and loans, and fueled intense competition among major commercial banks for quality customers. New services and products recently introduced based on the regulatory changes, such as the account switch service and the individual savings accounts, are also expected to generate competition among banks and between banks and securities firms. Furthermore, with the growing popularity of online financial service platforms, online service providers and technology companies with large-scale user networks, such as Kakao Corp., NAVER and Samsung Electronics have also intensified the competition by making significant inroads in providing virtual payment services through a system based on a growing convergence of financial services and technology commonly referred to as fintech. In addition, Internet-only banks, which are expected to commence operations as early as the second half of 2016, may introduce new services and offer promotions to attract customers of the existing commercial banks. Accordingly, commercial banks will likely face increasing pressure to upgrade their service platforms to attract and maintain online users, which represents a growing customer base compared to traditional customers who have primarily conducted banking in-person at physical banking branches.

Credit Cards

In 2015, credit card companies in Korea generally experienced steady growth in revenues and assets and stable asset quality, in tandem with the modest recovery in the overall Korean economy, despite the temporary declines in consumer demand due to persisting economic uncertainties and the outbreak of the MERS in May and June 2015. Also in 2015, we experienced an increased threat from mobile payment service providers that are leveraging the convergence of financial services and technology, but at the same time continued to pursue opportunities for expansion into new businesses, aided by a favorable regulatory environment that encourages investments in new products and services.

In 2016, we expect that the recent reduction in merchant fees will inevitably lead to reduced revenues for credit card companies. While the overall asset quality of the Korean credit card industry has been improving and delinquency levels are among the lowest they have ever been largely as a result of the credit card companies' improved portfolio management and credit risk practices over the past decade, we believe it will become increasingly important for credit card companies to take precautionary risk management measures in the face of continued economic uncertainties and the high level of household debt. In addition, competition is expected to remain intense given that the Korean credit card market is mature and saturated and as the mobile payment systems being introduced by online and mobile service providers become more prevalent.

The Korean credit card market, which has the world's highest level of credit card usage as a percentage of gross domestic product according to statistics released by the Bank of Korea, has moved on from periods of growth into a period of maturity characterized by slow growth. As product differentiation is difficult given the nature of the industry, credit card companies face intense competition. In recent years, competition is further increasing due to new trends such as the expansion of financial and technology companies into markets for new payment systems and the growing presence of financial institutions in markets for mid-range interest rate loans.

Securities

In 2015, the securities industry in Korea reported an improved profitability in the brokerage segment due to a rise in the KOSPI index in the first half of 2015, as well as an increase in income from the fixed income segment due to increased sales of financial products resulting from Korea's persistent low interest rate environment. According to data from the Financial Supervisory Service, return on equity for the industry increased to 7.3% in 2015 from 4.1% in 2014.

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In 2016, we expect that profitability for the securities industry will likely remain under pressure due to factors such as the global recession, but with the continuation of low interest rates, we also anticipate a further flow of funds from risk-free assets to investment assets. In the mid- to long-term, we expect funds in the banking sector to flow into financial investment products, strengthening the wealth management segment. The recent spotlight on contingent liability issues concerning real estate investments has also given greater emphasis to the financial stability of securities companies. As a result, we believe securities companies will become differentiated in terms of financial stability based on their risk management capabilities.

In order to enhance the competitiveness of Korea's capital market, the Government is implementing changes such as the liberalization of lending by financial investment companies, deregulation of private equity funds and introduction of the individual savings account (ISA) system. The Government is also planning to strengthen the capital market's international competitiveness through a restructuring of the Korea Exchange, including its transformation into a holding company. On the competitive side, we expect competition to remain intense as the securities brokerage industry is already overcrowded with relatively low barriers of entry, although the industry is showing some signs of consolidation (such as the sale of Woori Investment & Securities to NH Securities, the acquisition of IM Investment & Securities by Meritz Securities, the proposed acquisition of KDB Daewoo Securities by Mirae Asset, and the proposed acquisition of Hyundai Securities by KB Financial Group). We expect that mergers and acquisitions will continue to play a significant role in shaping the competitive landscape for the securities industry in Korea.

Life Insurance

In 2015, volatility in the Korean financial market was exacerbated by uncertainties regarding increases in the base interest rate set by the United States government and the possible hard landing of the Chinese economy, presenting difficulties for the life insurance industry. The persistence of low profit and low growth led to a weak recovery in the savings insurance segment, but the protection-type insurance segment showed notable signs of growth, primarily through new whole life insurance products related to retirement planning and health insurance products. However, the life insurance industry generally experienced difficulty due to the negative net interest margin resulting from low interest rates, heightened regulations on consumer protection and increasing competition among insurers.

In 2016, we may continue to experience negative net interest margins amidst continued slow growth and low interest rates. Accordingly, we anticipate risk management and underwriting capacities to be the key competitive differentiators. Product development and asset management capabilities will also be emphasized as the industry is undergoing constant challenges and regulatory changes. Moreover, in light of the IFRS 4 Phase II to be implemented in 2020 as well as other changes in the business environment, including the convergence of financial industries and utilization of fintech and big data, we believe life insurance companies will need to adopt strategies focused on profitability and efficiency rather than just top line growth.

We are currently not aware of any major regulatory developments that may have a material adverse effect on the life insurance industry in Korea. On the competitive side, competition is expected to remain intense as the life insurance industry in Korea is mature and saturated, and the ability to offer differentiated services in order to attract the growing population of the elderly and the retirees' products will continue to be an ever important competitive factor.

Asset Management

The asset management service industry is highly volatile and sensitive to the general trends in the overall cycles in the general economy and financial markets. Competition for this industry is likely to remain intense given the relatively low barriers of entry and the difficulty to differentiate services.

In 2015, the asset management industry experienced a meaningful growth in assets under management largely due to an increase in corporate assets, which offset an increase in redemptions by retail customers.

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Although assets under management have grown in the last three years, the improvement in profitability has been limited as a significant majority of the assets under management are from corporate clients, which tend to generally yield low rates of fees.

In 2016, we expect a greater volatility in profit due to growing market uncertainties in the face of a sustained low interest rate environment. As a result, we anticipate that investors will demand stable returns on investments and more diversified investment solutions addressing various risk appetites.

Specialized Credit

The specialized credit business was introduced in Korea in August 1997. The specialized credit business cannot accept customer deposits and generally involves providing a combination of four types of financing: equipment and facilities leasing, installment finance, new technology finance and credit card services, and sources funding primarily by issuing debentures and commercial papers. The specialized credit business generally targets customers with higher risk profile in return for higher return compared to customers of commercial banks, which makes risk management (including customer screening) a particularly key factor for commercial success of this business.

Due, in part, to the variety of services being offered and the broad range of potential customers, specialized credit providers often find it relatively easy to develop new customer segments and provide niche offerings. Due to the relatively low barriers of entry, however, competition is intense and is expected to further intensify as a result of the commencement of automobile loan offerings by commercial banks and the expanded entry into personal loan markets by micro lenders. In addition, on September 30, 2015, the National Assembly of Korea passed an amendment to the Credit Finance Business Act, which, among other things, aims at alleviating restrictions on entry into the credit finance industry by lowering the minimum capital requirements for new entrants. We expect that specialized credit providers will continue to focus their efforts on finding new business opportunities, including by expanding the new technology finance segment and selective overseas expansions.

Interest Rates

Interest rate movements, in terms of magnitude and timing as well as their relative impacts on our assets and liabilities, have a significant impact on our net interest margins and profitability, particularly with respect to its financial products that are sensitive to such movements. For example, if the interest rates applicable to Shinhan Bank's loans (which are recorded as our assets) decrease at a faster pace or by a wider margin, or increase at a slower pace or by a thinner margin, compared to the interest rates applicable to its deposits (which are recorded as our liabilities), Shinhan Bank's net interest margin will shrink and its profitability will be negatively affected. In addition, the relative size and composition of Shinhan Bank's variable rate loans and deposits (as compared to our fixed rate loans and deposits) may also impact Shinhan Bank's net interest margin. Furthermore, the difference in the average term of Shinhan Bank's interest-earning assets (primarily loans) compared to its interest-bearing liabilities (primarily deposits) may also impact its net interest margin. For example, since Shinhan Bank's deposits currently have a longer term, on average, than that of its loans, its deposits are on average less sensitive to movements in the base interest rates on which its deposits and loans tend to be pegged, and therefore, an increase in the base interest rates tends to increase its net interest margin while a decrease in the base interest rates tends to have the opposite effect. Since Shinhan Bank is one of our principal operating subsidiaries, its net interest margin and profitability have a substantial effect on our overall net interest margin and profitability. While we continually manage our assets and liabilities to minimize our exposure to the interest rate volatility, such efforts by us may not mitigate the impact of interest rate volatility in a timely or effective manner.

The interest rate charged to customers by our banking subsidiaries is based, in part, on the cost of funds index, or COFIX, which is published by the Korean Federation of Banks. COFIX is computed based on the weighted average interest of select funding products (including time deposits, housing and other installment

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savings deposits, repos, discounted bills and senior non-convertible financial debentures) of eight major Korean banks (comprised of Shinhan Bank, Kookmin Bank, Woori Bank, KEB Hana Bank, Nonghyup Bank, Industrial Bank of Korea, Citibank Korea and Standard Chartered Bank Korea). Each bank then independently determines the interest rate applicable to its respective customers by adding a spread to the COFIX based on the difference between the COFIX and such bank's general funding costs, administration fees, the customer's credit score, the maturity of the loan and other customer-specific premiums and discounts based on the customer relationship with such bank. These interest rates are typically adjusted on a monthly basis.

The following table shows certain benchmark Won-denominated borrowing interest rates as of the dates indicated.

	Corporate Bond Rates⁽¹⁾	Treasury Bond Rates⁽²⁾	Certificate of Deposit Rates⁽³⁾	COFIX Balance-Based⁽⁴⁾	COFIX New Borrowing-Based⁽⁵⁾
June 30, 2011	4.49	3.76	3.57	3.88	3.66
December 31, 2011	4.21	3.34	3.55	3.95	3.69
June 30, 2012	3.87	3.30	3.54	3.91	3.63
December 31, 2012	3.29	2.82	2.89	3.57	3.01
June 30, 2013	3.31	2.88	2.69	3.17	2.66
December 31, 2013	3.29	2.86	2.66	2.91	2.60
June 30, 2014	3.10	2.68	2.65	2.79	2.59
December 31, 2014	2.43	2.10	2.13	2.58	2.10
June 30, 2015	2.01	1.79	1.65	2.22	1.75
December 31, 2015	2.11	1.66	1.67	1.90	1.66

Source: Korea Securities Dealers Association

Notes:

- (1) Measured by the yield on three-year AA- rated corporate bonds.
- (2) Measured by the yield on three-year treasury bonds.
- (3) Measured by the yield on certificates of deposit (with maturity of 91 days).
- (4) Measured based on the weighted average of the borrowing rates for the monthly ending balances of the funding made by the commercial banks that are subject of the COFIX reporting.
- (5) Measured based on the weighted average of the borrowing rates for new funding for each month made by the commercial banks that are subject of the COFIX reporting.

Critical Accounting Policies

The notes to our consolidated financial statements contain a summary of our significant accounting policies, including a discussion of recently issued accounting pronouncements. Certain of these policies are critical to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. We discuss these critical accounting policies below. The accounting policies set out below have been applied consistently to all periods presented in our consolidated financial statements included in this annual report, unless otherwise indicated.

Operating Segments

An operating segment is a component of our business that engages in business activities from which we may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the other segments. Discrete financial information is available for each operating segment, and all operating segments' operating results are reviewed regularly by our chief executive officer to make decisions about resources to be allocated to the segment and assess its performance.

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Segment results that are reported to our chief executive officer include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Currently, we have four reportable segments: banking, credit cards, securities, life insurance, and others.

Basis of Consolidation

Subsidiaries

Subsidiaries are entities that we control. The financial statements of our subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of our subsidiaries have been changed when necessary to align them with the policies we have adopted.

Structured Entities

We have established or invested in various structure entities. A structured entity is an entity designed so that its activities are not governed by way of voting rights. When assessing control of a structured entity, we consider factors such as the purpose and the design of the investee; our practical ability to direct the relevant activities of the investee; the nature of our relationship with the investee; and the size of our exposure to the variability of returns of the investee. We do not recognize any non-controlling interests in the consolidated statements of financial position since our interests in these entities are recognized as liabilities of us.

Investments in Associates and Joint Arrangements (Collectively, Associates)

Associates are those entities in which we have significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when we hold between 20% and 50% of the voting power of another entity or in excess of 15% if the other entity is classified as a subsidiary under the Banking Act. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates are accounted for using the equity method and are recognized initially at cost. Our investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include our share of the income and expenses and equity movements of associates, after adjustments to align their accounting policies with ours, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When our share of losses exceeds our interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that we have an obligation or are otherwise required to make payments on behalf of the investee.

Transactions Eliminated on Consolidation

Intra-group balances, transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated against the investment to the extent of our interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Foreign Currency

Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of us and our subsidiaries at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in

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foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Won at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated into Won at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income in the translation reserve.

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

Cash and Cash Equivalents

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

Non-derivative Financial Assets

Financial assets are classified into financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity financial assets. Financial assets are recognized in the consolidated financial statements when we become a party to the contractual provisions of the instrument.

A financial asset is measured initially at its fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition of the financial asset.

Financial Assets at Fair Value through Profit or Loss

A financial asset is classified as held for trading or designated at fair value through profit or loss upon initial recognition. These financial assets are measured at fair value after initial recognition and changes in the fair value are recognized through profit or loss of the period. Costs attributable to the acquisition are immediately expensed in the period.

Held-to-maturity Financial Assets

Held-to-maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that we have the positive intent and ability to hold to maturity. They are carried at amortized cost using the effective interest method after their initial recognition.

Table of Contents*Loans and Receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

For non-collateral dependent loans, impairment is measured using a discount cash flow analysis under which allowances are established when the discounted cash flow of the loan is lower than its carrying amount. The allowance is equal to the difference between the discounted cash flow amount of the loan and its carrying amount. With respect to collateral dependent loans, our discount cash flow analysis considers, among other things, the fair value of the collateral underlying the subject loan. When the carrying amount of the subject loan is higher than the fair value of the collateral, the carrying amount is written down to the fair value of the collateral. The fair value of the collateral is determined as the present value of the estimated realizable value of the collateral at the expected time of the sale of such collateral. Once the valuation report of the court-appointed appraiser becomes publicly available as part of a foreclosure proceeding, we use the appraisal value for the collateral indicated in such report as the estimated realizable value of the collateral. However, until such publication, we use the valuation amount for the collateral as determined by outside independent appraisers at the time that the subject loan was initially approved, with adjustments made for the change in value from the effect of time passage and current market circumstances that may impact the value of the collateral.

As a general rule, we obtain updated appraisal on an annual basis for all collateral dependent loans and therefore, adjust the appraisal value of loans every 12 months. We estimate the fair value of collateral with outdated appraisal value primarily on the basis of the publicly available standard reference prices as officially published by the government (or (x) in the case of collateral in the form of apartment units, the real estate market price database maintained by Kookmin Bank for apartment units, (y) in the case of collateral in the form of other communal housing units, the publicly available standard reference prices as officially published by the Ministry of Land, Infrastructure and Transport or (z) in the case of commercial buildings, the publicly available standard reference prices as officially published by the National Tax Service), except that (i) if there are bid prices for such collateral, we use as the fair value the lowest bid price deemed to be credible as to the bidder's intent to purchase based on the written bid submitted by such purchaser and (ii) in the circumstances where we deem that the aforesaid reference prices do not accurately reflect the true value of such land, for example, due to a downturn in the relevant real estate market, we hire an outside appraiser to obtain an independent valuation, which valuation is typically derived from 90% or lower of the lowest of two or more sale prices from recent sales of similar types of collateral in the vicinity, and we use such valuation as the fair value for such collateral. Other than in the case of a bid price which is higher than the original appraisal value, we design our fair value estimation system so that the adjusted fair value does not exceed the original appraisal value and hence, in the absence of a higher bid price, the adjustments made have the effect of assigning a fair value lower than the original appraisal value. Since the magnitude of adjustments is principally dependent on reference prices maintained by the Government or bid prices, which are in turn dependent on the market prices, it varies case by case and is therefore difficult to compute the average adjustments made to outdated appraisals. After making such adjustments, we also internally appraise each collateral at least annually in order to ensure that the adjusted value is fair and reasonable.

We implement the following procedures to minimize the potential for outdated appraisal values being reflected in allowance for loan losses: (i) the date of appraisal is assigned next to the appraisal value to facilitate identification of an appraisal value as being outdated, (ii) our internal audit department constantly monitors the status of appraisal values, and (iii) the loan-to-value ratio, usually 60%, is strictly enforced when making the original loan so that the value of collateral typically stays above the outstanding loan amount during the life of the loan even in the case of an

adjustment to the original appraisal value. If in the limited circumstances where the adjusted fair value of collateral falls below the outstanding loan amount, if the loan is impaired, we promptly set aside allowance for loan losses for such difference in amount.

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Available-for-sale Financial Assets

Available-for-sale financial assets are the non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. They are measured at fair value after their initial recognition.

Derecognition of Financial Assets

We derecognize a financial asset when the contractual rights to the cash flows from the asset expire, or we transfer the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that we create or retain is recognized as a separate asset or liability.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, we have a legal right to offset the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Impairment of Financial Assets

We assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets except for financial assets at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that financial assets are impaired includes significant financial difficulty of the borrower or issuer, default or delinquency in interest or principal payments, restructuring of a loan or a concession granted by us, which we would not otherwise consider, indications that a borrower or issuer will enter bankruptcy or other financial reorganization, or observable data such as an increased number of delayed payments indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

Loans and Receivables

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

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

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

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In assessing collective impairment, we rate and classify financial assets, based on a credit risk assessment or credit rating assessment process that takes into account asset type, industry, regional location, collateral type, delinquency and other relative factors.

Future cash flow of financial assets applicable to collective impairment assessment is estimated by using statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the impairment losses are likely to be greater or less than suggested by historical modelling. In adjusting the future cash flow by historical modelling, the result has to be in line with changes and trends of observable data (e.g., impairment loss of collective assets and unemployment rate, asset price, commodity price, payment status and other variables representing the size of implement loss). Methodologies and assumptions used to estimate future cash flow are reviewed on a regular basis in order to narrow down discrepancy between impairment loss estimation and actual loss.

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

Allowance for Loan Losses

Our methodology for determining allowance for loan losses has changed in 2011.

Under both the previous and current methodology, determining allowance for loan losses involves determination both at the individual level and on the aggregate basis. While there is no material difference between our previous and current methodology in determining allowance for loan losses at the individual level except for differences in its recognition of loan losses as a result of subsequent events, there are certain differences when determining the allowance on the aggregate basis.

When determining allowance for loan losses, under the previous methodology, Shinhan Bank, which accounts for the substantial majority of loans held by Shinhan Financial Group, used a migration model, while under the current methodology, Shinhan Bank used a probability of default / loss-given default (PD/LGD) model. Certain differences may arise in allowances for loan losses calculated under the previous migration model and the current PD/LGD model.

Under the previous migration model, when determining allowance for loan losses, Shinhan Bank, which accounts for the substantial majority of loans held by Shinhan Financial Group, applied a migration model based on loan classifications. Shinhan Bank identified the probability of default for corporate loans through a migration model, which uses a statistical tool to monitor the progression of loans through nine different classifications over recent one year, while retail loans uses five different classifications over recent one year and are segmented into the two product types for the purposes of credit risk evaluation, namely, mortgage and home equity loans, and other retail loans (consisting of unsecured and secured retail loans). Loss given default for corporate loans is derived by the loss rate of individually evaluated impaired loans, while retail loans is derived by the historical charge-off and recovery information of the portfolio.

Under the current PD/LGD model, Shinhan Bank calculates the aggregate allowance for loan losses by multiplying (x) the probability of default for each class of borrowers that have been assigned the same credit rating by (y) the loss given default for such class of borrowers. A particular credit rating is assigned individually to each borrower based on (i) the borrower type (namely, household, corporate, SOHOs or high-risk borrowers) and (ii) its particular risk and

credit profile within such type, using our proprietary credit evaluation model.

Our current PD/LGD model determines the probability of default for each class of borrowers having the same credit rating as follows. First, we determine the projected probability of default for such class of borrowers

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using the longer look-back periods under IFRS. However, at least annually (and more frequently during times of heightened systemic risks), we test such projected probability of default against the actual rate of default among such class of borrowers in the 12-months period immediately preceding such testing date. If based on such test the actual rate of default exceeds the mean or the maximum value of projected probability of default, we reassess, on an individual basis and using more conservative metrics, the credit rating assigned to each borrower within such class. Such credit rating reassessment generally has the effect of lowering the credit rating for a substantial number of borrowers that initially belonged to such class, which in turn has the effect of increasing the allowance of losses on an aggregate basis since the pool of borrowers having high credit ratings will have shrunk (and the pool of borrowers having lower credit ratings will have expanded) as the result of the individualized credit rating reassessment. Hence, such recalibration has the effect of reflecting the effects of current conditions in our final determination of the probability of default.

The migration and PD/LGD methods described above also have other differences. Under the previous migration method, the historical loss rate on migration analysis is calculated from a transition matrix table based on asset quality classification and takes into consideration historical loss rates and recovery rates after charge-off, whereas the current PD/LGD method (sophisticated approach), also known as Advanced Internal Rating-Based approach under Basel II, is calculated via measurable long-term risk factors such as probability of default from risk grading and loss given default based on the Basel II framework.

We believe that our current PD/LGD model has the following advantages compared to the previous migration model:

Statistically more robust while reflecting effects of current condition. From a statistical perspective, we believe our current PD/LGD model enables a more robust and reliable analysis by adopting a longer look-back period based on the Continuous Time Markov Chain Rating Transition Approach than the one-year migration model does. While adopting a longer look-back period may have the effect of undervaluing the effects of current conditions, our model largely compensates for such potential undervaluation through the annual calibration process discussed above.

Analytically more fine-tuned. Our previous migration model analyzed the probability of default based on the following criteria only: retail vs. corporate and secured vs. unsecured. Under our current PD/LGD model, we examine the probability of default based on more granular classification as follows: households, corporate, small-office/home-office (SOHOs) and special high-risk borrowers. In addition, our current PD/LGD model also analyzes loss given default in greater detail, including location, types of collateral, loan-to-value ratios and (in the case of unsecured loans) types of loans.

More versatile use and improved reliability through greater internal scrutiny. The previous migration model was used only for the purpose of determining the probability of default in connection of computing allowance for losses based on asset classification. In comparison, our current PD/LGD model is being used for substantially all areas of our credit risk evaluation, including credit ratings, loan review and computation of capital adequacy. Given the more versatile use of our current PD/LGD model and the greater impact on system-wide risk arising from its misuse, we devote greater resources to ensuring the accuracy of this model through heightened scrutiny over its design, implementation and evaluation.

Available-for-sale Financial Assets

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Held-to-maturity Financial Assets

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

Derivative Financial Instruments

Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Hedge Accounting

We hold derivative financial instruments to hedge our foreign currency and interest rate risk exposures. On initial designation of the hedge, we formally document the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. We make an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the consolidated statements of comprehensive income as the hedged item).

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. Any adjustment to a hedged item up to the point for which the effective interest method is used is amortized to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Cash Flow Hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect

profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. The amount

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recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the consolidated statements of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Net Investment in a Foreign Operation

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

Separable Embedded Derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

Other Non-trading Derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

Property and Equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. We elect to measure land and buildings at fair value at the date of transition and use those fair values as their deemed costs.

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

Land is not depreciated. Other property and equipment are depreciated on a straight-line basis over their estimated useful life, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance lease are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives for the current and comparative periods are as follows:

Descriptions	Depreciation Method	Useful Lives
Buildings	Straight-line	40 years
Other properties	Straight-line	4~5 years

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

Intangible Assets

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity method accounted investee.

Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and we intend to and have sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

Intangible Assets such as Club Memberships with Indefinite Useful Lives

There are no foreseeable limits to the periods over which club memberships are expected to be available for use. This intangible asset is determined as having indefinite useful lives and not amortized.

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

Other Intangible Assets

Other intangible assets with finite useful lives that we acquire are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and

comparative periods are as follows:

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

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Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes.

Investment property is measured initially at cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment loss.

Leased Assets

Classification of a Lease

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of the leased asset from the lessor to the lessee; title to the asset may or may not transfer under such a lease. An operating lease is a lease other than a finance lease.

Lessee

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

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

Lessor

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

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

Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with our accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Impairment of Non-financial Assets

The carrying amounts of our non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or CGU).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

Non-Derivative Financial Liabilities

Depending on commitments in a contract and definition of financial liabilities, the non-derivative financial liabilities are categorized as either at fair value through profit or loss or other financial liabilities.

Our equity-linked securities are hybrid financial products that combine features of debt securities and equity options. Their returns are based on the interest earned on the debt securities plus the gains or losses from the equity options. Equity-linked securities can be offered in Korea only by specially licensed brokers dealing in over-the-counter derivative products, and we offer these products through Shinhan Investment.

Under the accounting principle of fair value option, we measure the fair value of the equity-linked securities and reflect the changes in such fair value in net income. We compute the fair value of these securities primarily internally based on the Black and Scholes' option pricing model, except that in the case of overseas stocks, overseas stock indexes or other underlying assets, we use the average of valuations by two outside valuation firms hired by us.

Financial Liabilities at Fair Value through Profit or Loss

The financial liabilities at fair value through profit or loss include a financial liability held for trading or designated at fair value through profit or loss upon initial recognition. These financial liabilities are measured at fair value after initial recognition and changes in the fair value are recognized through profit or loss of the period. Costs attributable to the issuance or acquisition are immediately expensed in the period.

Other Financial Liabilities

The financial liabilities not classified as at fair value through profit or loss are classified into other financial liabilities. The liabilities are measured at a fair value minus cost relating to issuance upon initial recognition. Then, they are

carried at amortized cost, using the effective interest rate method.

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Only when financial liabilities become extinct, or obligations in a contract are cancelled or terminated, are they derecognized from our consolidated statements of financial position.

Equity Instrument

Capital Stock

Capital stock is classified as equity. Incremental costs directly attributable to the transaction of stock are deducted, net of tax, from the equity.

Preference Share Capital

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

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

Hybrid Bond

We classify issued financial instrument, or its component parts, on initial recognition as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. Hybrid bonds, in which we have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, are classified as equity instruments and presented in equity.

Non-controlling Interest

Non-controlling interest, which means the equity is a subsidiary not attributable, directly or indirectly, to a parent, consists of the amount of those non-controlling interests at the date of the original combination calculated in accordance with IFRS 3(R) *Business Combination* and the non-controlling interests' share of changes in equity since the date of the combination.

Employee Benefits

Short-term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if we have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Other Long-term Employee Benefits

Our net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of our obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

Table of Contents*Defined Benefit Plans*

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

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

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

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

Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Termination Benefits

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

Share-based Payment Transactions

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is

based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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

Provisions

A provision is recognized if, as a result of a past event, we have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

Financial Guarantee Contract

Financial guarantees are contracts that require us to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

Financial Income and Expense

Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, we estimate future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Recognition of Interest Income on Impairment Losses

Once an impairment loss has been recognized on a loan, although the accrual of interest in accordance with the contractual terms of the instrument is discontinued, interest income is recognized at the rate of interest that was used to discount estimated future cash flows for the purpose of measuring the impairment loss.

Fees and Commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

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Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Dividends

Dividend income is recognized when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

Customer Loyalty Program

For customer loyalty programs, the fair value of the consideration received or receivable in respect of the initial sale is allocated between award credits (points) and other components of the fee and commission income. The Group provides awards, in the form of price discounts and by offering a variety of gifts. The fair value allocated to the points is estimated by reference to the fair value of the monetary and/or non-monetary benefits for which they could be redeemed. The fair value of the benefits is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and recognized as unearned revenue. Unearned revenue is recognized only when the points are redeemed and the Group has fulfilled its obligations to provide the benefits. The amount of revenue recognized in those circumstances is based on the number of points that have been redeemed in exchange for benefits, relative to the total number of points that are expected to be redeemed.

Income Tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences associated with investments in subsidiaries, associates, and interests in joint ventures, to the extent that we are able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

We file our national income tax return with the Korean tax authorities under the consolidated corporate tax system, which allows us to make national income tax payments based on our and our wholly owned domestic subsidiaries consolidated profits or losses. Deferred taxes are measured based on the future tax benefits expected

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to be realized in consideration of the expected profits or losses of eligible companies in accordance with the consolidated corporate tax system. Consolidated corporate tax amounts, once determined, are allocated to each of our subsidiaries and are used as a basis for the income taxes to be recorded in their separate financial statements.

Accounting for Trust Accounts

We account for trust accounts separately from our group accounts under the Financial Investment Services and Capital Markets Act and thus the trust accounts are not included in the consolidated financial statements except those which are guaranteed as to principal (or as to both principal and interest) controlled by us, based on an evaluation of the substance of its relationship with us and the special purpose entity's risks and rewards. Funds transferred between a group account and a trust account are recognized as borrowings from trust accounts in other liabilities with fees for managing the accounts recognized as non-interest income by us.

Earnings per Share

We present basic and diluted earnings per share (EPS) data for our ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to an ordinary shareholder by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Average Balance Sheet and Volume and Rate Analysis**Average Balances and Related Interest**

The following table shows our average balances and interest rates, as well as the net interest spread, net interest margin and asset liability ratio, in 2013, 2014 and 2015.

	Year Ended December 31,									
	2013			2014			2015			
	Average	Interest		Average	Interest		Average	Interest		
	Balance ⁽¹⁾	Income/ Expense	Yield / Rate	Balance ⁽¹⁾	Income/ Expense	Yield / Rate	Balance ⁽¹⁾	Income/ Expense	Yield / Rate	
(In billions of Won, except percentages)										
Assets:										
Interest-earning assets										
Due from banks	₩ 13,917	₩ 201	1.44%	₩ 16,118	₩ 237	1.47%	₩ 18,137	₩ 226	1.24%	
Trading assets	19,037	531	2.79	23,267	620	2.67	26,160	559	2.14	
Loans ⁽²⁾										
Retail loans	75,069	3,487	4.65	79,642	3,340	4.19	89,393	3,126	3.50	
Corporate loans	105,482	4,664	4.42	110,460	4,465	4.04	120,180	4,095	3.41	
Public and other loans	2,821	131	4.64	2,343	100	4.27	2,139	76	3.56	
Loans to banks	4,824	122	2.54	4,296	106	2.47	4,593	92	2.00	
Credit card loans	17,436	1,764	10.12	17,574	1,703	9.69	17,820	1,636	9.18	

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Total loans	205,632	10,168	4.94	214,315	9,714	4.53	234,125	9,025	3.85
Securities ⁽³⁾									
Available-for-sale financial assets	30,471	985	3.23	28,105	826	2.94	28,925	666	2.30
Held-to-maturity financial assets	11,187	528	4.72	12,160	522	4.29	14,961	539	3.60
Total securities	41,658	1,513	3.63	40,265	1,348	3.35	43,886	1,205	2.75
Other interest-earning assets		178			142			115	
Total interest-earning assets	₩ 280,244	₩ 12,591	4.49%	₩ 293,965	₩ 12,061	4.10%	₩ 322,308	₩ 11,130	3.45%
Non-interest-earning assets									
Cash and due from banks	₩ 2,601			₩ 2,417			₩ 3,856		
Derivative assets	1,789			1,630			1,916		
Available-for-sale financial assets	4,046			3,333			2,919		
Property and equipment and intangible assets	7,393			7,375			7,288		
Other non-interest-earning assets	14,151			15,336			17,892		
Total non-interest-earning assets	₩ 29,980			₩ 30,091			₩ 33,871		
Total assets	₩ 310,224	₩ 12,591		₩ 324,056	₩ 12,061		₩ 356,179	₩ 11,130	

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	Year Ended December 31,								
	2013			2014			2015		
	Average	Interest		Average	Interest		Average	Interest	
	Balance ⁽¹⁾	Income/ Expense Yield /Rate		Balance ⁽¹⁾	Income/ Expense Yield /Rate		Balance ⁽¹⁾	Income/ Expense Yield /Rate	
(In billions of Won, except percentages)									
Liabilities:									
Interest-bearing liabilities									
Deposits									
Demand deposits	₩ 19,531	₩ 126	0.65%	₩ 21,871	₩ 124	0.57%	₩ 26,365	₩ 117	0.44%
Savings deposits	40,139	387	0.96	45,622	395	0.87	56,083	394	0.70
Time deposits	112,134	3,367	3.00	112,469	2,902	2.58	113,932	2,308	2.03
Other deposits	1,680	34	2.01	2,151	28	1.32	3,555	42	1.20
Total interest-bearing deposits	173,484	3,914	2.26	182,113	3,449	1.89	199,935	2,861	1.43
Trading Liabilities				3			11		
Borrowings	21,730	468	2.16	22,283	444	1.99	23,576	326	1.38
Debt securities issued	38,251	1,521	3.98	36,544	1,302	3.56	39,335	1,184	3.01
Other interest-bearing liabilities	2,098	83	3.93	1,993	76	3.80	2,166	66	3.07
Total interest-bearing liabilities	₩ 235,563	₩ 5,986	2.54%	₩ 242,936	₩ 5,271	2.17%	₩ 265,023	₩ 4,437	1.67%
Non-interest-bearing liabilities									
Non-interest-bearing deposits									
Non-interest-bearing deposits	₩ 2,669			₩ 2,872			₩ 3,532		
Derivatives liabilities	1,788			1,793			2,307		
Insurance liabilities	14,592			16,714			18,900		
Other non-interest-bearing liabilities	26,355			29,401			35,354		
Total non-interest-bearing liabilities	₩ 45,404			₩ 50,780			₩ 60,093		
Total liabilities	₩ 280,967	₩ 5,986		₩ 293,716	₩ 5,271		₩ 325,116	₩ 4,437	
Total equity attributable to equity holder of the Group									
Total equity attributable to equity holder of the Group	26,974			28,620			29,986		
	2,283			1,720			1,077		

Non-controlling
interest

Total liabilities and equity	₩ 310,224	₩ 5,986	₩ 324,056	₩ 5,271	₩ 356,179	₩ 4,437
Net interest spread ⁽⁴⁾		1.95%		1.93%		1.78%
Net interest margin ⁽⁵⁾		2.36%		2.31%		2.08%
Average asset liability ratio ⁽⁶⁾		118.97%		121.01%		121.62%

Notes:

- (1) Average balances are based on (a) daily balances for Shinhan Bank and (b) quarterly balances for other subsidiaries.
- (2) Non-accruing loans are included in the respective average loan balances. Income on such non-accruing loans is no longer recognized from the date the loan is placed on nonaccrual status. We reclassify loans as accruing when interest (including default interest) and principal payments are current.
- (3) Average balance of and yield on securities are based on book value.
- (4) Represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest paid on interest-bearing liabilities.
- (5) Represents the ratio of net interest income to average interest-earning assets.
- (6) Represents the ratio of average interest-earning assets to average interest-bearing liabilities.

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The following table provides an analysis of changes in interest income, interest expense and net interest income between changes in volume and changes in rates for (i) 2015 compared to 2014 and (ii) 2014 compared to 2013. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest-earning assets and average interest-bearing liabilities in proportion to absolute volume and rate change.

	From 2014 to 2015		
	Interest Increase (Decrease) Due to Change in Volume	Rate	Change
	(In billions of Won)		
Increase (decrease) in interest income			
Due from banks	₩ 28	₩ (39)	₩ (11)
Trading assets	71	(132)	(61)
Loans:			
Retail loans	380	(594)	(214)
Corporate loans	371	(741)	(370)
Public and other loans	(8)	(16)	(24)
Loans to banks	7	(21)	(14)
Credit card loans	23	(90)	(67)
Total loans	773	(1,462)	(689)
Securities:			
Available-for-sale financial assets	23	(183)	(160)
Held-to-maturity financial assets	109	(92)	17
Total securities	132	(275)	(143)
Other interest-earning assets		(27)	(27)
Total interest income	₩ 1,004	₩ (1,935)	₩ (931)
Increase (decrease) in interest expense			
Deposits:			
Demand deposits	₩ 23	₩ (30)	₩ (7)
Savings deposits	81	(82)	(1)
Time deposits	37	(631)	(594)
Other deposits	17	(3)	14
Total interest-bearing deposits	158	(746)	(588)
Borrowings	25	(143)	(118)
Debt securities issued	94	(212)	(118)
Other interest-bearing liabilities	6	(16)	(10)

Total interest expense	₩ 283	₩ (1,117)	₩ (834)
Net increase (decrease) in net interest	₩ 721	₩ (818)	₩ (97)

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	From 2013 to 2014		
	Interest Increase (Decrease) Due to		
	Volume	Change in	Rate
		Change	
		(In billions of Won)	
Increase (decrease) in interest income			
Due from banks	₩ 32	₩ 4	₩ 36
Trading assets	114	(25)	89
Loans:			
Retail loans	205	(352)	(147)
Corporate loans	213	(412)	(199)
Public and other loans	(21)	(10)	(31)
Loans to banks	(13)	(3)	(16)
Credit card loans	14	(75)	(61)
Total loans	398	(852)	(454)
Securities:			
Available-for-sale financial assets	(73)	(86)	(159)
Held-to-maturity financial assets	44	(50)	(6)
Total securities	(29)	(136)	(165)
Other interest-earning assets		(36)	(36)
Total interest income	₩ 515	₩ (1,045)	₩ (530)
Increase (decrease) in interest expense			
Deposits:			
Demand deposits	₩ 14	₩ (16)	₩ (2)
Savings deposits	50	(42)	8
Time deposits	10	(475)	(465)
Other deposits	8	(14)	(6)
Total interest-bearing deposits	82	(547)	(465)
Borrowings	12	(36)	(24)
Debt securities issued	(66)	(153)	(219)
Other interest-bearing liabilities	(4)	(3)	(7)
Total interest expense	₩ 24	₩ (739)	₩ (715)
Net increase (decrease) in net interest	₩ 491	₩ (306)	₩ 185

Results of Operations*2015 Compared to 2014*

The following table sets forth, for the periods indicated, the principal components of our operating income.

	Year Ended December 31,		
	2014	2015	% Change
	(In billions of Won, except percentages)		
Net interest income	₩ 6,790	₩ 6,693	(1.4)%
Net fees and commission income	1,469	1,621	10.3
Net other operating income (expense)	(5,604)	(5,341)	(4.7)
Operating income	₩ 2,655	₩ 2,973	12.0%

Table of Contents*Net Interest Income*

The following table shows, for the periods indicated, the principal components of our net interest income.

	Year Ended December 31,		
	2014	2015	% Change
(In billions of Won, except percentages)			
Interest income:			
Cash and due from banks	₩ 237	₩ 226	(4.6)%
Trading assets	583	511	(12.3)
Financial assets designated at fair value through profit or loss	37	48	29.7
Loans	9,714	9,025	(7.1)
Available-for-sale financial assets	826	666	(19.4)
Held-to-maturity financial assets	522	539	3.3
Other interest income	142	115	(18.3)
Total interest income	₩ 12,061	₩ 11,130	(7.7)%
Interest expense:			
Deposits	₩ 3,449	₩ 2,861	(17.0)%
Borrowings	444	326	(26.6)
Debt securities issued	1,302	1,184	(9.1)
Other interest expense	76	66	(13.2)
Total interest expense	₩ 5,271	₩ 4,437	(15.8)%
Net interest income	₩ 6,790	₩ 6,693	(1.4)%
Net interest margin⁽¹⁾	2.31%	2.08%	

Note:

(1) Represents the ratio of net interest income to average interest-earning assets. See Average Balance Sheet and Volume and Rate Analysis – Average Balance Sheet and Related Interest.

Interest income. The 7.7% decrease in interest income was due primarily to a decrease in interest on loans. Interest on loans decreased by 7.1% from ₩9,714 billion in 2014 to ₩9,025 billion in 2015, primarily as a result of a decrease in the average lending rate from 4.53% in 2014 to 3.85% in 2015 largely as a result of a general decrease in market interest rates driven by the decrease in the base interest rate set by the Bank of Korea and the ample liquidity in the Korean financial sector, which was partially offset by a 9.2% increase in the average balance of total loans from ₩214,315 billion in 2014 to ₩234,125 billion in 2015 due to increases in the average balances of retail loans and corporate loans as further described below.

Interest on retail loans decreased by 6.4% from ₩3,340 billion in 2014 to ₩3,126 billion in 2015, primarily due to a decrease in the average lending rate for retail loans from 4.19% in 2014 to 3.50% in 2015, which was partially offset by a 12.2% increase in the average balance of retail loans from ₩79,642 billion in 2014 to ₩89,393 billion in 2015. The average lending rate for retail loans decreased largely as a result of the general decrease in market interest rates largely driven by the decrease in the base interest rate set by the Bank of Korea, which was reduced from 2.00% in 2014 to 1.75% in March 2015 and further to 1.50% in June 2015. The base rate set by the Bank of Korea largely determines the market rates for certificates of deposit, which in turn largely determines our lending rates for a substantial majority of our retail loans. The average balance of retail loans increased principally as a result of the general decrease in market interest rates and a continued increase in demand for housing loans following the implementation of government policies in the second half of 2014 designed to stimulate the real estate market, including the loosening of maximum debt-to-income and loan-to-value ratios. In addition, the volume of mortgage and home equity loans increased as more households chose to purchase homes due to a substantial increase in the amounts of long-term deposits required for house rentals and a general decrease in the supply of homes rented on long-term deposit leases.

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Interest income from corporate loans decreased by 8.3% from ₩4,465 billion in 2014 to ₩4,095 billion in 2015, which was primarily due to a decrease in the average lending rate for corporate loans from 4.04% in 2014 to 3.41% in 2015, which was partially offset by a 8.8% increase in the average balance of such loans from ₩110,460 billion in 2014 to ₩120,180 billion in 2015. The average lending rate for corporate loans decreased largely as a result of the general decrease in market interest rates, as well as continued increasing competition among commercial banks for high-quality corporate loans in the midst of an increase in general market liquidity for corporate borrowers. The average balance of corporate loans increased principally as a result of the general decrease in market interest rates and increased loan demand from SOHOs and small- and medium-sized enterprises on the back of the Government's policy initiatives to promote the growth of such enterprises.

Interest expense. Interest expense decreased by 15.8% from ₩5,271 billion in 2014 to ₩4,437 billion in 2015, due primarily to a 17.0% decrease in interest expense on deposits from ₩3,449 billion in 2014 to ₩2,861 billion in 2015, and a 9.1% decrease in interest expense on debt securities issued from ₩1,302 billion in 2014 to ₩1,184 billion in 2015.

The decrease on interest expense on deposits was due to a decrease in the average interest rate payable on deposits from 1.89% in 2014 to 1.43% in 2015, which was partially offset by a 9.8% increase in the average balance of deposits from ₩182,113 billion in 2014 to ₩199,935 billion in 2015. The increase in the average balance of deposits was primarily due to a 20.6% increase in the average balance of demand deposits from ₩21,871 billion in 2014 to ₩26,365 billion in 2015 and a 22.9% increase in the average balance of savings deposits from ₩45,622 billion in 2014 to ₩56,083 billion in 2015, while the average balance of time deposits, which represents the substantial majority of deposits, increased only slightly from ₩112,469 billion in 2014 to ₩113,932 billion in 2015. The decrease in the average interest rate payable on deposits resulted mainly from a decrease in the average interest rate payable on time deposits from 2.58% in 2014 to 2.03% in 2015, largely reflecting a general decrease in market interest rates attributable to the decrease in the base interest rate set by the Bank of Korea as well as ample liquidity in the Korean financial sector. The increase in the average balance of demand deposits was largely due to an increase in newly opened demand deposit accounts (including accounts for automatic deposit of salaries and credit card settlements) mainly as a result of our active marketing efforts, as well as the decreased use of check cards. The increase in the average balance of savings deposits was largely due to the customers' preference for low-risk investments in light of the continuing uncertainty in financial markets.

The decrease in interest expense on debt securities issued was due to a decrease in the average interest rate payable on debt securities from 3.56% in 2014 to 3.01% in 2015, which partially offset by a 7.6% increase in the average balance of debt securities from ₩36,544 billion in 2014 to ₩39,335 billion in 2015. The average interest rate payable on debt securities issued decreased largely due to the general decrease in market interest rates in 2015 and our active efforts to refinance debt securities carrying high interest rates. The average balance of debt securities issued increased largely due to favorable market conditions which allowed us to raise capital at lower interest rates, as well as the issuance of subordinated debt securities by Shinhan Bank in order to increase our regulatory capital.

Net interest margin. Net interest margin represents the ratio of net interest income to the average balance of interest-earning assets. Our overall net interest margin decreased by 23 basis points from 2.31% in 2014 to 2.08% in 2015, due to a decrease of 15 basis points in net interest spread from 1.93% in 2014 to 1.78% in 2015, which more than offset a 9.64% increase in the average volume of interest-earning assets from ₩293,965 billion in 2014 to ₩322,308 billion in 2015.

Net interest spread, which represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest paid on interest-bearing liabilities, decreased from 2014 to 2015 primarily due to a 65 basis point decrease in the average rate of interest receivable on interest-earning assets, principally consisting of

loans, from 4.10% in 2014 to 3.45% in 2015 primarily resulting from the decrease in base interest rates set by the Bank of Korea from 2.00% in 2014 to 1.50% in 2015, which more than offset a 50 basis point decrease in the average rate of interest paid on interest-bearing liabilities from 2.17% in 2014 to

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1.67% in 2015 primarily due to a decrease in the average interest rate payable on deposits from 1.89% in 2014 to 1.43% in 2015 and a decrease in the average interest rate payable on debt securities issued from 3.56% in 2014 to 3.01% in 2015, in each case, for reasons discussed above. In general, as was the case in 2014, a decrease in the base rates set by the Bank of Korea tend to decrease our net interest margin since our deposits (on which we pay interest) have, on average, a longer maturity profile than our loans (from which we receive interest) do and are therefore less sensitive to movements in base and market interest rates. See [Overview](#) [Interest Rates](#).

Fees and Commission Income (Expense), Net

The following table shows, for the periods indicated, the principal components of our net fees and commission income.

	Year Ended December 31,		
	2014	2015	% Change
(In billions of Won, except percentages)			
Fees and commission income:			
Credit placement fees	₩ 63	₩ 75	19.0%
Commission received as electronic charge receipt	135	137	1.5
Brokerage fees	321	411	28.0
Commission received as agency	191	167	(12.6)
Investment banking fees	50	80	60.0
Commission received in foreign exchange activities	143	163	14.0
Asset management fees	61	86	41.0
Credit card fees	2,201	2,351	6.8
Others	395	427	7.8
Total fees and commission income	₩ 3,561	₩ 3,897	9.4%
Fees and commission expense:			
Credit-related fees	₩ 33	₩ 43	30.3%
Credit card fees	1,726	1,849	7.1
Others	333	384	15.3
Total fees and commission expense	₩ 2,091	₩ 2,276	8.8%
Net fees and commission income	₩ 1,469	₩ 1,621	10.3%

Net fees and commission income increased by 10.3% from ₩1,469 billion in 2014 to ₩1,621 billion in 2015, primarily as a result of a 6.8% increase in credit card fees income from ₩2,201 billion in 2014 to ₩2,351 billion in 2015 and a 28.0% increase in brokerage fees income from ₩321 billion in 2014 to ₩411 billion in 2015, which were partially offset by a 7.1% increase in credit card fees expenses.

The increase in credit card fees income was principally attributable to an increase in average credit card balances, which was partially offset by a decrease in the rate of fees we charge on merchants. The increase in brokerage fees income was primarily due to an increase in the daily average stock trading volume as a result of the favorable stock market performance in the first half of 2015. The increase in credit card fees expenses was principally attributable to

an increase in the use of membership points by Shinhan Card's credit card customers, as well as an increase in the fees paid to banks.

Table of Contents*Other Operating Income (Expense), Net*

The following table shows, for the periods indicated, the principal components of our net operating expense.

	Year Ended December 31,		
	2014	2015	% Change
(In billions of Won, except percentages)			
Net insurance loss	₩ (413)	₩ (432)	4.6%
Dividend income	176	308	75.0
Net trading income (loss)	262	(344)	N/M
Net foreign currency transaction gain	224	78	(65.2)
Net gain (loss) on financial instruments designated at fair value through profit or loss	(361)	460	N/M
Net gain on sale of available-for-sale financial assets	681	772	13.4
Impairment loss on financial assets	(1,174)	(1,264)	7.7
General and administrative expenses	(4,463)	(4,475)	0.3
Others	(536)	(444)	(17.2)
Other operating income (expense)	₩(5,604)	₩ (5,341)	(4.7)%

N/M = not meaningful

Net other operating expenses decreased by 4.7% to ₩5,341 billion in 2015 from ₩5,604 billion in 2014, primarily as a result of a net gain on financial instruments designated at fair value through profit or loss of ₩460 billion we recorded in 2015 compared to a net loss of ₩361 billion in 2014 and a 75.0% increase in dividend income from ₩176 billion in 2014 to ₩308 billion in 2015, which were partially offset by a net trading loss of ₩344 billion in 2015 compared to net trading income of ₩262 billion in 2014.

We recorded a net gain on financial instruments designated at fair value through profit or loss largely as a result of an increase in valuation gain from financial liabilities designated at fair value through profit or loss held by Shinhan Investment. Dividend income increased primarily due to a general increase in the volume of securities held by us, as well as one-off dividends received from certain funds and securities.

The change in net trading income (loss) was largely due to valuation losses on certain available-for-sale derivative instruments.

Impairment Loss on Financial Assets

The following table sets forth for the periods indicated the impairment loss by type of financial asset.

	Year Ended December 31,		
	2014	2015	% Change

(In billions of Won, except percentages)

Loans:			
Retail	₩ 153	₩ 122	(20.3)%
Corporate	358	602	68.2
Credit card	387	300	(22.5)
Others	(3)	(2)	(33.3)
Subtotal	895	1,022	14.2
Securities ⁽¹⁾	230	242	5.2
Others	49		(100.0)
Total impairment loss on financial assets	₩ 1,174	₩ 1,264	7.7%

Note:

(1) Consist of available-for-sale financial assets.

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Impairment loss on financial assets increased by 7.7% from ₩1,174 billion in 2014 to ₩1,264 billion in 2015 principally due to a 14.2% increase in impairment on loans from ₩895 billion in 2014 to ₩1,022 billion in 2015, which mainly resulted from:

a 68.2% increase in impairment loss on corporate loans from ₩358 billion in 2014 to ₩602 billion in 2015 principally due to an increase in allowance for corporate loan losses during the first half of 2015 as certain of our corporate borrowers in the construction, shipbuilding and shipping industries underwent restructuring; which was partially offset by:

a 22.5% decrease in impairment loss on credit card loans from ₩387 billion in 2014 to ₩300 billion in 2015 principally due to a general improvement in the asset quality of credit card loans; and

a 20.3% decrease in impairment loss on retail loans from ₩153 billion in 2014 to ₩122 billion in 2015 principally as a result of our ongoing efforts to improve asset quality.

Income Tax Expense

Income tax expense increased by 4.0% from ₩668 billion in 2014 to ₩695 billion in 2015 as a result of the increase in our taxable income. Our effective rate of income tax remained relatively stable at 22.1% in 2015 compared to 23.3% in 2014.

Net Income for the Period

As a result of the foregoing, our net income for the period increased by 11.2% from ₩2,200 billion in 2014 to ₩2,446 billion in 2015.

Other Comprehensive Income for the Period

	Year Ended December 31,		
	2014	2015	% Change
(In billions of Won, except percentages)			
Items that will be reclassified to profit or loss:			
Foreign currency translation differences for foreign operations	₩ (13)	₩ (6)	(53.8)%
Net change in fair value of available-for-sale financial assets	136	(266)	N/M
Equity in other comprehensive income of associates	6	12	100.0
Net change in unrealized fair value of cash flow hedges	(16)	3	N/M
Other Comprehensive income (loss) of separate account	6	2	(66.7)
	119	(255)	N/M
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability	(155)	(82)	(47.1)

	(155)	(82)	(47.1)
Total other comprehensive loss, net of income tax	₩ (36)	₩ (337)	836.1%

N/M = not meaningful

Other comprehensive loss increased significantly to ₩337 billion in 2015 from ₩36 billion in 2014, principally due to a change in fair value of available-for-sale financial assets to a net loss of ₩266 billion in 2015 from a net gain of ₩136 billion 2014, which was partially offset by a 47.1% decrease in remeasurement loss related to defined benefit plan to ₩82 billion in 2015 from ₩155 billion in 2014. The change in fair value of available-for-sale financial assets was largely due to fluctuations in interest rates and stock prices, as well as

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an increase in the sale of financial assets during the first half of 2015. The decrease in remeasurement loss related to defined benefit plan was largely due to changes in financial assumptions, including discount rates and wage growth.

2014 Compared to 2013

The following table sets forth, for the periods indicated, the principal components of our operating income.

	Year Ended December 31,		
	2013	2014	% Change
	(In billions of Won, except percentages)		
Net interest income	₩ 6,605	₩ 6,790	2.8%
Net fees and commission income	1,387	1,469	5.9
Net other operating income (expense)	(5,360)	(5,604)	4.6
 Operating income	 ₩ 2,632	 ₩ 2,655	 0.9%

Net Interest Income

The following table shows, for the periods indicated, the principal components of our net interest income.

	Year Ended December 31,		
	2013	2014	% Change
	(In billions of Won, except percentages)		
Interest income:			
Cash and due from banks	₩ 201	₩ 237	17.9%
Trading assets	493	583	18.3
Financial assets designated at fair value through profit or loss	38	37	(2.6)
Loans	10,168	9,714	(4.5)
Available-for-sale financial assets	985	826	(16.1)
Held-to-maturity financial assets	528	522	(1.1)
Other interest income	178	142	(20.2)
 Total interest income	 ₩ 12,591	 ₩ 12,061	 (4.2)%
Interest expense:			
Deposits	₩ 3,914	₩ 3,449	(11.9)%
Borrowings	468	444	(5.1)
Debt securities issued	1,521	1,302	(14.4)
Other interest expense	83	76	(8.4)
 Total interest expense	 ₩ 5,986	 ₩ 5,271	 (11.9)%
 Net interest income	 ₩ 6,605	 ₩ 6,790	 2.8%

Net interest margin ⁽¹⁾	2.36%	2.31%
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Note:

(1) Represents the ratio of net interest income to average interest-earning assets. See Average Balance Sheet and Volume and Rate Analysis Average Balance Sheet and Related Interest.

Interest income. The 4.2% decrease in interest income was due primarily to a decrease in interest on loans. Interest on loans decreased by 4.5% from ₩10,168 billion in 2013 to ₩9,714 billion in 2014, primarily as a result of a decrease in the average lending rate from 4.94% in 2013 to 4.53% in 2014 largely as a result of a general decrease in market interest rates in reflection of the lowering of the base interest rate by the Bank of

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Korea and the ample liquidity in the Korean financial sector, which was partially offset by a 4.22% increase in the average balance of total loans from ₩205,632 billion in 2013 to ₩214,315 billion in 2014 due to an increase in the average balance of both retail and corporate loans following targeted loan growth in select strategic customer segments.

Interest income from retail loans decreased by 4.22% from ₩3,487 billion in 2013 to ₩3,340 billion in 2014, primarily due to a decrease in the average lending rate for retail loans from 4.65% in 2013 to 4.19% in 2014, which was partially offset by a 6.09% increase in the average balance of retail loans from ₩75,069 billion in 2013 to ₩79,642 billion in 2014. The average lending rate for retail loans decreased largely as a result of a decrease in the base rate set by the Bank of Korea, which largely determines the market rates for certificates of deposit, which in turn largely determines our lending rates for a substantial majority of our retail loans. The average balance of retail loans increased principally as a result of a continued increase in lending to borrowers with high credit profiles and government employees with relatively strong job security (such as police officers and firefighters) as part of our strategic initiative to increase the volume of lending while maintaining or improving the profit margin and asset quality for such lending, an increase in the volume of long-term housing rental deposit loans in tandem with a growing preference for long-term housing rental in lieu of home ownership due in part to the continued uncertainty in the Korean real property market, and a substantial increase in the volume of secured housing loans in the second half of 2014 following the series of Government plans to stimulate the general economy and the real estate market through various monetary, fiscal and deregulatory measures as announced in the second half of 2014.

Interest income from corporate loans decreased by 4.27% from ₩4,664 billion in 2013 to ₩4,465 billion in 2014, which was primarily due to a decrease in the average lending rate for corporate loans from 4.42% in 2013 to 4.04% in 2014, which was partially offset by a 4.72% increase in the average balance of such loans from ₩105,482 billion in 2013 to ₩110,460 billion in 2014. The average lending rate for corporate loans decreased largely as a result of a general decrease in market interest rates in reflection of the lowering of the base rate by the government and the ample liquidity in the Korean financial sector. The average balance of corporate loans increased principally as a result of an increase in loans to SOHO and small- and medium-sized enterprise borrowers with quality credit profiles as part of our strategic lending policies as well as the launch of new loan products for SOHO and small- and medium-sized enterprises in general at relatively affordable rates in line with the Government's policy initiative to assist and support such enterprises, as well as an increase in working capital loans to large corporations to meet their short-term financing needs.

Interest expense. Interest expense decreased by 11.9% from ₩5,986 billion in 2013 to ₩5,271 billion in 2014, due primarily to a 11.9% decrease in interest expense on deposits from ₩3,914 billion in 2013 to ₩3,449 billion in 2014 and a 14.4% decrease in interest expense on debt securities issued from ₩1,521 billion in 2013 to ₩1,302 billion in 2014.

The decrease in interest expense on deposits was due to a decrease in the average interest rate payable on deposits from 2.26% in 2013 to 1.89% in 2014, which was partially offset by a 4.97% increase in the average balance of deposits from ₩173,484 billion in 2013 to ₩182,113 billion in 2014. The increase in the average balance of deposits was primarily due to a 11.98% increase in the average balance of demand deposits from ₩19,531 billion in 2013 to ₩21,871 billion in 2014 and a 13.66% increase in the average balance of savings deposits from ₩40,139 billion in 2013 to ₩45,622 billion in 2014 while the average balance of time deposits, which represents the substantial majority of deposits, remained largely stable from ₩112,134 billion in 2013 to ₩112,469 billion in 2014. The increase in the average balance of demand deposits was largely due to an increase in newly opened demand deposit accounts (including accounts for automatic deposit of salaries and credit card settlements) mainly as a result of our active cross-selling efforts, as well as the increased use of check cards. The increase in the average balance of savings deposits was largely due to an increase in savings deposits by government and government-affiliated agencies. The

decrease in the average interest rate payable on deposits resulted mainly from a decrease in the average interest rate payable on time deposits from 3.00% in 2013 to 2.58% in 2014. The average interest rate payable on time deposits decreased largely as a result of a general

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decrease in market interest rates attributable to the decrease in the base interest rate set by the Bank of Korea and ample liquidity in the Korean financial sector.

The decrease in interest expense on debt securities issued was due to a decrease in the average interest rate payable on debt securities from 3.98% in 2013 to 3.56% in 2014, and a 4.46% decrease in the average balance of debt securities from ₩38,251 billion in 2013 to ₩36,544 billion in 2014. The average interest rate payable on debt securities issued decreased largely as a result of a general decrease in market interest rates in reflection of the lowering of the base rate by the Bank of Korea and the ample liquidity in the Korean financial sector. The average balance of debt securities issued decreased largely as a result of the increase in the average balance of deposits, which reduced our need to source funding through issuance of debt securities, which bear higher interest rates.

Net interest margin. Net interest margin represents the ratio of net interest income to the average balance of interest-earning assets. Our overall net interest margin decreased by five basis points from 2.36% in 2013 to 2.31% in 2014, due to a 4.90% increase in the average volume of interest-earning assets from ₩280,244 billion in 2013 to ₩293,965 billion in 2014 and a decrease by two basis points in net interest spread from 1.95% in 2013 to 1.93% in 2014. Net interest spread, which represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest paid on interest-bearing liabilities, decreased from 2013 to 2014 primarily due to a 39 basis points decrease in the average rate of interest receivable on interest-earning assets (principally consisting of loans) from 4.49% in 2013 to 4.10% in 2014 primarily resulting from the decrease in base interest rates set by the Bank of Korea from 2.50% in 2013 to 2.00% in 2014, which more than offset a 37 basis points decrease in the average rate of interest paid on interest-bearing liabilities from 2.54% in 2013 to 2.17% in 2014 primarily due to a decrease in the average interest rate payable on deposits from 2.26% in 2013 to 1.89% in 2014 and a decrease in the average interest rate payable on debt securities issued from 3.98% in 2013 to 3.56% in 2014, in each case, for reasons discussed above. In general, as was the case in 2013, a decrease in the base rates set by the Bank of Korea tend to decrease our net interest margin since our deposits (on which we pay interest) have, on average, a longer maturity profile than our loans (from which we receive interest) do and are therefore less sensitive to movements in base and market interest rates. See [Overview](#) [Interest Rates](#).

Table of Contents*Fees and Commission Income (Expense), Net*

The following table shows, for the periods indicated, the principal components of our net fees and commission income.

	Year Ended December 31,		
	2013	2014	% Change
	(In billions of Won, except percentages)		
Fees and commission income:			
Credit placement fees	₩ 67	₩ 63	(6.0)%
Commission received as electronic charge receipt	132	135	2.3
Brokerage fees	329	321	(2.4)
Commission received as agency	213	191	(10.3)
Investment banking fees	45	50	11.1
Commission received in foreign exchange activities	143	143	
Asset management fees	51	61	19.6
Credit card fees	2,106	2,201	4.5
Others	404	396	(2.0)
Total fees and commission income	₩ 3,490	₩ 3,561	2.0%
Fees and commission expense:			
Credit-related fees	₩ 38	₩ 33	(13.2)%
Credit card fees	1,726	1,726	
Others	339	333	(1.8)
Total fees and commission expense	₩ 2,103	₩ 2,092	(0.5)%
Net fees and commission income	₩ 1,387	₩ 1,469	5.9%

Net fees and commission income increased by 5.9% from ₩1,387 billion in 2013 to ₩1,469 billion in 2014, primarily as a result of a 4.5% increase in credit card fees from ₩2,106 billion in 2013 to ₩2,201 billion in 2014, which was partially offset by a 10.3% decrease in commission received as agency.

The increase in credit card fees was principally attributable to an increase in the average credit card balance, which was partially offset by a decrease in the rate of fees we charge on merchants. The decrease in commission received as agency was principally attributable to a result of a temporary suspension of telemarketing activities by Shinhan Card as part of a sanction from the financial regulators applicable to all credit card companies in Korea (including Shinhan Card) following the leakage of personal customer information by credit card companies, as well as a decrease in fees for asset-backed securitization services related to mobile phone installment receivables due to a reduction of such securitizations in following a change in telecommunication law in Korea.

Table of Contents*Other Operating Income (Expense), Net*

The following table shows, for the periods indicated, the principal components of our net operating expense.

	Year Ended December 31,		
	2013	2014	% Change
(In billions of Won, except percentages)			
Net insurance loss	₩ (383)	₩ (413)	7.8%
Dividend income	156	176	12.8
Net trading income	75	262	249.3
Net foreign currency transaction gain	296	224	(24.3)
Net loss on financial instruments designated at fair value through profit or loss	(122)	(361)	195.9
Net gain on sale of available-for-sale financial assets	701	681	(2.9)
Impairment loss on financial assets	(1,340)	(1,174)	(12.4)
General and administrative expenses	(4,203)	(4,463)	6.2
Others	(540)	(536)	(0.7)
Other operating income (expense)	₩ (5,360)	₩ (5,604)	4.6%

Net other operating expenses increased by 4.6% to ₩5,604 billion in 2014 from ₩5,360 billion in 2013, primarily as a result of a 6.2% increase in general and administrative expenses and a significant increase in net loss on financial instruments designated at fair value through profit or loss, which were partially offset by a significant increase in net trading income and a 12.4% decrease in impairment loss on financial assets.

General and administrative expenses increased by 6.2% from ₩4,203 billion in 2013 to ₩4,463 billion in 2014 principally due to an increase in performance pays, an increase related to termination benefits arising from voluntary retirement programs and performance and an increase in taxes and dues related to the contribution of funds to a government-sponsored program to replace old credit card payment terminals for low-income merchants.

Net loss on financial instruments designated at fair value through profit or loss increased significantly from ₩122 billion in 2013 to ₩361 billion in 2014, largely as a result of a significant increase in valuation losses on equity-linked securities mainly as a result of an increase in volatility in the Korean stock market indices. However, the net economic effect from such loss is negligible since we hedge substantially all of our equity-linked securities and such loss is therefore offset for the most part by net trading income from valuation gains from related derivative products.

Net trading income increased significantly from ₩75 billion in 2013 to ₩262 billion in 2014, largely as a result of valuation gains on short-term financial instruments and trading gains from the disposal thereof following the decrease in the base and market interest rates.

Impairment loss on financial assets decreased primarily for reasons further discussed below.

Table of Contents*Impairment Loss on Financial Assets*

The following table sets forth for the periods indicated the impairment loss by type of financial asset.

	Year Ended December 31,		
	2013	2014	% Change
(In billions of Won, except percentages)			
Loans:			
Retail	₩ 140	₩ 153	9.3%
Corporate	613	358	(41.6)
Credit card	339	387	14.2
Others	(10)	(3)	(70.0)
Subtotal	1,082	895	(17.3)
Securities ⁽¹⁾	215	230	7.0
Others	43	49	14.0
Total impairment loss on financial assets	₩ 1,340	₩ 1,174	(12.4) %

Note:

(1) Consist of available-for-sale financial assets.

Impairment loss on financial assets decreased by 12.4% from ₩1,340 billion in 2013 to ₩1,174 billion in 2014 principally due to a 17.3% decrease in impairment on loans from ₩1,082 billion in 2013 to ₩895 billion in 2014, which mainly resulted from:

a 41.6% decrease in impairment loss on corporate loans from ₩613 billion in 2013 to ₩358 billion in 2014 principally due to a decrease in delinquency among corporate borrowers resulting from our enhanced risk management policy and ongoing efforts to increase the overall asset quality of our corporate loans by focusing on SOHOs and small- to medium- sized enterprises with high quality credit;

which was partially offset by:

a 14.2% increase in impairment loss on credit card loans from ₩339 billion in 2013 to ₩387 billion in 2014 principally due to an increase in allowance for credit card loan losses (largely resulting from an increase in the average balance of credit card receivables) and an increase in bad debt expenses (largely resulting from a reduction in recovery of written-off receivables due to aging); and

a 9.3% increase in impairment loss on retail loans from ₩140 billion in 2013 to ₩153 billion in 2014 principally due to the preemptive sale of loans showing signs of asset quality deterioration as part of the Bank's risk management policy to improve its overall asset quality.

Income Tax Expense

Income tax expense increased by 7.53% from ₩621 billion in 2013 to ₩668 billion in 2014 as a result of the increase in our taxable income. Our effective rate of income tax remained largely stable from 23.2% in 2013 to 23.3% in 2014.

Net Income for the Period

As a result of the foregoing, our net income for the period increased by 7.02% from ₩2,055 billion in 2013 to ₩2,200 billion in 2014.

Table of Contents*Other Comprehensive Income for the Period*

	Year Ended December 31,		
	2013	2014	% Change
(In billions of Won, except percentages)			
Items that will be reclassified to profit or loss:			
Foreign currency translation differences for foreign operations	₩ (58)	₩ (13)	(77.6)%
Net change in fair value of available-for-sale financial assets	(269)	136	N/M
Equity in other comprehensive income of associates	(5)	6	N/M
Net change in unrealized fair value of cash flow hedges	6	(16)	N/M
Other Comprehensive income (loss) of separate account	(2)	6	N/M
	(328)	119	N/M
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability	19	(155)	N/M
	19	(155)	N/M
Total other comprehensive loss, net of income tax	₩ (309)	₩ (36)	(88.3) %

N/M = not meaningful

Other comprehensive loss decreased by 88.3% to ₩36 billion in 2014 from ₩309 billion in 2013, principally due to valuation gains for debt instruments held by us following a decrease in the base and market interest rates, which more than offset a negative change in remeasurements of defined benefit liability, mainly related to changes in financial assumptions, including discount rates used in reflection of the lower base and market interest rates.

Results by Principal Business Segment

As of December 31, 2015, we were organized into five major business segments as follows:

commercial banking services, which are principally provided by Shinhan Bank;

credit card services, which are provided by Shinhan Card;

securities brokerage services, which are provided by Shinhan Investment;

life insurance services, which are provided by Shinhan Life Insurance; and

other.

We report our segment information in accordance with the provisions of IFRS 8 (Operating Segments). We previously had eight reporting segments, which further divided the commercial banking services segment into four sub-segments comprised of retail banking, corporate banking, international banking and other banking. Due to the changes in our internal organizational and reporting structure to reflect the increasing crossover between retail and corporate banking businesses including the continued expansion of hybrid branches, effective as of January 1, 2015, we realigned our reporting segments by combining the four sub-segments within the commercial banking services into a single reporting segment. This change corresponds with our management's current approach of allocating costs and resources, assessing the performance of our business activities and making operating decisions. There has been no change in our total consolidated financial condition or results of operations previously reported as a result of the change in our segment structure. Prior periods have been revised to conform with the current presentation. See Note 7 of the notes to our consolidated financial statements included in this annual report.

Table of Contents**Operating Income by Principal Business Segment**

The table below provides the income statement data for our principal business segments for the periods indicated.

	Year Ended December 31,			% Change	
	2013	2014	2015	2013/2014	2014/2015
	(In billions of Won, except percentages)				
Banking	₩ 1,745	₩ 1,815	₩ 1,758	4.0%	(3.1)%
Credit card	833	793	858	(4.8)	8.2
Securities	102	133	262	30.4	97.0
Life insurance	107	118	132	10.3	11.9
Others	(117)	(79)	(33)	(32.5)	(58.2)
Consolidation adjustment ⁽¹⁾	(38)	(125)	(4)	228.9	(96.8)
Total operating income	₩ 2,632	₩ 2,655	₩ 2,973	0.9%	12.0%

Note:

(1) Consolidation adjustment consists of adjustments for inter-segment transactions.

Banking Services

The banking services segment offers commercial banking and related services, and includes: (i) retail banking, which consists of banking and other services provided primarily through the retail branches of Shinhan Bank and Jeju Bank to individuals and households; (ii) corporate banking, which consists of corporate banking products and services provided through Shinhan Bank's corporate banking branches to its corporate customers, most of which are small- and medium-sized enterprises and large corporations, including members of the *chaebol* groups; (iii) international banking, which primarily consists of the operations of Shinhan Bank's overseas subsidiaries and branches; and (iv) other banking, which primarily consists of treasury business for our banking business (including internal asset and liability management and other non-deposit funding activities), securities investing and trading and derivatives trading, as well as administration of our overall banking operations.

The table below provides the income statement data for our banking services segment for the periods indicated.

	Year Ended December 31,			% Change	
	2013	2014	2015	2013/2014	2014/2015
	(In billions of Won, except percentages)				
Net interest income (expense)	₩ 4,429	₩ 4,446	₩ 4,247	0.4%	(4.5)%
Net fees and commission income (expense)	760	816	867	7.4	6.3
Net other income (expense)	(3,444)	(3,447)	(3,356)	0.1	(2.6)

Operating income (expense)	₩ 1,745	₩ 1,815	₩ 1,758	4.0%	(3.1)%
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Comparison of 2015 to 2014

Operating income for banking services decreased by 3.1% from ₩1,815 billion in 2014 to ₩1,758 billion in 2015.

Net interest income (expense). Net interest income decreased by 4.5% from ₩4,446 billion in 2014 to ₩4,247 billion in 2015 primarily due to decreases in net interest income for retail banking and other banking services, which more than offset an increase in net interest income from corporate banking and international banking. More specifically:

Net interest income for retail banking decreased by 3.5% from ₩2,718 billion in 2014 to ₩2,624 billion in 2015 primarily due to a narrowing of net interest spread, which was partially offset

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by an increase in the average volume of retail loans. The narrowing of net interest spread was largely due to the decrease in the market interest rates reflecting the decrease in the base interest rate set by the Bank of Korea in 2015, which was reduced from 2.00% in 2014 to 1.75% in March 2015 and further to 1.50% in June 2015. The changes in the base interest rate generally has a greater impact on the average interest rate on loans relative to that on deposits due to the shorter repricing periods for the former. The average volume of retail loans increased largely as a result of the general decrease in market interest rates and a continued increase in demand for housing loans following the implementation of government policies in the second half of 2014 designed to stimulate the real estate market, including the loosening of maximum debt-to-income and loan-to-value ratios. In addition, the volume of mortgage and home equity loans increased as more households chose to purchase homes due to a substantial increase in the amounts of long-term deposits required for house rentals and a general decrease in the supply of homes rented on long-term deposit leases.

Net interest income for other banking services decreased by 32.4% from ₩444 billion in 2014 to ₩300 billion in 2015 primarily due to a decrease in net interest margin for internal funding activities within the banking services segment resulting from downward adjustments to internal funding rates reflecting the decrease in the general level of interest rates.

Net interest income for corporate banking increased by 2.1% from ₩980 billion in 2014 to ₩1,001 billion in 2015 primarily due to an increase in the average balance of corporate loans, which was partially offset by the narrowing of the net interest spread. The increase in the average balance of corporate loans was largely due to the general decrease in market interest rates and increased loan demand from SOHOs and small- and medium-sized enterprises on the back of the Korean government's policy initiatives to promote the growth of such enterprises. The narrowing of the net interest spread was largely due to the decrease in the market interest rates reflecting the decrease in the base interest rates set by the Bank of Korea in 2015, as described above.

Net interest income for International banking increased by 5.9% from ₩304 billion in 2014 to ₩322 billion in 2015 primarily due to an increase in the average balance of loans extended by the Shinhan Bank's overseas subsidiaries, especially its subsidiary in Vietnam.

Net fees and commission income (expense). Net fees and commission income increased by 6.3% from ₩816 billion in 2014 to ₩867 billion in 2015 primarily due to an increase in net fees and commission income for corporate banking and a decrease in net fees and commission expense for other banking services, which outweighed a decrease in net fees and commissions for retail banking. Net fees and commission income for corporate banking increased primarily due to an increase in investment banking fees and commissions principally resulting from an increased volume of mergers and acquisitions, SOC (social overhead capital) projects and other corporate transactions. Net fees and commission expense for other banking services decreased primarily due to adjustments in internal fee allocation. Net fees and commission income for retail banking decreased primarily due to an increase in agency fees and commission expenses related to granting loans, such as stamp taxes, resulting from the increase in the volume of loans.

Net other income (expense). Net other expense decreased by 2.6% from ₩3,447 billion in 2014 to ₩3,356 billion in 2015 due primarily to decreases in net other expense for retail banking and corporate banking, which more than offset a decrease in net other income for other banking services. Net other expense for retail banking decreased primarily due to a decrease in rental expenses due to our continued efforts to rationalize our distribution network, which resulted

in the closure of certain retail banking branches. Net other expense for corporate banking decreased primarily due to an increase in other income resulting largely from one-off dividends received from certain funds and securities. Net other income for other banking services decreased primarily due to an increase in provisioning in the first half of 2015 as a result of the restructuring activities of certain corporate clients.

Table of Contents*Comparison of 2014 to 2013*

Operating income for banking services increased by 4.0% from ₩1,745 billion in 2013 to ₩1,815 billion in 2014.

Net interest income (expense). Net interest income increased slightly by 0.4% from ₩4,429 billion in 2013 to ₩4,446 billion in 2014 due principally to increases in net interest income for retail, corporate and international banking, which was mostly offset by a decrease in net interest income for other banking services. More specifically:

Net interest income for retail banking increased by 16.1% from ₩2,341 billion in 2013 to ₩2,718 billion in 2014 primarily due to an increase in the average volume of retail loans, which more than offset a decrease in net interest spread. The average volume of retail loans increased largely due to an increase in home rental long-term deposit loans and mortgage loans for new home purchases, as well as increased lending to quality retail customers with stable employment and sound credit profile. The narrowing of the net interest spread was largely due to the decline in general market interest rates following the reduction of the base interest rate set by the Bank of Korea to 2.00% in 2014 from 2.50% in 2013, as well as intensified rate competition among peer commercial banks for high quality retail loans and customer deposits and an increase in the proportion of retail loans with higher asset quality for which Shinhan Bank charges lower rates.

Net interest income for corporate banking increased by 4.6% from ₩937 billion in 2013 to ₩980 billion in 2014 primarily due to an increase in the average balance of corporate loans, which was partially offset by the narrowing of the net interest spread. In addition, certain businesses that had historically been accounted for under corporate banking (including treasury business, securities investing and trading and derivatives trading businesses) were allocated to other banking services for internal reporting purposes with retroactive effect from January 1, 2014, which resulted in a decrease in interest expenses for corporate banking. The increase in the average balance of corporate loans was largely due to a steady increase in loans to high quality SOHO and small- and medium-sized enterprise borrowers as well as the launch of new loan products for SOHO and small- and medium-sized enterprises in general at relatively affordable rates in line with the Korean government's policy initiative to assist and support such enterprises. The narrowing of the net interest spread was largely due to the decrease in the market interest rates in tandem with a decrease in the base interest rates set by the Bank of Korea in 2014 as well as increasing competition among commercial banks for high-quality corporate loans in the midst of an increase in general market liquidity for corporate borrowers.

Net interest income for international banking increased by 11.4% from ₩273 billion in 2013 to ₩304 billion in 2014 primarily due to a general increase in the average balance of loans extended by Shinhan Bank's subsidiaries, especially its subsidiary in the People's Republic of China.

Net interest income for other banking services decreased by 49.4% from ₩878 billion in 2013 to ₩444 billion in 2014 primarily due to an increase in interest expense largely resulting from the internal reallocation of certain businesses to other banking services, which is reflected in the results for 2014 as described above.

Net fees and commission income (expense). Net fees and commission income increased by 7.4% from ₩760 billion in 2013 to ₩816 billion in 2014 primarily due to increases in net fees and commission income for corporate banking and retail banking. Net fees and commission income for corporate banking increased primarily due to an increase in

investment banking fees and commissions largely resulting from an increase in mergers and acquisitions in Korea as well as fees and commissions related to disposition of real estate mortgage backed securities. Net fees and commission income for retail banking increased primarily due to an increase in agency fees and commissions related to the increased volume of bancassurance products sold.

Net other income (expense). Net other expense remained largely stable from ₩3,444 billion in 2013 to ₩3,447 billion in 2014, as an increase in net other income for other banking services was largely offset by

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increases in net other expense for corporate banking and retail banking. We recorded net other income for other banking services in 2014, compared to net other expense in 2013, primarily due to an increase in other income largely resulting from the internal reallocation of certain businesses to other banking services, which is reflected in the results for 2014 as described above. Such reallocation resulted in a corresponding decrease in other income for corporate banking. Net other expense for retail banking decreased primarily due to a decrease in rental expenses due to consolidation of our retail banking branches in tandem with the rationalization efforts for Shinhan Bank's distribution network.

Credit Card Services

The credit card services segment consists of the credit card business of Shinhan Card, including its installment finance and automobile leasing businesses.

	Year Ended December 31,			% Change	
	2013	2014	2015	2013/2014	2014/2015
	(In billions of Won, except percentages)				
Income statement data					
Net interest income (expense)	₩ 1,395	₩ 1,373	₩ 1,351	(1.6)%	(1.6)%
Net fees and commission income (expense)	166	257	256	54.8	(0.4)
Net other income (expense)	(728)	(837)	(749)	15.0	(10.5)
Operating income (expense)	₩ 833	₩ 793	₩ 858	(4.8)%	8.2%

Comparison of 2015 to 2014

Operating income for the credit card business increased by 8.2% from ₩793 billion in 2014 to ₩858 billion in 2015.

Net interest income decreased by 1.6% largely as a result of the decrease in the average lending rate for credit card loans attributable to the decrease in the market interest rates following the reduction of the base interest rate by the Bank of Korea and the continued popularity of interest-free installment payment programs (under which no interest is charged on credit card purchases for limited duration, usually up to three months), which was partially offset by an increase in the average balance of credit card receivables.

Net fees and commission income remained largely stable, as an increase in merchant fees primarily as a result of the increase in the average balance of credit card receivables was largely offset by an increase in fees and commissions payable as a result of an increased use of membership points by the credit card customers as part of Shinhan Card's enhanced marketing efforts.

Net other expense decreased by 10.5% primarily as a result of a decrease in bad debt expenses following an increase in recoveries on delinquent receivables, as well as a decrease in taxes.

Comparison of 2014 to 2013

Operating income for the credit card business decreased by 4.8% from ₩833 billion in 2013 to ₩793 billion in 2014.

Net interest income decreased by 1.6% largely as a result of the narrowing of the net interest spread following the decrease in the base and market interest rates, the growing popularity of interest-free installment payment programs and a reduction in interest income on cash advances due to a decrease in the average balance of cash advances as part of our risk management policy, which was partially offset by a slight increase in the average balance of credit card receivables.

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Net fees and commission income increased by 54.8% due primarily to an increase in merchant fees largely as a result of the increase in the average balance of credit card receivables and an increase in annual membership dues following a reduction of exemptions for annual membership dues and a growing popularity of credit card programs that charge higher annual membership dues in exchange for other membership benefits.

Net other expense increased by 15.0% primarily as a result of an increase in bad debt expenses following reduced recovery from delinquent receivables largely due aging of such receivables and an increase in taxes and dues related to the contribution of funds to a government-sponsored program to replace old credit card payment terminals for low-income merchants.

Securities Brokerage Services

Securities brokerage services segment primarily reflects securities brokerage and dealing services on behalf of customers, which is conducted by Shinhan Investment, our principal securities brokerage subsidiary.

	Year Ended December 31,			% Change	
	2013	2014	2015	2013/2014	2014/2015
	(In billions of Won, except percentages)				
Income statement data					
Net interest income (expense)	₩ 282	₩ 386	₩ 444	36.9%	15.0%
Net fees and commission income (expense)	212	198	267	(6.6)	34.8
Net other income (expense)	(392)	(451)	(449)	15.1	(0.4)
Operating income (expense)	₩ 102	₩ 133	₩ 262	30.4%	97.0%

Comparison of 2015 to 2014

Operating income for securities brokerage services increased by 97.0% from ₩133 billion in 2014 to ₩262 billion in 2015.

Net interest income increased by 15.0% due primarily to an increase in the volume of Won-denominated loans collateralized by securities, which more than offset the decrease in net interest spread largely resulting from the decrease in the base and market interest rates in Korea.

Net fees and commission income increased by 34.8% due primarily to an increase in brokerage fees as stock trading volume increased principally as a result of the favorable stock market performance in the first half of 2015.

Net other expense remained largely stable, as an increase in net gains from trading of foreign currency-denominated derivative products was largely offset by an increase in employee benefits and severance under Shinhan Investment's early retirement program and valuation losses of its affiliated companies.

Comparison of 2014 to 2013

Operating income for securities brokerage services increased by 30.4% from ₩102 billion in 2013 to ₩133 billion in 2014.

Net interest income increased by 36.9% due primarily to an increase in interest income from financial bonds held by us for hedging purposes in light of the growing volume of equity-linked securities, which more than offset the decrease in net interest spread largely resulting from the decrease in the base and market interest rates in Korea.

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Net fees and commission income decreased by 6.6% due primarily to a decrease in brokerage fee resulting from the reduced proportion of retail investors who generally pay a higher brokerage commission due to their continued growing preference for low risk investments, an industry-wide decrease in the average rate of brokerage fees and commission due to intensifying competition and an increase in derivative transactions entered into for purposes of hedging equity-linked securities.

Net other expense increased by 15.1% due primarily to an increase in securities transaction taxes arising from an increase in the trading volume of investment products such as equity swaps, which more than offset an increase in valuation gain of its affiliated companies.

Life Insurance Services

Life insurance services segment consists of life insurance services provided by Shinhan Life Insurance.

	Year Ended December 31,			% Change	
	2013	2014	2015	2013/2014	2014/2015
	(In billions of Won, except percentages)				
Income statement data					
Net interest income (expense)	₩ 603	₩ 651	₩ 676	8.0%	3.8%
Net fees and commission income (expense)	32	27	32	(15.6)	18.5
Net other income (expense)	(528)	(560)	(576)	6.1	2.9
Operating income (expense)	₩ 107	₩ 118	₩ 132	10.3%	11.9%

Comparison of 2015 to 2014

Operating income for life insurance services increased by 11.9% from ₩118 billion in 2014 to ₩132 billion in 2015.

Net interest income increased by 3.8% due primarily to an increase in interest income on foreign currency-denominated deposits, as well as an increase in interest income on debt securities held by Shinhan Life Insurance as part of asset liability management following an increase in the volume of insurance contracts.

Net fees and commission income increased by 18.5% due primarily to a decrease in fees paid for tax and legal consulting services and call center services, and one-off fees received from a defendant that lost a legal case against Shinhan Life.

Net other expense increased by 2.9% from ₩560 billion in 2014 to ₩576 billion in 2015 due primarily to an increase in contract cancellation refunds, which more than offset an increase in premium income resulting from an increase in the volume of insurance policies sold.

Comparison of 2014 to 2013

Operating income for life insurance services increased by 10.3% from ₩107 billion in 2013 to ₩118 billion in 2014.

Net interest income increased by 8.0% due primarily to an increase in interest income on debt securities held by Shinhan Life Insurance as part of asset liability management following an increase in the volume of insurance

contracts.

Net fees and commission income decreased by 15.6% due primarily to an increase in fees paid for tax and legal consulting services and call center services.

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Net other expense increased by 6.1% from ₩528 billion in 2013 to ₩560 billion in 2014 due primarily to a decrease in other income resulting from an decrease in the volume of insurance policies sold as a result of intensified competition in the life insurance sector and additional reserve set aside for suicide-related death benefits in accordance with a guideline thereon from the Financial Supervisory Service.

Others

Other segment primarily reflects all other activities of Shinhan Financial Group, as the holding company, and our other subsidiaries, including the results of operations of Shinhan Capital, Shinhan Credit Information, Shinhan BNP Paribas Asset Management, Shinhan Private Equity, Shinhan Savings Bank, and back-office functions maintained at the holding company.

	Year Ended December 31,			% Change	
	2013	2014	2015	2013/2014	2014/2015
	(In billions of Won, except percentages)				
Net interest income (expense)	₩ (108)	₩ (70)	₩ (32)	(35.2)%	(54.3)%
Net fees and commission income (expense)	222	186	195	(16.2)	4.8
Net other income (expense)	(231)	(195)	(196)	(15.6)	0.5
Operating income (expense)	₩ (117)	₩ (79)	₩ (33)	(32.5)%	(58.2)%

Comparison of 2015 to 2014

Operating expense for others decreased by 58.2% from ₩79 billion in 2014 to ₩33 billion in 2015.

Net interest expense decreased from ₩70 billion in 2014 to ₩32 billion in 2015 primarily due to an increase in net interest income for Shinhan Savings Bank attributable to an increase in the average balance of loans, which was partially offset by the narrowing of the net interest spread.

Net fees and commission income increased by 4.8% primarily due to an increase in fee income received by Shinhan Capital largely as a result of an increase in the volume of operating lease assets and an increase in cancellation fees received.

Net other expense remained largely unchanged with ₩196 billion in 2015 compared to ₩195 billion in 2014, as an increase in Shinhan Capital's income from disposal of loans primarily resulting from the sale of project-financing related loans was largely offset by an increase in the allowance for loan losses principally related to its loans to borrowers in the shipbuilding industry.

Comparison of 2014 to 2013

Operating expense decreased from ₩117 billion in 2013 to ₩79 billion in 2014 primarily due to Shinhan Savings Bank's recording operating expense of ₩19 billion in 2013 to operating income of ₩9 billion in 2014.

Net interest expense decreased from ₩108 billion in 2013 to ₩70 billion in 2014 primarily due to a decrease in net interest expense for our financial holding company attributable to a decrease in debt securities issued by it.

Net fees and commission income decreased by 16.2% primarily due to a decrease in branding fees payable by our subsidiaries to our financial holding company. The branding fees are determined every two years (and were last determined in 2014) based on the expected revenue contribution from the brand as of the determination date.

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Net other expense decreased by 15.6% primarily due to gain recognized by Shinhan Savings Bank from the disposal of shares in Samsung SDS held by it and a decrease in bad debt expense for Shinhan Savings Bank due to a reduction in delinquent loans extended by Shinhan Savings Bank.

Financial Condition**Assets**

The following table sets forth, as of the dates indicated, the principal components of our assets.

	As of December 31,			% Change	
	2013	2014	2015	2013/2014	2014/2015
	(In billions of Won, except percentages)				
Cash and due from banks	₩ 16,473	₩ 20,585	₩ 22,024	25.0%	7.0%
Trading assets	18,033	24,362	22,638	35.1	(7.1)
Financial assets designated at fair value through profit or loss	3,361	2,737	3,244	(18.6)	18.5
Derivative assets	1,717	1,568	1,995	(8.7)	27.2
Loans	205,723	221,618	246,441	7.7	11.2
Available-for-sale financial assets	33,597	31,418	33,966	(6.5)	8.1
Held-to-maturity financial assets	11,031	13,373	16,192	21.2	21.1
Property and equipment	3,214	3,147	3,039	(2.1)	(3.5)
Intangible assets	4,226	4,153	4,275	(1.7)	2.9
Investments in associates	329	342	393	4.0	14.9
Deferred tax assets	196	228	164	16.3	(28.1)
Current tax receivables	6	11	10	83.3	(9.1)
Investment property	690	268	209	(61.2)	(22.0)
Assets held for sale	243	9	4	(96.3)	(55.6)
Other assets	12,451	14,203	15,946	14.1	12.3
Total assets	₩ 311,290	₩ 338,022	₩ 370,540	8.6%	9.6%

2015 Compared to 2014

Our assets increased by 9.6% from ₩338,022 billion as of December 31, 2014 to ₩370,540 billion as of December 31, 2015, principally due to increases in loans and, to a lesser extent, cash and due from banks, available-for-sale financial assets and held-to-maturity financial assets, which was partially offset by a decrease in trading assets.

Our loans increased by 11.2% from ₩221,618 billion as of December 31, 2014 to ₩246,441 billion as of December 31, 2015, principally as a result of increases in mortgage loans, home equity loans and general purpose loans to individuals and households, as well as loans to SOHO and small- and medium-sized enterprise borrowers as discussed above.

Our cash and due from banks increased by 7.0% from ₩20,585 billion as of December 31, 2014 to ₩22,024 billion as of December 31, 2015, principally due to an increase of due from The Bank of Korea, which fluctuates on a daily basis.

Our available-for-sale financial assets increased by 8.1% from ₩31,418 billion as of December 31, 2014 to ₩33,966 billion as of December 31, 2015, largely reflecting our strategy to acquire additional highly liquid assets in light of the implementation of the minimum LCR requirements applicable to banks beginning in January 2015.

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Our held-to-maturity financial assets increased by 21.1% from ₩13,373 billion as of December 31, 2014 to ₩16,192 billion as of December 31, 2015, principally due to our purchase of mortgage backed securities issued by Korea Housing Finance Corporation in connection with the Relief Debt Conversion program, which was implemented by the Financial Services Commission in March and April 2015.

Our trading assets decreased by 7.1% from ₩24,362 billion as of December 31, 2014 to ₩22,638 billion as of December 31, 2015, principally due to decreases in bonds and debentures held by us.

2014 Compared to 2013

Our assets increased by 8.6% from ₩311,290 billion as of December 31, 2013 to ₩338,022 billion as of December 31, 2014, principally due to increases in loans and, to a lesser extent, trading assets and cash and due from banks and held-to-maturity financial assets, which was partially offset by a decrease in available-for-sale financial assets.

Our loans increased by 7.7% from ₩205,723 billion as of December 31, 2013 to ₩221,618 billion as of December 31, 2014, principally as a result of an increase in home mortgage loans and long-term housing rental deposit loans following the government policy announced in the second half of 2014 to stimulate the real estate market, as well as an increase in high-quality retail loans to police officers and other government employees and an increase in corporate loans to quality SOHO and small- to medium-sized enterprise customers.

Our trading assets increased by 35.1% from ₩18,033 billion as of December 31, 2013 to ₩24,362 billion as of December 31, 2014, principally due to an increase in securities held for hedging purposes to offset decreases in the volume of equity-linked securities.

Our cash and due from banks increased by 25.0% from ₩16,473 billion as of December 31, 2013 to ₩20,585 billion as of December 31, 2014, principally due to an increase of due from The Bank of Korea, which fluctuates on a daily basis.

Our held-to-maturity financial assets increased by 21.2% from ₩11,031 billion as of December 31, 2013 to ₩13,373 billion as of December 31, 2014, principally due to an increase in government bonds and national housing bonds held by us as part of our asset management policy.

Our available-for-sale financial assets decreased by 6.5% from ₩33,597 billion as of December 31, 2013 to ₩31,418 billion as of December 31, 2014, principally due to increased disposal of debt securities following the decrease in the base and market interest rates.

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The following table sets forth, as of the dates indicated, the principal components of our liabilities.

	As of December 31,			% Change	
	2013	2014	2015	2013/2014	2014/2015
	(In billions of Won, except percentages)				
Deposits	₩ 178,810	₩ 193,710	₩ 217,676	8.3%	12.4%
Trading liabilities	1,258	2,689	2,136	113.8	(20.6)
Financial liabilities designated at fair value through profit or loss	5,909	8,996	8,916	52.2	(0.9)
Derivative liabilities	2,019	1,718	2,599	(14.9)	51.3
Borrowings	20,143	22,974	21,734	14.1	(5.4)
Debt securities issued	37,491	37,335	41,221	(0.4)	10.4
Liability for defined benefit obligations	118	309	226	163.0	(26.9)
Provisions	750	694	699	(7.5)	0.7
Current tax liabilities	239	257	142	7.5	(44.7)
Deferred tax liabilities	15	10	11	(33.3)	10.0
Liabilities under insurance contracts	15,662	17,776	20,058	13.5	12.8
Other liabilities	19,021	21,040	23,312	10.6	10.8
Total liabilities	281,435	307,507	338,730	9.3	10.2
Total equity attributable to equity holder of the Group	27,538	29,184	30,840	6.0	5.7
Non-controlling interest	2,317	1,331	970	(42.6)	(27.1)
Total equity	29,855	30,515	31,810	2.2	4.2%
Total liabilities and equity	₩ 311,290	₩ 338,022	₩ 370,540	8.6%	9.6%

2015 Compared to 2014

Our total liabilities increased by 10.2% from ₩307,507 billion as of December 31, 2014 to ₩338,730 billion as of December 31, 2015 primarily due to an increase in deposits (which principally consist of customer deposits) and, to a lesser extent, an increase in debt securities issued.

Our deposits increased by 12.4% from ₩193,710 billion as of December 31, 2014 to ₩217,676 billion as of December 31, 2015, primarily due to an increase in customer deposits, largely as a result of customers' preference for low-risk investments in light of the continuing uncertainty in financial markets.

Our debt securities issued increased by 10.4% from ₩37,335 billion as of December 31, 2014 to ₩41,221 billion as of December 31, 2014, primarily due to Shinhan Bank's issuance of subordinated debt securities in order to increase its regulatory capital, as well as an increase in the issuances of debentures by Shinhan Bank and Shinhan Card for general corporate purposes.

Total equity increased by 4.2% from ₩30,515 billion as of December 31, 2014 to ₩31,810 billion as of December 31, 2015, largely due to net income attributable to equity holders in the amount of ₩2,367 billion, which more than offset a dividend payout of ₩512 billion in 2015 and the effect of recording other comprehensive loss of ₩337 billion in 2015.

2014 Compared to 2013

Our total liabilities increased by 9.3% from ₩281,435 billion as of December 31, 2013 to ₩307,507 billion as of December 31, 2014, primarily due to an increase in customer deposits and, to a lesser extent, increases in financial liabilities designated at fair value through profit or loss, borrowings and liabilities under insurance contracts, which were partially offset by a decrease in debt securities issued.

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Our deposits increased by 8.3% from ₩178,810 billion as of December 31, 2013 to ₩193,710 billion as of December 31, 2014, primarily due to an increase in cross-selling deposit products (including automatic salary deposit products, automatic credit card payment deposit products, check card deposit products and other deposit products offered to high-quality retail customers such as police officers and government employees) and an increase in inter-bank deposits.

Our financial liabilities designated at fair value through profit or loss increased by 52.2% from ₩5,909 billion as of December 31, 2013 to ₩8,996 billion as of December 31, 2014, primarily due to an increase in the volume of equity-linked securities sold and an increase in valuation losses of such securities.

Our borrowings increased by 14.1% from ₩20,143 billion as of December 31, 2013 to ₩22,974 billion as of December 31, 2014, primarily due to an increase in short-term borrowings such as repos and call moneys as part of our liquidity management policy.

Our liabilities under insurance contracts increased by 13.5% from ₩15,662 billion as of December 31, 2013 to ₩17,776 billion as of December 31, 2014, primarily due to an increase in policy reserve related to an increase in the cumulative volume of our insurance policies.

Our other liabilities increased by 10.6% from ₩19,021 billion as of December 31, 2013 to ₩21,040 billion as of December 31, 2014, primarily due to a significant increase in other accounts payable related to short-term accounts payable for securities and derivatives trading.

Total equity increased by 2.2% from ₩29,855 billion as of December 31, 2013 to ₩30,515 billion as of December 31, 2014, largely due to net income attributable to equity holders in the amount of ₩2,081 billion, which more than offset a dividend payout of ₩370 billion in 2014 and the effect of recording other comprehensive loss of ₩36 billion in 2014.

ITEM 5.B. Liquidity and Capital Resources

We are exposed to liquidity risk arising from the funding of our lending, trading and investment activities and in the management of trading positions. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all of our liability repayments on time and fund all investment opportunities. For an explanation of how we manage our liquidity risk, see Item 4.B. Business Overview Risk Management Market Risk Management Market Risk Management for Non-trading Activities Liquidity Risk Management. In our opinion, the working capital is sufficient for our present requirements.

The following table sets forth our capital resources as of December 31, 2015.

	As of December 31, 2015	
	(In billions of Won)	
Deposits	₩	217,676
Long-term debt		43,834
Call money		643
Borrowings from the Bank of Korea		2,073
Other short-term borrowings		11,463

Asset securitizations		6,621
Stockholders' equity ⁽¹⁾		2,645
Total	₩	284,955

Note:

- (1) Includes Series 12 redeemable preferred stock. See Note 30 of the notes to our consolidated financial statements included in this annual report. On April 21, 2016, we redeemed all of the Series 12 redeemable preferred shares.

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We obtain funding from a variety of sources, both domestic and foreign. Our principal source of funding is customer deposits obtained from our banking operations, and we from time to time issue equity and debt securities. In addition, our subsidiaries acquire funding through call money, borrowings from the Bank of Korea, other short-term borrowings, corporate debentures, other long-term debt and asset-backed securitizations.

Our primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail customer deposits. Customer deposits accounted for 74.5% of our total funding as of December 31, 2013, and 74.8% of our total funding as of December 31, 2014, and 76.4% of our total funding as of December 31, 2015. Historically, except in limited circumstances, largely due to the lack of alternative investment opportunities for individuals and households in Korea, especially in light of a low interest rate environment and volatile stock market conditions, a substantial portion of such customer deposits were rolled over upon maturity and accordingly provided a stable source of funding for our banking subsidiaries. However, in the face of attractive alternative investment opportunities such as during a bullish run of the stock market, customers may transfer a significant amount of bank deposits to alternative investment products in search of higher returns, which may result in temporary difficulties in finding sufficient funding on commercial terms favorable to us. In addition, in recent years, we have faced increasing pricing competition from our competitors with respect to our deposit products. If we do not continue to offer competitive interest rates to our deposit customers, we may lose their business, which has traditionally provided a stable and low-cost source of funding. Even if we are able to match our competitors' pricing, doing so may result in an increase in our funding costs, which may have an adverse impact on our results of operations.

While our banking subsidiaries generally have not faced, and currently are not facing, liquidity difficulties in any material respect, if we or our banking subsidiaries are unable to obtain the funding we need on terms commercially acceptable to us for an extended period of time for reasons of Won devaluation or otherwise, we may not be able to ensure our financial viability, meet regulatory requirements, implement our strategies or compete effectively. See Item 3.D. Risk Factors – Risks Related to Our Overall Business – Changes in interest rates, foreign exchange rates, bond and equity prices, and other market factors have affected and will continue to affect our business.

As of December 31, 2013, 2014 and 2015, ₩6,680 billion, ₩6,443 billion and ₩6,480 billion, or 3.8%, 3.3%, and 3.0%, respectively, of Shinhan Bank's total deposits in Korean Won were deposits made by litigants in connection with legal proceedings in Korean courts. Court deposits carry interest rates, which are generally lower than market rates.

In addition, we obtain funding through borrowings and the issuances of debt and equity securities, primarily through Shinhan Bank. Our borrowings consist mainly of borrowings from financial institutions, the Korean government and Korean government-affiliated funds. Call money, which is available in both Won and foreign currencies, is obtained from the domestic call loan market, a short-term loan market for loans with maturities of less than one month. As for our long-term debt, it is principally in the form of corporate debt securities issued by Shinhan Bank. Since 1999, Shinhan Bank has actively issued and continues to issue long-term debt securities with maturities of over one year in the Korean fixed-income market. Shinhan Bank and we have maintained one of the highest credit ratings in the domestic fixed-income market since their inception in 1999 and 2001, respectively. As Shinhan Bank maintains one of the highest debt ratings in the fixed-income market in Korea, we believe that Shinhan Bank will be able to obtain replacement funding through the issuance of long-term debt securities. Shinhan Bank's interest rates on long-term debt securities are in general 20 to 30 basis points higher than the interest rates offered on their deposits. However, since long-term debt is not subject to premiums paid for deposit insurance and the Bank of Korea reserves, we estimate that our funding costs on long-term debt securities are generally on par with our funding costs on deposits. In addition, we, Shinhan Bank and Shinhan Card, may also issue long-term debt securities denominated in foreign currencies in overseas markets, and Shinhan Bank and Shinhan Card have global medium term notes programs under which foreign currency-denominated notes may be issued with an aggregate program limit of US\$8 billion. As of December 31,

2013, 2014 and 2015, our long-term debt amounted to ~~₩~~40,303 billion, ~~₩~~37,936 billion, and ~~₩~~43,834 billion, respectively.

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We also have funding requirements for our credit card activities. We obtain funding for our credit card activities from a variety of sources, primarily in Korea. The principal sources of funding for Shinhan Card are debentures, commercial papers (including call money), borrowings from the holding company and third-parties, which amounted to ₩11,749 billion, ₩770 billion, ₩600 billion, ₩238 billion, or 88.0%, 5.8%, 4.5% and 1.7%, respectively, of the funding for our credit card activities, as of December 31, 2015. Unlike other credit card companies, Shinhan Card has the benefit of obtaining funding at favorable rates through loans from Shinhan Financial Group, which currently maintains the highest credit rating assigned by local rating agencies. Shinhan Card aims to further diversify its funding sources and more actively tap the domestic and international capital markets to ensure access to liquidity as needed.

Credit ratings affect the cost and other terms upon which we and our subsidiaries are able to obtain funding. Domestic and international rating agencies regularly evaluate us and our subsidiaries and their ratings of our and our subsidiaries long-term debt are based on a number of factors, including our financial strength as well as conditions affecting the financial services industry generally.

Our holding company does not receive credit ratings from international rating agencies since it has not engaged in debt financing from overseas sources to date.

There can be no assurance that we or our subsidiaries will maintain our current credit ratings if, among other reasons, the global or Korean economy were to face another downturn, there are any changes in our corporate governance or our businesses significantly deteriorate. Our failure to maintain current credit ratings and outlooks could increase the cost of our funding, limit our access to capital markets and other borrowings, and require us to post additional collateral in financial transactions, any of which could adversely affect our liquidity, net interest margins and profitability.

Secondary funding sources also include call money, borrowings from the Bank of Korea and other short-term borrowings which amounted to ₩11,795 billion, ₩16,924 billion and ₩14,179 billion as of December 31, 2013, 2014 and 2015, respectively, each representing 4.9%, 6.5%, and 5.0% respectively, of our total funding as of such dates.

We may also from time to time obtain funding through issuance of equity securities. For example, in the first quarter of 2009, we conducted a rights offering in the face of an expanding global credit crisis in order to enhance our capital position to prepare for potential contingencies, despite having fully met the required capital adequacy ratios required under applicable laws and regulations and not facing any significant liquidity constraints or financial distress. As a result of such offering, which was substantially fully subscribed and resulted in a capital increase of approximately 16.4%, we raised approximately ₩1,310 billion (before underwriting commissions and other offering expenses).

In limited situations, we may also issue convertible and/or preferred shares. For example, in August 2003, in order to partly fund our acquisition of Chohung Bank, we raised a total of ₩2,552 billion through domestic private placements of redeemable preferred shares and redeemable convertible preferred shares to domestic financial institutions and governmental entities in Korea, all of which shares have since been redeemed or converted. In addition, in January 2007, partly to fund the acquisition of LG Card, we raised a total of ₩3,750 billion through domestic private placements of redeemable preferred shares and redeemable convertible preferred shares, all of which have been redeemed as of the date hereof, and in April 2011, we issued redeemable preferred shares to fund redemption of such securities. For further details on the terms of these preferred shares, see Item 10.B. Memorandum and Articles of Incorporation Description of Preferred Stock.

Pursuant to laws and regulations in Korea, we may redeem our preferred stock to the extent of our retained earnings of the previous fiscal year, net of certain reserves. At this time, we expect that cash from our future operations would be

adequate to provide us with sufficient capital resources to enable us to redeem our preferred stock on or prior to their scheduled maturities. In the event there is a short-term shortage of liquidity to make the

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required cash payments for redemption as a result of, among other things, failure to receive dividend payments from our operating subsidiaries on time or as a result of significant expenditures resulting from future acquisitions, we plan to raise cash liquidity through the issuance of long-term debt in the Korean fixed-income market in advance of the scheduled maturity on our preferred stock. To the extent we need to obtain additional liquidity, we plan to do so through the issuance of long-term corporate debentures or further preferred stock and/or the use of our other secondary funding sources.

We generally may not acquire our own shares except in certain limited circumstances such as a capital reduction. However, pursuant to the Financial Investment Services and Capital Markets Act and regulations under the Financial Holding Companies Act, we may purchase our own shares on the KRX KOSPI Market of the Korea Exchange or through a tender offer, or retrieve our own shares from a trust company upon termination of a trust agreement subject to the restrictions that (1) the aggregate purchase price of such shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year less the amounts of dividends and reserves for such fiscal year, subtracted by the sum of (a) the purchase price of treasury stock acquired if any treasury stock has been purchased after the end of the preceding fiscal year pursuant to the Commercial Act or the Financial Investment Services and Capital Markets Act, (b) the amount subject to a trust contract, and (c) the amount of dividends approved at the ordinary general shareholders' meeting after the end of the preceding fiscal year and the amount of retained earnings reserve required under the Commercial Act; plus if any treasury stock has been disposed of after the end of the preceding fiscal year, the acquisition cost of such treasury stock, and (2) the purchase of such shares shall meet the requisite ratio under the Financial Holding Companies Act and regulations thereunder. In addition, pursuant to the Financial Investment Services and Capital Markets Act, in certain limited circumstances, dissenting holders of shares have the right to require us to purchase their shares.

Contractual Obligations, Commitments and Guarantees

In the ordinary course of our business, we have certain contractual cash obligations and commitments which extend for several years. As we are able to obtain liquidity and funding through various sources as described in *Liquidity and Capital Resources* above, we do not believe that these contractual cash obligations and commitments will have a material effect on our liquidity or capital resources.

Contractual Cash Obligations

The following table sets forth our contractual cash obligations as of December 31, 2015.

	As of December 31, 2015						
	Payments Due by Period ⁽¹⁾						
	Less than 1 Month	1-3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 Years	Total
	(In billions of Won)						
Deposits	₩ 108,030	₩ 21,996	₩ 26,252	₩ 51,392	₩ 13,512	₩ 3,416	₩ 224,598
Borrowings	10,799	2,321	1,411	2,392	4,425	683	22,031
Debt securities issued	805	2,583	3,037	8,292	25,620	4,097	44,434
Total	₩ 119,634	₩ 26,900	₩ 30,700	₩ 62,076	₩ 43,557	₩ 8,196	₩ 291,063

Note:

- (1) Reflects all estimated contractual interest payments due on our interest-bearing deposits, borrowings and debt securities issued, and the estimated contractual interest payments on borrowings and debt securities that are on a floating rate basis as of December 31, 2015 were computed as if the interest rate used on the last applicable date (for example, the interest payment date for such floating rate loans immediately preceding the determination date) were the interest rate applicable throughout the remainder of the term.

Table of Contents**Commitments and Guarantees**

In the normal course of business, our subsidiaries make various commitments and guarantees to meet the financing needs of our customers. Commitments and guarantees are usually in the form of, among others, commitments to extend credit, commercial letters of credit, standby letter of credit and performance guarantees. The contractual amount of these financial instruments represents the maximum possible loss amount if the counterparty draws down the commitment or we should fulfill our obligation under the guarantee and the counterparty fails to perform under the contract. See Item 4.B. Business Overview Description of Assets and Liabilities Credit-Related Commitments and Guarantees.

The following table sets forth our commitments and guarantees as of December 31, 2015. These commitments, apart from certain guarantees and acceptances, are not included within our consolidated statements of financial position.

	As of December 31, 2015			
	Commitment Expiration by Period			
	Less than 1 Year	1-5 Years	More than 5 Years	Total
	(In billions of Won)			
Commitments to extend credit ⁽¹⁾	₩ 69,431	₩ 5,669	₩ 343	₩ 75,443
Commercial letters of credit ⁽²⁾	2,291	86		2,377
Financial guarantees ⁽³⁾	238	774	45	1,057
Performance guarantees ⁽⁴⁾	7,710	1,645	11	9,366
Liquidity facilities to SPEs ⁽⁵⁾	724	1,487	458	2,669
Acceptances ⁽⁶⁾	347			347
Endorsed bills ⁽⁷⁾		7,572		7,572
Other	28	922	366	1,316
Total	₩ 80,769	₩ 18,155	₩ 1,223	₩ 100,147

Notes:

- (1) Commitments to extend credit represent unfunded portions of authorizations to extend credit in the form of loans. The commitments expire on fixed dates and a customer is required to comply with predetermined conditions to draw funds under the commitments. Commitments to extend credit, including credit lines, are in general subject to provisions that allow us to withdraw such commitments in the event there are material adverse changes affecting an obligor.
- (2) Commercial letters of credit are undertakings on behalf of customers authorizing third parties to draw drafts on us up to a stipulated amount under specific terms and conditions. These are generally short-term and collateralized by the underlying shipments of goods to which they relate.
- (3) Financial guarantees are contracts that require us to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt

instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

- (4) Performance guarantees are issued to guarantee customers' tender bids on construction or similar projects or to guarantee completion of such projects in accordance with contractual terms. They are also issued to support a customer's obligation to supply products, commodities, maintenance or other services to third parties
- (5) Liquidity facilities to SPEs represent irrevocable commitments to provide contingent credit lines including commercial paper purchase agreements to special purpose entities for which we serve as the administrator.
- (6) Acceptances represent guarantees by us to pay a bill of exchange drawn on a customer. We expect most acceptances to be presented, but reimbursement by the customer is normally immediate.

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(7) Endorsed bills represent notes transferred to third parties by us. We are obligated to fulfill the duty of payment if the person primarily liable does not honor the bill on the due date.

See also Note 44 of the notes to our consolidated financial statements included in this annual report.

Capital Adequacy

The following table sets forth a summary of our capital and capital adequacy ratios as of December 31, 2013, 2014 and 2015 based on Basel III.

	As of December 31,		
	2013	2014	2015
	(In millions of Won, except percentages)		
Tier I Capital:			
Tier I CE Capital	₩ 19,119,612	₩ 20,678,971	₩ 21,882,816
Paid-in capital	2,589,553	2,589,553	2,589,553
Capital reserve	8,442,542	8,442,542	8,442,542
Retained earnings	11,975,700	13,656,398	15,524,284
Non-controlling interest in consolidated subsidiaries	82,442	78,362	78,385
Others	(3,970,625)	(4,087,884)	(4,751,948)
Additional Tier I Capital	2,418,787	1,495,382	1,311,375
Total Tier I Capital	₩ 21,538,399	₩ 22,174,353	₩ 23,194,191
Tier II Capital:			
Allowances for credit losses	1,536,628	1,633,808	1,662,751
Subordinated debt	315,000	280,000	245,000
Others	2,215,800	1,849,807	2,114,506
Total Tier II capital	₩ 4,067,428	₩ 3,763,615	₩ 4,022,257
Total Capital	₩ 25,605,827	₩ 25,937,968	₩ 27,216,448
Risk-weighted assets			
Credit risk	₩ 170,520,750	₩ 177,137,897	₩ 181,242,693
Market risk	5,192,895	7,135,320	7,574,953
Operational risk	15,003,003	14,559,643	14,456,896
Total risk-weighted assets	₩ 190,716,648	₩ 198,832,860	₩ 203,274,542
Capital adequacy ratio	13.43%	13.05%	13.39%
Tier I capital adequacy ratio	11.29%	11.15%	11.41%
Common equity capital adequacy ratio	10.03%	10.40%	10.77%

ITEM 5.C. Research and Development, Patents and Licenses, etc.

Not applicable.

ITEM 5.D. Trend Information

These matters are discussed under Items 4.B., 5.A. and 5.B. above where relevant.

ITEM 5.E. Off-Balance Sheet Arrangements

We have several types of off-balance sheet arrangements, including guarantees for loans, debentures, trade financing arrangements, guarantees for other financings, credit lines, letters of credit and credit commitments. In

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the normal course of our banking activities, we make various commitments and guarantees to meet the financing needs of our customers. Commitments and guarantees are usually in the form of, among others, commitments to extend credit, commercial letters of credit, standby letters of credit and performance guarantees. The contractual amount of these financial instruments represents the maximum possible loss amount if the account party draws down the commitment or we should fulfill our obligation under the guarantee and the account party fails to perform under the contract. See Item 4.B. Business Overview Description of Assets and Liabilities Credit-Related Commitments and Guarantees.

Details of our off-balance sheet arrangements are provided in Note 44 of the notes to our consolidated financial statements included in this annual report.

ITEM 5.F. Tabular Disclosure of Contractual Obligations

See Item 5.B. Liquidity and Capital Resources Contractual Obligations, Commitments and Guarantees.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**ITEM 6.A. Directors and Senior Management****Executive Directors**

Our executive director is as follows:

Name	Age	Position	Director Since	Date Term Ends⁽¹⁾
<i>Han Dongwoo</i>	67	Chairman and Chief Executive Officer	March 23, 2011	March 2017

Note:

(1) The date on which each term will end will be the date of the general stockholders meeting in the relevant year. *Han Dongwoo* is our Chairman and Chief Executive Officer. Prior to being elected to his current position on March 23, 2011, he was the vice chairman of Shinhan Life Insurance from 2007 to 2009 and also served as the chief executive officer of Shinhan Life Insurance in 2002, a vice president of Shinhan Bank in 1999, a managing director of Shinhan Bank in 1995 and a director of Shinhan Bank in 1993. Mr. Han received a LL.B. degree from the College of Law, Seoul National University.

Non-Executive and Outside Directors

Non-executive directors are directors who are not our employees and do not hold executive officer positions with us. Outside directors are non-executive directors who also satisfy the requirements set forth under the Financial

Investment Services and Capital Markets Act to be independent of our major shareholders, affiliates and the management. Our non-executive directors are selected based on the candidates' talents and skills in diverse areas, such as law, finance, economics, management and accounting. Currently, 11 non-executive directors are in office, all of whom were nominated by our board of directors.

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Our non-executive and outside directors are as follows:

Name	Age	Position	Director Since	Date Term Ends⁽¹⁾
<i>Cho Yong-byoung</i>	58	Non-Executive Director	March 25, 2015	March 2017
<i>Namkoong Hoon</i>	68	Non-Executive Director	March 24, 2016	March 2017
<i>Lee Manwoo</i>	61	Outside Director	March 26, 2014	March 2017
<i>Ko Boo-in</i>	74	Outside Director	March 28, 2013	March 2017
<i>Lee Sang-kyung</i>	70	Outside Director	March 29, 2012	March 2017
<i>Park Cheul</i>	70	Outside Director and Chairman of Board of Directors	March 25, 2015	March 2017
<i>Yuki Hirakawa</i>	55	Outside Director	March 25, 2015	March 2017
<i>Philippe Avril</i>	56	Outside Director	March 25, 2015	March 2017
<i>Lee Sung-ryang</i>	60	Outside Director	March 24, 2016	March 2018
<i>Lee Jung-il</i>	63	Outside Director	March 24, 2016	March 2018
<i>Lee Heun-ya</i>	56	Outside Director	March 24, 2016	March 2018

Note:

(1) The date on which each term will end will be the date of the general stockholders' meeting in the relevant year. *Cho Yong-byoung* has been our non-executive director since March 25, 2015. Mr. Cho currently also serves as the president and chief executive officer of Shinhan Bank. Prior to his current position, Mr. Cho served as the chief executive officer of Shinhan BNP Paribas Asset Management in 2013 and as the deputy president of Shinhan Bank in 2011. Mr. Cho received a bachelor's degree in law from Korea University.

Namkoong Hoon has been our non-executive director since March 24, 2016. Mr. Namkoong served as an outside director of Samsung Electro-Magnetics Co., Ltd. from 2005 to 2014, an outside director of Korea Real Asset Management Company (KORAMCO) from 2009 to 2011, the chairman of Korea Life Insurance Association from 2005 to 2008, a member of the Monetary Policy Committee of the Bank of Korea from 2000 to 2004 and the chairman and president of the Korea Deposit Insurance Corporation from 1999 to 2000. Mr. Namkoong received a master's degree in public administration from the University of Wisconsin at Madison.

Lee Manwoo has been our outside director since March 26, 2014. Mr. Lee is currently a professor at Korea University Business School. Mr. Lee served as the chairman of the Korean Accounting Association from 2007 to 2008, the chairman of the Korean Academic Society of Taxation from 2006 to 2007 and a member of the Securities Listing Committee of the Korea Exchange from 2001 to 2007. Mr. Lee received a Ph.D. in business administration from the University of Georgia.

Ko Boo-in has been our outside director since March 28, 2013. Mr. Ko is currently the chief executive officer of Sansei Co., Ltd. Mr. Ko served as an outside director of Shinhan Financial Group from 2009 to 2010, an outside director of Jeju Bank from 2005 to 2009, a director of Jeju International Convention Center in 2002, an advisor to the National Unification Advisory Council in 1998 and the vice chairman of the Korea Chamber of Commerce and Industry in Tokyo in 1998. Mr. Ko received a bachelor's degree from Meiji University.

Lee Sang-kyung has been our outside director since March 29, 2012. Mr. Lee currently serves as the representative attorney of the law firm Lee Sang Kyung. Prior to his current position, Mr. Lee served as the chief judge of the Constitutional Court of Korea. Mr. Lee received a bachelor's degree in law from Chung-Ang University.

Park Cheul has been our outside director since March 25, 2015 and is currently the chairman of our board of directors. Mr. Park served as the chairman and chief executive officer of Leading Investment & Securities Co.,

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Ltd. from 2006 to 2013, an outside director of the Korea Development Bank from 2003 to 2006, a committee member of the National Economy Advisory Council in 2004 and the senior deputy governor of the Bank of Korea from 2000 to 2003. Mr. Park received a master's degree in economics from New York University.

Yuki Hirakawa has been our outside director since March 25, 2015. Mr. Hirakawa currently serves as the chief executive officer of Level River Co., Ltd. Mr. Hirakawa served as the chief executive officer of Hirakawa Industry Co., Ltd. from 1994 to 2012. Mr. Hirakawa received a bachelor's degree in Spanish from Osaka University.

Philippe Avril has been our outside director since March 25, 2015. Mr. Avril currently serves as the chief executive officer and representative director of BNP Paribas Securities (Japan) Ltd. and the chief country officer of BNP Paribas, Tokyo Branch. Mr. Avril received a master's degree in economics from Université Paris-Dauphine.

Lee Sung-ryang has been our outside director since March 24, 2016. Mr. Lee is currently a professor at the School of Economics of Dongguk University and also serves as the director of the Research Institute of Social Science at Dongguk University. Mr. Lee received a Ph.D. in economics from Columbia University.

Lee Jung-il has been our outside director since March 24, 2016. Mr. Lee is currently the chief executive officer of Hirakawa Shoji Co., Ltd. Mr. Lee served as an outside director of Shinhan Financial Group from 2011 to 2013. Mr. Lee received a bachelor's degree in political science and economics from Meiji University.

Lee Heun-ya has been our outside director since March 24, 2016. Mr. Lee currently serves as the executive director of the Korea Chamber of Commerce and Industry in Japan. Mr. Lee served as the former chief executive officer of Marushin Co., Ltd. Mr. Lee received a bachelor's degree from Osaka University of Arts.

Any director wishing to enter into a transaction with Shinhan Financial Group or any of its subsidiaries in his or her personal capacity is required to obtain the prior approval of our board of directors. The director having an interest in the transaction may not vote at the meeting of our board of directors at which the relevant transaction is subject to vote for approval.

Executive Officers

In addition to the executive directors who are also our executive officers, we currently have the following executive officers.

Name	Age	Position	In Charge of
Kim Hyung-jin	57	Deputy President and Chief Strategic Officer	Strategic Planning Team Global Business Strategy Team Future Strategy Research Institute Corporate Culture Development Team Digital Strategy Team
Lim Young-jin	55	Deputy President	Public Relations Team

			Corporate Social Responsibility Team
			Management Support Team
			Synergy Management Team
Yim Bo-hyuk	55	Deputy President and Chief Financial Officer	Finance Management Team
			Investor Relations Team
			Human Resource Team
			Information, Communication and Technology Planning Team
Lee Chang-goo	55	Executive Vice President	Wealth Management Planning Office
Woo Young-woong	56	Executive Vice President	Corporate & Investment Banking Business Department

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None of the executive officers have any significant activities outside Shinhan Financial Group.

Kim Hyung-jin has been our Deputy President and Chief Strategic Officer since May 23, 2013. Mr. Kim previously served as president of Shinhan Data System. Mr. Kim also served as a deputy president of Shinhan Bank. Mr. Kim received a bachelor's degree in economics from Yeungnam University.

Lim Young-jin has been our Deputy President since January 1, 2016. Mr. Lim previously served as deputy president, head of the wealth management group and executive vice president of Shinhan Bank. Mr. Lim received a bachelor's degree in business administration from Korea University.

Yim Bo-hyuk has been our Deputy President since January 1, 2016 and our Chief Financial Officer since March 2, 2015. Mr. Yim previously served as our Managing Director in charge of risk management. Mr. Yim received a bachelor's degree in business management from Korea University.

Lee Chang-goo has been our Executive Vice President and Executive Vice President and Head of the Wealth Management Group of Shinhan Bank since January 1, 2016. Mr. Lee previously served as head of the wealth management division of Shinhan Bank and general manager of the Seongsu-dong branch of Shinhan Bank. Mr. Lee received a bachelor's degree in accounting from Hanyang University.

Woo Young-woong has been our Executive Vice President and Executive Vice President and Head of the Corporate Investment Banking Group of Shinhan Bank since January 1, 2016. Mr. Woo previously served as head of the investment banking division and corporate banking division of Shinhan Bank. Mr. Woo received a master's degree in international business from Waseda University.

There are no family relationships among our directors and/or executive officers.

ITEM 6.B. Compensation

The aggregate remuneration and benefits-in-kind paid by us to our chairman, our executive directors, our non-executive directors and our executive officers for the year ended December 31, 2015 was ₩3.8 billion, consisting of ₩2.5 billion in salaries and wages and ₩1.3 billion in bonus payments.

We do not have service contracts with any of our directors or executive officers providing for benefits upon termination of their employment with us. We do not pay any severance payment to our chairman or directors upon their retirement, but we pay fixed sums of severance payment to other members of senior management pursuant to internal guidelines on severance payments to members of senior management. In 2015, we accrued ₩0.1 billion for retirement bonus.

Prior to April 1, 2010, we granted stock options to our chairman, our president and chief executive officer and other directors and executive officers. Effective April 1, 2010, we ceased granting stock options. On March 18, 2015, the exercise period for all outstanding stock options expired, except for a limited number of stock options for which the expiration of the exercise period has been suspended by a resolution of the board of directors. We did not record any accrued expense for stock options in 2015.

During the period from March 20, 2007 to December 31, 2013, we granted performance units to certain high-ranking officers of select group companies. These performance units are performance-based cash compensation, the per-unit value of which is initially determined at the time of grant subject to adjustment after a fixed number of years based on

the operating and financial performance of the relevant group company over the same or another fixed term, at the end of which a cash amount equal to the adjusted number of the performance units is paid out. For performance units granted prior to April 1, 2010, the performance review period was three years, and the payout was made at the end of the three-year term. For performance units granted on or after April 1, 2010 until December 31, 2013, the applicable performance review period is generally four years (and to a limited extent, five years), and the payment is made at the end of such four- or five-year term. We ceased granting performance units effective January 1, 2014.

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Since April 1, 2010, we have also granted performance shares to certain high-ranking officers of select group companies. The performance shares are conceptually similar to the performance units granted since April 1, 2010, in that the number of performance shares is based on the operating and financial performance of the relevant group company, except that the number of performance shares granted is adjusted on the basis of the movements in the market price of our shares. The aggregate amount of performance shares granted to a given grantee is generally equal to the expected incentive compensation payable to such grantee for three years (in the case of performance shares granted prior to January 1, 2014) and one year (in the case of performance shares granted since January 1, 2014) of service starting from the grant date, which initial amount is computed based on the expected performance of the grantee's company and the expected price movements of our shares over the applicable adjustment period, which is generally four years (and to a limited extent, five years). The performance shares are paid out in cash at the end of the applicable adjustment period (even if employment is terminated prior to such date), and the grantee is contractually and in accordance with our internal regulations required to use the payout solely to purchase our shares in the market at the then-prevailing market price (in the case of performance shares granted prior to January 1, 2014).

Neither performance units nor performance shares have been granted to outside directors. In 2015, we recognized ₩0.1 billion and ₩1.2 billion as accrued expenses for performance units and performance shares, respectively.

Under the Financial Supervisory Service's standards for preparing corporate disclosure forms, which standards were amended in November 2013, we are required to disclose in our Korean annual report the individual annual compensation (including stock options) paid by us to our directors and statutory auditors if the individual annual compensation for such persons is ₩500 million or greater. In 2015, Han Dongwoo, our Chairman and Chief Executive Officer, received ₩1,202 million, consisting of ₩773 million in salaries and wages and ₩429 million in bonuses. Separately, in 2015, Mr. Han also received ₩1,705 million in long-term performance compensation and an additional cash amount of ₩1,719 million in respect of 36,288 performance shares, which were initially granted in 2011 as performance-based compensation for the three-year period from 2011 to 2013, subject to our business performance and share price movements from 2011 to 2014. In addition, in 2014 and 2015, Mr. Han was granted 19,500 and 18,900 performance shares, respectively, and currently holds 38,400 performance shares. The exercisability of these performance shares will be determined based on a review of our business performance and share price movements during a four-year period beginning with the fiscal year in which such shares were granted.

ITEM 6.C. Board Practices
Board of Directors

Our board of directors, which currently consists of one executive director, two non-executive directors and nine outside directors, has the ultimate responsibility for the management of our affairs.

Our Articles of Incorporation provide for no less than three but no more than 15 directors, the number of outside directors must be more than 50% of the total number of directors, and we must maintain at least three outside directors. All directors are elected for a term not exceeding three years as determined by the shareholders' meeting, except that outside directors are elected for a term not exceeding two years, provided that the term of re-election shall not exceed one year and the term cannot be extended in excess of five years.

Terms are renewable and are subject to the Korean Commercial Code, the Financial Holding Companies Act and related regulations. See Item 6.A. Directors and Senior Management above for information concerning the terms of office of our directors and executive officers.

Our board of directors meets on a regular basis to discuss and resolve material corporate matters. Additional extraordinary meetings may also be convened at the request of the president and chief executive officer or a director designated by the board.

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Currently, there are no outstanding service contracts between any of our directors or executive officers and us or any of our subsidiaries providing for benefits upon termination of employment by such director or executive officer.

Committees of the Board of Directors

We currently have eight management committees that serve under the board:

the Board Steering Committee;

the Risk Management Committee;

the Audit Committee;

the Compensation Committee;

the Outside Director Recommendation Committee;

the Audit Committee Member Recommendation Committee;

the Corporate Governance and Chief Executive Officer Recommendation Committee; and

the Corporate Social Responsibility Committee.

Each committee member is appointed by the board of directors, except for members of the Audit Committee, who are elected at the general meeting of shareholders.

Board Steering Committee

The Board Steering Committee currently consists of five directors, namely Han Dongwoo, Lee Sang-kyung, Lee Sung-ryang, Yuki Hirakawa and Namkoong Hoon. The committee is responsible for ensuring the efficient operations of the board and the facilitation of the board's functions. The committee's responsibilities also include reviewing and assessing the board's structure and the effectiveness of that structure in fulfilling the board's fiduciary responsibilities. The committee holds regular meetings every quarter.

Risk Management Committee

The Risk Management Committee currently consists of four directors, namely Park Cheul, Lee Heun-ya, Philippe Avril and Namkoong Hoon. The committee oversees and makes determinations on all issues relating to our comprehensive risk management function. In order to ensure our stable financial condition and to maximize our profits, the committee monitors our overall risk exposure and reviews our compliance with risk policies and risk

limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions, reviews risk-based capital allocations, and reviews the plans and evaluation of internal control. The committee holds regular meetings every quarter.

Audit Committee

The Audit Committee currently consists of three outside directors, namely Lee Manwoo, Lee Sang-kyung and Lee Sung-ryang. The committee oversees our financial reporting and approves the appointment of and interaction with our independent auditors and our internal audit-related officers. The committee also reviews our financial information, audit examinations, key financial statement issues and the administration of our financial affairs by the board of directors. In connection with the general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors for each general meeting of stockholders. The committee holds regular meetings every quarter.

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Compensation Committee

The Compensation Committee currently consists of four directors, namely Park Cheul, Lee Sang-kyung, Lee Sung-ryang and Lee Jung-il. At least one-half of the members of this committee must be outside directors. This committee is responsible for reviewing and approving the management's evaluation and compensation programs. The committee meetings are called by the chairman of this committee, who must be an outside director.

Outside Director Recommendation Committee

Members of this committee will be appointed by our board of directors only to the extent necessary to recommend and nominate candidates for our outside director positions and related matters. The committee meetings are called by the chairman of this committee, who must be an outside director. This committee is responsible and authorized for: (i) establishment, review and reinforcement of policies for outside director selection, (ii) recommendation of outside director candidates for approval at the general shareholders' meeting and (iii) continual recruitment and screening of potential outside director candidates.

Audit Committee Member Recommendation Committee

Members of this committee must be outside directors and will be appointed by our board of directors on an as-needed basis to recommend and nominate candidates for our Audit Committee member positions and related matters. This committee recommends candidates for the members of the Audit Committee and is required to act on the basis of a two-thirds vote of the members present.

Corporate Governance and Chief Executive Officer Recommendation Committee

The Corporate Governance and Chief Executive Officer (CEO) Recommendation Committee was established in March 2012 and currently consist of seven directors, namely Han Dongwoo, Lee Sang-kyung, Ko Boo-in, Park Cheul, Philippe Avril, Yuki Hirakawa and Namkoong Hoon. This committee is responsible for reviewing and making recommendations in relation to the overall corporate governance of our group (including any aspects of corporate governance relating to code of ethics and other code of behavior, size of the board of directors and other matters necessary for improving our overall corporate governance structure), as well as recommendation of the nominees for the president and/or chief executive officer of our group and development, operation and review of our management succession plan, including setting the qualifications for the CEO, evaluating CEO candidate pool and recommending CEO candidates. The chairperson of the committee must be an outside director, and the incumbent CEO may be restricted from participating and voting on matters related to the CEO selection.

Corporate Social Responsibility Committee

The Corporate Social Reasonability Committee was established in March 2015 and currently consists of five directors, namely Han Dongwoo, Namkoong Hoon, Ko Boo-in, Lee Manwoo and Yuki Hirakawa. This committee is responsible for setting the general corporate policy and discussing specific business agenda in relation to enhancing our role as a responsible corporate citizen.

ITEM 6.D. Employees

At the holding company level, we had 142, 152 and 145 regular employees as of December 31, 2013, 2014 and 2015, respectively, almost all of whom are employed within Korea. Our subsidiaries had 21,478, 21,453 and 21,715 regular

employees as of December 31, 2013, 2014 and 2015, respectively, almost all of whom are employed within Korea. In addition, we had nine, six and seven non-regular employee at the holding company level as of December 31, 2013, 2014 and 2015, respectively, and 2,318, 1,944 and 1,833 non-regular employees

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at the subsidiary level as of December 31, 2013, 2014 and 2015, respectively. Of the total number of regular and non-regular employees at both the holding company and subsidiaries, approximately 0.3% were managerial or executive employees.

9,961 employees of Shinhan Bank and 357 employees of Jeju Bank were members of the Korean Financial Industry Union as of December 31, 2015. 2,381 employees of Shinhan Card were members of the Korean Federation of Clerical and Financial Labor Union as of December 31, 2015. 1,538 employees of Shinhan Investment and 1,125 employees of Shinhan Life were members of the Korea Finance & Service Workers Union as of December 31, 2015.

Under Korean law, we may not terminate full time employees except under limited circumstances.

Since our acquisition of Chohung Bank in 2003, we have not experienced any general employee work stoppages and consider our employee relations to be good.

Under the Korean National Pension Law, we annually contribute an amount equal to 4.5% of employee wages, and each employee contributes 4.5% of his or her wages, to the National Pension Management Corporation. In addition, pursuant to the Employee Retirement Security Act, we operate a retirement pension system under which we make annual contributions to pension funds managed by financial institutions (which replaced our former retirement pension system under which we managed the pension fund in-house) that provide employees both regular pension payments and a lump sum payment upon termination of employment. We believe that our retirement pension system confers the following benefits: (1) insulation of employees from the risk of default on their pension payments as the pension funds are deposited with large financial institutions; (2) offer of varied forms of payment, i.e., regular pension payments and a lump sum payment, upon termination of employment; (3) offer to employees the option to make investment decisions for his or her individual pension account and (4) elimination of the ability of employees to cash in his or her retirement fund prematurely, thereby guaranteeing such employee a lump sum payment upon termination of employment. Under this retirement pension system, we and our subsidiaries can opt for either a defined benefit plan or a defined contribution plan, or a combination of both. Under the defined benefit plan, the amount of pension payable upon an employee's retirement is fixed in advance, and the employer is responsible for making the requisite payments to the pension fund and making investment decisions in relation to the fund assets. Under the defined contribution plan, the employee sets aside a fixed percentage or amount of his salaries to the pension fund and exercises investment decisions for his or her individual pension account. As of December 31, 2013, 2014 and 2015, we recognized liabilities for defined benefit obligations of ₩118 billion, ₩309 billion and ₩226 billion, respectively. See Note 26 of the notes to our consolidated financial statements included in this annual report.

ITEM 6.E. Share Ownership

As of March 31, 2016, the persons who are currently our directors or executive officers, as a group, beneficially held an aggregate of 1,106,105 shares of our common stock representing approximately 0.23% of our outstanding common stock as of such date. None of these persons individually held more than 1% of our outstanding common stock as of such date.

Members of the employee stock ownership association have certain pre-emptive rights in relation to our shares that are publicly offered under the Financial Investment Services and Capital Markets Act. As of December 31, 2015, the employee stock ownership association owned 21,273,373 shares of our common stock.

Following the expiration of the exercise period for remaining stock options on March 18, 2015, there are currently no outstanding options granted to directors and officers of the holding company and its subsidiaries, except for a limited

number of stock options for which the expiration of the exercise period has been suspended by a resolution of the board of directors.

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The following table sets forth certain information relating to the beneficial ownership of our common shares as of December 31, 2015.

Name of Shareholder	Number of Common Shares Beneficially Owned	Beneficial Ownership (%)
National Pension Service ⁽¹⁾	43,881,041	9.25%
BNP Paribas	25,356,276	5.35
Shinhan Financial Group Employee Stock Ownership Association	21,273,373	4.49
Citibank, N.A. (ADR Department)	13,675,125	2.88
The Government of Singapore	11,530,462	2.43
Saudi Arabian Monetary Agency	7,378,282	1.56
Abu Dhabi Investment Authority	6,542,334	1.38
The Lazard Funds Inc.	6,440,002	1.36
Mizuho	5,955,000	1.26
National Westminster Bank Asia Pacific	5,133,262	1.08
Samsung Asset Management	4,951,044	1.04
People's Bank of China	4,830,951	1.02
Others	317,252,435	66.90
Total	474,199,587	100.00%

Note:

(1) As of December 31, 2015, National Pension Service held 2,000,000 shares, or 18.02% of our Series 12 redeemable preferred stock, which we issued in April 2011. On April 21, 2016, we redeemed all of the Series 12 redeemable preferred shares.

Other than those listed above, no other person or entity known by us, jointly or severally, directly or indirectly own more than 1% of our issued and outstanding voting securities or otherwise exercise control or could exercise control over us. None of our shareholders have different voting rights.

As of the date hereof, our total authorized share capital is 1,000,000,000 shares, par value ₩5,000 per share.

As of December 31, 2015, 474,199,587 common shares and 11,100,000 Series 12 redeemable preferred shares were issued and outstanding. On April 21, 2016, we redeemed all of the Series 12 redeemable preferred shares. See Item 10.B. Memorandum and Articles of Incorporation Description of Preferred Stock.

As of December 31, 2015, the latest date on which we closed our shareholders' registry, 515 shareholders of record were notated as U.S. persons, holding in the aggregate 21.56% of our then total outstanding shares (including Citibank, N.A., as the depository for our American depository shares, each representing one share of our common stock effective October 15, 2012, prior to which each American depository share represented two common shares).

ITEM 7.B. Related Party Transactions

Since the beginning of the preceding three financial years, none of our directors or officers has or had any transactions with us that are or were unusual in their nature or conditions or significant to our business, other than as set forth below and also described in Note 46 of the notes to our consolidated financial statements included in this annual report.

In December 2001, BNP Paribas acquired 4.00% of our common stock in return for an investment of approximately ₩155 billion in cash pursuant to an alliance agreement. Under the terms of the alliance

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agreement, for so long as BNP Paribas does not sell or otherwise transfer (except to any of its wholly-owned subsidiaries) any portion of its ownership interest in our common stock and maintains, after any issuances of new shares by us from time to time, its shareholding percentage of not less than 3.5% of our issued common stock, we are required to call a meeting of our shareholders to recommend that one nominee of BNP Paribas be elected to our board of directors. In addition, under the alliance agreement, BNP Paribas has the right to subscribe for new issuances of our common shares in the event that such new issuances would result in the dilution of the shareholding percentage of BNP Paribas below 3.5%. As of December 31, 2015, BNP Paribas held 25,356,276 shares, or 5.35%, of our total common stock.

As of December 31, 2013, 2014 and 2015, we had principal loans outstanding to our directors, executive officers and their affiliates in the principal amount of ₩4.6 billion, ₩4.6 billion and ₩3.4 billion, which were made in the ordinary course of business on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectability or present other unfavorable features.

ITEM 7.C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION**ITEM 8.A. Consolidated Statements and Other Financial Information**

See Item 18. Financial Statements and our consolidated financial statements included in this annual report.

Legal Proceedings

We and our subsidiaries are involved in various legal actions and regulatory proceedings arising from the normal course of business. As of December 31, 2015, we and our subsidiaries were defendants in pending lawsuits (including any government proceedings) in the aggregate claim amount of ₩518 billion, for which we recorded a provision of ₩26 billion.

The Financial Supervisory Service conducted a comprehensive audit of Shinhan Bank from November to December 2012, and in July 2013 notified Shinhan Bank of an institutional caution (which does not give rise to significant sanctions unlike in the case of repeated institutional warnings), imposed disciplinary actions against 65 Shinhan Bank employees and assessed a fine of ₩87.5 million after finding that Shinhan Bank had illegally monitored customer accounts, breached confidentiality with respect to certain financial transactions and violated its obligation to disclose and report to the Financial Supervisory Service an investment in an affiliated company of Shinhan Bank. Furthermore, in March 2013 the Financial Supervisory Service conducted a special audit of Shinhan Bank as to incidents of alleged malfunctioning of its financial computer network and in December 2013, notified Shinhan Bank of an institutional caution and imposed disciplinary actions against five Shinhan Bank employees after finding that Shinhan Bank did not properly maintain its information technology administrator account and vaccine server. From October 2013 to November 2014, the Financial Supervisory Service also conducted a series of special audits of Shinhan Bank as to incidents of alleged illegal monitoring of customer accounts, and in February 2014, the Prosecutors' Office in Korea also commenced an investigation of Shinhan Bank with respect to same. In December 2015, the Financial Supervisory

Service notified Shinhan Bank of an institutional caution and imposed disciplinary actions against three former Shinhan Bank officers after finding that Shinhan Bank had illegally monitored customer accounts, whereas in September 2015, the Prosecutors Office determined not to prosecute the former officers of Shinhan Bank because of insufficient evidence.

The Financial Supervisory Service also conducted a special audit of Shinhan Card, together with BC Card and KB Kookmin Card, from June to July 2013, in relation to alleged imperfect sales of insurance products, and

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in March 2014, issued an institutional warning against each of the three credit card companies based on a finding that card customers were provided inadequate or misleading disclosures regarding the risks relating to such products at the time of sale. The Financial Supervisory Service also imposed disciplinary actions against three Shinhan Card employees and assessed a fine of ₩10 million against Shinhan Card as well as similar sanctions against BC Card and KB Kookmin Card. In addition, the Financial Supervisory Service conducted a comprehensive audit of Shinhan Card, together with Samsung Card and Hyundai Card, in September 2014, and in November 2015, issued an institutional warning against each of the three credit card companies based on a finding that they had illegally provided personal credit information of potential new cardholders to their credit card sales agents. The Financial Supervisory Service also imposed disciplinary actions against six Shinhan Card employees and assessed a fine of ₩6 million against Shinhan Card as well as similar sanctions against Samsung Card and Hyundai Card. In December 2014, the Financial Supervisory Service also issued institutional cautions against Shinhan Life for selling insurance products without adequate disclosure and for incomplete payments of agency fees, together with a fine of ₩338 million in relation to the former case.

In August 2014, the Fair Trade Commission of Korea (KFTC) investigated four major commercial banks in Korea, including Shinhan Bank, regarding alleged rate fixing (including in relation to certificates of deposit (CD) rates) by commercial banks. It is our current understanding that the investigation has not been concluded and we are not aware as to when it will be concluded. We also understand that the current investigation is a continuation of an investigation by the KFTC in July 2012 in relation to the same subject matter, which to our knowledge also has not been concluded to date. We have not received any notice or report of formal findings by the KFTC in relation to the investigation in July 2012 or the one in August 2014. Since the investigation has not been concluded and the KFTC has not announced any formal findings, it is presently difficult to speculate what the KFTC has found or will find or how it will rule on the subject matter and accordingly what impact such investigation will have on our results of operations, capital or liquidity. We do note however that it is structurally difficult, if not impossible, for commercial banks, including Shinhan Bank, to manipulate the CD rates in violation of Korean antitrust laws since the CD rates are determined and reported daily by the Korea Financial Investment Association (KOFIA) based on the average yields (after excluding the highest and the lowest yields) submitted by 10 securities companies in Korea (and not commercial banks) selected by the KOFIA for the purpose of computing the CD rates. Under Korean antitrust laws and regulations, sanctions that may be imposed for illegal manipulation of the CD rates include corrective orders and/or fines. Based on information available to date, our management believes that the investigation or the result thereof is unlikely to have a material adverse effect on our results of operations, capital or liquidity; however, if Shinhan Bank were to be found guilty of wrongdoing in regards to this or other subject matter and/or become subject to any penalty or other regulatory sanctions, there is no assurance that it will not have a material adverse effect on our reputation and, to a lesser extent, our results of operations, capital or liquidity.

Our management believes that these lawsuits will not have a material adverse effect on our financial condition, equity or results of operations. For further details of these and other litigations, see Note 44 of the notes to our consolidated financial statements.

Dividend Policy

For a detailed description on the dividend policy, please see Item 10.B. Memorandum and Articles of Incorporation Description of Share Capital Dividends.

ITEM 8.B. Significant Changes

Not applicable.

Table of Contents**ITEM 9. THE OFFER AND LISTING****ITEM 9.A. Offer and Listing Details****Market Prices of Common Stock and American Depositary Shares**

The principal trading market for our common shares is the KRX KOSPI Market Division of the Korea Exchange, where our common shares were listed on September 10, 2001. Our American depositary shares have been listed on the New York Stock Exchange since September 16, 2003 and are identified by the symbol SHG.

The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Korea Exchange for our common stock since 2011, and their high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our American depositary shares since 2011.

	Korea Exchange			New York Stock Exchange		
	Closing Price per Common Stock		Average Daily Trading Volume (Shares)	Closing Price per ADS		Average Daily Trading Volume (ADSs)
	High	Low		High	Low	
2011	₩ 53,800	₩ 36,150	1,749,097	\$ 101.33	\$ 61.77	51,671
2012 ⁽¹⁾	47,000	33,350	1,167,012	42.22	31.25	39,369
2013	48,650	35,950	969,961	45.70	30.82	66,410
First Quarter	42,650	37,650	1,083,492	39.32	33.60	77,668
Second Quarter	40,700	35,950	951,656	36.26	30.82	96,414
Third Quarter	44,850	37,300	876,582	42.34	32.58	49,804
Fourth Quarter	48,650	42,150	969,944	45.70	40.06	42,457
2014	53,400	42,000	852,730	52.44	39.44	51,257
First Quarter	47,000	42,000	962,596	43.95	39.44	60,675
Second Quarter	48,000	44,300	752,597	47.00	42.55	43,787
Third Quarter	53,400	45,050	908,445	52.44	43.98	45,338
Fourth Quarter	51,500	44,450	785,826	48.83	40.00	55,554
2015	46,650	39,000	968,985	42.83	32.13	84,145
First Quarter	46,650	40,850	1,090,768	42.83	36.54	67,724
Second Quarter	46,000	39,300	1,027,097	42.67	35.85	95,693
Third Quarter	43,000	39,000	1,006,900	37.11	32.13	84,088
Fourth Quarter	44,300	39,550	757,897	39.52	33.59	88,486
October	44,250	40,300	784,934	39.45	34.71	95,612
November	44,300	41,300	698,536	39.52	36.00	73,164
December	42,150	39,550	790,220	36.54	33.59	95,287
2016 (through April 12)	41,900	36,100	873,451	36.14	29.66	111,333
January	39,400	36,100	765,409	33.07	29.66	111,806
February	40,600	36,800	989,624	33.31	30.57	100,092
March	41,900	38,300	898,732	36.14	31.71	100,581
April (through April 12)	40,000	39,350	812,648	35.15	34.19	167,882

Source: Korea Exchange; New York Stock Exchange

Note:

- (1) Effective October 15, 2012, the exchange rate of ADRs per common share was changed from 2:1 to 1:1. As supplemental information, the high price, low price and average daily trading volume of our ADRs was US\$84.44, US\$58.54 and 34,778 ADRs, respectively, for the period from January to September 2012 (prior to the ratio change) and US\$36.64, US\$31.25 and 53,217 ADRs, respectively, for the period from October to December 2012.

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ITEM 9.B. Plan of Distribution

Not applicable.

ITEM 9.C. Markets

The Korea Exchange

Pursuant to the Korea Stock and Futures Exchange Act, as of January 27, 2005, the Korea Stock Exchange, which began its operations in 1956, the KRX KOSDAQ, which began its operation in July 1, 1996, and the Korea Futures Exchange (as an exchange operating futures market and options market), which began its operation in February 1, 1999, were unified to form the Korea Exchange.

The Korea Exchange was established in a form of a limited liability stock company in accordance with the Korean Commercial Code with the minimum paid-in capital of ₩100 billion in accordance with the Financial Investment Services and Capital Markets Act. Historically, the Korea Exchange was the only exchange authorized under the Financial Investment Services and Capital Markets Act. On May 28, 2013, however, the Financial Investment Services and Capital Markets Act was amended to implement a license system under which a license may be granted to an exchange upon satisfaction of certain requirements. In addition, the Financial Services Commission has authorized the establishment of alternative trading systems that engage in the trading of listed beneficial certificates, among other things, for a multiple number of parties through electronic means. Notwithstanding the foregoing regulatory developments, the Korea Exchange is presently the only duly licensed exchange in Korea and there have been no definitive developments regarding newly licensed exchanges or alternative trading systems in Korea. The Korea Exchange operates and supervises four market divisions, the KRX KOSPI Market Division, the KRX KOSDAQ Market Division, the KRX Futures Market Division and the KRX KONEX Market Division. It has its principal office in Busan.

As of December 31, 2015, the aggregate market value of equity securities listed on the KOSPI was approximately ₩1,243 trillion. The average daily trading volume of equity securities for 2015 was approximately 455 million shares with an average transaction value of ₩5,352 billion.

Even though the Financial Investment Services and Capital Markets Act prescribed that the Korea Exchange be established in a form of a limited liability stock company, the Korea Exchange is expected to play a public role as a public organization. In order to safeguard against a possible conflict, the Financial Investment Services and Capital Markets Act has placed restrictions on the ownership and operation of the Korea Exchange and any newly established exchanges approved by the Financial Services Commission as follows:

Any person's ownership of shares in the Korea Exchange is limited to 5% or less except for an investment trust company or investment company established under the Financial Investment Services and Capital Markets Act, or the Korean government. However, more than 5% ownership in Korea Exchange is permitted if necessary for forming a strategic alliance with a foreign stock or futures exchange and such amount of ownership is approved by the Financial Services Commission on grounds that such ownership may contribute to the efficiency and soundness of capital markets and the distribution of shares held by shareholders;

The number of outside directors on the board of directors of the Korea Exchange shall be more than half of the total number of directors;

Any amendment to the Articles of Incorporation, transfer or consolidation of business, spin off, stock swap in its entirety or transfer of shares in its entirety of the Korea Exchange will receive prior approval from the Financial Services Commission; and

In the event the Financial Services Commission determines that the chief executive officer of the Korea Exchange is not appropriate for the position, the Financial Services Commission can request the Korea Exchange upon reasonable cause, within one month from the chief executive officer's election, to

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dismiss the chief executive officer. Subsequently, the chief executive officer will be suspended from performing his duties and the Korea Exchange will elect a new chief executive officer within two months from the request.

The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semiannually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector of the Korean economy and its actions may depress or boost the stock market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

The Korea Exchange publishes the Korea Composite Stock Price Index (KOSPI) every ten seconds, which is an index of all equity securities listed on the Korea Exchange. Historical movements in KOSPI are set out in the following.

	Opening⁽¹⁾	High	Low	Closing
2001	503.31	715.93	463.54	693.70
2002	698.00	943.54	576.49	627.55
2003	633.03	824.26	512.30	810.71
2004	821.26	939.52	713.99	895.92
2005	893.71	1,383.14	866.17	1,379.37
2006	1,389.27	1,464.70	1,192.09	1,434.46
2007	1,435.26	2,085.45	1,345.08	1,897.13
2008	1,853.45	1,901.13	892.16	1,124.47
2009	1,157.40	1,723.17	992.69	1,682.77
2010	1,696.14	2,051.00	1,552.79	2,051.00
2011	2,070.08	2,228.96	1,652.71	1,825.74
2012	1,826.37	2,049.28	1,769.31	1,997.05
2013	2,031.10	2,059.58	1,780.63	2,011.34
2014	1,967.19	2,082.61	1,886.85	1,915.59
2015	1,926.44	2,173.41	1,829.81	1,961.31
2016 (through April 12)	1,918.76	2,002.14	1,835.28	1,981.32

Source: Korea Exchange

Note:

(1) The figures represent the daily closing price of the first trading day of the respective year. Shares are quoted ex-dividend on the first trading day of the relevant company's accounting period. Ex-dividend refers to a share no longer carrying the right to receive the following dividend payment because the settlement date occurs after the record date for determining which shareholders are entitled to receive dividends. Ex-rights refers to shares no longer carrying the right to participate in the following rights offering or bonus issuance because the settlement date

occurs after the record date for determining which shareholders are entitled to new shares. The calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

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With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 30% of the previous day's closing price of the shares, rounded down as set out below:

Previous Day's Closing Price	Rounded Down to Won
Less than 1,000	1
1,000 to less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the financial investment companies with brokerage licenses. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares on the Korea Exchange. A special agricultural and fishery tax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10.E. Taxation Korean Taxation.

The number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table.

Year	Number of Listed Companies	Total Market Capitalization		Average Daily Trading Volume, Value		
		(Millions of Won)	(Thousands of Dollars) ⁽¹⁾	Thousands of Shares	(Millions of Won)	(Thousands of Dollars) ⁽¹⁾
2000	704	₩ 188,041,490	\$ 148,414,751	306,163	₩ 2,602,211	\$ 2,053,837
2001	689	255,850,070	194,784,979	473,241	1,997,420	1,520,685
2002	683	258,680,756	218,056,778	857,245	3,041,598	2,563,937
2003	684	355,362,626	298,123,008	542,010	2,216,636	1,859,594
2004	683	412,588,139	398,597,371	372,895	2,232,109	2,156,419
2005	702	655,074,595	648,588,708	467,629	3,157,662	3,126,398
2006	731	704,587,508	757,620,976	279,096	3,435,180	3,693,742
2007	746	951,917,907	1,017,223,666	363,846	5,540,151	5,920,229
2008	765	576,927,703	457,153,489	355,440	5,190,180	4,112,663
2009	770	887,935,183	763,060,356	485,657	5,795,552	4,980,495
2010	777	1,141,885,458	1,009,981,831	380,859	5,619,768	4,970,607
2011	791	1,041,999,162	899,438,206	353,760	6,863,146	5,924,166

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2012	784	1,154,294,167	1,085,638,395	486,480	4,823,643	4,536,739
2013	777	1,185,973,724	1,123,826,139	328,325	3,993,422	3,784,158
2014	773	1,192,252,867	1,092,907,569	278,082	3,983,580	3,651,646
2015	770	1,242,832,089	1,062,885,563	455,256	5,351,734	4,576,870
2016 (through April 12)	770	1,255,329,128	1,096,836,285	357,667	4,568,640	3,991,822

Source: Korea Exchange

Note:

(1) Converted at the Noon Buying Rate at the end of the periods indicated.

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The Korean securities markets are principally regulated by the Financial Services Commission and the Financial Investment Services and Capital Markets Act. The law imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests.

Protection of Customer's Interest in Case of Insolvency of Financial Investment Companies

Under Korean law, the relationship between a customer and a financial investment company in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the securities company) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a financial investment company, the customer of the financial investment company is entitled to the proceeds of the securities sold by the financial investment company. In addition, the Financial Investment Services and Capital Markets Act recognizes the ownership of a customer in securities held by a financial investment company in such customer's account.

When a customer places a sell order with a financial investment company which is not a member of the Korea Exchange and this financial investment company places a sell order with another financial investment company which is a member of the Korea Exchange, the customer is still entitled to the proceeds of the securities sold received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company. Likewise, when a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

In addition, under the Financial Investment Services and Capital Markets Act, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a financial investment company which is a member of the Korea Exchange breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

As the cash deposited with a financial investment company is regarded as belonging to the financial investment company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the financial investment company if a bankruptcy or reorganization procedure is instituted against the financial investment company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay each investor up to ₩50 million per financial institution in case of the financial investment company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events. The premiums related to this insurance are paid by financial investment companies. Pursuant to the Financial Investment Services and Capital Markets Act, a financial investment company with a dealing or brokerage license is required to deposit the cash received from its customers with the Korea Securities Finance Corporation, a special entity established pursuant to the Financial Investment Services and Capital Markets Act. Set-off or attachment of cash deposits by securities companies with the Korea Securities Finance Corporation is prohibited. In addition, in the event of bankruptcy or dissolution of the financial investment company, the cash so deposited shall be withdrawn and paid to the customer prior to payment to other creditors of the financial investment company.

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Restrictions Applicable to ADSs

No Korean governmental approval is necessary for the sale and purchase of our ADSs in the secondary market outside Korea or for the withdrawal of shares of our common stock underlying the ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service as described below. The acquisition of the shares by a foreigner must be immediately reported to the governor of the Financial Services Commission, either by the foreigner or by his standing proxy in Korea.

Persons who have acquired shares of our common stock as a result of the withdrawal of shares underlying our ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further Korean governmental approval.

Under current Korean laws and regulations, the depositary is required to obtain our prior consent for the number of shares of our common stock to be deposited in any given proposed deposit that exceeds the difference between:

- (1) the aggregate number of shares of our common stock deposited by us for the issuance of our ADSs (including deposits in connection with the initial issuance and all subsequent offerings of our ADSs and stock dividends or other distributions related to these ADSs); and
- (2) the number of shares of our common stock on deposit with the depositary at the time of such proposed deposit. We have agreed to grant such consent to the extent that the total number of shares on deposit with the depositary would not exceed 40,432,628 at any time.

Reporting Requirements for Holders of Substantial Interests

Under the Financial Investment Services and Capital Markets Act, any person whose direct or beneficial ownership of our common stock with voting rights, whether in the form of shares of common stock or ADSs, certificates representing the rights to subscribe for shares and equity-related debt securities including convertible bonds and bonds with warrants (which we refer to collectively as *Equity Securities*), together with the *Equity Securities* beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of the total outstanding shares (including *Equity Securities* of us held by such persons) is required to report the status of the holdings and the purpose of the holdings (for example, whether intending to seek management control) to the Financial Services Commission and the Korea Exchange within five business days after reaching the 5% ownership level. In addition, any change in the ownership interest subsequent to the report that equals or exceeds 1% of the total outstanding *Equity Securities* or change in the purpose of the holdings is required to be reported to the Financial Services Commission and the Korea Exchange within five business days from the date of the change (within ten days of the end of the month in which the change occurred, in the case of a person with no intent to seek management control and within ten days of the end of the quarter in which the change occurred, in the case of an institutional investor prescribed by the Financial Services Commission).

Violation of these reporting requirements may subject a person to criminal sanctions such as administrative sanctions, fines, imprisonment and/or a loss of voting rights with respect to the portion of ownership of *Equity Securities* exceeding 5% of the total outstanding shares. In addition, the Financial Services Commission may order the disposal of the unreported *Equity Securities*. Any persons who reports management control as the purpose for its holdings is prohibited from acquiring additional shares or from exercising voting rights during the following five days following

the reporting date.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our stock accounts for 10% or more of the total issued and outstanding shares (which we refer to as a major stockholder) must report the status of his/her shareholding to the Korea Securities Futures Commission and the Korea Exchange within five days after he/she becomes a major stockholder. In addition, any change in the

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ownership interest subsequent to the report must be reported to the Korea Securities Futures Commission and the Korea Exchange within five days after the change occurred. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment. Any single stockholder or persons who have a special relationship with such stockholder that jointly acquire more than 10% (4% in case of non-financial business group companies) of the voting stock of a Korean financial holding company who controls national banks will be subject to reporting or approval requirements pursuant to the Financial Holding Company Act. See Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restrictions on Financial Holding Company Ownership.

Restrictions Applicable to Shares

Under the Foreign Exchange Transaction Laws and Financial Services Commission regulations, as amended (collectively, the Investment Rules), foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the Stock Market Division of the Korea Exchange or on the KOSDAQ Market Division of the Korea Exchange, unless prohibited by specific laws. Foreign investors may trade shares listed on the Stock Market Division of the Korea Exchange or on the KOSDAQ Market Division of the Korea Exchange only through the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange, except in limited circumstances, including:

odd-lot trading of shares;

acquisition of shares (which we refer to as Converted Shares) by exercise of warrants, conversion rights or exchange rights under bonds with warrants, convertible bonds or exchangeable bonds or withdrawal rights under depositary receipts issued outside of Korea by a Korean company;

acquisition of shares as a result of inheritance, donation, bequest or exercise of stockholders' rights, including preemptive rights or rights to participate in free distributions and receive dividends;

over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded subject to certain exceptions; and

sale and purchase of shares at fair value between foreigners who are part of an investor group comprised of foreign companies investing under the control of a common investment manager pursuant to applicable laws or contract.

For over-the-counter transactions of shares between foreigners outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a securities company licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange must involve a licensed securities company in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions with respect to shares that are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange (including Converted Shares and shares being issued for initial listing on the Stock Market Division of the Korea Exchange or on KOSDAQ Market Division of the Korea Exchange) to register its identity with the Financial Supervisory Service prior to making any such investment. The registration requirement does not, however, apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition. Upon registration, the Financial Supervisory Service will issue to the foreign investor an investment registration card, which must be presented each time the foreign investor opens a brokerage account with a securities company. Foreigners eligible to obtain an investment registration card include foreign nationals who have not been residing in Korea for a consecutive period of six months or more, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar

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international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree of the Ministry of Strategy and Finance under the Korean Securities and Exchange Act. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea for the purpose of investment registration. However, a foreign corporation or depository issuing depository receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange (as discussed above) must be reported by the foreign investor or his standing proxy to the governor of the Financial Supervisory Service at the time of each such acquisition or sale. A foreign investor must ensure that any acquisition or sale by it of shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange in the case of trades in connection with a tender offer, odd-lot trading of shares, trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the governor of the Financial Supervisory Service by himself or his standing proxy, or, in the case of sale and purchase of shares at fair value between foreigners, who are part of an investor group comprised of foreign companies investing under the control of a common investment manager pursuant to applicable laws or contract. A foreign investor may appoint a standing proxy from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), asset management companies, futures trading companies and internationally recognized custodians which will act as a standing proxy to exercise stockholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. Generally, a foreign investor may not permit any person, other than its standing proxy, to exercise rights relating to his shares or perform any tasks related thereto on his behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the governor of the Financial Supervisory Service in cases deemed inevitable by reason of conflict between laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), the Korea Securities Depository, asset management companies, futures trading companies and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits his shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person in their articles of incorporation. Currently, Korea Electric Power Corporation is the only designated public corporation that has set such a ceiling. Furthermore, an investment by a foreign investor in 10% or more of the issued and outstanding shares with voting rights of a Korean company is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to the Ministry of Commerce, Industry and Energy of Korea. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign or other

shareholding restrictions in the event that the restrictions are prescribed in a specific law that regulates the business of the Korean company. For a description of such restrictions applicable to Korean banks, see Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Bank Ownership.

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ITEM 9.D. Selling Shareholders

Not applicable.

ITEM 9.E. Dilution

Not applicable.

ITEM 9.F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

ITEM 10.A. Share Capital

Not applicable.

ITEM 10.B. Memorandum and Articles of Incorporation

We are a financial holding company established under the Financial Holding Company Act. As set forth in our Articles of Incorporation, our objects and purposes as a financial holding company are, among others, to operate and manage financial companies or companies engaged in similar lines of business, to provide financial support to, or investments in, our subsidiaries and to develop and jointly sell products with our subsidiaries. We are registered with the commercial registry office of Seoul Central District Court.

Our articles of incorporation, which was last amended on March 24, 2016 to expand the scope of the matters that are subject to the resolutions of our board of directors in accordance with the recent enactment of the Corporate Governance Act (Act on Corporate Governance of Financial Institutions), is annexed to this annual report as Exhibit 1.1. The amendments will become effective on August 1, 2016.

Description of Share Capital

This section provides information relating to our capital stock, including brief summaries of material provisions of our Articles of Incorporation, the Korean Commercial Code, the Financial Investment Services and Capital Markets Act, the Financial Holding Companies Act and certain related laws of Korea, all as currently in effect. The following summaries are intended to provide only summaries and are subject to the full text of the Articles of Incorporation and the applicable provisions of the Financial Investment Services and Capital Markets Act, the Korean Commercial Code, and certain other related laws of Korea.

General

As of December 31, 2015 and as of the date hereof, our authorized share capital is 1,000,000,000 shares. Our Articles of Incorporation provide that we are authorized to issue shares of preferred stock up to one-half of all of the issued and

outstanding shares. Furthermore, through an amendment of the Articles of Incorporation, we have created new classes of shares in addition to the common shares and the preferred shares. As of December 31, 2015 and as of the date hereof, the number of our issued and outstanding common shares was 474,199,587.

On January 25, 2007, we issued 28,990,000 Series 10 redeemable preferred shares and 14,721,000 Series 11 redeemable convertible preferred shares as part of our funding for the acquisition of LG Card, all of which were redeemed on January 25, 2012.

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On April 21, 2011, as part of funding for partial redemption of the Series 10 redeemable preferred stock and the Series 11 redeemable convertible preferred stock, we issued 11,100,000 shares of the Series 12 non-voting redeemable preferred stock, all of which were redeemed on April 21, 2016. See Description of Preferred Stock. There are no preferred shares authorized, issued or outstanding as of the date hereof.

All of the issued and outstanding shares are fully-paid and non-assessable, and are in registered form. As of the date hereof, our authorized but unissued share capital consists of 373,684,849 shares. We may issue the unissued shares without further shareholder approval but subject to a board resolution as provided in the Articles of Incorporation. See Distribution of Free Shares. Share certificates are issued in denominations of one, five, ten, 50, 100, 500, 1,000 and 10,000 shares. The par value of our common shares per share is ₩5,000.

Dividends

Dividends are distributed to shareholders in proportion to the number of shares of the relevant class of capital stock owned by each shareholder following approval by the shareholders at an annual general meeting of shareholders. We pay full annual dividends on newly issued shares (such as the common shares representing the American depository shares (ADSs)) for the year in which the new shares are issued. We declare our dividend annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. Once declared, the annual dividend must be paid to the stockholders of record as of the end of the preceding fiscal year within one month after the annual general meeting unless otherwise resolved thereby. Annual dividends may be distributed either in (i) cash or (ii) shares provided that shares must be distributed at par value and, if the market price of the shares is less than their par value, dividends in shares may not exceed one-half of the total annual dividends (including dividends in shares). In addition to the annual dividend, we may also distribute cash dividends to the stockholders of record as of the end of March, June and September of each year upon a resolution by the board of directors. Under the Korean Commercial Code we do not have an obligation to pay any annual dividend unclaimed for five years from the scheduled payment date.

In addition, under the Korean Commercial Code and our Articles of Incorporation, we may pay interim dividends once during each fiscal year (in addition to the annual dividends). Interim dividends may be paid upon the resolution of the board of directors and are not subject to shareholder approval. The interim dividends, if any, will be paid to the shareholders of record at 12:00 a.m. midnight, July 1 of the relevant fiscal year in cash. Under the Korean Commercial Code, an interim dividend may not be more than the net assets on the balance sheet of the immediately preceding fiscal period, after deducting (i) the capital of the immediately preceding fiscal period, (ii) the sum of the capital reserve and legal reserve accumulated up to the immediately preceding fiscal period, (iii) the amount of earnings for dividend payment approved at the general shareholders meeting of the immediately preceding fiscal period, (iv) other special reserves accumulated up to the immediately preceding fiscal period, either pursuant to the provisions of our Articles of Incorporation or to the resolution of the general meeting of shareholders, and (v) amount of legal reserve that should be set aside for the current fiscal period following the interim dividend payment.

Under the Financial Holding Companies Act and the regulations thereunder, a financial holding company may not pay an annual dividend unless it has set aside as its legal reserve an amount equal to at least one-tenth of its net income after tax and shall set aside such amount as its legal reserve until its legal reserve reaches at least the aggregate amount of its stated capital.

Other than as set forth above and the dividend rights granted to preferred shareholders as further described in Description of Preferred Stock, our articles of incorporation do not provide special rights to our common or preferred shareholders to share in our profits. For information regarding Korean taxes on dividends, see Taxation Korean Taxation.

Table of Contents***Distribution of Free Shares***

In addition to permitting dividends in the form of shares to be paid out of retained or current earnings, the Korean Commercial Code permits a company to distribute to its shareholders, in the form of free shares, an amount transferred from the capital surplus or legal reserve to stated capital. These free shares must be distributed to all of the shareholders pro rata. Our Articles of Incorporation require the same types of preferred shares to be distributed to the holders of preferred shares in case of distribution of free shares. For information regarding the treatment under Korean tax laws of free share distributions, see Item 10.E. Taxation Korean Taxation Taxation of Dividends on Shares of Common Stock or American Depositary Shares.

Preemptive Rights and Issuance of Additional Shares

Unless otherwise provided in the Korean Commercial Code, a company may issue authorized but unissued shares at such times and upon such terms as the board of directors of the company may determine. The company must offer the new shares on uniform terms to all shareholders who have preemptive rights and who are listed on the shareholders register as of the record date. Our shareholders are entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. However, as provided in the Articles of Incorporation, we may issue new shares by resolution of board of directors to persons other than existing shareholders if those shares are (1) publicly offered (where the number of such shares so offered may not exceed 50% of our total number of issued and outstanding shares); (2) preferentially allocated to the members of the ESOA pursuant to relevant provisions of the Financial Investment Services and Capital Markets Act; (3) issued for the purpose of issuing depositary receipts pursuant to relevant provisions of the Financial Investment Services and Capital Markets Act (where the number of such shares so issued may not exceed 50% of our total number of issued and outstanding shares); (4) issued to directors or employees as a result of exercise of stock options we granted to them pursuant to the Korean Commercial Code; (5) issued to a financial investment company, a private equity fund or a special purpose company under the Financial Investment Services and Capital Markets Act; or (6) issued to any specified foreign investors, foreign or domestic financial institutions or alliance companies for operational needs such as introduction of advanced financial technology, improvement of its or subsidiaries financial structure and funding or strategic alliance (where such number of shares so issued may not exceed 50% of our total number of issued and outstanding shares). Under the Korean Commercial Code, a company may vary, without stockholders approval, the terms of such preemptive rights for different classes of shares. Public notice of the preemptive rights to new shares and the transferability thereof must be given not less than two weeks (excluding the period during which the shareholders register is closed) prior to the record date. We will notify the shareholders who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to the deadline. If a shareholder fails to subscribe on or before such deadline, the shareholder's preemptive rights will lapse. Our board of directors may determine how to distribute shares in respect of which preemptive rights have not been exercised or where fractions of shares occur. Under the Financial Investment Services and Capital Markets Act, if a listed company intends to issue new shares by way of allotment to shareholders, it must issue a certificate of preemptive right to the newly issued shares. Furthermore, the company must list the newly issued shares on the Korea Exchange for a certain period of time or designate a securities company to broker and/or deal in such newly issued shares in order to ensure that they are properly distributed. In the event certain shareholder forfeit their right to subscribe to newly issued shares, the company may allot the forfeited shares to a third party under certain conditions, including in relation to the purchase price of such shares, although in principle, the company must withdraw the forfeited shares. Under the Korean Commercial Code, when a company issues new shares by way of allotment to a third party, such company must notify its stockholders or make public notice of the conditions and other details of such new shares not less than two weeks prior to the relevant subscription payment date. Under the Financial Investment Services and Capital Markets Act, however, a listed company may substitute such notification or public notice by disclosing the material fact in a report publicly filed with the listing authorities.

Under the Financial Investment Services and Capital Markets Act, members of a company's employee stock ownership association, whether or not they are shareholders, have a preemptive right, subject to certain exceptions, to subscribe for up to 20% of the shares publicly offered pursuant to the Financial Investment

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Services and Capital Markets Act. However, this right is exercisable only to the extent that the total number of shares so acquired and held by such members does not exceed 20% of the total number of shares to be newly issued and shares then outstanding. As of December 31, 2015, the employee stock ownership association owned 21,273,373 shares of our common stock.

General Meeting of Shareholders

There are two types of general meetings of shareholders: annual general meetings and extraordinary general meetings. We are required to convene our annual general meeting within three months after the end of each fiscal year. Subject to a board resolution or court approval, an extraordinary general meeting of shareholders may be held when necessary or at the request of our Audit Committee. In addition, under the Korean Commercial Code, an extraordinary general meeting of shareholders may be held at the request of the shareholders holding shares for at least 6 months of an aggregate of 1.5% or more of the outstanding shares with voting rights of the listed company, subject to a board resolution or court approval. Furthermore, under the Financial Holding Companies Act of Korea, an extraordinary general meeting of shareholders may be held at the request of the shareholders holding shares for at least 6 months of an aggregate of 1.5% (0.75% in the case of a financial holding company (i) whose total assets at the end of the latest fiscal year is ₩5 trillion or more and (ii) who is in control of two or more subsidiaries, each with total assets of ₩2 trillion or more) or more of the outstanding shares of the company, subject to a board resolution or court approval. Meeting agendas are determined by the board of directors or proposed by holders of an aggregate of 3% or more of the outstanding shares with voting rights by way of a written proposal to the board of directors at least six weeks prior to the meeting. In addition, under the Korean Commercial Code, the meeting agenda may be proposed by the shareholders holding shares for at least 6 months of an aggregate of 1% (0.5% in the case of a listed company whose capital at the end of the latest operating year is ₩100 billion or more) or more of the outstanding shares of the listed company. Furthermore, under the Financial Holding Companies Act, the meeting agenda may be proposed by the shareholders holding shares for at least 6 months of an aggregate of 0.5% (0.25% in the case of a financial holding company (i) whose total assets at the end of the latest fiscal year is ₩5 trillion or more and (ii) who is in control of two or more subsidiaries, each with total assets of ₩2 trillion or more) or more of the outstanding shares of the company. Written notices stating the date, place and agenda of the meeting must be given to the shareholders at least two weeks prior to the date of the general meeting of shareholders; provided, that, notice may be given to holders of 1% or less of the total number of issued and outstanding shares which are entitled to vote, by placing at least two public notices at least two weeks in advance of the meeting in at least two daily newspapers or by using an electronic method defined under the Korean Commercial Code and related regulations at least two weeks in advance of the meeting. Currently, we use *The Korea Economic Daily* and *Maeil Business Newspaper* for the publication of such notices. Shareholders who are not on the shareholders' register as of the record date are not entitled to receive notice of the general meeting of shareholders, and they are not entitled to attend or vote at such meeting.

The general meeting of shareholders is held at our executive office (which is our registered executive office) or, if necessary, may be held anywhere in the vicinity of our executive office.

Voting Rights

Holders of common shares are entitled to one vote for each share. However, voting rights with respect to common shares that we hold and common shares that are held by a corporate shareholder, more than one-tenth of the outstanding capital stock of which is directly or indirectly owned by us, may not be exercised. Unless stated otherwise in a company's Articles of Incorporation, the Korean Commercial Code permits holders of an aggregate of 3% (1%, in case of a company whose total assets as at the end of the latest fiscal year is ₩2 trillion or more) or more of the outstanding shares with voting rights to request cumulative voting when electing two or more directors. Our Articles of Incorporation currently do not prohibit cumulative voting. In addition, under the Korean Commercial Code, in case

of appointment of an audit committee member who is an outside director, any shareholder holding more than 3% of the outstanding shares with voting rights shall not exercise its voting rights

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with respect to any portion of its shares exceeding the 3% limit; and in case of appointment of an audit committee member who is a non-outside director, the largest shareholder (together with certain related persons) holding more than 3% of the outstanding shares with voting rights shall not exercise its voting rights with respect to any portion of its shares exceeding the 3% limit.

The Korean Commercial Code and our Articles of Incorporation provide that an ordinary resolution may be adopted if approval is obtained from the holders of at least a majority of those common shares present or represented at such meeting and such majority also represents at least one-fourth of the total of our issued and outstanding common shares. Holders of non-voting shares (other than enfranchised non-voting shares) are not entitled to vote on any resolution or to receive notice of any general meeting of shareholders unless the agenda of the meeting includes consideration of a resolution on which such holders are entitled to vote. The Korean Commercial Code provides that a company's articles of incorporation may prescribe conditions for enfranchisement of non-voting shares. For example, if our general shareholders' meeting resolves not to pay to holders of preferred shares the annual dividend as determined by the board of directors at the time of issuance of such shares, the holders of preferred shares will be entitled to exercise voting rights from the general shareholders' meeting immediately following the meeting adopting such resolution until the end of the meeting to declare to pay such dividend with respect to the preferred shares. Holders of such enfranchised preferred shares have the same rights as holders of common shares to request, receive notice of, attend and vote at a general meeting of shareholders.

The Korean Commercial Code provides that to amend the Articles of Incorporation (which is also required for any change to the authorized share capital of the company) and in certain other instances, including removal of a director of a company, dissolution, merger or consolidation of a company, transfer of the whole or a significant part of the business of a company, acquisition of all of the business of any other company or issuance of new shares at a price lower than their par value, a special resolution must be adopted by the approval of the holders of at least two-thirds of those shares present or represented at such meeting and such special majority must also represent at least one-third of the total issued and outstanding shares with voting rights of the company.

In addition, in the case of amendments to the Articles of Incorporation or any merger or consolidation of a company or in certain other cases which affect the rights or interest of the shareholders of the preferred shares, a resolution must be adopted by a separate meeting of shareholders of the preferred shares. Such a resolution may be adopted if the approval is obtained from shareholders of at least two-thirds of the preferred shares present or represented at such meeting and such preferred shares also represent at least one-third of the total issued and outstanding preferred shares of the company.

A shareholder may exercise his voting rights by proxy given to another shareholder. If a particular shareholder intends to obtain proxy from another shareholder, a reference document specified by the Financial Supervisory Service must be sent to the shareholder giving proxy, with a copy furnished to the company's executive office or the branch office, transfer agent and the Financial Services Commission. The proxy must present the power of attorney prior to the start of the general meeting of shareholders.

Rights of Dissenting Shareholders

Pursuant to the Financial Investment Services and Capital Markets Act, in certain limited circumstances (including, without limitation, if we transfer all or any significant part of our business or if we merge or consolidate with another company), dissenting holders of shares have the right to require us to purchase their shares. Pursuant to the Financial Holding Companies Act, the Financial Investment Services and Capital Markets Act and the Korean Commercial Code, if a financial holding company acquires a new direct or indirect subsidiary through the exchange or transfer of shares except in limited circumstances, the dissenting holders of such shares have the right to require us to purchase

their shares. To exercise such a right, shareholders must submit to us a written notice of their intention to dissent prior to the general meeting of shareholders. Within 20 days (or 10 days under certain circumstances according to the Financial Holding Companies Act) after the date

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on which the relevant resolution is passed at such meeting, such dissenting shareholders must request in writing that we purchase their shares. We are obligated to purchase the shares of dissenting shareholders within one month after the end of such request period at a price to be determined by negotiation between the shareholder and us. If we cannot agree on a price with the shareholder through such negotiations, the purchase price will be the arithmetic mean of (1) the weighted average of the daily closing share prices on the KRX KOSPI Market of the Korea Exchange for two months prior to the date of the adoption of the relevant board of directors' resolution, (2) the weighted average of the daily closing share prices on the KRX KOSPI Market of the Korea Exchange for one month prior to the date of the adoption of the relevant board of directors' resolution and (3) the weighted average of the daily closing share prices on the KRX KOSPI Market of the Korea Exchange for one week prior to the date of the adoption of the relevant board of directors' resolution. If we or the dissenting shareholder who requested purchase of their shares do not accept such purchase price, we or the shareholder may request to the court to adjust such purchase price.

Register of Shareholders and Record Dates

We maintain the register of our shareholders at our transfer agent's office in Seoul, Korea. The Korea Securities Depository as our transfer agent, registers transfers of shares on the register of shareholders upon presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, the register of shareholders may be closed for the period from January 1 of each year up to January 15 of such year. Further, the Korean Commercial Code and the Articles of Incorporation permit us upon at least two weeks' public notice to set a record date and/or close the register of shareholders for not more than three months for the purpose of determining the shareholders entitled to certain rights pertaining to the shares. The trading of shares and the delivery of certificates in respect thereof may continue while the register of shareholders is closed.

Other Shareholder Rights

Our articles of incorporation do not have sinking fund provisions or provisions creating liability to further capital calls. Other than to amend our articles of incorporation in accordance with the Korean Commercial Code, no particular action is necessary to change the rights of holders of our capital stock. In addition, our articles of incorporation do not have specific provisions for governing changes in capital or which would have an effect of delaying, deferring or preventing a change in control of us and that would operate only with respect to a merger, acquisition or corporate restructuring involving us or any of our subsidiaries.

Directors

Under the Korean Commercial Code and our articles of incorporation, any director wishing to enter into a transaction with us or our subsidiaries in his or her personal capacity is required to obtain the prior approval of the board of directors, and any director having an interest in the transaction may not vote at the meeting of the board of directors to approve the transaction.

Neither our articles of incorporation nor applicable Korean laws have provisions relating to (i) the directors' power, in the absence of an independent quorum, to vote compensation to themselves or any members of their body (ii) borrowing powers exercisable by the directors and how such borrowing powers can be varied; (iii) retirement or non-retirement of directors under an age limit requirement; or (iv) the number of shares required for a director's qualification.

Description of Preferred Stock

On January 25, 2007, as part of funding our acquisition of LG Card, we issued 28,990,000 Series 10 non-voting redeemable preferred shares. On January 25, 2012, we redeemed all of the Series 10 preferred shares.

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On January 25, 2007, as part of funding our acquisition of LG Card, we issued 14,721,000 Series 11 non-voting redeemable convertible preferred shares. On January 25, 2012, we redeemed all of the Series 11 preferred shares.

On April 21, 2011, as part of funding for preferred stocks due to be redeemed in January 2012, we issued 11,100,000 Series 12 non-voting redeemable preferred shares for the subscription price of ₩100,000 per share, or ₩1,110 billion in the aggregate. On April 21, 2016, we redeemed all of the Series 12 redeemable preferred shares.

There is currently no outstanding preferred stock.

Annual Report

Under the Financial Investment Services and Capital Markets Act, we must file with the Financial Services Commission and the Korea Exchange an annual business report (containing audit report and audited annual nonconsolidated and consolidated financial statements) within 90 days after the end of our fiscal year as well as a semiannual business report within 45 days after the end of the first six months of our fiscal year and quarterly business reports within 45 days after the end of the first three months and nine months of our fiscal year, respectively (in each case, containing review report and reviewed interim nonconsolidated and consolidated financial statements). Copies of such reports are available for public inspection at the websites of the Financial Services Commission and the Korea Exchange.

Transfer of Shares

Under the Korean Commercial Code, the transfer of shares is effected by the delivery of share certificates. In order to exercise shareholders' rights, the transferee must have his name and address registered on the register of shareholders. For this purpose, shareholders are required to file with us their name, address and seal. Nonresident shareholders must notify us of the name of their proxy in Korea to which our notice can be sent. Under the Financial Services Commission regulations, nonresident shareholders may appoint a standing proxy and may not allow any person other than the standing proxy to exercise rights regarding the acquired share or perform any task related thereto on his behalf, subject to certain exceptions. Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians are authorized to act as standing proxy and provide related services. Certain foreign exchange controls and securities regulations apply to the transfer of shares by nonresidents or non-Koreans. See Item 10.D. Exchange Controls. As to the ceiling on the aggregate shareholdings of a single shareholder and persons who have a special relationship with such shareholder, please see Item 4.B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restrictions on Financial Holding Company Ownership.

Acquisition of Treasury Shares

Under the Korean Commercial Code, we may acquire our own shares upon a resolution of the general meeting of the shareholders by either (i) purchasing them on a stock exchange or (ii) purchasing a number of shares, other than the redeemable shares as set forth in Article 345, Paragraph (1) of the Korean Commercial Code, from each shareholder in proportion to its existing shareholding ratio through the methods set forth in the Presidential Decree, provided that the total purchase price does not exceed the amount of our profit that may be distributed as dividends in respect of the immediately preceding fiscal year.

In addition, pursuant to the Financial Investment Services and Capital Markets Act and regulations under the Financial Holding Companies Act, we may purchase our own shares on the KRX KOSPI Market of the Korea Exchange,

through a tender offer, or through a trust agreement with a trust company, or retrieve our own shares

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from a trust company upon termination of a trust agreement, subject to the restrictions that (1) the aggregate purchase price of such shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year less the amounts of dividends and reserves for such fiscal year, subtracted by the sum of (a) the purchase price of treasury stock acquired if any treasury stock has been purchased after the end of the preceding fiscal year pursuant to the Commercial Act or the Financial Investment Services and Capital Markets Act, (b) the amount subject to trust agreements, and (c) the amount of dividends approved at the ordinary general shareholders meeting after the end of the preceding fiscal year and the amount of retained earnings reserve required under the Commercial Act; plus if any treasury stock has been disposed of after the end of the preceding fiscal year, the acquisition cost of such treasury stock and (2) the purchase of such shares shall meet the requisite capital ratio under the Financial Holding Companies Act and the guidelines issued by the Financial Services Commission. In general, under the Financial Holding Companies Act, our subsidiaries are not permitted to acquire our shares.

Liquidation Rights

In the event we are liquidated, the assets remaining after the payment of all debts, liquidation expenses and taxes will be distributed to shareholders in proportion to the number of shares held by such shareholders. Holders of preferred shares may have preferences over holders of common shares in liquidation.

ITEM 10.C. Material Contracts

None.

ITEM 10.D. Exchange Controls**General**

The Foreign Exchange Transaction Act of Korea the related Presidential Decree and the regulations under such Act and Decree (collectively the Foreign Exchange Transaction Laws) herein, regulate investment in Korean securities by nonresidents and issuance of securities by Korean companies outside Korea. Under the Foreign Exchange Transaction Laws, nonresidents may invest in Korean securities only to the extent specifically allowed by these laws or otherwise permitted by the Ministry of Strategy and Finance of Korea. The Financial Services Commission has also adopted, pursuant to its authority under the Financial Investment Services and Capital Markets Act, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities by Korean companies outside Korea.

Under the Foreign Exchange Transaction Laws, (1) if the Korean government determines that it is inevitable due to the outbreak of natural calamities, wars, conflict of arms or grave and sudden changes in domestic or foreign economic circumstances or other situations equivalent thereto, the Ministry of Strategy and Finance may temporarily suspend payment, receipt or the whole or part of transactions to which the Foreign Exchange Transaction Laws apply, or impose an obligation to safe keep, deposit or sell means of payment in or to certain Korean governmental agencies or financial institutions; and (2) if the Korean government determines that international balance of payments and international finance face or are likely to face serious difficulty or the movement of capital between Korea and abroad will cause or is likely to cause serious obstacles in carrying out its currency policies, exchange rate policies and other macroeconomic policies, the Ministry of Strategy and Finance may take measures to require any person who intends to perform capital transactions to obtain permission or to require any person who performs capital transactions to deposit part of the payments received in such transactions at certain Korean governmental agencies or financial institutions, in each case subject to certain limitations.

Restrictions Applicable to Shares

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account

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exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to make a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a financial investment company with a securities dealing or brokerage license. Funds in the foreign currency account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Won. No Korean governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a nonresident of Korea must be deposited either in a Won account with the investor's financial investment company with a securities dealing or brokerage license or in his Won account. Funds in the investor's Won account may be transferred to his foreign currency account or withdrawn for local living expenses, provided that any withdrawal of local living expenses by any one person exceeding US\$10,000 per day needs to be reported to the governor of the Financial Supervisory Service by the foreign exchange bank at which the Won account is maintained. Funds in the Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Financial investment companies with a securities dealing, brokerage or collective investment license are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, financial companies with a securities dealing, brokerage or collective investment license may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

ITEM 10.E. Taxation

The following summary is based upon tax laws, regulations, rulings, decrees, income tax conventions (treaties), administrative practice and judicial decisions of Korea and the United States as of the date of this annual report, and is subject to any change in Korean or United States law that may come into effect after such date. Investors in shares of common stock or American depositary shares are advised to consult their own tax advisers as to the Korean, United States or other tax consequences of the purchase, ownership and disposition of such securities, including the effect of any national, state or local tax laws.

Korean Taxation

The following summary of Korean tax considerations applies to you so long as you are not:

a resident of Korea;

a corporation having its head office, principal place of business, or place of effective management in Korea (a Korean corporation); or

engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

Taxation of Dividends on Shares of Common Stock or American Depositary Shares

We will deduct Korean withholding tax from dividends (whether in cash or in shares) paid to you at a rate of 22% (including local income surtax). If you are a qualified resident and a beneficial owner of the dividends in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See Tax Treaties below for a discussion of treaty benefits. If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in capital, such distribution may be subject to a Korean withholding tax.

Table of Contents***Taxation of Capital Gains from Transfer of Common Shares or American Depositary Shares***

As a general rule, capital gains earned by non-residents upon transfer of our common shares or American depositary shares (ADSs) are subject to a Korean withholding tax at the lower of (1) 11% (including local income surtax) of the gross proceeds realized or (2) 22% (including local income surtax) of the net realized gain, subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs associated with common shares or ADSs, unless exempt from Korean income taxation under an applicable tax treaty between Korea and the country of your tax residence. See **Tax Treaties** below for a discussion on treaty benefits. Even if you do not qualify for the exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you meet certain requirements for the exemption under Korean domestic tax laws discussed in the following paragraphs.

You will not be subject to the Korean income taxation on capital gains realized upon a transfer of our common shares through the Korea Exchange if you (1) have no permanent establishment in Korea and (2) do not own and have never owned (together with any shares owned by any entity with which you have a special relationship and possibly including the shares represented by the ADSs) 25% or more of our total issued and outstanding shares at any time during the calendar year in which the sale occurs and during the five consecutive calendar years prior to the calendar year in which the sale occurs.

Under the tax law amendments effective for capital gains recognized or to be recognized from disposition of ADSs on or after January 1, 2008, ADSs are viewed as shares of stock for capital gains tax purposes. Accordingly, capital gains from sale or disposition of ADSs are taxed (if taxable) as if such gains are from sale or disposition of shares of our common stock. It should be noted that (i) capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside Korea will generally be exempt from Korean income taxation by virtue of the Special Tax Treatment Control Law of Korea, or the STTCL, provided that the issuance of ADSs is deemed to be an overseas issuance under the STTCL, but (ii) in the case where an owner of the underlying shares of stock transfers ADSs after conversion of the underlying shares into ADSs, the exemption under the STTCL described in (i) will not apply. In the case where an owner of the underlying shares of stock transfers the ADSs after conversion of the underlying shares of stock into ADSs, such person is obligated to file corporate income tax returns and pay tax unless a purchaser or a financial investment company with a brokerage license, as applicable, withholds and pays the tax on capital gains derived from transfer of ADSs, as discussed below.

If you are subject to tax on capital gains with respect to a sale of common shares or ADSs, the purchaser or, in the case of a sale of common shares on the Korea Exchange or through a financial investment company with a brokerage license in Korea, the financial investment company is required to withhold Korean tax from the sales proceeds in an amount equal to 11% (including local income surtax) of the gross realization proceeds and to remit the withheld tax to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law or produce satisfactory evidence of your acquisition costs and certain direct transaction costs associated with common shares or ADSs. See the discussion under **Tax Treaties** below for an explanation of claiming treaty benefits.

Tax Treaties

Korea has entered into a number of income tax treaties with other countries, including the United States, which reduce or exempt Korean withholding tax on the income derived by residents of such treaty countries. For example, under the Korea-U.S. income tax treaty, reduced rates of Korean withholding tax on dividends of 16.5% or 11.0%, respectively (including local income surtax), depending on your shareholding ratio, and an exemption from Korean withholding tax on capital gains are generally available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains. However, under Article 17 (Investment or Holding Companies) of the

Korea-U.S. income tax treaty, such reduced rates and exemption do not apply if (1) you are a United States corporation, (2) by reason of any special measures the tax imposed on you by the United States with respect to such dividends or capital gains is substantially less than the tax generally

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imposed by the United States on corporate profits, and (3) 25% or more of your capital is held of record or is otherwise determined, after consultation between competent authorities of the United States and Korea, to be owned directly or indirectly by one or more persons who are not individual residents of the United States. Also, under Article 16 (Capital Gains) of the Korea-U.S. income tax treaty, the exemption on capital gains does not apply if (a) you have a permanent establishment in Korea and any shares of common stock in which you hold an interest and which gives rise to capital gains are effectively connected with such permanent establishment, (b) you are an individual and you maintain a fixed base in Korea for a period or periods aggregating 183 days or more during the taxable year and your common shares, or ADSs giving rise to capital gains are effectively connected with such fixed base or (c) you are an individual and you are present in Korea for a period or periods of 183 days or more during the taxable year.

You should inquire for yourself whether you are entitled to the benefit of an income tax treaty with Korea. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser, the financial investment company, or other withholding agent, as the case may be, a certificate as to his tax residence. In the absence of sufficient proof, we, the purchaser, the financial investment company, or other withholding agent, as the case may be, must withhold tax at the normal rates. Furthermore, in order for you to claim the benefit of a tax rate reduction or tax exemption on certain Korean source income (e.g., dividends or capital gains) under an applicable tax treaty as the beneficial owner of such Korean source income, Korean tax law requires you (or your agent) to submit an application (in the case for reduced withholding tax rate, an application for entitlement to reduced tax rate, and in the case for exemption from withholding tax, an application for tax exemption) with a certificate of your tax residency issued by the competent authority of your country of tax residence, subject to certain exceptions (together, the BO application). For example, a U.S. resident would be required to provide a Form 6166 as a certificate of tax residency with the application for entitlement to reduced tax rate or the application for tax exemption, as the case may be. Subject to certain exceptions, where the relevant income is paid to an overseas investment vehicle that is not the beneficial owner of such income (an OIV), a beneficial owner claiming the benefit of an applicable tax treaty with respect to such income must submit its BO application to such OIV, which in turn must submit an OIV report and a schedule of beneficial owners to the withholding agent prior to the payment date of such income. In the case of a tax exemption application, the withholding agent is required to submit such application (together with the applicable OIV report in the event the income will be paid to an OIV) to the relevant district tax office by the ninth day of the month following the date of the payment of such income.

Inheritance Tax and Gift Tax

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you would be treated as the owner of the shares of common stock underlying the ADSs. If the tax authority interprets depositary receipts as the underlying share certificates, you may be treated as the owner of the shares of common stock and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax, which ranges from 10% to 50% recently, assessable based on the value of the ADSs or shares of common stock and the identity of the individual against whom the tax is assessed.

If you die while holding a common share or donate a subscription right or a common share, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

Securities Transaction Tax

If you transfer common shares through the Korea Exchange, you will be subject to a securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sales price of common shares. If your transfer of common shares is not made through the Korea Exchange, subject to certain exceptions, you will be subject to a securities transaction tax at the rate of 0.5% but will not be subject to an agriculture and fishery special surtax.

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Depository receipts, which the ADSs constitute, are included in the scope of securities transfer subject to securities transaction tax effective starting with transfers occurring on or after January 1, 2011. Nonetheless, transfer of depository receipts listed on a foreign securities exchange similar to the Korea (e.g. the New York Stock Exchange, the NASDAQ National Market) will not be subject to the securities transaction tax.

In principle, the securities transaction tax, if applicable, must be paid by a transferor of common shares. When a transfer is affected through a securities settlement company, such settlement company is generally required to withhold and remit the tax to the tax authorities. When such transfer is made through a financial investment company only, such financial investment company is required to withhold and remit the tax. Where a transfer is affected by a non-resident who has no permanent establishment in Korea by a method other than through a securities settlement company or a financial investment company, the transferee is required to withhold the securities transaction tax.

Non-reporting or underreporting of securities transaction tax will generally result in the imposition of penalties equal to 20% to 60% of the non-reported or 10% to 60% of underreported tax amount and a failure to timely pay securities transaction tax due will result in penalties of 10.95% per annum of the due but unpaid tax. The penalty is imposed on the party responsible for paying the securities transaction tax or, if the securities transaction tax is to be withheld, on the party that has the withholding obligation.

Certain United States Federal Income Tax Consequences

The following summary describes certain U.S. federal income tax considerations for beneficial owners of our common shares or ADSs that hold the common shares or ADSs as capital assets and are U.S. holders. You are a U.S. holder if you are for U.S. federal income tax purposes:

- (i) an individual citizen or resident of the United States;
- (ii) a corporation, or other entity treated as a corporation, created or organized in or under the laws of the United States, any state thereof or District of Columbia;
- (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source;
- (iv) a trust that is subject to the primary supervision of a court within the United States and has one or more U.S. persons with authority to control all substantial decisions of the trust; or
- (v) a trust that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

In addition, this summary only applies to you if you are a U.S. holder that is a resident of the United States for purposes of the current income tax treaty between the United States and Korea (the Treaty), your common shares or ADSs are not, for purposes of the Treaty, effectively connected with a permanent establishment in Korea and you otherwise qualify for the full benefits of the Treaty.

This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code) and regulations (including proposed regulations), rulings and judicial decisions thereunder as of the date hereof, as well as the Treaty, all of which are subject to change, perhaps retroactively. It is for general purposes only and you should not consider it to be tax advice. In addition, it is based in part on representations by the ADS depository and assumes that each obligation under the deposit agreement will be performed in accordance with its terms. This summary does not represent a detailed description of all the U.S. federal income tax consequences to you in light of your particular circumstances, and does not address the Medicare tax on net investment income or the effects of any state, local or non-U.S. tax laws. In addition, it does not represent a detailed description of the U.S. federal income tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws, including if you are:

a bank;

a dealer in securities or currencies;

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an insurance company or one of certain financial institutions;

a regulated investment company;

a real estate investment trust;

a tax-exempt entity;

a trader in securities that has elected to use a mark-to-market method of accounting for your securities holdings;

a person holding common shares or ADSs as part of a hedging, conversion, constructive sale or integrated transaction or a straddle;

a person liable for the alternative minimum tax;

a partnership or other pass-through entity for U.S. federal income tax purposes;

a person who owns or is deemed to own 10% or more of our voting stock; or

a person whose functional currency is not the U.S. Dollar.

If a partnership holds our common shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our common shares or ADSs, you are urged to consult your tax advisor.

You should consult your own tax advisor concerning the particular U.S. federal tax consequences to you of the ownership and disposition of common shares or ADSs as well as any consequences arising under the laws of any other taxing jurisdiction.

American Depositary Shares

If you hold ADSs, for U.S. federal income tax purposes, you generally will be treated as the owner of the underlying common shares that are represented by such ADSs. Accordingly, deposits or withdrawals of common shares for ADSs will not be subject to U.S. federal income tax.

Distributions on Common Shares or American Depositary Shares

Subject to the discussion below under **Passive Foreign Investment Company Rules**, the gross amount of distributions on our common shares or ADSs (including amounts withheld to reflect Korean withholding tax) will be taxable as

dividends to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Such income (including withheld taxes) will be includable in your gross income as ordinary income on the day you actually or constructively receive it, in the case of our common shares, or the day actually or constructively received by the ADS depository, in the case of ADSs. Such dividends will not be eligible for the dividends-received deduction allowed to corporations under the Code.

With respect to non-corporate U.S. holders, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States which the U.S. Treasury Department determines to be satisfactory for these purposes and which includes an exchange of information provision. The U.S. Treasury Department has determined that the Treaty meets these requirements, and we believe we are eligible for the benefits of the Treaty. A foreign corporation is also treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. Our common shares will generally not be considered readily tradable for these purposes. U.S. Treasury Department guidance indicates that securities such as our ADSs, which are listed on the New York Stock Exchange, are treated as readily tradable on an established securities market in the United States for these purposes. There can be no assurance that our ADSs

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will be considered readily tradable on an established securities market in later years. Non-corporate U.S. holders that do not meet a minimum holding period requirement during which they are not protected from a risk of loss or that elect to treat the dividend income as investment income pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. Furthermore, non-corporate U.S. holders will not be eligible for the rate reduction if we are a passive foreign investment company (as discussed below under **Passive Foreign Investment Company Rules**) in the taxable year in which such dividends are paid or were a passive foreign investment company in the preceding taxable year. If you are a non-corporate U.S. holder, you should consult your own tax advisor regarding the application of these rules given your particular circumstances.

The amount of any dividend paid in Korean Won will equal the U.S. Dollar value of the Korean Won received calculated by reference to the exchange rate in effect on the date you receive the dividend, in the case of our common shares, or the date received by the ADS depository, in the case of ADSs, regardless of whether the Korean Won are converted into U.S. Dollars. If the Korean Won received as a dividend are converted into U.S. Dollars on the date they are received, you generally will not be required to recognize foreign currency gain or loss in respect of the dividend income. If the Korean Won received are not converted into U.S. Dollars on the day of receipt, you will have a basis in the Korean Won equal to their U.S. Dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the Korean Won will be treated as United States source ordinary income or loss.

Subject to certain significant conditions and limitations, Korean taxes withheld from dividends (at a rate not exceeding the rate provided in the Treaty) will be treated as foreign income taxes eligible for credit against your U.S. federal income tax liability. See **Korean Taxation Taxation of Dividends on Shares of Common Stock or American Depositary Shares** for a discussion of the Treaty rate. Korean taxes withheld in excess of the rate provided in the Treaty will not be eligible for credit against your U.S. federal income tax until you exhaust all effective and practical remedies to recover such excess withholding, including the seeking of competent authority assistance from the Internal Revenue Service. For purposes of the foreign tax credit, dividends paid on our common shares or ADSs will be treated as income from sources outside the United States and will generally constitute passive category income. If you do not elect to claim a credit for any foreign taxes paid during a taxable year, you may instead elect, subject to certain limitations, to claim a deduction in respect of such foreign taxes, provided that you apply this election to all foreign taxes paid or accrued in the taxable year.

Further, in certain circumstances, if you have held our common shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on our common shares or ADSs. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under U.S. federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction of your adjusted basis in our common shares or ADSs (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of our common shares or ADSs), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange. However, we do not expect to determine earnings and profits in accordance with U.S. federal income tax principles. Therefore, you should expect that a distribution will be reported and generally be treated as a dividend (as discussed above).

Distributions of our common shares or ADSs or rights to subscribe for our common shares or ADSs that are received as part of a pro rata distribution to all of our shareholders (including holders of ADSs) generally will not be subject to U.S. federal income tax to recipient common shareholders (including holders of ADSs).

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Consequently, such distributions will not give rise to foreign source income and you will not be able to use the foreign tax credit arising from any Korean withholding tax unless such credit can be applied (subject to applicable limitations) against U.S. tax due on other income derived from foreign sources.

Disposition of Common Shares or American Depositary Shares

For U.S. federal income tax purposes, you will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and your adjusted tax basis in our common shares or ADSs, as the case may be. Subject to the discussion under **Passive Foreign Investment Company Rules**, upon the sale, exchange or other disposition of our common shares or ADSs, such capital gain or loss will generally be long-term capital gain or loss if at the time of sale, exchange or other disposition, our common shares or ADSs have been held for more than one year. Capital gains of non-corporate U.S. holders (including individuals) derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss you recognize on the sale, exchange or other disposition of our common shares or ADSs will generally be treated as United States source gain or loss. Consequently, you may not be able to use the foreign tax credit arising from any Korean tax imposed on the disposition of our common shares or ADSs unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

You should note that any Korean securities transaction tax generally will not be treated as a creditable foreign tax for U.S. federal income tax purposes, although you may be entitled to deduct such taxes, subject to applicable limitations under the Code.

Passive Foreign Investment Company Rules

Based upon the past and projected composition of our income and valuation of our assets, we do not believe that we were a PFIC for 2015, and we do not expect to be a PFIC in 2016 or to become one in the foreseeable future, although there can be no assurance in this regard. However, PFIC status is a factual determination that is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in valuation or composition of our income or assets.

In general, we will be considered a PFIC for any taxable year in which:

at least 75% of our gross income is passive income; or

at least 50% of the value of our assets is attributable to assets that produce or are held for the production of passive income.

The 50% of value test is based on the average of the value of our assets for each quarter during the taxable year. For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). Certain proposed U.S. Treasury regulations and other administrative pronouncements from the Internal Revenue Service provide special rules for determining the character of income and assets derived in the active conduct of a banking business for purposes of the PFIC rules. Specifically, these rules treat certain income earned by a non-U.S. corporation engaged in the active conduct of a banking business as non-passive income. Although we believe we have adopted a reasonable interpretation of the proposed U.S. Treasury regulations and administrative pronouncements, there can be no

assurance that the Internal Revenue Service will follow the same interpretation. You should consult your own tax advisor regarding the application of these rules.

If we own at least 25% by value of another company's stock, we will be treated, for purposes of the PFIC rules, as owning our proportionate share of the assets and receiving our proportionate share of the income of that company.

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If we are a PFIC for any taxable year during which you hold our common shares or ADSs, you will be subject to special tax rules with respect to any excess distribution that you receive and any gain you realize from the sale or other disposition (including a pledge) of our common shares or ADSs. These special tax rules generally will apply even if we cease to be a PFIC in future years. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for our common shares or ADSs will be treated as excess distributions. Under these special tax rules:

the excess distribution or gain will be allocated ratably over your holding period for our common shares or ADSs;

the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we are a PFIC, will be treated as ordinary income; and

the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year, and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In certain circumstances, you could make a mark-to-market election, under which in lieu of being subject to the special rules discussed above, you will include gain on our common shares or ADSs on a mark-to-market basis as ordinary income, provided that our common shares or ADSs are regularly traded on a qualified exchange or other market. Our common shares are listed on the Korea Exchange, which must meet certain trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable U.S. Treasury regulations for purposes of the mark-to-market election, and no assurance can be given that the common shares are or will continue to be regularly traded for purposes of the mark-to-market election. Our ADSs are currently listed on the New York Stock Exchange, which constitutes a qualified exchange, although there can be no assurance that the ADSs are or will be regularly traded. If you make a valid mark-to-market election, you will include in each year as ordinary income the excess of the fair market value of your common shares or ADSs at the end of the year over your adjusted tax basis in the common shares or ADSs. You will be entitled to deduct as an ordinary loss each year the excess of your adjusted tax basis in the common shares or ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, in each year that we are a PFIC any gain you recognize upon the sale or other disposition of your common shares or ADSs will be treated as ordinary income, and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

A U.S. holder's adjusted tax basis in common shares or ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If a U.S. holder makes a mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the common shares or ADSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You should consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable with respect to your particular circumstances.

In addition, a holder of common shares or ADSs in a PFIC can sometimes avoid the rules described above by electing to treat the company as a qualified electing fund under Section 1295 of the Code. This option is not available to you because we do not intend to comply with the requirements necessary to permit holders to make this election.

If you hold our common shares or ADSs in any year in which we are classified as a PFIC, you would be required to file Internal Revenue Service Form 8621.

Non-corporate U.S. holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a PFIC in the taxable year in which such dividends are paid or were a PFIC in the preceding taxable

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year. You should consult your tax advisor concerning the determination of our PFIC status and the U.S. federal income tax consequences of holding our common shares or ADSs if we are considered a PFIC in any taxable year.

Information Reporting and Backup Withholding

In general, information reporting will apply to dividends in respect of our common shares or ADSs and the proceeds from the sale, exchange or other disposition of our common shares or ADSs that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

ITEM 10.F. Dividends and Paying Agents

Not applicable.

ITEM 10.G. Statements by Experts

Not applicable.

ITEM 10.H. Documents on Display

We are subject to the information requirements of the U.S. Securities Exchange Act of 1934, as amended, and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. You may inspect and copy these materials, including this annual report and the exhibits thereto, at SEC's Public Reference Room 100 Fifth Street, N.E., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are also required to make filings with the Commission by electronic means. Any filings we make electronically will be available to the public over the Internet at the Commission's web site at <http://www.sec.gov>.

ITEM 10.I. Subsidiary Information

Not applicable.

ITEM 11. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

See Item 4.B. Business Overview Risk Management for quantitative and qualitative disclosures about market risk.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

ITEM 12.A. Debt Securities

Not applicable.

ITEM 12.B. Warrants and Rights

Not applicable.

Table of Contents**ITEM 12.C. Other Securities**

Not applicable.

ITEM 12.D. American Depositary Shares***Depositary Fees and Charges***

Under the terms of the Deposit Agreement in respect of our American depositary shares (ADSs), the holder of ADSs may be required to pay the following fees and charges to Citibank, N.A., acting as depositary for our ADSs:

Item	Services	Fees	Paid by
1	Issuance of ADSs upon deposit of common shares (excluding issuances contemplated by items 3(b) and 5 below	Up to US\$5.00 per 100 ADSs (or fraction thereof) issued	Person depositing common shares or person receiving ADSs
2	Delivery of deposited securities against surrender of ADSs	Up to US\$5.00 per 100 ADSs (or fraction thereof) surrendered	Person surrendering ADSs for purpose of withdrawal of deposited securities or person to whom deposited securities are delivered
3	Distribution of (a) cash dividends or (b) ADSs pursuant to stock dividends	No fee, to the extent prohibited by the exchange on which the ADSs are listed. If the charging of such fee is not prohibited, the fees specified in item 4 below shall be payable	Person to whom distribution is made
4	Distribution of (a) cash proceeds (i.e., upon sale of rights and other entitlements) or (b) free shares in the form of ADSs (not constituting a stock dividend)	Up to US\$2.00 per 100 ADSs (or fraction thereof) held	Person to whom distribution is made
5	Distribution of securities other than ADSs or rights to purchase additional ADSs (i.e., spinoff shares)	Up to US\$5.00 per 100 ADSs (or fraction thereof) distributed	Person to whom distribution is made
6	Depositary Services	Unless prohibited by the exchange on which the ADSs are listed, up to US\$2.00 per 100 ADSs (or fraction thereof) held as of the last day of each calendar year, except to the extent of any cash dividend fee(s) charged under paragraph (3)(a) above during the applicable	Person holding ADSs on last day of calendar year

		calendar year	
7	Distribution of ADSs pursuant to exercise of rights to purchase additional ADSs	Up to US\$2.00 per 100 ADSs (or fraction thereof) held	Person who exercises such rights

Holders and beneficial owners of ADSs, persons depositing common shares for deposit and persons surrendering ADSs for cancellation and for the purpose of withdrawing deposited securities shall be responsible for the following charges:

- (i) taxes (including applicable interest and penalties) and other governmental charges;
- (ii) such registration fees as may from time to time be in effect for the registration of common shares or other deposited securities on the share register and applicable to transfers of common shares or other deposited securities to or from the name of the custodian, the depository or any nominees upon the making of deposits and withdrawals, respectively;

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- (iii) such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreement to be at the expense of the person depositing or withdrawing common shares or holders and beneficial owners of ADSs;
- (iv) the expenses and charges incurred by the depository in the conversion of foreign currency;
- (v) such fees and expenses as are incurred by the depository in connection with compliance with exchange control regulations and other regulatory requirements applicable to common shares, deposited securities, ADSs and ADRs; and
- (vi) the fees and expenses incurred by the depository, the custodian or any nominee in connection with the servicing or delivery of deposited securities.

Depository fees payable upon the issuance and cancellation of ADSs are typically paid to the depository by the brokers (on behalf of their clients) receiving the newly-issued ADSs from the depository and by the brokers (on behalf of their clients) delivering the ADSs to the depository for cancellation. The brokers in turn charge these transaction fees to their clients.

Depository fees payable in connection with distributions of cash or securities to ADS holders and the depository services fee are charged by the depository to the holders of record of ADSs as of the applicable ADS record date. The depository fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividends, rights offerings), the depository charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or un-certificated in direct registration), the depository sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts via the central clearing and settlement system, The Depository Trust Company (DTC), the depository generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depository banks.

In the event of refusal to pay the depository fees, the depository may, under the terms of the Deposit Agreement, refuse the requested service until payment is received or may set-off the amount of the depository fees from any distribution to be made to the ADS holder.

The fees and charges the ADS holders may be required to pay may vary over time and may be changed by us and by the depository. The ADS holders will receive prior notice of such changes.

Depository Payments for the Fiscal Year 2015

In 2015, we received the following payments from Citibank, N.A., acting as depository for our ADSs:

Reimbursement of settlement infrastructure fees (including DTC fees)	US\$
Reimbursement of proxy process expenses (printing, postage and distribution)	US\$ 45,603.92
Legal expenses	US\$

Contributions towards our investor relations efforts (i.e. non-deal roadshows, investor conferences and IR agency fees) and legal expenses incurred in connection to the preparation of our Form 20-F for the fiscal year 2014	US\$ 318,707.85
Total:	US\$ 364,311.77

Note: The amounts provided above are after deduction of applicable of U.S. taxes.

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PART II

ITEM 13. *DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES*

Not applicable.

ITEM 14. *MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS*

Not applicable.

ITEM 15. *CONTROLS AND PROCEDURES*

Disclosure Control

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of December 31, 2015. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that the design and operation of our disclosure controls and procedures as of December 31, 2015 were effective to provide reasonable assurance that information required to be disclosed by us in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decision regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, for our company. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our internal control over financial reporting as of December 31, 2015 based on the framework established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Internal Control-Integrated Framework (2013) suspended the original framework issued by COSO in 1992 on December 15, 2014. We adopted the 2013 Framework on December 15, 2014. Further details of the changes made are set out below. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (3) provide reasonable assurance

regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements. Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2015. The effectiveness of our internal control over financial reporting has been audited by KPMG

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Samjong, an independent registered public accounting firm, who has also audited our consolidated financial statements for the year ended December 31, 2015. KPMG Samjong has issued an attestation report on the effectiveness of our internal control over financial reporting under Auditing Standard No. 5 of the Public Company Accounting Oversight Board, which is included herein.

Attestation Report of the Independent Registered Public Accounting Firm

KPMG Samjong's attestation report on the effectiveness of internal control over financial reporting can be found on page F-2 of this annual report.

ITEM 16 [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Audit Committee currently consists of three outside directors, namely Lee Manwoo, Lee Sang-kyung and Lee Sung-ryang. Our board of directors has determined that Lee Manwoo, the chairman of our Audit Committee is an audit committee financial expert, as such term is defined by the regulations of the Securities and Exchange Commission issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Lee Manwoo, Lee Sang-kyung and Lee Sung-ryang are independent as such term is defined in Section 303A.02 of the NYSE Listed Company Manual, Rule 10A-3 under the Exchange Act and the Korea Stock Exchange listing standards.

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics for our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions as required under Section 406 of the Sarbanes-Oxley Act of 2002, together with an insider reporting system in compliance with Section 301 of the Sarbanes-Oxley Act. We have not granted any waiver, including an implicit waiver, from a provision of the code of ethics to any of the above-mentioned officers during our most recently completed fiscal year. As a further detailed guideline to the code of ethics, we have also adopted a code of ethics applicable to all the officers and employees of our holding company and our subsidiaries and established a supplemental code of behavior for all officers and employees of our holding company and our subsidiaries in order to provide additional guideline for the performance of their work-related duties as well as their daily behavior. Our code of ethics is available on our website www.shinhangroup.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees billed for professional services rendered by KPMG Samjong Accounting Corp. for the years ended December 31, 2013, 2014 and 2015, our principal accountants for the respective period, depending on the various types of services and a brief description of the nature of such services.

**Aggregate Fees Billed During
the
Year Ended December 31,**

Type of Services
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Nature of Services

	2013	2014	2015	
	(In millions of Won)			
Audit fees	₩5,004	₩5,619	₩6,066	Audit service for Shinhan Financial Group and its subsidiaries.
Tax fees	171	190	213	Tax return and consulting advisory service.
All other fees	250			All other services which do not meet the two categories above. ⁽¹⁾
Total	₩5,425	₩5,809	₩6,279	

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Note:

(1) Due diligence service fee.

Our Audit Committee generally pre-approves all engagements of our principal accountants pursuant to policies and procedures adopted by it. Our Audit Committee has adopted the following policies and procedures for consideration and approval of requests to engage our principal accountants to perform audit and non-audit services. Engagement requests must in the first instance be submitted as follows: (i) in the case of audit and non-audit services for our holding company, to our Planning & Financial Management subject to reporting to our Chief Financial Officer; and (ii) in the case of audit and non-audit services for our subsidiaries, to our Audit and Compliance Team subject to reporting to the Senior Executive Vice President of Audit & Compliance Team. If the request relates to services that would impair the independence of our principal accountants, the request must be rejected. If the engagement request relates to audit and permitted non-audit services, it must be forwarded to the Audit Committee for consideration. To facilitate the consideration of engagement requests between its meetings, the Audit Committee has delegated approval authority of the following: (i) permitted non-audit services to our holding company, (ii) audit services to our subsidiaries and (iii) permitted non-audit services to our subsidiaries, to one of its members who is independent as defined by the Securities and Exchange Commission and the New York Stock Exchange. Such member in our case is Lee Manwoo, the chairman of our Audit Committee, and he is required to report any approvals made by them to the Audit Committee at its next meeting. Our Audit Committee meets regularly once every quarter.

Any other audit or permitted non-audit service must be pre-approved by the Audit Committee on a case-by-case basis. Our Audit Committee did not pre-approve any non-audit services under the de minimis exception of Rule 2.01(c)(7)(i)(C) of Regulation S-X as promulgated by the Securities and Exchange Commission.

ITEM 16D. *EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES*

Not applicable.

ITEM 16E. *PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS*

Neither we nor any affiliated purchaser, as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

ITEM 16F. *CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT*

Not applicable.

ITEM 16G. *CORPORATE GOVERNANCE*

We are committed to high standards of corporate governance. We are in compliance with the corporate governance provisions of the Korean Commercial Code, the Financial Holding Companies Act of Korea, the Financial Investment

Services and Capital Markets Act and the Listing Rules of the Korea Exchange. We, like all other companies in Korea, must comply with the corporate governance provisions of the Korean Commercial Code. In addition, as a financial holding company, we are also subject to the Financial Holding Companies Act. Also, our subsidiaries that are financial institutions must comply with the respective corporate governance provisions under the relevant laws under which they were established.

We are a foreign private issuer (as such term is defined in Rule 3b-4 under the Exchange Act), and our ADSs are listed on the New York Stock Exchange, or NYSE. Under Section 303A of the NYSE Listed Company Manual, NYSE-listed companies that are foreign private issuers are permitted to follow home country practice in

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lieu of the corporate governance provisions specified by the NYSE with limited exceptions. Under the NYSE Listed Company Manual, we as a foreign private issuer are required to disclose significant differences between NYSE's corporate governance standards and those we follow under Korean law. The following summarizes some significant ways in which our corporate governance practices differ from those followed by U.S. companies listed on the NYSE under the listing rules of the NYSE:

Majority of Independent Directors on the Board

Under the NYSE listing rules, U.S. companies listed on the NYSE must have a board the majority of which is comprised of independent directors satisfying the requirements of independence as set forth in Rule 10A-3 under the Exchange Act. While as a foreign private issuer, we are exempt from this requirement, but our board of directors is in compliance with this requirement as it currently consists of 12 directors, of which ten directors satisfy the requirements of independence as set forth in Rule 10A-3 under the Exchange Act. Nine of our directors are also outside directors as defined in the Financial Holding Companies Act of Korea. An outside director for purposes of the Financial Holding Companies Act and the Korean Commercial Code means a director who does not engage in the regular affairs of the financial holding company, and who is elected at a shareholders' meeting, after having been nominated by the outside director nominating committee, and none of the largest shareholder, those persons specially related to the largest shareholder of such company, persons who during the past two years have served as an officer or employee of such company, the spouses and immediate family members of an officer of such company, and certain other persons specified by law may qualify as an outside director of such company. Under the Korea Exchange listing rules and the Korean Commercial Code, at least one-fourth of a listed company's directors must be outside directors provided that there must be at least three outside directors. In the case of large listed companies as defined under the Korean Commercial Code, like us, a majority of the directors must be outside directors.

Executive Session

Under the NYSE listing rules, non-management directors of U.S. companies listed on the NYSE are required to meet on a regular basis without management present and independent directors must meet separately at least once per year. There is no such requirement under Korean law or listing standards or our internal regulations.

Audit Committee

Under the NYSE listing rules, listed companies must have an audit committee that has a minimum of three members, and all audit committee members must satisfy the requirements of independence set forth in Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act. We are in compliance with this requirement as our Audit Committee is comprised of three outside directors meeting the requirements of independence set forth in Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act. Under the Korea Exchange listing rules and the Korean Commercial Code, a large listed company must also establish an audit committee of which at least two-thirds of its members must be outside directors and whose chairman must be an outside director. In addition, at least one member of the audit committee who is an outside director must also be an accounting or financial expert. We are also in compliance with the foregoing requirements.

Nomination/Corporate Governance Committee

Under the NYSE listing rules, U.S. companies listed on the NYSE must have a nomination/corporate governance committee composed entirely of independent directors. In addition to identifying individuals qualified to become board members, this committee must develop and recommend to the board a set of corporate governance principles. Under the Korean Commercial Code and other applicable laws, large listed companies, financial holding companies,

commercial banks, and certain other financial institutions are required to have an

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outside director nominating committee of which at least one-half of its members are required to be outside directors. However, there is no requirement to establish a corporate governance committee under applicable Korean law. We currently have a board steering committee which manages corporate governance practices applicable to us. Our outside director nominating committee is formed on an ad hoc basis prior to a general shareholders' meeting if the agenda for such meeting includes appointment of an outside director. The composition of the committee is in compliance with the relevant provisions under the Korean Commercial Code and the chairman of the committee must be an outside director pursuant to our outside director recommendation committee regulations. The board steering committee consists of five directors, including three outside directors.

A nomination/corporate governance committee is not required under Korean law. However, in March 2012, we established the Corporate Governance and Chief Executive Officer Recommendation Committee, which is responsible for reviewing and making recommendations in relation to the overall corporate governance of our group (including any aspects of corporate governance relating to code of ethics and other code of behavior, size of the board of directors and other matters necessary for improving our overall corporate governance structure), as well as recommendation of the nominees for the president and/or chief executive officer of our group and development, operation and review of our management succession plan, including setting the qualifications for the CEO, evaluating CEO candidate pool and recommending CEO candidates. The chairperson of the committee must be an outside director, and the incumbent CEO may be restricted from participating and voting on matters related to the CEO selection.

Compensation Committee

Under the NYSE listing rules, U.S. companies listed on the NYSE are required to have a compensation committee which is composed entirely of independent directors. In January 2013, the SEC approved amendments to the listing rules of NYSE and NASDAQ regarding the independence of compensation committee members and the appointment, payment and oversight of compensation consultants. The listing rules were adopted as required by Section 952 of the Dodd-Frank Act and rule 10C-1 of the Securities Exchange Act of 1934, as amended, which direct the national securities exchanges to prohibit the listing of any equity security of a company that is not in compliance with the rules' compensation committee director and advisor independence requirements. Certain elements of the listing rules became effective on July 1, 2013 and companies listed on the NYSE must comply with such listing rules by the earlier of the company's first annual meeting after January 15, 2014, or October 31, 2014.

While no such requirement currently exists under applicable Korean law or listing standards, such committee is recommended to be established under the model guidelines set by the Financial Supervisory Service in relation to executives' performance pay.

We currently have a compensation committee, which is responsible for reviewing and approving the management's evaluation and compensation programs. The committee consists of four members, all of whom are outside directors and satisfy the independent director requirements as set forth in Rule 10A-3 under the Exchange Act.

Corporate Governance Guidelines and Code of Business Conduct and Ethics

Under the NYSE listing rules, U.S. companies listed on the NYSE are required to establish corporate governance guidelines and to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. As a foreign private issuer, we are exempt from this requirement. In Korea, the Financial Services Commission implemented the Standard Corporate Governance Guidelines for Financial Service Companies in December 2014, and accordingly, we have adopted in February 2015 and are currently complying with international regulators on corporate governance modeled after the standard

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Pursuant to the requirements of the Sarbanes-Oxley Act, we have adopted a code of ethics applicable to all the officers and employees of our holding company and our subsidiaries, including all financial, accounting and other officers and employees that are involved in the preparation and disclosure of Shinhan Financial Group's consolidated financial statements and internal control of financial reporting. As a further detailed guideline to the code of ethics, we have also established a supplemental code of behavior for all officers and employees of our holding company and our subsidiaries in order to provide additional guideline for the performance of their work-related duties as well as their daily behavior. We have also adopted an insider reporting system in compliance with Section 301 of the Sarbanes-Oxley Act. The above-mentioned code of ethics and the code of behavior are available on our website www.shinhangroup.com.

On May 25, 2011, the SEC adopted final rules to implement whistleblower provisions of the Dodd-Frank Act, which are applicable to foreign private issuers with securities registered under the U.S. securities laws. The final rules provide that any eligible whistleblower who voluntarily provides the SEC with original information that leads to the successful enforcement of an action brought by the SEC under U.S. securities laws must receive an award of between 10 and 30 percent of the total monetary sanctions collected if the sanctions exceed \$1,000,000. An eligible whistleblower is defined as someone who provides information about a possible violation of the securities laws that he or she reasonably believes has occurred, is ongoing, or is about to occur. The possible violation does not need to be material, probably or even likely, but the information must have a facially plausible relationship to some securities law violation; frivolous submissions would not qualify. The final rules also prohibit retaliation against the whistleblower. While the final rules do not require employees to first report allegations of wrongdoing through a company's corporate compliance system, they do seek to incentivize whistleblowers to utilize internal corporate compliance first by, among other things, (i) giving employees who first report information internally the benefit of the internal reporting date for purposes of the SEC program so long as the whistleblower submits the same information to the SEC within 120 days of the initial disclosure; (ii) clarifying that the SEC will consider, as part of the criteria for determining the amount of a whistleblower's award, whether the whistleblower effectively utilized the company's corporate compliance program or hindered the function of the program; and (iii) crediting a whistleblower who reports internally first and whose company passes the information along to the SEC, which would mean the whistleblower could receive a potentially higher award for information gathered in an internal investigation initiated as a result of the whistleblower's internal report.

In addition, the final rules address concerns that the whistleblower rules incentivize officers, directors and those with legal, audit, compliance or similar responsibilities to abuse these positions by making whistleblower complaints to the SEC with respect to information they obtained in these roles by generally providing that information obtained through a communication subject to attorney-client privilege or as a result of legal representation would not be eligible for a whistleblower award unless disclosure would be permitted by attorney conduct rules. Accordingly, officers and directors, auditors and compliance personnel and other persons in similar roles would not be eligible to receive awards for information received in these positions unless (x) they have a reasonable basis to believe that (1) disclosure of the information is necessary to prevent the entity from engaging in conduct that is likely to cause substantial injury to the financial interests of the entity or investors; or (2) the entity is engaging in conduct that will impede an investigation of the misconduct, for example, destroying documents or improperly influencing witnesses; or (y) 120 days have passed since the whistleblower provided the information to senior responsible persons at the entity or 120 days have passed since the whistleblower received the information at a time when these people were already aware of the information.

In Korea, the Act on the Protection of Public Interest Whistleblowers (the Act on Whistleblowers) was enacted in March 29, 2011 and became effective on September 30, 2011, and was last amended on July 25, 2015. Under the Act on Whistleblowers, a conduct detrimental to the public interest means any conduct falling under the penalty provisions of certain acts or any conduct subject to administrative measures such as cancellation or suspension of an approval or

a permit. As the Financial Holding Companies Act is included in the certain acts above, any conduct falling under the penalty provisions or subject to administrative measures for a violation of the Financial Holding Companies Act constitutes a conduct detrimental to the public interest. Any person

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deeming that a conduct detrimental to the public interest has been, or is likely to be, committed may make a public interest report to a representative of the organization involved or a relevant investigative agency. The personal information of a public interest whistleblower shall be kept in confidence, and the measures necessary for personal protection of a public interest whistleblower shall be taken. In addition, any disadvantageous measures against a public interest whistleblower, including discriminatory treatment and delayed payment of wage, are prohibited, and where a public interest report leads to a recovery of, or increase in, revenues of the Government, the public interest whistleblower may be entitled to compensation by the Anti-Corruption and Civil Rights Commission of Korea.

We established a group-wide whistleblower policy in July 2005 and maintain related policies and programs for most of our subsidiaries. For example, Shinhan Bank maintains a whistleblower program named *Shinhan Jikimi*, through which any employee, vendor or customer can raise concerns and report suspicious circumstances in confidence using a variety of channels including the Internet, email, postal mail, facsimile and mobile phones. In addition, Shinhan Bank distributes to its employees a quarterly email notice intended to raise awareness of the whistleblower program and posts relevant informative materials on the company bulletin board. At Shinhan Card and Shinhan Investment, we strive to maintain transparency in every aspect of business activities and provide secure and accessible channels for all related parties to raise concerns and report violations.

Shareholder Approval of Equity Compensation Plans

Under the NYSE listing rules, shareholders of U.S. companies listed on the NYSE are required to approve all equity compensation plans.

Under Korean law, if a company issues stock options amounting to 10% or more of its issued and outstanding shares, only a board of director resolution is required for such issuance if permitted by such company's articles of incorporation. Under our articles of incorporation, we may also grant stock options, but since April 1, 2010, we have not granted any stock options.

We currently have two equity compensation plans, consisting of a performance share plan for directors and key employees and an employee stock ownership plan for all employees under the Framework Act on Labor Welfare.

In accordance with our internal regulations, performance shares granted to directors are granted pursuant to a resolution by the board of director, subject to the limit amount set by a resolution at the shareholders' meeting while performance shares granted to key employees are granted pursuant to a resolution by the board of director, without any requirement that the limit amount be approved at the shareholders' meeting. There are no requirements relating to the granting of performance shares under applicable Korean laws and our articles of incorporation.

Under the Framework Act on Labor Welfare, a Korean company may issue stock options up to 20% of its issued and outstanding shares by a resolution at the shareholders' meeting, if permitted by the articles of incorporation. Our articles of incorporation does not contain such provision. The equity compensation scheme for the employee stock ownership association is governed by its internal regulations, over which we have no control under Korean law.

Annual Certification of Compliance

Under the NYSE listing rules, a chief executive officer of a U.S. company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards. As a foreign private issuer, we are not subject to this requirement. However, in accordance with rules applicable to both U.S. companies and foreign private issuers, we are required to promptly notify the NYSE in writing if any executive officer becomes aware of any material noncompliance with the NYSE corporate

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governance standards applicable to us. In addition, foreign private issuers, including us, are required to submit to the NYSE an annual written affirmation relating to compliance with Sections 303A.06 and 303A.11 of the NYSE listed company manual, which are the NYSE corporate governance standards applicable to foreign private issuers. All written affirmations must be executed in the form provided by the NYSE, without modification. An annual written affirmation is required to be submitted to the NYSE within 30 days of filing with the SEC our annual report on Form 20-F. We have been in compliance with this requirement in all material respects and plan to submit such affirmation within the prescribed time line.

ITEM 16H. *MINE SAFETY DISCLOSURE*

Not applicable.

PART III

ITEM 17. *FINANCIAL STATEMENTS*

We have responded to Item 18 in lieu of responding to this item.

ITEM 18. *FINANCIAL STATEMENTS*

Reference is made to Item 19(a) for a list of all financial statements filed as part of this annual report.

ITEM 19. *EXHIBITS*

(a) Financial Statements filed as part of this Annual Report:
See Index to Financial Statements on page F-1 of this annual report.

(b) Exhibits filed as part of this Annual Report:
See Exhibit Index beginning on page E-1 of this annual report.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 29, 2016

Shinhan Financial Group Co., Ltd.

By: /s/ Han Dongwoo
Name: Han Dongwoo
Title: Chairman and Chief Executive
Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Shinhan Financial Group Co., Ltd.:

We have audited the accompanying consolidated statements of financial position of Shinhan Financial Group Co., Ltd. and its subsidiaries (the Group) as of December 31, 2014 and 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2015. We also have audited the Group's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Group's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying

Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Group's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2014 and 2015 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 29, 2016

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Financial Position

As of December 31, 2014 and 2015

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

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Capital adjustments	(393,405)	(423,536)
Accumulated other comprehensive income	637,894	304,771
Retained earnings	15,869,779	17,689,134
Total equity attributable to equity holders of Shinhan Financial Group Co., Ltd.	29,184,099	30,839,655
Non-controlling interests	1,330,809	969,981
Total equity	30,514,908	31,809,636
Total liabilities and equity	₩ 338,021,804	370,539,622

See accompanying notes to the consolidated financial statements.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2013, 2014 and 2015

<i>(In millions of won)</i>	Notes	2013	2014	2015
Interest income		₩ 12,591,322	12,060,507	11,129,704
Interest expense		(5,986,438)	(5,270,707)	(4,436,771)
Net interest income	32	6,604,884	6,789,800	6,692,933
Fees and commission income		3,489,668	3,560,500	3,896,529
Fees and commission expense		(2,103,313)	(2,091,342)	(2,275,550)
Net fees and commission income	33	1,386,355	1,469,158	1,620,979
Insurance income		4,230,013	4,221,120	4,447,828
Insurance expenses		(4,612,791)	(4,634,320)	(4,879,989)
Net insurance loss	28	(382,778)	(413,200)	(432,161)
Dividend income	34	155,984	175,798	308,277
Net trading income (expenses)	35	74,912	262,492	(344,098)
Net foreign currency transaction gain		296,187	223,718	78,236
Net gain (loss) on financial instruments designated at fair value through profit or loss	36	(122,020)	(360,972)	459,765
Net gain on disposal of available-for-sale financial assets	13	700,609	680,931	772,474
Impairment losses on financial assets	37	(1,339,897)	(1,174,379)	(1,264,053)
General and administrative expenses	38	(4,202,550)	(4,462,883)	(4,475,068)
Other operating expenses, net	40	(539,687)	(535,653)	(444,143)
Operating income		2,631,999	2,654,810	2,973,141
Equity method income	16	7,286	30,580	20,971
Other non-operating income, net	41	37,268	182,186	146,465
Profit before income taxes		2,676,553	2,867,576	3,140,577
Income tax expense	42	621,214	667,965	694,619
Profit for the year		₩ 2,055,339	2,199,611	2,445,958

See accompanying notes to the consolidated financial statements.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Continued)

For the years ended December 31, 2013, 2014 and 2015

<i>(In millions of won, except earnings per share)</i>	Notes	2013	2014	2015
Other comprehensive income (loss) for the year, net of income tax				
Items that are or may be reclassified to profit or loss:				
Foreign currency translation adjustments for foreign operations		₩ (57,845)	(12,868)	(6,469)
Net change in unrealized fair value of available-for-sale financial assets		(268,943)	135,908	(265,990)
Equity in other comprehensive income of associates		(4,811)	6,255	11,624
Net change in unrealized fair value of cash flow hedges		6,089	(16,378)	2,932
Other comprehensive income (loss) of separate account		(1,829)	5,820	3,092
		(327,339)	118,737	(254,811)
Items that will never be reclassified to profit or loss:				
Remeasurements of the defined benefit liability		18,599	(154,416)	(81,813)
Total other comprehensive loss, net of income tax	30	(308,740)	(35,679)	(336,624)
Total comprehensive income for the year		₩ 1,746,599	2,163,932	2,109,334
Profit for the year attributable to:				
Equity holders of Shinhan Financial Group Co., Ltd.	30,43	₩ 1,898,577	2,081,110	2,367,171
Non-controlling interest		156,762	118,501	78,787
		₩ 2,055,339	2,199,611	2,445,958
Total comprehensive income attributable to:				
Equity holders of Shinhan Financial Group Co., Ltd.		₩ 1,591,423	2,046,037	2,034,048
Non-controlling interest		155,176	117,895	75,286
		₩ 1,746,599	2,163,932	2,109,334
Earnings per share:	30,43			
Basic and diluted earnings per share in won		₩ 3,810	4,195	4,789
		₩ 3,810	4,195	4,789

See accompanying notes to the consolidated financial statements.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2013, 2014 and 2015

in millions of
KRW

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.						Sub-total	Non-controlling interests	Total
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings			
Balance at January 1, 2013	₩2,645,053	537,443	9,887,199	(393,097)	980,121	12,713,720	26,370,439	2,541,253	28,911,692
Comprehensive income for the year						1,898,577	1,898,577	156,762	2,055,339
Other comprehensive income (loss), net of income tax									
Foreign currency translation adjustments					(57,825)		(57,825)	(20)	(57,845)
Net change in unrealized fair value of available-for-sale financial assets					(267,694)		(267,694)	(1,249)	(268,943)
Equity in other comprehensive income of associates					(4,811)		(4,811)		(4,811)
Net change in unrealized fair value of cash flow hedges					6,089		6,089		6,089
Other comprehensive income of separate account measurements					(1,829)		(1,829)		(1,829)
Defined benefit					18,916		18,916	(317)	18,599

ns

al other prehensive ome (loss)				(307,154)		(307,154)	(1,586)	(308,74)	
tal prehensive ome				(307,154)	1,898,577	1,591,423	155,176	1,746,59	
her changes in ity									
idends					(393,878)	(393,878)		(393,87	
idends to brid bonds					(29,939)	(29,939)		(29,93	
ange in other ital surplus		136				136		13	
ange in other ital ustments				(31)		(31)		(3	
ange in other a-controlling erests							(379,441)	(379,44	
		136	(31)		(423,817)	(423,712)	(379,441)	(803,15	
alance at ember 31, 3	₩ 2,645,053	537,443	9,887,335	(393,128)	672,967	14,188,480	27,538,150	2,316,988	29,855,13

See accompanying notes to the consolidated financial statements.

al other prehensive ome (loss)				(35,073)			(35,073)	(606)	(35,679)
al prehensive ome				(35,073)	2,081,110	2,046,037		117,895	2,163,909
er changes in ity									
idends					(370,168)	(370,168)			(370,168)
idends to rid bonds					(29,940)	(29,940)			(29,940)
ange in other ital ustments				(277)		(277)			(277)
ange in other ined earnings					297	297			297
emption of sidiary s rid bonds and ers								(1,104,074)	(1,104,074)
				(277)	(399,811)	(400,088)		(1,104,074)	(1,504,169)
ance at ember 31, 4	₩2,645,053	537,443	9,887,335	(393,405)	637,894	15,869,779	29,184,099	1,330,809	30,514,909

See accompanying notes to the consolidated financial statements.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity (Continued)

For the years ended December 31, 2013, 2014 and 2015

in millions of
Korean won

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.						Sub-total	Non-controlling interests	Total
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings			
Balance at January 1, 2015	₩2,645,053	537,443	9,887,335	(393,405)	637,894	15,869,779	29,184,099	1,330,809	30,514,908
Comprehensive income for the year						2,367,171	2,367,171	78,787	2,445,955
Other comprehensive income (loss), of income									
Foreign currency translation adjustments					(5,630)		(5,630)	(839)	(6,469)
Net change in realized fair value of available-for-sale financial assets					(265,910)		(265,910)	(80)	(265,990)
Equity in other comprehensive income of associates					11,624		11,624		11,624
Net change in realized fair value of cash flow hedges					2,932		2,932		2,932
Other comprehensive income of separate account measurements					3,092		3,092		3,092
Defined benefit plans					(79,231)		(79,231)	(2,582)	(81,813)

Other comprehensive income (loss)				(333,123)		(333,123)	(3,501)	(336,624)	
Total comprehensive income				(333,123)	2,367,171	2,034,048	75,286	2,109,332	
Other changes in equity									
Dividends					(512,428)	(512,428)		(512,428)	
Dividends to bondholders					(34,488)	(34,488)		(34,488)	
Issuance of bond bonds	199,455					199,455		199,455	
Change in other capital adjustments				(30,131)	(900)	(31,031)		(31,031)	
Change in other non-controlling interests							(436,114)	(436,114)	
	199,455			(30,131)	(547,816)	(378,492)	(436,114)	(814,600)	
Balance at December 31, 2015	₩2,645,053	736,898	9,887,335	(423,536)	304,771	17,689,134	30,839,655	969,981	31,809,633

See accompanying notes to the consolidated financial statements.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2013, 2014 and 2015

<i>(In millions of won)</i>	Notes	2013	2014	2015
Cash flows from operating activities				
Profit before income taxes		₩ 2,676,553	2,867,576	3,140,577
Adjustments for:				
Interest income	32	(12,591,322)	(12,060,507)	(11,129,704)
Interest expense	32	5,986,438	5,270,707	4,436,771
Dividend income	34	(155,984)	(175,798)	(308,277)
Net fees and commission expense		82,410	166,204	168,313
Net insurance loss		2,764,340	2,583,739	2,714,061
Net trading loss	35	227,976	151,525	751,811
Net foreign currency translation loss (gain)		(2,520)	31,356	163,417
Net loss (gain) on financial instruments designated at fair value through profit or loss	36	(177,645)	117,137	(748,959)
Net gain on disposal of available-for-sale financial assets	13	(700,609)	(680,931)	(772,474)
Provision for credit losses	37	1,124,927	944,429	1,021,711
Impairment losses on other financial assets		214,970	229,951	242,342
Employee costs		80,600	143,330	185,222
Depreciation and amortization	38,40	319,730	312,966	278,882
Other operating loss (income)		61,074	(213,139)	(623,639)
Equity method income, net	16	(7,286)	(30,580)	(20,971)
Other non-operating loss (income), net		15,510	(117,933)	(18,463)
		(2,757,391)	(3,327,544)	(3,659,957)
Changes in assets and liabilities:				
Due from banks		(1,954,448)	(4,542,186)	(1,926,814)
Trading assets and liabilities		(1,305,364)	(4,711,789)	1,583,631
Financial instruments designated at fair value through profit or loss		396,252	3,593,303	210,582
Derivative instruments		23,171	(261,032)	(382,276)
Loans		(7,444,790)	(16,978,229)	(24,731,045)
Other assets		(65,799)	(2,012,074)	(3,562,267)
Deposits		5,825,422	14,994,221	23,246,539
Liabilities for defined benefit obligations	26	(140,462)	(141,614)	(347,926)
Provisions	27	(105,796)	(128,531)	(71,272)
Other liabilities		(2,315,596)	3,079,941	3,578,899
		(7,087,410)	(7,107,990)	(2,401,949)

Income taxes paid	(695,725)	(667,784)	(640,393)
Interest received	12,499,754	11,732,050	10,921,869
Interest paid	(5,891,494)	(5,789,333)	(4,700,685)
Dividends received	156,196	212,381	310,852
Net cash provided by (used in) operating activities	₩ (1,099,517)	(2,080,644)	2,970,314

See accompanying notes to the consolidated financial statements.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (continued)

For the years ended December 31, 2013, 2014 and 2015

<i>(In millions of won)</i>	Notes	2013	2014	2015
Cash flows from investing activities				
Proceeds from disposal of financial assets designated at fair value through profit or loss		₩ 57,833		
Acquisition of financial assets designated at fair value through profit or loss		(7,937)		
Proceeds from disposal of available-for-sale financial assets		29,917,886	32,886,606	31,592,380
Acquisition of available-for-sale financial assets		(26,999,720)	(30,227,793)	(33,755,811)
Proceeds from redemption of held-to-maturity financial assets		2,393,951	2,667,782	2,414,031
Acquisition of held-to-maturity financial assets		(1,806,589)	(4,959,391)	(5,150,329)
Proceeds from disposal of property and equipment	14,41	29,021	32,377	8,760
Acquisition of property and equipment	14	(294,003)	(182,130)	(124,844)
Proceeds from disposal of intangible assets	15,41	8,097	10,275	5,463
Acquisition of intangible assets	15	(154,407)	(62,984)	(132,636)
Proceeds from disposal of investments in associates		27,466	77,592	35,396
Acquisition of investments in associates		(55,389)	(61,289)	(30,927)
Proceeds from disposal of investment property	17,41	38,085	676,496	16,171
Acquisition of investment property	17	(234,432)	(1,037)	(10,296)
Proceeds from disposal of assets held for sale		49,185	232,365	88,235
Proceeds from settlement of hedging derivative financial instruments for available-for-sale financial assets		2,073		5,000
Payment for settlement of hedging derivative financial instruments for available-for-sale financial assets				(63,847)
Business combination, net of cash acquired (used)	45	385,291		(163,172)
Other, net		39,509	(128,080)	(22,173)
Net cash provided by (used in) investing activities		3,395,920	960,789	(5,288,599)
Cash flows from financing activities				
Issuance of hybrid bond				199,455
Net increase (decrease) in borrowings		522,473	2,597,817	(1,557,883)
Proceeds from debt securities issued		10,338,560	10,262,773	16,512,720
Repayments of debt securities issued		(11,352,135)	(10,619,073)	(12,867,244)
Dividends paid		(424,014)	(399,791)	(546,160)
Proceeds from settlement of hedging derivative financial instruments for debt securities issued				23,270

Payment for settlement of hedging derivative financial instruments for debt securities issued		(24,292)	(20,980)	(17,342)
Redemption of subsidiary's hybrid bonds and others		(379,441)	(1,105,051)	(426,808)
Other, net		31,893	(28,842)	(7,258)
Net cash provided by (used in) financing activities		(1,286,956)	686,853	1,312,750
Effect of exchange rate fluctuations on cash and cash equivalents held		3,964	16,237	8,375
Increase (decrease) in cash and cash equivalents		1,013,411	(416,765)	(997,160)
Cash and cash equivalents at beginning of period	45	5,007,765	6,021,176	5,604,411
Cash and cash equivalents at end of period	45	₩ 6,021,176	5,604,411	4,607,251

See accompanying notes to the consolidated financial statements.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

1. Reporting entity

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

(a) Controlling company

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

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

Investor	Investee (*1)	Location	Date of financial information	Ownership (%)	
				2014	2015
Shinhan Financial Group Co., Ltd.	Shinhan Bank Co., Ltd.	Korea	December 31	100.0	100.0
	Shinhan Card Co., Ltd.			100.0	100.0
	Shinhan Investment Corp.			100.0	100.0
	Shinhan Life Insurance Co., Ltd.			100.0	100.0
	Shinhan Capital Co., Ltd.			100.0	100.0
	Jeju Bank			68.9	68.9
	Shinhan Credit Information Co., Ltd.			100.0	100.0
	Shinhan Private Equity Inc.			100.0	100.0
	Shinhan BNP Paribas Asset Management Co., Ltd.			65.0	65.0
	SHC Management Co., Ltd.			100.0	100.0
	Shinhan Data System			100.0	100.0
	Shinhan Savings Bank			100.0	100.0
	Shinhan AITAS Co., Ltd.			99.8	99.8
	Shinhan Bank Co., Ltd.	Shinhan Asia Limited	Hong Kong		99.9
Shinhan Bank America		USA		100.0	100.0
Shinhan Bank Europe GmbH		Germany		100.0	100.0
Shinhan Khmer Bank PLC (*2)		Cambodia		90.0	90.0

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	Shinhan Bank Kazakhstan Limited	Kazakhstan		100.0	100.0
	Shinhan Bank Canada	Canada		100.0	100.0
	Shinhan Bank (China) Limited	China		100.0	100.0
	Shinhan Bank Japan	Japan		100.0	100.0
	Shinhan Bank Vietnam Ltd.	Vietnam		100.0	100.0
	Banco Shinhan de Mexico	Mexico			100.0
	PT Bank Metro Express	Indonesia			97.76
	PT Centratama Nasional Bank				75.0
Shinhan Card Co., Ltd.	LLP MFO Shinhan Finance	Kazakhstan		100.0	100.0
	PT. Shinhan Indo Finance	Indonesia			50.0
Shinhan Investment Corp.	Shinhan Investment Corp. USA Inc.	USA		100.0	100.0
	Shinhan Investment Corp. Asia Ltd.	Hong Kong		100.0	100.0
	Nam An Securities Co., Ltd.	Vietnam			100.0
Shinhan Private Equity Inc.	HKC&T Co., Ltd.	Korea	September 30	100.0	100.0
Shinhan BNP Paribas Asset Management Co., Ltd.	Shinhan BNP Paribas Asset Management (Hong Kong) Limited	Hong Kong	December 31	100.0	100.0

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

1. Reporting entity (continued)

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

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

(c) Consolidated structured entities

Consolidated structured entities are as follows:

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

ability to dismiss the manager of the investment funds, and is exposed to, or has rights to, the variable returns.

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. (IFRS)

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

(b) Basis of measurement

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

derivative financial instruments are measured at fair value

financial instruments at fair value through profit or loss are measured at fair value

available-for-sale financial assets are measured at fair value

liabilities for cash-settled share-based payment arrangements are measured at fair value

financial liabilities designated as hedged items in a fair value hedge accounting of which changes in fair value attributable to the hedged risk are recognized in profit or loss

liabilities for defined benefit plans that are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

(e) Changes in accounting policies

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

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

2. Basis of preparation (continued)*i) Amendments to IFRS 8, Operating Segments*

The Group has applied the amendments to IFRS 8, *Operating Segments* since January 1, 2015. The amendment requires the disclosure of judgements made by management in applying the aggregation criteria. The disclosures include a brief description of the operating segments that have been aggregated and the economic indicators that have been assessed in determining whether the operating segments share the similar economic characteristics. In addition, this amendment clarifies that a reconciliation of the total of the reportable segments' assets to the entity's total assets is required only when the information is regularly provided to the entity's chief operating decision maker. The impact of the amendments on the Group's consolidated financial statements is not significant.

ii) Amendments to IFRS 2, Share-based Payment

The Group has applied the amendments to IFRS 2, *Share-based Payment* since January 1, 2015. The amendment clarifies the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The impact of the amendments on the Group's consolidated financial statements is not significant.

iii) Amendments to IFRS 3, Business Combinations

The Group has applied the amendments to IFRS 3, *Business Combinations* since January 1, 2015. The amendment clarifies the classification and measurement of contingent consideration in a business combination. When a contingent consideration is a financial instrument, its classification as a liability or equity shall be determined in accordance with IAS 32 and the contingent consideration that is classified as an asset or a liability shall be subsequently measured at fair value of which the changes recognised in profit or loss. In addition, this amendment clarifies that the standard does not apply to the accounting for all types of joint arrangements. The impact of the amendments on the Group's consolidated financial statements is not significant.

iv) Amendments to IFRS 13, Fair Value Measurement

The Group has applied the amendments to IFRS 13, *Fair Value Measurement* since January 1, 2015. The amendment allows entities to measure short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, given the discount is immaterial. In addition, this amendment clarifies that the portfolio exception can be applied to contracts in the scope of IAS 39, even though the contracts do not meet the definition of a financial asset or financial liability. The impact of the amendments on the Group's consolidated financial statements is not significant.

v) Amendments to IAS 24, Related Party Disclosures

The Group has applied the amendments to IAS 24, *Related Party Disclosures* since January 1, 2015. The definition of a related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity. The reporting entity is required to separately disclose the expense amount recognised for the key management personnel services. The impact of the amendments on the Group's consolidated financial statements is not significant.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

2. Basis of preparation (continued)

vi) Amendments to IAS 19, Employee Benefits

The Group has applied the amendments to IAS 19, *Employee Benefits* since January 1, 2015. The amendments introduce a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. A company is permitted (but not required) to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered. Service-linked contributions from employees or third parties should be reflected in determining the net current service cost and the defined benefit obligation, and should be attributed to the periods of service using the same method as used for calculating the gross benefits or on a straight line basis. The impact of the amendments on the Group's consolidated financial statements is not significant.

3. Significant accounting policies

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

(a) Operating segments

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

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

(b) Basis of consolidation

i) Subsidiaries

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

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

ii) Structured entity

The Group establishes or invests in various structured entities. A structured entity is an entity designed so that its activities are not governed by way of voting rights. When assessing control of a structured entity, the Group considers factors such as the purpose and the design of the investee; its practical ability to direct the

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee. The Group does not recognize any non-controlling interests in the consolidated statements of financial position since the Group's interests in these entities are recognized as liabilities of the Group.

iii) Intra-group transactions

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

iv) Non-controlling interests

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

(c) Business combinations

i) Business combinations

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

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

Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors

Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized

Deferred tax assets or liabilities are recognized and measured in accordance with IAS 12 *Income Taxes*

Employee benefit arrangements are recognized and measured in accordance with IAS 19 *Employee Benefits*

Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset

Reacquired rights are measured on the basis of the remaining contractual terms of the related contract

Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in IFRS 2 *Share-based Payment*

Assets held for sale are measured at fair value less costs to sell in accordance with IFRS 5 *Non-current Assets Held for Sale*

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

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

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*.

ii) Goodwill

The Group measures goodwill at the acquisition date as:

the fair value of the consideration transferred; plus

the recognized amount of any non-controlling interests in the acquiree; plus

if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less

the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

(d) Investments in associates and joint ventures

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

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

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

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

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

(e) Cash and cash equivalents

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

(f) Non-derivative financial assets

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

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

i) Financial assets at fair value through profit or loss

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

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

such designation eliminates or significantly reduces a recognition or measurement inconsistency that would otherwise arise; or

the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

it forms part of a contract containing one or more embedded derivatives that would be required to be separated from the host contract.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

ii) Held-to-maturity financial assets

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

iii) Loans and receivables

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

iv) Available-for-sale financial assets

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

v) De-recognition of financial assets

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

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

vi) Offsetting between financial assets and financial liabilities

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)**(g) Derivative financial instruments including hedge accounting**

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

i) Hedge accounting

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

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

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

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

immediately in profit or loss.

Hedge of net investment Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the accumulated other comprehensive income is transferred to profit or loss as part of the profit or loss on disposal in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

ii) Separable embedded derivatives

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

iii) Other derivative financial instruments

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

iv) Unobservable valuation differences at initial recognition

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

(h) Impairment of financial assets

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

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

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

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

significant financial difficulty of the issuer or obligor

a breach of contract, such as a default or delinquency in interest or principal payments;

the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider

it becoming probable that the borrower will enter bankruptcy or other financial reorganization

the disappearance of an active market for that financial asset because of financial difficulties

observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)*i) Loans and receivables*

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

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

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

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

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

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

ii) Available-for-sale financial assets

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)*iii) Held-to-maturity financial assets*

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

(i) Property and equipment

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

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

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

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

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

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

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

(j) Intangible assets

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

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

Descriptions

Software, capitalized development cost

Other intangible assets

Useful lives

5 years

5 years or contract periods

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

i) Research and development

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

ii) Subsequent expenditures

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

(k) Investment property

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

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

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40 years

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

(l) Leased assets

i) Classification of a lease

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

ii) Lessee

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

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

iii) Lessor

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

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

(m) Assets held for sale

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

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative

impairment loss previously recognized in accordance with IAS 36 *Impairment of Assets*.

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

(n) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, deferred tax assets and assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

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

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

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

(o) Non-derivative financial liabilities

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

i) Financial liabilities at fair value through profit or loss

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

costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

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

ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

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

(p) Foreign currency*i) Foreign currency transactions*

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

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

ii) Foreign operations

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

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

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

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

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

iii) Net investment in a foreign operation

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

(q) Equity

i) Capital stock

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

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

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

ii) Hybrid bonds

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

iii) Capital adjustments

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

(r) Employee benefits

i) Short-term employee benefits

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

ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

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

iii) Retirement benefits: defined contribution plans

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

iv) Retirement benefits: defined benefit plans

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

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

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

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

losses on the settlement of a defined benefit plan when the settlement occurs.

v) Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(s) Share-based payment transactions

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

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

(t) Provisions

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

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

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

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

(u) Financial guarantee contract

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

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

The amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and

The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with IAS 18 *Revenue*

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)**(v) Insurance contracts**

Insurance contracts are defined as a contract under which one party (the insurer) accepts significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Such a contract that does not contain significant insurance risk is classified as an investment contract and is within the scope of IAS 39, *Financial Instruments, Recognition and Measurement* to the extent that it gives rise to a financial asset or financial liability, except if the investment contract contains a Discretionary Participation Features (DPF). If the contract has a DPF, the contract is subject to IFRS 4, *Insurance Contracts*.

i) Reserves for insurance contracts

The Group accounts for insurance contracts based on the Insurance Business Law and other related Insurance Supervisory Regulation. These insurance contracts are calculated based on insurance terms, premium and policy reserves approved by the Financial Supervisory Commission, as follows:

Premium reserve Premium reserve is a liability to prepare for the future claims on the valid contracts. Premium reserve is calculated by deducting discounted net premium from the discounted claims expected to be paid in the future period.

Unearned premium reserve Unearned premium reserve represents the portion of premiums written which is applicable to the unexpired portion of policies in force.

Guarantee reserve At the end of reporting period, the Group is required to make reserve on the outstanding insurance contracts to guarantee a certain level of benefit payments for the amount equal to the average amount of net losses of the worst 30% of cases forecasted by scenarios or the standard reserve amount, as defined by Financial Supervisory Service, by insurance type and the lowest insured amount, whichever is greater.

Reserve for outstanding claims Reserve for outstanding claims is an estimate of loss for insured events that have occurred prior to the date of the statement of financial position but for which a fixed value cannot be determined, which includes the following:

Estimated amount: The expenses to be incurred in the course of settlement of the insured event, such as lawsuit or arbitration (if partial amount is settled, the remainder is recognized)

Reserve for ineffective contracts: Reserve for ineffective contracts due to default in premium payment (Partial amount of surrender value)

Unpaid claims: The amount of claims, surrender value and dividend to be paid is determined but not paid yet

IBNR (Incurred But Not Reported): Estimated amount using a statistical method considering the company's experience rate

Reserve for participating policyholder's dividend In accordance with regulations and policy terms, reserves for participating policyholder's dividend are provided for dividend to be paid to the policyholders and comprise the current reserve for policyholder's dividend and the future reserve for policyholder's dividend. The current reserve for policyholder's dividend is the fixed payable dividend amount declared but not paid at the end of the reporting period and the future reserve for policyholder's

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

dividend is the calculated policyholder's dividend amount factoring in estimated policy termination rates for the valid insurance policy as at the end of the reporting period.

ii) Policyholders' equity adjustment

At year end, unrealized holding gains and losses on available-for-sale securities are allocated to policyholders' equity adjustment by the ratio of the average policy reserve of the participating and non-participating contracts or the ratio of the investment source at the new acquisition year based on the date of acquisition.

iii) Liability adequacy test (the LAT)

Liability adequacy tests are performed by the Group in order to ensure the adequacy of the contract liabilities, net of related deferred acquisition costs and deferred policyholders' participation liability or asset.

iv) Reinsurance contracts

According to IFRS 4, Insurance Contracts, the Group does not offset:

- 1) reinsurance assets against the related insurance liabilities; or
- 2) income or expense from reinsurance contracts against the expense or income from the related insurance contracts.

If reinsurance assets are determined to be impaired, impairment loss is recognized in the profit and loss for the current period.

v) Deferred acquisition costs (the DAC)

Policy acquisition costs, which include commissions, certain direct and incremental underwriting and agency expenses associated with acquiring insurance policies, are deferred and amortized using the straight-line method over the contract year, up to seven years. Actual acquisition costs incurred in excess of estimated acquisition costs are expensed.

(w) Financial income and expense

i) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter year) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

Once an impairment loss has been recognized on a loan, although the accrual of interest in accordance with the contractual terms of the instrument is discontinued, interest income is recognized at the rate of interest that was used to discount estimated future cash flows for the purpose of measuring the impairment loss.

ii) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

iii) Dividends

Dividend income is recognized when the right to receive income is established.

(x) Customer loyalty program

For customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale is allocated between award credits (points) and other components of the fee and commission income. The Group provides awards, in the form of price discounts and by offering a variety of gifts. The fair value allocated to the points is estimated by reference to the fair value of the monetary and/or non-monetary benefits for which they could be redeemed. The fair value of the benefits is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and recognized as unearned revenue. Unearned revenue is recognized only when the points are redeemed and the Group has fulfilled its obligations to provide the benefits. The amount of revenue recognized in those circumstances is based on the number of points that have been redeemed in exchange for benefits, relative to the total number of points that are expected to be redeemed.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from customer loyalty programmes are lower than the unavoidable cost of meeting its obligations under the programmes.

(y) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Group files its national income tax return with the Korean tax authorities under the consolidated corporate tax system, which allows it to make national income tax payments based on the combined profits or losses of the Controlling Company and its wholly owned domestic subsidiaries. Deferred taxes are measured based on the future tax benefits expected to be realized in consideration of the expected combined profits or losses of eligible companies in accordance with the consolidated corporate tax system. Consolidated corporate tax amounts, once determined, are allocated to each of the subsidiaries and are used as a basis for the income taxes to be recorded in their separate financial statements.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to

recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either: the same taxable entity; or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

(z) Accounting for trust accounts

The Group accounts for trust accounts separately from its group accounts under the Financial Investment Services and Capital Markets Act and thus the trust accounts are not included in the consolidated financial statements except Guaranteed Fixed Rate Money Trusts controlled by the Group, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards. Funds transferred between Group account and trust accounts are recognized as borrowings from trust accounts in other liabilities with fees for managing the accounts recognized as non-interest income by the Group.

(aa) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(ab) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2015, and the Group has not early adopted them.

Management is in the process of evaluating the impact of the amendments on the Group's consolidated financial statements, if any.

i) IFRS 9, Financial Instruments

IFRS 9, published in December 2015, replaces the existing guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

ii) IFRS 15, Revenue from Contracts with Customers

IFRS 15, published in January 2016, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18, *Revenue*, IAS 11, *Construction Contracts* and IFRIC 13, *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

iii) IFRS 16, Leases

IFRS 16, published in January 2016, results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 *Leases*. Lessees will recognize a right of use asset and a corresponding financial liability on the balance sheet. The asset will be amortized over the length of the lease and the financial liability measured at amortized cost. IFRS 16 *Leases* is effective for the annual reporting periods beginning on or after January 1, 2019, with early adoption permitted.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

3. Significant accounting policies (continued)

Other published new standards, interpretations and amendments to existing standards mandatory for the Group for annual periods beginning after January 1, 2015 which have not been early adopted, are not expected to have a significant impact on the Group's consolidated financial statements.

4. Financial risk management

(a) Overview

As a financial services provider, the Group is exposed to various risks relating to lending, credit card, insurance, securities investment, trading and leasing businesses, its deposit taking and borrowing activities in addition to the operating environment.

The principal risks to which the Group is exposed are credit risk, market risk, interest rate risk, liquidity risk and operational risk. These risks are recognized, measured and reported in accordance with risk management guidelines established at the controlling company level and implemented at the subsidiary level through a carefully stratified checks-and-balances system.

i) Risk management principles

The Group risk management is guided by the following core principles:

identifying and managing all inherent risks;

standardizing risk management process and methodology;

ensuring supervision and control of risk management independent of business activities;

continuously assessing risk preference;

preventing risk concentration;

operating a precise and comprehensive risk management system including statistical models; and

balancing profitability and risk management through risk-adjusted profit management.

ii) Risk management organization

The Group risk management system is organized along the following hierarchy: from the top and at the controlling company level, the Group Risk Management Committee, the Group Risk Management Council, the Chief Risk Officer and the Group Risk Management Team, and at the subsidiary level, the Risk Management Committees and the Risk Management Team of the relevant subsidiary. The Group Risk Management Committee, which is under the supervision of the controlling company's board of directors, sets the basic group wide risk management policies and strategies. The controlling company's Chief Risk Officer reports to the Group Risk Management Committee, and the Group Risk Management Council, whose members consist of the controlling company's Chief Risk Officer and the risk management team heads of each of subsidiaries, coordinates the risk management policies and strategies at the group level as well as at the subsidiary level among each of subsidiaries. Each of subsidiaries also has a separate Risk Management Committee, Risk Management Working Committee and Risk Management Team, whose tasks are to implement the group wide risk management policies and strategies at the subsidiary level as well as to set risk management policies and strategies specific to such subsidiary in line with the group wide guidelines. The Group also has the Group Risk Management Team, which supports the controlling company's Chief Risk Officer in his or her risk management and supervisory role.

In order to maintain the group wide risk at an appropriate level, the Group use a hierarchical risk limit system under which the Group Risk Management Committee assigns reasonable risk limits for the entire

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

group and each subsidiary, and the Risk Management Committee and the Management Council of each subsidiary manage the subsidiary-specific risks by establishing and managing risk limits in more detail by type of risk and type of product for each department and division within such subsidiary.

The Group Risk Management Committee consists of directors of the controlling company. The Group Risk Management Committee convenes at least once every quarter and may also convene on an ad hoc basis as needed. Specifically, the Group Risk Management Committee does the following: (i) establish the overall risk management policies consistent with management strategies, (ii) set reasonable risk limits for the entire group and each of subsidiaries, (iii) approve appropriate investment limits or allowed loss limits, (iv) enact and amends risk management regulations, and (v) decide other risk management-related issues the Board of Directors or the Group Risk Management Committee sees fit to discuss. The results of the Group Risk Management Committee meetings are reported to the Board of Directors of the controlling company. The Group Risk Management Committee makes decisions through affirmative votes by a majority of the committee members.

The Group Risk Management Council is comprised of the controlling company's chief risk officer, head of risk management team, and risk officers from each subsidiary. The Group Risk Management Council holds meetings for risk management executives from each subsidiary to discuss the Group's group wide risk management guidelines and strategy in order to maintain consistency in the group wide risk policies and strategies.

iii) Risk management framework

The Group takes the following steps to implement the foregoing risk management principles:

Risk capital management Risk capital refers to capital necessary to compensate for losses in case of a potential risk being realized, and risk capital management refers to the process of asset management based on considerations of risk exposure and risk appetite among total assets so that the Group can maintain an appropriate level of risk capital. As part of the Group's risk capital management, the Group has adopted and maintains various risk planning processes and reflect such risk planning in the Group's business and financial planning. The Group also has adopted and maintains a risk limit management system to ensure that risks in the Group's business do not exceed prescribed limits.

Risk monitoring The Group proactively, preemptively and periodically review risks that may impact our overall operations, including through a multidimensional risk monitoring system. Currently, each of subsidiaries is required to report to the controlling company any factors that could have a material impact on

the group-wide risk management, and the controlling company reports to the Group's chief risk officer and other members of the Group's senior management the results of risk monitoring on a weekly, monthly and on an ad hoc basis as needed. In addition, the Group perform preemptive risk management through a risk dashboard system under which the Group closely monitor any increase in asset size, risk levels and sensitivity to external factors with respect to the major asset portfolios of each of subsidiaries, and to the extent such monitoring yields any warning signals, the Group promptly analyze the causes and, if necessary, formulate and implement actions in response to these warning signals.

Risk review Prior to entering any new business, offering any new products or changing any major policies, the Group reviews relevant risk factors based on a prescribed risk management checklist and, in the case of changes for which assessment of risk factors is difficult, supports reasonable decision-making in order to avoid taking any unduly risky action. The risk management departments of all subsidiaries are required to review all new businesses, products and services prior to their launch and closely monitor the development of any related risks following their launch, and in the case of any

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)

action that involves more than one subsidiary, the relevant risk management departments are required to consult with the risk management team at the controlling company level prior to making any independent risk reviews.

Risk management The Group maintain a group wide risk management system to detect the signals of any risk crisis and, in the event of a crisis actually happening, to respond on a timely, efficient and flexible basis so as to ensure the Group's survival as a going concern. Each subsidiary maintains crisis planning for three levels of contingencies, namely, alert, imminent crisis and crisis, determination of which is made based on quantitative and qualitative monitoring and consequence analysis, and upon the happening of any such contingency, is required to respond according to a prescribed contingency plan. At the controlling company level, the Group maintains and installs crisis detection and response system which is applied consistently group wide, and upon the happening of any contingency at two or more subsidiary level, the Group directly takes charge of the situation so that the Group manages it on a concerted group wide basis.

(b) Credit risk*i) Credit risk management*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. The Group's credit risk management encompasses all areas of credit that may result in potential economic loss, including not just transactions that are recorded on balance sheets, but also off-balance-sheet transactions such as guarantees, loan commitments and derivatives transactions.

Credit Risk Management of Shinhan Bank

Major policies for Shinhan Bank's credit risk management, including Shinhan Bank's overall credit risk management plan and credit policy guidelines, are determined by the Risk Policy Committee of Shinhan Bank, the executive decision-making body for management of credit risk. The Risk Policy Committee is headed by the Chief Risk Officer, and also comprises of the Chief Credit Officer, the heads of each business unit and the head of the Risk Management Department. In order to separate the loan approval functions from credit policy decision-making, Shinhan Bank has a Credit Review Committee that performs credit review evaluations, which focus on improving the asset quality and profitability from the loans being made, and operates separately from the Risk Policy Committee.

Shinhan Bank complies with credit risk management procedures pursuant to internal guidelines and regulations and continually monitors and improves these guidelines and regulations. Its credit risk management procedures include:

credit evaluation and approval;

credit review and monitoring; and

credit risk assessment and control

Each of Shinhan Bank's borrowers is assigned a credit rating, which is based on a comprehensive internal credit evaluation system that considers a variety of criteria. For retail borrowers, the credit rating takes into account the borrower's past dealings with Shinhan Bank and external credit rating information, among others. For corporate borrowers, the credit rating takes into account financial indicators as well as non-

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)

financial indicators such as industry risk, operational risk and management risk, among others. The credit rating, once assigned, serves as the fundamental instrument in Shinhan Bank's credit risk management, and is applied in a wide range of credit risk management processes, including credit approval, credit limit management, loan pricing and computation of allowance for loan losses. Shinhan Bank has separate credit evaluation systems for retail customers, SOHO customers and corporate customers, which are further segmented and refined to meet Basel III requirements.

Loans are generally approved after evaluations and approvals by the manager at the branch level as well as the committee of the applicable business unit at Shinhan Bank. The approval limit for retail loans is made based on Shinhan Bank's automated credit scoring system. In the case of large corporate loans, approval limits are also reviewed and approved by a Credit Officer at the headquarter level. Depending on the size and the importance of the loan, the approval process is further reviewed by the Credit Officer Committee or the Master Credit Officer Committee. If the loan is considered, further evaluation is made by the Credit Review Committee, which is Shinhan Bank's highest decision-making body in relation to credit approval.

Pursuant to the foregoing credit review and monitoring procedures and in order to promptly prevent deterioration of loan qualities, Shinhan Bank classifies potentially problematic borrowers into (i) borrowers that show early warning signals, (ii) borrowers that require close monitoring and (iii) normal borrowers, and treats them differentially accordingly.

In order to maintain portfolio-level credit risk at an appropriate level, Shinhan Bank manages its loans using value-at-risk (VaR) limits for the entire bank as well as for each of its business units. In order to prevent concentration of risk in a particular borrower or borrower class, Shinhan Bank also manages credit risk by borrower, industry, country and other detailed categories.

Credit Risk Management of Shinhan Card

Major policies for Shinhan Card's credit risk management are determined by Shinhan Card's Risk Management Council and Shinhan Card's Risk Management Committee is responsible for approving them. Shinhan Card's Risk Management Council is headed by the Chief Risk Officer, and also comprises of the heads of each business unit, supporting unit and relevant department at Shinhan Card. In order to separate credit policy decision-making from credit evaluation functions, Shinhan Card also has a Risk Management Committee, which evaluates applications for corporate loans exceeding a certain amount and other loans deemed important. Shinhan Card uses an automated credit scoring system to approve credit card applications or credit card authorizations. The credit scoring system is divided into two sub-systems: the application scoring system and the behavior scoring system. The behavior scoring system is based largely on the credit history, and the application scoring system is based largely on personal information of the applicant. For credit card applicants with whom the Group has an existing relationship, Shinhan Card's credit scoring

system considers internally gathered information such as repayment ability, total assets, the length of the existing relationship and the applicant's contribution to profitability. The credit scoring system also automatically conducts credit checks on all credit card applicants.

If a credit score awarded to an applicant is above a minimum threshold, the application is approved unless overridden based on other considerations such as delinquencies with other credit card companies.

Shinhan Card continually monitors all accountholders and accounts using a behavior scoring system. The behavior scoring system predicts a cardholder's payment pattern by evaluating the cardholder's credit history, card usage and amounts, payment status and other relevant data. The behavior score is recalculated

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)

each month and is used to manage the accounts and approval of additional loans and other products to the cardholder. Shinhan Card also uses the scoring system to monitor its overall risk exposure and to modify its credit risk management strategy.

ii) Maximum exposure to credit risk

The Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements as of December 31, 2014 and 2015 are as follows:

	2014	2015
Due from banks and loans (*1)(*3):		
Banks	₩ 13,663,318	14,486,162
Retail	94,282,270	107,030,770
Government	12,195,758	16,701,241
Corporations	102,160,212	110,468,717
Card receivable	17,378,179	17,821,341
	239,679,737	266,508,231
Trading assets	21,500,955	19,595,405
Financial assets designated at FVTPL (*4)	1,946,200	2,329,018
AFS financial assets (*5)	26,855,662	29,037,640
HTM financial assets (*6)	13,373,384	16,192,060
Derivative assets	1,568,307	1,994,714
Other financial assets (*1)(*2)	10,151,338	11,878,420
Financial guarantee contracts	3,090,873	3,679,486
Loan commitments and other credit liabilities	74,295,365	76,965,151
	₩ 392,461,821	428,180,125

(*1) The maximum exposure amounts for due from banks, loans and other financial assets are measured as net of allowances.

(*2)

Although considered in the monitoring of maximum credit exposures, the credit quality of other financial assets are not included in the details of our main credit quality disclosures as other financial assets mainly comprise brokerage, securities and spot transaction related receivables, accrued interest receivables, secured key money deposits and domestic exchange settlement debit settled in a day.

- (*3) Due from banks and loans were classified as similar credit risk group when calculating the BIS ratio under new Basel Capital Accord (Basel III).
- (*4) FVTPL : fair value through profit or loss
- (*5) AFS : available-for-sale
- (*6) HTM : held-to-maturity

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)*iii) Due from banks and loans by past due or impairment*

Due from banks and loans as of December 31, 2014 and 2015 are as follows:

	2014					Total
	Banks	Retail	Government	Corporations	Card	
Neither past due nor impaired	₩ 13,693,746	93,848,005	12,203,568	101,988,278	17,111,952	238,845,549
Past due but not impaired		455,948	181	278,262	497,147	1,231,538
Impaired		286,414		1,349,849	490,925	2,127,188
	13,693,746	94,590,367	12,203,749	103,616,389	18,100,024	242,204,275
Less : allowance	(30,428)	(308,097)	(7,991)	(1,456,177)	(721,845)	(2,524,538)
	₩ 13,663,318	94,282,270	12,195,758	102,160,212	17,378,179	239,679,737

	2015					Total
	Banks	Retail	Government	Corporations	Card	
Neither past due nor impaired	₩ 14,511,673	106,691,153	16,704,356	110,388,809	17,677,433	265,973,424
Past due but not impaired		404,121		156,337	403,413	963,871
Impaired		264,754		1,221,700	415,731	1,902,185
	14,511,673	107,360,028	16,704,356	111,766,846	18,496,577	268,839,480
Less : allowance	(25,511)	(329,258)	(3,115)	(1,298,129)	(675,236)	(2,331,249)
	₩ 14,486,162	107,030,770	16,701,241	110,468,717	17,821,341	266,508,231

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Credit quality of due from banks and loans that are neither past due nor impaired as of December 31, 2014 and 2015 are as follows:

	2014					
	Banks	Retail	Government	Corporations	Card	Total
Grade 1 (*1)	₩ 13,693,746	88,338,903	12,201,919	62,614,102	14,750,893	191,599,563
Grade 2 (*1)		5,509,102	1,649	39,374,176	2,361,059	47,245,986
	13,693,746	93,848,005	12,203,568	101,988,278	17,111,952	238,845,549
Less : allowance	(30,428)	(161,189)	(7,984)	(864,854)	(340,544)	(1,404,999)
	₩ 13,663,318	93,686,816	12,195,584	101,123,424	16,771,408	237,440,550

Mitigation of credit risk

due to collateral (*2) ₩ 59,826 63,402,563 398 51,326,493 4,970 114,794,250

	2015					
	Banks	Retail	Government	Corporations	Card	Total
Grade 1 (*1)	₩ 14,511,673	100,677,960	16,704,356	72,501,523	15,133,363	219,528,875
Grade 2 (*1)		6,013,193		37,887,286	2,544,070	46,444,549
	14,511,673	106,691,153	16,704,356	110,388,809	17,677,433	265,973,424
Less : allowance	(25,511)	(178,313)	(3,115)	(734,136)	(356,815)	(1,297,890)
	₩ 14,486,162	106,512,840	16,701,241	109,654,673	17,320,618	264,675,534

Mitigation of credit risk

due to collateral (*2) ₩ 124,306 69,399,485 57,477,691 5,045 127,006,527

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

(*1) Credit quality of due from banks and loans was classified based on the internal credit rating as follows:

Type of Borrower	Grade 1	Grade 2
Banks and governments (*)	OECD sovereign credit rating of 6 or above (as applied to the nationality of the banks and governments)	OECD sovereign credit rating of below 6 (as applied to the nationality of the banks and governments)
Retail	Pool of retail loans with probability of default of less than 2.25%	Pool of retail loans with probability of default of 2.25% or more
Corporations	Internal credit rating of BBB+ or above	Internal credit rating of below BBB+ (Probability of default for loans with internal credit rating of BBB is 2.25%)
Credit cards	For individual card holders, score of 7 or higher in Shinhan Card's internal behavior scoring system For corporate cardholders, same as corporate loans	For individual card holders, score of below 7 in Shinhan Card's internal behavior scoring system For corporate cardholders, same as corporate loans

(*) In the case of loans to banks and governments that are neither past due nor impaired, Shinhan Bank classified loans with a sovereign rating of 6 or above as Grade 1 and those with a sovereign rating of below 6 as Grade 2. Under the guidelines set forth by the Financial Supervisory Commission of Korea, all major commercial banks in Korea, including Shinhan Bank, follow the standardized approach under Basel III for purposes of computing Bank of International Settlement (BIS) ratios for risk classifications of loans to banks and governments. Under this standardized approach under Basel III, risk classification for loans to banks and governments are determined on the basis of sovereign credit ratings, and not internal credit ratings assigned by the lending bank that are specific to the individual banks and governments. More specifically, this approach involves classifying loans to banks and governments in a given jurisdiction as either Grade 1 or Grade 2 based on the sovereign credit ratings for the government of such jurisdiction as determined by the Organization for Economic Co-operation and Development (OECD). As for our subsidiaries other than Shinhan Bank, risk classification of loans to banks and governments is made based on their respective internal credit ratings as these subsidiaries are not subject to the

aforesaid guidelines of the Financial Supervisory Commission relating to Basel III risk classification.

(*2) The Group holds collateral against due from banks and loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of quantification of the extent to which collateral mitigate credit risk are based on the fair value of collateral.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

Aging analyses of due from banks and loans that are past due but not impaired as of December 31, 2014 and 2015 are as follows:

	2014					Total
	Banks	Retail	Government	Corporations	Card	
Less than 30 days	₩	353,523	80	157,029	429,972	940,604
31~60 days		66,576	101	31,839	44,603	143,119
61~90 days		28,868		50,745	22,445	102,058
More than 90 days		6,981		38,649	127	45,757
		455,948	181	278,262	497,147	1,231,538
Less : allowance (collective)		(31,590)	(8)	(32,996)	(72,581)	(137,175)
	₩	424,358	173	245,266	424,566	1,094,363

Mitigation of credit risk due to collateral (*)	₩	307,234	11	98,941	25	406,211
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	2015					Total
	Banks	Retail	Government	Corporations	Card	
Less than 30 days	₩	311,602		108,683	342,708	762,993
31~60 days		52,331		24,139	43,158	119,628
61~90 days		25,967		10,551	17,329	53,847
More than 90 days		14,221		12,964	218	27,403
		404,121		156,337	403,413	963,871
Less : allowance (collective)		(32,876)		(9,884)	(60,757)	(103,517)
	₩	371,245		146,453	342,656	860,354

Mitigation of credit risk due to collateral (*)	₩	258,827		54,985	8	313,820
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Due from banks and loans that are impaired as of December 31, 2014 and 2015 are as follows:

	2014					
	Banks	Retail	Government	Corporations	Card	Total
Impaired	₩	286,414		1,349,849	490,925	2,127,188
Less : allowance		(115,318)		(558,327)	(308,720)	(982,365)
	₩	171,096		791,522	182,205	1,144,823
Mitigation of credit risk due to collateral (*)	₩	137,039		488,535	2	625,576
	2015					
	Banks	Retail	Government	Corporations	Card	Total
Impaired	₩	264,754		1,221,700	415,731	1,902,185
Less : allowance		(118,069)		(554,109)	(257,664)	(929,842)
	₩	146,685		667,591	158,067	972,343
Mitigation of credit risk due to collateral (*)	₩	109,869		399,142	7	509,018

(*) The Group holds collateral against due from banks and loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of quantification of the extent to which collateral mitigate credit risk are based on the fair value of collateral.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)*iv) Credit rating*

Credit ratings of debt securities as of December 31, 2014 and 2015 are as follows:

			2014		
	Trading assets	Financial assets designated at FVTPL (*)	Available for- sale financial assets	Held-to- maturity financial assets	Total
AAA	₩ 7,068,449	59,945	14,584,701	9,879,920	31,593,015
AA- to AA+	6,639,473	262,439	4,797,373	3,040,388	14,739,673
A- to A+	6,195,826	1,433,469	4,705,307	350,244	12,684,846
BBB- to BBB+	926,701	190,347	1,647,993	19	2,765,060
Lower than BBB-	242,057		441,338	33,306	716,701
Unrated	203,893		678,950	69,507	952,350
	₩ 21,276,399	1,946,200	26,855,662	13,373,384	63,451,645

			2015		
	Trading assets	Financial assets designated at FVTPL (*)	Available for- sale financial assets	Held-to- maturity financial assets	Total
AAA	₩ 6,972,123	143,888	18,885,297	13,046,394	39,047,702
AA- to AA+	5,144,783	676,975	4,004,980	2,342,271	12,169,009
A- to A+	4,745,915	1,269,073	3,923,203	576,568	10,514,759
BBB- to BBB+	917,401	239,082	941,149	35,160	2,132,792
Lower than BBB-	83,410		419,080	68,672	571,162
Unrated	1,582,553		863,931	122,995	2,569,479
	₩ 19,446,185	2,329,018	29,037,640	16,192,060	67,004,903

(*) FVTPL : fair value through profit or loss

The credit quality of securities (debt securities) according to the credit ratings by external rating agencies are as follows:

Internal credit ratings	KIS (*1)	KR (*2)	S&P	Fitch	Moody s
AAA	AAA	AAA	AAA	AAA	Aaa
AA- to AA+	AAA	AAA	AA- to AA+	AA- to AA+	Aa3 to Aa1
A- to A+	AA- to AA+	AA- to AA+	A- to A+	A- to A+	A3 to A1
BBB- to BBB+	BBB- to A	BBB- to A	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than Baa3
Unrated	Unrated	Unrated	Unrated	Unrated	Unrated

(*1) KIS : Korea Investors Service

(*2) KR : Korea Ratings

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

Credit status of debt securities as of December 31, 2014 and 2015 are as follows:

	2014	2015
Neither past due nor impaired	₩ 63,444,233	67,003,273
Impaired	7,412	1,631
	₩ 63,451,645	67,004,904

Credit quality of derivative assets as of December 31, 2014 and 2015 are as follows:

	2014	2015
Grade 1 (*1)(*2)	₩ 1,916,524	1,512,568
Grade 2 (*1)(*2)	78,190	55,739
	₩ 1,994,714	1,568,307

(*1) Credit qualities of derivative assets were classified based on the internal credit ratings of counterparties.

(*2) Grade 1: Internal credit rating of BBB+ or above, Grade 2: Internal credit rating of below BBB+

- v) Assets acquired through foreclosures amounting to ₩2,585 million and ₩1,185 million are classified as assets held for sale (non-business purpose property) as of December 31, 2014 and 2015, respectively.

vi) Concentration by geographic location

An analysis of concentration by geographic location for financial instrument, net of allowance, as of December 31, 2014 and 2015 are as follows:

	2014						
	Korea	USA	Japan	Vietnam	China	Other	Total

Due from banks and loans:								
Banks	₩	6,605,378	1,585,332	367,795	345,781	2,654,699	2,104,333	13,663,318
Retail		92,855,198	264,564	784,086	56,376	45,115	276,931	94,282,270
Government Corporations		11,321,880	115,845	73,475	80,516	540,175	63,867	12,195,758
Card		17,349,245	6,597	2,401	8,394	4,503	7,039	17,378,179
		220,253,685	3,311,602	2,708,408	1,785,200	5,910,011	5,710,831	239,679,737
Trading assets		21,153,829	7,450			114,897	224,779	21,500,955
Financial assets designated at FVTPL (*1)		1,912,084				34,116		1,946,200
AFS financial assets (*2)		25,839,853	397,158	37,005	416,632	29,669	135,345	26,855,662
HTM financial assets (*3)		13,178,520	83,560	23,137	22,031	54,860	11,276	13,373,384
	₩	282,337,971	3,799,770	2,768,550	2,223,863	6,143,553	6,082,231	303,355,938

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

	Korea	USA	Japan	2015 Vietnam	China	Other	Total
Due from banks and loans:							
Banks	₩ 6,735,520	1,541,760	348,956	340,933	3,929,087	1,589,906	14,486,162
Retail	104,878,555	292,437	1,313,156	117,797	98,679	330,146	107,030,770
Government Corporations	15,108,925	294,332	550,439	67,251	438,214	242,080	16,701,241
Card	99,243,181	1,548,932	1,724,085	1,399,971	2,438,980	4,113,568	110,468,717
	17,790,098	6,997	2,247	7,819	6,423	7,757	17,821,341
	243,756,279	3,684,458	3,938,883	1,933,771	6,911,383	6,283,457	266,508,231
Trading assets	19,337,295	8,413	1,054		87,110	161,533	19,595,405
Financial assets designated at FVTPL (*1)	2,247,189				36,396	45,433	2,329,018
AFS financial assets (*2)	27,586,155	619,084	89,433	418,865	46,545	277,558	29,037,640
HTM financial assets (*3)	15,789,289	148,073	26,770	73,226	148,258	6,444	16,192,060
	₩ 308,716,207	4,460,028	4,056,140	2,425,862	7,229,692	6,774,425	333,662,354

(*1) FVTPL : fair value through profit or loss

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

vii) Concentration by industry sector

An analysis of concentration by industry sector of due from banks and loans, net of allowance, as of December 31, 2014 and 2015 are as follows:

2014

Other

Total

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	Finance and insurance	Manu- facturing	Retail and wholesale	Real estate and service		Retail customers	
Due from banks and loans:							
Banks	₩ 11,724,753	2,246		187,727	1,748,592		13,663,318
Retail						94,282,270	94,282,270
Government	11,285,787		182	43	909,746		12,195,758
Corporations	4,102,383	35,954,237	13,807,545	18,358,983	29,937,064		102,160,212
Card	44,351	158,901	123,175	29,767	494,580	16,527,405	17,378,179
	27,157,274	36,115,384	13,930,902	18,576,520	33,089,982	110,809,675	239,679,737
Trading assets	14,834,973	908,646	599,989	923,759	4,233,588		21,500,955
Financial assets designated at FVTPL (*1)	1,498,097	92,494	106,890	30,124	218,595		1,946,200
AFS financial assets (*2)	18,375,517	1,365,458	163,342	819,355	6,131,990		26,855,662
HTM financial assets (*3)	3,448,775	50,370		593,894	9,280,345		13,373,384
	₩ 65,314,636	38,532,352	14,801,123	20,943,652	52,954,500	110,809,675	303,355,938

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

	2015						
	Finance and insurance	Manu- facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans:							
Banks	₩ 11,865,178			67,609	2,553,375		14,486,162
Retail						107,030,770	107,030,770
Government Corporations	15,625,885				1,075,356		16,701,241
Card	4,235,517	38,918,439	14,744,780	19,716,006	32,853,975		110,468,717
	43,583	171,851	122,112	31,666	337,817	17,114,312	17,821,341
	31,770,163	39,090,290	14,866,892	19,815,281	36,820,523	124,145,082	266,508,231
Trading assets	13,066,258	722,383	661,426	457,132	4,688,206		19,595,405
Financial assets designated at FVTPL (*1)	1,823,687	109,677	67,973		327,681		2,329,018
AFS financial assets (*2)	20,656,569	999,752	161,597	413,683	6,806,039		29,037,640
HTM financial assets (*3)	4,630,157	66,283		614,439	10,881,181		16,192,060
	₩ 71,946,834	40,988,385	15,757,888	21,300,535	59,523,630	124,145,082	333,662,354

(*1) FVTPL : fair value through profit or loss

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

(c) Market risk

Market risk from trading positions is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Interest rate risk from non- trading positions is the risk of loss resulting from interest rate fluctuations that adversely affect the financial condition and results of operations of the Group and affects the earnings and the economic value of net assets of the Group.

Foreign exchange risk arises from the Group's assets and liabilities which are denominated in currencies other than the Won.

The Group's market risks arise primarily from Shinhan Bank, and to a lesser extent, Shinhan Investment, which incurs market risk relating to its trading activities.

Shinhan Bank's Risk Policy Committee acts as the executive decision making body in relation to market risks setting the risk management policies and risk limits and controlling market risks arising from trading and non-trading activities. In addition, Shinhan Bank's Risk Management Department comprehensively manages market risks on an independent basis from Shinhan Bank's operating departments, and functions as the middle office of Shinhan Bank.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

Shinhan Investment's Risk Management Working Committee is the executive decision-making body for managing market risks related to Shinhan Investment, and determines, among other things, Shinhan Investment's overall market risk management policies and strategies, and assesses and approves trading activities and limits. In addition, Shinhan Investment's Risk Management Department manages various market risk limits and monitors operating conditions on an independent basis from Shinhan Investment's operating departments.

i) Market risk management from trading positions

Trading activities are to realize short-term trading profits in debt and stock markets and foreign exchange markets based on short-term forecast of changes in market situation and profits from arbitrage transactions in derivatives such as swap, forward, futures and option transactions. The Group manages market risk related to its trading positions using VaR, market value-based tool.

Shinhan Bank currently uses the ten-day 99% confidence level-based VaR for purposes of calculating the regulatory capital used in reporting to the Financial Supervisory Service and uses the more conservative ten-day 99.9% confidence level-based VaR for purposes of calculating its economic capital used for internal management purposes, which is a concept used in determining the amount of Shinhan Bank's requisite capital in light of the market risk. In addition, Shinhan Bank also uses the one-day 99% confidence level-based VaR on a supplemental basis for purposes of setting and managing risk limits specific to each desk or team in its operating units as well as for back-testing purposes. Shinhan Bank manages VaR measurements and limits on a daily basis based on an automatic interfacing of its trading positions into its market risk measurement system. In addition, Shinhan Bank establishes pre-set loss, sensitivity, investment and stress limits for its trading departments and desks and monitors such limits daily.

Shinhan Investment currently uses the ten-day 99.9% confidence level-based historical VaR for purposes of calculating its economic capital used for internal management purposes. When computing the VaR, Shinhan Investment does not assume any particular probability distribution and calculates it through a simulation of the full valuation method based on changes of market variables such as stock prices, interest rates, and foreign exchange rates in the past one year. In addition, Shinhan Investment applies this VaR as a risk limit for the entire company as well as individual departments and products, and the adequacy of such VaR is reviewed by way of daily back-testing.

Value-at-risk is a commonly used market risk management technique. However, VaR models have the following shortcomings:

VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a reliable indicator of future events,

particularly those that are extreme in nature;

VaR may underestimate the probability of extreme market movements;

Shinhan Bank's VaR models assume that a holding period of generally one to ten days is sufficient prior to liquidating the underlying positions, but such assumption regarding the length of the holding period may prove to be inadequate;

The 99.9% confidence level does not take into account or provide indication of any losses that might occur beyond this confidence level; and

VaR does not capture all complex effects of various risk factors on the value of positions and portfolios and could underestimate potential losses

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

In order to streamline such differences and use a consistent VaR among operating subsidiaries, the Group has adopted starting in 2013 a unified group-wide market risk measurement methodology, which uses the ten-day 99.9% confidence level for calculating the VaR.

An analysis of the Group's requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2014 and 2015 based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, was as follows:

	2014			
	Average	Maximum	Minimum	December 31
Interest rate	₩ 256,051	293,708	214,823	292,081
Stock price	130,879	161,505	85,819	159,049
Foreign exchange	121,334	145,703	104,065	114,101
Option volatility	7,857	9,843	5,577	5,577
	₩ 516,121	610,759	410,284	570,808

	2015			
	Average	Maximum	Minimum	December 31
Interest rate	₩ 305,563	328,357	281,223	328,357
Stock price	174,365	213,507	132,172	132,172
Foreign exchange	125,048	141,887	110,512	141,159
Option volatility	7,820	16,811	3,747	4,561
	₩ 612,796	700,562	527,654	606,249

Insurance company, Shinhan Life Insurance, was excluded when the Group estimated the market risk, because insurance company was not included in the Group's subsidiaries for the consolidated BIS capital ratio.

An analysis of market risk for trading positions of the major subsidiaries as of and for the years ended December 31, 2014 and 2015 are as follows:

i-1) Shinhan Bank

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Bank as of and for the years ended December 31, 2014 and 2015 are as follows:

	2014			
	Average	Maximum	Minimum	December 31
Interest rate	₩ 17,302	25,863	8,721	13,414
Stock price	4,333	7,362	2,493	3,442
Foreign exchange (*)	43,872	54,355	34,928	49,372
Option volatility	161	259	66	66
Portfolio diversification	(18,668)	(32,344)	(5,246)	(13,268)
	₩ 47,000	55,495	40,962	53,026

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

	2015			
	Average	Maximum	Minimum	December 31
Interest rate	₩ 37,341	43,746	33,849	35,976
Stock price	8,258	9,049	6,995	7,056
Foreign exchange (*)	45,102	54,459	36,549	44,475
Option volatility	355	550	262	262
Commodity	5	21		3
Portfolio diversification	(35,789)	(45,895)	(25,953)	(30,699)
	₩ 55,272	61,930	51,702	57,073

(*) Both trading and non-trading accounts are included since Shinhan Bank manages foreign exchange risk on a total position basis.

i-2) Shinhan Card

The analyses of Shinhan Card's requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2014 and 2015, based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, are as follows:

	2014			
	Average	Maximum	Minimum	December 31
Interest rate	₩ 754	1,300	400	1,150
Foreign exchange	40,309	46,846	33,832	39,849
	₩ 41,063	48,146	34,232	40,999

	2015			
	Average	Maximum	Minimum	December 31
Interest rate	₩ 1,685	3,011	650	650
Foreign exchange	38,214	42,208	33,759	33,759

₩ 39,899	45,219	34,409	34,409
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(*) Shinhan Card fully hedges all the cash flows from foreign currency liabilities by swap transactions and is narrowly exposed to foreign exchange risk relating to foreign currency equity securities held for non-trading purposes.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)

i-3) Shinhan Investment

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Investment as of and for the years ended December 31, 2014 and 2015 are as follows:

	2014			
	Average	Maximum	Minimum	December 31
Interest rate	₩ 8,999	30,064	3,514	6,069
Stock price	7,531	14,677	3,389	14,438
Foreign exchange	3,688	17,353	646	5,227
Option volatility	1,917	7,042	224	711
Portfolio diversification	(7,730)	(38,169)	(1,399)	(8,967)
	₩ 14,405	30,967	6,374	17,478

	2015			
	Average	Maximum	Minimum	December 31
Interest rate	₩ 6,879	16,542	2,707	7,274
Stock price	19,397	64,650	10,213	19,047
Foreign exchange	5,680	10,881	2,845	7,489
Option volatility	2,634	5,207	175	4,396
Portfolio diversification	(11,714)	(32,096)	(4,062)	(8,460)
	₩ 22,876	65,184	11,878	29,746

i-4) Shinhan Life Insurance

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Life Insurance as of and for years ended December 31, 2014 and 2015 are as follows:

2014

	Average	Maximum	Minimum	December 31
Interest rate	₩ 997	4,850	223	354
Stock price	5	111		
Foreign exchange	301	664	19	392
Option volatility	3,136	7,289	1,058	1,332
	₩ 4,439	12,914	1,300	2,078

	Average	Maximum	Minimum	December 31
			2015	
Interest rate	₩ 585	817	298	303
Stock price	275	1,190		
Foreign exchange	1,308	2,337	511	1,780
Option volatility	541	1,868	108	138
	₩ 2,709	6,212	917	2,221

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

ii) Interest rate risk management from non-trading positions

Principal market risk from non-trading activities of the Group is interest rate risk, which affects the Group's earnings and the economic value of the Group's net assets:

Earnings: interest rate fluctuations have an effect on the Group's net interest income by affecting its interest-sensitive operating income and expenses and EaR (Earnings at Risk) is a commonly used risk management technique.

Economic value of net assets: interest rate fluctuations influence the Group's net worth by affecting the present value of cash flows from the assets, liabilities and other transactions of the Group and VaR is a commonly used risk management technique.

Interest rate VaR represents the maximum anticipated loss in a net present value calculation, whereas interest rate EaR represents the maximum anticipated loss in a net earnings calculation for the immediately following one-year period, in each case, as a result of negative movements in interest rates.

Accordingly, the Group measures and manages interest rate risk for non-trading activities by taking into account effects of interest rate changes on both its income and net asset value.

The principal objectives of Shinhan Bank's interest rate risk management are to generate stable net interest income and to protect Shinhan Bank's net asset value against interest rate fluctuations. Through its asset and liability management system, Shinhan Bank measures and manages its interest rate risk based on various analytical measures such as interest rate gap, duration gap and net present value and net interest income simulations, and monitors on a monthly basis its interest rate VaR limits, interest rate earnings at risk (EaR) limits and interest rate gap ratio limits. Shinhan Bank measures its interest rate VaR and interest rate EaR based on a simulated estimation of the maximum decrease in net asset value and net interest income in a one-year period based on various scenario analyses of historical interest rates.

Shinhan Card and Shinhan Life Insurance also monitors and manages its interest rate risk limits for all its interest-bearing assets and liabilities (including off-balance sheet items) in terms of impact on its earnings and net asset value from changes in interest rates. The interest rate VaR analysis used by Shinhan Card and Shinhan Life Insurance principally focuses on the maximum impact on its net asset value from adverse movement in interest rates.

Non-trading positions for interest rate VaR and EaR as of December 31, 2014 and 2015 are as follows:

ii-1) Shinhan Bank

	2014	2015
VaR	₩ 179,367	202,029
EaR	313,619	185,254

ii-2) Shinhan Card

	2014	2015
VaR	₩ 89,909	88,825
EaR	23,458	12,663

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

ii-3) Shinhan Investment

	2014	2015
VaR	₩ 5,106	9,846
EaR	119,812	85,881

ii-4) Shinhan Life Insurance

	2014	2015
VaR	₩ 201,940	206,432
EaR	4,525	5,947

(*1) The interest rate VaR represents the maximum anticipated loss in a net asset value in one year under confidence level of 99.9% and is measured by the internal model.

(*2) The interest rate EaR was calculated by the Financial Supervisory Service regulations based on the middle of time band and interest shocks by 200 basis points for each time bucket as recommended under the Basel Accord.

iii) Foreign exchange risk

Foreign exchange risk arises because of the Group's net foreign currency open position, which is the difference between its foreign currency assets and liabilities, including derivatives.

The Group manages foreign exchange risk on an overall position basis, including its overseas branches, by covering all of its foreign exchange spot and forward positions in both trading and non-trading accounts.

The Risk Policy Committee oversees Shinhan Bank's foreign exchange exposure for both trading and non-trading activities by establishing limits for the net foreign currency open position, loss limits and VaR limits.

The management of Shinhan Bank's foreign exchange position is centralized at the FX & Derivatives Department. Dealers in the FX & Derivatives Department manage Shinhan Bank's overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)

Foreign currency denominated assets and liabilities as of December 31, 2014 and 2015 are as follows:

	2014					
	USD	JPY	EUR	CNY	Other	Total
Assets:						
Cash and due from banks	₩ 2,379,606	798,025	152,503	2,001,028	700,881	6,032,043
Trading assets	278,187	8,986		110,086	285,465	682,724
Financial assets designated at FVTPL (*1)	149,380					149,380
Derivative assets	127,127	351	5,205	1,418	1,746	135,847
Loans	14,854,848	4,218,136	929,165	2,304,384	2,345,771	24,652,304
AFS financial assets (*2)	1,638,766	41,160	4,143		536,891	2,220,960
HTM financial assets (*3)	61,376	180,191		51,180	38,326	331,073
Other financial assets	1,884,301	213,949	33,864	279,412	120,851	2,532,377
	₩ 21,373,591	5,460,798	1,124,880	4,747,508	4,029,931	36,736,708
Liabilities:						
Deposits	₩ 7,416,198	4,548,996	383,545	3,003,747	2,325,939	17,678,425
Trading liabilities	430				428,936	429,366
Financial liabilities designated at FVTPL (*1)	188,123					188,123
Derivative liabilities	69,371	72,637	366	916	579	143,869
Borrowings	5,519,777	261,194	511,723	387,367	261,130	6,941,191
Debt securities issued	5,515,370	585,209			389,648	6,490,227
Other financial liabilities	1,999,245	129,719	103,272	436,379	185,590	2,854,205
	₩ 20,708,514	5,597,755	998,906	3,828,409	3,591,822	34,725,406
Net assets (liabilities)	₩ 665,077	(136,957)	125,974	919,099	438,109	2,011,302
Off-balance derivative exposure	350,795	132,161	(60,167)	(554,143)	83,193	(48,161)
Net position	₩ 1,015,872	(4,796)	65,807	364,956	521,302	1,963,141

(*1) FVTPL : fair value through profit or loss

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

	2015						
	USD	JPY	EUR	CNY	Other	Total	
Assets:							
Cash and due from banks	₩ 3,255,745	1,146,612	137,912	1,854,220	875,451	7,269,940	
Trading assets	376,477	6,102	52,440	27,330	172,335	634,684	
Financial assets designated at FVTPL (*1)	335,474					335,474	
Derivative assets	77,075	8,110	2,596	3,989	330	92,100	
Loans	15,053,386	4,460,483	1,150,044	2,881,059	3,012,725	26,557,697	
AFS financial assets (*2)	1,961,730	65,075	16,979	5,441	594,535	2,643,760	
HTM financial assets (*3)	124,651	143,529		148,258	83,892	500,330	
Other financial assets	2,338,372	268,558	126,115	654,260	185,008	3,572,313	
	₩ 23,522,910	6,098,469	1,486,086	5,574,557	4,924,276	41,606,298	
Liabilities:							
Deposits	₩ 8,526,888	5,300,848	451,613	3,544,013	2,554,630	20,377,992	
Trading liabilities	317				453,605	453,922	
Financial liabilities designated at FVTPL (*1)	368,633	4,530	1,142			374,305	
Derivative liabilities	60,636	658	260	2,260	209	64,023	
Borrowings	6,043,186	179,412	390,562	717,309	366,803	7,697,272	
Debt securities issued	5,581,146	291,603	153,664	216,660	144,381	6,387,454	
Other financial liabilities	2,465,314	211,698	337,612	827,811	314,892	4,157,327	
	₩ 23,046,120	5,988,749	1,334,853	5,308,053	3,834,520	39,512,295	
Net assets	₩ 476,790	109,720	151,233	266,504	1,089,756	2,094,003	
Off-balance derivative exposure	266,359	24,438	(121,245)	69,342	(408,120)	(169,226)	
Net position	₩ 743,149	134,158	29,988	335,846	681,636	1,924,777	

(*1) AFS : available-for-sale

(*2) HTM : held-to-maturity

(*3) FVTPL : fair value through profit or loss

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Each subsidiary seeks to minimize liquidity risk through early detection of risk factors related to the sourcing and managing of funding that may cause volatility in liquidity and by ensuring that it maintains an appropriate level of liquidity through systematic management. At the groupwide level, the Group manages liquidity risk by conducting monthly stress tests that compare liquidity requirements under normal situations against those under three types of stress situations, namely, the group-specific internal crisis, crisis in the external market and a combination of internal and external crisis. In addition, in order to preemptively and comprehensively manage liquidity risk, the Group measure and monitor liquidity risk management using various indices, including the limit management index , early warning index and monitoring index .

Shinhan Bank applies the following basic principles for liquidity risk management:

raise funding in sufficient amounts, at the optimal time at reasonable costs;

maintain risk at appropriate levels and preemptively manage them through a prescribed risk limit system and an early warning signal detection system;

secure stable sources of revenue and minimize actual losses by implementing an effective asset-liability management system based on diversified sources of funding with varying maturities;

monitor and manage daily and intra-daily liquidity positions and risk exposures for timely payment and settlement of financial obligations due under both normal and crisis situations;

conduct periodic contingency analysis in anticipation of any potential liquidity crisis and establish and implement emergency plans in case of a crisis actually happening; and

consider liquidity-related costs, benefits of and risks in determining the pricing of the Group's products and services, employee performance evaluations and approval of launching of new products and services. As for any potential liquidity shortage at or near the end of each month, Shinhan Card maintains liquidity at a level sufficient to withstand credit shortage for three months. In addition, Shinhan Card manages liquidity risk by defining and managing various indicators of liquidity risk, such as the actual liquidity gap ratio (in relation to the different maturities for assets as compared to liabilities), the liquidity buffer ratio, the maturity repayment ratio, the ratio of actual funding compared to budgeted funding and the ratio of asset-backed securities to total borrowings, at different risk levels of caution, unstable and at risk, and the Group also has contingency plans in place in case of any emergency or crisis.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)

Contractual maturities for financial instruments including cash flows of principal and interest and off balance as of December 31, 2014 and 2015 are as follows:

	Less than 1 month	1~3 months	3~6 months	2014 6 months ~ 1 year	1~5 years	More than 5 years	Total
Non-derivative financial instruments:							
Assets:							
Cash and due from banks	₩ 16,293,055	1,202,567	1,294,502	1,824,756	35,664	47,375	20,697,919
Trading assets (*3)	24,206,873	7,380		37,479	36,498	81,519	24,369,749
Financial assets designated at fair value through profit or loss	1,894,062	32,715	116,973	26,051	564,132	103,596	2,737,529
Loans	28,612,094	29,867,481	34,979,379	51,517,129	55,500,327	49,283,162	249,759,572
Available-for-sale financial assets (*3)	26,174,710	1,955,624	30,042	1,002,739	26,551	2,229,016	31,418,682
Held-to-maturity financial assets	205,544	636,188	394,655	1,265,085	7,646,864	7,471,576	17,619,912
Other financial assets	6,337,858	21,269	20,151	327,983	3,382,771	190,599	10,280,631
	₩ 103,724,196	33,723,224	36,835,702	56,001,222	67,192,807	59,406,843	356,883,994
Liabilities:							
Deposits (*2)	₩ 92,720,125	22,382,996	27,514,353	42,443,826	11,473,918	3,708,829	200,244,047
Trading liabilities	2,688,734						2,688,734
Financial liabilities designated at fair	149,918	220,932	287,058	820,256	6,672,700	845,656	8,996,520

value through
profit or loss

Borrowings	13,112,645	1,991,313	1,751,068	1,791,657	3,737,094	846,679	23,230,456
Debt securities issued	846,643	1,909,290	4,171,870	7,515,358	23,271,423	3,201,822	40,916,406
Other financial liabilities	16,634,144	45,750	15,921	172,690	471,352	108,993	17,448,850
	₩ 126,152,209	26,550,281	33,740,270	52,743,787	45,626,487	8,711,979	293,525,013

Off balance (*4):

Finance guarantee contracts	₩ 3,090,873						3,090,873
Loan commitments and other	74,295,365						74,295,365
	₩ 77,386,238						77,386,238

Derivatives:

Cash inflows	₩ 1,530,627	339,105	197,109	1,036,878	1,845,455	50,797	4,999,971
Cash outflows	(1,614,763)	(104,502)	(153,737)	(1,009,806)	(1,925,721)	(433,058)	(5,241,587)
	₩ (84,136)	234,603	43,372	27,072	(80,266)	(382,261)	(241,616)

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)

	Less than 1 month	1~3 months	3~6 months	2015 6 months ~ 1 year	1~5 years	More than 5 years	Total
Non-derivative financial instruments:							
Assets:							
Cash and due from banks	₩ 16,843,128	1,641,876	1,530,110	2,050,819	29,843	23,073	22,118,849
Trading assets (*3)	22,501,571	24,397	30,194	73,262	20,028	6,593	22,656,045
Financial assets designated at fair value through profit or loss	2,369,896	51,860	4,688	97,645	619,170	101,074	3,244,333
Loans	29,674,971	30,614,739	37,138,646	55,209,656	66,445,746	54,084,5500	273,168,308
Available-for-sale financial assets (*3)	29,415,328	1,091,745	12,623	1,173,011	398,156	1,904,249	33,995,112
Held-to-maturity financial assets	78,916	236,378	565,038	1,085,581	9,518,678	9,582,297	21,066,888
Other financial assets	8,057,613	24,202	21,106	290,955	3,502,493	90,587	11,986,956
	₩ 108,941,423	33,685,197	39,302,405	59,980,929	80,534,114	65,792,423	388,236,491
Liabilities:							
Deposits (*2)	₩ 108,029,850	21,996,113	26,252,328	51,392,270	13,511,745	3,415,583	224,597,889
Trading liabilities	2,135,390						2,135,390
Financial liabilities designated at fair value through profit or loss	151,597	368,648	335,632	1,586,608	5,496,762	977,743	8,916,990
Borrowings	10,799,071	2,321,249	1,410,898	2,392,047	4,425,261	682,720	22,031,246
Debt securities issued	805,212	2,582,626	3,036,650	8,292,380	25,620,414	4,096,669	44,433,951

Other financial liabilities	18,623,136	34,873	303,104	154,200	321,174	55,163	19,491,650
	₩ 140,544,256	27,303,509	31,338,612	63,817,505	49,375,356	9,227,878	321,607,116
Off balance (*4):							
Finance guarantee contracts	₩ 3,679,486						3,679,486
Loan commitments and other	76,965,151						76,965,151
	₩ 80,644,637						80,644,637
Derivatives:							
Cash inflows	₩ 2,040,644	493,895	375,267	1,127,109	1,835,195	42,160	5,914,270
Cash outflows	(2,601,358)	(329,658)	(354,063)	(1,075,864)	(1,645,263)	(30,270)	(6,036,476)
	₩ (560,714)	164,237	21,204	51,245	189,932	11,890	(122,206)

(*1) These amounts include cash flows of principal and interest on financial liabilities.

(*2) Demand deposits amounting to ₩68,949,585 million and ₩83,639,042 million as of December 31, 2014 and 2015 are included in the Less than 1 month category, respectively.

(*3) Available-for-sale financial assets and trading assets which are not restricted for sale and measured at market prices were included in the Less than 1 month category; and the other available-for-sale financial assets and trading assets are classified by the earliest maturities available for sale.

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(In millions of won)

4. Financial risk management (continued)

(*4) Financial guarantees such as financial guarantee contracts and loan commitments and others provided by the Group are classified based on the earliest date at which the Group should fulfill the obligation under the guarantee when the counterparty requests payment.

(e) Measurement of fair value

The fair values of financial instruments being traded in an active market are determined by the published market prices of each period end. The published market prices of financial instruments being held by the Group are based on the trading agencies' notifications. If the market for a financial instrument is not active, such as OTC (Over The Counter market) derivatives, fair value is determined either by using a valuation technique or independent third-party valuation service.

The Group uses various valuation techniques and is setting rational assumptions based on the present market situations. Such valuation techniques may include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

The Group classifies and discloses fair value of financial instruments into the following three-level hierarchy:

Level 1: Financial instruments measured at quoted prices from active markets are classified as fair value level 1.

Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.

Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)*i) Financial instruments measured at fair value*

The fair value hierarchy of financial assets presented at their fair values in the statements of financial position as of December 31, 2014 and 2015 are as follows:

	2014			
	Level 1	Level 2	Level 3	Total
Financial assets				
Trading assets:				
Debt securities	₩ 5,553,244	15,567,883	155,271	21,276,398
Equity securities	1,191,394	1,659,309	10,519	2,861,222
Gold deposits	224,556			224,556
Financial assets designated at fair value through profit or loss:				
Debt securities and others	59,945	1,469,473	416,782	1,946,200
Equity securities	17,955	630,537	142,683	791,175
Derivative assets:				
Trading	4,640	1,247,402	159,126	1,411,168
Hedging		95,706	61,433	157,139
Available-for-sale financial assets:				
Debt securities	7,371,643	19,468,619	15,400	26,855,662
Equity securities	1,647,908	346,331	2,568,113	4,562,352
	₩ 16,071,285	40,485,260	3,529,327	60,085,872
Financial liabilities:				
Trading liabilities:				
Securities sold	₩ 2,259,798			2,259,798
Gold deposits	428,936			428,936
Financial liabilities designated at fair value through profit or loss:				
Deposits		3,054	3,085	6,139
Securities sold	417			417
Derivatives-combined securities	154	2,004,122	6,985,349	8,989,625

Derivative liabilities:

Trading	5,317	1,360,839	230,244	1,596,400
Hedging		92,392	28,763	121,155
	₩ 2,694,622	3,460,407	7,247,441	13,402,470

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

	2015			
	Level 1	Level 2	Level 3	Total
Financial assets				
Trading assets:				
Debt securities	₩ 5,496,812	13,789,920	159,454	19,446,186
Equity securities	1,168,610	1,832,283	42,149	3,043,042
Gold deposits	149,221			149,221
Financial assets designated at fair value through profit or loss:				
Debt securities and others	133,652	1,868,749	326,618	2,329,019
Equity securities	6,045	784,596	124,506	915,147
Derivative assets:				
Trading	4,881	1,695,320	113,160	1,813,361
Hedging		153,455	27,898	181,353
Available-for-sale financial assets:				
Debt securities	9,265,153	19,582,353	190,134	29,037,640
Equity securities	1,545,321	594,186	2,788,924	4,928,431
	₩ 17,769,695	40,300,862	3,772,843	61,843,400
Financial liabilities:				
Trading liabilities:				
Securities sold	₩ 1,681,785			1,681,785
Gold deposits	453,605			453,605
Financial liabilities designated at fair value through profit or loss:				
Deposits		10,542	2,967	13,509
Securities sold	86,532			86,532
Derivatives-combined securities		2,374,637	6,441,654	8,816,291
Derivative liabilities:				
Trading	9,122	1,653,121	752,927	2,415,170
Hedging		92,146	91,972	184,118
	₩ 2,231,044	4,130,446	7,289,520	13,651,010

There was no transfer between level 1 and level 2 for the years ended December 31, 2014 and 2015.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)

Changes in carrying values of financial instruments classified as Level 3 for the years ended December 31, 2014 and 2015 are as follows:

	2014				
	Trading assets	Financial assets designated at FVTPL (*3)	Available-for- sale financial assets	Derivative assets and liabilities, net	Financial liabilities designated at FVTPL (*3)
Beginning balance	₩ 35,345	894,706	2,134,276	(305,107)	(4,529,091)
Recognized in total comprehensive income for the year:					
Recognized in profit (loss) for the year (*1)	7,519	(124,819)	(114,991)	348,608	(356,036)
Recognized in other comprehensive income (loss) for the year			133,010	(798)	
	7,519	(124,819)	18,019	347,810	(356,036)
Purchase	412,363	323,824	603,113	30,864	
Issue					(3,538)
Settlement	(289,437)	(534,246)	(203,674)	(111,963)	(2,099,769)
Transfer in (*2)			35,336		
Transfer out (*2)			(3,557)	(52)	
Ending balance	₩ 165,790	559,465	2,583,513	(38,448)	(6,988,434)

2015

	2015				
	Trading assets	Financial assets designated at FVTPL (*3)	Available-for- sale financial assets	Derivative assets and liabilities, net	Financial liabilities designated at FVTPL (*3)

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Beginning balance	₩ 165,790	559,465	2,583,513	(38,448)	(6,988,434)
Recognized in total comprehensive income for the year:					
Recognized in profit (loss) for the year (*1)	4,426	(70,335)	61,988	(594,773)	469,274
Recognized in other comprehensive income (loss) for the year			(32,170)	(163)	
	4,426	(70,335)	29,818	(594,936)	469,274
Purchase	278,477	354,258	903,357	15,932	(179)
Issue					(7,662,427)
Settlement	(247,090)	(392,264)	(462,617)	(86,327)	7,737,145
Transfer in (*2)			23,511		
Transfer out (*2)			(98,524)	(62)	
Ending balance	₩ 201,603	451,124	2,979,058	(703,841)	(6,444,621)

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)

(*1) Recognized profit or loss of the changes in carrying value of financial instruments classified as Level 3 for the years ended December 31, 2014 and 2015, are included in the accounts of the statements of comprehensive income, of which the amounts and the related accounts are as follows:

	2014	2015
	Amounts recognized in profit or loss	Recognized profit or loss from the financial instruments held as of December 31
	Amounts recognized in profit or loss	Recognized profit or loss from the financial instruments held as of December 31
Trading income	₩ 202,418	1,329
Gain (loss) on financial instruments designated at FVTPL	(480,854)	(232,238)
Gain (loss) on disposal of available-for-sale financial assets	26,342	148,084
Impairment losses on financial assets	(141,410)	(88,327)
Other operating income (expenses)	153,785	(70,591)
	₩ (239,719)	(216,948)
		(129,420)
		(227,726)

(*2) Changes in levels for the financial instruments occurred due to the change in the availability of observable market data. The Group reviews the levels of financial instruments as of the end of the reporting period considering the related events and circumstances in the reporting period.

(*3) FVTPL : fair value through profit or loss

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(In millions of won)

4. Financial risk management (continued)

Valuation techniques and inputs used in measuring the fair value of financial instruments classified as level 2 as of December 31, 2015 are as follows:

Type of financial instrument	Valuation technique	Carrying value	Significant inputs
Assets			
Trading assets:			
Debt securities	DCF (*1)	₩ 13,789,920	Discount rate
Equity securities	NAV (*2)	1,832,283	Price of underlying assets
		15,622,203	
Financial assets designated at fair value through profit or loss:			
Debt securities	DCF (*1)	1,868,749	Discount rate
Equity securities	NAV (*2)	784,596	Price of underlying assets
		2,653,345	
Derivative assets:			
Trading	Option model,		Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
	DCF (*1)	1,695,320	
Hedging		153,455	
		1,848,775	
Available-for-sale financial assets:			
Debt securities	DCF (*1)	19,582,353	Price of underlying assets
Equity securities	NAV (*2)	594,186	
		20,176,539	
		40,300,862	
Liabilities			

Financial liabilities designated at fair value through profit or loss:

Others	DCF (*1)	2,385,179	Discount rate
Derivative liabilities:			
Trading	Option model,		Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
	DCF (*1)	1,653,121	
Hedging		92,146	
		1,745,267	
		₩ 4,130,446	

(*1) DCF : Discounted cash flow

(*2) NAV : Net asset value

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(In millions of won)

4. Financial risk management (continued)

Valuation techniques and significant inputs, but not observable, used in measuring the fair value of financial instruments classified as level 3 as of December 31, 2015 are as follows:

Type of financial instrument	Valuation technique	Carrying value (*4)	Significant unobservable inputs	Range
Financial assets				
Trading assets:				
Debt securities				0.44%~23.73%
	DCF (*1)	₩159,454	The volatility of the underlying asset, correlations	77.95%
Financial assets designated at fair value through profit or loss:				
Debt securities and other securities				5.06%~80.39%
	DCF (*1)	451,124	The volatility of the underlying asset, correlations	(7.44)%~53.5%
Derivative assets:				
Equity and foreign exchange related				3.74%~43.50%
	Option model (*2)	74,613	The volatility of the underlying asset, correlations	(44.72%)~53.5%
Interest rates related				0.40%~16.6%
	Option model (*2)	55,189	The volatility of the underlying asset, regression coefficient, correlations	0.02%~2.05%
Credit and commodity related				1.41%~47.48%
	Option model (*2)	11,256	The volatility of the underlying asset, correlations	(8.26%)~90.25%
		141,058		
Available-for-sale financial assets:				
Debt securities	NAV (*3)	190,134		0.84%~21.65%
Equity securities	DCF (*1)	2,788,924	Discount rate, growth rate	0%~3.5%

2,979,058

₩3,730,694

(*1) DCF : discounted cash flow

(*2) Option model that the Group uses in derivative valuation includes Black-Scholes model, Hull-White model, Monte Carlo simulation, etc.

(*3) NAV : net asset value

(*4) Valuation techniques and inputs are not disclosed when the carrying amount is a reasonable approximation of fair value.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

Type of financial instrument	Valuation technique	Carrying value (*2)	Significant unobservable inputs	Range
Financial liabilities				
Financial liabilities designated at fair value through profit or loss:				
Equity related		₩6,444,621		22.20%~28.48%
	Option model (*1)		The volatility of the underlying asset, correlations	15.43%~52.70%
Derivative liabilities:				
Equity and foreign exchange related	Option model (*1)	590,208	The volatility of the underlying asset, correlations	3.74%~79.81%
Interest rates related	Option model (*1)	109,709	The volatility of the underlying asset, regression coefficient, correlations	(3.84)%~73.25%
				0.16%~32.94%
				0.02%~2.04%
				0%~100%
Credit and commodity related	Option model (*1)	144,982	The volatility of the underlying asset, correlations	7.09~47.48%
				23.90%~100%
		844,899		
		₩7,289,520		

(*1) Option model that the Group uses in derivative valuation includes Black-Scholes model, Hull-White model, Monte Carlo simulation, etc.

(*2) Valuation techniques and inputs are not disclosed when the carrying amount is a reasonable approximation of fair value.

Sensitivity analysis for fair value measurements in Level 3

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

For level 3 fair value measurement, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effects on profit or loss, or other comprehensive income as of December 31, 2014 and 2015.

	2014	
	Favorable changes	Unfavorable changes
Financial assets:		
Effects on profit or loss for the period (*1):		
Financial assets designated at fair value through profit or loss	₩ 2,691	(2,761)
Derivative assets	25,759	(33,508)
	28,450	(36,269)
Effects on other comprehensive income for the period:		
Available-for-sale financial assets (*2)	195,171	(69,090)
	₩ 223,621	(105,359)
Financial liabilities:		
Effects on profit or loss for the period (*1):		
Financial liabilities designated at fair value through profit or loss	₩ 82,347	(81,191)
Derivative liabilities	74,637	(76,587)
	₩ 156,984	(157,778)
	2015	
	Favorable changes	Unfavorable changes
Financial assets:		
Effects on profit or loss for the period (*1):		
Trading assets	64	(45)
Financial assets designated at fair value through profit or loss	2,837	(4,416)
Derivative assets	7,592	(11,254)

	10,493	(15,715)
Effects on other comprehensive income for the period:		
Available-for-sale financial assets (*2)	90,343	(30,856)
	100,836	(46,571)
Financial liabilities:		
Effects on profit or loss for the period (*1):		
Financial liabilities designated at fair value through profit or loss	64,089	(79,575)
Derivative liabilities	87,885	(62,248)
	151,974	(141,823)

(*1) Fair value changes are calculated by increasing or decreasing the volatility of the underlying asset (-10~10%) or correlations (-10~10%).

(*2) Fair value changes are calculated by increasing or decreasing discount rate (-1~1%) or growth rate (0~1%).

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)*ii) Financial instruments measured at amortized cost*

The method of measuring the fair value of financial instruments measured at amortized cost is as follows:

Type	Measurement methods of fair value
Cash and due from banks	The carrying amount and the fair value for cash are identical and most of deposits are floating interest rate deposits or next day deposits of a short-term instrument. For this reason, the carrying value approximates fair value.
Loans	The fair value of the loans is measured by discounting the expected cash flow at the market interest rate and credit risk, etc.
Held-to-maturity financial assets	The fair value of held-to-maturity financial assets is determined by applying the lesser of two quoted bond prices provided by two bond pricing agencies as of the latest trading date
Deposits and borrowings	The carrying amount and the fair value for demand deposits, cash management account deposits, call money as short-term instrument are identical. The fair value of others is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.
Debt securities issued	The fair value of deposits and borrowings is based on the published price quotations in an active market. In case there is no data for an active market price, it is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.

The carrying value and the fair value of financial instruments measured at amortized cost as of December 31, 2014 and 2015 are as follows:

	2014		2015	
	Carrying value	Fair value	Carrying value	Fair value

Assets:				
Loans	₩ 221,617,689	223,965,124	246,441,361	249,182,868
Held-to-maturity financial assets	13,373,384	14,231,320	16,192,060	17,489,238
Other financial assets	10,151,338	10,204,666	11,878,420	11,907,777
	₩ 245,142,411	248,401,110	274,511,841	278,579,883
Liabilities:				
Deposits	₩ 193,709,738	194,057,580	217,676,428	217,907,829
Borrowings	22,973,767	23,097,742	21,733,865	21,799,206
Debt securities issued	37,334,612	38,270,720	41,221,284	41,878,643
Other financial liabilities	17,485,236	17,432,936	19,535,670	19,508,155
	₩ 271,503,353	272,858,978	300,167,247	301,093,833

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

The fair value hierarchy of financial assets and liabilities which are not measured at their fair values in the statements of financial position as of December 31, 2014 and 2015 are as follows:

	2014			Total
	Level 1	Level 2	Level 3	
Assets:				
Loans	₩ 29,569	2,959,108	220,976,447	223,965,124
Held-to-maturity financial assets	5,135,924	9,095,396		14,231,320
Other financial assets	16,544	5,841,425	4,346,697	10,204,666
	₩ 5,182,037	17,895,929	225,323,144	248,401,110
Liabilities:				
Deposits	₩ 1,697,313	70,025,042	122,335,225	194,057,580
Borrowings	7,542,900	1,793,101	13,761,741	23,097,742
Debt securities issued in won		23,667,234	14,603,486	38,270,720
Other financial liabilities	17,520	5,189,079	12,226,337	17,432,936
	₩ 9,257,733	100,674,456	162,926,789	272,858,978

	2015			Total
	Level 1	Level 2	Level 3	
Assets:				
Loans	₩ 27,038	1,577,960	247,577,870	249,182,868
Held-to-maturity financial assets	6,360,572	11,128,666		17,489,238
Other financial assets	25,165	7,669,816	4,212,796	11,907,777
	₩ 6,412,775	20,376,442	251,790,666	278,579,883
Liabilities:				
Deposits	₩ 2,102,888	85,012,736	130,792,205	217,907,829
Borrowings	5,499,951	273,026	16,026,229	21,799,206
Debt securities issued in won		27,375,939	14,502,704	41,878,643
Other financial liabilities	25,803	7,488,938	11,993,414	19,508,155

₩7,628,642	120,150,639	173,314,552	301,093,833
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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

For financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed, information on valuation technique and inputs used in measuring fair value of financial instruments classified as level 2 or level 3 at December 31, 2014 and 2015 are as follows:

		2014	
	Fair value (*2)	Valuation technique	Inputs
Financial instruments classified as level 2 :			
Assets			
Loans	₩ 2,959,108	DCF(*1)	Discount rate, credit spread, prepayment rate
Held-to-maturity financial assets	9,095,396	DCF(*1)	Discount rate
Other financial assets	5,841,425	DCF(*1)	Discount rate
	17,895,929		
Liabilities			
Deposits	70,025,042	DCF(*1)	Discount rate
Borrowings	1,793,101	DCF(*1)	Discount rate
Debt securities issued	23,667,234	DCF(*1)	Discount rate
Other financial liabilities	5,189,079	DCF(*1)	Discount rate
	₩ 100,674,456		
Financial instruments classified as level 3 :			
Assets			
Loans	₩ 220,976,447	DCF(*1)	Discount rate, credit spread, prepayment rate
Other financial assets	4,346,697	DCF(*1)	Discount rate
	225,323,144		

Liabilities			
Deposits	122,335,225	DCF(*1)	Discount rate
Borrowings	13,761,741	DCF(*1)	Discount rate
Debt securities issued	14,603,486	DCF(*1)	Discount rate, regression coefficient, correlation coefficient
Other financial liabilities	12,226,337	DCF(*1)	Discount rate
	₩ 162,926,789		

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

		2015	
	Fair value (*2)	Valuation technique	Inputs
Financial instruments classified as level 2 :			
Assets			
Loans	₩ 1,577,960	DCF(*1)	Discount rate, credit spread, prepayment rate
Held-to-maturity financial assets	11,128,666	DCF(*1)	Discount rate
Other financial assets	7,669,816	DCF(*1)	Discount rate
	20,376,442		
Liabilities			
Deposits	85,012,736	DCF(*1)	Discount rate
Borrowings	273,026	DCF(*1)	Discount rate
Debt securities issued	27,375,939	DCF(*1)	Discount rate
Other financial liabilities	7,488,938	DCF(*1)	Discount rate
	₩ 120,150,639		
Financial instruments classified as level 3 :			
Assets			
Loans	₩ 247,577,870	DCF(*1)	Discount rate, credit spread, prepayment rate
Other financial assets	4,212,796	DCF(*1)	Discount rate
	251,790,666		
Liabilities			
Deposits	130,792,205	DCF(*1)	Discount rate
Borrowings	16,026,229	DCF(*1)	Discount rate
Debt securities issued	14,502,704	DCF(*1)	Discount rate,

			regression coefficient,
			correlation coefficient
Other financial liabilities	11,993,414	DCF(*1)	Discount rate
	₩ 173,314,552		

(*1) DCF : discounted cash flow

(*2) Valuation techniques and inputs are not disclosed when the carrying amount is a reasonable approximation of fair value

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

iii) Changes in the difference between the fair value at initial recognition (the transaction price) and the value using models with unobservable inputs for the years ended December 31, 2014 and 2015

	2014	2015
Beginning balance	₩ (29,448)	(86,178)
Deferral on new transactions	(94,299)	(69,818)
Recognized in profit for the year	37,582	53,980
Ending balance	₩ (86,165)	(102,016)

(f) Classification by categories of financial instruments

Financial assets and liabilities are measured at fair value or amortized cost. The financial instruments measured at fair value or amortized cost are measured in accordance with the Group's valuation methodologies, which are described in Note 4.(e) Measurement of fair value.

The carrying amounts of each category of financial assets and financial liabilities as of December 31, 2014 and 2015 are as follows:

	2014						
	Trading assets	FVTPL assets (*1)	AFS (*2)	HTM (*3)	Loans and receivable	Derivatives held for hedging	Total
Assets:							
Cash and due from banks	₩				20,584,838		20,584,838
Trading assets	24,362,176						24,362,176
Financial assets designated at FVTPL (*1)		2,737,375					2,737,375
Derivatives	1,411,168					157,139	1,568,307

Loans				221,617,689			221,617,689
AFS financial assets (*2)		31,418,014					31,418,014
HTM financial assets (*3)			13,373,384				13,373,384
Other				10,151,338			10,151,338
	₩25,773,344	2,737,375	31,418,014	13,373,384	252,353,865	157,139	325,813,121

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

	Trading liabilities	FVTPL liabilities (*1)	2014 Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities:					
Deposits	₩		193,709,738		193,709,738
Trading liabilities	2,688,734				2,688,734
Financial liabilities designated at FVTPL (*1)		8,996,181			8,996,181
Derivatives	1,596,400			121,155	1,717,555
Borrowings			22,973,767		22,973,767
Debt securities issued			37,334,612		37,334,612
Other			17,485,236		17,485,236
	₩4,285,134	8,996,181	271,503,353	121,155	284,905,823

(*1) FVTPL : fair value through profit of loss

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

	Trading assets	FVTPL assets (*1)	AFS (*2)	HTM (*3)	Loans and receivable	Derivatives held for hedging	Total
Assets:							
Cash and due from banks	₩				22,024,404		22,024,404
Trading assets	22,638,449						22,638,449
Financial assets designated at FVTPL (*1)		3,244,166					3,244,166

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Derivatives	1,813,361				181,353	1,994,714
Loans				246,441,361		246,441,361
AFS financial assets (*2)		33,966,071				33,966,071
HTM financial assets (*3)			16,192,060			16,192,060
Other				11,878,420		11,878,420
	₩ 24,451,810	3,244,166	33,966,071	16,192,060	280,344,185	181,353
						358,379,645

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)

	Trading liabilities	FVTPL liabilities (*1)	2015 Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities:					
Deposits	₩		217,676,428		217,676,428
Trading liabilities	2,135,390				2,135,390
Financial liabilities designated at FVTPL (*1)		8,916,332			8,916,332
Derivatives	2,415,170			184,118	2,599,288
Borrowings			21,733,865		21,733,865
Debt securities issued			41,221,284		41,221,284
Other			19,535,670		19,535,670
	₩4,550,560	8,916,332	300,167,247	184,118	313,818,257

(*1) FVTPL : fair value through profit of loss

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

(g) Transfer of financial instruments*i) Transfers that do not qualify for derecognition*

Bonds sold under repurchase agreements as of December 31, 2014 and 2015 are as follows:

	2014	2015
Transferred asset:		
Financial assets at fair value through profit or loss	₩6,929,219	5,605,287
Available-for-sale financial assets	972,344	1,050,002

Held-to-maturity financial assets	375,396	497,786
Loans	158,673	270,100
Associated liabilities:		
Bonds sold under repurchase agreements	₩7,707,954	6,617,251

Securities loaned as of December 31, 2014 and 2015 are as follows:

	2014	2015	Borrowers
Government bonds	₩491,931	36,786	Korea Securities Finance Corp., Mitsui Sumitomo and others
Financial institutions bonds	140,239	130,019	Korea Securities Finance Corp.
Corporate bonds	1,831		Mirae Asset Securities Co., Ltd.
	₩634,001	166,805	

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)*ii) Financial instruments qualified for derecognition and continued involvement*

There was no financial instruments which qualify for derecognition and in which the Group has continuing involvements as of December 31, 2014, and 2015.

(h) Offsetting financial assets and financial liabilities

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2014 and 2015 are as follows:

	2014		2014		
	Gross amounts of recognized financial assets/ liabilities	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position	Net amount
			Financial instruments	Cash collateral received	
Assets:					
Derivatives (*1)	₩ 1,513,338		1,513,338		
Other financial instruments (*1)	5,280,560	841,659	4,438,901	5,006,936	25,044
Bonds purchased under repurchase agreements (*2)	11,071,542		11,071,542	10,510,942	560,600
Securities loaned (*2)	634,001		634,001	487,090	146,911
Domestic exchange settlement debit (*3)	24,624,335	22,524,299	2,100,036	3,561	2,096,475
Receivables from disposal of securities (*4)	4,648	316	4,332	4,332	
Insurance receivables	1,775		1,775	1,198	577

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	43,130,199	23,366,274	19,763,925	16,014,059	25,044	3,742,822
Liabilities:						
Derivatives (*1)	1,845,449		1,845,449			
Other financial instruments (*1)	4,686,434	841,659	3,844,775	4,978,480		711,744
Bonds purchased under repurchase agreements (*2)	7,707,954		7,707,954	7,707,954		
Securities borrowed (*2)	2,253,329		2,253,329	2,253,329		
Domestic exchange settlement pending (*3)	24,010,268	22,524,299	1,485,969	1,449,106		36,863
Payable from purchase of securities (*4)	551	315	236	236		
Insurance payables	1,198		1,198	1,198		
	₩ 40,505,183	23,366,273	17,138,910	16,390,303		748,607

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

4. Financial risk management (continued)

	2015					
	Gross amounts of recognized financial assets/ liabilities	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Assets:						
Derivatives (*1)	₩ 1,903,714		1,903,714			
Other financial instruments (*1)	8,497,835	1,128,745	7,369,090	6,977,154	10,361	2,285,289
Bonds purchased under repurchase agreements (*2)	12,957,346		12,957,346	12,431,670		525,676
Securities loaned (*2)	166,805		166,805	159,807		6,998
Domestic exchange settlement debit (*3)	27,408,941	25,036,860	2,372,081	18,939		2,353,142
Receivables from disposal of securities (*4)	2,117	523	1,594			1,594
Insurance receivables	2,379		2,379	1,492		887
	50,939,137	26,166,128	24,773,009	19,589,062	10,361	5,173,586
Liabilities:						
Derivatives (*1)	2,715,265		2,715,265			
Other financial instruments (*1)	6,423,218	1,128,745	5,294,473	7,009,512		1,000,226
Bonds purchased under repurchase agreements (*2)	6,617,251		6,617,251	6,617,251		
Securities borrowed (*2)	1,768,317		1,768,317	1,768,317		
Domestic exchange settlement pending (*3)	27,245,592	25,036,860	2,208,732	2,165,161		43,571

Payable from purchase of securities (*4)	575	523	52	47	5
Insurance payables	1,492		1,492	1,492	
	₩ 44,771,710	26,166,128	18,605,582	17,561,780	1,043,802

- (*1) The Group has certain derivative transactions subject to the ISDA (International Derivatives Swaps and Dealers Association) agreement. According to the ISDA agreement, when credit events (e.g. default) of counterparties occur, all derivative agreements are terminated and set off.
- (*2) Resale and repurchase agreement, securities borrowing and lending agreement are also similar to ISDA agreement with respect to enforceable netting agreements.
- (*3) The Group has legally enforceable right to set off and settles financial assets and liabilities on a net basis. Therefore, domestic exchanges settlement receivables (payables) are recorded on a net basis in the consolidated statements of financial position.
- (*4) Receivables and payables related to settlement of purchase and disposition of enlisted securities are offset and the net amount is presented in the consolidated statement of financial position because the Group currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)**(i) Capital risk management**

The controlling company, controlling banks or other financial institutions conducting banking business as prescribed in the Financial Holding Company Act, is required to maintain a minimum consolidated equity capital ratio of 8.0%.

Consolidated equity capital ratio is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with the Financial Services Commission requirements that have been formulated based on Bank of International Settlement standards. Equity capital, as applicable to bank holding companies, is defined as the sum of Common Equity Tier 1 capital (including common stock, share premium resulting from the issue of instruments included common equity Tier 1, retained earnings, etc.), Additional Tier 1 capital (with the minimum set of criteria for an instrument issued by the Group to meet, i.e. perpetual) and Tier 2 capital (to provide loss absorption on a gone-concern basis) less any deductible items (including goodwill, income tax assets, etc.), each as defined under the Regulation on the Supervision of Financial Holding Companies. Risk-weighted assets is defined as the sum of credit risk-weighted assets and market risk-weighted assets.

The capital adequacy ratio of the Group as of December 31, 2014 and 2015 are as follows:

	2014	2015
Capital :		
Tier I common equity capital	₩ 20,678,973	21,882,816
Additional tier 1 capital	1,495,380	1,311,375
Tier I capital	22,174,353	23,194,191
Tier II capital	3,763,615	4,022,257
Total capital (A)	₩ 25,937,968	27,216,448
Total risk-weighted assets (B)	₩ 198,832,860	203,274,542
Capital adequacy ratio (A/B)	13.05%	13.39%
Tier I capital adequacy ratio	11.15%	11.41%
Common equity capital adequacy ratio	10.40%	10.77%

As of December 31, 2014 and 2015, the Group met the regulatory capital ratio above 8%.

Shinhan Life Insurance measures and manages RBC (risk based capital) ratio according to the Regulation on Supervision of Insurance Business to maintain required capital for the solvency margin.

As of December 31, 2014 and 2015, the Group's BIS capital ratio and Shinhan Life Insurance's RBC ratio exceed the regulatory minimum ratios.

5. Significant estimate and judgment

The preparation of consolidated financial statements requires the application of certain critical accounting and assumptions relative to the future. Management's estimate of the outcome may differ from an actual outcome if management's estimate and assumption based on its best judgment at the reporting date are different from an actual environment. The change in an accounting estimate is recognized prospectively in profit or loss in the year of the change, if the change affects that year only, or the year of the change and future years, if the change affects both.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

5. Significant estimate and judgment (continued)

(a) Goodwill

The Group assesses annually whether any objective evidence of impairment on goodwill exists in accordance with the accounting policy as described in note 3. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is measured based on estimates.

(b) Income taxes

The Group is subject to tax law from various countries. Within the normal business process, there are various types of transaction and different accounting method that may add uncertainties to the decision of the final income taxes. Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for taxable temporary differences and a deferred tax asset is recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized and the taxable profit will be created in appropriate periods. However, actual income tax in the future may not be identical to the recognized deferred tax assets and liabilities, and this difference can affect current and deferred tax at the year when the final tax effect is conformed.

(c) Fair value of financial instruments

The fair values of financial instruments which are not actively traded in the market are determined by using valuation techniques. The Group determines valuation method and assumptions based on significant market conditions at the end of each reporting year. Diverse valuation techniques are used to determine the fair value of financial instruments, from general market accepted valuation model internally developed valuation model that incorporates various types of assumptions and variables.

(d) Allowances for loan losses, guarantees and unused loan commitments

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes provision for guarantees and unused loan commitments. The accuracy of provisions of credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for allowances on individual loans and collectively assessing allowances for groups of loans, guarantees and unused loan commitments.

(e) Defined benefit obligation

The present value of defined benefit obligation that is measured by actuarial valuation method uses various assumptions which can change according to various elements. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting year on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in other comprehensive income or loss. Other significant assumptions related to defined benefit obligation are based on current market situation.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

5. Significant estimate and judgment (continued)

(f) Impairment of available-for-sale equity investments

When there is a significant or prolonged decline in the fair value of an investment in an equity instrument below its original cost, there is objective evidence that available-for-sale equity investments are impaired. Accordingly, the Group considers the decline in the fair value of more than 30% against the original cost as significant decline and the status when the market price for marketable equity is less than the carrying amounts of instruments for six consecutive months as a prolonged decline .

(g) Hedging relationship

The hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

6. Investment in subsidiaries

(a) Summarized financial information of the subsidiaries

i) *Condensed financial position for the controlling company and the Group's subsidiaries as of December 31, 2014 and 2015 are as follows:*

		2014			2015	
	Total	Total	Total	Total	Total	Total
	assets	liabilities	equity	assets	liabilities	equity
Shinhan Financial Group (Separate)	₩ 27,094,548	6,859,429	20,235,119	27,675,487	6,894,501	20,780,986
Shinhan Bank	255,646,329	235,169,429	20,476,900	285,007,437	264,168,084	20,839,353
Shinhan Card Co., Ltd.	22,259,514	16,127,087	6,132,427	23,347,702	17,127,969	6,219,733
Shinhan Investment Corp.	25,928,292	23,598,201	2,330,091	24,337,413	21,811,577	2,525,836

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Shinhan Life Insurance Co., Ltd.	21,939,682	20,463,749	1,475,933	24,544,624	22,963,260	1,581,364
Shinhan Capital Co., Ltd.	3,939,493	3,369,060	570,433	4,076,553	3,458,433	618,120
Jeju Bank	3,475,694	3,170,213	305,481	4,464,601	4,146,580	318,021
Shinhan Credit Information Co., Ltd.	23,040	8,420	14,620	23,889	8,632	15,257
Shinhan Private Equity	461,342	371,448	89,894	119,042	108,030	11,012
Shinhan BNP Paribas AMC	188,886	32,429	156,457	170,164	15,356	154,808
SHC Management Co., Ltd.	8,938	1,358	7,580	8,411	615	7,796
Shinhan Data System	25,826	16,461	9,365	26,669	16,404	10,265
Shinhan Savings Bank	804,035	689,550	114,485	795,144	675,435	119,709
Shinhan Aitas Co., Ltd.	37,657	6,242	31,415	42,794	4,965	37,829

(*1) Condensed financial information of the subsidiaries is based on the consolidated financial information, if applicable.

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

6. Investment in subsidiaries (continued)

ii) Condensed comprehensive income statement for the controlling company and the Group's subsidiaries for years ended December 31, 2013, 2014 and 2015 were as follows:

	2013			2014			2015		
	Operating income	Net income (loss)	Total comprehensive income (loss)	Operating income	Net income (loss)	Total comprehensive income (loss)	Operating income	Net income (loss)	Total comprehensive income (loss)
Shinhan Financial Group (separate)	₩ 1,106,991	731,638	731,369	1,061,540	662,623	660,754	1,201,949	893,041	893,322
Shinhan Bank	15,454,849	1,373,177	1,014,906	13,987,650	1,455,653	1,396,780	14,656,853	1,489,988	1,197,962
Shinhan Card Co., Ltd.	4,614,563	658,074	776,419	4,596,758	635,151	547,666	4,740,139	694,774	629,162
Shinhan Investment Corp.	2,692,355	75,366	67,911	3,295,109	118,235	104,390	4,734,162	215,454	225,342
Shinhan Life Insurance Co., Ltd.	5,057,026	75,459	16,583	5,134,910	80,672	186,493	5,460,671	100,221	115,082
Shinhan Capital Co., Ltd.	343,499	50,372	48,073	328,077	51,945	55,591	380,867	46,081	52,752
Shinhan Finance Bank	176,135	20,483	15,452	168,593	13,856	15,608	167,479	19,397	14,662
Shinhan Credit Information Co., Ltd.	28,901	155	259	28,145	1,055	891	27,279	723	612
Shinhan Private Equity	254,458	8,836	8,852	332,861	8,327	7,579	373,577	6,401	6,602
Shinhan BNP Paribas AMC	97,981	31,468	31,455	89,019	28,195	28,228	83,718	23,653	23,722

IC Management Co., Ltd.	237	(1,317)	(1,317)	558	482	482	287	215	21
Shinhan Data System	62,061	1,124	517	69,136	2,647	1,188	73,096	1,046	87
Shinhan Savings Bank	75,929	(29,919)	(30,622)	72,075	11,140	14,758	60,927	8,017	8,81
Shinhan Finance Co., Ltd.	26,859	3,770	3,770	28,515	3,988	3,988	32,949	6,415	6,41

(*1) Condensed financial information of the subsidiaries is based on the consolidated financial information, if applicable.

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

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

6. Investment in subsidiaries (continued)

(b) Change in subsidiaries

i) The subsidiary that was newly included in consolidation during the year ended December 31, 2014 is as follows:

Company	Description
LLP MFO Shinhan Finance	Newly established subsidiary

ii) The subsidiary that is newly included in consolidation during the year ended December 31, 2015 is as follows:

Company	Description
Banco Shinhan de Mexico	Newly established subsidiary
PT Bank Metro Express	Acquisition
PT Centratama Nasional Bank	Acquisition
Nam An Securities Co. Ltd.	Acquisition
PT. Shinhan Indo Finance	Acquisition

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

7. Operating segments

(a) Segment information

The general descriptions by operating segments as of December 31, 2015 are as follows:

Segment	Description
Banking (*)	Banking and related business
Credit card	Credit card business
Securities	Securities trading, underwriting and brokerage services
Life insurance	Life insurance and related business

Others

Leasing, assets management and other businesses

- (*) The Group previously disclosed the Banking segment by subdividing into four segments, which are Retail Banking, Corporate Banking, International Banking and Other Banking. Due to the substantial changes in internal organization of the Group's Banking segments including the increasing trends of retail branches and corporate branches being adapted to serve both segments along with expansion of hybrid branches, the Group's internal reporting documents for the Group's Chief Operating Decision Maker does not present the previous four segments under Banking segment any more. As such, the Group determined to re-define its four pre-existing operating segments within the Banking segments as one single Banking segment, and disclosed it accordingly.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

7. Operating segments (continued)

(b) The following tables provide information of income and expense for each operating segment for the years ended December 31, 2013, 2014 and 2015.

				2013			
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income (loss)	₩ 4,427,913	1,395,425	281,858	603,229	(108,287)	4,746	6,604,884
Net fees and commission income (loss)	759,516	166,129	212,276	32,270	221,626	(5,463)	1,386,354
Impairment losses on financial assets	(886,774)	(348,689)	(15,829)	(5,145)	(72,716)	(10,743)	(1,339,896)
General and administrative expenses	(2,746,215)	(710,213)	(366,034)	(204,517)	(233,329)	57,758	(4,202,550)
Other income (expense), net	190,659	330,343	(10,625)	(318,502)	75,703	(84,371)	183,207
Operating income	1,745,099	832,995	101,646	107,335	(117,003)	(38,073)	2,631,999
Equity method income (loss)	22,448		(19,401)		7,029	(2,790)	7,286
Income tax expense (benefit)	360,423	192,728	21,895	21,188	29,973	(4,992)	621,214
Profit (loss) for the period	₩ 1,393,660	658,074	75,366	75,460	(99,437)	(47,784)	2,055,339
Controlling interest	₩ 1,393,501	658,074	75,366	75,460	(105,421)	(198,403)	1,898,577
Non-controlling interests	159				5,984	150,619	156,762

				2014			
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total

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Net interest income (loss)	₩ 4,446,554	1,372,965	386,071	651,109	(70,296)	3,397	6,789,800
Net fees and commission income (loss)	815,839	256,809	197,747	27,365	185,859	(14,461)	1,469,158
Impairment losses on financial assets	(698,319)	(407,010)	(4,298)	(13,986)	(51,903)	1,137	(1,174,379)
General and administrative expenses	(2,975,844)	(708,457)	(393,444)	(204,240)	(246,044)	65,146	(4,462,883)
Other income (expense), net	226,729	278,596	(53,064)	(342,105)	103,788	(180,830)	33,114
Operating income	1,814,959	792,903	133,012	118,143	(78,596)	(125,611)	2,654,810
Equity method income (loss)	11,808		10,943	5	6,266	1,558	30,580
Income tax expense (benefit)	384,089	186,886	39,035	31,395	24,407	2,153	667,965
Profit (loss) for the period	₩ 1,469,510	635,151	118,235	80,672	(14,594)	(89,363)	2,199,611
Controlling interest	₩ 1,469,080	635,151	118,235	80,672	(22,325)	(199,703)	2,081,110
Non-controlling interests	430				7,731	110,340	118,501

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

7. Operating segments (continued)

	Banking	Credit card	Securities	2015 Life insurance	Others	Consolidation adjustment	Total
Net interest income (loss)	₩ 4,246,146	1,350,968	444,271	675,760	(32,274)	8,062	6,692,933
Net fees and commission income (loss)	866,597	255,966	266,529	32,232	194,530	5,125	1,620,979
Impairment losses on financial assets	(800,893)	(305,876)	(3,353)	(31,383)	(125,534)	1,986	(1,264,053)
General and administrative expenses	(2,837,341)	(762,878)	(479,567)	(204,975)	(244,929)	64,622	(4,475,068)
Other income (expense), net	294,633	319,758	34,080	(340,012)	174,140	(84,249)	398,350
Operating income	1,759,142	857,938	261,960	131,622	(33,067)	(4,454)	2,973,141
Equity method income (loss)	13,399		1,478	(277)	5,601	770	20,971
Income tax expense (benefit)	390,547	183,297	62,668	32,356	28,519	(2,768)	694,619
Profit (loss) for the period	₩ 1,509,385	694,774	215,454	100,221	(59,454)	(14,422)	2,445,958
Controlling interest	₩ 1,509,051	694,774	215,454	100,221	(66,492)	(85,837)	2,367,171
Non-controlling interests	334				7,038	71,415	78,787

(c) The following tables provide information of net interest income of each operating segment for the years ended December 31, 2013, 2014 and 2015.

	Banking	Credit card	Securities	2013 Life insurance	Others	Consolidation adjustment	Total
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Net interest income from:							
External customers	₩ 4,438,500	1,430,554	288,060	601,696	(153,926)		6,604,884
Internal transactions	(10,587)	(35,129)	(6,202)	1,533	45,638	4,747	
	₩ 4,427,913	1,395,425	281,858	603,229	(108,288)	4,747	6,604,884

				2014			
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income from:							
External customers	₩ 4,453,340	1,408,923	393,529	648,313	(114,305)		6,789,800
Internal transactions	(6,786)	(35,958)	(7,458)	2,796	44,009	3,397	
	₩ 4,446,554	1,372,965	386,071	651,109	(70,296)	3,397	6,789,800

				2015			
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income from:							
External customers	₩ 4,253,559	1,390,469	450,019	674,708	(75,822)		6,692,933
Internal transactions	(7,413)	(39,501)	(5,748)	1,052	43,548	8,062	
	₩ 4,246,146	1,350,968	444,271	675,760	(32,274)	8,062	6,692,933

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

7. Operating segments (continued)

- (d) The following tables provide information of net fees and commission income (expense) of each operating segment for the years ended December 31, 2013, 2014 and 2015.

	Banking	Credit card	Securities	2013 Life insurance	Others	Consolidation adjustment	Total
Net fees and commission income from:							
External customers	₩ 659,335	362,656	222,413	42,189	99,761		1,386,354
Internal transactions	100,181	(196,527)	(10,137)	(9,919)	121,865	(5,463)	
	₩ 759,516	166,129	212,276	32,270	221,626	(5,463)	1,386,354

	Banking	Credit card	Securities	2014 Life insurance	Others	Consolidation adjustment	Total
Net fees and commission income from:							
External customers	₩ 675,965	447,117	205,690	35,183	105,203		1,469,158
Internal transactions	139,874	(190,308)	(7,943)	(7,818)	80,656	(14,461)	
	₩ 815,839	256,809	197,747	27,365	185,859	(14,461)	1,469,158

	Banking	Credit card	Securities	2015 Life insurance	Others	Consolidation adjustment	Total
Net fees and commission income from:							
External customers	₩ 730,799	460,314	274,833	40,638	114,395		1,620,979
Internal transactions	135,798	(204,348)	(8,304)	(8,406)	80,135	5,125	
	₩ 866,597	255,966	266,529	32,232	194,530	5,125	1,620,979

(e) Financial information of geographical area

The following table provides information of income from external consumers by geographical area for the years ended December 31, 2013, 2014 and 2015.

	2013	2014	2015
Domestic	₩ 2,514,426	2,489,006	2,727,862
Overseas	117,573	165,804	245,279
	₩ 2,631,999	2,654,810	2,973,141

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

7. Operating segments (continued)

The following table provides information of non-current assets by geographical area as of December 31, 2014 and 2015.

	2014	2015
Domestic	₩ 7,513,214	7,397,788
Overseas	54,413	124,302
	₩ 7,567,627	7,522,090

(*) Non-current assets comprise property and equipment, intangible assets, investment properties.

8. Cash and due from banks

(a) Cash and due from banks as of December 31, 2014 and 2015 are as follows:

	2014	2015
Cash and cash equivalents	₩ 2,522,791	1,957,535
Deposits in won:		
Reserve deposits	5,755,317	7,876,559
Time deposits	2,644,390	2,354,186
Certificate of deposits		29,801
Other	4,019,905	2,981,241
	12,419,612	13,241,787
Deposits in foreign currency:		
Deposits	2,540,592	3,217,974
Time deposits	2,577,682	3,058,776
Other	547,836	561,165

	5,666,110	6,837,915
Allowance for credit losses	(23,675)	(12,833)
	₩ 20,584,838	22,024,404

(b) Restricted due from banks as of December 31, 2014 and 2015 are as follows:

	2014	2015
Deposits denominated in won:		
Reserve deposits	₩ 5,755,317	7,876,559
Other (*)	3,842,219	3,108,270
	9,597,536	10,984,829
Deposits denominated in foreign currency	666,620	1,854,514
	₩ 10,264,156	12,839,343

(*) Pursuant to the Regulation on Financial Investment Business, the Group is required to deposit certain portions of customers' deposits with the Korean Securities Finance Corporation (KSFC) or banks to ensure repayment of customer deposits and the deposits may not be pledged as collateral.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

9. Trading assets

Trading assets as of December 31, 2014 and 2015 are as follows:

	2014	2015
Debt securities:		
Governments	₩ 2,045,124	3,259,925
Financial institutions	8,302,174	6,776,284
Corporations	5,769,659	4,128,561
Commercial Papers	3,790,597	3,524,629
CMA (*)	1,197,304	1,572,270
Others	171,540	184,517
	21,276,398	19,446,186
Equity securities:		
Stocks	1,011,012	890,901
Beneficiary certificates	1,812,208	2,102,134
Others	38,002	50,008
	2,861,222	3,043,043
Other		
Gold deposits	224,556	149,220
	₩ 24,362,176	22,638,449

(*) CMA: Cash management account deposits

10. Financial asset designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss as of December 31, 2014 and 2015 are as follows:

	2014	2015	Reason for designation
Debt securities	₩ 1,419,343	1,879,521	Evaluation and management on a fair value basis, accounting mismatch

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Equity securities (*)	791,175	915,147	Evaluation and management on a fair value basis, accounting mismatch
Others	526,857	449,498	Combined instrument
	₩2,737,375	3,244,166	

(*) Restricted reserve for claims of customers deposits (trusts) as of December 31, 2014 and 2015 are ₩630,537 million and ₩784,596 million, respectively.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

11. Derivatives

(a) The notional amounts of derivatives as of December 31, 2014 and 2015 are as follows:

	2014	2015
Foreign currency related:		
Over the counter:		
Currency forwards	₩ 31,812,684	55,007,195
Currency swaps	14,362,691	19,642,832
Currency options	774,869	2,430,336
	46,950,244	77,080,363
Exchange traded:		
Currency futures	397,954	440,791
	47,348,198	77,521,154
Interest rates related:		
Over the counter:		
Interest rate swaps	62,274,495	47,124,620
Interest rate options	1,861,201	1,231,201
	64,135,696	48,355,821
Exchange traded:		
Interest rate futures	1,236,960	2,088,507
Interest rate swaps (*)	17,943,000	29,544,300
	19,179,960	31,632,807
	83,315,656	79,988,628
Credit related:		
Over the counter:		
Credit swaps	385,333	1,154,315
Equity related:		
Over the counter:		
Equity swaps and forwards	4,168,373	3,707,762

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Equity options	2,637,565	2,158,983
	6,805,938	5,866,745
Exchange traded:		
Equity futures	223,607	385,164
Equity options	205,018	6,811,381
	428,625	7,196,545
	7,234,563	13,063,290
Commodity related:		
Over the counter:		
Commodity swaps and forwards	1,170,283	1,146,599
Commodity options	40,502	27,533
	1,210,785	1,174,132
Exchange traded:		
Commodity futures	159,155	55,781
	1,369,940	1,229,913
Hedge:		
Currency forwards	685,348	1,230,307
Currency swaps	2,178,614	2,464,599
Interest rate swaps	8,306,680	7,679,755
	11,170,642	11,374,661
	₩ 150,824,332	184,331,961

(*) The notional amount of derivatives which is settled in the Central Counter Party (CCP) system.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

11. Derivatives (continued)

(b) Fair values of derivative instruments as of December 31, 2014 and 2015 are as follows:

	2014		2015	
	Assets	Liabilities	Assets	Liabilities
Foreign currency related:				
Over the counter:				
Currency forwards	₩ 440,089	509,555	806,785	607,632
Currency swaps	247,236	272,584	395,474	534,958
Currency options	4,440	5,048	18,030	10,652
	691,765	787,187	1,220,289	1,153,242
Exchange traded:				
Currency futures	175			
	691,940	787,187	1,220,289	1,153,242
Interest rates related:				
Over the counter:				
Interest rate swaps	564,432	509,140	474,447	471,488
Interest rate options	10,147	16,614	10,479	11,932
	574,579	525,754	484,926	483,420
Exchange traded:				
Interest rate futures	213	45	192	27
	574,792	525,799	485,118	483,447
Credit related:				
Over the counter:				
Credit swaps	1,640	15,484	14,568	20,466
Equity related:				
Over the counter:				
Equity swap and forwards	59,440	(17,352)	17,806	518,812
Equity options	64,626	145,608	60,184	75,643

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	124,066	128,256	77,990	594,455
Exchange traded:				
Equity futures	201	258	18	905
Equity options	2,540	104	4,299	7,977
	2,741	362	4,317	8,882
	126,807	128,618	82,307	603,337

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

11. Derivatives (continued)

	2014		2015	
	Assets	Liabilities	Assets	Liabilities
Commodity related:				
Over the counter:				
Commodity swaps and forwards	12,663	134,400	10,164	154,465
Commodity options	1,814	3	543	
	14,477	134,403	10,707	154,465
Exchange traded:				
Commodity futures	1,512	4,909	372	213
	15,989	139,312	11,079	154,678
Hedge:				
Currency forwards	1,127	19,712	4,925	34,631
Currency swaps	38,997	50,788	123,706	23,094
Interest rate swaps	117,015	50,655	52,722	126,393
	157,139	121,155	181,353	184,118
	₩ 1,568,307	1,717,555	1,994,714	2,599,288

(c) Gain or loss on valuation of derivatives for the years ended December 31, 2013, 2014 and 2015 are as follows:

	2013	2014	2015
Foreign currency related			
Over the counter			
Currency forwards	₩ (120,476)	(71,396)	142,086
Currency swaps	(11,165)	(74,327)	(132,226)
Currency options	4,673	582	10,540
	(126,968)	(145,141)	20,400
Exchange traded			

Currency futures	(27)	176	(272)
	(126,995)	(144,965)	20,128
Interest rates related			
Over the counter			
Interest rate swaps	(74,566)	(35,782)	(65,444)
Interest rate options	3,328	(668)	(185)
	(71,238)	(36,450)	(65,629)
Exchange traded			
Interest rate futures	(1,823)	168	144
	(73,061)	(36,282)	(65,485)
Credit related			
Over the counter			
Credit swaps	(4,391)	(11,216)	748

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

11. Derivatives (continued)

	2013	2014	2015
Equity related			
Over the counter			
Equity swap and forwards	(34,698)	62,852	(653,231)
Equity options	(13,114)	(1,925)	5,470
	(47,812)	60,927	(647,761)
Exchange traded			
Equity futures	(1,214)	2,748	613
Equity options	(1,587)	477	(2,218)
	(2,801)	3,225	(1,605)
	(50,613)	64,152	(649,366)
Commodity related			
Over the counter			
Commodity swaps and forwards	(66,468)	(112,485)	(106,976)
Commodity options	2,704	(196)	(457)
	(63,764)	(112,681)	(107,433)
Exchange traded			
Commodity futures	(4,065)	(5,527)	(2,582)
	(67,829)	(118,208)	(110,015)
Hedge			
Currency forwards	1,665	(13,470)	(27,339)
Currency swaps	(15,849)	58,444	97,576
Interest rate swaps	(253,433)	148,048	(120,396)
	(267,617)	193,022	(50,159)
	(590,506)	(53,497)	(854,149)

(d) Gain or loss on fair value hedges for the years ended December 31, 2012, 2013 and 2014 are as follows:

	2013	2014	2015
Hedged item	₩ 279,618	(133,761)	211,951
Hedging instruments	(240,814)	145,560	(206,925)
	₩ 38,804	11,799	5,026

In order to hedge changes in the fair value of investments in debt securities, structured deposits, etc. from interest rate changes, the Group designates interest swap contracts as hedging items. Additionally, the Group holds forward exchange contracts and currency swaps to hedge changes in the fair value of foreign currency deposits and investments in foreign currency debt securities from exchange rate changes.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

11. Derivatives (continued)

(e) Hedge of net investment in foreign operations

Hedge accounting is applied for a portion of net investments in foreign operations. Foreign currency translation adjustments for foreign operation by each hedging instrument for the years ended December 31, 2014 and 2015 are as follows:

	2014	2015
Borrowings in foreign currency	₩ (2,066)	(17,492)
Debt securities issued in foreign currency	22,820	(14,005)
Currency forwards	(5,133)	(2,368)
	₩ 15,621	(33,865)

12. Loans

(a) Loans as of December 31, 2014 and 2015 are as follows:

	2014	2015
Household loans	₩ 84,929,702	96,017,634
Corporate loans	113,989,749	127,026,825
Public and other	2,135,127	2,194,277
Loans to banks	4,683,996	4,653,229
Card receivables	18,140,810	18,537,001
	223,879,384	248,428,966
Discount	(37,458)	(26,806)
Deferred loan origination costs and fees	276,627	357,617
	224,118,553	248,759,777
Allowance for credit losses	(2,500,864)	(2,318,416)
	₩ 221,617,689	246,441,361

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

12. Loans (continued)

(b) Changes in the allowance for credit losses for the years ended December 31, 2014 and 2015 are as follows:

	2014						
	Household	Corporate	Loans Credit Card	Other	Subtotal	Other (*2)	Total
Beginning balance	₩ 223,528	1,589,990	647,818	15,115	2,476,451	98,617	2,575,068
Provision for (reversal of) allowance	163,470	346,803	387,499	(3,050)	894,722	49,706	944,428
Write-offs	(150,381)	(459,018)	(497,538)	(206)	(1,107,143)	(33,742)	(1,140,885)
Effect of discounting (*1)	(220)	(41,700)	(354)		(42,274)		(42,274)
Allowance related to loans sold	(5,252)	(30,291)	(2,255)	(4)	(37,802)		(37,802)
Recoveries	18,883	178,970	181,882	10,763	390,498	4,216	394,714
Others (*3)	(2,691)	(75,692)	4,796		(73,587)	(444)	(74,031)
Ending balance	₩ 247,337	1,509,062	721,848	22,618	2,500,865	118,353	2,619,218
	2015						
	Household	Corporate	Loans Credit Card	Other	Subtotal	Other (*2)	Total
Beginning balance	₩ 247,337	1,509,062	721,848	22,618	2,500,865	118,353	2,619,218
Provision for (reversal of) allowance	122,009	602,141	300,363	(2,802)	1,021,711		1,021,711
Write-offs	(122,796)	(701,970)	(488,660)	(66)	(1,313,492)	(18,850)	(1,332,342)
Effect of discounting (*1)	(253)	(30,499)	2,482		(28,270)		(28,270)
Allowance related to loans sold	(4,447)	(57,985)	(34,157)	(1,911)	(98,500)		(98,500)
Recoveries	26,527	88,944	171,253	85	286,809	4,013	290,822
Others (*3)	(1,613)	(51,204)	2,110		(50,707)	(23,677)	(74,384)

Ending balance	₩ 266,764	1,358,489	675,239	17,924	2,318,416	79,839	2,398,255
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(*1) Interest income from impaired financial assets

(*2) Included allowance for due from banks and other assets

(*3) Other changes were due to debt restructuring, debt-equity swap, and foreign exchange rate, etc.

(c) Changes in deferred loan origination costs and fees for the years ended December 31, 2014 and 2015 are as follows:

	2014	2015
Beginning balance	₩ 251,249	276,627
Loan originations	179,784	223,768
Amortization	(154,406)	(142,778)
Ending balance	₩ 276,627	357,617

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

13. Available-for-sale financial assets and held-to-maturity financial assets

- (a) Available-for-sale financial assets and held-to-maturity financial assets as of December 31, 2014 and 2015 are as follows:

	2014	2015
Available-for-sale financial assets:		
Debt securities :		
Government bonds	₩ 4,007,317	4,281,803
Financial institution bonds	11,922,184	15,594,417
Corporate bonds and others	10,926,161	9,161,420
	26,855,662	29,037,640
Equity securities (*1):		
Stocks	2,416,482	2,113,724
Equity investments	614,566	623,465
Beneficiary certificates	1,427,387	2,118,743
Others	103,917	72,499
	4,562,352	4,928,431
	31,418,014	33,966,071
Held-to-maturity financial assets:		
Debt securities:		
Government bonds	7,794,704	9,528,795
Financial institutions bonds	1,573,869	1,263,688
Corporate bonds	4,004,811	5,399,577
	13,373,384	16,192,060
	₩ 44,791,398	50,158,131

- (*1) Equity securities with no quoted market prices in active markets and for which the fair value cannot be measured reliably are recorded at cost were ₩110,425 million and ₩123,670 million as of December 31, 2014 and 2015, respectively.

- (b) Gain or loss on sale of available-for-sale financial assets for the years ended December 31, 2013, 2014 and 2015 were as follows:

	2013	2014	2015
Gain on disposal of available-for-sale financial assets	₩ 773,032	721,736	827,968
Loss on disposal of available-for-sale financial assets	(72,423)	(40,805)	(55,494)
	₩ 700,609	680,931	772,474

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

14. Property and equipment, net

(a) Property and equipment as of December 31, 2014 and 2015 are as follows:

	2014			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩ 1,789,410			1,789,410
Buildings	1,115,070	(162,346)		952,724
Other	2,012,103	(1,606,982)		405,121
	₩ 4,916,583	(1,769,328)		3,147,255
	2015			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩ 1,780,970			1,780,970
Buildings	1,114,844	(190,543)		924,301
Other	1,924,400	(1,591,194)		333,206
	₩ 4,820,214	(1,781,737)		3,038,477

(b) Changes in property and equipment for the years ended December 31, 2014 and 2015 are as follows:

	2014			
	Land	Buildings	Other	Total
Beginning balance	₩ 1,798,444	975,554	440,305	3,214,303
Acquisitions (*1)	590	28,061	156,625	185,276
Disposals	(101)	(2,656)	(24,260)	(27,017)
Depreciation		(35,060)	(165,751)	(200,811)
Amounts transferred to investment property	(12,432)	(14,319)		(26,751)
	2,891	305		3,196

Amounts transferred from assets held for sale

(*2)

Others			378	378
Effects of foreign currency movements	18	839	(2,176)	(1,319)
Ending balance	₩ 1,789,410	952,724	405,121	3,147,255

(*1) ₩4,054 million of buildings increased by transfers from construction-in-progress.

(*2) Comprise land and buildings, etc.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

14. Property and equipment, net (continued)

	2015			
	Land	Buildings	Other	Total
Beginning balance	₩ 1,789,410	952,724	405,121	3,147,255
Acquisitions (*1)	5,631	26,266	138,453	170,350
Disposals	(934)	(1,016)	(6,077)	(8,027)
Depreciation		(35,910)	(158,018)	(193,928)
Amounts transferred from (to) investment property	2,526	596		3,122
Effects of foreign currency movements	(15,663)	(18,359)	(46,273)	(80,295)
Ending balance	₩ 1,780,970	924,301	333,206	3,038,477

(*1) ₩3,255 million of buildings increased by transfers from construction-in-progress.

(c) Insured assets as of December 31, 2015 are as follows:

Type of insurance	Assets insured	Amount covered	Insurance company
Comprehensive insurance for financial institution	Cash and cash equivalent (Including ATM)	₩ 22,700	Samsung Fire & Marine Insurance Co., Ltd. and 9 other entities
Package insurance	General asset risk	1,244,704	Samsung Fire & Marine Insurance Co., Ltd. and 5 other entities
Fire insurance	Furniture and fixtures	18,524	Hyundai Marine & Fire Insurance Co., Ltd. and 2 other entities
Directors and officers insurance	Directors and officers liabilities	50,000	MERITZ Fire & Marine Insurance Co., Ltd.
Employee accident insurance	Employees	17,700	Dongbu Fire & Marine Insurance Co., Ltd.

Others	Cash, Securities, Fidelity guarantee, and liability insurance	82,380	Seoul Guarantee Insurance Co., Ltd. And Dongbu Fire & Marine Insurance Co., Ltd.
		₩ 1,436,008	

15. Intangible assets, net

(a) Intangible assets as of December 31, 2014 and 2015 are as follows:

	2014	2015
Goodwill	₩ 3,824,646	3,881,345
Software	70,708	93,914
Development cost	61,665	66,843
Other	195,824	232,794
	₩ 4,152,843	4,274,896

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

15. Intangible assets, net (continued)

(b) Changes in intangible assets for the years ended December 31, 2014 and 2015 are as follows:

	2014				
	Goodwill	Software	Development cost	Other	Total
Beginning balance	₩ 3,835,141	74,622	87,168	229,447	4,226,378
Acquisitions		23,099	9,404	29,717	62,220
Disposals				(10,960)	(10,960)
Impairment (*1)	(10,493)			(1,965)	(12,458)
Amortization (*2)		(27,480)	(34,784)	(49,891)	(112,155)
Effects of foreign currency movements	(2)	467	29	(531)	(37)
Others			(152)	7	(145)
Ending balance	₩ 3,824,646	70,708	61,665	195,824	4,152,843

	2015				
	Goodwill	Software	Development cost	Other	Total
Beginning balance	₩ 3,824,646	70,708	61,665	195,824	4,152,843
Acquisitions		59,727	37,022	95,041	191,790
Business combination	59,106	127	1,517	42	60,792
Disposals		(1)		(8,640)	(8,641)
Impairment (*1)				(2,143)	(2,143)
Amortization (*2)		(34,851)	(32,773)	(46,990)	(114,614)
Effects of foreign currency movements	(2,407)	(1,796)	(588)	(340)	(5,131)
Ending balance	₩ 3,881,345	93,914	66,843	232,794	4,274,896

(*1) The Group recognized impairment losses from golf and condo memberships with indefinite useful lives by comparing recoverable amounts with carrying amounts.

(*2) The Group recognized amortization of intangible asset in general and administrative expenses and net other operating expense.

(c) Goodwill

i) Goodwill allocated in the Group's CGUs as of December 31, 2014 and 2015

	2014	2015
Banking (*)	₩ 824,526	879,564
Credit card	2,685,389	2,688,238
Securities		1,218
Life insurance	275,370	275,371
Others	39,361	36,954
	₩ 3,824,646	3,881,345

(*) Due to structural changes in the Group's Banking segments and relevant changes in reporting structure submitted to the Group CODM, the Group determined to re-define its four pre-existing operating segments (Retail Banking, Corporate Banking, International Banking, and

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

15. Intangible assets, net (continued)

Other Banking) within the Banking segments as one single Banking segment, and also determined to re-define the group of CGUs at Shinhan Bank as one single group of CGUs for the purpose of goodwill impairment testing. As such, goodwill impairment test was performed based on the level of re-defined group of CGUs as of December 31, 2015.

ii) Changes in goodwill for the years ended December 31, 2014 and 2015

	2014	2015
Beginning balance	₩ 3,835,141	3,824,646
Acquisitions through business combinations		59,106
Disposal		(2,407)
Impairment loss(*)	(10,493)	
Other	(2)	
Ending balance	₩ 3,824,646	3,881,345

(*) The impairment loss during the year ended December 31, 2014 was recognized in Banking CGU .

iii) Goodwill impairment test

The recoverable amounts of each CGU were evaluated based on their respective value in use.

Explanation on evaluation method

The income approach was applied when evaluating the recoverable amounts based on value in use, considering the characteristics of each unit or group of CGU.

Projection period

When evaluating the value in use, 5.5 year of cash flow estimates July 31, 2015 through December 31, 2020 was used in projection and the value thereafter was reflected as terminal value. In case of Shinhan Life Insurance, only the 30 years of future cash flows were applied since the present value of the future cash flows thereafter is not significant.

Discount rates and terminal growth rates

The required rates of return expected by shareholders were applied to the discount rates by calculating the cost of capital which comprises a risk-free interest rate, a market risk premium and systemic risk (beta factor). Expected terminal growth rate is on the basis of inflation rates.

Discount rates and terminal growth rates applied to each CGU are as follows:

	Discount rates	Terminal growth rate
Banking	9.82%	2.16%
Credit card	8.39%	2.16%
Securities	14.12%	0.00%
Life insurance	10.00%	0.00%
Others	9.82%	2.16%

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

15. Intangible assets, net (continued)*iv) Key assumptions*

Key assumptions used in the discounted cash flow calculations of CGUs (other than Shinhan Life Insurance) are as follows:

	2015	2016	2017	2018	2019 and thereafter
CPI growth	0.5%	0.7%	2.2%	2.4%	2.7%
Real retail sales growth	0.9%	4.4%	4.0%	3.4%	2.3%
Real GDP growth	2.3%	3.5%	3.6%	3.3%	3.2%

Key assumptions used in the discounted cash flow calculations of Shinhan Life Insurance are as follows:

	Key assumptions
Rate of return on investment	4.22%
Risk-based capital ratio	250.93%

The values for the CPI growth rate, real retail sales growth rate, real GDP growth rate, rate of return on investment and risk-based capital ratio are based on a combination of internal and external analysis.

v) Total recoverable amount and total carrying value of CGUs to which goodwill has been allocated

	Amount
Total recoverable amount	₩ 38,664,548
Total carrying value	35,103,579
	₩ 3,560,969

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

16. Investments in associates

(a) Investments in associates as of December 31, 2014 and 2015 are as follows:

Investees	Country	Reporting date	Ownership (%)	
			2014	2015
BNP Paribas Cardif Life Insurance (*1),(*3),(*9)	Korea	September 30	14.99	14.99
Aju Capital Co., Ltd. (*1),(*2),(*9)			12.85	12.85
UAMCO., Ltd. (*2),(*9)		December 31	17.50	17.50
Pohang TechnoPark 2PFV (*2)			14.90	14.90
Daewontos Co., Ltd. (*1),(*6)		September 30	36.33	36.33
Inhee Co., Ltd. (*1),(*2),(*6)			15.36	15.36
DAEGY Electrical Construction Co., Ltd. (*1)(*6)			27.45	27.45
Kukdong Engineering & Construction Co., LTD. (*1)(*2)(*6)			14.30	14.30
YEONWOONG SYSTEM (*1)(*6)				21.77
DOODOO LOGITECH (*1)(*6)				27.96
Neoplux Technology Valuation Investment Fund (*1)				33.33
EQP Global Energy Infrastructure Private Equity Fund (*1)				22.64
JAEYOUNG SOLUTEC CO., LTD. (*1)(*8)				11.90
Partners 4th Growth Investment Fund (*7)		October 31		25.00
PSA 1st Fintech Private Equity Fund (*7)		December 31		20.00
SHC-IMM New Growth Fund (*5)			64.52	64.52
QCP New Technology Fund 20th			47.17	47.17
Miraeasset 3rd Investment Fund			50.00	
STI New Growth Engine Investment Fund			50.00	50.00
Shinhan K2 Secondary Fund (*4)			10.75	10.75
TS2013-6 M&A Investment Fund			25.00	25.00
KDB Daewoo Ruby PEF			20.00	
Dream High Fund III (*5)			54.55	54.55
Haejin Shipping Co., Ltd.	Hong Kong		24.00	24.00
SHC-EN Fund	Korea		43.48	43.48
SP New Technology Business investment Fund I			23.26	23.26
Albatross Growth Fund			36.36	36.36
Asia Pacific No.39 Ship Investment Co., Ltd.				50.00
Midas Dong-A Snowball Venture Fund (*5)				53.33

IBKS-Shinhan Creative Economy New Technology Fund (*4)			5.00	
SH Rental Service			20.00	
SM New Technology Business Investment Fund I			36.36	
AJU-SHC WIN-WIN COMPANY FUND 4			21.98	
APC Fund	Cayman Islands		25.18	25.18
BNH-CJ Bio Healthcare Fund	Korea		25.00	26.67
Korea Investment Gong-pyeong Office				
Real Estate Investment Trust 2nd			50.00	50.00
Arkone Asia Access Offshore Feeder Fund Limited	Cayman Islands		23.64	
Shinhan Praxis K-Growth Global Private Equity Fund (*4)	Korea			18.87
BNPParibas Cardif General Insurance (*1)(*2)		September 30	10.00	10.00
SHBNPP Private Korea Equity Long-Short Professional Feeder		December 31		29.24
Shinhan-Stonebridge Petro PEF (*4)			1.82	1.82

(*1) Financial statements as of September 30, 2015 were used for the equity method since the Group could not have the financial statements as of December 31, 2015. Significant trades and events occurred within the period were properly reflected.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

16. Investments in associates (continued)

- (*2) The Group applies the equity method accounting as the Group has a significant influence on the financial and operating policies of the investee through electing investees' board members and presenting in decision making bodies of the investee.
- (*3) The Group can have a significant influence on the investees through important business transactions.
- (*4) As a managing partner, the Group can have a significant influence over the investees.
- (*5) As a limited partner, the Group does not have ability to participate in policy-making processes to obtain economic benefit from the investees that would allow the Group to control the entity.
- (*6) The shares of the investees were acquired by debt-equity swap. The Group reclassified available-for-sale financial assets to investments in associates as the reorganization procedures were completed and now the Group can normally exercise its voting rights to the investees.
- (*7) Financial statements at the point of establishment were used for the equity method.
- (*8) Although the ownership interests in JAEYOUNG SOLUTEC CO., LTD. were less than 15%, the Group used the equity method as the Group has significant influence on the entity's financial and operating policy decisions.
- (*9) The associates, BNP Paribas Cardif Life Insurance engages in life insurance business, Aju Capital Co., Ltd. provides installment loans and leasing services and UAMCO., Ltd. engages in the business of the establishment of asset-backed securitization vehicles and investments in equity or asset-backed securities.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

16. Investments in associates (continued)

(b) Changes in investments in associates for the years ended December 31, 2014 and 2015 were as follows:

Investees	Beginning balance	Investment and dividend	2014		Transfer out	Ending balance
			Equity method income (loss)	Change in other comprehensive income		
BNP Paribas Cardif Life Insurance	₩ 51,250	(84)	1,216	4,394		56,776
Aju Capital Co., Ltd. (*1)	28,223	(1,105)	3,438	(130)		30,426
Pohang TechnoPark 2PFV	2,847		(870)			1,977
Daewontos Co., Ltd. (*2)						
Shinhan Corporate Restructuring Fund 5th (*3)						
PT Clemont Finance Indonesia	5,580		(405)	1,568	(6,743)	
Haejin Shipping Co. Ltd.	1,015		(10)	30		1,035
APC Fund	22,734	94	10,382	1,929		35,139
SHC-IMM New Growth Fund	9,149		(201)			8,948
QCP New Technology Fund 20th	249		21			270
UAMCO., Ltd.	139,271	(35,043)	10,066	(56)		114,238
Miraeasset 3rd Investment Fund	5,736	(3,540)	1,916	(90)		4,022
Medici 2nd Investment Fund	3,172	(3,838)	666			
STI New growth engine Investment Fund	2,509		(51)			2,458
AJU-SHC WIN-WIN Company Fund 3	5,256	(7,211)	1,955			
Shinhan K2 Secondary Fund	3,362	(623)	207	60		3,006
Aju 4th Investment Fund	1,580	(1,261)	(319)			
KDB Daewoo Securities Platinum PEF	6,563	(6,542)	(21)			
Shinhan-stonebridge Petro PEF	16,318	(21)	732			17,029
FAMILY FOOD CO., LTD.	4,671	(4,211)		(460)		
TS2013-6 M&A Investment Fund	3,911	(1,952)	543	(921)		1,581
Inhee Co., Ltd.	361		170			531
Truston Falcon Asia US Feeder Fund	10,841	(11,222)	279	102		
Innopolis-CJ Bio Healthcare Fund	3,969		1,103			5,072
KDB Daewoo Ruby PEF		6,918	786			7,704

Dream High Fund III	3,000	(37)			2,963	
Korea investment gong-pyeong office real estate investment trust 2nd	26,540	1,460			28,000	
DAEGY Electrical Construction., LTD		41	3		44	
Kukdong Engineering & Construction CO., LTD	9,092	(1,990)	56		7,158	
Arkone Asia Access Offshore Feeder Fund Limited	5,141	(493)	365		5,013	
BNPParibas Cardif General Insurance	1,290	5			1,295	
SHC-EN Fund	4,000	(8)			3,992	
SP New Technology Business investment Fund I	2,000	(1)			1,999	
Albatross Growth Fund	1,200				1,200	
	₩ 328,567	(17,378)	30,580	6,850	(6,743)	341,876

(*1) The market values of investments are ~~₩~~47,624 million as of December 31, 2014 based on the quoted market price.

(*2) The Group has stopped recognizing its equity method income or loss due to the investees' cumulative loss.

(*3) The Group has recognized impairment loss on the investments during the year ended December 31, 2013 and the fund was liquidated during the year ended December 31, 2014.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

16. Investments in associates (continued)

	Beginning balance	Investment and dividend	2015		Ending balance
			Equity method income (loss)	Change in other comprehensive income	
Investees					
BNP Paribas Cardif Life Insurance	₩ 56,776		(3,253)	3,757	57,280
Aju Capital Co., Ltd. (*1)	30,426	(1,849)	6,280	(413)	34,444
UAMCO., Ltd.	114,238		11,632	(48)	125,822
Pohang TechnoPark 2PFV	1,977		(1)		1,976
Daewontos Co., Ltd. (*3)					
Inhee Co., Ltd.	531		(277)		254
DAEGY Electrical Construction., LTD.	44		105		149
Kukdong Engineering & Construction CO., LTD.	7,158		(1,556)	3,422	(9,024)
YEONWOONG SYSTEM			106		106
DOODOO LOGITECH			384		384
Neoplux Technology Valuation Investment Fund		2,000	(7)		1,993
EQP Global Energy Infrastructure Private Equity Fund		174	(174)		
JAEYOUNG SOLUTEC CO., LTD. (*2)		6,238			6,238
Partners 4th Growth Investment Fund		1,800			1,800
PSA 1st Fintech Private Equity Fund		2,000			2,000
BANK METRO EXPRESS		(207)	207		
SHC-IMM New Growth Fund	8,948	(7,328)	1,555		3,175
QCP New Technology Fund 20th	270	(121)	(147)		2
Miraeasset 3rd Investment Fund	4,022	(4,468)	1,154	(708)	
STI New Growth Engine Investment Fund	2,458		(28)	333	2,763
Shinhan K2 Secondary Fund	3,006	(1,954)	1,147	377	2,576
TS2013-6 M&A Investment Fund	1,581	(174)	(213)	922	2,116
KDB Daewoo Ruby PEF	7,704	(8,177)	473		
Dream High Fund III	2,963	(2,283)	995	(119)	1,556
Haejin Shipping Co., Ltd.	1,035		107	86	1,228
SHC-EN Fund	3,992		320		4,312
	1,999		(25)		1,974

SP New Technology Business investment Fund I						
Albatross Growth Fund	1,200		(14)	2,155		3,341
Asia Pacific No.39 Ship Investment Co., Ltd.						
	5,355		332	(602)		5,085
Midas Dong-A Snowball Venture Fund	1,200		2			1,202
IBKS-Shinhan Creative Economy New Technology Fund						
	150		(2)			148
SH Rental Service	100		(39)			61
SM New Technology Business Investment Fund I						
	1,962		(31)			1,931
AJU-SHC WIN-WIN COMPANY FUND 4						
	2,000					2,000
APC Fund	35,139	(571)	(6,199)	5,346		33,715
BNH-CJ Bio Healthcare Fund	5,072	(826)	4,849			9,095
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd						
	28,000	(1,895)	1,905			28,010
Arkone Asia Access Offshore Feeder Fund Limited						
	5,013	(5,566)	919	(366)		
Shinhan Praxis K-Growth Global Private Equity Fund						
	8,780		(166)			8,614
BNP Paribas Cardif General Insurance	1,295	728	(277)	(7)		1,739
SHBNPP Private Korea Equity Long-Short Professional Feeder						
	27,984		92			28,076
Shinhan-Stonebridge Petro PEF	17,029	(4)	816			17,841
	₩ 341,876	25,048	20,971	14,135	(9,024)	393,006

(*1) The market values of investments are ₩47,550 million as of December 31, 2015 based on the quoted market price.

(*2) The market values of investments are ₩10,409 million as of December 31, 2015 based on the quoted market price.

(*3) The Group has stopped recognizing its equity method income or loss due to the investees' cumulative loss.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

16. Investments in associates (continued)

(c) Condensed statement of financial position information of associates as of December 31, 2014 and 2015 are as follows:

Investees	2014		2015	
	Asset	Liability	Asset	Liability
BNP Paribas Cardif Life Insurance	₩ 3,890,674	3,510,712	4,128,588	3,745,119
Aju Capital Co., Ltd.	6,428,736	5,714,874	6,906,603	6,155,236
UAMCO., Ltd.	4,357,490	3,688,589	4,068,354	3,331,647
Pohang TechnoPark 2PFV	14,668	1,401	14,664	1,401
Daewontos Co., Ltd.	6,139	7,344	1,952	3,420
Inhee Co., Ltd.	16,284	12,826	11,237	9,582
DAEGY Electrical Construction Co., Ltd.	1,278	1,119	1,051	508
Kukdong Engineering & Construction Co., LTD.	368,308	337,159	278,497	233,376
YEONWOONG SYSTEM			1,040	554
DOODOO LOGITECH			1,418	44
Neoplux Technology Valuation Investment Fund			6,000	22
EQP Global Energy Infrastructure Private Equity Fund			2	467
JAEYOUNG SOLUTEC CO., LTD.			161,439	126,297
Partners 4th Growth Investment Fund			7,200	
PSA 1st Fintech Private Equity Fund			10,000	
SHC-IMM New Growth Fund	14,190	321	5,156	235
QCP New Technology Fund 20th	572		5	
Miraeasset 3rd Investment Fund	8,215	172		
STI New Growth Engine Investment Fund	4,916		5,646	120
Shinhan K2 Secondary Fund	27,998	7	24,332	366
TS2013-6 M&A Investment Fund	6,406	76	8,542	76
KDB Daewoo Ruby PEF	40,525	2,004		
Dream High Fund III	5,432		2,854	
PT Clemont Finance Indonesia	43,972	27,832		
Haejin Shipping Co., Ltd.	4,523	211	5,106	(6)
SHC-EN Fund	9,183	2	9,918	2
SP New Technology Business investment Fund I	8,600	6	8,505	21
Albatross Growth Fund	3,301		9,202	15
Asia Pacific No.39 Ship Investment Co., Ltd.			10,225	54
Midas Dong-A Snowball Venture Fund			2,255	
			2,963	

IBKS-Shinhan Creative Economy New Technology Fund				
SH Rental Service			1,280	977
SM New Technology Business Investment Fund I			5,314	2
Shinhan 2014-1 New Technology Business Investment Fund				
AJU-SHC WIN-WIN COMPANY FUND 4			9,102	
APC Fund	139,732	197	134,025	138
BNH-CJ Bio Healthcare Fund	20,294	2	34,104	
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd				
Arkone Asia Access Offshore Feeder Fund Limited	56,022	22	56,022	1
Shinhan Praxis K-Growth Global Private Equity Fund	67,403	46,195		
BNPParibas Cardif General Insurance			46,000	347
SHBNPP Private Korea Equity Long-Short Professional Feeder (*)	33,341	20,392	31,213	13,817
Shinhan-Stonebridge Petro PEF			98,123	3,384
	935,256	807	979,838	807
	₩ 16,513,458	13,372,270	17,087,775	13,628,029

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

16. Investments in associates (continued)

(d) Condensed statement of comprehensive income information for years ended December 31, 2014 and 2015 were as follows:

Investees	Operating revenue	Net profit (loss)	2014	Total comprehensive income (loss)
			Other comprehensive income (loss)	
BNP Paribas Cardif Life Insurance	₩ 483,911	5,852	29,293	35,145
Aju Capital Co., Ltd.	781,957	26,756	(1,016)	25,740
Pohang TechnoPark 2PFV		(5,839)		(5,839)
Daewontos Co., Ltd.	10,954	(2)		(2)
Shinhan Corporate Restructuring Fund 5th	90	82		82
PT Clemont Finance Indonesia	1,362	87		87
Haejin Shipping Co. Ltd.	74	(41)		(41)
APC Fund	13,756	40,426		40,426
SHC-IMM New Growth Fund	102	(155)		(155)
QCP New Technology Fund 20th	51	45		45
UAMCO., Ltd.	548,990	57,519	(319)	57,200
Miraeasset 3rd Investment Fund	4,532	3,832	(182)	3,650
Medici 2nd Investment Fund	3,000	1,218		1,218
STI New growth engine Investment Fund		(110)		(110)
AJU-SHC WIN-WIN Company Fund 3	2,278	2,787		2,787
Shinhan K2 Secondary Fund	3,545	1,935	562	2,497
Aju 4th Investment Fund	143	(1,061)		(1,061)
KDB Daewoo Securities Platinum PEF		(111)		(111)
Shinhan-stonebridge Petro PEF	43,454	40,118		40,118
TS2013-6 M&A Investment Fund	56	(694)	(3,688)	(4,382)
Inhee Co., Ltd.	5,041	1,105		1,105
Innopolis-CJ Bio Healthcare Fund	4,414	4,414		4,414
KDB Daewoo Ruby PEF	4,422	3,929		3,929
Dream High Fund III	6	(68)		(68)
Korea investment gong-pyeong office real estate investment trust 2nd	2,821	2,821		2,821
DAEGY Electrical Construction., LTD	286	148		148

Kukdong Engineering & Construction CO., LTD	57,654	(13,917)	347	(13,570)
Arkone Asia Access Offshore Feeder Fund Limited	(1,349)	(2,087)		(2,087)
BNPParibas Cardif General Insurance	4,021	(8,103)	183	(7,920)
SHC-EN Fund		(19)		(19)
SP New Technology Business investment Fund I		(6)		(6)
Albatross Growth Fund	1	1		1
	₩ 1,975,572	160,862	25,180	186,042

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

16. Investments in associates (continued)

	2015			
	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Investees				
BNP Paribas Cardif Life Insurance	₩ 481,472	(21,533)	25,039	3,506
Aju Capital Co., Ltd.	844,216	48,870	(3,191)	45,679
UAMCO., Ltd.	452,759	66,455	(276)	66,179
Pohang TechnoPark 2PFV		(4)		(4)
Daewontos Co., Ltd.	3,357	(263)		(263)
Inhee Co., Ltd.	3,921	(1,803)		(1,803)
DAEGY Electrical Construction Co., Ltd.	65	385		385
Kukdong Engineering & Construction Co., LTD.	269,079	(10,881)	(3,072)	(13,953)
YEONWOONG SYSTEM	59	12		12
DOODOO LOGITECH	65	(42)		(42)
Neoplux Technology Valuation Investment Fund		(22)		(22)
EQP Global Energy Infrastructure Private Equity Fund		(767)		(767)
JAEYOUNG SOLUTEC CO., LTD.				
Partners 4th Growth Investment Fund				
PSA 1st Fintech Private Equity Fund				
SHC-IMM New Growth Fund	2,899	2,655		2,655
QCP New Technology Fund 20th		(312)		(312)
Miraeasset 3rd Investment Fund	5,753	2,376	(1,417)	959
STI New Growth Engine Investment Fund		(58)	667	609
Shinhan K2 Secondary Fund	11,376	10,658	3,510	14,168
TS2013-6 M&A Investment Fund	89	(234)	3,688	3,454
KDB Daewoo Ruby PEF	3,259	2,395		2,395
Dream High Fund III	1,945	1,825	(218)	1,607
Haejin Shipping Co., Ltd.	13	445		445
SHC-EN Fund	858	735		735
SP New Technology Business investment Fund I		(110)		(110)
Albatross Growth Fund	25	(38)	5,925	5,887
Asia Pacific No.39 Ship Investment Co., Ltd.	1,264	663		663
Midas Dong-A Snowball Venture Fund	66	5		5

IBKS-Shinhan Creative Economy New Technology Fund	2	(37)		(37)
SH Rental Service	297	21		21
SM New Technology Business Investment Fund I	19	(85)		(85)
Shinhan 2014-1 New Technology Business Investment Fund		(91)	(2,039)	(2,130)
AJU-SHC WIN-WIN COMPANY FUND 4	4	1		1
APC Fund		(24,604)	12,968	(11,636)
BNH-CJ Bio Healthcare Fund	18,531	18,313		18,313
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	3,885	3,800		3,800
Shinhan Praxis K-Growth Global Private Equity Fund		(880)		(880)
BNPParibas Cardif General Insurance	10,148	(10,481)		(10,481)
SHBNPP Private Korea Equity Long-Short Professional Feeder	24,657	2,967		2,967
Shinhan-Stonebridge Petro PEF	48,138	44,797		44,797
	₩2,188,221	135,133	41,584	176,717

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

16. Investments in associates (continued)

- (e) Reconciliation of the associates' financial information to the carrying value of the Group's investments in the associates as of December 31, 2014 and 2015 are as follow:

Investees	Net assets (a)	Owner- ship (%) (b)	2014		Carrying value
			Interests in the net assets (a)*(b)	Intra-group transactions Other	
Cardif Life Insurance	₩ 379,962	14.99	56,991	(215)	56,776
Aju Capital Co., Ltd. (*1)	668,171	12.85	85,860	(55,434)	30,426
Pohang TechnoPark 2PFV	13,268	14.90	1,977		1,977
Daewontos Co., Ltd. (*3)	(1,205)	36.33	(438)	438	
Haejin Shipping Co. Ltd.	4,312	24.00	1,035		1,035
APC Fund	139,535	25.18	35,139		35,139
SHC-IMM New Growth Fund	13,869	64.52	8,948		8,948
QCP New Technology Fund 20th	572	47.17	270		270
UAMCO., Ltd. (*2)	652,801	17.50	114,238		114,238
Miraeasset 3rd Investment Fund	8,043	50.00	4,021		4,021
STI New growth engine Investment Fund	4,916	50.00	2,458		2,458
Shinhan K2 Secondary Fund	27,991	10.75	3,006		3,006
Shinhan-stonebridge Petro PEF	934,449	1.82	17,029		17,029
TS2013-6 M&A Investment Fund	6,330	25.00	1,581		1,581
Inhee Co., Ltd.	3,458	15.36	531		531
Innopolis-CJ Bio Healthcare Fund	20,292	25.00	5,072		5,072
KDB Daewoo Ruby PEF	38,521	20.00	7,704		7,704
Dream High Fund III	5,432	54.55	2,963		2,963
Korea investment gong-pyeong office real estate investment trust 2nd	56,000	50.00	28,000		28,000
DAEGY Electrical Construction., LTD	159	27.48	44		44
Kukdong Engineering & Construction CO., LTD (*4)	33,318	14.30	4,763	2,395	7,158
Arkone Asia Access Offshore Feeder Fund Limited	21,208	23.64	5,014		5,014
BNPParibas Cardif General Insurance	12,949	10.00	1,295		1,295
SHC-EN Fund	9,181	43.48	3,992		3,992

SP New Technology Business investment					
Fund I	8,594	23.25	1,999		1,999
Albatross Growth Fund	3,301	36.36	1,200		1,200
	₩ 3,065,427		394,692	(215)	(52,601) 341,876

- (*1) Net assets do not include non-controlling interests and other adjustments represent the cumulative impairment loss and unequal dividends from investee.
- (*2) Net assets do not include non-controlling interests.
- (*3) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses due to the investees cumulative loss. The unrecognized equity method loss for year ended December 31, 2014 and the cumulative unrecognized equity method loss as of December 31, 2014 are ₩1 million and ₩438 million, respectively.
- (*4) Other adjustments represent the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

16. Investments in associates (continued)

Investees	Net assets (a)	Ownership (%) (b)	2015 Interests in the Ownership net assets		Carrying Value
			Intra-group (a)*(b) transactions	Other	
BNP Paribas Cardif Life Insurance	₩ 383,468	14.99	57,520	(240)	57,280
Aju Capital Co., Ltd. (*1)	700,147	12.85	89,969	(55,525)	34,444
UAMCO., Ltd. (*2)	718,983	17.50	125,822		125,822
Pohang TechnoPark 2PFV	13,264	14.90	1,976		1,976
Daewontos Co., Ltd. (*3)	(1,469)	36.33	(534)	534	
Inhee Co., Ltd.	1,655	15.36	254		254
DAEGY Electrical Construction Co., Ltd.	544	27.45	149		149
Kukdong Engineering & Construction Co., LTD. (*4)	46,376	14.30	6,630	(6,630)	
YEONWOONG SYSTEM	486	21.77	106		106
DOODOO LOGITECH	1,374	27.96	384		384
Neoplux Technology Valuation Investment Fund	5,978	33.33	1,993		1,993
EQP Global Energy Infrastructure Private Equity Fund (*5)	(464)	22.64	(105)	105	
JAEYOUNG SOLUTEC CO., LTD. (*6)	34,193	11.90	4,069	2,169	6,238
Partners 4th Growth Investment Fund	7,200	25.00	1,800		1,800
PSA 1st Fintech Private Equity Fund	10,000	20.00	2,000		2,000
SHC-IMM New Growth Fund	4,921	64.52	3,175		3,175
QCP New Technology Fund 20th	5	47.17	2		2
STI New Growth Engine Investment Fund	5,526	50.00	2,763		2,763
Shinhan K2 Secondary Fund	23,966	10.75	2,576		2,576
TS2013-6 M&A Investment Fund	8,466	25.00	2,116		2,116
Dream High Fund III	2,854	54.55	1,556		1,556
Haejin Shipping Co., Ltd.	5,112	24.00	1,228		1,228
SHC-EN Fund	9,916	43.48	4,312		4,312
SP New Technology Business investment Fund I	8,484	23.26	1,974		1,974
Albatross Growth Fund	9,187	36.36	3,341		3,341
Asia Pacific No.39 Ship Investment Co., Ltd.	10,171	50.00	5,085		5,085
Midas Dong-A Snowball Venture Fund	2,255	53.33	1,202		1,202
IBKS-Shinhan Creative Economy					
New Technology Fund	2,963	5.00	148		148
SH Rental Service	303	20.00	61		61

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SM New Technology Business Investment Fund I	5,312	36.36	1,931		1,931	
AJU-SHC WIN-WIN COMPANY						
FUND 4	9,100	21.98	2,000		2,000	
APC Fund	133,887	25.18	33,715		33,715	
BNH-CJ Bio Healthcare Fund	34,104	26.67	9,095		9,095	
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	56,021	50.00	28,010		28,010	
Shinhan Praxis K-Growth Global Private Equity Fund	45,653	18.87	8,614		8,614	
BNPParibas Cardif General Insurance	17,396	10.00	1,739		1,739	
SHBNPP Private Korea Equity Long- Short Professional Feeder	94,739	29.24	28,076		28,076	
Shinhan-Stonebridge Petro PEF	979,031	1.82	17,841		17,841	
	₩ 3,391,107		452,593	(240)	(59,347)	393,006

(*1) Net assets do not include non-controlling interests and other adjustments represent the cumulative impairment loss and unequal dividends from investee.

(*2) Net assets do not include non-controlling interests.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

16. Investments in associates (continued)

- (*3) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses due to the investees' cumulative loss. The unrecognized equity method losses for the year ended December 31, 2015 and the cumulative unrecognized equity method losses as of December 31, 2015 are ₩96 million and ₩534 million, respectively.
- (*4) Other adjustments represent an impairment loss, ₩9,024 million and the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date, ₩2,394 million.
- (*5) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses due to the investees' cumulative loss. The unrecognized equity method losses for the year ended December 31, 2015 and the cumulative unrecognized equity method losses as of December 31, 2015 are ₩105 million and ₩105 million, respectively.
- (*6) Other adjustments represent the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.

17. Investment properties, net

(a) Investment properties as of December 31, 2014 and 2015 are as follows:

	2014	2015
Acquisition cost	₩ 317,775	266,893
Accumulated depreciation	(50,246)	(58,176)
Book value	₩ 267,529	208,717

(b) Changes in investment properties for the years ended December 31, 2014 and 2015 are as follows:

	2014	2015
Beginning balance	₩ 690,257	267,529
Acquisitions	1,037	10,336
Disposals	(438,566)	(53,347)
Depreciation	(13,795)	(13,117)

Amounts transferred from (to) property and equipment	26,751	(3,122)
Amounts transferred from (to) assets held for sale (*)	1,841	
Foreign currency adjustment	4	438
Ending balance	₩ 267,529	208,717

(*) Comprise land and buildings, etc.

(c) Income and expenses on investment property for the years ended December 31, 2013, 2014 and 2015 were as follows:

	2013	2014	2015
Rental income	₩ 53,024	60,684	30,876
Direct operating expenses for investment properties that generated rental income	19,284	14,902	9,434

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

17. Investment properties, net (continued)

(d) The fair value of investment property as of December 31, 2014 and 2015 is as follows:

	2014	2015
Land and buildings (*)	₩ 1,016,009	1,016,736

(*) Fair value of investment properties is estimated based on the recent market transactions and certain significant unobservable inputs. Accordingly, fair value of investment properties is classified as level 3.

18. Other assets, net

Other assets as of December 31, 2014 and 2015 are as follows:

	2014	2015
Accounts receivable	₩ 5,468,811	7,034,582
Domestic exchange settlement debit	2,127,545	2,391,014
Guarantee deposits	1,307,700	1,214,199
Present value discount	(62,993)	(47,326)
Accrued income	1,291,305	1,250,507
Prepaid expense	127,913	132,153
Suspense payments	74,304	54,865
Sundry assets	153,040	55,369
Separate account assets	2,356,530	2,473,528
Advance payments	288,107	325,933
Unamortized deferred acquisition cost	1,060,325	1,042,788
Other	104,717	85,321
Allowances for impairment	(94,677)	(67,006)
	₩ 14,202,627	15,945,927

19. Leases

(a) Finance lease receivables of the Group as lessor as of December 31, 2014 and 2015 are as follows:

	2014			
	Gross investment	Unearned finance income	Present value of minimum lease payment	Unguaranteed residual value
Not later than 1 year	₩ 736,050	114,368	621,682	
1 ~ 5 years	1,270,400	71,644	1,198,756	
Later than 5 years	24,449	552	23,897	
	₩ 2,030,899	186,564	1,844,335	

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

19. Leases (continued)

		2015		
	Gross investment	Unearned finance income	Present value of minimum lease payment	Unguaranteed residual value
Not later than 1 year	₩ 774,939	127,756	647,183	
1 ~ 5 years	1,294,374	79,795	1,214,579	
Later than 5 years	13,728	28	13,700	
	₩ 2,083,041	207,579	1,875,462	

- (b) The scheduled maturities of minimum lease payments of the Group as lessor as of December 31, 2014 and 2015 are as follows:

Operating leases

	Minimum lease payment	
	2014	2015
Not later than 1 year	₩ 8,496	13,066
1 ~ 5 years	17,239	12,201
	₩ 25,735	25,267

- (c) Future minimum lease payments under non-cancellable operating lease of the Group as lessee as of December 31, 2014 and 2015 are as follows:

	Minimum lease payment	
	2014	2015
Not later than 1 year	₩ 128,296	199,139
1 ~ 5 years	174,293	232,718
Later than 5 years	5,310	3,873

₩ 307,899 435,730

20. Pledged assets

(a) Assets pledged as collateral as of December 31, 2014 and 2015 are as follows:

	2014	2015
Loans	₩ 132,373	364,971
Securities		
Trading assets	10,320,812	6,969,235
Financial assets designated at fair value through profit or loss	636,399	211,411
Available-for-sale financial assets	2,006,430	1,615,430
Held-to-maturity financial assets	5,219,661	6,061,673
	18,183,302	14,857,749
Deposits	456,432	779,549
Real estate	11,691	10,330
Other assets	137,707	116,359
	₩ 18,921,505	16,128,958

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

20. Pledged assets (continued)

(*) The carrying amounts of asset pledged that the pledgees have the right to sell or repledge regardless of the Group's default as of December 31, 2014 and 2015 are ~~₩8,323,372 million~~ and ~~₩7,545,051 million~~, respectively.

(b) The fair value of collateral held that the Group has the right to sell or repledge regardless of pledger's default as of December 31, 2014 and 2015 are as follows:

	2014	
	Collateral held	Collateral sold or repledged
Securities	₩ 10,203,339	
Others	58,600	
	2015	
	Collateral held	Collateral sold or repledged
Securities	₩ 12,104,793	
Others	270,100	

21. Deposits

Deposits as of December 31, 2014 and 2015 are as follows:

	2014	2015
Demand deposits	₩ 68,949,585	83,639,042
Time deposits	116,521,457	122,918,419
Negotiable certificates of deposits	2,179,573	4,579,112
Note discount deposits	3,241,082	3,018,551
CMA (*)	1,682,610	2,280,816
Others	1,135,431	1,240,488

₩ 193,709,738	217,676,428
---------------	-------------

(*) CMA: Cash management account deposits

22. Trading liabilities

Trading liabilities as of December 31, 2014 and 2015 are as follows:

	2014	2015
Securities sold:		
Equity	₩ 592,667	631,514
Debt	1,453,931	977,545
Others	213,200	72,726
	2,259,798	1,681,785
Gold deposits	428,936	453,605
	₩ 2,688,734	2,135,390

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

23. Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss as of December 31, 2014 and 2015 are as follows:

	2014	2015	Reason for designation
Deposits	₩ 6,139	13,509	Combined instrument
Equity-linked securities sold	6,671,481	6,721,344	Combined instrument
Derivatives-combined securities sold	2,318,144	2,094,947	Combined instrument
Securities sold	417	86,532	Evaluation and management on a fair value basis
	₩ 8,996,181	8,916,332	

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

24. Borrowings

(a) Borrowings as of December 31, 2014 and 2015 are as follows:

	2014	
	Interest rate (%)	Amount
Borrowings in won		
Borrowings from Bank of Korea	0.50~1.00	₩ 1,401,054
Others	0.00~5.05	5,118,274
		6,519,328
Borrowings in foreign currency		
Overdraft due to banks	0.55~0.67	337,197
Borrowings from banks	0.28~8.85	2,783,837
Others	0.25~0.79	2,869,681
		5,990,715
Call money	0.10~9.00	2,649,036
Bills sold	1.40~2.50	31,059
Bonds sold under repurchase agreements	0.50~5.82	7,707,954
Due to Bank of Korea in foreign currency	0.10	77,180
Bond issuance costs		(1,505)
		₩ 22,973,767

	2015	
	Interest rate (%)	Amount
Borrowings in won		
Borrowings from Bank of Korea	0.50~0.75	₩ 2,001,467
Others	0.00~4.35	5,760,512

		7,761,979
Borrowings in foreign currency		
Overdraft due to banks	0.00~0.76	180,640
Borrowings from banks	0.10~7.95	4,342,989
Others	0.47~1.18	2,088,665
		6,612,294
Call money	0.32~7.00	643,414
Bills sold	0.75~2.00	24,803
Bonds sold under repurchase agreements	0.69~3.49	6,621,251
Due to Bank of Korea in foreign currency	0.10	71,809
Bond issuance costs		(1,685)
		₩ 21,733,865

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

25. Debt securities issued

Debt securities issued as of December 31, 2014 and 2015 are as follows:

	2014	
	Interest rate (%)	Amount
Debt securities issued in won:		
Debt securities issued	0.00~8.91	₩ 27,567,890
Subordinated debt securities issued	3.41~5.10	3,321,239
Loss on fair value hedges		34,277
Bond issuance cost		(56,050)
		30,867,356
Debt securities issued in foreign currencies:		
Debt securities issued	0.32~4.50	6,443,377
Loss on fair value hedges		46,850
Bond issuance cost		(22,971)
		6,467,256
		₩ 37,334,612

	2015	
	Interest rate (%)	Amount
Debt securities issued in won:		
Debt securities issued	0.00~8.00	₩ 31,019,830
Subordinated debt securities issued	2.72~5.10	3,940,808
Loss on fair value hedges		(52,579)
Bond issuance cost		(55,288)
		34,852,771
Debt securities issued in foreign currencies:		
Debt securities issued	0.32~4.38	6,361,471

Loss on fair value hedges	25,983
Bond issuance cost	(18,941)
	6,368,513
	₩ 41,221,284

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

26. Employee benefits

(a) Defined benefit plan assets and liabilities

Defined benefit plan assets and liabilities as of December 31, 2014 and 2015 are as follows:

	2014	2015
Present value of defined benefit obligations	₩ 1,346,881	1,567,898
Fair value of plan assets	(1,037,424)	(1,341,768)
Recognized liabilities for defined benefit obligations	₩ 309,457	226,130

(b) Changes in the present value of defined benefit obligation and plan assets for the years ended December 31, 2014 and 2015 were as follows:

	2014		
	Defined benefit obligation	Plan assets	Net defined benefit liability
Beginning balance	₩ 1,037,143	(919,488)	117,655
Included in profit or loss			
Current service cost	138,370		138,370
Past service cost	(12,527)		(12,527)
Interest expense (income)	48,677	(44,695)	3,982
	174,520	(44,695)	129,825
Included in other comprehensive income:			
Remeasurement loss (gain):			
- Actuarial gains (losses) arising from:			
Demographic assumptions	(550)		(550)
Financial assumptions	186,210		186,210
Experience adjustment	(3,214)		(3,214)
- Return on plan assets excluding interest income		20,953	20,953

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	182,446	20,953	203,399
Other:			
Benefits paid by the plan	(52,490)	42,644	(9,846)
Contributions paid into the plan		(136,838)	(136,838)
Succession from associates	5,199		5,199
Effect of movements in exchange rates	63		63
	(47,228)	(94,194)	(141,422)
Ending balance	₩ 1,346,881	(1,037,424)	309,457

Profit or loss arising from defined benefit plans is included in general and administrative expenses.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

26. Employee benefits (continued)

		2015	
	Defined benefit obligation	Plan assets	Net defined benefit liability
Beginning balance	₩ 1,346,881	(1,037,424)	309,457
Included in profit or loss			
Current service cost	161,539		161,539
Past service cost			
Interest expense (income)	50,950	(41,121)	9,829
	212,489	(41,121)	171,368
Included in other comprehensive income:			
Remeasurement loss (gain):			
- Actuarial gains (losses) arising from:			
Demographic assumptions	(21,329)		(21,329)
Financial assumptions	142,484	35	142,519
Experience adjustment	(30,428)		(30,428)
- Return on plan assets excluding interest income		18,361	18,361
	90,727	18,396	109,123
Other :			
Benefits paid by the plan	(71,964)	53,465	(18,499)
Contributions paid into the plan		(335,461)	(335,461)
Succession from associates	5,071		5,071
Change in subsidiaries	(15,403)	377	(15,026)
Effect of movements in exchange rates	97		97
	(82,199)	(281,619)	(363,818)
Ending balance	₩ 1,567,898	(1,341,768)	226,130

Profit or loss arising from defined benefit plans is included in general and administrative expenses.

(c) The composition of plan assets as of December 31, 2014 and 2015 are as follows:

	2014	2015
Plan assets comprise:		
Equity securities	₩ 52,872	92,316
Debt securities	747	15,823
Due from banks	982,841	1,184,300
Other	964	49,329
	₩ 1,037,424	1,341,768

(d) Actuarial assumptions as of December 31, 2014 and 2015 are as follows:

	2014	2015	Description
Discount rate	3.04%~4.02%	2.77%~3.53%	AA corporate bond yields
Future salary increase rate	2.54%~4.45% + Upgrade rate	2.68%~4.13% + Upgrade rate	Average for 5 years

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

26. Employee benefits (continued)

(e) Sensitivity analysis

Reasonably possible changes as of December 31, 2015 to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	Defined benefit obligation	
	Increase	Decrease
Discount rate (1%p movement)	₩ 1,402,761	1,760,221
Future salary increase rate (1%p movement)	1,759,114	1,400,558

27. Provisions

(a) Provisions as of December 31, 2014 and 2015 are as follows:

	2014	2015
Asset retirement obligations	₩ 44,181	48,434
Expected loss related to litigation	33,377	25,945
Unused credit commitments	402,877	434,941
Bonus card points program	33,113	27,649
Financial guarantee contracts issued	107,209	81,374
Others	73,408	80,445
	₩ 694,165	698,788

(b) Changes in provisions for the years ended December 31, 2014 and 2015 were as follows:

	2014						
	Asset retirement	Litigation	Unused credit	Card point (*2)	Guarantee	Other	Total
Beginning balance	₩ 41,730	106,202	411,171	29,104	92,980	69,096	750,283

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Provision (reversal)	408	(23,458)	(9,592)	42,095	10,365	29,439	49,257
Provision used	(2,576)	(49,807)		(48,928)		(25,900)	(127,211)
Foreign exchange translation		440	1,298		11,603	773	14,114
Others (*1)	4,619			10,842	(7,739)		7,722
Ending balance	₩44,181	33,377	402,877	33,113	107,209	73,408	694,165

	Asset retirement	Litigation	Unused credit	2015 Card point (*2)	Guarantee	Other	Total
Beginning balance	₩44,181	33,377	402,877	33,113	107,209	73,408	694,165
Provision (reversal)	1,671	(4,474)	31,476	43,975	(32,700)	24,149	64,097
Provision used	(1,215)	(3,686)		(49,439)		(16,625)	(70,965)
Foreign exchange translation		728	588		2,552	270	4,138
Others (*1)	3,797				4,313	(757)	7,353
Ending balance	₩48,434	25,945	434,941	27,649	81,374	80,445	698,788

(*1) Others include the effects of decrease in discount and changes in discount rate.

(*2) Provisions for card point were classified as fees and commission expense.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

27. Provisions (continued)

(c) Asset retirement obligation liabilities represent the estimated cost to restore the existing leased properties which is discounted to the present value using the appropriate discount rate at the end of the reporting period. Disbursements of such costs are expected to incur at the end of lease contract. Such costs are reasonably estimated using the average lease year and the average restoration expenses. The average lease year is calculated based on the past ten-year historical data of the expired leases. The average restoration expense is calculated based on the actual costs incurred for the past three years using the three-year average inflation rate.

(d) Allowance for guarantees and acceptances as of December 31, 2014 and 2015 are as follows:

	2014	2015
Guarantees and acceptances outstanding	₩ 10,796,896	10,110,330
Contingent guarantees and acceptances	4,335,333	3,036,301
ABS and ABCP purchase commitments	2,143,308	2,668,370
Endorsed bill	51,043	29,549
	₩ 17,326,580	15,844,550
Allowance for loss on guarantees and acceptances	₩ 107,209	81,374
Ratio	% 0.62	0.51

28. Liability under insurance contracts**(a) Insurance risk**

Insurance risk, arising out of underwriting of insurance contract and benefit payment, means a risk in which the amount from an unexpected loss is larger than the premium amount. Insurance risk management aims to minimize risk, of benefit to be paid in excess of what was initially assumed at the time of pricing due to occurrence of an unusual occasion or change of economic environment.

The insurance products that the Group provides are life insurance products and can be categorized as individual insurance and group insurance with regard to the insured person. In group insurance contracts the insured person is an employee or member of an entity and the policy holder is either the entity or a representative of the entity. The group insurances comprise savings insurances and protection type insurances. The protection type insurance means an

insurance in which the aggregate of the insurance proceeds payable upon survival under the base age condition, cases where a male at the full age of 40 purchases an insurance policy, shall not exceed insurance premiums already paid. The savings insurance means an insurance, other than a protection type insurance product, in which the aggregate of insurance proceeds payable upon survival may exceed insurance premiums already paid. Individual insurances comprise death insurances (in which the insurance event is death), pure endowment insurances (in which the insurance event is survival) and endowment insurances (in which the insurance event is both survival and death).

(b) Insurance risk management

Insurance risk management comprises acceptance and administration of insurance contracts, calculation and adjustment of premium rate, review and payment of claims, reinsurance and closing accounts. Each insurance component is managed by a department operating for the risk component.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

28. Liability under insurance contracts (continued)

The Risk Management Team and other related departments conduct preemptive risk management when they develop or revise an insurance product. Insurance risk is continuously improved through regularly reviewing experience rate analysis, insurance risk measurement, underwriting and claims inspection process after product selling.

i) Underwriting

The Group reviews and improves the medical underwriting guideline based on the changes of medical environment. The Group reassesses and reinforces underwriting standards through profit and loss analysis over insurance contracts. Consultants are updated with the latest underwriting standards. The Group distributes underwriting manual for consultants to prevent mis-selling. Risk Management Supporting enhances the accuracy of the risk assessment over a subscribed insurance contract. It provides various risk information that are consistent and underwriting that is reasonable.

ii) Risk management through reinsurance

The Group cedes an insurance contract to reinsurer if risks of the contract need to be transferred or diversified to ensure claims payment ability and to maintain financial sustainability of the Group. To achieve the objectives of reinsurance activity, the Group runs reinsurance business efficiently by profit-loss analysis, cedes insurance contracts to reliable reinsurer and observes relevant regulations through the internal control system.

iii) Developing insurance product

When an insurance product is developed or revised, the Group prices insurance premium based on the analysis of expected and actual insurance risk difference and sensitivity to the risk factors. The Group also reviews the appropriateness of the premium and the profitability of the products through the historical loss experience analysis. The Group reviews compliance of risk management policy and appropriateness of expected profit-loss based on experience rate as a part of post selling risk management for a high risk product. Policy and underwriting standard of the product would be revised in line with the result of the review to improve insurance risk.

iv) Assessment of claims requests and payment

A standard process for accepting requests and claims payment is enacted to regulate the assessment process of claims requests. The Group pays reasonable benefit using insurance risk management system score, assessment process by

types of claims and historical insurance loss experience analysis. The Group monitors deficiency of insurance policy through claim assessment process, and based on that, modifies insurance policies and contracts. The claims payment process is continuously improved reflecting the result of insurance event inspection process monitoring, internal audit and customer complaints etc.

(c) Insurance liabilities as of December 31, 2014 and 2015 are as follows:

	2014	2015
Policy reserve	₩ 17,763,576	20,041,489
Policyholder's equity adjustment	12,704	16,795
	₩ 17,776,280	20,058,284

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

28. Liability under insurance contracts (continued)

(d) Policy reserve as of December 31, 2014 and 2015 are as follows:

	2014	2015
Interest rate linked	₩ 11,832,073	13,541,770
Fixed interest rate	5,931,503	6,499,719
	₩ 17,763,576	20,041,489

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

28. Liability under insurance contracts (continued)

(e) The details of policy reserves as of December 31, 2014 and 2015 are as follows:

	2014							Total
	Pure endowment	Individual insurance		Subtotal	Group insurance		Subtotal	
		Death	Endowment	Pure protection	Savings			
Premium reserve	₩ 3,657,740	7,338,766	5,793,465	16,789,971	36,939	286	37,225	16,827,196
Guarantee reserve	10,601	20,965	179	31,745				31,745
Unearned premium reserve	3	544		547	1,228		1,228	1,775
Reserve for outstanding claims	62,489	629,976	143,756	836,221	29,929		29,929	866,150
Interest rate difference guarantee reserve	2,214	176	16	2,406				2,406
Mortality gains reserve	7,072	5,639	294	13,005	6		6	13,011
Interest gains reserve	15,101	276	25	15,402				15,402
Long term duration dividend reserve	65	11	2	78				78
Reserve for policyholder's profit dividend	3,666			3,666				3,666
Reserve for losses on dividend insurance contract	2,147			2,147				2,147
	₩ 3,761,098	7,996,353	5,937,737	17,695,188	68,102	286	68,388	17,763,576

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

28. Liability under insurance contracts (continued)

	2015							Total
	Pure endowment	Individual insurance		Subtotal	Group insurance		Subtotal	
		Death	Endowment		Pure protection	Savings		
Premium reserve	₩4,228,561	8,346,382	6,439,851	19,014,794	37,088	294	37,382	19,052,176
Guarantee reserve	11,212	30,927	167	42,306				42,306
Unearned premium reserve	3	454		457	531		531	988
Reserve for outstanding claims	65,059	666,320	149,891	881,270	28,644		28,644	909,914
Interest rate difference guarantee reserve	2,046	168	14	2,228				2,228
Mortality gains reserve	6,658	5,372	243	12,273	4		4	12,277
Interest gains reserve	16,340	271	22	16,633				16,633
Long term duration dividend reserve	60	10	2	72				72
Reserve for policyholder's profit dividend	2,898			2,898				2,898
Reserve for losses on dividend insurance contract	1,997			1,997				1,997
	₩4,334,834	9,049,904	6,590,190	19,974,928	66,267	294	66,561	20,041,489

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

28. Liability under insurance contracts (continued)

(f) Reinsurance credit risk as of December 31, 2014 and 2015 are as follows:

	Reinsurance assets	2014 Reinsurance account receivable
AA- to AA+	₩ 270	661
A- to A+	750	1,114
	₩ 1,020	1,775

	Reinsurance assets	2015 Reinsurance account receivable
AA- to AA+	₩ 852	1,630
A- to A+	533	749
	₩ 1,385	2,379

(g) Income or expenses on insurance for the years ended December 31, 2013, 2014 and 2015 are as follows:

	2013	2014	2015
Insurance income			
Premium income	₩ 4,210,818	4,199,227	4,421,381
Reinsurance income	4,301	3,595	4,239
Separate account income	14,894	18,298	22,208
	4,230,013	4,221,120	4,447,828
Insurance expenses			
Claims paid	(1,679,865)	(1,890,213)	(1,946,669)
Reinsurance premium expenses	(4,115)	(4,485)	(5,306)
Provision for policy reserves	(2,246,076)	(2,100,459)	(2,277,549)

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Separate account expenses	(14,894)	(18,298)	(22,207)
Discount charge	(1,640)	(394)	(458)
Acquisition costs	(566,456)	(514,997)	(596,124)
Collection expenses	(12,538)	(13,251)	(14,139)
Deferred acquisition costs	431,058	370,925	418,975
Amortization of deferred acquisition costs	(518,265)	(463,148)	(436,512)
	(4,612,791)	(4,634,320)	(4,879,989)
Net loss on insurance	₩ (382,778)	(413,200)	(432,161)

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

28. Liability under insurance contracts (continued)

(h) Maturity of premium reserve as of December 31, 2014 and 2015 are as follows:

	2014						
	Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	Total
Fixed interest rate	₩ 21,789	41,189	430,313	493,853	1,149,626	3,225,055	5,361,825
Interest rate linked	83,211	92,768	1,062,364	839,953	978,613	8,408,462	11,465,371
Ending balance	₩ 105,000	133,957	1,492,677	1,333,806	2,128,239	11,633,517	16,827,196

	2015						
	Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	Total
Fixed interest rate	₩ 14,258	89,356	458,102	598,282	1,157,664	3,590,347	5,908,009
Interest rate linked	44,685	75,385	1,550,233	572,951	1,123,881	9,777,032	13,144,167
Ending balance	₩ 58,943	164,741	2,008,335	1,171,233	2,281,545	13,367,379	19,052,176

(i) Liability adequacy test, LAT

Liability adequacy tests were performed on the premium reserve, unearned premium reserve and guarantee reserve for the contracts held at December 31, 2014 and 2015. The premium reserve considered the amount net level premium reserve less, where appropriate, deferred acquisition cost in accordance with the article 6-3 of Regulation on Supervision of Insurance Business Act.

The assumptions of the current estimation used to assessment and their basis for calculation was as follows:

Assumptions		Measurement basis
2014	2015	
3.41% ~ 21.03%	2.55% ~ 6.88%	

Discount rate			Future rate of return on invested asset based on the rate scenario suggested by FSS
Mortality rate	5% ~ 310%	7% ~ 202%	Rate of premium paid on risk premium based on experience-based rate by classes of sales channel, product and transition period of last 5 years
Operating expense rate	<p>Acquisition cost</p> <p>- The first time :</p> <p>90% ~ 818%</p> <p>- From the second time :</p> <p>0% ~ 258%</p> <p>Maintenance expense (each case):</p> <p>1,325won ~ 6,634won</p> <p>Collection expenses (on gross premium):</p> <p>0won ~431won</p>	<p>Acquisition cost</p> <p>- The first time :</p> <p>90% ~ 818%</p> <p>- From the second time :</p> <p>0% ~ 258%</p> <p>Maintenance expense (each case):</p> <p>1,325won ~ 4,500won</p> <p>Collection expenses (on gross premium):</p> <p>137won ~454won</p>	Operating expense rate on gross premium or expense per contract based on experience-based rate of last 1 year
Surrender ratio	0% ~ 62.7%	1.17% ~ 63.16%	Surrender ratio by classes of sales channel, product and transition period of last 5 years

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

28. Liability under insurance contracts (continued)

The result of liability adequacy test as of December 31, 2014 and 2015 are as follows:

		2014		
	Provisions for test	LAT base		Premium loss (surplus)(*)
Participating				
Fixed interest	₩ 592,415	1,150,996		558,581
Variable interest	696,080	726,853		30,773
	1,288,495	1,877,849		589,354
Non-Participating				
Fixed interest	4,451,910	3,991,966		(459,944)
Variable interest	12,369,639	10,620,204		(1,749,435)
	16,821,549	14,612,170		(2,209,379)
Option and guarantee	31,747	98,400		66,653
	₩ 18,141,791	16,588,419		(1,553,372)
2015				
	Provisions for test	LAT base		Premium loss (surplus)
Participating				
Fixed interest	₩ 601,588	1,468,506		866,918
Variable interest	745,094	808,354		63,260
	1,346,682	2,276,860		930,178
Non-Participating				
Fixed interest	5,017,317	4,389,627		(627,690)
Variable interest	11,615,842	9,600,136		(2,015,706)

	16,633,159	13,989,763	(2,643,396)
Option and guarantee	42,306	122,042	79,736
	₩ 18,022,147	16,388,665	(1,633,482)

(*) To the extent the premiums are deficient to cover expected future losses at the entity level, an additional reserve is recorded for the premium deficiency.

Sensitivity analysis as of December 31, 2014 and 2015 are as follows:

	LAT fluctuation	
	2014	2015
Discount rate increased by 0.5%	₩ (1,028,258)	(901,208)
Discount rate decreased by 0.5%	1,202,286	1,343,624
Operating expense increased by 10%	241,465	249,095
Mortality rate increased by 10%	495,624	541,400
Mortality rate increased by 5%	248,801	277,282
Surrender ratio increased by 10%	151,132	125,240

(*) As a result of sensitivity analysis above, there would be no effects on income and capital, because the increase of LAT does not exceed LAT surplus.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

29. Other liabilities

Other liabilities as of December 31, 2014 and 2015 are as follows:

	2014	2015
Accounts payable	₩ 6,762,516	8,535,444
Accrued expenses	3,216,009	2,821,615
Dividend payable	24,524	19,572
Advance receipts	62,326	168,550
Unearned income (*)	354,822	351,313
Withholding value-added tax and other taxes	490,556	478,483
Securities deposit received	733,023	721,936
Foreign exchange remittances pending	228,017	209,086
Domestic exchange remittances pending	1,524,019	2,227,750
Borrowing from trust account	2,020,712	2,972,023
Due to agencies	648,430	542,014
Deposits for subscription	88,010	86,111
Separate account liabilities	2,411,454	2,567,196
Sundry liabilities	2,398,937	1,480,086
Other	100,978	150,629
Present value discount account	(24,468)	(20,818)
	₩ 21,039,865	23,310,990

(*) Changes in deferred (unearned) point income for the years ended December 31, 2014 and 2015 are as follows:

	2014	2015
Beginning balance	₩ 140,436	168,488
Deferred income	262,383	284,164
Recognized income	(234,331)	(271,056)
Ending balance	₩ 168,488	181,596

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

30. Equity

(a) Equity as of December 31, 2014 and 2015 are as follows:

	2014	2015
Capital stock:	₩	
Common stock	2,370,998	2,370,998
Preferred stock	274,055	274,055
	2,645,053	2,645,053
Hybrid bond	537,443	736,898
Capital surplus:		
Share premium	9,494,769	9,494,769
Others	392,566	392,566
	9,887,335	9,887,335
Capital adjustments	(393,405)	(423,536)
Accumulated other comprehensive income, net of tax:		
Valuation gain (loss) on available-for-sale financial assets	1,092,622	826,712
Equity in other comprehensive income of associates	6,945	18,569
Foreign currency translation adjustments for foreign operations	(158,107)	(163,737)
Net loss from cash flow hedges	(15,134)	(12,202)
Other comprehensive income of separate account	5,703	8,795
Actuarial gains (losses)	(294,135)	(373,366)
	637,894	304,771
Retained earnings (*1)	15,869,779	17,689,134
Non-controlling interest (*2)	1,330,809	969,981
	₩ 30,514,908	31,809,636

(*1) Restriction on appropriation of retained earnings is as follows:

- 1) Legal reserve of ₩1,690,125 million and ₩1,756,387 million for the years ended December 31, 2014 and 2015, respectively.
- 2) Regulatory reserve for loan loss of ₩7,621 million and ₩8,479 million for the years ended December 31, 2014 and 2015, respectively.
- 3) Retained earnings restricted for dividend at subsidiaries level pursuant to law and regulations amounts to ₩4,628,814 million for the years ended December 31, 2015.

(*2) The hybrid bonds of ₩1,100,250 million and ₩801,298 million issued by Shinhan Bank were attributed to non-controlling interests as of December 31, 2014 and 2015, respectively. Dividends to those hybrid bonds of ₩96,293 million and ₩57,158 million were attributed to non-controlling interests for years ended December 31, 2014 and 2015, respectively.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

30. Equity (continued)

(b) Capital stock

i) Capital stock of the Group as of December 31, 2014 and 2015 are as follows:

Number of authorized shares	1,000,000,000
Par value per share in won	₩ 5,000
Number of issued common stocks outstanding	474,199,587
Number of issued preferred stocks outstanding	11,100,000

The capital stock does not match the total amount of the par value for preferred stock issued ₩55,500 million as of December 31, 2015 because redeemable preferred stock (43,711,000 shares) has been repaid by retirement of stock method.

ii) Preferred stocks issued by the Group as of December 31, 2015 are as follows:

	Number of shares	Predetermined dividend rate (%) (*1)	Redeemable period	
Redeemable preferred stock:				
Series 12 (*2)	11,100,000	5.58%	April 21, 2016	April 21, 2031

(*1) Based on initial issuance price

(*2) The Group maintains the right to redeem Series 12 redeemable preferred stock in part or in its entirety during the redeemable period at par value (reflecting contract dividend rate). If the preferred shares are not redeemed by the end of the redeemable period, those rights will lapse.

(c) Hybrid bond

Hybrid bond classified as other equity as of December 31, 2014 and 2015 are as follows:

Issue date	Maturity date	Interest rate	2014	2015
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(%)

October 24, 2011	October 24, 2041	5.80	₩ 238,582	238,582
May 22, 2012	May 22, 2042	5.34	298,861	298,861
June 25, 2015	June 25, 2045	4.38		199,455
			₩ 537,443	736,898

The above hybrid bonds can be repaid at par value early after 5 years from date of issuance, and the Group has an unconditional right to extend the maturity under the same condition. In addition, if no dividend is to be paid for common shares, the agreed interest is also not paid.

(d) Capital adjustments

Changes in capital adjustments for the years ended December 31, 2014 and 2015 are as follows:

	2014	2015
Beginning balance	₩ (393,128)	(393,405)
Other transactions with owners	(277)	(30,131)
Ending balance	₩ (393,405)	(423,536)

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

30. Equity (continued)

(e) Accumulated other comprehensive income

i) Changes in accumulated other comprehensive income for the years ended December 31, 2014 and 2015 are as follows:

	2014							
	Items that are or may be reclassified to profit or loss				Items that will never be reclassified to profit or loss			
	Unrealized gain (loss) on available-for-sale financial assets	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other comprehensive income of separate account	Remeasurements of the defined benefit plans	Total	
Beginning balance	₩ 958,115	690	(146,123)	1,244	(117)	(140,842)	672,967	
Change due to fair value	629,374	6,849			7,678		643,901	
Reclassification:								
Change due to impairment or disposal	(479,184)						(479,184)	
Effect of hedge accounting				(96,405)			(96,405)	
Hedging	2,181		15,622	74,798			92,601	
Effects from exchange rate fluctuations	21,468		(30,376)				(8,908)	
Remeasurements of the defined benefit plans						(203,300)	(203,300)	
Deferred income taxes	(37,931)	(594)	1,886	5,229	(1,858)	48,884	15,616	
Non-controlling Interests	(1,401)		884			1,123	606	

Ending balance	₩ 1,092,622	6,945	(158,107)	(15,134)	5,703	(294,135)	637,894
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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

30. Equity (continued)

	2015						Items that will never be reclassified to profit or loss	
	Unrealized gain (loss) on available-for-sale financial assets	Equity in comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Other comprehensive income Remeasurements of the defined benefit plans	Net loss from cash flow hedges	of separate account	Total	
Beginning balance	₩ 1,092,622	6,945	(158,107)	(15,134)	5,703	(294,135)	637,894	
Change due to fair value	197,959	14,559			4,079		216,597	
Reclassification:								
Change due to impairment or disposal	(574,018)	(423)					(574,441)	
Effect of hedge accounting				(126,428)			(126,428)	
Hedging	(864)		(33,864)	130,296			95,568	
Effects from exchange rate fluctuations	30,796		27,850				58,614	
Remeasurements of the defined benefit plans						(107,598)	(107,716)	
Deferred income taxes	80,137	(2,512)	(455)	(936)	(987)	25,785	101,182	
Non-controlling interests	80		839			2,582	3,501	
Ending balance	₩ 826,712	18,569	(163,737)	(12,202)	8,795	(373,366)	304,771	

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

30. Equity (continued)

(f) Appropriation of retained earnings

Statements of appropriation of retained earnings for the years ended December 31, 2014 and 2015 are as follows:

	2014	2015
Unappropriated retained earnings:		
Balance at beginning of year	₩ 5,232,139	5,285,274
Dividend to hybrid bonds	(29,940)	(34,488)
Net income	662,623	893,041
	5,864,822	6,143,827
Reversal of regulatory reserve for loan losses		
	5,864,822	6,143,827
Appropriation of retained earnings:		
Legal reserve	66,262	89,304
Regulatory reserve for loan losses	858	665
Dividends		
Dividends on common stocks paid	450,490	569,040
Dividends on preferred stocks paid	61,938	61,938
	579,548	720,947
Unappropriated retained earnings to be carried over to subsequent year	₩ 5,285,274	5,422,880
Date of appropriation:	March 25, 2015	March 24, 2016

(*) These statements of appropriation of retained earnings were based on the separate financial statements of the parent company.

(g) Regulatory reserve for loan loss

In accordance with Regulations for the Supervision of Financial Institutions, the Group reserves the difference between allowance for credit losses by IFRS and by Regulations for the Supervision of Financial Institutions at the account of regulatory reserve for loan losses.

- i) *Changes in regulatory reserve for loan losses including non-controlling interests for the years ended December 31, 2014 and 2015 were as follows:*

	2014	2015
Beginning balance	₩ 2,236,131	2,235,402
Planned regulatory reserve for (reversal of) loan losses	(729)	(42,767)
Ending balance	₩ 2,235,402	2,192,635

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

30. Equity (continued)

- ii) *Profit attributable to equity holders of Shinhan Financial Group and earnings per share after factoring in regulatory reserve for loan losses for the years ended December 31, 2014 and 2015 are as follows:*

	2014	2015
Profit attributable to equity holders of Shinhan Financial Group	₩ 2,081,110	2,367,171
Provision for regulatory reserve for loan losses	1,241	46,053
Profit attributable to equity holders of Shinhan Financial Group after adjusted for regulatory reserve	₩ 2,082,351	2,413,224
Basic and diluted earnings per share after adjusted for regulatory reserve in won	4,198	4,886

31. Dividends

- (a) Details of dividends recognized as distributions to common stockholders for the years ended December 31, 2014 and 2015 are as follows:

	2014	2015
Total number of shares issued and outstanding	₩ 474,199,587	474,199,587
Par value per share in won	5,000	5,000
Dividend per share in won	950	1,200
Dividends	₩ 450,490	569,040
Dividend rate per share	% 19.0	24.0

- (b) Details of dividends recognized as distributions to preferred stockholders for the years ended December 31, 2014 and 2015 are as follows:

	2014				
	Total shares outstanding	Dividend per share in won	Total dividend	Issue price per share in won	Dividend rate per issue price
Convertible redeemable preferred stock series 12	11,100,000	5,580	₩ 61,938	100,000	5.58%

	2015				
	Total shares outstanding	Dividend per share in won	Total dividend	Issue price per share in won	Dividend rate per issue price
Convertible redeemable preferred stock series 12	11,100,000	5,580	₩ 61,938	100,000	5.58%

(c) Dividend for hybrid bond was calculated as follows for years ended December 31, 2014 and 2015.

	2014	2015
Amount of hybrid bond	₩ 540,000	740,000
Interest rate	%5.34~5.80	4.38~5.80
Dividend	₩ 29,939	34,488

(d) There is no unrecognized dividend on cumulative preferred stocks as of December 31, 2014 and 2015.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

32. Net interest income

Net interest income for the years ended December 31, 2013, 2014 and 2015 are as follows:

	2013	2014	2015
Interest income:			
Cash and due from banks	₩ 200,853	236,919	225,554
Trading assets	492,766	583,234	510,764
Financial assets designated at fair value			
through profit or loss	37,989	36,894	48,264
Available-for-sale financial assets	985,104	825,790	665,561
Held-to-maturity financial assets	527,853	521,683	539,190
Loans	10,168,445	9,713,860	9,024,682
Others	178,312	142,127	115,689
	12,591,322	12,060,507	11,129,704
Interest expense:			
Deposits	(3,914,160)	(3,449,480)	(2,861,027)
Borrowings	(468,395)	(443,668)	(325,564)
Debt securities issued	(1,521,461)	(1,301,872)	(1,183,758)
Others	(82,422)	(75,687)	(66,422)
	(5,986,438)	(5,270,707)	(4,436,771)
Net interest income	₩ 6,604,884	6,789,800	6,692,933

33. Net fees and commission income

Net fees and commission income for the years ended December 31, 2013, 2014 and 2015 are as follows:

	2013	2014	2015
Fees and commission income:			
Credit placement fees	₩ 66,891	63,462	74,769
Commission received as electronic charge receipt	132,146	135,472	136,991
Brokerage fees	328,781	320,700	410,682

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Commission received as agency	212,982	190,759	167,137
Investment banking fees	44,530	50,158	79,840
Commission received in foreign exchange activities	143,177	143,365	162,989
Asset management fees	50,592	60,635	86,144
Credit card fees	2,105,870	2,200,964	2,351,140
Others	404,699	394,985	426,837
	3,489,668	3,560,500	3,896,529
Fees and commission expense:			
Credit-related fee	(38,486)	(32,757)	(43,337)
Credit card fees	(1,726,023)	(1,725,712)	(1,848,510)
Others	(338,804)	(332,873)	(383,703)
	(2,103,313)	(2,091,342)	(2,275,550)
Net fees and commission income	₩ 1,386,355	1,469,158	1,620,979

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

34. Dividend income

Dividend income for the years ended December 31, 2013, 2014 and 2015 are as follows:

	2013	2014	2015
Trading assets	₩ 6,243	13,585	68,607
Available-for-sale financial assets	149,741	162,213	239,670
	₩ 155,984	175,798	308,277

35. Net trading income (loss)

Net trading income (loss) for the years ended December 31, 2013, 2014 and 2015 are as follows:

	2013	2014	2015
Trading assets			
Gain (loss) on valuation of debt securities	₩ (9,790)	58,143	(6,451)
Gain (loss) on sale of debt securities	(42,150)	44,699	55,810
Gain on valuation of equity securities	33,862	33,007	19,355
Gain on sale of equity securities	50,660	46,636	125,552
Loss on valuation of other trading assets	(91,522)	(1,623)	(5,238)
	(58,940)	180,862	189,028
Trading liabilities			
Gain (loss) on valuation of securities sold	2,695	31,095	20,146
Gain (loss) on disposition of securities sold	11,695	15,280	(84,642)
Gain on valuation of other trading liabilities	157,547	(17,781)	24,366
Gain on disposition of other trading liabilities	2,355	1,296	1,805
	174,292	29,890	(38,325)
Derivatives			
Gain (loss) on valuation of derivatives	(322,890)	(246,519)	(803,990)
Gain on transaction of derivatives	282,450	298,259	309,189

(40,440)	51,740	(494,801)
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₩ 74,912	262,492	(344,098)
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(In millions of won)

36. Net gain (loss) on financial instruments designated at fair value through profit or loss

Net gain (loss) on financial instruments designated at fair value through profit or loss for the years ended December 31, 2013, 2014 and 2015 are as follows:

	2013	2014	2015
Financial assets designated at fair value through profit or loss:			
Other securities			
Gain on valuation	₩ 30,346	22,147	14,707
Debt securities			
Gain (loss) on valuation	7,180	27,458	(19,786)
Gain on sale and redemption	21,858	19,770	14,651
	29,038	47,228	(5,135)
Equity securities			
Dividend income	688	850	112
Gain (loss) on valuation	(3,210)	5,684	(24,509)
Gain on sale	26,786	2,451	46,200
	24,264	8,985	21,803
Financial liabilities designated at fair value through profit or loss:			
Other securities			
Gain on valuation		32	95
Gain (loss) on disposal and redemption		3	(111)
		35	(16)
Borrowings			
Gain (loss) on valuation	143,329	(171,537)	778,451
Loss on disposal and redemption	(348,997)	(267,830)	(350,045)
	(205,668)	(439,367)	428,406
	₩ (122,020)	(360,972)	459,765

37. Net impairment loss on financial assets

Net impairment loss on financial assets for the years ended December 31, 2013, 2014 and 2015 are as follows:

	2013	2014	2015
Impairment losses on:			
Loans	₩ (1,082,366)	(894,722)	(1,021,711)
Available-for-sale financial assets	(229,614)	(243,895)	(254,883)
Other financial assets	(42,561)	(49,706)	
	(1,354,541)	(1,188,323)	(1,276,594)
Reversal of impairment losses on:			
Available-for-sale financial assets	14,644	13,944	12,541
	₩ (1,339,897)	(1,174,379)	(1,264,053)

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

38. General and administrative expenses

General and administrative expenses for the years ended December 31, 2013, 2014 and 2015 are as follows:

	2013	2014	2015
Employee benefits:			
Salaries	₩2,330,885	2,475,184	2,478,136
Severance benefits:			
Defined contribution	15,371	18,608	20,203
Defined benefit	61,152	125,552	165,706
Termination benefits	90,096	120,308	105,031
	2,497,504	2,739,652	2,769,076
Rent	348,239	353,879	350,718
Entertainment	34,224	33,248	33,339
Depreciation	203,168	200,811	193,927
Amortization	116,562	112,155	75,060
Taxes and dues	164,906	197,433	195,729
Advertising	211,304	229,643	255,656
Research	12,733	11,871	13,442
Others	613,910	584,191	588,121
	₩4,202,550	4,462,883	4,475,068

39. Share-based payments

(a) Stock options granted as of December 31, 2015 are as follows:

	4th grant(*1)(*2) March 30, 2005	5th grant(*1)(*2) March 21, 2006	6th grant(*1)(*2) March 20, 2007	7th grant(*1)(*2) March 19, 2008
Grant date				
Exercise price in won	₩28,006	₩38,829	₩54,560	₩49,053
Number of shares granted	2,695,200	3,296,200	1,301,050	808,700

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Contractual exercise period	Within four years after three years from grant date	Within four years after three years from grant date	Within four years after three years from grant date	Within four years after three years from grant date
Changes in number of shares granted:				
Balance at January 1, 2015	102,389	108,356	58,764	493,079
Exercised				447,451
Balance at December 31, 2015	102,389	108,356	58,764	45,628
Fair value per share	₩ 11,544	₩ 721		

(*1) The equity instruments granted are fully vested as of December 31, 2015. The weighted average exercise price for 315,137 stock options outstanding at December 31, 2015 is ₩39,726.

(*2) As of December 31, 2015, the exercise of the remaining stock options (4th, 5th, 6th and 7th grant) was temporarily suspended.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

39. Share-based payments (continued)

(b) Performance shares granted as of December 31, 2015 are as follows:

Type	Expired	Not expired
Performance conditions	Cash-settled share-based payment Increase rate of the stock price and achievement of target ROE	
Operating period (*1)	4 or 5 years	
Estimated number of shares vested at December 31, 2015	187,637	953,410
Fair value per share in won	₩45,926, ₩47,376 and ₩40,889 (*2)	₩39,550

(*1) Four-year period is applied from the beginning of the year that the grant date belongs while five-year period for the shares with deferred payment.

(*2) ₩45,926 of fair value per unit is applied for the shares that are vested at December 31, 2013, ₩47,376 for the shares that are vested at December 31, 2014 and ₩40,889 for the shares that are vested at December 31, 2015, respectively.

The amount of cash payment for the Group's cash-settled share-based payment arrangements with performance conditions is determined at the fourth anniversary date from the grant date based on the share price which is an arithmetic mean of weighted average share prices of the past two-months, past one-month and past one-week. As such the fair value of number of shares expired is estimated using the arithmetic mean of weighted average share prices at the day after expiration date and the fair value of number of shares non-expired is estimated using the closing share price at the end of reporting year.

(c) Share-based compensation costs for the years ended December 31, 2013, 2014 and 2015 are as follows:

2013

	Employees of		
	The controlling	The subsidiaries	Total
	company		
Stock options granted :			
4th	₩ 76	789	865
5th	494	3,190	3,684
6th	(9)	(62)	(71)
7th	81	427	508
Performance shares	2,189	12,272	14,461
	₩2,831	16,616	19,447

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

39. Share-based payments (continued)

	2014		
	Employees of		
	The controlling company	The subsidiaries	Total
Stock options granted :			
4th	₩ (26)	(266)	(292)
5th	(18)	(291)	(309)
6th	(1)	(4)	(5)
7th	(216)	(876)	(1,092)
Performance shares	2,264	12,939	15,203
	₩ 2,003	11,502	13,505

	2015		
	Employees of		
	The controlling company	The subsidiaries	Total
Stock options granted :			
4th	₩ (44)	(458)	(502)
5th	(31)	(500)	(531)
6th			
7th	(4)	(15)	(19)
Performance shares	1,599	13,878	15,477
	₩ 1,520	12,905	14,425

(d) Accrued expenses and the intrinsic value as of December 31, 2014 and 2015 are as follows:

	2014		
	Employees of		
	The controlling company	The subsidiaries	Total
Stock options granted :			

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4th	₩ 147	1,537	1,684
5th	36	573	609
6th			
7th	4	15	19
Performance shares	6,327	33,584	39,911
	₩ 6,514	35,709	42,223

The intrinsic value of share-based payments is ₩42,024 million as of December 31, 2014. For calculating, the quoted market price ₩44,450 per share was used for stock options and the fair value was considered as intrinsic value for performance shares, respectively.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

39. Share-based payments (continued)

	2015		
	The controlling company	Employees of The subsidiaries	Total
Stock options granted :			
4th	₩ 103	1,079	1,182
5th	5	73	78
6th			
7th			
Performance shares	5,539	39,927	45,466
	₩ 5,647	41,079	46,726

The intrinsic value of share-based payments is ₩46,726 million as of December 31, 2015. For calculating, the quoted market price ₩39,550 per share was used for stock options and the fair value was considered as intrinsic value for performance shares, respectively.

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

40. Net other operating income (expense)

Other operating income and other operating expense for the years ended December 31, 2013, 2014 and 2015 are as follows:

	2013	2014	2015
Other operating income			
Gain on sale of assets:			
Loans	₩ 219,423	72,061	180,306
Others:			
Gain on hedged items	336,650	422,637	356,090
Reversal of allowance for acceptances and guarantee	5,317	2,262	33,526
Gain on trust account	3,960	5,374	5,027
Gain on other allowance	19,582	37,567	6,988
Others	259,070	376,861	392,548
	624,579	844,701	794,179
	844,002	916,762	974,485
Other operating expense			
Loss on sale of assets:			
Loans	(36,580)	(1,249)	(10,759)
Others:			
Loss on hedged items	(363,531)	(338,818)	(297,066)
Contribution	(249,730)	(250,159)	(274,685)
Loss on allowance for acceptances and guarantee	(27,223)	(12,867)	(825)
Loss on other allowance	(56,903)	(32,477)	(55,425)
Depreciation of operating lease assets	(7,734)	(9,058)	(9,895)
Others	(641,988)	(807,787)	(769,973)
	(1,347,109)	(1,451,166)	(1,407,869)
	(1,383,689)	(1,452,415)	(1,418,628)
Net other operating expenses	₩ (539,687)	(535,653)	(444,143)

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

41. Net other non-operating expenses

Other non-operating income and other non-operating expense for the years ended December 31, 2013, 2014 and 2015 are as follows:

	2013	2014	2015
Other non-operating income			
Gain on sale of assets:			
Property and equipment	₩ 1,405	1,229	2,379
Investment property	5,170	123,723	5,586
Non-current assets held-for-sale	3,012		
Lease assets	898	1,203	328
Others	193	405	433
	10,678	126,560	8,726
Gain on sale of Investments in associates	59		95,485
Others:			
Rental income on investment property	52,733	60,684	30,876
Reversal of impairment losses on Property and equipment and intangible asset	170		982
Gain from assets contributed	561	259	714
Others	92,099	97,127	100,877
	145,563	158,070	133,449
	156,300	284,630	237,660
Other non-operating expense			
Loss on sale of assets:			
Property and equipment	(3,301)	(3,558)	(1,496)
Investment property		(5,168)	(55)
Lease assets	(1,094)	(2,108)	(2,714)
Others		(42)	(69)
	(4,395)	(10,876)	(4,334)
Loss on sale of investments in associates		(1,076)	(2,012)
Impairment loss on investments in associates	(239)		(9,024)

	(239)	(1,076)	(11,036)
Others:			
Donations	(48,619)	(18,828)	(24,830)
Depreciation of investment properties	(17,238)	(13,795)	(13,117)
Impaired loss on property and equipment	(85)		
Impaired loss on intangible assets	(2,746)	(12,458)	(3,125)
Write-off of intangible assets	(552)	(1,572)	(960)
Collecting of written-off expenses	(5,740)	(4,718)	(8,088)
Others	(39,418)	(39,121)	(25,705)
	(114,398)	(90,492)	(75,825)
	(119,032)	(102,444)	(91,195)
Net other non-operating income	₩ 37,268	182,186	146,465

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

42. Income tax expense

(a) Income tax expense for the years ended December 31, 2013, 2014 and 2015 are as follows:

	2013	2014	2015
Current income tax expense	₩ 681,278	689,216	556,558
Adjustment for prior periods	(1,785)	(1,772)	(31,101)
Temporary differences	(123,632)	(37,003)	67,928
Income tax recognized in other comprehensive income	65,353	17,524	101,234
Income tax expenses	₩ 621,214	667,965	694,619

(b) Income tax expense (benefit) is calculated by multiplying net income before tax with the tax rate for the years ended December 31, 2013, 2014 and 2015 are as follows:

	2013	2014	2015
Income before income taxes	₩ 2,676,553	2,867,576	3,140,578
Income taxes at statutory tax rates (*)	₩ 646,591	692,384	758,345
Adjustments:			
Non-taxable income	(37,017)	(31,865)	(16,421)
Non-deductible expense	14,304	21,874	7,862
Tax credit	(1,982)	(639)	(557)
Other	1,103	(12,017)	(42,869)
Refund due to adjustments of prior year tax returns	(1,785)	(1,772)	(11,741)
Income tax expense	₩ 621,214	667,965	694,619
Effective tax rate	%	23.21	23.29
		22.12	

(*) The Group was subject to income taxes on taxable income at the following normal tax rates.

Taxable income	Tax Rate
₩200 million or below	11.0%
Below ₩20 billion	22.0%
₩20 billion or above	24.2%

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SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of won)

42. Income tax expense (continued)

- (c) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2014 and 2015 are as follows:

	2014			
	Beginning balance	Profit or loss	Other comprehensive income	Ending balance
Unearned income	₩ (150,138)	14,323		(135,815)
Account receivable	(1,898)	(14,288)		(16,186)
Trading assets	(18,770)	(30,355)		(49,125)
Available-for-sale	229,579	(148,975)	(37,931)	42,673
Investment in subsidiaries	(6,557)	25,428	(594)	18,277
Valuation and depreciation of property and equipment	(145,687)	(489)		(146,176)
Derivative asset (liability)	19,289	(16,346)	5,229	8,172
Deposits	25,690	3,518		29,208
Accrued expenses	72,321	39,115		111,436
Defined benefit obligation	205,116	26,346	47,745	279,207
Plan assets	(194,466)	(43,841)	1,099	(237,208)
Other provisions	232,391	(25,893)		206,498
Allowance for acceptances and guarantees	22,497	3,417		25,914
Allowance related to asset revaluation	(44,789)	(21)		(44,810)
Allowance for expensing depreciation	(690)	56		(634)
Deemed dividend	1,334			1,334
Accrued contributions	12,236	1,072		13,308
Financial instruments designated at fair value through profit of loss	(28,879)	70,902		42,023
Allowances				