



Implementing Risk Management that Considers Social and Environmental Factors

The importance of systematic risk management is rising along with increased uncertainty on the external economic environment, characterized by the anxiety over the global economic recession and the drop in raw material costs in 2015. Moreover, along with continued market innovation, such as expansion of global business and introduction of Fintech, and strengthened risk management monitoring by the government, establishing a system for anticipative risk management became a core management condition for financial companies.

Accordingly, Shinhan Financial Group enacted 7 major risk management principles based on its risk management philosophy: 'In order to achieve sustainable growth, all employees should have a sense of ownership on risk and seek balance between risk and profit when carrying out all businesses.' Shinhan Financial Group is using this philosophy in order to internalize employees' awareness on risk when conducting businesses. To promote effective risk management by the group, Shinhan Financial Group is creating synergy by establishing a group-integrated risk management system as well as a network between group affiliates, and is reinforcing its risk management infrastructure and internal control. Notably, it is operating responsible loan policies and decision-making system on loans by considering environmental, social, and governance(ESG) risks. Furthermore, Shinhan Financial Group has strengthened monitoring on potential social factors and is carrying out a risk management plan to protect the rights of financial consumers.

Risk Expert Network Operation

Shinhan Financial Group operates the Risk Expert Network(REN), a group-learning organization where risk experts, including risk management officers in each group affiliate, gather together one or more times each month to conduct thematic learning, research, debate, etc. Through doing so, experts share various risk statuses and effectively seek solutions based on the synergy created among group affiliates and make anticipative response to various risks.

In 2015, it handled subjects related to group-wide risk strategic tasks in 6 units. Awards and individual rewards were given to the unit which produced outstanding results. Notably, employees other than those in risk-related departments were invited when necessary in order to shed light on the risks of Shinhan Financial Group in various perspectives.

REN Major Research Subjects in 2015

Overseas Advancement and Risk Management

Review on Risk Indicators and Discovery of Anticipative Indicators

Risk Management of Customers' Assets

Demographic Change and Drop in Real Estate Prices

Risk Issue Raising

Strategy for Allocating Assets of Alternative Investments

Risk Management System

Shinhan Financial Group establishes its policies and strategies through the Group Risk Management Committee under the Board of Directors of the holding company. The group CRO of Shinhan Financial Group assists the Group Risk Management Committee and consults with them on risk management policies and strategies through the Group Risk Management Council, which consists of the CROs of each affiliate. Each affiliate implements a company-wide risk strategy for the group through the Risk Management Committee, affairs committees related to the risks, and risk management task units. They also establish the details of the risk management policy and strategy.

Also, in order to manage risks at a stable level, Shinhan Financial Group operates a classified limit system. The risk limit that each group and its affiliates are allowed to take on is decided through the Group Risk Management Committee, and the detailed risk limits per desk, type, department and product are decided and managed through each group affiliate's Risk Management Committee and affairs committees related to the risks.



Shinhan Financial Group Risk Management Workshop

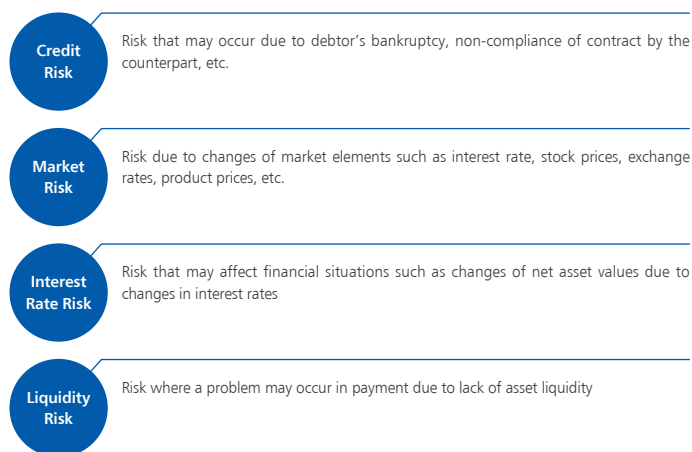
Risk Management Principles of Shinhan Financial Group

- All business activities should be performed within the pre-established risk preference with consideration being given to maintaining a balance between risk and profit.
- The holding company offers the risk management group exemplary criterion, supervises compliance, and bears the responsibility and authority for monitoring the group.
- Operates the decision-making system related to the risk management system, which enhances the participation of the executives.
- Organizes and operates the risk management organization independent from the business part of the organization.
- Operates the result management system in the process of business decision making to consider the risks precisely.
- Aims for anticipatory and practical risk management.
- Shares the circumspect foresight to prepare for the possibility of deteriorating situations even in normal times.

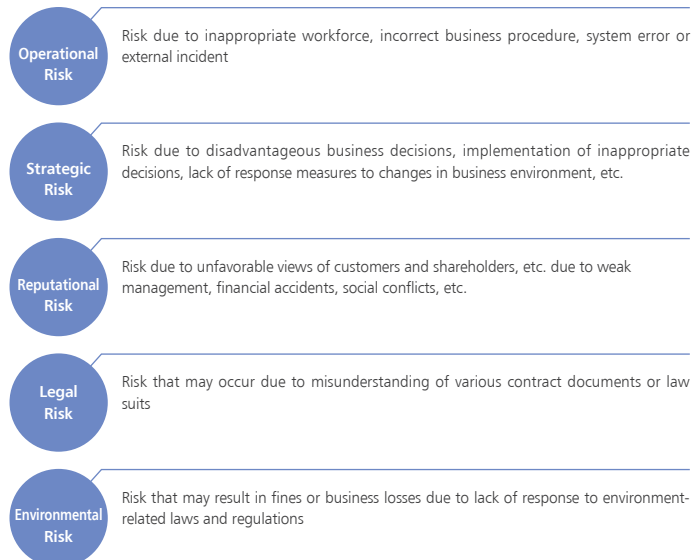
Risk Management

In consideration of the nature of the finance industry which has high market fluctuation, Shinhan Financial Group has been focusing on stable financial risk management. However, along with increased attention on non-financial risks by stakeholders and emphasis on CSR, Shinhan Financial Group has recognized that non-financial risks, including social and environmental risks, are important factors for sustainable development of the company and has been strengthening related management activities.

Financial Risks



Non-financial Risks



Consideration of ESG Risks

Along with the emergence of various non-financial risks that may threaten corporate sustainability, such as natural disasters, industrial safety, and supply chain, Shinhan Financial Group is strengthening management activities on non-financial risks including social and environmental risks. Shinhan Bank includes non-financial factors into corporate credit assessment model. For a non-financial factors, there are ethical management, product liability, reputation, complaints regarding environmental pollution, and job creations of the company giving loans. These factors are assessed in 6 grades i.e. A(Outstanding), B(Moderate), C(Average), D(Needs Improvement), E(Poor), F(Very Poor), and the assessment results are reflected in its corporate credit rating. In 2015, the credit rating system was upgraded to give monetary support to socially sound companies, and the assessment criteria was improved to give more positive grading to companies which show active cooperation between labor and management board, high employee satisfaction, and stable management efforts. Meanwhile, the scope of applying the credit rating system was expanded from existing banks to all group affiliates.

Considering the risk to its reputation, Shinhan Bank restricts giving loans to unhealthy businesses such as bars, loan sharks, and casinos. Moreover, prior to giving loans, Shinhan Bank reviews the recipients' articles of association and makes on-site visits in order to examine and assess the purpose and content of the business as well as how the funds are to be used. After giving the loans, the bank continues to monitor the usage of funds according to purpose of use. In addition, when executing large-scale PF, it provides financial support after reviewing the environmental and social effects of the business. When providing funds for domestic projects such as building roads, ports, and infrastructure, Shinhan Bank checks social and environmental assessments from government agencies such as the Ministry of Environment and Korea Forest Service, and utilizes the relevant permission as a prerequisite for investment by stipulating it on loan contracts. As for overseas projects, Shinhan Bank examines not only the permission from the related country but also consults with environment-related advisory institutions, in order to study the environmental and social impact of the project, before making the investment.

When selecting funds to be invested and investing in stock and bond-type funds as fund operation, Shinhan BNP Paribas Asset Management prohibits investments in companies related to the production, sales, distribution, and technology sharing of weapons of mass destruction as well as their parent companies.

Consistent Improvement of Risk Management Infrastructure and Internal Control System

Shinhan Financial Group is evaluated to be an exemplary case study in strengthening the risk management infrastructure and internal control. In 2015, The Bell Risk Manager Awards, Shinhan Bank received Grand Prize on 'Risk Insight', an integrated risk management system based on intellectual management, and Shinhan Financial Holding Company received the Outstanding Award on 'Group Risk Dashboard OS'. 'Group Risk Dashboard OS,' introduced in 2009 for the first time among domestic financial groups, is

a 3-dimensional monitoring system which detects increases in assets or risks of operation portfolios for group affiliates, or occurrence of abnormalities on external environmental issues.

Currently, 157 monitored areas are under operation, and improvement activities are conducted every year, as seen by Shinhan Bank, by adding technological finance monitoring areas onto the dashboard in 2015.

In order to recognize and evaluate risks internalized in work processes and the control level for reducing such risks and to prepare plans for response, Shinhan Bank is conducting Risk Control Self-Assessment(RCSA) to strengthen internal control.



Received 'The Bell Risk Manager Awards'

Plans

In 2016, Shinhan Financial Group plans to continue its improvement activities in order to detect and respond to risks in advance under the rapidly changing environment, and plans to add areas related to potential social risks, such as financial regulations and accidents, to be monitored starting from 2017. Furthermore, it will continue its efforts to establish new policies and a decision-making system on loans, keeping pace with social needs and timely trends.

In 2016, Shinhan Bank plans to practice compassionate finance and CSR, the group's core missions, by expanding the scope of recognition and evaluation on internal control for operation risk factors related to protection of rights of financial consumers, such as fraudulent accounts, electronic financial fraud, incomplete sales of funds/Bancassurance, and follow-up management of retirement pension.