

Governance

Principle and Policy of Governance Structure

In order to promote long-term development of the group, and to protect the profits of stakeholders such as shareholders and financial consumers, Shinhan Financial Group strives to acquire transparency, integrity, and stability and to possess a governance structure, which reflects the group's history of growth and organizational culture. As a result, Shinhan Financial Group was the only company out of 828 domestic listed companies to receive an integrated assessment grade of A+ at '2015 Award on Companies with Outstanding Governance Structure' conducted by the Korea Corporate Governance Service, receiving the Grand Prize as a company with outstanding governance structure. Korea Corporate Governance Service revealed that the reasons for the award was the group's high ratio of external directors, improvement in transparency of corporate governance structure by operating various expert committees, and detailed disclosure of information related to governance structure. The company's principles and policies on governance structure are as follows.

Transparency | Every year, the company discloses its annual report on governance structure on the company website and the website of the Korea Federation of Banks. The annual report on governance structure includes all internal regulations, such as the articles of association and regulations for the board of directors and its subcommittees, as well as all activities by the board of directors and the subcommittees. The company practices a concentrated voting policy for protecting the rights of minority shareholders and policy on exercising voting rights through writing, for protecting the voting rights of active shareholders. Also, it provides real-time videos of shareholders' meetings in order to provide impartial and timely information.

Integrity | The company operates its board of directors with autonomy and professionalism, and is sincerely adhering to external regulations such as commercial laws and the Financial Holding Companies Act as well as internal regulations such as articles of association, internal norm on governance structure, and regulations on the board of directors. The company also incorporates and performs all matters recommended by the model norm on financial company governance structure and the model norm on corporate governance structure.

Stability | In order to ensure stable governance structure through checks and balances between members, powers of making decisions and executing tasks have been delegated to the board of directors and the management board, respectively, and the management board is to report the status of executing tasks to the board of directors. Also, the ratio of external directors in the board of directors is 83%, which is much higher than the legal requirement of 50%, ensuring that the board of directors can check the powers of the management board. Also, more than 50% of members in all subcommittees consist of external directors, actively promoting activities of external directors in the board of directors. While regulating the board chairman to be appointed from external directors, most subcommittee chairmen, including the External Director Recommendation Committee, are appointed from external directors.

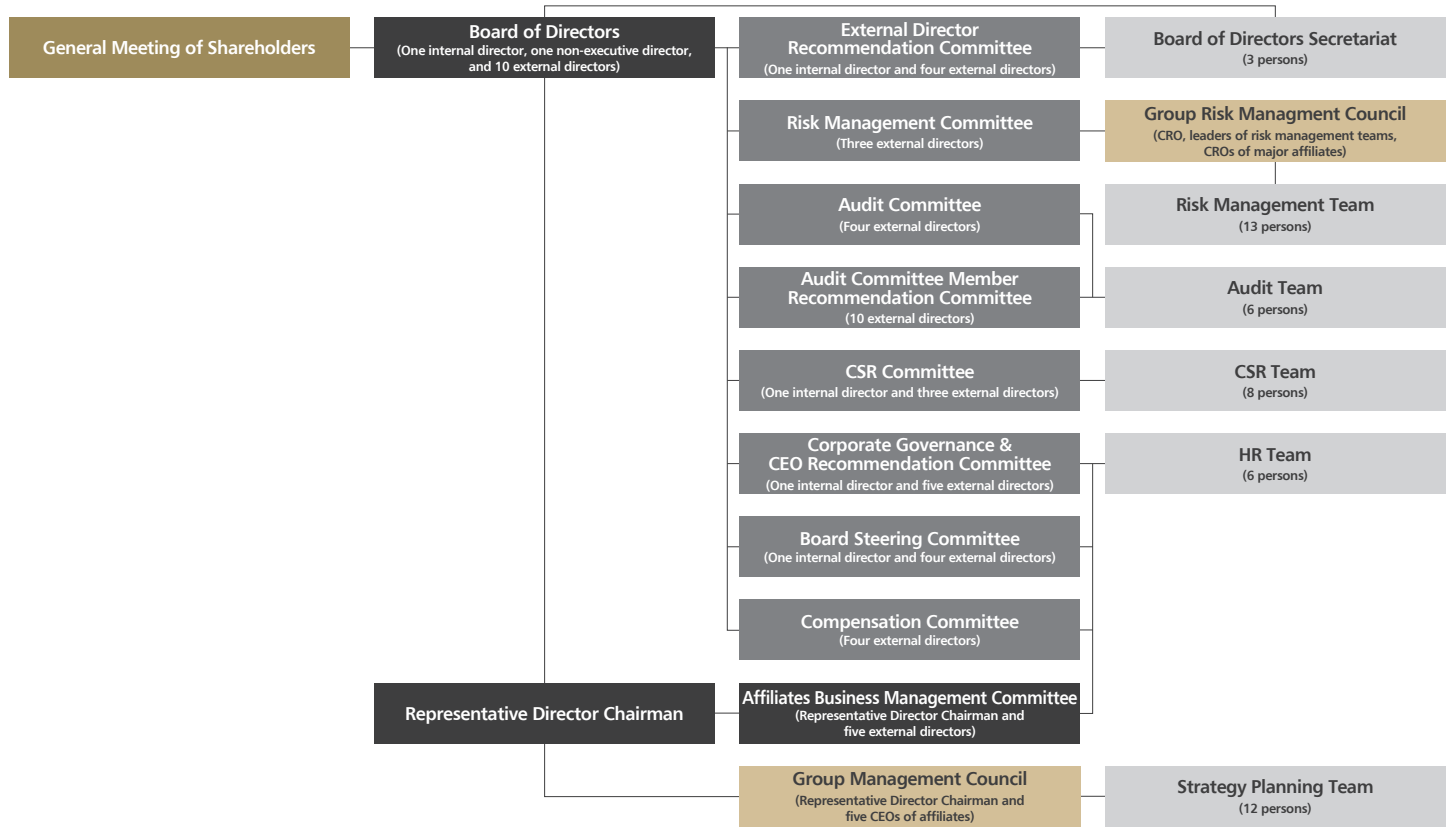
Diversity and Professionalism | The internal norm on governance structure stipulates the 'diversity principle' in composing the board of directors, which ensures that the board of directors will not have common backgrounds or represent a certain interest, promoting diversity and professionalism in the governance structure. Indeed, members of the board of directors evenly specialize in finance, economy, business, accounting, and law -the five fields presented as conditions for expertise by the model norm - so that the board of directors will not incline to certain backgrounds or occupations. Furthermore, the ratio of female candidates are consistently increasing while selecting the candidates for external directors, and the candidates come from a wide range of financial background, reflecting the efforts to comply with the principle of diversity in composing the board of directors.

Number of female candidates for external directors

Category	Number of female candidates for external directors	Increase from the previous period
As of February 2015	11persons	
As of August 2015	14persons	+3persons
As of February 2016	39persons	+25persons

Governance Structure which Reflects the Growth History and Organizational Culture of the Group | The company originates from Shinhan Bank, which was founded in July 1982 with 'Korea's first pure private capital', with the patriotic love of 341 Korean minority shareholders in Japan(100% capital investment amounting to KRW 25.9 billion). Shinhan Financial Group, which started in 2001 as 'Korea's first financial holding company of private capital', prepared the foundation for a new leap forward through the strategic alliance with BNP Paribas, a global financial group. In order to reflect the group's history of growth and organizational culture on governance structure, external directors composing of Korean business experts in Japan who represent the spirit of foundation, and financial experts recommended by BNP Paribas, our strategic alliance company, are working as members in the board of directors.

Organization Chart of Governance Structure



Board of directors

Members

Category	Name	Gender	Age	Date of initial appointment	History
Internal director	Dong Woo Han	Male	1948	2011.03.23	Vice President of Shinhan Bank, President and Vice Chairman of Shinhan Life Insurance, Chairman & CEO of Shinhan Financial Holding Company(present)
Others Non-executive director	Yong Byoung Cho	Male	1957	2015.03.25	CEO of Shinhan BNP Paribas Asset Management, President & CEO of Shinhan Bank(present)
	Hoon Nam koong (the chair of the board)	Male	1947	2011.03.23	Chairman of Korea Deposit Insurance Corporation, Chairman of Korea Life Insurance Association
	Boo In Ko	Male	1941	2013.03.28	Vice Chairman of Korea Chamber of Commerce and Industry in Tokyo, CEO of Sasei(present)
	Tae Eun Kwon	Male	1941	2011.03.23	CEO of Nam Bu Ham, Nagoya Foreign Language University's professor
	Seok Won Kim	Male	1947	2011.03.23	Head of Korea-OECD Multilateral Tax Center, Chairman of Credit Information Companies Association
External director	Cheul Park	Male	1946	2015.03.25	Senior Deputy Governor of the Bank of Korea, CEO of Leading Investment and Securities Co. Ltd.
	Man Woo Lee	Male	1954	2014.03.26	KICPA/AICPA, Professor of Korea University Business School(present)
	Sang Kyung Lee	Male	1945	2012.03.29	Chief Judge of Constitutional Court of Korea, Representative Attorney of Law Firm Wonjon
	Jin Chung	Male	1937	2014.03.26	Chairman of the Korean Residents Union in Japan, Chairman of the Jin Corporation(present)
	Hirakawa Yuki	Male	1960	2015.03.25	CEO of Hirakawa Corporation, CEO of Primer Korea(present)
	Philippe Avril	Male	1960	2015.03.25	Branch Manager of BNP Paribas Tokyo Branch, Representative Director of BNP Paribas Securities Japan (present)

Activities | A total of 11 board meetings were held in 2015(4 quarterly regular board meetings, 7 special board meetings). The average attendance rate for board meetings was 87%, and the average attendance rate by external directors was 89%.

Governance Structure

External Directors and CEO

Procedure and criteria for appointing external directors | External directors are appointed from shareholders' meetings under the recommendation of the Recommendation Committee on External Director Candidates. The company tries to ensure that external directors with conditions for autonomy set by relevant legislation and with financial history and expertise from various fields will be included in candidates recommended by the External Director Recommendation Committee. Conditions for appointing external directors with professionalism and insight include Δwhether the candidate possesses sufficient practical experience or professional knowledge on areas needed for business, such as finance, economy, management, accounting, and legislation, Δwhether the candidate can conduct his or her tasks fairly to ensure profits for all shareholders and financial consumers without being tied by certain interests, and Δwhether the candidate possesses a sense of ethics and responsibility appropriate for conducting the business. Under a fair and transparent procedure, the External Director Recommendation Committee assesses whether the candidates satisfy conditions set by relevant legislation and norms, and recommends them as candidates for external directors. If necessary, it utilizes recommendations from outside the company, such as shareholders, stakeholders, and external consulting institutions, as much as possible.

Monitoring and Supervising Conflicts of Interest | Article 4 Clause 1 No. 6 of the internal norm grants 'monitoring activities regarding conflict of interest between the company and dominant shareholders, employees, etc.' under the authority of the board of directors. Article 10 Clause 1 No. 7 of the board of directors' regulation stipulates 'approval on transactions between directors and the company' as a matter to be decided by the board of directors. In the current board of directors, the chairman of Shinhan Bank resides as a non-executive director. Consequently, a transaction occurring between Shinhan Financial Group and Shinhan Bank implies that a transaction is occurring between a director of Shinhan Financial Group and Shinhan Bank. In order to monitor such activities regarding conflict of interest, the voting right of the chairman of Shinhan Bank, the non-executive director, is restricted for the relevant case, and the decision is made through a special decision-making process, which requires approval by over 2/3 of present directors.

Assessment and Compensation | The Compensation Committee and the board of directors decide the reward system for internal directors. A variable amount of compensation is determined by reflecting the group's annual performance as well as long-term outcome. The board of directors determines compensation for external directors, and the amount of compensation varies according to the degree of participation in the board of directors and subcommittees. The annual limit for directors' compensation is approved at the shareholders' meeting every year, and the board of directors makes decisions on the details within the limit. For internal directors, a Compensation Committee solely consisting of external directors makes additional assessment on the details of the system for compensating the group's management board, including internal directors. In 2015, the ratio of the annual total compensation for the CEO to the median annual total compensation for all employees is 18.

CSR Committee

In 2015, Shinhan Financial Holding Company newly launched the CSR Management Committee, a subcommittee under the board of directors, in a bid to fulfill its social responsibility as a corporate citizen by actively responding to demands of internal and external stakeholders, including customers, shareholders, and local community, and to actualize the group's mission 'Compassionate Finance, Your Companion for the Future' in a proactive and systematic manner. Although Shinhan Financial Group had discussed issues related to the group's CSR management through the 'Group Social Contribution Committee' consisting of the group chairman and twelve CEOs of group affiliates, it newly created the CSR Management Committee under the board of directors, the highest decision-making organization, in order to make decisions regarding the group's CSR management in a more objective and rational perspective(The 'Group Social Contribution Committee' has been renamed as 'Socially Responsible Management Council' and remains as a council for CSR management among CEOs of group affiliates). Socially Responsible Management Council evaluates and resolves resolutions on matters delegated by board of directors, establishes the direction of the company on socially responsible management, and makes decisions on the relevant issues. The CSR Management Committee, which consists of four people, three external directors and one internal director, discusses major CSR issues in economic, environmental, and social areas to set the direction of CSR management that the group needs to fulfill, amends existing regulations regarding the group's CSR management, assesses and decides enactment of new regulations, publishes the CSR report, and receives reports on fulfillment of CSR management.

Activities | The first CSR Management Committee in 2015 appointed Chairman Lee, Man-woo as its chairman, and received reports on the foundation of CSR Management Committee and on major performance and fulfillment of CSR management in 2014. The second CSR Management Committee in 2015 received reports on the outcome of the external assessment of the group's CSR management in 2015, status on the fulfillment of 9 strategies, and major plans for CSR management in 2016. Chairman Lee, Man-woo emphasized prohibitions on activities that disrupt market order as regulated by Financial Investment Services and Capital Markets Act, encouraging the strengthening of the internal control system, educating group employees to have thorough understanding on the legislation, and reflecting the status of prevention education in the next CSR report. Accordingly, our company made reports on monitoring transaction histories of employees on financial investment products and the status of employee education on activities that disrupt market order.