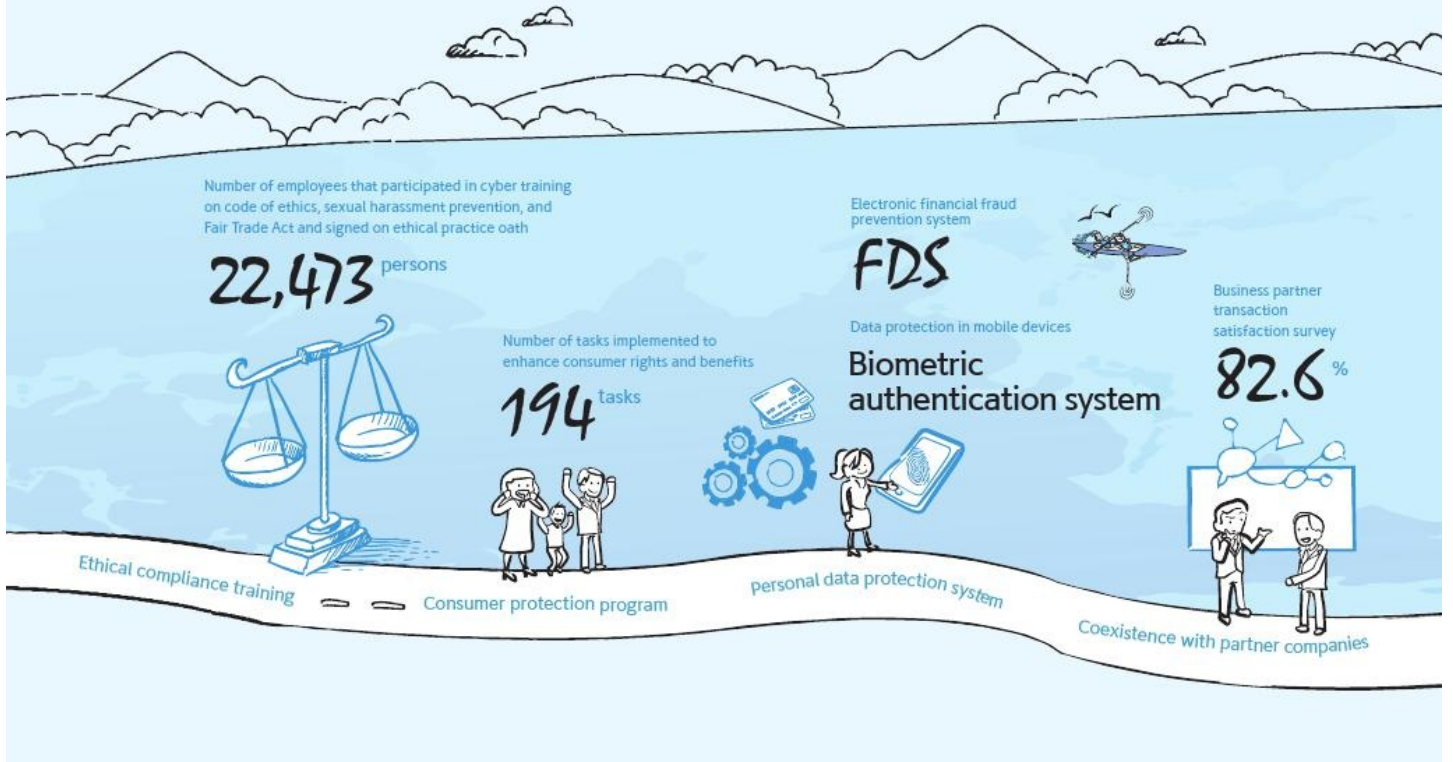


Fair and Ethical Business

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



Enhancing Trust by Strengthening Ethical Management

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

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

Expanding the Scope and Areas of Ethical Management

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

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

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

CASE STUDY

Data Protection, the First Step for Safe Financial Transactions

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

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

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

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

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



Enhancing Trust by Strengthening Ethical Management

Ethical Management Organization and Code of Ethics

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

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

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

Ethical Compliance Program and Training

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

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

Internal Control System and Structure

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

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

Bolstering the Whistle-blowing System

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

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



CoP training on ethical compliance

Expanding Education Regarding Disturbances of the Market Order

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

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

Implementation of Money Laundering Prevention Activities

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

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

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

Reinforcing the 'Financial Customer Protection' System

Financial consumer protection status

2 consecutive years

Good grades in all categories

Establishing a System to Protect Consumer Rights and Benefits

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

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

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

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

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

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

Complete Sales Process

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

Establishing the Complete Sales Process

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

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

Responding to the Customer Protection Regulatory Environment

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

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

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



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

Safe Management of Financial Information

management system by identifying and evaluating weak points each year. In 2017, the group conducted site inspections on its subsidiaries and checked the management status and responses to practical information leaks.

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

The Group-Wide Information Protection Compliance System

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

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

Shinhan Financial Group operates internal systems to avoid credit information leakages and improves its information protection

Personal Information Protection Measures

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

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

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

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

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



Shinhan Bank separately stores the biometric information

Partnership Based on Fair Trade

Principles of Shared Development with Suppliers

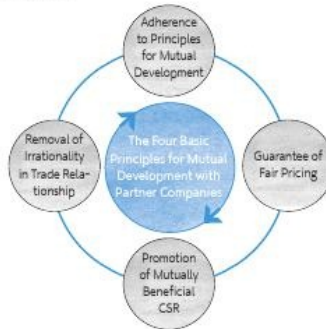
Fair trading and anti-corruption are critical components that financial companies and subsidiaries of financial groups must comply with in order to create profits based on customer trust. When opaque transactions are taking place due to connections with suppliers, it is highly likely to generate issues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

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

Adherence to Principles for Mutual Development

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

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



Removal of Irrationality in Trade Relationships

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

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

Guarantee of Fair Prices

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

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

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

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

Promotion of Mutually Beneficial CSR

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



Shinhan Card-partner company discussion meetings for mutual development

Outstanding partner company selection criteria of Shinhan Card ICT Dept.

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

