



INNOVATION ENABLER

Founded in 2001, Shinhan Financial Group has grown into a leading financial group in Korea by taking full advantage of its capabilities as “One Shinhan”, and through its commitment to “Compassionate Finance”. In 2017, the Group set itself the ambitious goal of leading the future of finance through the “2020 S·M·A·R·T Project”, and since then, all members of the Group have been working together to realize that goal. As we reach our target for 2020, we are now pursuing a higher goal for the future towards “Excellence, Shinhan”.

INNOVATION ENABLER, EXCEEDING EXPECTATIONS OF EXCELLENCE



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Message from the CEO

Dear shareholders,

Over the past year, all of us at Shinhan worked as one to pursue the “2020 S·M·A·R·T Project” in an increasingly complex and volatile global market, so that we can make the leap to become Asia’s leading financial group. Consequently, we saw three years of collective effort on the “2020 S·M·A·R·T Project” begin to bear fruit in 2019 and delivered our best ever performance with a net income of KRW 3,403.5 billion, solidifying our position as Korea’s premier financial group.

We strengthened our non-banking sector by acquiring OrangeLife and Asia Trust to achieve balanced growth, and we completed the establishment of the GIB, WM, Global, GMS, and Pension matrix organizations to begin One Shinhan operations in earnest. These enabled our non-interest income and non-banking income to increase by 32% and 15%, respectively, from the previous year.

We also achieved notable successes through accelerated glocalization. Despite the continuation of a low growth, low interest rate environment at home, we pursued a thorough localization strategy in the ASEAN market, as a result of which earnings from our global business are the highest of financial groups in South Korea and comprise 12% of Shinhan Group’s total net income.

We differentiated ourselves through upgraded Digital Shinhan, undergoing a transformation that encompassed all aspects of management, including systems, processes, products, services, and digital expertise training. Based on the upgrade, we increased operating profits, saved on expenses, launched the second Shinhan Future’s Lab, and established Shinhan AI, the nation’s first investment consulting company powered by artificial intelligence. We thereby succeeded in building a fintech ecosystem exclusive to Shinhan.





Lastly, we continued with the creative progress of Shinhan Culture through a virtuous cycle of growing value for customers, Shinhan, and society. With pioneering ESG management practices that include the Innovative Finance Committee, Society of Hope Project, ECO Transformation 20·20, and implementation of the UN Principles for Responsible Banking, we won broad recognition for our commitment to sustainability. Accordingly, we were able to maximize sustainable shareholder value based on Shinhan's unique capabilities and the industry's most diversified business portfolio.

Plans for 2020

2020 marks the beginning of a new ten-year journey. In this meaningful year, each and every employee will join forces as One Shinhan to successfully complete the "2020 S·M·A·R·T Project". We will also make the leap beyond simply being first in our markets, and come to embody "Excellence".

CEO Interview Video 



First, we will achieve excellence by earning the trust of customers and society through customer-centered policies that target voice phishing, institute a mutual growth assessment system, closely monitor customers' investment assets, and more. We will also utilize the distinct advantages of One Shinhan to provide all our customers with unmatched experience and value.

Second, we will lead the Fourth Industrial Revolution by pursuing excellence through openness. We will actively seek out domestic and international partnerships with a variety of fintech and big tech firms while fostering the convergence of technology, knowledge, and human talent through wide-ranging collaborations between academia and the private sector beyond finance.

Finally, we will strive for excellence with a pioneering spirit by promoting innovation within the company and industry. For example, we will support the Triple-K Project through three key initiatives: Korea Cross Country, Korea to Global, and K-Unicorn. Moreover, we will apply the same trailblazing attitude inward to innovate every aspect of our organization through Speedy, Agile, and Quick (SAQ) transformation.

Valued shareholders!

Your steadfast support has been a source of strength since Shinhan was founded, inspiring us to rise above challenges and continue our march along the path of progress. This year as ever, we will endeavor to meet your expectations as a leading financial group. I wish you and your families health and peace of mind as we weather through these troubling times.

Thank you.

March 26, 2020

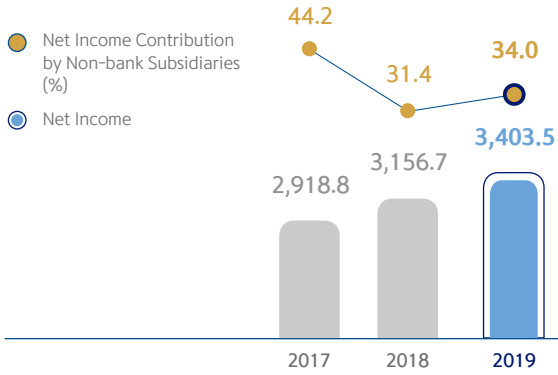
Cho Yong-byung

CEO, Shinhan Financial Group

Key Performance Indicators

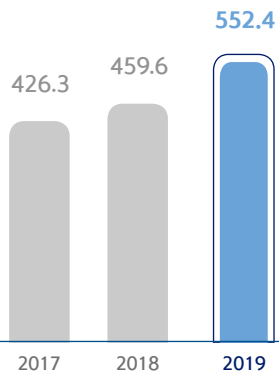
Group Net Income

(KRW billion)



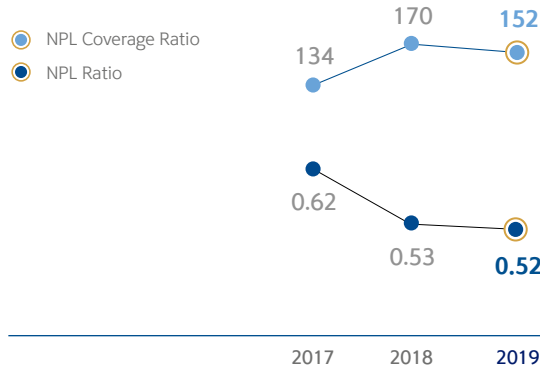
Group Assets

(KRW trillion)



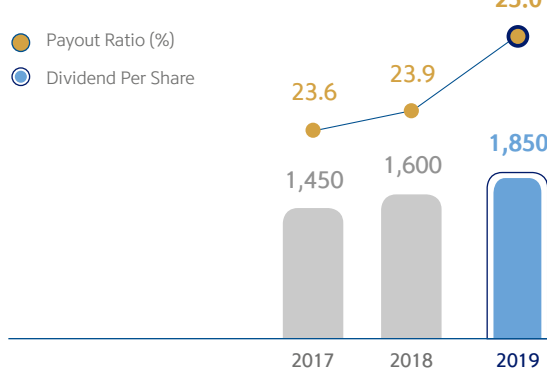
Asset Quality

(%)



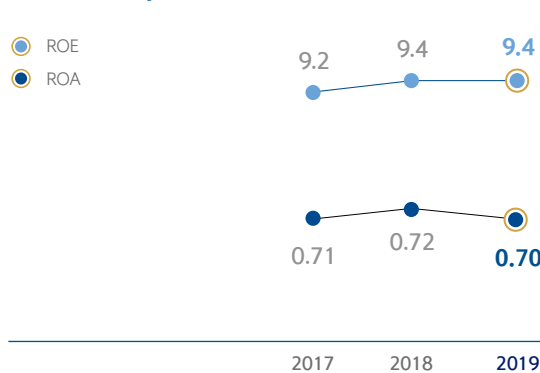
Dividend

(KRW)



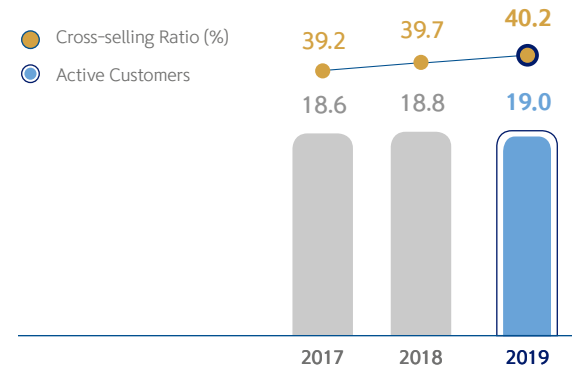
Profitability

(%)



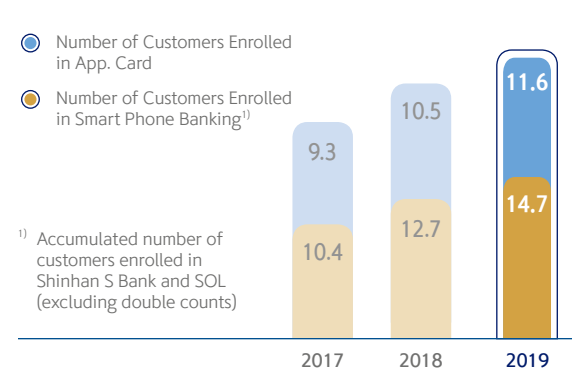
Customers

(Persons in million)



Digital

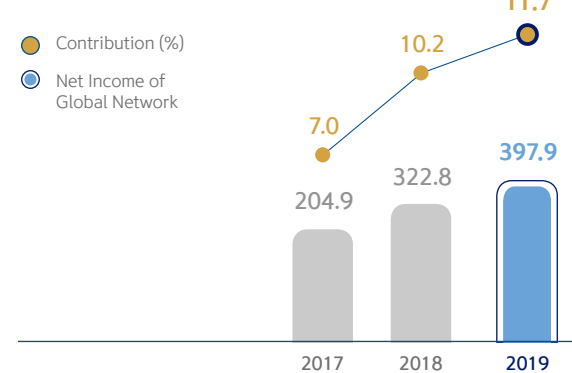
(Persons in million)



¹⁾ Accumulated number of customers enrolled in Shinhan S Bank and SOL (excluding double counts)

Global

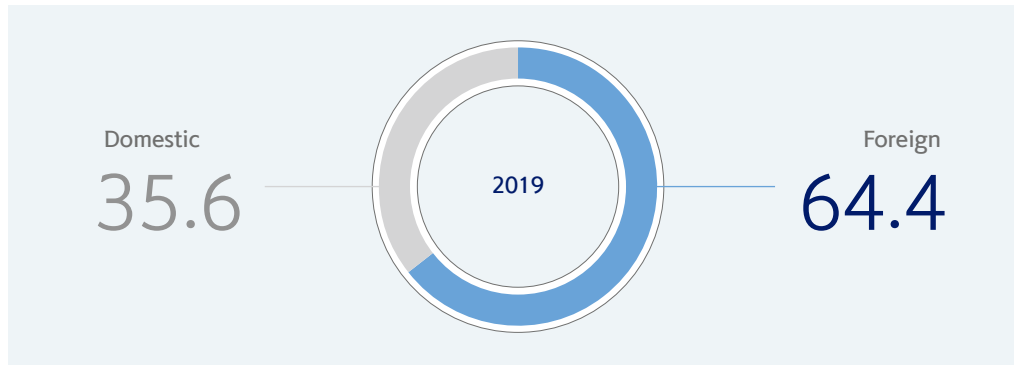
(KRW billion)



Stock Information

Share Ownership

(Unit: %)



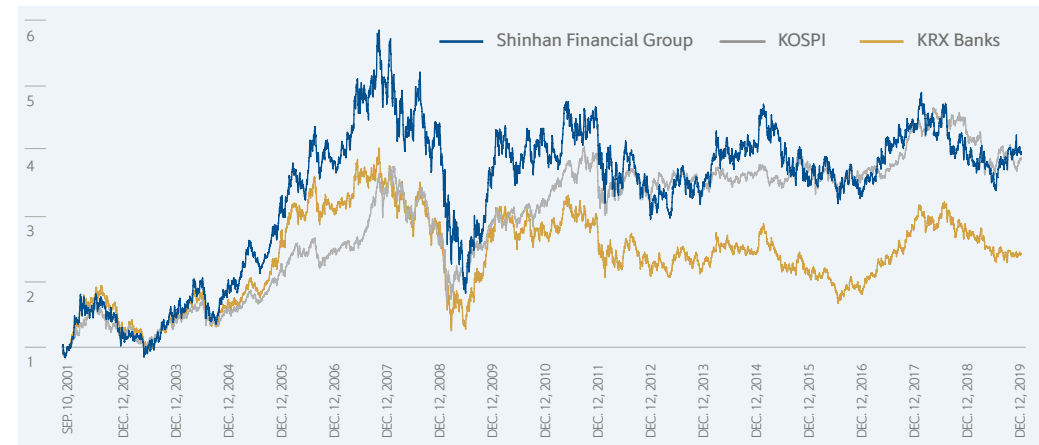
Shareholders Holding Ownership of More than 1%

Name of Shareholder	Number of Shares Owned	Ownership
National Pension Service	47,063,799	9.92%
BlackRock Fund Advisors ¹⁾	29,063,012	6.13%
SFG Employee Stock Ownership Association	24,252,302	5.11%
BNP Paribas SA	16,826,276	3.55%
Citibank, N.A. (ADR Dept.)	13,260,291	2.80%
The Government of Singapore	12,030,695	2.54%
Norges Bank	8,739,929	1.84%
Samsung Asset Management	8,285,439	1.75%
Vanguard Total International Stock Index	6,799,594	1.43%
Peoples Bank of China	5,603,568	1.18%
Others	302,274,682	63.74%
Total	474,199,587	100.00%

* Based on the results of shareholder registry closing as of December 31, 2019

¹⁾ Based on the large equity ownership disclosure by BlackRock Fund Advisors with the Financial Supervisory Service on September 27, 2018

Share Price Movement



* Sep. 10, 2001 = 1.00

Stock Performance

(Unit: KRW)

	2019	2018
Market Capitalization (Year End)	20.6 trillion	18.8 trillion
Share Price	-	-
Year End	43,350	39,600
High	48,000	53,400
Low	38,350	39,050
Weighting in the KOSPI (Year End)	1.4%	1.4%
Average Daily Trading Volume	1.0 million shares	1.0 million shares
Dividend Per Share	1,850	1,600
Total Dividend Paid	884 billion	753 billion
Foreign Share Ownership	64.4%	68.6%

Number of Shares Issued

Type of Stock	No. of Shares
Common Stock	474,199,587
Convertible Preferred Stock	17,482,000

* The number of treasury shares held by Shinhan Financial Group as of December 31, 2019 is 13,882,062 common shares

** All of the 17,482,000 convertible preferred shares other than the above common shares are held by Mercury 1st LLC

*** The total number of common shares increased to 482,432,493 shares as of January 28, 2020, due to the newly issued common shares in relation to a comprehensive stock exchange between Shinhan Financial Group and OrangeLife Insurance

2019 Highlights

In 2019, all subsidiaries of Shinhan Financial Group worked together under the “One Shinhan” strategy for the successful completion of the “2020 S·M·A·R·T Project” which has been implemented since 2017. We strived to build the foundations for sustainable growth, with a particular focus on creative execution of the Project, and as a result, we achieved growth which exceeded the targets we set for ourselves at the beginning of the year as well as market expectations, making huge strides toward our ultimate goal of becoming a “World Class Financial Group”.



YEAR IN REVIEW

- Formed a strategic partnership with IMM PE
- Introduced facial recognition into SOL, Shinhan Bank's smart banking app



FEBRUARY

- Shinhan Card signed an MOU with Visa Inc.



APRIL

- Expanded WM banking business in Vietnam



JUNE

2019

01

02

03

04

05

06

JANUARY

MARCH

MAY



- Orangelife joined Shinhan Financial Group as a direct subsidiary
- Co-developed digital loan products with Zalo, Vietnam's flagship messaging app



- Launched Shinhan SHeroes II, a Group-wide program to cultivate female leaders



- AsiaTrust joined Shinhan Financial Group as a direct subsidiary
- Acquired the underlying asset for Shinhan Alpha REITs

- Established Shinhan Vietnam Financial Company



JULY

07

- Launched Shinhan Future's Lab in Indonesia
- Launched SOL in Indonesia
- Signed the Principles for Responsible Banking



SEPTEMBER

09

- Held Shinhan Hackathon
- Hosted Shinhan Future's Lab Demo Day



NOVEMBER

11

AUGUST

08



- Established Shinhan AI
- Number of SOL users in South Korea exceeded 10 million

OCTOBER

10



- Shinhan Bank Vietnam became the first foreign bank in Vietnam to win approval to implement BASEL II

DECEMBER

12



- Launched Shinhan PIB Center by combining PWM and IB services
- Total amount of payments made through Shinhan Card's PayFAN exceeded KRW 1 trillion

2020 S·M·A·R·T Project

The “2020 S·M·A·R·T Project” underpins the sustainable growth of Shinhan Financial Group, and it is our unique way of working. Based on four strategic pillars – balanced growth, glocalization, digital transformation, and upholding the Shinhan culture – it has driven each subsidiary to leverage its expertise, and to look for areas of collaboration. As a result of focusing more on the diversification of earnings base and the prudent expansion of its global business in 2019, the Group’s assets totaled KRW 552,443 billion at the end of the year, and net income exceeded KRW 3 trillion for the second consecutive year, thereby reinforcing the Group’s status as a leading financial group.

Group Net Income Growth

+7.8%
YoY



BALANCED GROWTH



GLOCALIZATION



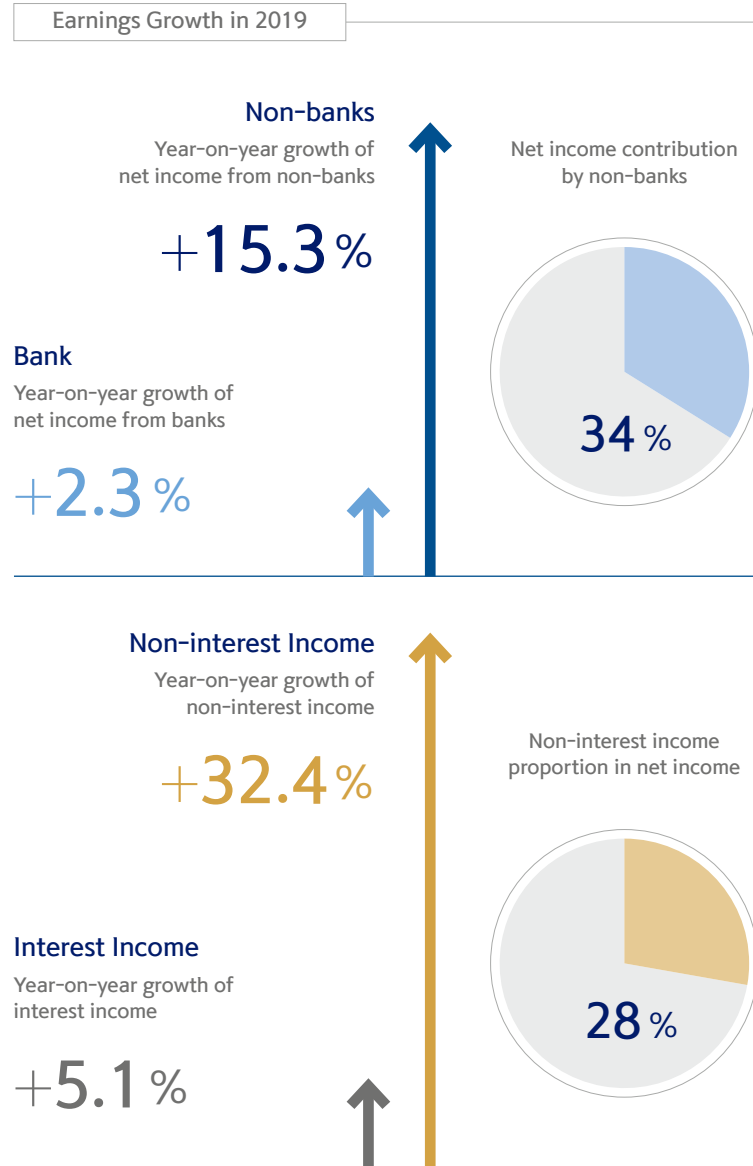
DIGITAL TRANSFORMATION



SHINHAN CULTURE

BALANCED GROWTH

In 2019, Shinhan Financial Group continued to perform strongly, with all of its business lines growing stably thanks to a balanced revenue structure which does not lean excessively towards one specific business. As well as solidifying our leadership in areas where we have demonstrated expertise, including the banking and card businesses, we improved our competitiveness in new business areas, such as insurance and real estate, enabling us to generate both organic and inorganic growth. As a result, interest income in 2019 rose by 5.1% year-on-year to record KRW 8,001 billion, and non-interest income increased by 32.4% to reach KRW 3,131 billion. Based on strong earnings growth, backed by synergies created through “One Shinhan” collaboration system, the Group delivered record performance in 2019.



* Based on cumulative net income for the year
¹⁾ The sum of cumulative net income from OrangeLife, Asia Trust, Shinhan Vietnam Finance Company (SVFC), Shinhan REITs Management, and Shinhan Asset Management Indonesia (SAMI)

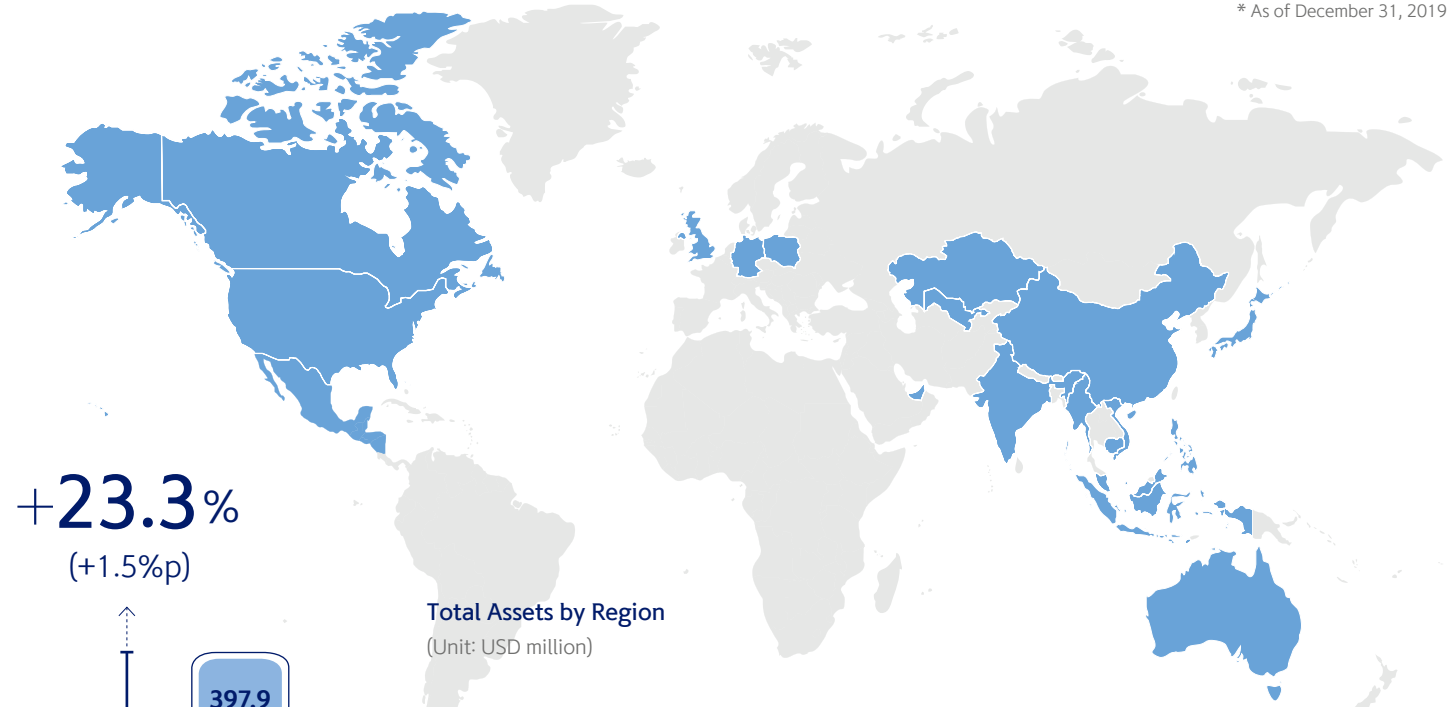
GLOCALIZATION

Shinhan Financial Group has been staying ahead of the curve in global business, and its unique approach is enabling the Group to maintain strong growth, mainly in Asia. Global net income in 2019 recorded KRW 397.9 billion, an increase of 23.3% year-on-year, thanks to the effectiveness of the Group's "glocalization" strategy which takes into account the particular characteristics of each region, and a matrix organization which is aimed at creating integrated synergies. As of the end of 2019, we have 219 global networks in 20 countries around the world, including offices, branches, and subsidiaries, and these networks are achieving both quantitative and qualitative growth across a range of businesses.

219 networks in **20** countries

* As of December 31, 2019

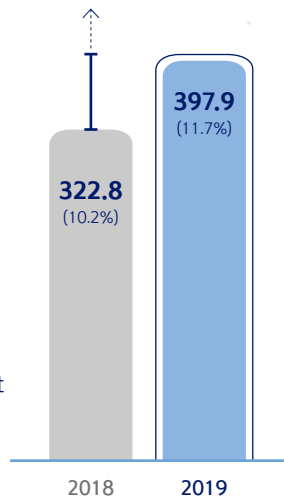
Global Network



+23.3%
(+1.5%p)

Global Business

Group Net Income from Global Business (Global Net Income Contribution)
(Unit: KRW billion)

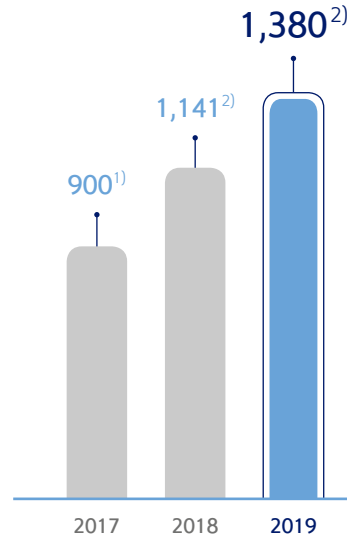


Total Assets by Region
(Unit: USD million)

4,834	1,316	5,823	8,079
Vietnam (65)	Indonesia (59)	Asia Pacific (36)	China (23)
4,317	8,131	3,073	383
Americas (22)	Japan (10)	Europe (3)	UAE (1)

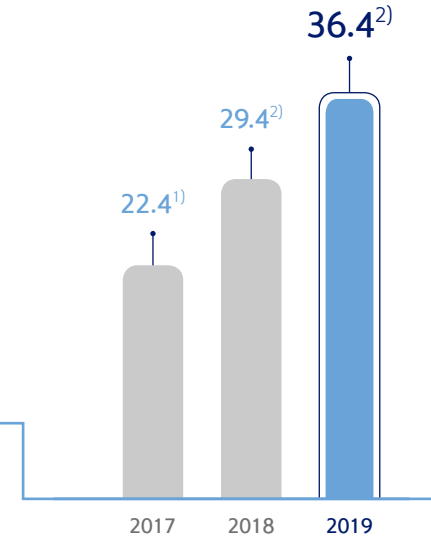
DIGITAL TRANSFORMATION

Shinhan Financial Group has been implementing the two-track digital transformation strategy, based on the dual approach of “transformation of current business models” and “development of disruptive business models”, with the goal of innovating its business models and supporting the “2020 S·M·A·R·T Project”. In addition, we strive to build an organizational culture and business capabilities which are optimized for the digital environment based on the 5C framework – core tech, capability, culture, collaboration, and change. In 2019, we moved forward with digital innovation in our products and services in order to deliver tangible results through digital transformation, the Group is moving forward with digital innovation in its products and services, while also making preemptive responses to changes in the digital environment, and expediting our evolution into digital Shinhan.



¹⁾ Based on cumulative operating income from Shinhan Bank, Shinhan Card, Shinhan Investment, and Shinhan Life Insurance

²⁾ Based on cumulative operating income from Shinhan Bank, Shinhan Card, Shinhan Investment, Shinhan Life Insurance, and OrangeLife



¹⁾ The sum of such digital platform users as SOL, ShinhanPay FAN, and Shinhan Plus

²⁾ The sum of such digital platform users as SOL, ShinhanPay FAN, Shinhan Plus, and Jeju Jini

Number of Users

11.9 million



SOL
Mobile banking app of Shinhan Bank

11.6 million



ShinhanPay FAN
Mobile payment app of Shinhan Card

12.1 million



Shinhan Plus
Integrated marketing platform of SFG

1.8 million



Jeju Jini
Non-financial travel platform for Jeju Island

SHINHAN CULTURE

Shinhan Financial Group's mission "Compassionate Finance, Your Companion for the Future" is the core of its corporate culture which embraces diversity and respects the dignity of all members of Shinhan. Our mission has further developed into our commitment to creating shared value (CSV), aimed at generating both economic value and social value through finance. In 2019, the Group continued to practice productive, inclusive, and social finance, based on a corporate culture which is open and keen to take on challenges, thereby setting new standards in sustainable finance.

Compassionate Finance, Your Companion for the Future

2019 Key Achievements 

Our Mission



Responsible Growth



- Provide solutions to enhance customer values
- Fair and ethical business practices

Alignment with UN SDGs



Social Partnerships



- Increase financial inclusion
- Establish creative and open corporate culture

Alignment with UN SDGs



Investments for the Future



- Realize positive social responsibilities
- Manage social and environmental risks

Alignment with UN SDGs



SHINHAN CULTURE

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Compassionate Finance, Your Companion for the Future

2019 Key Achievements



Our Mission



Responsible Growth



Inno-Talk, a platform to promote innovative growth In September 2019, Shinhan Financial Group launched its "Inno-Talk", an online platform to support innovative companies. Embodying "innovation" and "talk", Inno-Talk provides a wide range of information relating to startups, and also offers consulting as well as investment and financial services. Going forward, we will continue to support innovative growth of startups through our three major innovative growth platforms – Do Dream Space, Shinhan Future's Lab, and Inno-Talk.

<https://www.innotalk.co.kr>

Social Partnerships



Inclusion in the Bloomberg Gender Equality Index Shinhan Financial Group was named to the 2019 Bloomberg Gender Equality Index (GEI). GEI is an ESG index that measures gender equality across five pillars – female leadership and talent pipeline, equal pay and gender pay parity, inclusive culture, sexual harassment policies, and pro-women brand. Shinhan Financial Group became the first company in Korea ever to be included in the GEI, winning recognition for its efforts to enhance diversity and inclusiveness in the workplace.

Investments for the Future



Issuance of Sustainable Bonds In July 2019, Shinhan Financial Group became the first financial holding company in Korea to issue sustainable bonds targeting overseas investors. This special-purpose bond, worth USD 500 million, combined a social bond, which aims to solve social issues by supporting people on low incomes and SMEs, with a green bond, which invests in environmental improvement and new & renewable energy projects. The proceeds from the bonds will be used to implement ESG-related projects connected to "ECO Transformation 20·20", the Group's mid-term eco-friendly vision.



F.R.E.S.H 2020s

Shinhan Financial Group has set “F.R.E.S.H” as its new strategic direction in order to achieve stronger and more sustainable growth. F.R.E.S.H sets out five coordinates towards “Excellence, Shinhan”, the Group’s mid-term goal – Fundamental, Resilience, Eco-system, Sustainability, and Human-talent. In 2020, the Group will further enhance the value of “One Shinhan” by completing the 2020 S·M·A·R·T Project, moving forward with “Excellence, Shinhan”, and spearheading innovation of finance.





F.R.E.S.H. is the distinctive direction for sustainable growth to successfully complete the 2020 S·M·A·R·T Project and evolve into "Excellence, Shinhan". F.R.E.S.H. represents solid fundamentals; resilience to overcome hardships and progress further; creating on/offline platform competitiveness and a digital ecosystem; complete Group level commitment to a sustainable future; and core human-talent to lead the era of the Fourth Industrial Revolution.



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SFG OVERVIEW

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Group Strategy

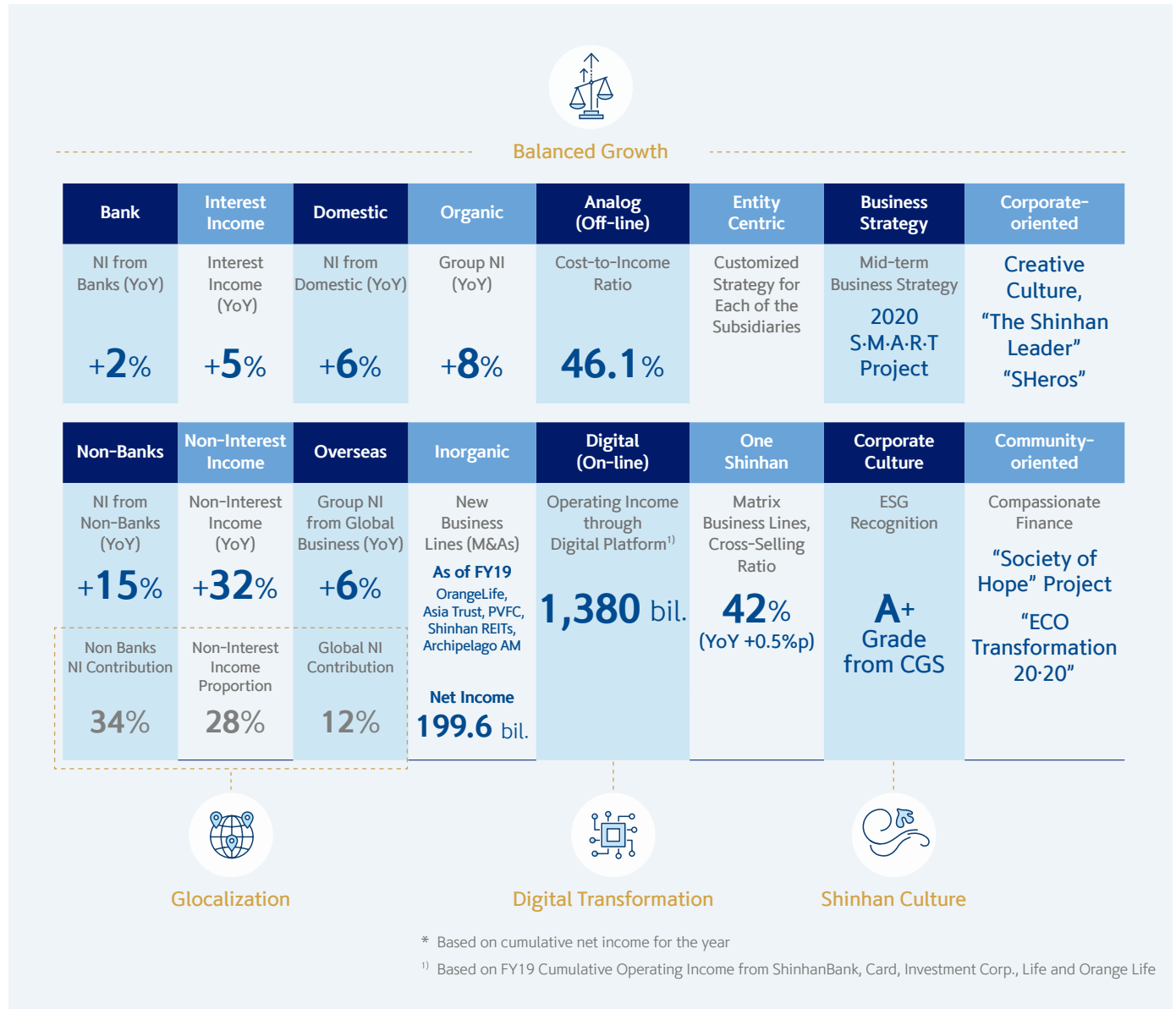
With our proven strategy of discipline, consistency and performance, all members of Shinhan Financial Group work in unison to realize our vision of becoming a “World Class Financial Group” and to achieve sustainable growth.

2020 S·M·A·R·T Project

Since 2017, Shinhan Financial Group has continued to implement its “2020 S·M·A·R·T Project” with an ambition to achieve its mid-term goal of becoming “Asia’s leading financial group”. Under four strategic pillars of 2020 S·M·A·R·T Project – balanced growth, glocalization, digital transformation, and upholding the Shinhan culture – the Group was able to ensure a high level of consistency in its yearly strategic directions. With a goal to become Asia’s leading financial group and then move on to grow into a world-class financial group, the Group built strong foundations for growth in 2017, accelerated distinctive growth in 2018, and then focused on creative execution in 2019. The Group also strengthened its competitiveness and ability to lead financial innovation through its core capabilities maximized by synergies created under the One Shinhan strategy.



Results of 2020 S·M·A·R·T Project in 2019



Beyond No. 1, Towards Excellence

“Excellence, Shinhan” is the Group’s new mid-term goal. This will enable the Group to build on the strengths of the 2020 S·M·A·R·T Project with the goal of overcoming uncertainties, thus becoming stronger and sustainable. To this end, the Group has established “T.O.P” as its management principles and “F.R.E.S.H” as its distinctive growth methodology, and then also sets out seven major strategic directions toward “excellence”.

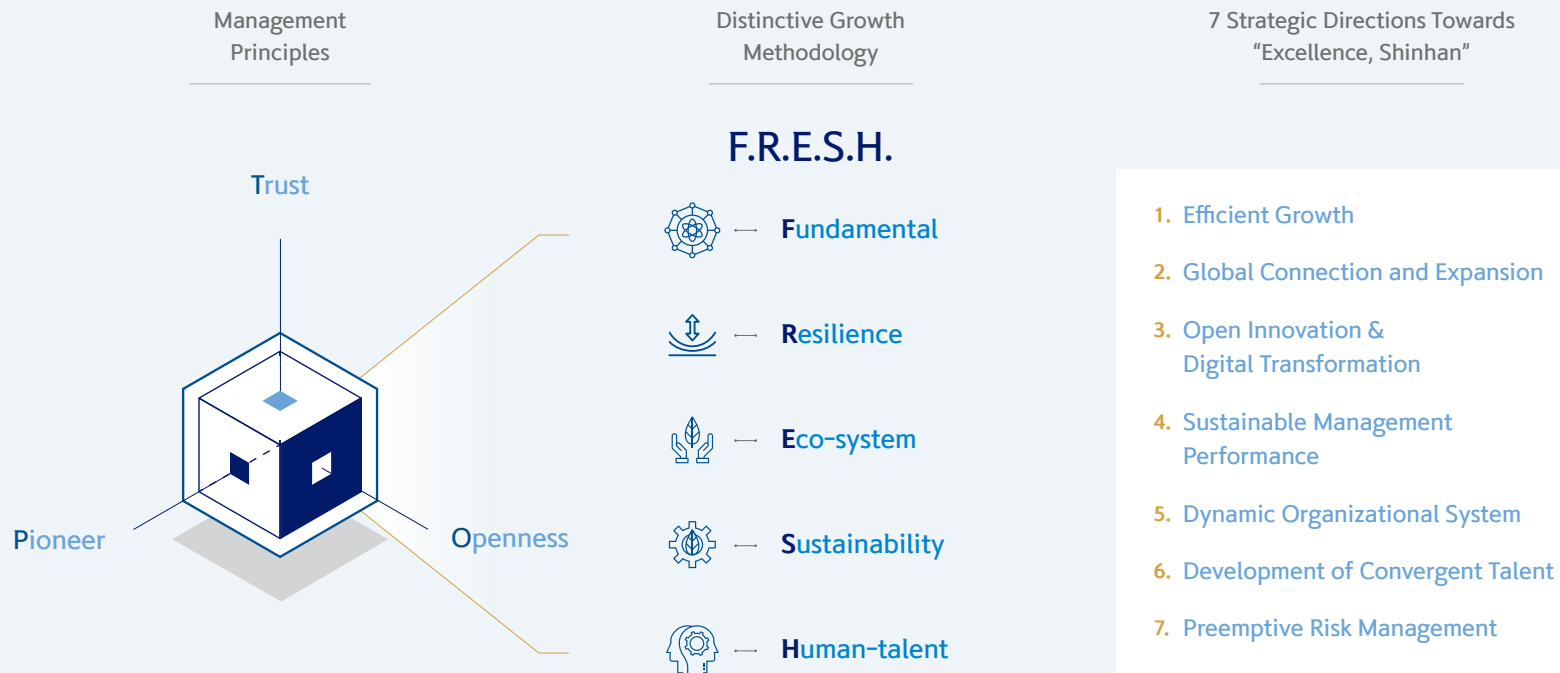
Management Principles – T.O.P

The goal of Shinhan Financial Group is to be better than the best among its peers, and thus evolve into “Excellence, Shinhan” by putting into practice its three key principles of management – trust, openness, and pioneering – which in turn will enable the Group to be recognized for its excellence by its customers and wider society. This commitment embodies the Group’s philosophies – the foundation of finance is customer trust, the future growth of finance is beyond boundaries, and serving the world through finance is built on innovation.

Distinctive Growth Methodology – F.R.E.S.H

“F.R.E.S.H” is the distinctive direction for growth being put into place to successfully complete the 2020 S·M·A·R·T Project and develop into a bigger Shinhan. F.R.E.S.H represents Fundamental, Resilience, Eco-system, Sustainability, and Human-talent, among which ‘resilience’ is a significant factor in a business environment of increasingly complex uncertainties.

Management Principles and Strategic Direction for “Excellence, Shinhan”



Seven Major Strategic Directions for Delivering “Excellence”



1. Efficient Growth

The Group will target qualitative ROA growth through improved capital efficiency and strategic reductions in costs, while investing into future areas of high value-added growth based on its solid growth of existing businesses. Its growth pace will be accelerated through the virtuous cycle of organic growth and inorganic growth.



2. Global Connection and Expansion

The Group will expand its global business which has previously been mostly limited to local channels. The scope of its proprietary assets will be expanded to include foreign currency asset management and overseas investment, while the Group will provide more advanced financial services from customer perspectives, including export and import financing, direct global investment, and structured products. In addition, its global portfolio will be strategically rebuilt and rescaled by region in order to establish a more specialized and competitive business model.



3. Open Innovation & Digital Transformation

The Group will improve its digital capabilities by establishing a Shinhan-centered digital ecosystem through alliances with big tech giants and collaboration with fintech. Digital tasks include providing revolutionary customer experiences through a mega platform, rapidly strengthening AI capabilities, building an integrated big data/algorithm platform, establishing and expanding a digital ecosystem centered on Shinhan, increasing work efficiency through digital tools, and advancing the IT infrastructure.



4. Sustainable Management Performance

The Group has led the implementation of environmental, social and corporate governance (ESG) management, and thus won plaudits from outside evaluation agencies. It will expand its ESG management system at the Group level in order to establish management that is eco-friendly, sustainable, and trust-based. Moreover, it will develop ESG evaluation metrics which adequately measure, monitor, and build on its ESG results and targets – and make a tangible difference through practical outcomes rather than just slogans.



5. Dynamic Organizational System

The Group will build a dynamic portfolio system whereby the Group and its subsidiaries move together organically according to the principles of “creativity and balance” and “collaboration and promotion” with a goal of maximizing its operational efficiency. Accordingly, the Group will have a greater role in areas which require the efficient use of resources. The Group will also be more active in areas where subsidiaries overlap, including customers and markets, and in the search for Group synergy. Furthermore, it will provide rapid and flexible support in areas which require specific expertise and quick customer response, and where there is a potential for a conflict of interest.



6. Development of Convergent Talent

The Group will build an innovative talent management platform to foster convergent talent with strong insights and problem-solving capabilities. To this end, it will focus on creating a healthy workplace, establishing a fully open organizational culture, and discovering the most talented people.



7. Preemptive Risk Management

Risk management will not be limited to the usual areas of credit, interest, liquidity, and foreign exchange, but will include all acts that could harm financial consumers. The Group will reform its overall risk management through strict internal controls and by enhancing its ability to predict change, in order to protect its customers and their assets.

2020 Strategic Tasks

Management Slogan

Beyond No. 1, Towards “Excellence, Shinhan”

Strategic Tasks

- 1 Stay client-focused and execute under “One Shinhan”
- 2 Expand the scope of market-leading business models
- 3 Implement advanced growth strategies for overseas operations
- 4 Innovation-leading digital transformation
- 5 Create value through sustainable and innovative finance
- 6 Strengthen risk management to better respond to change
- 7 Establish values for “Excellence, Shinhan”

2020 Group Management Strategies

2020 will be a pivotal year, with the completion of the 2020 S·M·A·R·T Project and the beginning of the Group’s journey towards “Excellence, Shinhan”. The Group has therefore established seven major strategic directions which are aligned with its “F.R.E.S.H” growth methodology. It has also set out three phases of business scenarios, and established management and risk management responses for each scenario, enabling it to be well prepared for both expected and unforeseen complexities.

1. **Stay client-focused and execute under “One Shinhan”**
The Group will build a sophisticated system from the perspective of “One Shinhan” in order to create customer value which is uniquely “Shinhan”. In particular, the Group will strengthen the competitiveness of its matrix-structured business lines, and focus on improving its customer asset management capabilities.
2. **Expand the scope of market-leading business models**
The Group will solidify market leadership in its core businesses while expanding into new markets through detailed market segmentation. It will also strengthen its insurance and real estate businesses, while enhancing performance in capital markets, in its efforts to identify new growth drivers and diversify earnings base.
3. **Implement advanced growth strategies for overseas operations**
The Group’s international business strategy will focus on qualitative growth rather than simply increasing the number of its overseas networks. Shinhan’s “glocalization” strategy combined with “One Shinhan” collaborative system among subsidiaries will enable the Group to diversify its global business.

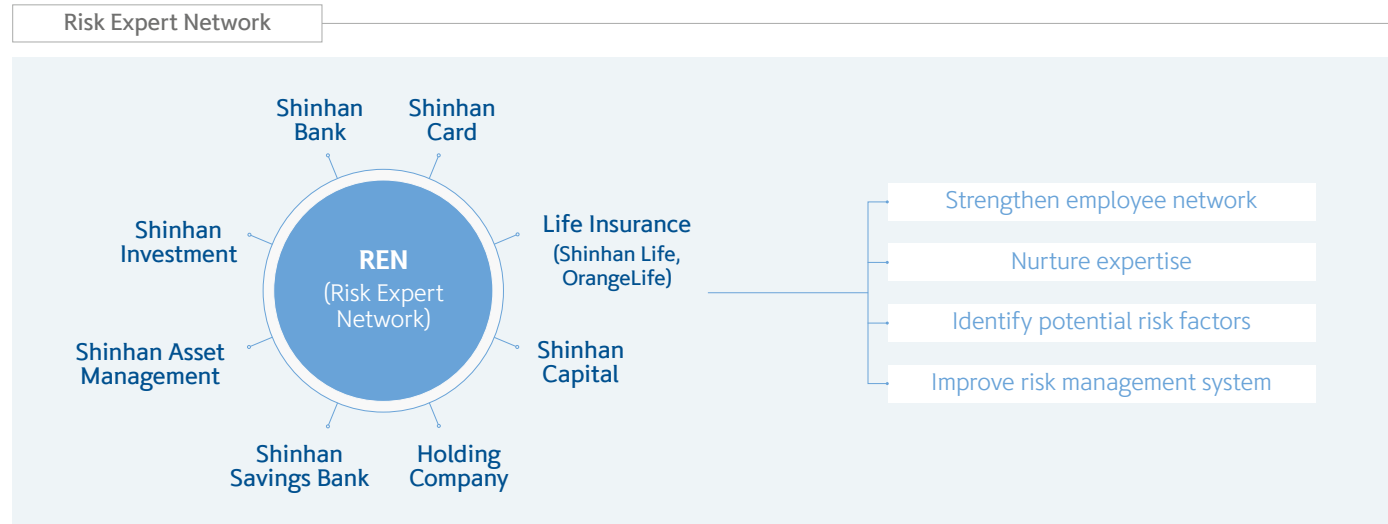
4. **Innovation-leading digital transformation**
The Group will continue to upgrade its digital capabilities in technology, talent, organization, platform/alliance, and management while implementing the two major axes of “current business model transformation” and “disruptive model development”. The particular focus in 2020 will be on the establishment of a customer-centered digital platform and strategic cost reductions through the use of digital technology.
5. **Create value through sustainable and innovative finance**
The Group will build growth models which take into account climate finance, inclusive finance, and social finance, and will also focus more on strengthening its innovative finance. In addition, the Group will establish a mid- to long-term roadmap to ensure that its sustainable finance operates at a globally advanced level, and build a system to implement global initiatives for the banking industry, such as the United Nations Principles for Responsible Banking (UN PRB).
6. **Strengthen risk management to better respond to change**
In this era of an increasingly volatile external business environment, the Group will improve its ability to respond rapidly and preemptively to change by improving its crisis detection systems and by implementing risk management strategies from the perspective of One Shinhan. The Group will also offer increased risk management support to new growth areas, and improve its ICT and information protection systems.
7. **Establish values for “Excellence, Shinhan”**
To enhance the concept of what “Shinhan Value” stands for, the Group will redefine the Shinhan culture, and will foster “excellence” based on that culture. Externally, it will make further efforts to establish the Shinhan brand as one that is recognized and admired by its customers and wider society.

Risk Management

Guided by basic principles of risk management, the Group manages risks preemptively and in an integrated way at the Group level through a semi-matrix risk management system encompassing all Group subsidiaries.

Risk Management Tools

Risk Management Philosophy Shinhan Financial Group has established a set of Group-wide risk management guidelines. They apply to all the risk-related actions and decisions undertaken at all its front offices, ensuring that the fullest possible range of risks is taken into consideration in their business dealings.



Integrated Risk Monitoring System The Group runs a comprehensive risk monitoring system that measures a wide range of outside economic indicators, the Group's own risk indicators, and the current status of its risk management process and policies. This system enables a timely identification of potential risks and other key issues. Upon an analysis of the impacts of such risks and issues, preemptive countermeasures are put into place at the Group level. The system also detects and manages unexpected shifts within core indicators by operating a "risk dashboard" system to monitor the amount of assets, risks, and related external issues contained in the portfolios being managed by each subsidiary.

Risk Expert Network (REN) The REN, a network of the Group's risk experts, was formed to foster risk experts through risk training programs and workshops, and to upgrade the overall risk management capabilities of the Group. Members of the REN are chosen according to their work experience and knowledge within their business areas and the related risks. The REN performs a pivotal role in spreading a culture of strong risk management.

Group-wide Corporate Credit Assessment System In order to ensure its best-in-class credit risk management at all levels of its operations, all of the Group's subsidiaries are obliged to align their credit checking system with the Group's standard corporate credit assessment system. This system has improved the quality of the Group's credit portfolio, and received approval from the Financial Supervisory Service in 2016.

Group-wide Risk Management System The Group preemptively manages risk at the Group level through its seamless risk management system which identifies risks, determines the development phase of each risk, and then establishes and executes targeted countermeasures. For example, the Group liquidity risk management system monitors the status of liquidity management at each subsidiary in order to ensure efficient decision-making and suitable emergency measures in the event of a crisis.



Risk Management Organization

Shinhan Financial Group's risk management organization comprises the Group Risk Management Committee, Group Risk Management Council, Group Chief Risk Officer (CRO), Holding Company Risk Management Team, and risk-related committees and dedicated organizations within individual subsidiaries.

Group Risk Management Committee As the highest decision-making body that establishes basic policies and strategies concerning the Group's risk management, the Committee is composed of outside directors of the holding company's Board of Directors, and mainly deliberates and discusses the following:

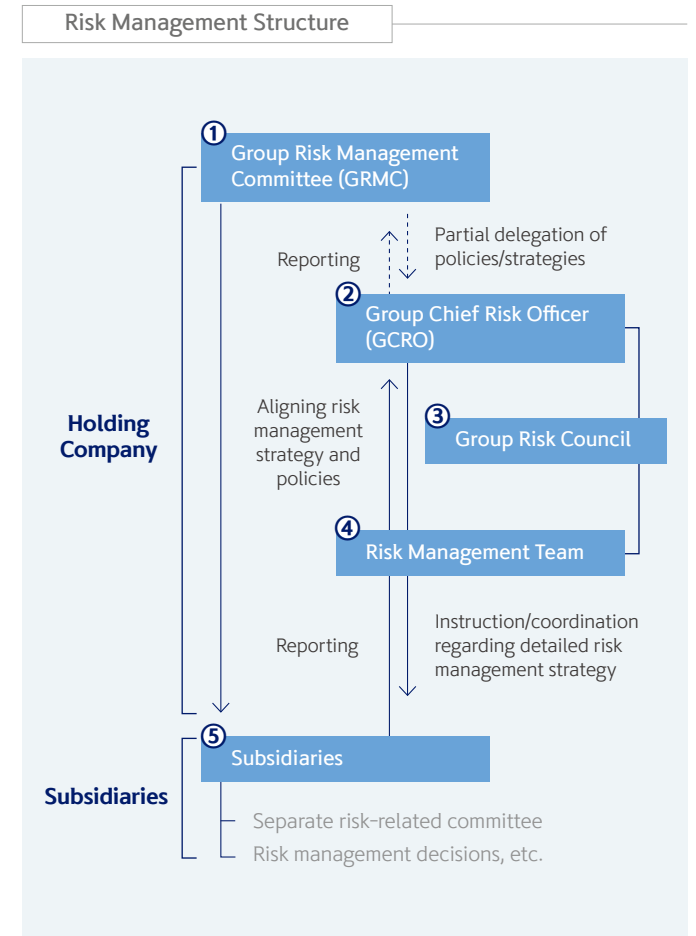
1. The development of risk management policies that are in line with management strategies;
2. The determination of risk limits for the Group and its subsidiaries;
3. The approval of appropriate investment limits and limits;
4. The enactment and amendment of the Group's risk management regulations and Group Risk Management Council regulations;
5. The organizational structure of the Group's risk management entities and their roles and responsibilities;
6. Matters concerning the operation of the Group's risk management system;
7. Matters concerning the setting of various kinds of limits and the issuance of approvals for exceeding limits;
8. Decision-making matters concerning FSS approvals, based on internal ratings approaches to the Group's credit evaluation system;
9. Matters concerning the Group's policies regarding risk disclosures;
10. The results of risk scenario analyses, and relevant capital management and financing plans;
11. Matters deemed necessary and appropriate by the BOD;
12. Matters demanded by outside regulations, including those of the FSC, and matters set forth in other regulations, guidelines, etc.; and
13. Other matters deemed necessary and appropriate by the Chairperson.

Group Risk Management Council The Council discusses risk policies and strategies of the Group and each subsidiary, and makes decisions on matters necessary to the implementation of policies determined by the Group Risk Management Committee. It is composed of the Group CRO and the CROs of the Group's major subsidiaries. It makes decisions on matters delegated to it by the Group Risk Management Committee and on matters related to the Group's non-retail credit assessment system excluding those subjects to approval from the Financial Supervisory Service. It mainly deliberates and discusses the following:

1. Matters, among those delegated by the Risk Management Committee, recognized by the CRO as requiring deliberation;
2. Matters concerning the operations of the risk measurement systems of the Group and its subsidiaries;
3. Matters concerning Group-level risk management requiring joint deliberation;
4. Matters of risk management relating to financial support for subsidiaries;
5. Matters that require a risk management review under internal governance standards, and where such a review has been requested by the Group Executive Committee; and
6. Other matters deemed necessary and appropriate by the Chairperson.

Group Chief Risk Officer The Group Chief Risk Officer assists the Group Risk Management Committee, implements the risk policies and strategies determined by the Committee, and ensures that they are executed consistently across all of the Group's subsidiaries. In addition, the Group CRO evaluates each subsidiary's CRO, and examines the status of each subsidiary's risk management.

Risk Management Teams The Risk Management Team of the holding company supports the Group CRO. The risk-related committees and dedicated teams within individual subsidiaries implement risk policies and strategies in line with the Group's risk management direction, and report back to the holding company. They are also responsible for managing risks at the subsidiary level, and for making improvements to their risk management systems.



Key Performances in 2019

In 2019, Shinhan Financial Group strengthened its ability to overcome external headwinds through “Advanced and Extended Risk Management Strategy”. It also enhanced its ability as a risk navigator through the innovation of internal risk management structure, made risk management more detailed in areas of future growth, and expanded its risk spectrum to include the non-financial risk management.

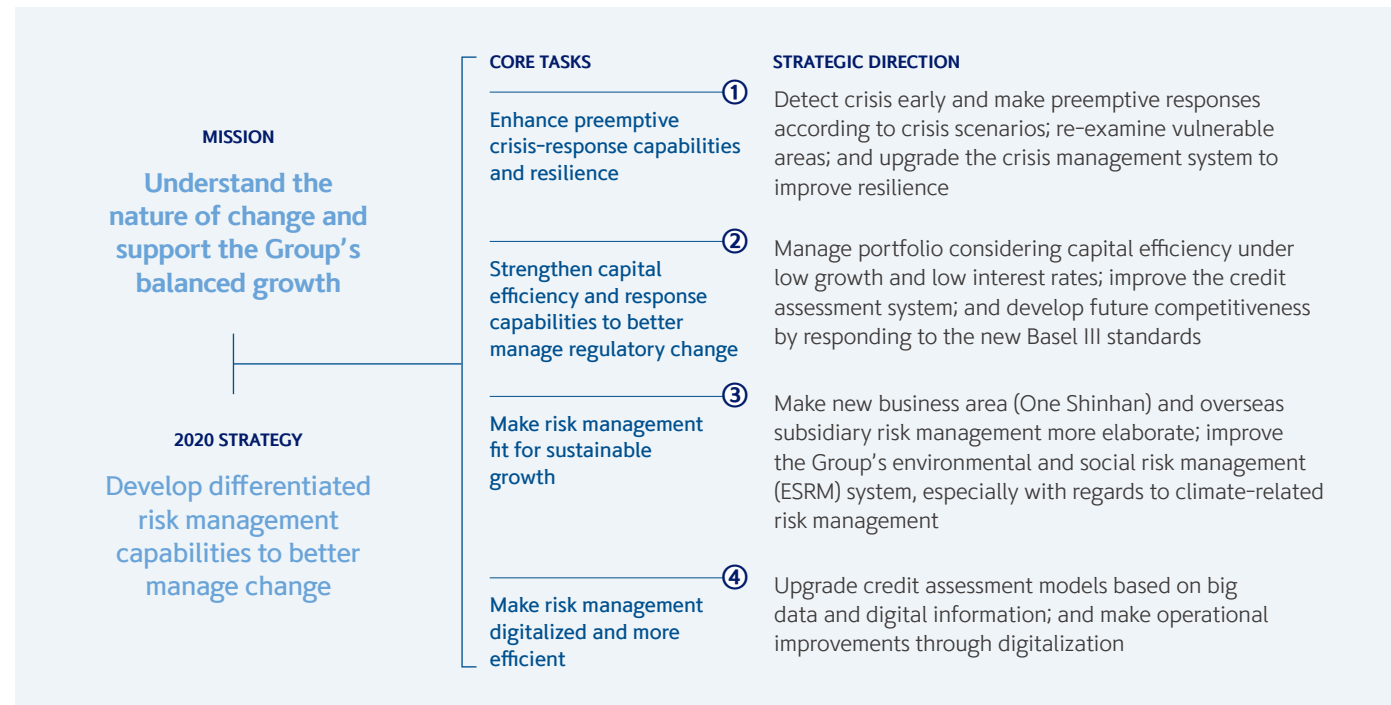
In particular, the Group Crisis Management Council was created, and the holding company’s crisis response strategy and control functions were enhanced amidst increasing external uncertainties such as the prolonged US-China trade dispute and Japanese economic sanctions. Group-wide measures were put into place with the goal of reducing risk-weighted assets, and a reasonable growth rate was assumed in order to enhance the Group’s capital efficiency. Aimed at increasing the Group’s capital adequacy ratio, Jeju Bank continued to make progress in its project involving a phased application of the internal ratings-based approach and an impact analysis was undertaken in relation to the new Basel accord, with suitable measures put in place. In addition, the non-financial risk management system has been strengthened, and the impact on the Group of climate change has been analyzed, with response measures then established. An analysis of the status of the Group’s operational risk management systems was also undertaken, and a roadmap for improvement was put in place.

2020 Business Plans

In response to a challenging business environment caused by low growth and low interest rate trends, the continuing US-China trade dispute, increased global protectionism, rising household debt in Korea, virus outbreak, and uncertainties across Europe arising from Brexit, Shinhan Financial Group has established its strategic direction to develop differentiated risk management capabilities to better manage change.

The Group will therefore enhance its crisis-response capabilities and resilience, and strengthen its portfolio management from the perspective of capital efficiency. It will also respond actively to Basel III accord, which has expanded the calculation method for risk-weighted assets to take into account all credit, market and operational risks. Furthermore, the Group will improve risk management for new businesses and overseas subsidiaries, and there will be additional focus on environmental and social risk management, including climate change, in order to support sustainable growth. As part of the Group-wide commitment to the digitalization of risk management, the Group will upgrade its credit assessment models will be upgraded based on big data and digital information, and risk management processes will be made more efficient through the use of digital technologies such as robotic process automation (RPA).

Risk Management Plan for 2020



Ethical Management

Shinhan Financial Group is building trust with its stakeholders through transparent and ethical management, while ensuring that ethical management is a central part of its corporate culture.

Ethical Standards and Principles

The Group has established Shinhan Financial Group Code of Ethics and the Employee Code of Conduct in order to make ethical management part of its corporate culture and to strengthen its employees' commitment to ethics. Online training programs on ethics and compliance are offered to employees at both the Group and subsidiary level. In 2019, the Group posted cases of ethics and compliance management in an entertaining webtoon format, thus helping to build a culture of integrity and encouraging employees to engage in ethical conduct.

Shinhan Bank has designated the second week of each month as the compliance training week. During this week, it publishes a compliance letter and provides training through the Compliance Representatives in each of its departments. In addition, all employees sign a written pledge about practicing ethics, and an internal ethics and compliance inspection program is implemented every month. In 2019, internal regulations to prevent workplace harassment were updated in accordance with an amendment to Korea's Labor Standards Act, and relevant training was provided to all employees.

At Shinhan Card, all employees sign a written pledge concerning the practice of ethics and compliance. The company continuously runs its ethical management practice programs, including internal inspections by each department, self-diagnoses on the observance of laws, and the regular publishing of a web magazine dealing with internal controls. It undertakes a range of ethics and compliance training activities, including strengthening the capabilities of departmental compliance officers, training all employees on the Code of Ethics and compliance with laws, and training to prevent mis-selling and money laundering.

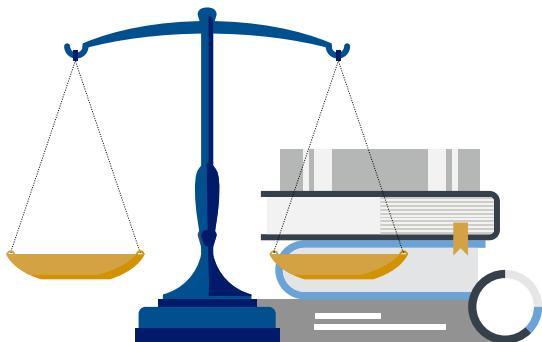
At Shinhan Investment, all employees sign a written pledge on compliance. In addition, in order to build a culture of integrity, there is training across a wide range of related issues, including changes to laws and systems related to finance, major compliance monitoring, and the prevention of financial incidents related to new employees or those taking on new duties. There are also regular branch inspections on ethics and compliance.

Shinhan Life Insurance posts its monthly "Ethics & Compliance Newsletter+" on its internal portal bulletin board, to be shared by all employees and in every sales location. The company also conducts a monthly assessment of ethics and compliance training results. In addition, Shinhan Life Insurance operates an internal control system by channel aimed at eliminating workplace harassment, enhancing the sense of ethics and compliance among employees, ensuring complete sales, putting customers at the center of its sales activities. There is also field training on the prevention of money laundering.

OrangeLife maintains a strict global-level culture of compliance, backed by regular training and monitoring to improve the sense of ethics of its employees and sales organizations. All employees receive ethics and compliance training when they join the company, and then sign a written pledge. In addition, they receive annual training to renew their focus on ethics and compliance, and then reaffirm their pledge.

Ethical Management System

Internal Control System The Group Compliance Officer is in overall charge of Shinhan Financial Group's internal controls and supports its subsidiaries' compliance officers with regards to internal control activities. The holding company Compliance Officer receives regular compliance, internal trading and other reports to ensure that each subsidiary's compliance officer is properly undertaking the required internal control activities, and also conducts annual inspections on subsidiaries and their actual execution of internal controls.





In accordance with the enactment and enforcement of the Act on Corporate Governance of Financial Companies in August 2016, the Group reflects the contents of the Act concerning internal controls¹⁾ in its subsidiaries' internal control regulations and compliance work, and also ensures that the Group's internal control systems are managed consistently and efficiently. In addition, each Group subsidiary has established an Internal Control Committee, chaired by its respective CEO, which annually inspects its internal control systems and operations and reports the results to the BOD.

Whistleblower System As part of its efforts to facilitate the highest levels of internal control programs, Shinhan Financial Group promotes a whistleblower system to prevent and take measures against unethical conduct. In the case of the holding company, internal reports can be submitted through the company homepage, and subsidiary employees can also use such reporting channels.

Each company has also established a whistleblower system. Shinhan Bank runs "Shinhan Guardian", a whistleblower program which can be used by employees, business partners, and customers. With stipulated operational guidelines, the program guarantees the confidentiality and protection of whistleblowers, as well as providing a wide range of reporting channels including website, email, fax, and regular postal mail.

Shinhan Card operates a whistleblower system for its employees and business partners. It has improved accessibility by operating various online and offline reporting channels, including its homepage. It operates the "Cyber Sinmungo" on the company homepage as a channel for whistleblowers to make reports and for voluntary reporting of unfair trade. As part of company-wide efforts to ensure the effective operation of its whistleblower system, anonymity is guaranteed. By having all reports completely anonymous, whistleblowers are protected against potential career and trade-related disadvantages.

Shinhan Investment's whistleblower system allows direct reports to be filed to a full-time auditor through various channels, including the company Intranet, offline meetings, phone, email, and website. All employees receive quarterly reminders about how to use the whistleblower system.

At Shinhan Life Insurance, a reporting window called "Sinmungo" is displayed on the front page of its website. The company has also strived to facilitate the use of its whistleblower system by, for example, diversifying its reporting channels to include the Internet, phone, and postal mail.

The whistleblower system at Orangelife enables direct reports to be made to the compliance officer via postal mail, Intranet, phone, fax, and other channels. It guarantees the full anonymity and confidentiality of reports in order to ensure the complete protection of whistleblowers.

Ethical Management Programs

Anti-money Laundering Activities In 2019, the Financial Action Task Force (FATF), an international anti-money laundering (AML) organization, undertook evaluations on financial companies in Korea, and there was an amendment to the Act on Reporting and Using Specified Financial Transaction Information. Shinhan Financial Group has overhauled its AML system to be in complete compliance with international standards, and it aims to establish market-leading AML obligations and regulations.

Ahead of the FATF evaluation, Shinhan Bank held its own inspections on the operational status, regulations and work processes relating to AML and the prevention of the financing of terrorism. It also made sure that the amendment to the Act has been reflected in all relevant regulations and guidelines. In addition, the Bank has strengthened its suspicious transaction report (STR) and cash transaction report (CTR) processes in accordance with the Korea Financial Intelligence Unit's guidelines, and improved its quality of reporting by centralizing the branch compliance officers' STR work. With regards to economic sanctions, the Bank manages related risks by running AML training programs, and by establishing policy guidelines and sharing them with all relevant business departments and branches located across the globe. In addition, the regulations and guidelines of its overseas operations are subject to timely amendments to meet the respective requirements of the local supervisory agencies and overall global standards.

Shinhan Card improved its AML system in 2019, and thus strengthened the overall AML management, including confirmation of customer identity and transaction monitoring. It also provided AML training to all employees, including the BOD, and increased the number of personnel dedicated to AML activities.

Shinhan Investment runs a risk-based approach system which identifies, analyzes, and evaluates risks related to money laundering and the financing of terrorism. The company has also strengthened AML at its overseas subsidiaries by developing a more detailed checklist and amending relevant guidelines. In addition, it provides AML training targeted for each specific job group, and has distributed training materials to enhance the efficiency of its AML-related operations.

¹⁾ Whistleblower system, mandatory leave system, system on for the separation of duties for high-risk clerical employees, establishment of processes for developing and selling new products, branch self-inspection system, etc.



Shinhan Investment won the Prime Minister's Commendation at the Korea Financial Intelligence Unit's "13th Day of Anti-Money Laundering"

Shinhan Life Insurance has completed a project to improve its AML risk evaluation through a preemptive identification of AML risk. Procedural improvements have been made in relation to the evaluation of AML risk factors, and such risk factors are now identified and analyzed annually at headquarters department and branch level.

OrangeLife makes constant and strenuous efforts to ensure that the company and its insurance products are not used for money laundering by applying AML prevention and risk evaluation standards and methodologies which meet all global standards. As a result, it achieved outstanding scores in AML evaluations by the Korea Financial Intelligence Unit from 2015 through to 2018.

Trainings on Preventing Employee Misconduct Shinhan Financial Group has upgraded its training on preventing employee misconduct in order to ensure compliance with all regulations related to fair, transparent and ethical financial tradings. Annual training concerning fair trade is provided at the Group level to all employees working at the internal control departments of Group subsidiaries, so that all relevant regulations are fully understood and implemented, thereby preventing any violations.

At the subsidiary level, Shinhan Bank examines all declarations regarding the ownership of financial products and financial trading in order to prevent unfair financial tradings such as the use of non-public information. Additional training is provided to departments with an inherently higher likelihood of having access to undisclosed information. Shinhan Card has stipulated rules on the prohibition of the use of material non-public information, and regularly monitors whether there has been any unfair financial trading by examining reports on the sales of financial investment products. It also gives regular training to departments with an inherently higher probability of accessing undisclosed information. Shinhan Investment has established guidelines on the prevention of market abuses, and gives regular training to its employees. The company also actively monitors fair trade in order to identify and take measures against unlawful or unethical and manipulative transactions.

Shinhan Life Insurance undertakes a wide range of measures to prevent any conflict of interest between its special accounts department, which is responsible for managing customer assets, and the departments which manage the company's own assets. Such measures include examining the opening of any financial investment product account by any employee involved in asset management, detailed reporting on in-house trading, examining communications and meetings between asset management departments, and verification of information exchange. The company also examines its financial product trade accounts and provides information about the systems relating to the prevention of employee misconduct on a quarterly basis. In addition, it conducts inspections of financial incidents at headquarters and in the field and then shares the results with all relevant employees with the goal of preventing trading using non-public information.

OrangeLife has established standards on the trading of financial investment products by its employees, in an effort to prevent the possibility of any conflict of interest with customers or any other unfair conduct, such as the use of undisclosed information. Employees in the asset management department, or other employees who are in a position to obtain material non-public information, must comply with strict procedures for even their own personal investments.



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ESG MANAGEMENT

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Fundamentals

Compassionate Finance, Your Companion for the Future

“Compassionate Finance” involves creating a virtuous win-win cycle through which the values of Shinhan, its customers, and wider society grow together. This is also the basis of the Group’s environmental, social, and governance (ESG) strategy. Shinhan Financial Group is managing ESG to pursue sustainable growth based on a commitment to benefiting the world through finance.

ESG Overview

Companies thrive by providing society with the support it needs to grow strongly and continually, which is why Shinhan Financial Group has pursued sustainable growth in partnership with society since the early days of its founding. In 2005, Shinhan Bank became the first company in the Korean financial industry to publish a Corporate Social Responsibility (CSR) Report, thus demonstrating its determination to be a leader in practicing responsible finance. Building on that, Shinhan Financial Group became the first Korean financial group to publish a Group-level CSR report in 2009.

As an active member of the international community’s efforts towards sustainable development, Shinhan Financial Group supports major global sustainable management initiatives. Shinhan Bank and Shinhan BNP Paribas Asset Management have become official signatories of the Carbon Disclosure Project (CDP) since 2007 and 2008, respectively. It was expanded into the Group level, and since 2009, the Group and its subsidiaries have been working together to take joint measures in relation to CDP, such as reporting environmental information and setting out their short- and long-term environmental strategies regarding greenhouse gas emissions. In 2019, the Group won a “Leadership A” rating at the CDP evaluation, thus being selected as a member of the “Carbon Management Honors Club” that is reserved for the top five companies in Korea. As this was the fifth consecutive year for the Group to be included in the membership, it became the first financial company to enter the “Hall of Fame”.

ESG Milestones

2005

- Shinhan Bank released its CSR report (the first of its kind from a financial company)

2008

Joined the UN Global Compact and the UNEP FI

2009

- Shinhan Financial Group released its CSR report (the first of its kind from a financial group)

2010

- The Group established a Green Management System



2011

- Enunciated the Group mission, “Compassionate Finance”



2012

- Obtained ISO 50001

2013

Included in the DJSI World, Global 100 Most Sustainable Corporations in the World



ESG Trend



2009

- The sustainable management exchange initiative was launched

2010

- The ISO 26000 was announced
- UK adopted the stewardship code
- The Framework Act on Low Carbon, Green Growth was enacted in Korea

2011

- Global Reporting Initiative (GRI) released the G3.1 Guidelines



In an effort to take active participation in global movement towards sustainable finance, the Group has been a member of the United Nations Environment Programme Finance Initiative (UNEP FI) since 2008. It joined the UN Global Compact in the same year, and has undertaken activities ever since to ensure its compliance with the ten principles on human rights, labor, the environment, and anti-corruption.

Shinhan Bank first participated in the Dow Jones Sustainability Index (DJSI) evaluation in 2009, and was included in the Asia Pacific index and ranked first in the Korean banking sector. In 2013, the Group became the first Korean financial group to be included in the DJSI World Index, and has been included for seven consecutive years since then.

Based on these achievements, in 2014 Shinhan Financial Group established its "9 CSR Strategies" so that it could put sustainable management into practice more systematically, and present its CSR goals and direction more clearly. In 2015, the Group newly established the CSR Committee as a sub-committee of the BOD to ensure reasonable and objective decision-making and efficient execution in relation to CSR. The CSR Committee is comprised of no more than five directors, including the Group CEO, and is in charge of setting the direction of the Group's CSR-related activities, and deciding on relevant standards and policies.

In December 2017, Shinhan BNP Paribas Asset Management adopted the stewardship code to enhance the mid- to long-term value and sustainable growth of companies in which it invests. In September 2018, the Group became the first in Korea to offer support for the Task Force on Recommended Climate-Related Financial Disclosures. Shinhan Financial Group will continue its efforts to enhance the transparency of its climate-related disclosures, and it will continue to actively communicate its commitments to incorporating climate change within the Group, including its governance, strategy, and risk management.



2014

- Established the Group CSR Strategy
- Announced the "Compassionate Finance, Your Companion for the Future" mission

2015

- Installed the CSR Committee (under the BOD)



2016

- Obtained ISO 14001 (Bank)

2017

- Established the 2020 CSR Strategy
- Introduced the Stewardship Code (Asset Management)

2018

- Outlined the ECO Transformation 20-20 plan
- Became a TCFD Supporter



2019

- Endorsed UN PRB
- Participated in the Sustainable Climate Finance Study Group (by FSS)
- Included in the Bloomberg Gender Equality Index
- Introduced the Stewardship Code (Life Insurance)
- Obtained ISO 14001 (Card, Investment, Life Insurance, Capital)

2014

- Japan adopted the stewardship code



2015

- The National Pension Act was revised in Korea
- The UN Sustainable Development Goals (SDGs) were launched
- The Paris Agreement was adopted

2016

- Korea adopted the stewardship code



2017

- The Task Force on Climate-related Financial Disclosures (TCFD) recommendations were announced

2018

- An IPCC Special Report on the impacts of global warming of 1.5°C was published

2019

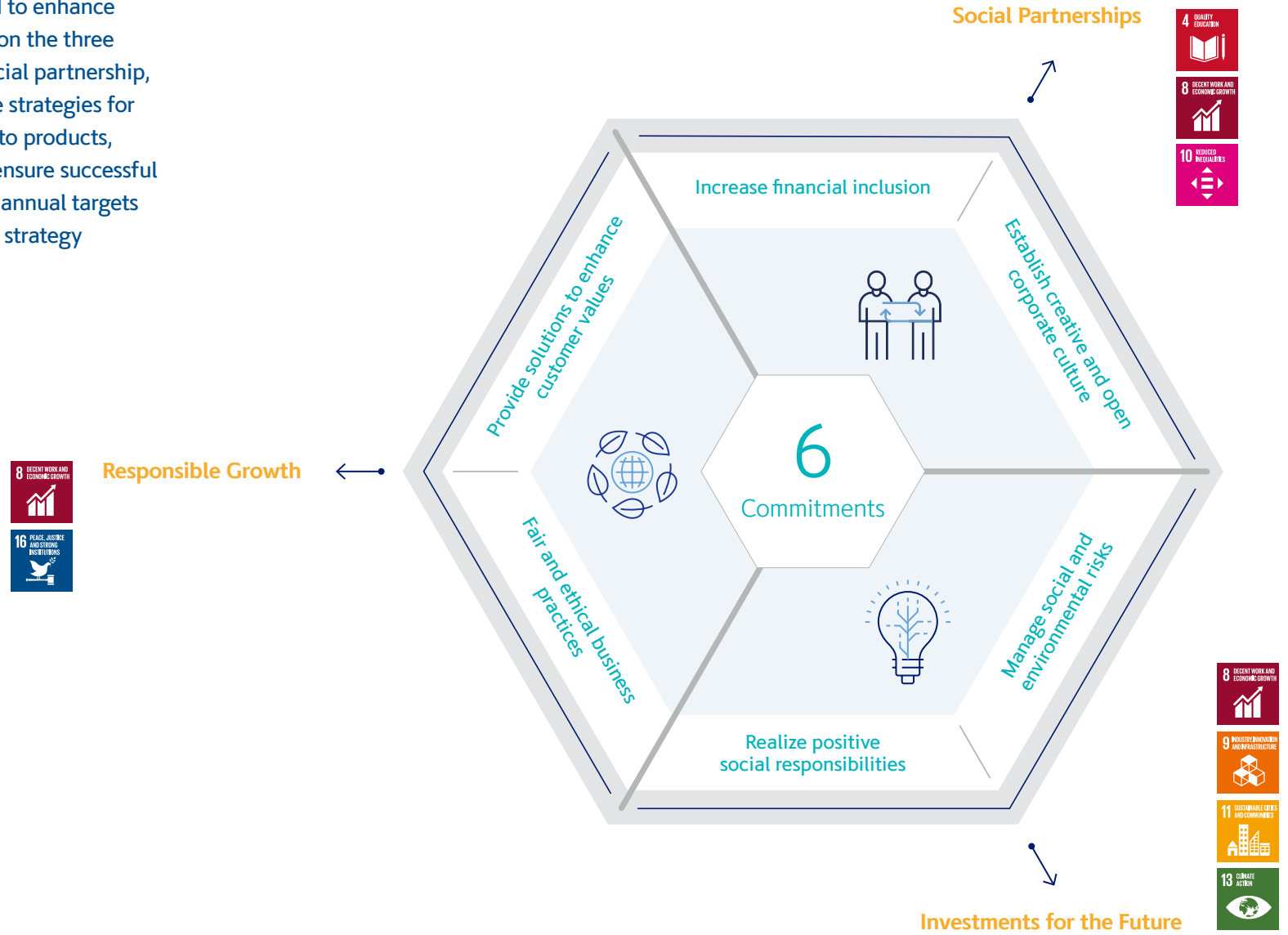
- United Nations Principles for Responsible Banking (UN PRB) were launched
- Financial Supervisory Service launched the Sustainable Climate Finance Study Group



ESG Strategy

Shinhan Financial Group has established the 2020 CSR Strategy in order to be a leader in responding to social and environmental changes, and to enhance value for all of its stakeholders. Based on the three major pillars of responsible growth, social partnership, and investments for the future, six core strategies for creating mid-term shared-value apply to products, services, and overall management. To ensure successful implementation of the core strategies, annual targets are set for ten strategic indicators, and strategy execution is monitored in detail.

2020 CSR Strategy





Key Performances in 2019

Official Signatory of the UN PRB Shinhan Financial Group, joined with 130 financial companies across the globe, declared its commitment to implementing the Principles for Responsible Banking (PRB) at the launch ceremony held at UN Headquarters in New York in September, 2019. The UN PRB is an international agreement which specifies the roles and responsibilities of the financial industry as part of the movement towards a sustainable future, and is aligned with the Paris Climate Agreement and UN Sustainable Development Goals (SDGs). As a member of the Core Group, which consists of 30 global financial companies, the Group has been taking the lead in drafting the Principles since March 2018, thus demonstrating its commitment to setting new global standards for sustainable and responsible finance. Shinhan Financial Group will continue to expand the scope of its sustainable finance, including innovation finance, inclusive finance, and support for start-up ventures and renewable energy infrastructure, and will continue to play a pivotal role in creating a better tomorrow through finance.

Establishing a System for Sustainable Management In order to ensure that its Group-level management systems give the highest priority to sustainable finance, Shinhan Financial Group has created executive and working-level group councils in support of the CSR Committee, which is a sub-committee of the BOD. To this end, the Group has appointed a Group Chief Sustainability Officer (CSO) who directs, supervises and supports the implementation of the Group-level sustainable management. Each subsidiary also has appointed its own CSOs to overlook company-specific ESG activities. Both the Group CSO and subsidiary CSOs have their own ESG teams under their supervision. These teams formulate detailed execution plans and stipulate functions and roles related to the implementation of those plans. In addition, the Group Sustainable Management Council, consisting of the Group CSO and subsidiary's CSOs, monitors the execution of tasks relating to sustainable management and shares performance details biannually. Under the Council is a working-level council comprised of related teams within the Group. This council is responsible for establishing and executing ESG-related tasks in detail.

Key ESG Indicators

6 COMMITMENTS	10 STRATEGIC INDICATORS	4-YEAR PLAN	2019 GOALS	2019 RESULTS	WHETHER ACHIEVED OR NOT
Provide solutions to enhance customer values	Customer satisfaction index	0.2 points increase per year	94.0 points	94.4 points	○
	Popularity of digital financing services	Increase to 72.2%	70.2%	72.0%	○
	Number of participants in financial literacy courses	One million participants (accumulated figure from 2012)	879,000	943,023	○
Fair and ethical business practices	Number of employees taking ethical behavior training and signing pledge of ethical behavior	98% of employees	98%	99%	○
Increase financial inclusiveness	Financial support for low-income people	KRW 6.3 trillion	KRW 1.61 trillion	KRW 2.3 trillion	○
	Support for the creation of startup ecosystem	KRW 6.6 trillion	KRW 1.7 trillion	KRW 2.6 trillion	○
Establish creative and open corporate culture	Employee trainings	100 hours per person	100 hours	100 hours	○
	Participation rate in smart work system	More than 65%	60%	72.8%	○
Carry out corporate social responsibilities	Investments in and loans for eco-friendly industries	KRW 20 trillion from 2017 to 2030	KRW 250 billion	KRW 1.8 trillion (KRW 18.6 trillion accumulated from 2017)	○
Manage environmental and societal risks	GHG emissions	Reduce by 20% from 2012 to 2030	102,997 tCO ₂ eq	89,967 tCO ₂ eq	○

Sustainable Climate Finance Study Group The Korean financial authorities and the financial sector have been working together to understand climate-related risk as a risk factor within financial systems, and to formulate appropriate responses. In May 2019, a working-level meeting was held for officials from financial holding companies, banks, insurance companies, and the Korea Stock Exchange. In June, there was a meeting of more senior officials from the financial sector to study sustainable climate finance. Not only signatories of UNEP FI, GCF, and other international organizations, but also working-level officials from major Korean financial institutions and researchers from universities and research institutes who are committed to formulating responses to climate change come together once a month to undertake studies on various themes related to climate finance. Based on the results of these studies, the first climate finance-related research book for the financial sector in Korea was published. Shinhan Financial Group hosted presentations on Task Force on Climate-related Financial Disclosures (TCFD) recommendations and sustainable climate finance, and thus contributed to improving Korean financial industry's ability to respond to climate change.

7&11
consecutive years

Included in *DJSI World* and *DJSI Asia Pacific-Korea* for 7 and 11 consecutive years, respectively



5
consecutive years

Selected as a member of the *Carbon Management Honors Club* for 5 consecutive years by winning a *Leadership A* rating, and entered the Hall of Fame

A rating

Received A rating and/or higher at the ESG assessment by *Korea Corporate Governance Service* for 5 consecutive years



AA

Received a *MSCI ESG* rating of AA for 4 consecutive years



43rd

Included in *Global 100* for 8 consecutive years, and ranked 43rd in the world and 2nd in Asia



Environment

Shinhan Financial Group has set out its eco-friendly management vision of “ECO Transformation 20-20”, and is making Group-wide efforts to respond to climate change and the shift to a low-carbon economy.

ECO Transformation 20-20

Shinhan Financial Group has established “ECO Transformation 20-20” as its mid-term vision for eco-friendly management, with a focus on three major directions – leading the low-carbon financial market, spreading eco-friendly culture, and strengthening environmental leadership and partnerships. To this end, the Group pledges to invest and support KRW 20 trillion in green industries by 2030, and will also reduce its greenhouse gas (GHG) emissions by 20%.

3 Major Directions

1. Lead the Low-carbon Financial Market The Group will lead the low-carbon financial market by increasing the amount of investments and loans to new and renewable, high-efficiency energy-related industries, companies, and projects. It will also expand its involvement in ESG funds, green bonds, and projects related to eco-friendly buildings. In 2019, Shinhan Financial Group issued USD 500 million in sustainable bonds, and became the first Korean financial holding company to issue such bonds. Shinhan Bank issued USD 400 million in sustainable bonds and EUR 500 million in green bonds, while Shinhan Card issued KRW 100 billion in sustainable bonds.

The Group also plans to develop a number of eco-friendly financial products, including deposit and installment savings accounts, credit cards, insurance, and funds. In 2019, the Group released the “Deep Eco Card” that provides services connected to eco-friendly activities, such as the automatic donation of eco-friendly points and the use of shared mobility, thereby promoting eco-friendly consumption. It is currently expanding eco-friendly business activities, including paperless financial services, and will continue to strengthen its environmental and social risk management systems so that it can analyze, evaluate and manage the environmental and social impact of companies offering financial services.

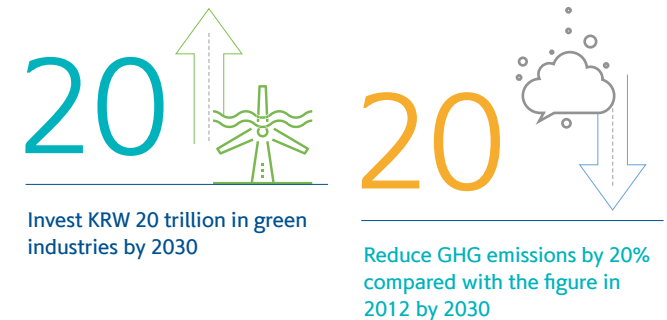
2. Spread Eco-friendly Culture The Group will spread eco-friendly culture by using more electric vehicles (EV) for business purposes, building an EV-charging infrastructure, and making its facilities more energy efficient. It also takes an active part in reducing the use of disposable products and promoting recycling, thus protecting natural resources.

3. Strengthen Environmental Leadership and Partnerships

Shinhan Financial Group is a member of a new and renewable energy initiative being proposed by the National Assembly’s Renewable Energy Forum and six NGOs. This initiative was launched in order to create a renewable energy power procurement system which separates the purchasing of renewable energy, such as photovoltaic and wind power, from other sources of power generation. The Group is both increasing choice in energy consumption for companies and facilitating the increased voluntary use of renewable energy by contributing to the effective design for this system, and by drawing a roadmap for increasing the use of renewable energy in Korea.

SFG’s Action Principles towards Climate Change

In 2019, Shinhan Financial Group became the first company in Korea to establish the Action Principles towards Climate Change at the Group level. It has also presented its Five Major Principles for Climate Action as part of the global community’s efforts to limit the rise in the Earth’s temperature to no more than 1.5°C above pre-industrial levels. By implementing these principles, the Group will manage the environmental and social risks inherent in financial support projects, and will increase its support for the low-carbon economy.





Society

The Group puts into practice “Compassionate Finance” to benefit the world through finance. The Group delivers hope to local communities, and promotes respect, dignity, and equality in the workplace, thereby creating sustainable value.

Society of Hope Project

The Society of Hope Project is a Group-level social contribution project launched in 2018 in order to put into practice Shinhan Financial Group’s mission of “Compassionate Finance, Your Companion for the Future”. Its goal is to build a new social contribution system structured at the Group level, thus eliminating overlap at the subsidiary level. Under this project, the Group will invest KRW 270 billion in total from 2018 to 2020, which equals KRW 90 billion spent annually, to promote and create sustainable social, future, economic values, thus enabling it to deliver new hope to society and bring about positive changes. In 2019, the Group focused on scaling-up its CSR programs with the aim of building a society of hope in which everyone can lead a happy life.

Key Performances in 2019

Scaling-up Social Value Shinhan Financial Group is supporting the financially underprivileged by providing a total of KRW 30 billion over three years into its financial recovery program for people with low credit ratings and those facing income crevasse. Through this program, the Group provides a training participation allowance of up to KRW 1.8 million per person so that trainees can focus on the vocational training offered by the Ministry of Employment and Labor. In 2019, the Group provided

training participation allowances to 4,433 persons¹⁾, resulting in an average improvement in personal credit rating of 1.0, and 602 participants¹⁾ successfully finding a job. In January 2018, the Group signed an MOU with the Ministry of Gender Equality and Family to support women who are financially underprivileged and experiencing disruptions in their careers. In 2019, the Group provided allowances to 2,376 women, and 1,610 participants²⁾ were successful in finding employment.

In January 2019, the Group signed an MOU with the Korea Student Aid Foundation, Korea Credit Bureau, and CrePASS Solutions, for a youth debt total care project. This project supports young people who are earning below average monthly salary³⁾, and are facing financial difficulties caused by paying back tuition loans, helping them to overcome income crevasse. Through this project, the Group has provided support funds, credit rating mentoring, and other help to 300 young people over a period of nine months, resulting to 257 people improving their credit rating by an average of 1.0.

The “Shinhan Dream Dodamteo” is a childcare center program run in partnership with the Ministry of Gender Equality and the Family and the Kids & Future Foundation. There is a total of 76 centers in operation, with 34 centers newly established in 2019. This project is helping to create a work-life balance, and making it easier for parents to both work and raise their children. The Group is also working together with the Community Chest of Korea and Good Neighbors to carry out a project which assists families in crisis, provides financial support to underprivileged people who are not receiving welfare benefits, and rewards social heroes who help families in crisis. This Group provided support to some 3,300 people from 1,050 households in 2019, and rewarded 10 heroes of hope.

¹⁾ Cumulatively, support has been provided to 6,658 people, with 1,574 successfully finding work

²⁾ Cumulatively, support has been provided to 6,826 women, with 4,502 successfully finding work

³⁾ Those who are earning less than KRW 2.04 million



Scaling-up Future Value In 2019, Shinhan Financial Group signed an MOU with Hankuk University of Foreign Studies and KOTRA to run the “Global Young Challenger” program to support overseas employment for young people. It offers a new social solution for the youth unemployment issue by using each organization’s expertise, training and networks to increase the global capabilities of young people, and to offer help in employment matching. 98 young people were selected in 2019, and then given domestic and overseas training opportunities, resulting in successful entry into employment for 80.6% of the participants.

“The School of Hope SW Class” is a special-education school program newly launched in 2019 following a pilot program in 2018. This program, which is based on an MOU with the Ministry of Education, aims to reduce the digital gap for the disabled. In 2019, software classes were provided to 485 disabled students at 13 schools across the nation. In addition, SW Camp was held to provide fun coding education to disabled students and their families, and some were trained as software specialists.

2019 marked the 100th anniversary of the March First Movement, and the establishment of a provisional Korean Government at a time of Japanese colonial rule. In celebration, the Group collaborated with MBC, one of the top broadcasting channels in Korea, to produce and broadcast a special documentary program entitled ‘Returning Home after a Hundred Years’, telling the stories of independence activists who were not able to return to their liberated homeland, and also sharing the stories of their descendants. The program recorded a viewer rating of around 2%, and was followed by a special photo exhibition and an “Independence Dishes Restaurant” project which enabled citizens to experience the diet of independence activists. Open for a month, more than 6,000 people visited the restaurant, and their experiences were shared more than 10,000 times on social media. Many media covered the story on the Restaurant, applauding Shinhan’s creative efforts to help citizens understand the Korean nation’s history.



Financially underprivileged

Leverage Shinhan’s strength – financial business

- Recovery program for people with low credit ratings; “Youth debt total care project”
- Recovery program for women experiencing disruptions in their careers
- Program to support the self-employed
- Increase access to childcare facilities – “Shinhan Dream Dodamteo”

Alignment with UN SDGs



Employment

Solve social issues

- Program to support overseas employment for young people
- Job-matching program for the local community, and facilitation of the social economy
- Job support program for retired seniors

Alignment with UN SDGs



CSR Synergy

Expanding the scope of CSR

- School of Hope SW Class
- Program that help local communities solve their problems
- New projects that support social enterprises and start-ups, and Global CSR activities

Alignment with UN SDGs



Scaling-up Economic Value Shinhan Financial Group began investing in social enterprise funds at the end of 2018, in order to support the growth of social enterprises and to promote the social economic ecosystem. Priority is given in investment decision-making to the social value of social enterprises, preliminary social enterprises, companies committed to becoming social enterprises, and impact companies which support the UN SDGs. The goal of this program is to support companies which can have a positive influence on society. A group of institutions, including Shinhan Financial Group, Group Hope Foundation, SK Group, made a concerted commitment to invest KRW 20 billion in total to such social enterprises, and have already completed investments in seven companies in 2019.

Plans for 2020

2020 will be a significant year for Shinhan Financial Group, bringing to an end the three-year “Society of Hope Project” and preparing for another leap forward. The Group has therefore established “sustainability” as the keyword for the Society of Hope Project in 2020. It will use the strengths of Shinhan to deliver greater hope to society by supporting the financially underprivileged, protecting those who are facing difficulties, and pioneering new ways to bring positive impacts to society.

In particular, the Group will provide a wide range of support with regards to education and employment, and financial independence. Such efforts are aimed to give hope to the financially underprivileged, including those with low credit ratings or experiencing disruptions in their careers, and people in a financial crisis, so that they can be happier and more integrated members of society. The Group will address major matters of social interest, including the social economy, start-ups, and the empowerment of local communities. The Group will also implement job programs to help tackle employment issues, including youth unemployment. It will continue to look for any crevasses in social welfare, and develop them into Shinhan's unique social contribution programs by making full use of Shinhan's "CSR Synergy". The Group will use its CSR activities to win people's hearts in the global market and local communities, and thus achieve sustainable growth.

Fostering Female Talent

In 2018, Shinhan Financial Group established the R.O.S.E Principles, as part of its Group Management Leader Training System, to foster female talent within the Group and to expand its female talent pool. The "R" in "R.O.S.E." stands for relationship – strengthening relationships; "O" is for opportunity – increased opportunities for women; "S" is for segmentation – the segmenting and targeting of every job position; and "E" stands for environment – the establishment of a gender-neutral work environment.

In addition, the Group launched the Shinhan "SHeroes", a program to foster female leaders, and chose 27 outstanding female staff members to be the first group of Shinhan SHeroes in 2018. A Group-level "SHeroes mentoring" was included in the program to present a vision of the positive future for female leaders within the Group, as well as a range of activities to support female staff, including networking among female leaders and proactive support for the development of female leadership from a gender equality perspective.

Key Performances in 2019

In 2019, the second year of Shinhan "SHeroes", the scale of the program was expanded to include 49 women from eight subsidiaries – Shinhan Bank, Shinhan Card, Shinhan Investment, Shinhan BNP Paribas Asset Management, Shinhan Capital, Shinhan Savings Bank, Shinhan DS, and Shinhan Credit Information. The list of mentors was also diversified to include both outside experts and in-house mentors who successfully graduated from Shinhan "SHeroes" program in the year before.

The second group of Shinhan "SHeroes" also benefitted from the Shinhan "SHeroes Academy", created to foster female talent in a more systematic way. Participants were given the opportunity not only to learn from renowned lecturers, but also to network and share their experiences.

The Shinhan "SHeroes Conference", attended by around 200 female leaders, was the venue to review the year's activities in supporting female leaders, and to spread positive influence. Participants of the 2nd Shinhan "SHeroes" prepared and shared presentations on a range of themes drawn from the perspective of the R.O.S.E principles, including "How to help female leaders to develop their careers and expand their networks", "A sustainable future for Shinhan through the expansion of opportunities for female employees", and "The roles of female leaders in the era of the digital revolution".

As a result of these efforts, the Group was able to appoint an additional female executive in early 2019, ahead of the expected schedule. The Group has also won recognition for its Group-level commitment towards the fostering of female leaders and its support for work-life balance, and thus became the first company in Korea to be included in the Bloomberg Gender-Equality Index (GEI). Inclusion in the Bloomberg GEI means that the Group has been selected as one of the 230 outstanding gender-equality companies from 36 countries across the globe.

2019 Shinhan SHeroes



Plans for 2020

Shinhan Financial Group will continue to improve the Shinhan SHeroes program in 2020, making both quantitative and qualitative advances. The mentoring program, the academy, and the conference will operate once again this year, and the Group will examine its annual activities and conduct monitoring. It will increase the number of female staff members chosen to be Shinhan "SHeroes", and will also operate training and other programs in order to create a pool of management-level female talent who can become leaders in each Group subsidiary. The Group will also help with systematic career development plan management, and improved team-level mentoring and trainings to provide practical support in the development of female leaders.



Governance

The Group has established a governance structure which reflects its milestones and organizational culture, while also ensuring transparency, soundness, and stability, in order to achieve long-term growth and protect the interests of all its stakeholders.

Principles of Governance Structure

Shinhan Financial Group has established a governance structure and principles that promote the interests of shareholders, protect the rights of stakeholders, enhance corporate value, and achieve sustainable growth. Thanks to its commitment to these principles and policies, the Group runs its business ethically and with a sense of responsibility. Such outstanding corporate governance has garnered outside recognition. For example, in the ESG assessment carried out by the Korea Corporate Governance Service (KCGS), the Group has received an integrated assessment rating of A+ for five consecutive years since 2015, and obtained an S rating in the governance category in 2017. The Group continued to receive the highest-possible rating even when more demanding assessment model was applied to financial institutions beginning in 2018.

Transparent Governance Structure

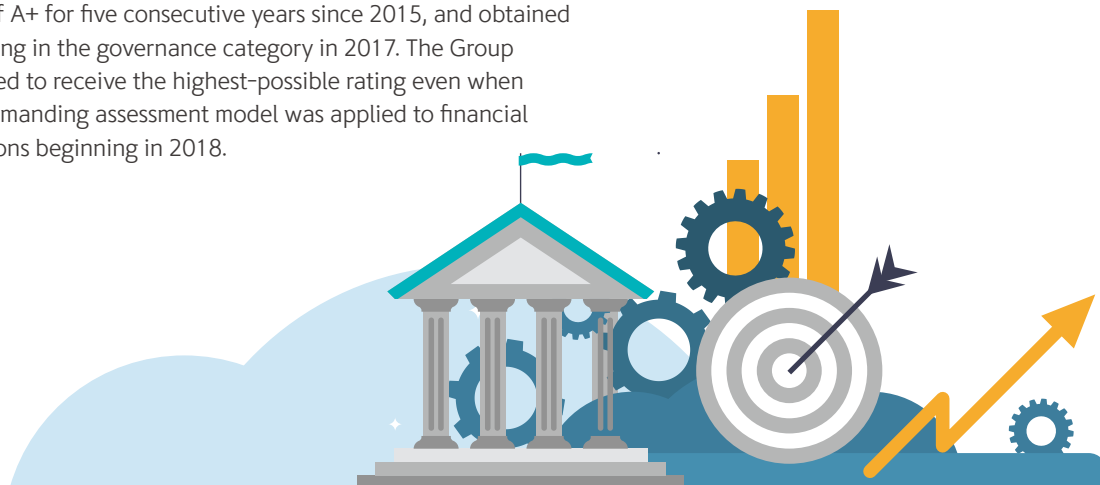
Shinhan Financial Group actively discloses its governance-related standards, procedures, and outcomes to ensure transparent corporate governance. It shares corporate governance-related matters related to corporate governance with all stakeholders by publishing an annual corporate governance report and then disclosing it on the company website and submitting to the Korea Federation of Banks, 20 days prior to the general shareholders' meeting. In addition, the Group helps its stakeholders understand operational practices concerning corporate governance by disclosing the full text of its internal corporate governance regulations in the annual corporate governance report. These include the Articles of Incorporation, BOD regulations, and the regulations of each sub-committee of the BOD. It is particularly noteworthy that the Group uses a cumulative voting methodology in order to protect the rights of minority shareholders at general shareholders' meetings, and uses both an electronic voting system and a system enabling shareholders to vote in writing in order to actively guarantee shareholder voting rights. The Group also offers fair and timely information at general shareholders' meetings by providing real-time video streaming.

Sound Governance Structure

Shinhan Financial Group has formed a Board of Directors equipped with the independence and expertise necessary to maintain sound corporate governance. It faithfully abides by all laws, including the Commercial Act and the Act on Corporate Governance of Financial Companies, and all internal regulations, including the Articles of Incorporation, the code of corporate governance, and the regulations of the BOD. In addition, all recommendations in relation to BODs stipulated in the Act on Corporate Governance of Financial Companies and the KCGS Corporate Governance Code are reflected in the Group's corporate governance, and strictly observed.

Stable Governance Structure

Shinhan Financial Group is committed to maintaining stability in its corporate governance on principles of checks and balances amongst its members. It therefore separately delegates corporate decision-making and the execution of work to the BOD and company management respectively, and management is required to report on the status of its work to the BOD. In addition, the Group strongly supports BOD involvement by its independent directors by ensuring that independent directors account for the majority of members of all sub-committees of the Board of Directors. To ensure that the BOD is effective in holding management in check, the Group has assigned the BOD the right to appoint and dismiss the CEO, who is an executive director, and any other members of the management who are not directors. The Group has also assigned to independent directors the right to require relevant materials and external advisory services, and obliges the company to provide such information to the independent directors. It also ensures stability and continuity in corporate governance by guaranteeing each independent director's term of service within the extent permitted by external laws and internal regulations, when that independent director has been proven to perform his duties to the highest levels.





In addition, the Board Steering Committee, which is in charge of running the BOD and evaluating independent directors, must always include one executive director in order to prevent independent directors from appointing each other without enough supervision. Independent directors who are candidates to be reappointed to the BOD cannot be members of the Independent Director Recommendation Committee, except in cases where there is an inefficiency in the composition of the Committee. The CEO must be aged seventy years or less, ensuring an efficient BOD and effective management succession.

Diversity and Expertise of the BOD

Shinhan Financial Group specifies the principle of diversity in the composition of the BOD in its internal code of corporate governance, so that Board members do not all share a common background or represent certain interests. Moreover, it uses a Board Skill Matrix to confirm diversity and expertise of the Board members. They also have a wide range of expertise, which prevents the BOD from leaning too much towards a specific background or occupational group. The independent members of the BOD evenly represent the six sectors stipulated as required expertise in the Act on Corporate Governance of Financial Companies, specifically finance, business administration, economics, legal affairs, accounting, and information technology.

Shinhan Financial Group selects independent director candidates by receiving recommendations through a diverse range of channels, including from shareholders, the Independent Director Recommendation Committee, and outside agencies. By operating a system which invites shareholders to recommend candidates as independent directors, the Group receives recommendations for candidates who are fully committed to independently representing shareholder value, but also enables shareholders to participate in management. In addition, the BOD currently has independent directors of three different nationalities – South Korean, Japanese, and French – and from four countries where the Group has major business operations – South Korea, Japan, Singapore, and Hong Kong – which gives the BOD a truly global perspective. The Group also strives to increase the number of women among its candidates to be independent directors, and ensures that the candidate group represents diversity in experience, background, and age, while factors that could restrict diversity, such as race, ethnicity, and religion are strictly taken out of the consideration for the candidacy. This is helping the Group in its efforts to abide faithfully by the principle of diversity in the composition of its BOD.

Governance Structure that Reflects the Group's Growth Paths

Shinhan Financial Group originates from Shinhan Bank, which was launched in July 1982 with 341 Korean-Japanese shareholders making a 100% equity investment of paid-in capital of KRW 25.9 billion. This was the first bank in Korea to be funded exclusively with private capital. These shareholders provided the foundations which enabled Shinhan Bank to grow from a small financial company with only three branches at the time of its establishment to a leading financial group in Korea, and they have provided wholehearted support as shareholders of the Group since its founding. They have continued to help with the Group's development, including the 'Campaign for Holding Shinhan Shares' despite a sharp drop in the share price during the Asian financial crisis. Thanks to the trust of its Korean-Japanese shareholders, the Group has continued its stable development guided by management who are not only financial experts, but who also have an in-depth understanding of the Shinhan culture from the time of its founding.

Launched in 2001 as the first private sector financial holding company in Korea, Shinhan Financial Group has built foundations for further growth by establishing a strategic alliance with BNP Paribas Group. In 2019, the Group attracted an investment from IMM PE, thus developing cooperation with a wide range of shareholders and creating a virtuous cycle of win-win through which the Group's growth leads to the enhancement of shareholder value. In order to incorporate these new growth paths as well as its unique organizational culture into its corporate governance, the Group's BOD consists of Korean-Japanese independent directors who are management experts and represent the founding spirit of Shinhan, and also directors who are financial experts and have been recommended by BNP Paribas and IMM PE.

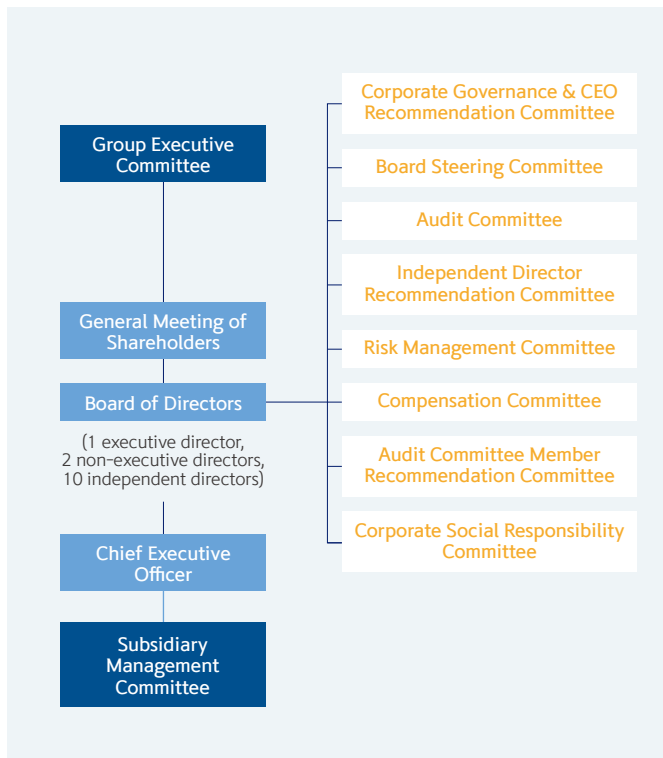
Features of Governance Structure

As the company's top-level standing decision-making body, Shinhan Financial Group's BOD is vested with the authority to appoint and dismiss the CEO, and mainly consists of independent directors. As of the end of March, 2020, reflecting the results from the 19th Annual General Meeting of Shareholders, the BOD comprises a total 13 members, of which 10 are independent directors. Since March 2010, it has been regulated that an independent director serves as the BOD Chairperson.

There are a total eight BOD sub-committees – the Independent Director Recommendation Committee, Corporate Governance & CEO Recommendation Committee, Audit Committee, Compensation Committee, Risk Management Committee, Board Steering Committee, Audit Committee Member Recommendation Committee, and Corporate Social Responsibility Committee. Of these, the establishment of the Independent Director Recommendation Committee, Corporate Governance & CEO Recommendation Committee, Audit Committee, Compensation Committee, Risk Management Committee, and Audit Committee Member Recommendation Committee has been made mandatory by such laws as the Act on Corporate Governance of Financial Companies. The BOD autonomously established the other two remaining committees to enhance BOD expertise, independence, and efficiency.

With regards to recommending candidates for executive positions, the Group operates the Independent Director Recommendation Committee, Corporate Governance & CEO Recommendation Committee, Audit Committee Member Recommendation Committee, Board Steering Committee, and Subsidiary Management Committee. Enforced in August, 2016, the Act on Corporate Governance of Financial Companies obligates the establishment of the officer recommendation committee, which recommends candidates for executives, such as independent directors, chairman, CEO, and audit committee members. Even before the enforcement of relevant laws, the Group segmented the authority to recommend executives and divided it among the BOD sub-committees.

SFG's Governance Structure



Sub-committees of the BOD

Sep. 2001	May 2004	Feb. 2008	Aug. 2011	Mar. 2015
Audit Committee	Audit Committee	Audit Committee	Audit Committee	Audit Committee
Risk Management Committee	Risk Management Committee	Risk Management Committee	Risk Management Committee	Risk Management Committee
Board Steering Committee	Board Steering Committee	Board Steering Committee	Board Steering Committee	Board Steering Committee
	Independent Director Recommendation Committee	Independent Director Recommendation Committee	Independent Director Recommendation Committee	Independent Director Recommendation Committee
	Remuneration Committee	Remuneration Committee	Remuneration Committee	Remuneration Committee
		Audit Committee Member Recommendation Committee	Audit Committee Member Recommendation Committee	Audit Committee Member Recommendation Committee
			Corporate Governance & CEO Recommendation Committee	Corporate Governance & CEO Recommendation Committee
				CSR Committee

BOD Composition by Expertise

As of	Finance	Economy	Business Administration	Accounting	Legal Affairs	Information Technology	Total
Mar. 2016	4	2	4	1	1	0	12
Mar. 2017	5	1	4	1	1	0	12
Mar. 2018	5	1	3	1	1	1	12
Dec. 2018	4	1	3	1	1	1	11
Mar. 2019	6	1	3	1	1	1	13
Mar. 2020	6	1	3	1	1	1	13



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Group & Global
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Retirement Pension . 064

Digital Banking . 066

Real Estate Business . 071

Retail Banking . 073

Corporate Banking . 075

Credit Card . 077

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Life Insurance . 083

Asset Management . 087

Shinhan Financial Group has 16 subsidiaries which provide their customers with first-class financial services, including banking, credit cards, securities, insurance, and asset management. The Group uses a matrix system in order to expand the business areas of each subsidiary, to ensure a coherent and efficient strategy within the Group, and to optimize the use of its resources, such as capital and personnel. At the end of 2019, the Group Real Estate Business Line was added to its matrix structure, in addition to the existing six business divisions – GIB, WM, Global, GMS, Pension, and Digital.



REVIEW OF OPERATIONS

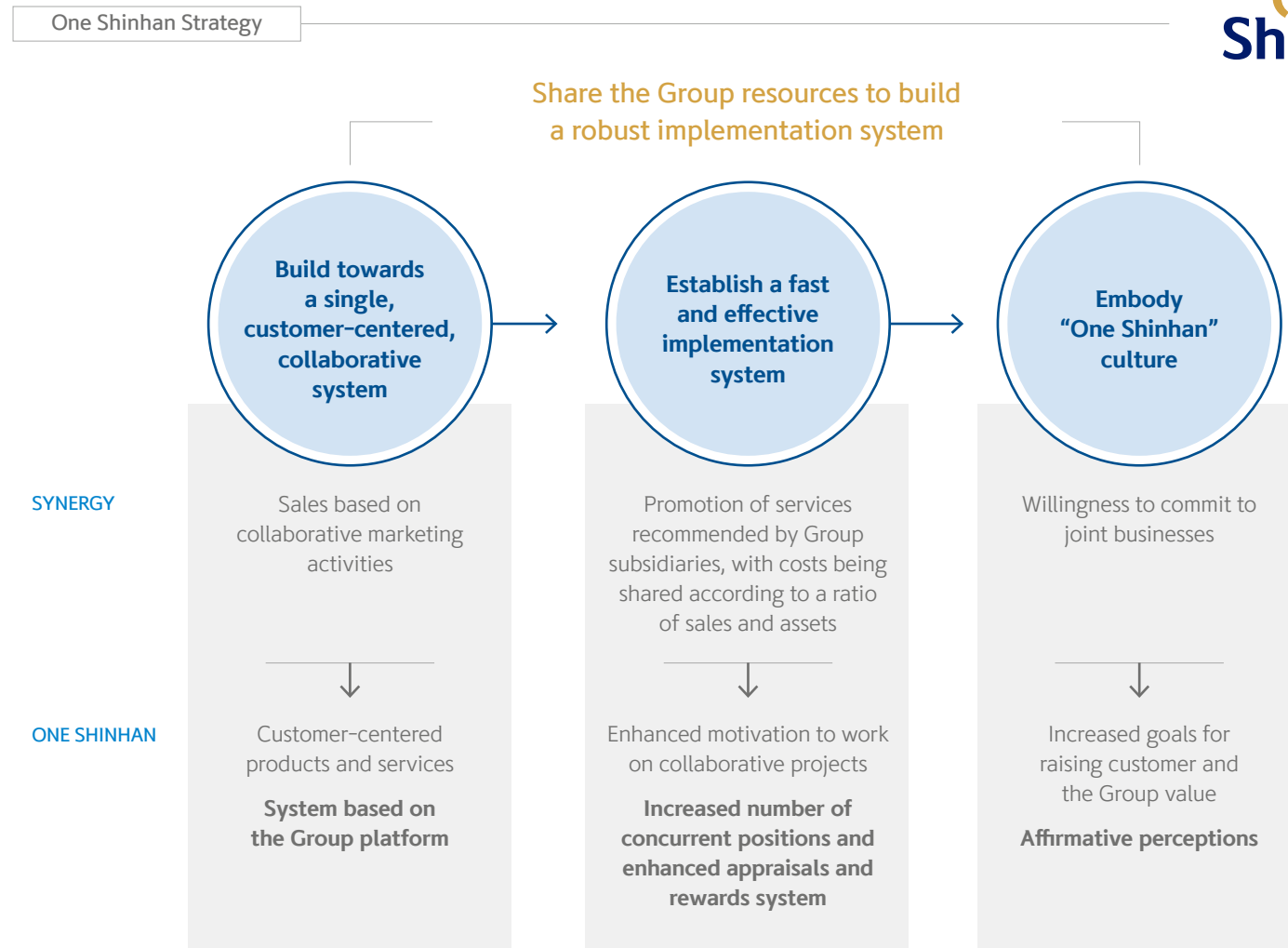
One Shinhan

- Global Business
- Group & Global Investment Banking
- Wealth Management
- Global Markets & Securities
- Retirement Pension
- Digital Banking
- Real Estate Business
- Retail Banking
- Corporate Banking
- Credit Card
- Brokerage
- Life Insurance
- Asset Management



One Shinhan

Shinhan Financial Group is implementing the “One Shinhan” strategy, a highly collaborative way of working closely at the Group level. It is not just a slogan but a strategy that brings together the products and services of all subsidiaries to provide customers with optimized financial solutions.



REVIEW OF OPERATIONS

One Shinhan

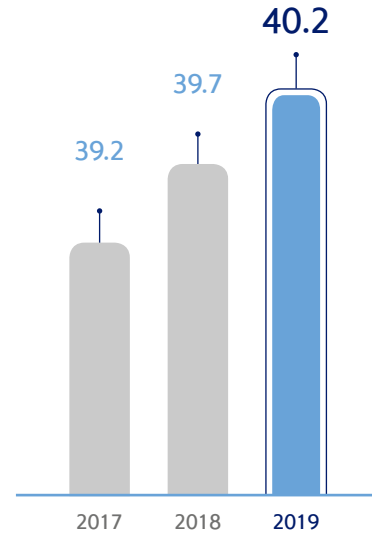
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Key Figure

40.2%
2019 Cross-selling ratio

* Ratio of customers using products and services from two or more of the Group subsidiaries, including Shinhan Bank, Shinhan Card, Shinhan Investment, and Shinhan Life Insurance

Cross-selling Ratio
(Unit: %)



Shinhan Plus



Information section

Marketing section

Key Performances in 2019

In 2019, the Group added Pension Division to its matrix organization, and thus increased collaboration across its subsidiaries. It also strengthened its operating systems by adding new business lines, including OrangeLife and Asia Trust, to the One Shinhan platform, thereby accelerating the pace of synergy creation.

Improved the One Shinhan Platforms and Channels The Group established the Pension Division in order to increase rates of return for retirement pension customers, expanding the scope of collaboration across its business divisions. "Shinhan Plus" is an integrated Group platform which offers some 110 major financial services, including customer inquiries and subscribing for products. The number of users has increased steadily since its launch in July 2018, with the number of subscribers exceeding 12 million by the end of 2019, which has contributed significantly to expanding the Group's customer base. Shinhan Plus is a one-stop financial platform which enables the use of My Shinhan Point¹⁾ and the services of four subsidiaries – Shinhan Bank, Shinhan Card, Shinhan Investment, and Shinhan Life Insurance – on a single mobile application. Moreover, the "Smart Loan Center", a digital loan platform was revamped so that customers can conveniently make inquiries and use products without having to install additional applications, thereby leading improvements in mid-range interest rate loans.

Increased One Shinhan Collaboration Through the One Shinhan Committee, the Group has identified various tasks which will improve collaboration, and is now maximizing synergy creation within the Group. The Committee was held in a timely manner to ensure flexible responses to the rapid changes in market conditions and specific requests from subsidiaries. The Committee also collects the opinions of the Group's subsidiaries, and brings about agreement from the perspective of One Shinhan. In particular, the Group looked into measures for expanding the real estate business of Asia Trust through the WM-Real Estate Committee, and identified multiple areas of collaborations for strengthening the earnings bases for OrangeLife.

¹⁾ A credit card reward program offered by Shinhan Card



REVIEW OF OPERATIONS

[One Shinhan](#)

Global Business

Group & Global Investment Banking

Wealth Management

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Credit Card

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Life Insurance

Asset Management

In addition, the Group has enhanced its ability to identify and execute new joint projects. It created the “One Shinhan Scale-Up Board” to measure One Shinhan performance, and built the “Customer Investment Asset Dashboard” to monitor customer investment assets. Introducing customers who have had difficulties in using Shinhan Bank’s My Car loan to Shinhan Card, resulted in additional business of around KRW 56 billion. Target date funds were strongly promoted as well, leading to a year-on-year increase in assets of KRW 103.8 billion.

Upgraded the One Shinhan Operating System The support and evaluation system for new joint projects was upgraded to encourage the implementation of joint projects between Group subsidiaries. Employees are being strongly motivated to focus on joint projects by, for example elevating the value of One Shinhan Awards so that they are presented at the Group’s founding anniversary ceremony. The expertise of the One Shinhan panel, which consists of sales employees from the Group subsidiaries, was enhanced as well. The Group has also facilitated communication and exchanges between employees from different subsidiaries, as well as increasing communications with management.

Plans for 2020

Shinhan Financial Group will expand its customer-centered One Shinhan system in 2020 with the goal of increasing customer value and evolving into “Excellence, Shinhan”, thus earning recognition from customers and wider society.

Expanding the Customer Base and Increasing Cross-marketing

The Group has segmented its customer base in accordance with the life cycle and lifestyle of each customer in order to identify their needs more accurately and thus to provide them with the right financial services offered by the Group’s different subsidiaries. It will also strengthen customer loyalty programs, centered around Shinhan Plus, and thus promote the use of its integrated platform. In particular, the Group will use its customer database to increase cross-selling with more competitive products, including package products and hybrid products offered exclusively on Shinhan Plus, to attract more customers.

Shinhan Plus will be leveraged as the Group’s integrated marketing platform while seeking to achieve its target of 15 million subscribers, thereby strengthening its status as a leader in mobile financial platforms. Moreover, the Group was the first Korean financial group to build a Group integrated pension platform which offers its customers Group-level retirement pension products and services.

Improving Collaboration within the Group Business Value Chain

Shinhan Financial Group will increase communications between divisions and Group subsidiaries, and will develop convergent business models between different areas of its business by building a control tower to manage its marketing value chain and improve customer management from the perspective of ROI. The Group will also strengthen One Shinhan collaboration by upgrading the One Shinhan KPIs, increasing strategic support for One Shinhan at the subsidiary level, and using the One Shinhan Scale-up Board to enhance the profitability of joint projects.

Enhancing One Shinhan Management System

The Group will upgrade its financial market monitoring systems in order to improve responses and increase rates of return on customer assets. Employees will be encouraged to develop and apply the One Shinhan mindset and expand communications. To this end, the “One Shinhan Awards” and “One Shinhan panel system” will be facilitated, in addition to carrying out such management innovation activities as “One Shinhan Day”.



REVIEW OF OPERATIONS

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Life Insurance

Asset Management

One Shinhan on the new horizon

OrangeLife



OrangeLife became a subsidiary of Shinhan Financial Group in February 2019, and the Group is now implementing key strategies so that the company can establish itself as a member of One Shinhan while maintaining the unique strengths of OrangeLife. The company is also widening its scope of collaboration with other Group subsidiaries including Shinhan Life Insurance. The Group has therefore set a strategic direction for OrangeLife, and is now executing detailed business strategies that will enable it to build a distinctive insurance business in line with the "Excellence, Shinhan", based on which it will considerably enhance the value of Shinhan Financial Group and its customers

Creating Synergies

The Group will bring about complete collaboration between OrangeLife and Shinhan Life Insurance to actively respond to changes in markets and regulations, and will also seek out new business opportunities which will bolster the future competitiveness of the Group's insurance business line. The Group will focus on strengthening each company's distinctive competitiveness, while avoiding unnecessary and redundant investments at the two companies. In addition, customer services and infrastructure will be shared, and the product line-ups will be made complementary to deliver optimal customer experiences.

The Group will also concentrate on increasing One Shinhan synergy at the Group level. It will respond to its customers' diversified needs and expectations through Shinhan Plus, and bring OrangeLife's digital strategies in line with the Group's strategies for a distinctive digital transformation. Moreover, collaboration within the Group matrix organizations will be further expanded to uncover new business opportunities.

Going forward, OrangeLife will establish a strong sustainability management system based on the Group's foundations in ESG management and sustainable finance, including leadership in innovation finance, inclusive finance, and social finance. By doing so, the company will contribute to realizing the value of "Excellence, Shinhan".

Asia Trust



Shinhan Financial Group has been looking for inorganic growth opportunities in order to strengthen its non-bank business portfolio and sources of non-interest income. The Group thus determined that reinforcing its real estate business line was a priority in enhancing customer value, and Asia Trust became a Group subsidiary in May 2019. This completed the value chain for the Group's real estate business line, enabling it to create customer and its own corporate value across all areas of real estate-related business, ranging from consulting to development, management and operations, and sales.

Creating Synergies

The Group will create synergies by leveraging Asia Trust's expertise, experience, and networks, while promoting close collaboration with Group subsidiaries and divisions. It will expand its customer base by offering trust products not previously handled by the Group, and will actively seek new customers in custodial accounts and collective loans, targeting high quality trust service providers in particular.

In addition, Group subsidiaries and divisions will continue to collaborate on investments and loans, including funds, REITs, and global investment banking (GIB). Funds and REITs will be used to sell assets under the custody of trust companies, and additional financings will be centered on GIB. The Group will also create new synergy in its WM business. By combining Asia Trust's real estate development and management services with the advisory and brokerage services provided by Shinhan Investment, the Group will provide a unique and comprehensive range of real estate consulting services to meet diverse needs of its customers.

Shinhan Financial Group launched the Group Real Estate Council in August 2019 in order to maximize synergy within the real estate business. This Council will strengthen its target business at the Group level by establishing the right strategies and developing new business models for the real estate business.

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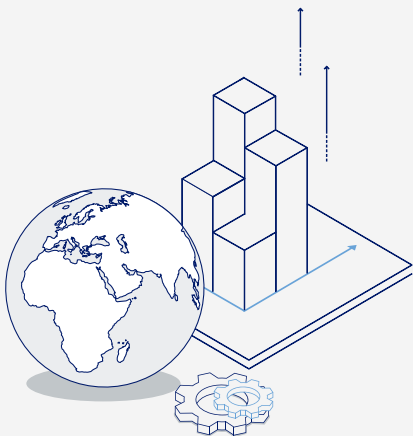
Corporate Banking

Credit Card

Brokerage

Life Insurance

Asset Management



Global Business

Shinhan Financial Group is achieving prudent expansion in the global market by implementing consistent strategies, focused on globalization, selection and concentration, and the establishment of overseas network.

Key Figure

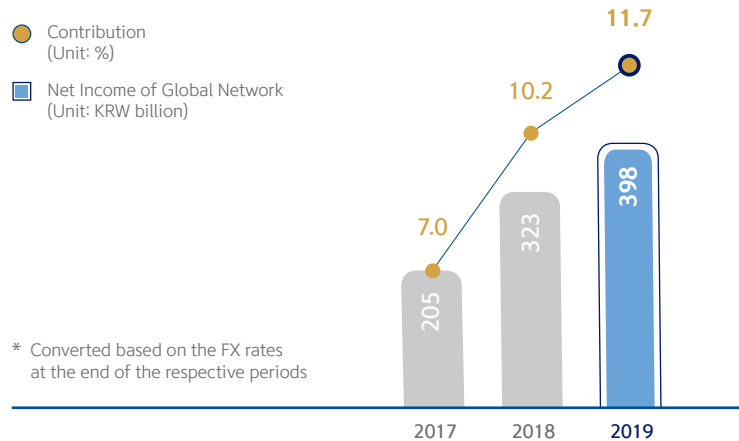
3,881.3 KRW billion

Global assets at the end of 2019

* Converted based on the FX rates at the end of the year

Global Net Income

- Contribution (Unit: %)
- Net Income of Global Network (Unit: KRW billion)



* Converted based on the FX rates at the end of the respective periods

Key Performances in 2019

The global network of Shinhan Financial Group consisted of 219 offices in 20 countries around the world as of the end of 2019. The Group has been building on its some 30 years of overseas experience in order to expand mainly into emerging markets in Asia. Its global assets rose by 166.5% between 2011 and the end of 2019, while the contribution of the Group's net income accounted for by the Global Business Division has grown from 3.5% in 2011 to 11.7% in 2019.

Global business is a key area for Shinhan Financial Group's 2020 S·M·A·R·T Project. The Group adopted a matrix system for its Global Business Division in 2017 in order to support its goal of "securing the Group's growth driver by solidifying foundations for success in Asia". This ensures consistency in global strategies at the Group level, while optimizing the allocation of resources and building the basis for successful sales strategies. In 2019, the Group set out four key tasks for the Global Business Division in order to stabilize the global organizational structure and optimize business models for local markets – producing tangible "One Shinhan" outcomes; pursuing smart growth; encouraging risk-based growth; and increasing global digital capabilities.

Produced Tangible "One Shinhan" Outcomes As one of important pillars of the Shinhan matrix structure, in 2019 the Global Business Division focused on expanding cross-selling and increasing income from local markets across the globe. In markets which subsidiaries have entered together, the Division optimized resource allocation and improved efficiency in procurement and management through its "Country Head" system that supervises collaboration. The global One Shinhan platform was used to conduct joint marketing in each region, IB collaboration between Shinhan Bank and Shinhan Investment was solidified, and joint financial products were launched by leveraging Shinhan Bank's funding power and Shinhan Card's sales capabilities.

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In addition, the Division worked with the GIB Division to source and manage investment and trust products at the Group level, while also performing a role as the Shinhan Global Product Center (SGPC). In 2017, Shinhan Bank Vietnam acquired the retail division of ANZ Bank’s Vietnam operations, and Shinhan Card acquired Prudential Vietnam Finance Company (PVFC) in 2018, which was followed by the establishment of Shinhan Vietnam Finance Company (SVFC) in 2019. SVCF launched guaranteed bonds in collaboration with Shinhan Bank, thereby creating synergies.

Pursued Smart Growth The Group implemented distinctive growth strategies by striking the right balance between risk and profitability, in order to respond to increased volatility in global financial markets. It also pursued efficient asset growth through the monitoring and management of asset concentrations. With regards to organic growth, the Group has sought continued growth in key markets. For example, Shinhan Bank Japan (SBJ) achieved growth by diversifying its business, where Shinhan Bank China implemented a growth strategy of partnering with promising digital platform providers and forming online alliances. In addition, the Group continued its efforts to diversify the supply chain-related financings in China, and to expand the scope of its business in both India and Cambodia.

Furthermore, the Group strengthened its income base by building on the opportunities offered by the successful creation of the 4G models for global IB, global transaction banking, global trading center, and global custody. It enhanced its management efficiency through proper allocation of resources, such as a capital increase for its business model revamp or when required. It also reviewed various M&A and equity investment opportunities in global markets under the principle of pursuing inorganic growth¹⁾, with a focus on Southeast Asia, especially digital investment opportunities in platform companies, consumer finance, and a digital bank joint ventures under the principle of pursuing inorganic growth.

¹⁾ Return on investment, economies of scale, comparative advantages, and synergy

Global Business



Shinhan Bank



Shinhan Card



Shinhan Investment



Shinhan Life Insurance



Shinhan BNPP AM



Shinhan DS

Total

No. of Countries	20	3	6	1	1	1	→	20
No. of Networks	160	50	6	1	1	1		219



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Encouraged Risk-based Growth The Group assigns KPIs related to foreign currency liquidity and risk-weighted assets (RWA) for its overseas branches so that asset growth also takes into account global risks. The level of compliance has been improved to global standards by providing compliance training to overseas branch personnel, and by carrying out an anti-money laundering (AML) and sanctions program at relevant departments and overseas branches. Additional improvements were made to AML systems in Canada, the Philippines, the US, and Myanmar. In addition to recruiting experts on internal controls, the Group has increased the percentage of local employees within the management and directorate of major Group subsidiaries, and continues to recruit people who can quickly and efficiently respond to the requirements of local markets and supervisory authorities.

Increased Global Digital Capabilities The Group has enhanced its local competitiveness in the overseas market through digital technology, and established business strategies that take into account the economic and digital development phase in a particular country. In the corporate sector, the Group expanded the services offered to its customers in Vietnam, China, India, and Canada by providing cash management services (CMS). In the retail sector, the Group improved the convenience and functionality of its Internet and mobile banking platforms, and offered more digital banking retail products by providing loan services in Indonesia through Akulaku, a global e-commerce platform, and through Zalo, a messaging app provider in Vietnam. The Group also accelerated the digital transformation of its operations by digitalizing loan contract documents in Japan, setting up a digital system for the payment of apartment maintenance fees in Vietnam, and opening bill discount platform and WeChat account inquiry services in China.

Plans for 2020

Shinhan Financial Group will grow into Asia's leading global financial group by establishing distinctive strategies which are based on its wide range of experience and successes in global business.

Leading the Market in Key Businesses In order to increase its organic growth, the Group will focus on securing stable sources of income, with Shinhan Bank taking a central role, while strengthening profitability and the soundness of its business models in the non-banking businesses. In addition, the Group will increase portfolio efficiency for each country from an RORWA¹⁾ perspective, implement segmented growth strategies for each region and development phase of key businesses, and manage channels with a focus on profitability. It will also expand the Country Head system in its efforts to support its global business operations. The scope of its 4G localization business model will be expanded as well, and existing successful business models will be applied to other business areas, thereby diversifying its glocalization business models.

Making Outcomes in New Businesses Shinhan Financial Group will focus on developing new products which are optimized for local markets, including loan products offered in partnership with local organizations. It will also increase its presence in regional IB, and enter local brokerage markets. The Group plans to launch strategic digital products through alliances with a channeling service provider in Vietnam, an e-commerce company in Indonesia, and a mobility company in Cambodia. The Group will increase the percentage of its sales made through non-face-to-face channels, including third-party alliance platforms and global SOL, and will expand into key solution-based businesses, such as e-KYC and digital credit assessments. Furthermore, each subsidiary will examine opportunities for M&A, equity investments, and JVs, and will look for global business opportunities by reviewing potential investments in digital companies.

¹⁾ Return on risk-weighted assets

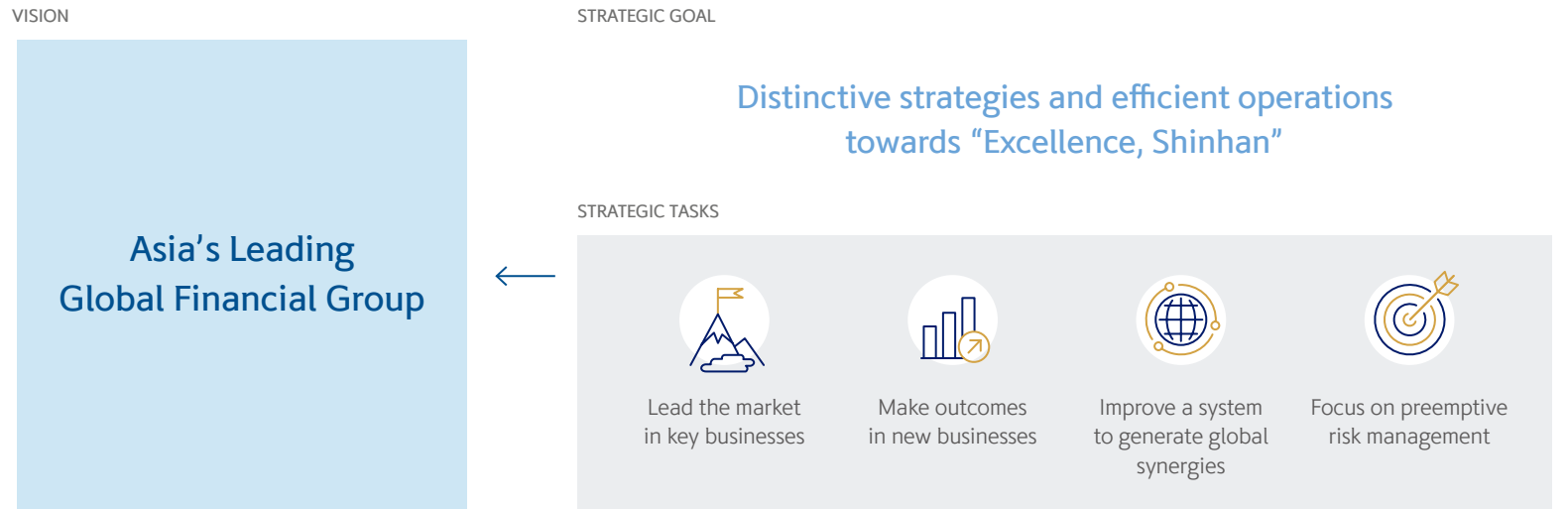
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Improving a System to Generate Global Synergies Subsidiaries which jointly enter local markets will strive to produce One Shinhan outcomes by increasing cross-selling and improving collaboration systems. There will be more joint marketing, including by referrals among subsidiaries, and funding and product sourcing will be expanded by the use of subsidiary channels, including local partner networks. In addition, the Group will build a market information-sharing platform and will share best practices of collaboration among Group subsidiaries, thus strengthening the authority of Country Heads and supporting collaboration. It will also increase the percentage of local personnel among its management and department managers, and will provide additional training programs for local personnel.

Focusing on preemptive risk management In response to increased volatility in global financial markets, the Group is aiming to improve its AML systems, that will help it to establish an effective global AML system, while internal controls will be strengthened by creating a global information protection system. Moreover, risk and soundness management will be strengthened by verifying the status of loan management and addressing any issues found at each overseas branch. The Group will continue to expand its funding by, for example, offering deposit products which are tailor-made for the customer preferences of each country, and by diversifying its funding portfolio.

Strategies for 2020



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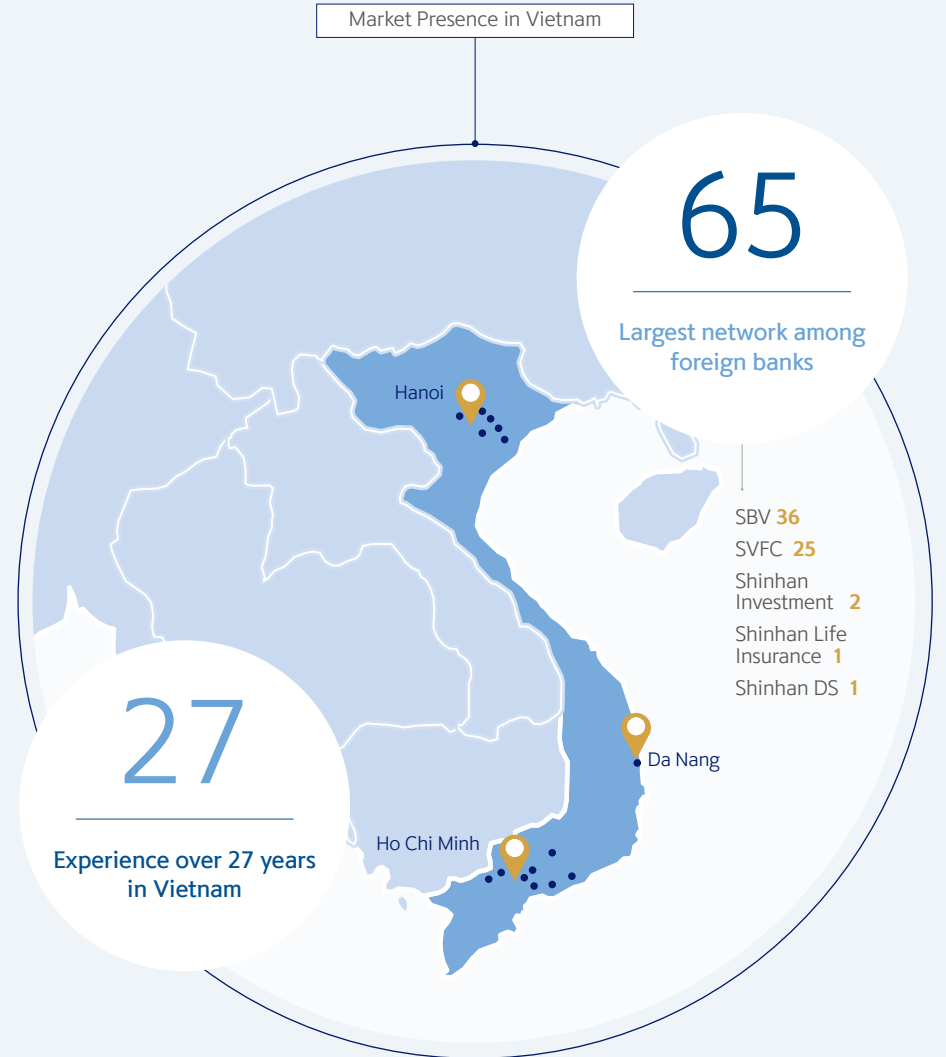
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Global strengths, local focus

Global Value of One Shinhan



Shinhan Financial Group stayed ahead of competition by quickly recognizing the growth potential of the Vietnamese market, and entered it in 1993. Under our “glocalization” strategy, we strived to localize assets, customers, and employees, moving away from a business model based mostly on Korean corporate customers. As of the end of 2019, the Group has 65 financial networks across the nation, providing services such as banking, consumer finance, brokerage, and life insurance, and is continuing to expand our market presence. In particular, Shinhan Bank Vietnam (SBV), which ranks first among all foreign-based banks in Vietnam, was selected as the best company to work for at “HR Asia Awards 2019”, thereby demonstrating the value of One Shinhan in the global market.



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2019 Key Achievements in Vietnam

01

Shinhan Bank Vietnam, Continuing to Be “the First” and “the Best”

Shinhan Bank Vietnam (SBV) is the first Korea-based bank to make inroads into the Vietnamese market in 1993, and it has continued to achieve both qualitative and quantitative growth through localization and M&A. In June 2019, it became the first company in the Vietnamese banking sector to strengthen its specialized services by opening a Private Wealth Management (PWM) Center in order to better serve its high net worth customers. In August, it opened a branch in Da Nang, for the first time among Korea’s commercial banks, thereby establishing a business network which covers the entire area of Vietnam. Moreover, in October the Bank became the first foreign-based bank in Vietnam to win Basel II approval, reinforcing its status as a leading bank in the country. Thanks to these achievements, net income of SBV in 2019 reached KRW 124.3 billion, up 30.9% year-on year, marking its first time that net income has exceeded KRW 100 billion.

Market Position in Vietnam

Shinhan Bank Vietnam

No. 1

Largest foreign bank in Vietnam
(Biggest number of channels and largest loan book among foreign banks in Vietnam)

97.84%

Percentage of local staff
(as of the end of 2019)

“ I am pleased that SBV further solidified our status as the number one foreign bank in Vietnam. By continuing to be “the First” and “the Best”, we will become Vietnam’s leading bank, competing on an equal footing with local banks. ”

Manager in charge of trustee business at SBV

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02

Shinhan Vietnam Finance Company, Opening the Door to New Opportunities

In July 2019, Shinhan Vietnam Finance Company (SVFC), a subsidiary of Shinhan Card, was officially launched as a member of Shinhan Financial Group, following the acquisition of 100% of the shares of Prudential Vietnam Finance Company, which was originally established in 2006. SVFC aims to grow into the best multi-finance company in Vietnam by leveraging its existing non-banking financial business license, and combining it with the Group's financial know-how, mobile platforms, and digital technologies. In addition, it will provide total financial solutions by working together with other Group subsidiaries operating in Vietnam, and will expand its business by forming alliances with major digital companies in Vietnam. In doing so, it will offer distinctive financial services and outstanding customer value to Vietnamese consumers, and promote growth across Vietnam, a land of new opportunities and endless possibilities.

Market Position in Vietnam

Shinhan Vietnam Finance Company

Top 5th¹⁾

Industry ranking with a 4.7% market share

Assets

368.8 KRW billion²⁾

Net income

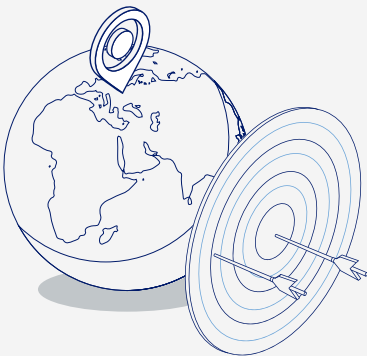
18.4 billion²⁾¹⁾ As of June 30, 2019²⁾ As of Dec. 31, 2019

“Based on our motto of “New Experience, New Value”, SVFC will leverage the strengths of Shinhan Financial Group to offer outstanding products and services, and better customer experiences. We will thus both reflect our own values and advance the Vietnamese consumer finance market.”

Staff in charge of brand & communication at SVFC

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Group & Global Investment Banking

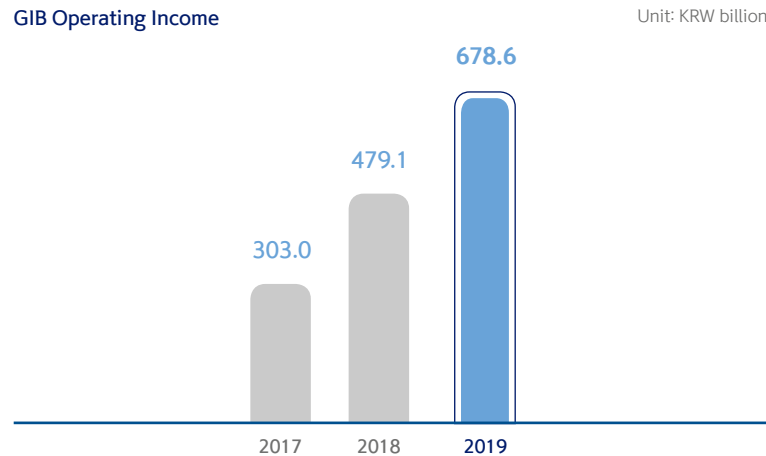
Shinhan Financial Group maintains robust growth momentum in the global capital markets, driven by the GIB, the Group's unique model for collaboration and a matrix organization for IB.

Key Figure

678.6 KRW billion

GIB operating income in 2019

* Before deducting expenses



Key Performances in 2019

The GIB Division achieved an outstanding financial performance in 2019. It substantially improved its competitive position, and its non-interest income earning base was expanded. More specifically, non-interest income increased strongly, with brokerage services, equity investments and income from overseas operations achieving steep growth. Pre-tax income before deducting expenses of the Division recorded KRW 678.6 billion, a year-on-year increase of 42%, having laid the foundations for meeting the targets of the 2020 SMART S·M·A·R·T Project.

Strengthened Leadership in Capital Markets Shinhan Financial Group solidified its position as a leader in South Korea's capital market by arranging major deals under the One GIB system. Collaboration between Shinhan Bank and Shinhan Investment, in particular, led to a year-on-year increase of KRW 3.9 trillion in total arrangements, to reach KRW 13.2 trillion, and a year-on-year increase of 6%p in market share to 25%. The Group also successfully arranged acquisition financing for Linde Korea and Hanon Systems, SOC financing for GTX-A and New Busan Port, and strengthened its leadership in the arrangement of syndicated loans.

There was additional focus on improving total financing solutions for SMEs and mid-cap companies. The "Creative Finance Plaza", a joint sales organization of Shinhan Bank and Shinhan Investment, changed its name to "Shinhan IB Plaza", and its coverage was expanded to include IB for SMEs and mid-cap companies. In addition, "Channel IB Support Team" was created to support demand for small IB deals from the retail and private wealth management (PWM) channels. IB support is thus now better organized for each customer type and sales channel, ensuring more efficient sales support.



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Expanded Global Business Global commitment rose KRW 1 trillion year-on-year to KRW 4.3 trillion, mainly attributable to success in key business areas, such as SOC investment, acquisition financing, real estate financing, and equity investment. The Hong Kong GIB expanded its scope of core businesses by recruiting experts and establishing an efficient collaboration system. In addition, the Group has built on its strong track record by arranging a number of non-resident bond issuances, including the LPPI Kimchi bond in Indonesia and the Transimex Dong-denominated bond in Vietnam.

The global IB platform was also strengthened in 2019. GIB Desks were set up in London and Sydney in January and July, respectively, and the Vietnamese GIB Desk was relocated to Singapore, resulting in the building of a strategic deal sourcing network. In addition, the “Global IB Support Lab” was expanded and reorganized into the “Global IB Department”, thus helping to improve the IB support system. The “Global R&D Team” has also been created within the GIB Division in order to support and provide insights on global deal management and strategies through the gathering and analysis of global information and insights.

Distinctive Innovation Finance In 2019, the GIB Division made investments into innovative companies totaling KRW 588.1 billion, well above its target of KRW 475 billion. The Group exceeded its goals across all areas, including investments by Shinhan Future’s Lab, government matching funds, and social enterprise investment funds, which has made a substantial contribution to expanding the start-up ecosystem in South Korea.

The Group has also expanded its networks for identifying and investing in blue-chip corporations. After completing an innovation financing project in April 2019, the Group signed an MOU to identify blue-chip corporations with several accelerators, including Korea Science & Technology Holdings, Seoul Techno Holdings, HYU Holdings, and Korea Growth Investment Corp., and is now building a collaboration network with them. In addition, a fund worth KRW 10.8 billion was formed specifically for start-up investments into companies fostered by Shinhan Future’s Lab. The Group is moving forward with the construction of a regional start-up park, based on an MOU with Daejeon Metropolitan City.

Plans for 2020

With the business environment remaining difficult as a result of low interest rates, tighter regulations, and increased competition, the GIB Division has set out four strategic directions for 2020 – pursuing “Excellence” in all business areas; building a global IB reputation; expanding One GIB synergy; and establishing a top-notch GIB platform. The GIB Division will strive to achieve both performance outcomes and sustainable development by leveraging its strong execution capabilities.

Pursuing “Excellence” in All Business Areas The Group will enhance its competitiveness across key markets by establishing targeted growth models for each business, pioneering new markets, and expanding its business coverage. In addition, the Group will strengthen the connection for small deals with retail channels, and increase its capabilities in traditional IB business by making fundamental improvements in its advisory services, all in its efforts to expand its presence in the capital market. Furthermore, continued commitment to sustainable finance and innovation finance will be made in order to build a sustainable growth model.

Building a Global IB Reputation The Group will strengthen its global IB through the expansion of its core businesses by building up the global fund business, and by increasing its financial arrangement capabilities. In order to accelerate the pace of its growth into a global IB, the Group will upgrade its global infrastructure. To this end, it will focus on expanding the business areas of each GIB Desk, including in Hong Kong, and pioneering strategic markets. The Global R&D Team within the GIB Division will take the lead in creating an overseas deal system, which will help the Group preemptively manage risks for its global IB business.

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Expanding One GIB Synergy The Group will increase synergies based on market status management for each GIB community and elaboration of strategic tasks. It will also create a new value chain by collaborating with new Group subsidiaries, including Asia Trust and Orangelife, thereby expanding the scope of synergy creation. The range of products being offered will be expanded as well to include publicly-traded REITs and open-ended funds, with the goal of providing optimized IB solutions.

Establishing a Top-notch GIB Platform The Group will strive to create a top-tier GIB platform by segmenting and pursuing specialization within its organizational system, while strengthening the integrated human resources management and development programs of the GIB Division to attract best-in-class talent. Moreover, in order to establish a corporate identity pursuing “Excellence” in global investment banking, the Group will expand its external branding activities, as well as continuing with internal branding programs.

Strategies for 2020

STRATEGIC GOAL

**Action to perform
“Excellence” GIB**

**Successful completion of
the 2020 S·M·A·R·T Project and
new challenge beyond 2020**

STRATEGIC DIRECTIONS



Pursue “Excellence”
in all business areas



Build a global IB
reputation



Expand
One GIB synergy



Establish a top-notch
GIB platform

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Global reach, one partnership

One Shinhan, Globally

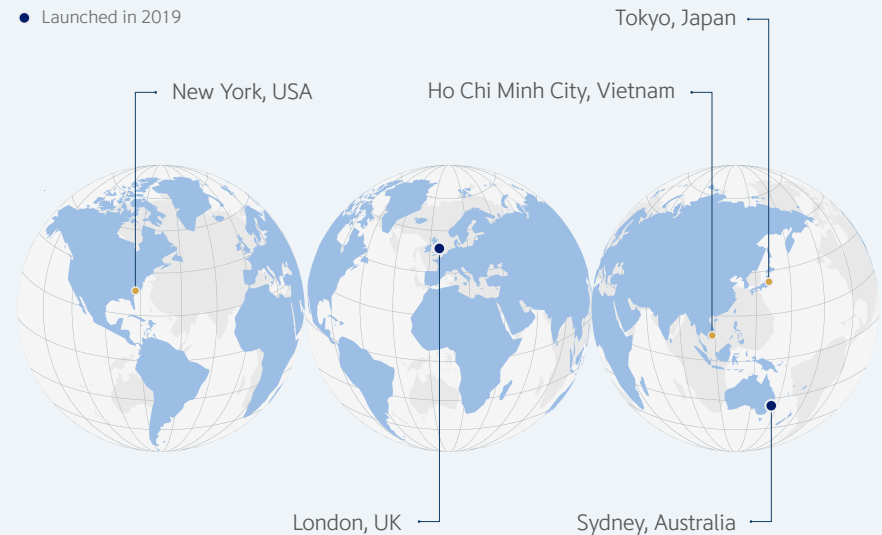
The GIB Division makes continuous efforts to secure new sources of revenue and drivers for growth by expanding its IB business in the global market. It is therefore looking for new business opportunities by increasing collaboration amongst its global financial bases, with its GIB Desks in New York, Ho Chi Minh City, Tokyo, London and Sydney taking a central role. GIB is increasing collaboration between its global financial bases, and looking for new business opportunities. In 2019, the newly-opened London GIB Desk worked together with Shinhan Bank's London branch on the successful arrangement of a syndicated loan for the African Finance Corporation (AFC). This deal not only proved that GIB has become an engine for new growth within the Group, but was also important in that it was a bridgehead into African markets, where Korean financial companies have almost no track record, thereby reaffirming the strength of One Shinhan in the global market.

“ By arranging the syndicated loan for AFC, we have built strong foundations for Korean financial companies to develop their business in African markets. It is also significant in that we have proved the possibility of One Shinhan working together in the IB market. ”

Deputy manager at the London GIB Desk,
Shinhan Investment

Global GIB Network

● Launched in 2019



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Wealth Management

Shinhan Financial Group provides comprehensive wealth management solutions by bringing together the WM expertise of its subsidiaries with the goal of creating the highest level of customer value.

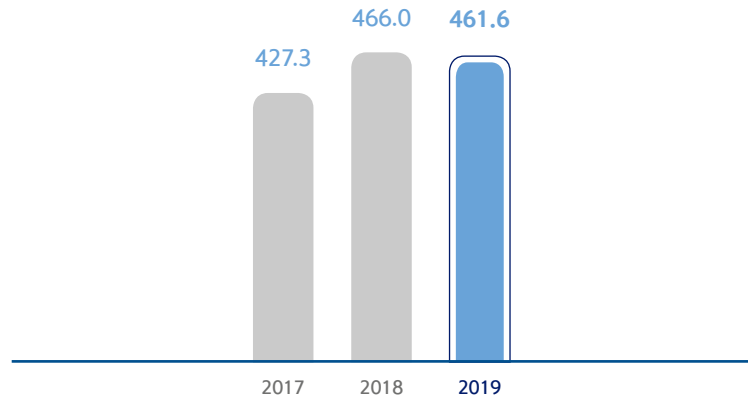
Key Figure

14,422 persons

Number of high-net-worth customers with assets of KRW 1 billion and more as of December 31, 2019

WM Operating Income

Unit: KRW billion



Key Performances in 2019

In 2012, Shinhan Financial Group launched its first Private Wealth Management (PWM) Center, a hybrid branch of Shinhan Bank and Shinhan Investment. As of the end of 2019, there were 29 centers throughout South Korea. In addition to these PWM Centers and retail branches, the Wealth Management Division has created various channels for customer contact according to customer type, and provides customized services which respond preemptively to market changes and enable the Group to develop its distinctive competitive edge in wealth management. Despite a difficult market environment in 2019, the Division continued to focus on customer value by offering the best possible sales channels and products, which resulted in success across various performance indicators, and major accomplishments in both domestic and overseas markets.

Combined IB with PB In 2019, the Wealth Management Division offered distinctive PB services targeted at each customer group. For example, it combined its PWM services with IB expertise and created a PIB Branch in Branch (BIB) for ultra-high-net-worth customers with assets of at least KRW 10 billion at the PWM Privilege Gangnam Center. This has enabled the Division to provide its sought-after customers with comprehensive wealth management services that covers not only individual needs of customers but also business requirements for companies owned by them.

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Outstanding Financial Performance Despite slowing global economic growth and a low interest rate environment, the Wealth Management Division recorded KRW 96.9 trillion of assets in trust as of the end of 2019, a year-on-year increase of 6.2%. It also generated annual net income of KRW 461.6 billion¹⁾. The Division achieved a good performance in its high-net-worth individual business, with the number of customers investing at least KRW 500 million reaching almost 40,000, and the Group ranks first in the South Korean banking sector in terms of the number of customers with at least KRW 1 billion.

Awards and Accolades Shinhan PWM's distinctive and comprehensive wealth management solutions are winning plaudits from major organizations at home and abroad. It was selected by the Asian Bankers as Korea's No. 1 Brand for the fourth consecutive year at the Korea Country Awards 2019. It has also ranked first for 12 consecutive years in the Korea Standard Premium Brand Index (KS-PBI) survey conducted by the Korean Standards Association, and for 10 consecutive years in the Korea Brand Power Index (K-BPI) survey conducted by Korea Management Association Consultants. Shinhan PWM won a total of nine awards in 2019 alone, solidifying its position as South Korea's top PB brand.

¹⁾ Sum of operating income before deducting bank expenses and net operating revenue from financial investments

5 Factors for WM Reframe



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Plans for 2020

The Wealth Management Division will pursue its “WM Reframe” strategy in 2020 with the goal of maintaining its growth momentum even amid rapid changes in markets and intensifying competition. This is aimed at expanding wealth management to all customer groups, and differentiating its Private Banking (PB) business. To this end, in early 2020, the Division separated out the Investment Products and Services (IPS) Headquarters in efforts to make product design more independent and competitive. As a result, the Division is now more focused on customer-centered wealth management, rather than on product sales.

Thinking from a Customer’s Perspective The Group plans to change the system for evaluating its PB business performance. Instead of the previous system, which was centered around profits and losses for the Group itself, there will be a substantially increased focus on customer rates of return. It will also create indices for levels of customer satisfaction in order to build a KPI system that is more centered on customers. These innovations in performance evaluation prove how Shinhan PWM is moving beyond a focus on product sales, and is evolving to offer comprehensive customer-centered advisory services.

Enhancing PB Capabilities The Group continually upgrades the skills of its PB Team Managers so that they can strive to become PB-Chief Investment Officers, actively engaging in the integrated management of customer assets instead of just being a relationship manager. It will also provide pre-PB trainings with a range of diverse content and financial networks to more employees in order to help them grow into PBs. In addition, the Wealth Management Division will provide its customers with comprehensive wealth management and consulting services by expanding its coverage to include IB, products, portfolio management, tax, and real estate.

Wealth Management for All Customers The Group will offer a portfolio of wealth management services, previously limited to high-net-worth individuals, to all customers in line with each individual’s needs and characteristics. Wealth management services which match the lifecycle of each individual and corporate customer will be made available to SOHO customers, moving away from the previous focus on loan services, so that customer assets and the Wealth Management Division grow in partnership. In addition, as more wealth management customers demand online services, the Division will reform its platforms to enable non-face-to-face, portfolio-based wealth management. Moreover, it will segment its customers, and provide each individual with an optimal portfolio in its efforts to offer optimized financial solutions to all customers.


Strategies for 2020

STRATEGIC GOAL


Customer First!

**New challenge towards
“Excellence” WM!**


STRATEGIC DIRECTIONS



Distinctive PB business



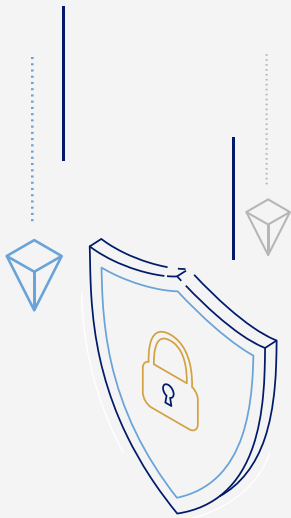
Wealth management for all customers



Customer-centered wealth management system

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Global Markets & Securities

Shinhan Financial Group strives to enhance its expertise and efficiency in operating its proprietary assets, with the Global Markets and Securities Business Division taking a central role.



Key Performances in 2019

In support of its vision of becoming “Asia’s Leading Trading Group”, the Global Markets and Securities (GMS) Business Division implemented three major strategies in 2019 – increasing and diversifying type of investment vehicles; making its products and sales more competitive; and upgrading organizational and internal systems.

Given current market volatility, and with the aim of generating continued and stable profitability, the Division focused on a strategy of pursuing absolute profits rather than directional investment. In bond markets, it focused on increasing the size and types of assets being managed, as well as generating stable profits through well-timed sales. As a result, the Division exceeded its own profit target. In particular, investments in foreign currency bonds, which had not previously been targets for investment, expanded significantly in size and scope in 2019, making a considerable contribution to profitability.

Plans for 2020

Diversifying Management Strategies and Enhancing Profitability

The absolute profit strategy, that has been implemented since the launch of the GMS Business Division in 2018, will continue into 2020 as well, with an additional focus on expanding the spectrum of trading strategies in order to generate stable profits. To this end, the Division will identify new investment targets, and widen the range of its bond investments. In order to achieve first-class global standards, it will build a global and diversified portfolio which includes overseas stocks, ETFs, and highly-rated corporate bonds. It will also expand its management of overseas alternative investment funds and collaborative investments with overseas asset managers. The Division will flexibly adjust the duration and weighting of its portfolios in order to ensure optimal duration management and strategic profit and loss management, according to the asset and liability management (ALM) policy of each subsidiary. It will also pursue profits through timely sales of assets.

Offering Market-leading and Diversified Products In early 2020, Shinhan Investment restructured its organization, with a focus on strengthening the competitiveness of the GMS Business Division. Accordingly, in its efforts to develop new products which can lead market trends and create new markets, Fixed Income, Currency, and Commodity (FICC) Sales Headquarters and FICC Management Headquarters were launched, with the aim of improving expertise in each area. Other adjustments were made to roles & responsibilities and departmental organization to ensure maximum efficiency. As a result, the Equity Headquarters became the Global Investment and Solutions Headquarters, through which investments will be made across a wider range of asset classes in order to enhance profitability.

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FICC Management Headquarters will concentrate on management, while FICC Sales Headquarters will seek out new underlying assets to strengthen its existing sales functions, and will also focus on increasing ELS sales. New customer-centered and market-friendly interest rate/credit/FX-linked products will be developed, and other products for investment into domestic and overseas alternative assets will also be offered. In addition, a range of USD-denominated bonds will be provided to give customers more options.

Upgrading Personnel Infrastructure and Risk Management Having the best personnel is essential to pursue “Excellence” in trading. The GMS Business Division therefore makes continuous efforts to maximize its human resources capabilities. To this end, it has instituted an effective performance measurement system, and its performance-based compensation system enables it to recruit and reward outstanding personnel at home and abroad.

The Division also plans to upgrade its risk monitoring systems. The new preemptive response system will strengthen the role of the Proprietary Asset Management Committee, improve and manage the early alert and risk indices, and undertake detailed analyses of market and product trends.

With regards to infrastructure, improvements will be made to the trading system, and preemptive risk management will be strengthened. There will be continuing upgrades made to the in-house hedging management system, and risk management indices will enable timely responses to events which affect even non-marketable assets. With the Group making ever-increasing investments in global markets, the GMS Business Division will strive to increase the efficiency of foreign currency portfolios, and foreign exchange risk management will also be further improved.

Strategies for 2020

STRATEGIC GOAL

Better risk management and diversifying investment portfolio for an increase in return

STRATEGIC DIRECTIONS



Diversify management strategies and enhance profitability



Offer market-leading and diversified products



Upgrade personnel infrastructure and risk management



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Retirement Pension

Launched in 2019, the Pension Division is a matrix organization bringing together the skills of the Group subsidiaries in retirement pension with an aim to realize top rates of return for its customers.

Key Figure

26.2 KRW trillion

Retirement pension reserves in 2019

Key Performances in 2019

The Pension Division achieved a strong performance in 2019, the first year of its launch, thanks to the competitiveness and skills of the retirement pension organizations at Shinhan Bank, Shinhan Investment, and Shinhan Life Insurance. Driven by a robust performance of the Bank, which ranks first in the Korean retirement pension industry, the Division attracted reserves totaling KRW 26.2 trillion, a year-on-year increase of KRW 4.3 trillion, and an overall market share of around 12%. In addition, Shinhan Financial Group became the first financial company in Korea to offer a fee exemption for customers experiencing negative returns on their individual retirement pension (IRP) investments. The Bank began to offer this exemption, followed by the whole Division, in order to establish a more customer-centered fee system.

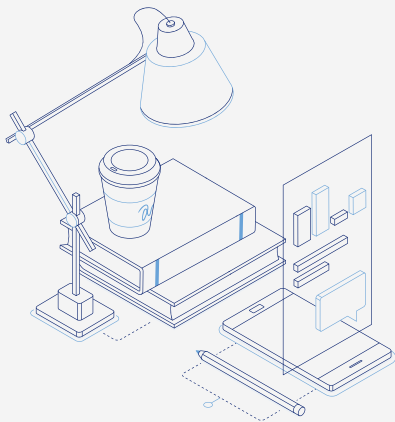
Expanded the IRP Business The retirement pension market is becoming more centered on defined contributions (DC) plan and IRP, as customers focus more on post-retirement assets and the tax benefits of such assets. Accordingly, the Pension Division made an increase in co-payments for IRPs its key strategic task in 2019, in its efforts to respond rapidly to market trends and to develop new drivers of stable long-term growth.

Accelerated Digital Transformation In June 2019, the Pension Division launched “All My Pensions”, a digital platform exclusively for retirement pension. The pensions platform, which is the first of a kind to be introduced in South Korea, can be accessed by pension customers through “SOL”, a mobile platform offered by Shinhan Bank. The platform allows users to inquire information about their pension assets held at various financial institutions, as well as their national pension and/or public officials pension. Retirement planning and pension rebalancing functions were also added, and thus increased customer convenience.

Plans for 2020

Profitable Growth The Pension Division will continue to build its DC business while maintaining its competitive edge in defined benefits (DB) plan. It will also add further qualitative growth by expanding reserves from IRP accounts. To this end, it will improve its KPIs, and focus on attracting more IRP customers. Centralized marketing activities will lead to more consistent and effective performance, while expanded sales channels will improve business efficiency. The evaluation and collaboration systems will be upgraded to further encourage joint sales among Group subsidiaries.

Increasing Customer Rates of Return Products and customer management are vital in increasing rates of return. The Pension Division will therefore concentrate on improving the competitiveness of its products. The Retirement Pension Planning Office, launched at the same time as the Division, is responsible for developing new products, including alternative investment, and is ensuring the smooth supply of customer-friendly products. A rate of return monitoring system is also being set up to improve supervision of rates of return.



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To offer customized services for all customers, client groups will be further segmented before going under management by sale channels. For long-term customers, a professional center will offer additional support. The financial portfolio of customers will be monitored and analyzed to identify areas of potential improvement, offer customized products and seek better returns through various tools such as asset rebalancing. This system will first be put into practice by Shinhan Bank, and will later be expanded to include Shinhan Investment and Shinhan Life Insurance.

Increasing Communications with Customers The Group will more actively communicate with its customers by expanding its non-face-to-face channels and PR activities related to its retirement pension brand. The Smart Pension Center, an integrated pension platform soon to be unveiled as the first of its type in South Korea, will become an industry leader. Moreover, in collaboration with Shinhan AI, the Pension Division will take digital customer experience to the next level.

2020 will mark the first year when the Pension Division establishes its “One Brand” identity. Accordingly, there will be additional PR and branding activities, including informational materials for customers, promotions, media PR, and seminars, which will be handled at the Group level. In addition, Shinhan Bank, Shinhan Investment, and Shinhan Life Insurance will ensure close collaboration in laying the foundations for the “One Brand” retirement pension brand of Shinhan.

Strategies for 2020

STRATEGIC GOAL

**Take a giant stride
towards “Excellence”
in retirement pension**

STRATEGIC DIRECTIONS



Group-wide consensus

Retirement pension as a core business of One Shinhan



Customer-centric

Higher rates of return for greater customer satisfaction



Big transformation

Redefining the platform

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Digital Banking

Shinhan Financial Group is driving digital transformation in order to achieve service innovation for its customers and to improve its fundamentals in response to the changing digital environment.

Key Figure

36.4 million persons

Number of people using Shinha's digital platform as of December 31, 2019

* The sum of such digital platform users as SOL, Shinhan PayFAN, Shinhan Plus, and Jeju Jini

Digital Transformation Strategy

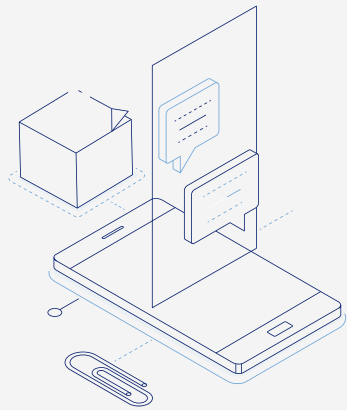
Shinhan Financial Group's digital transformation (DT) strategy is made up of the "2 Track & 5 C" framework. The 1st track is the transformation of current business models, and its key elements are improving customer experiences and operational efficiency. The 2nd track is the development of disruptive models, with the aim of responding to new business models such as fintech, embracing innovative models, and enhancing cooperation.

5C is about assessing how prepared the organization is to implement digital transformation, and it includes core technologies and capabilities required, organizational culture, platforms and partnerships, and change management. This systematic framework will enable the Group to move forward with a balanced, sustainable and complete digital transformation.ucts, including alternative investment, and is ensuring the smooth supply of customer-friendly products. A rate of return monitoring system is also being set up to improve supervision of rates of return.

Key Performances in 2019

The Group began laying the foundations for its digital transformation in 2017, accelerated its efforts in 2018, and in 2019, saw tangible outcomes generated through its digital transformation.

Provided Innovative Digital Platforms In 2019, the Group continued to provide its customers with convenient, innovative services and products. The number of customers using the Group's major digital platforms is around 36 million, and increasing steadily. The "SOL" platform of Shinhan Bank, the "Shinhan PayFAN" of Shinhan Card, and the integrated Group platform "Shinhan Plus" all have more than 10 million users, and are solidifying their leadership in their respective areas. According to an evaluation¹⁾ carried out by Gallup in the first half of 2019, the mobile applications of four major subsidiaries – SOL, Shinhan PayFAN, Alpha of Shinhan Investment, and Smart Counter of Shinhan Life Insurance – won first place in their respective industries. The Group's digital platforms are also earning recognition from consumers, with Shinhan Plus winning the main prizes at world-renowned design competitions, such as the Red Dot Award and the International Design Excellence Awards.



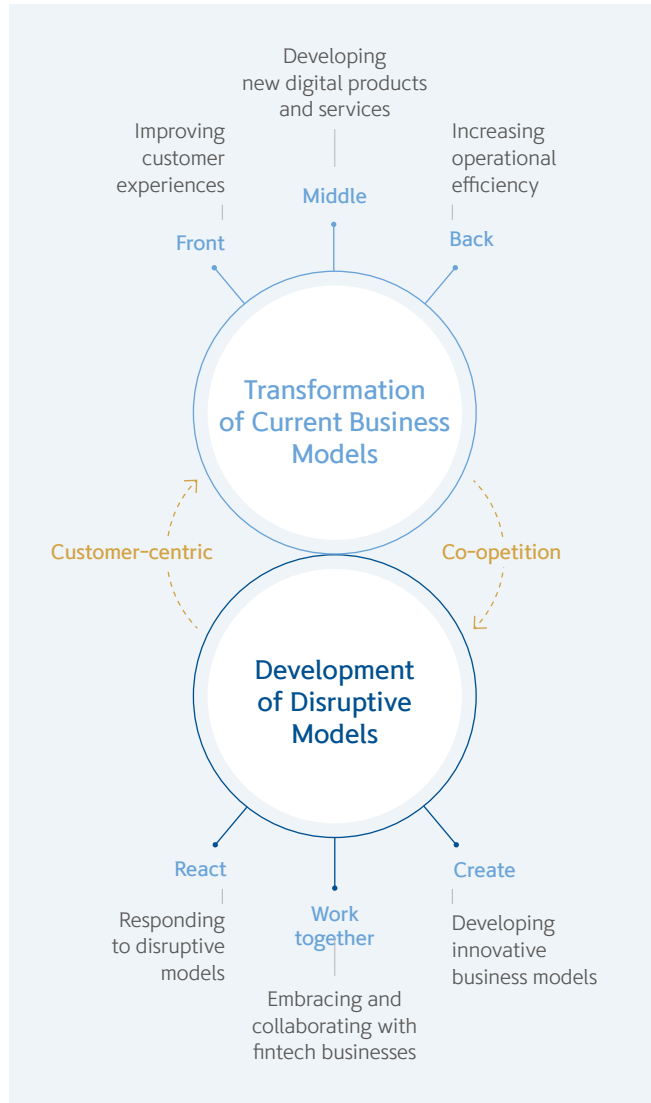
¹⁾ An evaluation of the competitiveness of commercial banks' applications, excluding Internet-only banks

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Framework for Digital Transformation Strategy

2 - Track: Business Innovations



5 - C: Organizational Readiness

Core Tech	1	9 Required technologies	→	AI
Capability	2	Nurturing talents		Big data
	3	Attracting talents and expanding industry-academia collaboration		Blockchain
				Cloud
				Open innovation
				UX
				Digital marketing
Culture	4	Way of working and organizational culture		Cyber security
	5	Governance and organization		IT architecture
Collaboration	6	Building platforms		
	7	Creating external partnerships		
Change	8	Intellectual property		
	9	Roadmap and change management		
	10	Improving internal regulations		

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Developed New Digital Products and Services Shinhan Financial Group strives to provide greater value to its customers by developing new products and services leveraging new digital technologies. Shinhan Card is preparing its personal expenditure management (PEM) service as a preemptive response to the development of open banking, while Shinhan Bank has already launched its personal finance management (PFM) service, setting a new standard for financial experiences. In addition, Shinhan Card has adopted several payment methods which use new digital technologies, including Touch Pay for mobile on/offline payments, and Face Pay, which offers payments through facial authentication. As a result of such efforts towards digital competitiveness and innovativeness, Shinhan Card was presented with the Presidential Award at the Korea Digital Management Innovation Awards hosted by the Ministry of Science and ICT.

The Group also quickly responded to changes in regulations. It presented a range of ideas to the government-led regulatory sandbox program¹⁾ to spur innovation in the financial sector, and Shinhan had been selected for six²⁾ of the programs, the most of any financial institution. These programs have actually been commercialized, and are now leading financial innovation.

In September 2019, the Group established Shinhan AI, an AI-based investment advisory company, for the first time among financial groups in South Korea. Shinhan AI launched the “NEO”, an AI-based investment advisory platform, by bringing together cutting-edge digital technologies, such as AI and big data, and Shinhan’s financial know-how. The company is expected to lead the Group’s digital innovation and competitiveness by providing investment advice to major subsidiaries.

Established an Open Innovation Ecosystem Led by Shinhan Shinhan Financial Group is expediting the establishment of an open innovation ecosystem. In 2018, in response to changes in the regulatory environment such as MyData, Shinhan Financial Group became the first financial group in South Korea to launch a Group-wide joint open application programming interface (API) platform, “Shinhan Open API Market”. In addition, it has collaborated with various service providers in different sectors to develop products and services which offer new customer experiences. In November 2019, the Group hosted the “Shinhan Hackathon”, using around 130 Shinhan APIs and providing developers with the opportunity to use actual data and develop practical, creative services.

Shinhan Future’s Lab Becoming a Global Accelerator Shinhan Financial Group opened Shinhan Future’s Lab Vietnam in Ho Chi Min City in December 2016, and Shinhan Future’s Lab Indonesia in Jakarta in September 2019, in its efforts to support start-ups across the globe. It also signed a strategic business agreement with Plug & Play, a global start-up accelerator, in November 2019, and plans to enter major markets, including the US and UK, in the near future. Going forward, the Group will continue to provide support for companies fostered by Future’s Labs globally, meeting their international business requirements by opening more overseas bases, and expanding the start-up ecosystem led by Shinhan.

¹⁾ A program which has been implemented pursuant to the Special Act on Innovation Financing Support by the Financial Services Commission. It defers or exempts the application of regulations, including those related to permissions and approvals, on selected services for as long as four years

²⁾ Credit card-based remittance; credit assessment for individual businesses by using their credit card information; small investment linked to consumption and expenditure management; facial recognition payment, real estate monthly rent card payment; and the purchase and giving of overseas equity gift cards through an online platform



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Strengthened Key Digital Capabilities The Group is undertaking a wide range of projects to strengthen its capabilities related to big data and AI that are expected to have significant impacts on the financial industry. It signed an MOU with the Korea Advanced Institute of Science and Technology (KAIST) for industry-academia collaboration in August 2019, and then established the “Shinhan-KAIST AI Finance Research & Development Center”. A team was formed consisting of six KAIST professors on AI, big data, machine learning, and financial engineering, alongside expert staff of Shinhan Financial Group. Team members are undertaking joint research on business issues that will have a direct impact on Shinhan subsidiaries, and the outcomes will actually be reflected in the business of those subsidiaries, including Shinhan Bank and Shinhan Card. In addition, contracts for mutual cooperation on AI have been signed with renowned research institutions in Korea and abroad, including Pohang University of Science and Technology and Element AI of Canada. The Group continues to make substantial efforts to develop a new AI financial algorithm which can make best use of the massive amounts of financial data both inside and outside the Group to provide optimal financial services.

The Group cloud strategy has also been established in order to ensure rapid responses to the Group’s digital transformation, and to improve business agility and infrastructure operational efficiency. The Group will first look to the use of public cloud platform for new services, and will also gradually transform existing services which can make use of the cloud into a hybrid cloud.

2019 was the year in which the Group’s commitment to digital innovation led to tangible results. Shinhan Digital Innovation Institute’s Big Data Lab became the first of its type in the South Korea’s financial industry to publish machine learning research at the Americas Conference on Information Systems. In addition, a Shinhan research paper won the main prize at FISCON 2019, a conference on the protection of financial information hosted by the government-affiliated Financial Security Institute.

Plans for 2020

Evolving into a Mega Platform People are at the center of digital transformation, which is why Shinhan Financial Group is putting the highest priority on customer value in its digital transformation. In 2020, the Group will provide seamless experiences using new technologies, including voice recognition, facial recognition, and location-based services. It will also help its customers by building strong connections between on/offline data-based digital platforms and its offline branches.

The Group will also strive to strengthen its platforms. To this end, it will react effectively to regulatory changes regarding Open Banking and MyData by collecting customer information to offer comprehensive wealth management services throughout a customer’s life. For retail customers, the Group’s comprehensive wealth management will cover personalized asset/loan management, retirement planning, income/expense analysis and surplus fund forecasting. For SOHO clients, the Group will offer specialized mobile services based on sales/cost management, supply chain management, and marketing support.

Using AI/Big Data to Lead the Data Economy According to an article from McKinsey & Company published in 2017, big data is very important in finance because of the vast amounts of data created and retained, which is why the industry plans to invest more than any other in AI over the next three years.

Shinhan Financial Group will use its advanced data analysis to develop outstanding products and services. Competitive products will increase customer inflow, leading to the accumulation of more data, which in turn can be used to create better products and services. In order to build this virtuous cycle of data, the Group plans to launch an integrated “Big Data Platform” and an “Algorithm Sharing Platform”. The Big Data Platform will increase the Group’s understanding of its customers, and how it can use the information, while the Algorithm Sharing Platform will enable the systematic management of major algorithms. Moreover, the overall data analysis capability of the Group will be improved through the open sourcing of algorithms.



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Expanding the Shinhan-centered Digital Ecosystem The Group will expand Shinhan Future's Lab, a leading start-up fostering program in South Korea. It will open bases in major cities in South Korea, including Daejeon and Incheon, in addition to the existing base in Seoul, and will seek strategic collaborations with accelerators overseas in order to advance into major markets, such as Silicon Valley in the US and London in the UK, while expanding its business in existing bases in Vietnam and Indonesia. This will enable the Group to communicate and cooperate with a greater range of companies.

Furthermore, the Group will also expand the Shinhan-centered digital ecosystem into non-financial areas by working together with approximately 200 partners in areas such as travel, food, and mobility. In addition, the Group will share its top-tier APIs which will enable it to develop a distinctive financial service platform for everyday life.

IT Modernization The Group will modernize its IT system in order to achieve digital transformation and improve work efficiency. It will adopt an ICT infrastructure based on new technologies, including Unix to Linux (U2L), Container, and Micro Service Architecture (MSA), and implement a cloud-first strategy for new services, with the goal of improving its business agility and accelerating the pace of development. In addition, an intelligent security control system, based on AI and big data, will be introduced to strengthen security incident response systems and increase operational efficiency. An AI-based intelligent call center will increase efficiency at call centers, and working hours will be reduced through the intelligence robotic process automation (RPA).

Rebuilding the Organizational Culture In order to compete against big tech and fintech companies, and stay ahead of the curve for the future growth, it is vital to recruit and train people with both financial business capabilities and digital skills. Shinhan Financial Group has therefore defined a Group-wide model for digital talent, based on which it will provide training to strengthen the digital skills of all Group staff. There will be a common mobile training platform throughout the Group offering a wide range of content, from introductory courses to top-level professional training. The Group will thus commit the resources needed to build an environment in which its employees can acquire digital knowledge and develop their digital skills.

The Group is developing a more creative organizational culture in response to the fast-changing market environment. It is expanding its agile organization systems, currently applied only in digital and ICT units, to major departments and other business units. In addition, it is supporting the company-in-company (CIC) system in the digital sector, and encouraging a culture in which innovation is driven by the freedom to try something new, and to fail if necessary, until innovative success is achieved.



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Real Estate Business

The Group Real Estate Business Line is a matrix organization which outlines the vision for the Group's real estate activities, sets out strategies, and ensures collaboration at the Group level.

Key Figure

2019

Group Real Estate Business Line, newly launched in 2019

Key Performances in 2019

Asia Trust became Shinhan Financial Group's 15th subsidiary in May 2019, enabling the Group to have full coverage across the entire real estate lifecycle. In order to maximize collaboration and synergy within the Group, the Group Real Estate Business Line was set up as a shadow matrix organization. It consists of three management structures – the Real Estate Strategy Committee, the Real Estate Finance Council, and the WM Real Estate Business Council. The Group's focus in 2019 was on building the internal frameworks to lead the real estate market in South Korea.

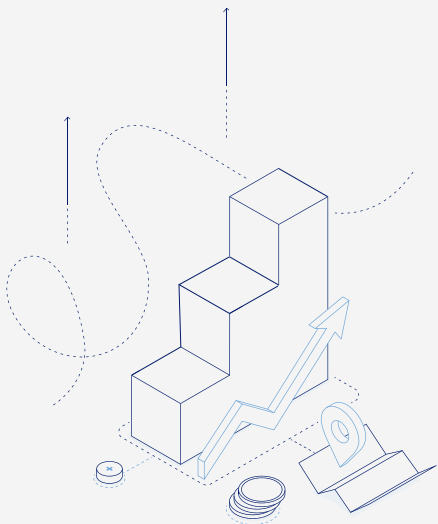
Real Estate Strategy Committee The Real Estate Strategy Committee is the top consultative body of the real estate business, and is led directly by the Group CEO and attended by CEOs of all relevant subsidiaries, as well as the heads of the GIB and WM Divisions. At these meetings that are held twice a year, the Committee sets out the vision for the real estate business and establishes strategic directions at the Group level. It also reviews the outcomes of Group collaboration.

Real Estate Finance Council The Real Estate Finance Council is in charge of sharing information about real estate-related deals which require collaboration within the Group. It is also responsible for identifying and executing deals which may be enabled by effective collaboration. The real estate finance sector continues to achieve strong performance despite weak growth in the overall financial sector. Relevant Shinhan subsidiaries therefore discuss ways to run their businesses more efficiently and to generate synergy. Held once a month, the Council shares information on trends in the real estate finance market, and discusses the broader picture for collaboration. It operates a working-level employee council every other week to discuss deals in detail.

WM Real Estate Business Council The WM Real Estate Business Council formulates new real estate strategies for targeting WM customers and other high-net-worth individuals, and discusses how to train experts in real estate. This enables the Council to provide comprehensive real estate services to WM customers, including advisory, brokerage, and wealth management.

Plans for 2020

Upgrading the Real Estate Finance Platform The Group will improve its platform in order to lead the real estate finance market. Channels within the platform for gathering information on deals will be expanded through the Real Estate Finance Council, with Shinhan Bank's Real Estate Finance Department performing a central role. The information collected will then be centralized, and responsibilities will be divided between subsidiaries. There will be a clear focus on preventing the Group's capabilities from being dispersed through lack of collaboration for deals of larger scale that may require public offerings and bidding.



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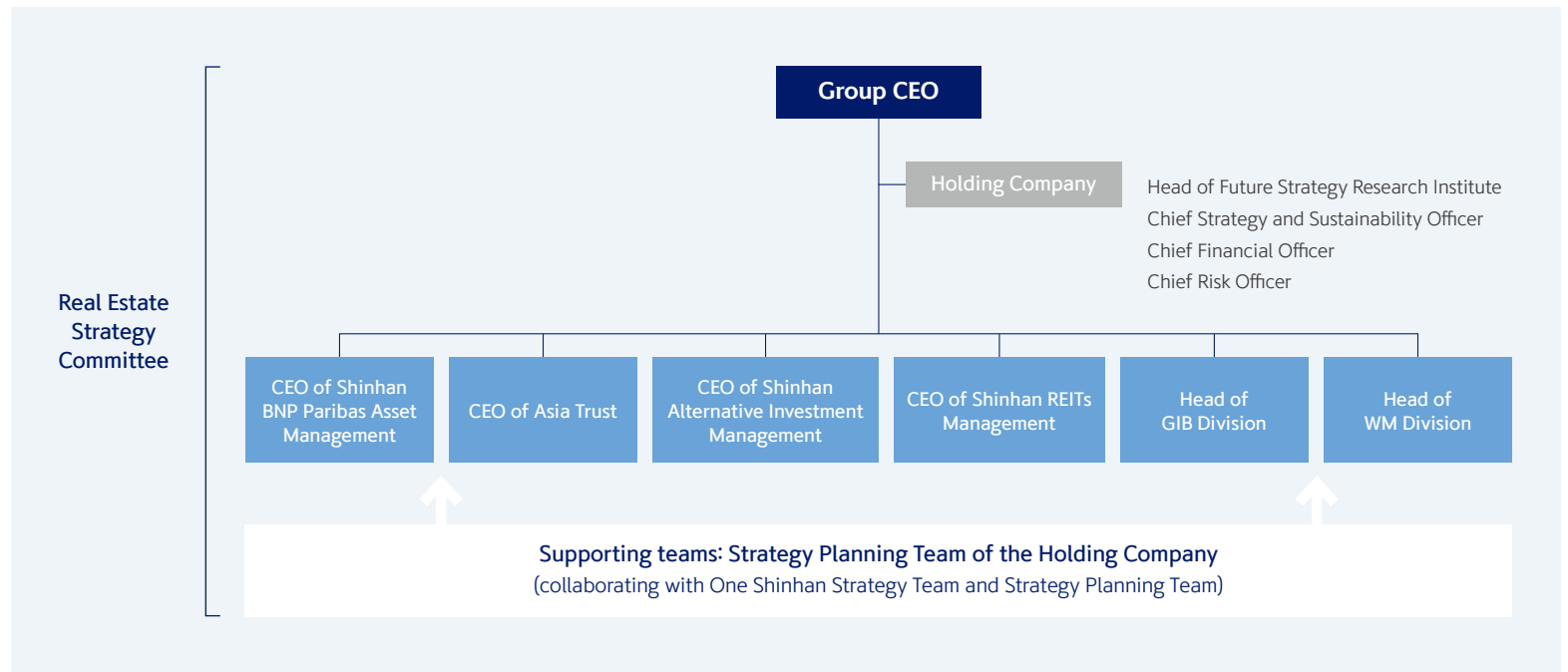
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Maximizing Synergies in Real Estate Finance The Group will increase collaboration and thus maximize revenues through the Real Estate Finance Council. It will identify financial business opportunities that occur throughout the entire real estate business lifecycle, from project planning to implementation, lot sales and management, and systematize Group-wide collaboration. In doing so, it will make real estate finance a future growth driver of the Group.

Building a Reputation in the Real Estate Market The Group is moving beyond just being a financial institution which provides traditional real estate finance services, and is building a reputation as a business partner. It will actively seek partnerships with major developers in South Korea to work on projects from the early phases. Continuing successes in this area will help Shinhan Financial Group strengthen its reputation as a reliable business partner in the real estate market.

Leading the Real Estate Finance Business The Group will offer innovative products which will create a paradigm shift in real estate finance by targeting the retail sector. In particular, the Real Estate Finance Council and the WM Real Estate Business Council will work together to develop a wide range of products which satisfy customer requirements and maximize revenue.

Strategic Committee Organization





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Retail Banking

Despite difficult market conditions, Shinhan Financial Group achieved outstanding quantitative and qualitative growth in retail banking driven by its commitment to excellence and customer-centered management.

Key Figure

No. 1

Highest number of new active customers among commercial banks in South Korea

Key Performances in 2019

The domestic business environment remained challenging throughout 2019 due to a new apartment price ceiling system, tighter regulations on real estate loans, lower benchmark interest rates, and other regulatory changes. 2019 also saw the emergence of Internet-only banks and open banking services.

The Group's Retail Banking Division therefore focused on expanding its customer base and sales of strategic products such as real estate and car loans, resulting in stable and profitable growth. In particular, the Division was able to add more customers by launching "My Salary Club". This new platform has redefined what it means to be a salary earner, so that the same benefits offered to full-time workers receiving salary through direct deposits to their Shinhan Bank accounts can be offered to anyone who has an income, including housewives, part-time workers, and retired pensioners.

In addition, the Division has substantially expanded its digital operations, including the quick and easy receipt of smart documents, a online application process for collective loans, mobile branches, and digitalized marketing activities. Some branches were closed or merged in order to increase efficiency and productivity in retail operations.

Outperformed Growth Targets In 2019, Shinhan Bank launched a wide range of products and services aimed at expanding its customer base, including "My Salary Club" and "First Salary DREAM Installment Savings". As a result, the number of active customers increased by 280,000 to 10.32 million. Shinhan Bank was thus able to achieve both qualitative and quantitative growth, including an increase in core deposits, such as low cost funding, and growth in household loans.

Thanks to increases in active customers, credit card and merchant payment accounts, and household deposits from My Salary Club, as well as stable inflows of funds from public organizations, core deposits grew by KRW 8.6 trillion year-on-year. Considering that the growth target set out at the beginning of the year was KRW 4.5 trillion, the Bank has outperformed its target by 190%.

Shinhan Bank also concentrated on marketing activities for employees at large companies through the Total Marketing Complex, and expanded both face-to-face and non-face-to-face business, resulting in a net increase of KRW 9.5 trillion in household loans. As a result, the Bank grew more in 2019 than any other commercial banks in South Korea.

Created Social Value through Finance Shinhan Financial Group has defined its mission as "Compassionate Finance, Your Companion for the Future", and is making efforts to create a better society through finance. In particular, the Group continues to offer such specialized financial products as the New Hope Spore Loans, targeting low-income people. As a result of these efforts, in 2019 Shinhan Bank became the first commercial bank in South Korea to win the Financial Services Commission Chairman's Award in the small loan category at the Finance Day ceremony.



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Plans for 2020

In 2020, the Retail Banking Division will overcome the challenging business environment at home and abroad by building on the growth it achieved in 2019. It will also concentrate on digital transformation, and accordingly pursue such strategic directions as building a hyper-personalization marketing system, pioneering new markets based on platforms, and developing smart sales methods.

In addition, the Division will strive to get closer to its customers by continuing to recruit and train top-quality personnel for roles which cannot, and should not, be replaced by digital technology. In particular, it will upgrade its customized marketing platform “MIDAS System”, and use the “My Wealth” integrated mobile wealth management service to support marketing activities and improve operational efficiency at branches, so that its sales personnel focus more on customer management.

Building a Hyper-personalization Marketing System Shinhan Financial Group will upgrade its customer management in terms of systems, organization, and skills. With regards to improving its wealth management, it will upgrade the MIDAS System, and will also reform the customer allocation and its “Tops” system to enable greater focus on customer management. In addition, management of deposit maturities will change from face-to-face management to a non-face-to-face system, according to customer choice. Tailored products and services

reflecting the needs of each customer will be offered using alliance services, and a marketing system allowing seamless movement between online and offline channels will be built in collaboration with the Bank’s digital departments.

Pioneering New Markets Based on Platforms The Group will leverage the Shinhan Plus, its Group-wide joint marketing platform, so that customers of other subsidiaries can also become customers of Shinhan Bank. The Group will also develop new businesses, and focus on pioneering new platforms through external alliances.

Developing Smart Sales Methods In order to grow its asset base while remaining focused on a strong ROA, the Group will concentrate on strategic products, including apartment loans, unsecured personal loans for customers with strong credit, and MY CAR loans. It will put additional efforts into managing apartment loans, focus on winning business from employees of major companies, and expand digital marketing to increase the number of unsecured personal loans made to customers with strong credit ratings. There will be more marketing activities for MY CAR loans by strengthening dealer network involving the MY CAR loan agreement, and by increasing the proportion of convertible loans. In addition, the Group will use its mobile branches to digitalize counter work, and expand the scope of its mobile process in order to achieve cost reductions and innovate its sales channels.

Strategies for 2020

STRATEGIC GOAL

**Creative innovation
for “Excellence”
in retail banking
services**

STRATEGIC DIRECTIONS



Customer-centric

Build a hyper-personalization marketing system



Market-leading

Pioneer new markets based on platforms



Innovation-driven

Develop smart sales methods

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Corporate Banking

Based on its strong execution capability supported by excellence in corporate banking, Shinhan Financial Group is making the utmost effort to achieve stable growth and shape the future of finance.

Key Figure

No. 1

Selected as a leading bank in supporting SMEs

Key Performances in 2019

Shinhan Financial Group's Corporate Banking Division established its strategic goal for 2019 as "Challenging for the T.O.P. – a quantum growth for an unrivaled corporate banking service provider", in order to overcome a challenging business environment and achieve strong growth. Accordingly, it set out three strategic directions in support of this goal – good growth at core business areas; profitable and sustainable growth; and differentiated growth for the future.

Good Growth at Core Business Areas The Group focused on its core markets, including mid-cap, audited, and non-audited corporations in order to maintain strong growth momentum based on its high-quality assets. Top quality SMEs were the main targets of marketing, and as a result, Shinhan Bank ranked first among commercial banks in terms of increases in KRW loans to SMEs in the first quarter of 2019. In addition, the Group has improved the customized services offered to its corporate clients at each stage of their growth, which led to the number of SME clients with more than KRW 100 million in loans reaching 47,859, making Shinhan Bank the leader in the South Korea's commercial banking sector. Thanks to these achievements, the Bank received a Presidential Citation at the "24th SME Venture Financial Support" awards ceremony, and also earned the Minister of SMEs and Startups Citation at the "2019 Joint Growth Week Event" ceremony.

Profitable and Sustainable Growth The Corporate Banking Division makes continuous efforts to secure stable revenue structure in order to achieve sustainable growth. In 2019, the Division undertook a range of collaborative marketing activities targeting SMEs and mid-cap companies, for example through collaboration within communities, referrals from other business divisions, and synergy among Group subsidiaries.

It also signed agreements with external organizations, including the Ministry of SMEs and Startups, the Ministry of Trade, Industry and Energy, and the Korea Institute for Advanced Technology. In addition, it improved its comprehensive profit-based loan support system with an aim to ensure efficient asset management and better profitability, and also segmented non-interest income, including FX/derivatives and trust/retirement pension. The Division also achieved smart growth in its assets by diversifying its revenue structure based on an increase in core deposits, such as low cost funding.

Differentiated Growth for the Future In efforts to lead the market, the Corporate Banking Division continued to provide financial support to SMEs with only traditional loans, but also through various financial support tools, including long-term loans based on credit analysis of both financial and non-financial information¹⁾, equity investments, and the other forms of non-financial services. It offered the "Shinhan Success Do Dream Intellectual Property Right' Secured Loan", which uses intellectual property (IP) rights as security, and also focused on supporting innovative growth. To this end, it identified promising businesses connected to the Fourth Industrial Revolution and provided them with preemptive support. In addition to increasing financial support for ventures and start-ups with outstanding technologies, the Division helped SMEs and mid-cap companies enhance their competitiveness by facilitating its M&A advisory platform.

¹⁾ Non-financial information of a corporation, such as CEO's profile, company history, and technology value



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Plans for 2020

The Corporate Banking Division will respond to the increased uncertainties and competition in its business environment, and remain a leader through outstanding innovation. To this end, it has set its strategic goal for 2020 as “Creative solution provider embodying “Excellence” in corporate banking services”, and will implement the following strategic directions in support of this goal – improving business fundamentals, customer-centered joint growth, and differentiated growth for the future market.

Improving Business Fundamentals In 2020, the Division will increase the portion of high-quality assets from loans for SMEs, while continuing to strike the right balance between risk and profitability. The newly-created Project & Relationship Manager (PRM) Team will target blue-chip companies, and will collaborate with the Retail Relationship Managers (RRM) to provide customers with the best financing solutions. The Division will also expand its customer base through the effective management of long-term customers.

Customer-centered Joint Growth In order to grow alongside its customers, the Division will expand its provision of corporate banking solutions, and increase its support for innovative start-up companies. It will also strengthen support for IB loans and expand its consulting services.

In innovative finance, the Division will increase its marketing activities in technology finance, property-secured loans, IP-secured loans, relationship banking, social finance, and support for companies in key materials, parts, and equipment sectors. It will also fulfill its social responsibilities by expanding the “Do Dream” program, which encourages financial inclusion by supporting individual businesses. In doing so, the Division will both maximize customer value and continue to lead Shinhan’s on-going growth and success.

Differentiated Growth for the Future Market Continuing efforts will be made to develop a competitive edge in the markets of the future. Customer-centered, open corporate banking platforms will be built to improve digital competitiveness in corporate banking, including a CMS marketing portal and Web CMS. The Division will strengthen its digital-based customer relationship management, including through the “SoLive” and “Spurt System”, and also will form alliances with other businesses to offer products and services which meet customer requirements. Moreover, it will offer a wide range of choices for employee training programs for those dedicated to develop a career in corporate banking and become a leader in the future this sector.

Strategies for 2020

STRATEGIC GOAL

**Creative solution provider
embodying “Excellence”
in corporate banking
services**

STRATEGIC DIRECTIONS



Improve business fundamentals



Customer-centered joint growth

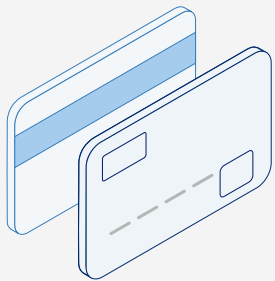


Differentiated growth for the future market



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Credit Card

Shinhan Card is moving beyond the limitations of the credit card business and exploring new opportunities based on its direction of hyper-connection, hyper-expansion, and hyper-cooperation.

Key Figure

No. 1

Shinhan Card's market share in South Korea

Key Performances in 2019

Shinhan Card has been diversifying its business portfolio in response to the ongoing tightening of government regulations on the credit card industry and the changes in markets and customers caused by the entry of digital companies and platform providers into the financial industry. 2019 was the first year to see practical outcomes from these efforts. In addition to having the largest market share in its credit card business, Shinhan Card earned revenues across a range of other businesses, from both home and abroad. Its installment finance assets exceeded KRW 5 trillion. Moreover, the Financial Services Commission designated Shinhan Card as the provider for five innovative financial services eligible for the benefits under "regulation sandbox", which is a government-led scheme aimed at encouraging business innovation by relieving companies from relevant regulations. Services as innovation financing services, enabling the company to have the greatest number of services chosen in the financial industry. Services selected included "My Remittance" for credit-based remittances and "My Credit" individual business credit assessment service.

Strong Foundations for New Growth In 2019, Shinhan Card built foundations for new growth through "New Vision – Connect more, Create the most", outlining its commitment to limitless connection and cooperation, as well as the "Deep FOCUS Strategy", which is re-examining the potential scope of customers and expanding business accordingly. There are now more than 25 million members of Shinhan Card's integrated services, and more than 5 million units of the hyper-personalized, tailored "Deep Dream" card have been issued. In installment finance, where Shinhan Card has invested heavily to ensure better asset portfolio diversification, the company has solidified its position in the market's top three, with assets exceeding KRW 5 trillion. In addition, Shinhan Card has accelerated its expansion into a multi-finance company by unveiling new finance, rental, and fee-based products which meet a wide range of customer requirements in their daily lives.

The "Shinhan PayFAN" payment and life platform now has 11.5 million subscribers and annual payments of over KRW 10 trillion, thanks to its ability to develop and deliver services which have evolved from the customer perspective. These services include "MySHOP" which now connects more than 3 million customers and merchants, "Timeline" which displays a customer's payment history at a glance, as well as "Touch Payment" and "Face Pay" which enables payments without a credit card.

Global Growth Shinhan Card achieved significant growth in its overseas income in 2019, with some KRW 20 billion in net income being generated, based on the successful launch of Shinhan Vietnam Financial Company (SVFC). Going forwards, Shinhan Card's overseas subsidiaries located in four countries – Vietnam, Kazakhstan, Myanmar, and Indonesia – will continue to strive towards their combined goal of generating 10% of the amount of revenues made by the businesses in South Korea.



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Enhanced Brand Value Thanks to its achievements in 2019, Shinhan Card won the “Presidential Award for Digital Management Innovation in Korea”. It also became the first financial company in South Korea to achieve a triple crown in brand value evaluation, and ranked 7th among the “Top 100 Brands in Korea”. Shinhan Card has received recognition for its brand value across business, not just in credit cards. The number of Facebook followers is one index which can be used to determine the interest of younger generations, and Shinhan Card has 1.3 million followers, highest number among financial companies in South Korea. The company also received many awards for its advertising, branding and digital business, and continues to develop into one of the most-trusted financial brands.

Plans for 2020

In 2020, Shinhan Card will continue to implement its Deep Strategy in order to widen its business scope, and to accelerate its journey to become part of the financial digital ecosystem. Following the 2018 Deep Change strategy, which focused on fundamental internal improvements, and 2019 Deep Focus, which re-defined the scope of customers and further expanded the business, Shinhan Card’s strategic direction in 2020 will be “Deep WAVE”. Shinhan Card will continue to lead trends and share its distinctive customer experiences throughout the entire market.

“Excellence, Shinhan” & One Shinhan “Excellence, Shinhan” is a keyword that will open the door to a new future for Shinhan Financial Group as a world-class financial group. To be seen by all customers as truly first class, it is not enough for the individual companies to be strong. Instead, all the Group subsidiaries must build one massive ecosystem based on digital technology, and provide the optimal services demanded by customers. This is why “One Shinhan” is the highest priority for Shinhan Card in 2020. Shinhan Card will therefore maintain its leading position in the credit card business, while also seeking to rapidly develop drivers of future growth. In addition, as a member of the Shinhan Financial Group, Shinhan Card will create distinctive value from the perspective of One Shinhan, and make a strong contribution towards achieving “Excellence”.

Winning in the Next Payment Market The most important area of financial digitalization has been the payments market. It is the main business area of Shinhan Card, and is also coveted by many non-financial companies seeking to enter the financial industry for it derives many customers, business partners, and massive amounts of data. In order to compete against fintech companies and Big-Tech platforms, Shinhan Card will undertake innovation centered on its customers throughout the entire payment value chain, including recruitment, product and marketing, and will respond rapidly to new developments in technology including in payment, Bio, and IoT. In addition, the company will maximize payment contact points by working in partnership with other sectors, including ICT, manufacturing and distribution, thereby expanding the scope of the market itself, instead of a zero-sum competition.

Accelerating Growth in the Multi-finance Market Shinhan Card is expanding the scope of its loan business to become a multi-finance provider. It will break down the barriers of card finance and expand its product line-up for each customer. It will also offer products from other companies in areas where Shinhan Card does not have suitable products. As such, Shinhan Card will do its utmost to provide optimal products to the greatest possible number of customers in the most convenient way possible. In auto finance, where Shinhan Card is now one of the top three in the market, it will enhance its platform marketing and advance into new markets. In global markets, Shinhan Card will build a balanced portfolio by prudently expanding key businesses in each country.

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Value Creation through Platform Business In the era of the Fourth Industrial Revolution, digital platform dominance equals market leadership. Shinhan Card will become a game changer in finance by leveraging its existing competitiveness in its payment- and finance-based platforms. With the implementation of “MyData”, customers are now rightful owners of their own data. Shinhan Card will provide its customers with a wide range of support to enable them to optimize their consumption and savings patterns to achieve the most ideal financial planning. Moreover, it will differentiate itself from tech giants and leverage its capabilities as a financial company to provide a digital platform that match the needs of our customers. In particular, it will create value through its platforms by further implementing the use of big data and hyper-personalization, areas in which the company has been ahead of the curve.

Evolving Core Strengths Shinhan Card’s key competencies will be further enhanced to ensure that strategies become practical results through innovation and evolution. Progress will be made from business planning to operational support and corporate culture, thereby achieving leading performance across a range of diversified business areas.

Strategies for 2020

STRATEGIC GOAL



STRATEGIC DIRECTIONS





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Brokerage

Shinhan Investment is the hub for the Group's capital markets business, based on its outstanding research capability, product and risk management, and a customer-centric management philosophy.

Key Figure

No. 1

Industry-leading research capabilities category, Hankyung Business

Key Performances in 2019

In 2019, the securities business was severely threatened by the intensified US-China trade dispute, market instability resulting from sharp fluctuations in stock markets at home and overseas, and difficulties with financial products across the market. Despite these difficult conditions, Shinhan Investment remained competitive based on its "Know Your Customers (KYC)" strategy and other customer-centric management. It also strengthened all of its business units in its efforts to become a top player which offers the best capital market solutions.

As a result, the GIB and GMS Divisions achieved excellent performances, leading to a robust financial growth by the company as a whole. In addition, Shinhan Investment received many outstanding evaluations from external organizations, including ranking first for the fourth consecutive year in the financial investment category of "Most Respected Companies in Korea". It also ranked first for the second consecutive year in the "Korean Standard Service Quality Index", and another first in the securities investment category of the "Korean Sustainability Index".

New Businesses of the Future Shinhan Investment's asset under management (AUM) of in-house hedge fund has exceeded KRW 4 trillion, making it the leader in the industry in Korea. Building on the competitiveness of its bond funds, it is now expanding its scope of business to include alternative assets and equity. It supplies a diverse range of products through its Delta 1 Desk, and also now offers fractional purchasing of overseas shares, the first such product of its type in South Korea, and designated as an innovative financial service by the Financial Services Commission.

Leadership through Innovation in Existing Businesses Shinhan Investment set up a task force team for business process innovation, and digitalized systems that previously required face-to-face customer services. 37 systems, in particular, with the highest number of customer transactions, were made non-face-to-face for greater customer convenience. In a securities sector survey held in the first half of 2019, Shinhan Investment won first place in all categories related to securities firms, research centers, and corporate business. This was recognition for its efforts to strengthen its research, including in domestic and overseas equities and non-brokerage businesses, and thus build on its reputation as a renowned research house. The company also hosted seminars tailored for a range of corporations and organizations, and developed the ETF money market trust sales support system. Thanks to these differentiated financial solutions, Shinhan Investment earned the highest rating in evaluations carried out by the National Pension Service and Korea Post.



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Customer-centric Management Shinhan Investment continued to improve its expertise through the S-hub autonomous learning program for employees, and through its CoP system. It also implemented a customer-centric strategy, such as “KYC”, and as a result, the company ranked first for two consecutive years in the Korean Standard Service Quality Index survey, and was first in the securities category of the Korean Sustainability Index in 2019. In addition, improvements had been made continuously to its mobile trading system (MTS) in order to enable the easy and quick processing of digital services which are frequently used by customers, including wealth management and banking. Thanks to these efforts, “Shinhan i Alpha”, the company’s flagship mobile platform, won the 2019 Asia Smart Trading System Award and the Award for Excellence at the 7th Best MTS Awards.

Certification of Environmental Management Systems Shinhan Investment seeks to minimize its environmental impact by building eco-friendly systems and based on value innovation through resource integration and other environmental management activities. In 2019, the company earned ISO 14001 environmental management certification in recognition of its sustainability management. Going forward, Shinhan Investment will fulfill its social responsibilities through eco-friendly, low-carbon management in line with Shinhan Financial Group’s vision for “ECO Transformation 20-20”.

Plans for 2020

Shinhan Financial Group has been striving to maximize customer value and performance through the One Shinhan Matrix system, and as part of this commitment to excellence, Shinhan Investment is fulfilling its role as the leader for the Group’s capital market activities. In particular, the company undertook a successful capital increase of KRW 660 billion in July 2019, lifting total capital to KRW 4 trillion, thus laying the foundations for Shinhan Investment to become a mega-sized IB.

Shinhan Investment will implement its business plans in 2020 to achieve substantial growth by building a reputation as a mega-sized IB, and by fully establishing itself as the top player in the capital market that provides the best financial solutions. This will enable the company to be the first choice of its customers as well as an expert group that leads a robust growth of Shinhan Financial Group.

Strategic Directions for Substantial Growth First, Shinhan Investment will become a distinctive wealth management house. With the securities business rapidly shifting its focus from brokerage to wealth management, the company will innovate its branches to provide the best in wealth management, and will implement its “KYC” strategy in order provide products which meet customer requirements.

Second, it will unlock its growth potential in WM business by expanding global operations in overseas equities and private investment banking (PIB). It will widen collaboration with other Group subsidiaries, and ensure that it stays well ahead of its competitors as it continues to build its reputation as a renowned wealth management house.

Third, the company will expand its digital business. It will develop innovative mobile platforms for greater customer convenience, and offer differentiated customer experiences through digital-based wealth management operations.

Fourth, it will maintain its market-leading position in the corporate market. It will strive to maintain its top ratings from organizations such as the National Pension Service and Korea Post, and will increase the market share of its international operations with its cutting edge system equipped with an embedded algorithm.

Fifth, Shinhan Investment will increase revenues and grow into a mega-sized IB by upgrading the competitiveness of its employees to the levels required to a major IB. Furthermore, investment decisions will be made with a particular focus on the return on investment (ROI), in order to make investment more efficient.

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Sixth, it will strive for balanced growth in asset management, and support its sales channels by diversifying product supply.

Seventh, it will become a leader in the local securities markets of the countries it has presence in. To this end, its coverage will be expanded through bolstered collaboration with global networks of Shinhan's subsidiaries, and the company will provide support by sourcing various products through its global product center.

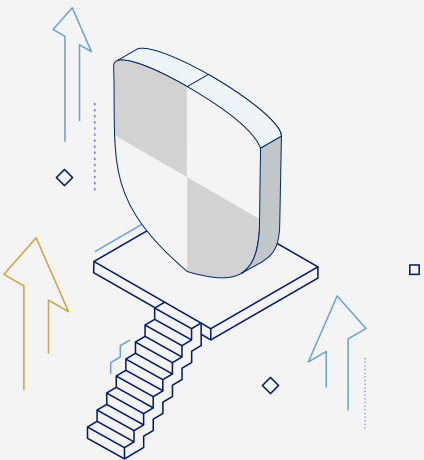
Lastly, Shinhan Investment will perform its role as the capital markets hub within the Group by strengthening One Shinhan collaboration.

Strategies for 2020



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Life Insurance 1. Shinhan Life

Shinhan Life Insurance follows a philosophy of “Compassionate Insurance” and strives to grow alongside its customers by offering a wide range of products and digital services.

Key Figure

227.9 %

RBC ratio as of December 31, 2019

Key Performances in 2019

Shinhan Life Insurance offers its customers a wide range of insurance products and financial services through diversified sales channels, including traditional financial consulting (FC), database marketing (DM) which combines telemarketing and face-to-face sales, general agency (GA), bancassurance, and direct subscription through the internet. The company maintains financial stability through efficient asset liability management (ALM). It provides policy loans, unsecured loans, and secured loans, and realizes strong rates of return through the management of securities, including equities, bonds and derivatives. More recently, it is strengthening collaboration with the GIB and GMS Divisions to increase its investment capabilities.

The insurance market in 2019 remained difficult due to the fast-changing business environment, tightened regulations on consumer protection, and the planned implementation in 2022 of new accounting standards – IFRS 17 and Korea Insurance Capital Standards (K-ICS), which are already bringing about fundamental changes in the insurance industry. Shinhan Life Insurance’s strategic goal for 2019 was “Basic to Innovation 2019”. Under this slogan, the company focused on three major strategic tasks – profit-centered operations and enhanced sales efficiency, ALM-centered asset management and financial soundness, and improved infrastructure to build the foundations for future growth.

Enhanced Profitability and Efficiency Shinhan Life Insurance focused its sales operations on the future value of insurance premiums by concentrating on high-profitability products and increasing the volume of sales. In particular, it has expanded low-to-mid price protection-type policies which both meet customer demand at a time of increasing life expectancy and also remain profitable for the company. As a result, the portion of these policies out of total policy sales rose from 29.4% in 2018 to 31.4% in 2019.

Financial Soundness Shinhan Life Insurance has responded to negative spreads by incurring profits through asset rebalancing. It has also enhanced its ALM management capabilities and taken measures to respond to the new capital adequacy measures, such as K-ICS, in its efforts to ensure financial soundness.

Infrastructure for Future Growth Shinhan Life Insurance has launched the “Digital WHealth Care” service, a mobile application that provides a combination of health care and wealth management services. This digital platform enhances customer value by providing information on protection-type products and investments, suggesting healthy menus, giving information about health check-ups, and offering a real estate price inquiry service. The company remains committed to recruiting and training the best talent, for example by fostering female leaders and by providing customized sales manager training. It has also improved the competitiveness of its insurance business by identifying and executing the “New Life Integration Tasks” for seamless integration with OrangeLife.

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Plans for 2020

Growth of the insurance market is forecast to be limited in 2020 due to the continuing economic downturn, tightened regulations, and industry changes. Also, consumer rights and interests will be further protected through stricter regulations such as the enactment of the Financial Consumer Protection Act and a comprehensive audit system. Other major challenges facing the insurance industry in Korea are being prepared for the adoption of the IFRS 17 and K-ICS. In sales, GAs still have greater influence than full-time consultants, and competition with non-life insurance companies is expected to intensify. Digital-based services are expanding, and fintech companies are threatening existing insurance markets. Opportunities are also expected to emerge from the changing landscape of the insurance industry. In particular, with insurance companies permitted to enter the health management service business from 2020, there will likely be new business opportunities for insurance companies.

Against this backdrop, Shinhan Life Insurance will successfully achieve the Group’s strategic direction towards achieving “Excellence”, the company’s mid-term goal of becoming a “Leading Company”, and its “One Life” initiative with regards to the integration with OrangeLife. To this end, the company’s strategic goal for 2020 is “One LIFE 2020 towards Excellence”. It will pre-emptively respond to the rapidly-changing business environment by successfully completing its strategic and integration tasks, and will also offer its customers the best in innovative products and services.

Enhancing Customer Value Shinhan Life Insurance aims to develop market-leading products and further enhance its sales capability. It will therefore improve its management of existing customers while expanding customer base. It will also undertake better product positioning based on customer segmentation, and develop growth-driven individual business models and support plans for each sales channel.

Increasing the Efficiency of Asset Management Shinhan Life Insurance will increase its capital in order to be flexible in the management of its capital and to strengthen its financial soundness. It will aim to improve the profitability of its asset management, and ensure optimal asset allocation based on ALM. While concerns have been raised with regards to the financial soundness of the insurance industry upon the introduction of K-ICS, the company will respond preemptively by reducing the asset-liability duration gap and by upgrading its risk management system.

Strengthening Future Growth Drivers Shinhan Life Insurance will increase its sales by collaborating with Group subsidiaries as it accelerates the implementation of “One Life, New Life”. There will be corporate-wide digital transformation, and a more sophisticated digital marketing will be made possible with advanced big data analysis. Shinhan Life Insurance will also undertake strategic cost reductions, while fulfilling its corporate social responsibilities by working in partnership with the Group to create a larger environmental and social value.

Strategies for 2020

STRATEGIC GOAL

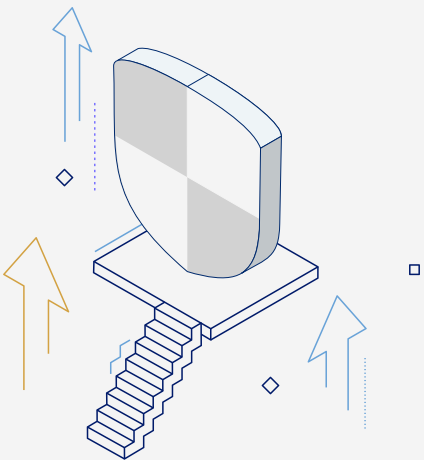
**One LIFE
2020 towards
“Excellence”**

STRATEGIC DIRECTIONS

 Sales (Customer, Product, Channel) Enhance customer value by building sales capability	 Financial Soundness & Risk Management Increase the efficiency of asset management through financial soundness	 Sustained Growth Strengthen future growth drivers to create new value
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- Digital Banking
- Real Estate Business
- Retail Banking
- Corporate Banking
- Credit Card
- Brokerage
- Life Insurance**
- Asset Management



Life Insurance 2. OrangeLife

OrangeLife is evolving into an innovative company by building on 30 years of its global heritage and through the agile way of working.

Key Figure

420.6 %

RBC ratio as of December 31, 2019

Key Performances in 2019

Since its establishment as the Korean subsidiary of the Internationale Nederlanden Groep in 1991, OrangeLife has continued its growth while contributing to the advancement of the Korean insurance sector with its global expertise. In particular, OrangeLife’s capital strength, as seen in its 2019 year-end RBC ratio of 420.6%, sets the company apart from other life insurance companies, many of whom are struggling to increase capital in response to the new solvency standards. It has established itself as a leading insurance company, thanks to its full-time financial consultant (FC) channel staffed by the industry’s top experts, global standard business management and IT systems, and its rapid responses to changing markets through an “agile” organization. In 2019, OrangeLife built the foundations for stable growth by embarking on a new beginning as a member of Shinhan Financial Group.

Strategy for Sustainable Growth Centered on Embedded Value

OrangeLife is building the foundations in order to respond preemptively to rapid changes in the insurance industry by implementing strategies for sustainable growth with a particular focus on embedded value. The company also sought to achieve optimal balance among its key value drivers – growth, profitability, efficiency, and risk & capital management. In 2019, the company has set a new mid-term strategy, named “CPC strategy”, which places focus on customers, product sand channels to take another leap forward over the next three years until the adoption of the new accounting and capital standards – IFRS 17 and K-ICS.

1. Customer



With regards to customers, in 2019 the company reviewed its internal systems and methodologies relating to customer retention, and reorganized them to be more customer-centered, with the goal of building a better sales environment for upselling through a more detailed analysis of its customers. In addition, the company strived to secure a wide network of customers with strong purchasing power by continuing digital innovation to its platforms, including its OMNI sales platform.

2. Product



For products, OrangeLife made continuous efforts to deliver innovative developments. Launched in February 2019, dementia insurance attracted strong customer inflows and helped cross-sales. The “New Low CSV Orange Whole Life Insurance”, a product designed to reduce premiums and cancellation fees, also attracted many customers. As a result of continued sales focus on high-margin protection products, that also meet customer requirements, they now comprise more than 60% of total product sales. There were other efforts made to improve the products offered to customers. For example, the company launched of a new mobile channel, made alliances with a range of third party platforms, and the released a mini accident insurance product to better reflect customer demand.

3. Channel



Across its sales channels, OrangeLife focused on improving productivity. In the key FC channel, the company strengthened sales capabilities by developing sales tools for full-time FCs. It also supported active FCs by establishing new sales models and systematically managing new FCs. As a result, the productivity of active FCs increased by 17.3% year-on-year, based on the number of new accounts. Given that the regulatory reforms surrounding the general agency (GA) channel is yet to be finalized, the company plans to will seek continued growth backed by its capital strength. The bancassurance (BA) channel is concentrating on variable and foreign currency-denominated products, and is continuing to follow growth strategies centered on profitability.

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The company maintained its policy of strong returns for shareholders, paying out dividends equivalent to 62.4% of the company’s profits after tax in 2019 and purchasing KRW 50 billion worth of treasury stocks by leveraging its financial soundness and capital strength. Moreover, the agile organizational structure, which OrangeLife adopted in 2018, is now generating tangible outcomes, including the launch of “Today with OrangeLife”, an OMNI platform which connects customers with FCs around the clock, reduces product development time, and improves policy persistency ratios. It has also resulted in an agile culture in which all employees are fully committed to innovation.

Plans for 2020

OrangeLife believes that the introduction of the new accounting and capital standards will be a good opportunity for the company to increase its value by differentiating itself from its peers with its strong capital as well as its unique and innovative competitiveness. In 2020, the company’s management seeks to achieve “Sustainable growth through innovation”. It will therefore focus on improving all customer experiences, including customer lead-in, management, and claims payment, rather than quantitative growth. It will simplify its organization, strategies, products, services, and processes in order to better serve its customers, and will put into place innovative strategies from the perspective of digital, productivity, and integration.

Strategies for 2020

Digital for Customer Value OrangeLife is committed to creating customer value through digital innovation. Instead of merely digitizing existing business, the company will use digital technology to fundamentally strengthen its insurance business, and to overcome any limitations of the analog era. In particular, it will create mobile-centered innovation across all areas of its business, including platform alliances, product sales, and customer communications and management.


Productivity Steering OrangeLife will efficiently allocate its resources for growth, and will strive for improvements in productivity and implement cost reforms to eliminate fixed costs which were previously taken for granted. The FC sales model has been successful for the last 20 years but is now seeing growth limitations due to tighter regulations and a changing socio-economic environment. The company will therefore enhance the competitiveness of the FC channel by building a strong product portfolio and by expanding its business scope through its the data platform.

Beyond Integration OrangeLife is determined to create greater value through integration. It will create new growth and increase shareholder value after its integration with Shinhan Life Insurance by bringing together the knowledge, strength, and experience of both companies. OrangeLife was incorporated into Shinhan Financial Group on February 1, 2019, and became a 100% wholly-owned subsidiary as a result of a share swap with Shinhan Financial Group on January 28, 2020. OrangeLife will contribute to the overall growth of the Group through innovation, making its organization more agile, and creating new synergies in collaboration with other Group subsidiaries.


STRATEGIC GOAL

Simplicity for Scale


STRATEGIC DIRECTIONS



Digital for customer value



Productivity steering



Beyond integration

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Asset Management

Shinhan BNP Paribas Asset Management offers a wide range of customer-tailored investment solutions as the asset management hub for Shinhan Financial Group.

Key Figure

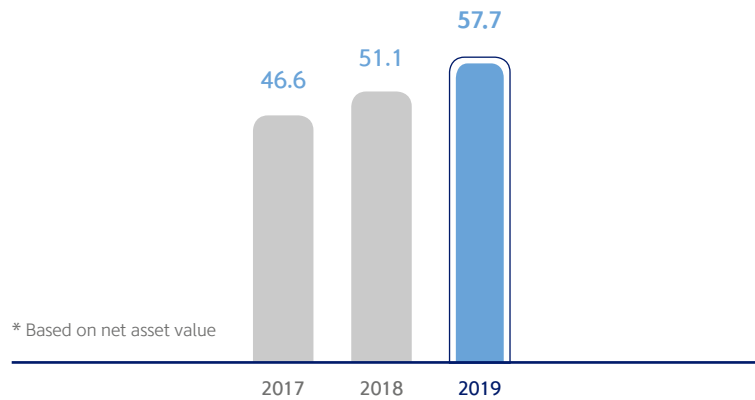
12.9 %

Year-on-year growth of AUM

* Based on net asset value

Assets Under Management

(Unit: KRW trillion)



* Based on net asset value

Key Performances in 2019

The philosophy of Shinhan BNP Paribas Asset Management (AM) is to become its customers' most trusted long-term investment provider, based on a wide range of investment solutions and the highest levels of expertise. Guided by this philosophy, the company provides its domestic and international clients with traditional products such as equities and bonds, structured products such as derivatives and ELFs, and alternative investment products such as real estate, mezzanine, and infrastructure investments. As of the end of 2019, it manages a total of KRW 57.7 trillion worth of assets, including discretionary investment assets, and, in terms of net assets, it ranks fifth out of the approximately 240 asset management firms in South Korea.

Continued Growth In traditional equity investments, Shinhan BNP Paribas AM has increased domestic equity fund assets by increasing rates of return on large-cap stocks as well as offering small- and medium-cap stock funds. In bonds, it has continued to attract institutional funds based on its excellent management performance. The target dated fund (TDF) retirement pension product maintained its leading position in the industry. In addition, the company has diversified the revenue structure of its underlying assets with an aim to increase customer returns. The company also solidified its industry-leading position through its effort towards new product development, including structured products.

Shinhan BNP Paribas AM offered customized solutions to its customers through solution-based investment strategies and expertise, in its effort to diversify strategies for future growth. It created the "Product Strategy Center" to develop and manage flagship products, and continued to offer competitive products, which in turn led to increased rates of return on funds.



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One Shinhan

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Group & Global Investment Banking

Wealth Management

Global Markets & Securities

Retirement Pension

Digital Banking

Real Estate Business

Retail Banking

Corporate Banking

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Brokerage

Life Insurance

[Asset Management](#)

In 2019, Shinhan BNP Paribas AM saw an outstanding performance from its outsourced CIO (OCIO) business, which it first entered in 2018. In collaboration with BNP, the company improved its asset allocation capabilities, which, in turn, led to the improvement its OCIO business and an increase in the amount of funds under management. In alternative investments, the company solidified its strategic foundations and offered a wide range of products to its customers.

Shinhan BNP Paribas AM also focused on creating tailored investment solutions for retail customers who wish to pursue a medium-risk, medium-return strategy. It launched the “Shinhan BNPP Covered Call Mild Fund”, which offers more stability than regular covered call funds. It also released a hybrid fund which pursues more profits than market rate by investing in the shares of Korea’s leading companies, government and other public bonds, and investment-grade corporate bonds. In addition, the company has reached KRW 1 trillion in net assets for its “Shinhan BNPP H2O Global Bond Securities Investment Trust”, which was launched at the end of 2018 in partnership with H2O Asset Management.

Expanded in Global Markets Shinhan BNP Paribas AM strengthened its capabilities in global asset allocation in partnership with BNPP MAQS. It has also met the overseas investment requirements of its institutional investors by launching a wide range of funds of funds, in collaboration with Fund Quest. In addition, the company has continued to increase the volume of its overseas investments by sourcing alternative assets, and by launching ESG funds and infrastructure funds.

Plans for 2020

Volatility in financial markets is forecast to increase in 2020. Furthermore, with returns from traditional investments being limited and customers continuing to prefer safer assets, demand for absolute return and alternative investments will likely increase. Shinhan BNP Paribas AM will establish investment strategies and develop products in line with this trend, and will strengthen its role as the asset management platform for Shinhan Financial Group and reinforce its position as the industry’s leader in comprehensive asset management. To this end, it has recategorized its business units into three areas – key business, new business, and HR & systems – and has set out three strategic directions for 2020. Shinhan BNP Paribas AM will continue to focus on creating a better future for its customers, and will strive to further increase investor trust.

Major Strategic Tasks First, Shinhan BNP Paribas AM will strengthen its market position in pensions and continue to create One Shinhan value. It will collaborate with Group subsidiaries to discover opportunities in its OCIO business, and will look for new growth by increasing the volume of its equity-type business, enabling it to be selected as a pension fund manager by more investors.

Second, the company will offer products which stay ahead of the market. It will collaborate with FundQuest Advisor to discover outstanding overseas funds, and strengthen its Product Strategy Center in order to increase rates of return for customers through product excellence and enhanced follow-up management functions.

Third, the company will strive to improve its competitiveness in alternative assets. It will expand deal sourcing and scope of services in order to harness opportunities in alternative investments, while strengthening related risk management. In addition, collaboration between Group subsidiaries will increase the brand value of the company by enabling it to provide tailored alternative investment products to its retail customers.

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Fourth, Shinhan BNP Paribas AM will expand its asset allocation solution business in partnership with MAQS. It will improve its investment processes and investment strategies by making its research organization more efficient, and thus solidify its leading position.

Fifth, the company will increase retail sales by strengthening external channel sales through better networking, and by facilitating strategic funds.

Sixth, it will promote digital transformation by adding digital channels and building a digital platform, and then using these online channels to strengthen customer communications and increase the number of customer contact points.

Seventh, the company will fully support the creation of sustainable value by enhancing its ESG systems. It will implement advanced global standard sustainability initiatives, and expand its ESG-related investments.

Lastly, it will overhaul its evaluation and compensation systems in order to build a dynamic and performance-based organizational culture.

Strategies for 2020

STRATEGIC GOAL

Change and growth

STRATEGIC DIRECTIONS

 <p>Enhance key business capabilities</p> <p>Equity-type, global, and retail</p>	 <p>Expand into new business</p> <p>Pension, alternative investment, asset allocation, OCIO</p>	 <p>Upgrade HR and systems</p> <p>Evaluation & compensation, HRD, and corporate culture</p>
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Management's Discussion and Analysis

2019 in Review

Group Overview

In 2019, Shinhan Financial Group generated KRW 3,403.5 billion in consolidated net income attributable to equity shareholders. This was an increase of 7.8% over the previous year's KRW 3,156.7 billion, and was the highest consolidated net income since the establishment of Shinhan Financial Group. The Group has built the foundations for stable revenues through the consistent implementation of the "2020 S·M·A·R·T Project" since 2017, and has maintained a continued upward trend in net income for six consecutive years thanks to balanced growth in the banking and non-banking sectors.

Interest income rose 5.1% year-on-year thanks to profitability-oriented asset growth, mainly led by Shinhan Bank and Shinhan Card. Non-interest income went up by 32.4% as a result of an increase in insurance-related income, and additional fees and commissions income after OrangeLife became a subsidiary.

General and administrative (G&A) expenses has been managed at a stable level under the Group's cost reduction policy based on its Digital Transformation strategy. The Group also strives to increase operational efficiencies. through early retirement programs. Credit losses were also stable as a result of systematic and preemptive risk management, contributing considerably to the improvement in Group profitability.

The 2020 S·M·A·R·T Project produced tangible results in 2019. In Korea, OrangeLife became a subsidiary in February, followed by Asia Trust in May, and the Group also established Shinhan AI in January, 2020 to provide AI-based investment advisory services, thus diversifying revenues in the non-banking sector. Overseas, the Group acquired the Prudential Vietnam Finance Company (PVFC) and then launched Shinhan Vietnam Finance Company, thus striving to achieve balanced growth in global markets.

In addition, the Group's focused efforts to enhance competitiveness in the global and capital markets led to financial outcomes and strengthened the Group's growth foundation. Shinhan Bank's global operations generated a net income of KRW 370.2 billion in 2019 thanks to strong performances in Vietnam and Japan. This translates to 15.9% of its total net income. In capital markets, both the GIB Division and the GMS Business Division maintained solid growth and contributed significantly to the Group's performance.

Shinhan Bank recorded a net income of KRW 2,329.2 billion, an increase of 2.2% compared to the previous year, mainly attributable to strong loan growth, which resulted in an increase in interest income, and stable credit cost management. Despite merchant fee reductions in early 2019, Shinhan Card achieved a net income of KRW 508.8 billion, similar to the previous year. Net income of Shinhan Investment was KRW 220.8 billion, down 12.1% as a result of a weaker performance in proprietary investments, while Shinhan Life Insurance's net income was KRW 123.9 billion, down 5.5% compared to the previous year. OrangeLife, which became a Group subsidiary in 2019, recorded a net income of KRW 160.6 billion (after reflecting ownership by the Group), contributing to the growth of the Group's non-banking income.

Shinhan Financial Group has continued to enhance shareholder value while maintaining stable financial fundamentals. After the Group's first KRW 200 billion share buyback in September 2018, a second buyback of KRW 400 billion was completed in May 2019. In February 2019, the Group improved its capital ratio by issuing convertible preference shares totaling KRW 750 billion through third-party allocation. These treasury shares and convertible preference shares were utilized in the comprehensive share swap between the Group and OrangeLife, which took place in January, 2020 to buy the remaining shares of OrangeLife. As a result, OrangeLife became a wholly-owned subsidiary of Shinhan Financial Group. In addition, the Group set the common equity dividend for fiscal year 2019 at KRW 1,850, an increase of KRW 250 compared to the previous year. As such, the Group made continuous efforts to improve ROE and enhance shareholder value through higher dividends, M&As, and share buybacks.

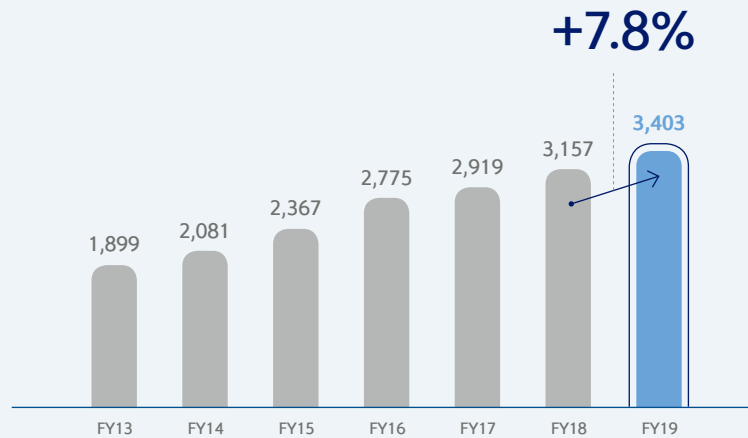
MANAGEMENT'S DISCUSSION AND ANALYSIS

2019 in Review

Income

- Asset Growth
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Group Net Income (KRW billion)



Income

Group Income

The Group generated KRW 3,403.5 billion in consolidated net income attributable to equity shareholders, the highest figure since its establishment. Despite a decrease in net interest margin (NIM), interest income rose by 5.1% year-on-year to KRW 8,001.0 billion driven by profitability-oriented asset growth and stable funding.

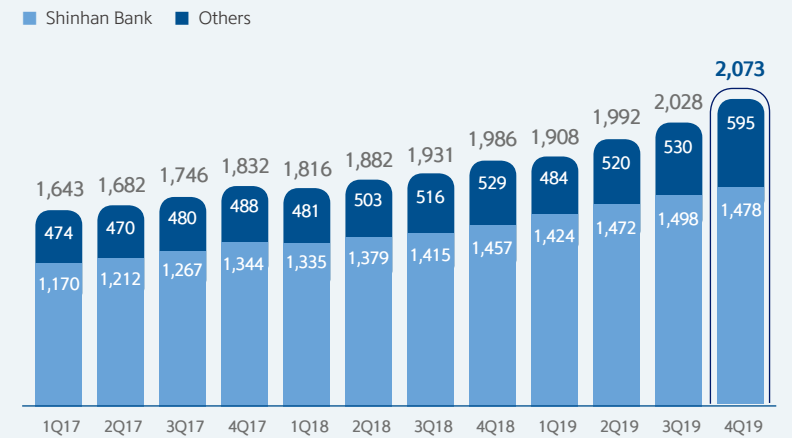
Total non-interest income went up by 32.4% to KRW 3,130.7 billion as a result of OrangeLife and Asia Trust becoming subsidiaries and a rise in fees and commission income. G&A expenses rose by 8.3% over the previous year to KRW 5,134.7 billion, also as a result of the acquisitions of OrangeLife and Asia Trust. When the effect of the acquisitions is excluded, G&A expenses increased only 3.4%, being managed at an appropriate level. The cost-to-income ratio was stable at 46.1%, and total provision for credit losses rose by 28.7% year-on-year to KRW 950.8 billion, which implies a credit loss ratio that was stable at 0.30%.

Group Income (KRW billion)

	FY19	FY18	YoY %
Operating Income (a=b+c)	11,131.7	9,979.6	11.5
Interest Income (b)	8,001.0	7,615.3	5.1
Non-Interest Income (c)	3,130.7	2,364.3	32.4
G&A Expenses (d)	5,134.7	4,741.6	8.3
Pre-Provision Operating Income (e=a-d)	5,999.7	5,238.0	14.5
Non-Operating Income (f)	-137.4	-32.8	n.a.
Pre-Provision Income (g=e+f)	5,862.3	5,205.2	12.6
Provision for Credit Losses (h)	950.8	738.6	28.7
Earnings before Income Tax (i=g-h)	4,911.5	4,466.6	10.0
Income Tax	1,269.1	1,268.3	0.1
Consolidated Net Income ¹⁾	3,403.5	3,156.7	7.8

Note 1) Net income in controlling interest

Group Interest Income (KRW billion)





MANAGEMENT'S DISCUSSION AND ANALYSIS

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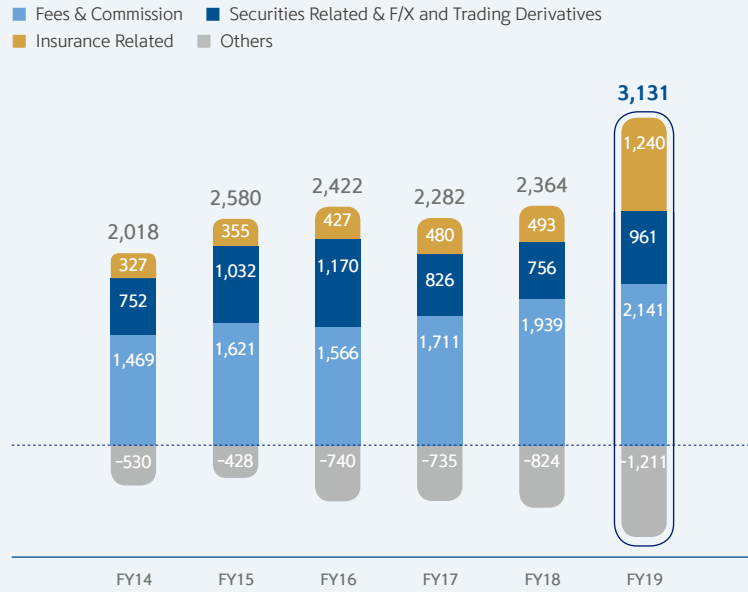
Income

Asset Growth

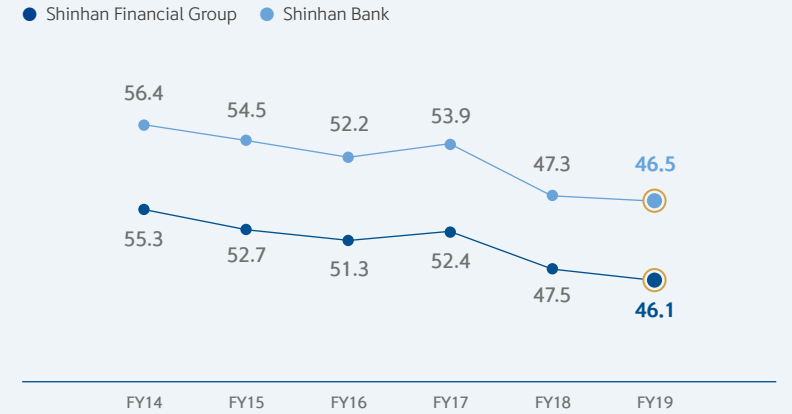
Asset Quality

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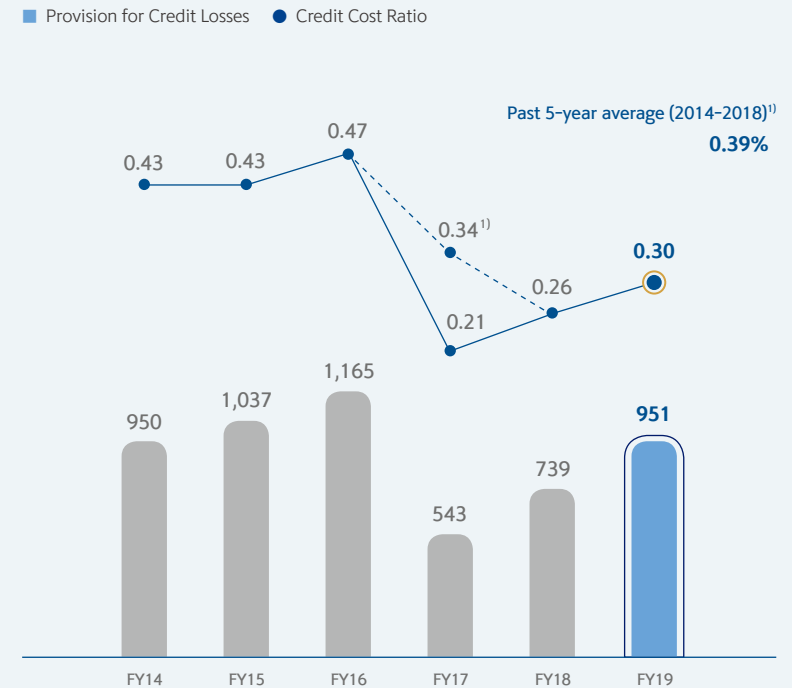
Group Non-Interest Income (KRW billion)



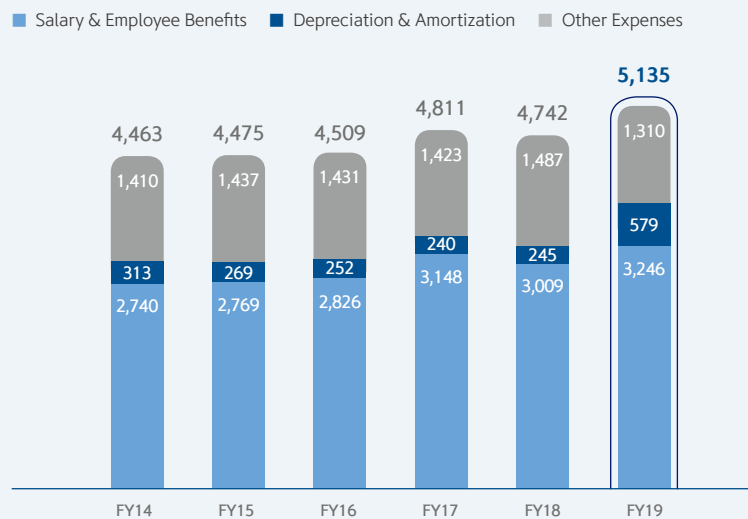
Group and Shinhan Bank's Cost Income Ratio (%)



Group Credit Costs (KRW billion, %)



Group G&A Expenses (KRW billion)



Note 1) Excluding write-backs from Shinhan Card

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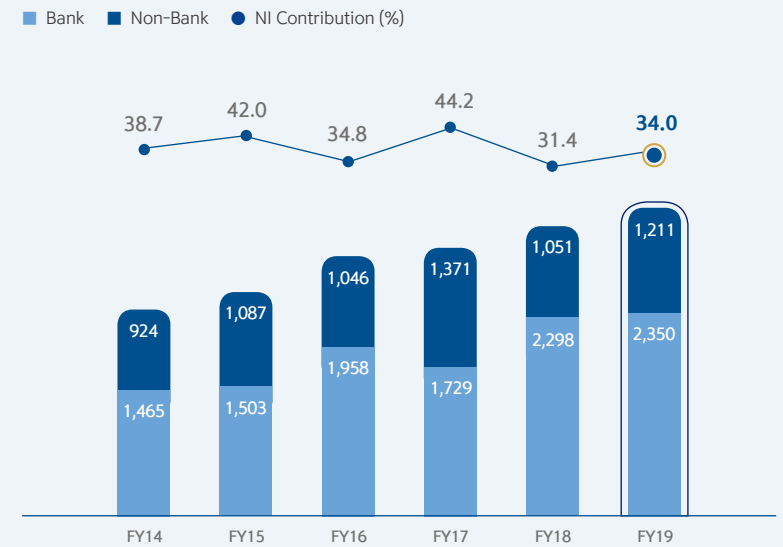
Group Subsidiaries Income

In 2019, Shinhan Financial Group produced tangible results from the 2020 S·M·A·R·T Project, and strengthened its non-banking business by acquiring OrangeLife and Asia Trust. In addition, the Group continued to implement the One Shinhan strategy through its matrix organizational system, to which Pension and Real Estate business was newly added.

Group Subsidiaries Income (KRW billion; and reflecting SFG ownership)			
	FY19	FY18	YoY %
Bank (a)	2,350.2	2,297.9	2.3
Shinhan Bank	2,329.2	2,279.0	2.2
Jeju Bank	21.0	18.9	11.5
Non-Bank (b)	1,211.2	1,050.7	15.3
Shinhan Card	508.8	519.4	-2.0
Shinhan Investment	220.9	251.3	-12.1
Shinhan Life Insurance	123.9	131.0	-5.5
OrangeLife Insurance	160.6	-	n.a.
Shinhan BNPP AM	15.0	12.3	22.4
Shinhan Capital	126.0	103.4	21.9
Shinhan Savings Bank	23.1	19.4	19.3
Asia Trust	10.7	-	n.a.
Shinhan DS	2.1	1.3	57.8
Shinhan AITAS	10.8	8.4	27.9
Shinhan Credit Information	0.5	1.4	-63.6
Shinhan Alternative Investment	2.1	-0.8	n.a.
Shinhan REITs Management	7.4	3.6	108.0
Shinhan AI	-0.7	-	n.a.
Total (a+b)	3,561.5	3,348.6	6.4
Consolidated Net Income ¹⁾	3,403.5	3,156.7	7.8

Note 1) Net income in controlling interest

Net Income Contribution by Non-Bank Subsidiaries²⁾ (KRW billion)



Note2) After reflecting ownership by SFG

Shinhan Bank In 2019, Shinhan Bank generated a net income of KRW 2,329.2 billion, an increase of 2.2% compared to the previous year. Interest income rose by 5.1% year-on-year, thanks to stable asset growth, and despite a fall in the NIM due to base rate cuts in Korea. Non-interest income rose by 0.3% year-on-year, mainly attributable to increased fees and commissions in the trust and IB sectors. G&A expenses increased 2.6% year-on-year, thanks to strategic cost reductions and aided by the Group's digital transformation.

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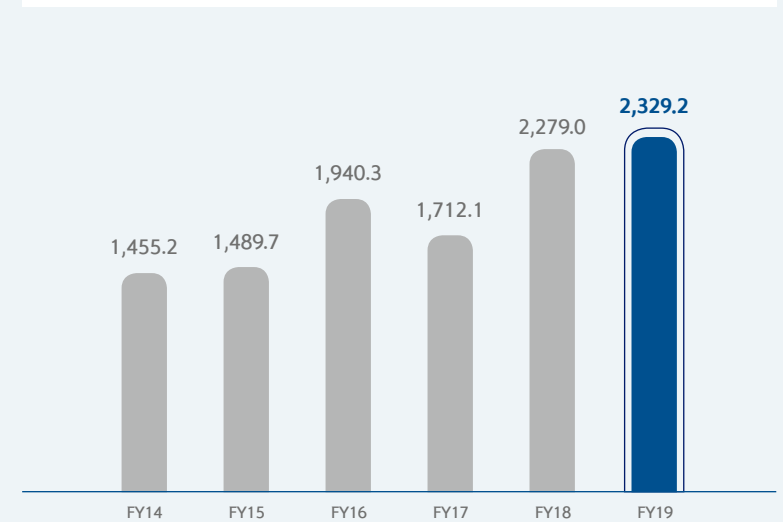
Shinhan Bank Income		(KRW billion)	
	FY19	FY18	YoY %
Operating Income (a=b+c)	6,757.0	6,468.6	4.5
Interest Income (b)	5,871.7	5,586.0	5.1
Non-Interest Income (c)	885.3	882.6	0.3
G&A Expenses (d)	3,142.4	3,061.8	2.6
Pre-Provision Operating Income (e=a-d)	3,614.6	3,406.8	6.1
Non-Operating Income (f)	-186.4	-18.3	n.a.
Pre-Provision Income (g=e+f)	3,428.2	3,388.5	1.2
Provision for Credit Losses (h)	351.3	242.1	45.1
Earnings before Income Tax (i=g-h)	3,076.9	3,146.4	-2.2
Income Tax	747.6	867.0	-13.8
Net Income ¹⁾	2,329.2	2,279.0	2.2

Note 1) Net income in controlling interest

The Bank's interest income rose by 5.1% year-on-year to record KRW 5,871.7 billion, despite a decrease in NIM, mainly attributable to SME loan growth. Non-interest income also increased by 0.3% over the previous year to record KRW 885.3 billion, backed by a rise in commissions and fees income, including trust fees and IB commissions.

G&A expenses have been managed at a stable level, recording an increase of 2.6% to KRW 3,142.4 billion. The Bank is making continuous efforts to manage its expenses from a mid- to long-term perspective through consistent implementation of early retirement programs. It recorded provision for credit losses of KRW 351.3 billion, which converts to a credit cost ratio of 0.14%, an exceptionally low figure. Shinhan Bank is striving to maintain the downward trend and stabilization of credit losses based on an advanced risk management system.

Shinhan Bank Net Income (KRW billion)



Shinhan Card Shinhan Card recorded a net income of KRW 508.8 billion in 2019, down 2.0% compared to the previous year. The merchant fee reduction in early 2019 was balanced out by increases in sales, strategic cost reductions, and efforts to diversify revenues, including in installment finance and global operations.



MANAGEMENT'S DISCUSSION AND ANALYSIS

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Shinhan Card Income		(KRW billion)	
	FY19	FY18	YoY %
Operating Revenue (a)	3,894.6	3,753.9	3.7
Card Business	2,953.5	2,960.9	-0.3
Installment Finance	134.8	110.0	22.5
Lease	187.4	126.5	48.1
Others	619.0	556.4	11.2
(Derivatives & FX)	163.8	152.2	7.6
Interest Expense (b)	499.5	430.7	16.0
G&A Expenses (c)	702.2	703.0	-0.1
Commission & Other Expenses (d)	1,454.0	1,452.4	0.1
(Derivatives & FX)	129.5	116.3	11.4
Pre-Provision Income (e=a-b-c-d)	1,238.9	1,167.7	6.1
Provision for Credit Losses (f)	562.2	466.4	20.5
Earnings before Income Tax (g=e-f)	676.8	701.3	-3.5
Income Tax	167.7	183.5	-8.6
Net Income ¹⁾	508.8	519.4	-2.0

Note 1) Net income in controlling interest

The Card's business recorded a similar level of income to the previous year, with the decrease in merchant fee income being offset by a higher volume of credit purchase transactions and qualitative improvements in the transaction portfolio. Operating revenue from both installment finance and lease witnessed high levels of year-on-year growth thanks to the expansion of the operating lease and long-term car rental businesses. Other sources of revenue also grew significantly, as a result of an increase in non-member loan financial products and overseas business.

Interest expense rose by 16.0% year-on-year to KRW 499.5 billion, attributable to increased borrowings due to the growth in transaction volumes, despite a decrease in lending rates. G&A expenses fell by 0.1% to KRW 702.2 billion thanks to company-wide efforts for cost savings, despite one-off costs of KRW 16.1 billion due to early retirements. Commission and other expenses fell as a result of reductions in commissions paid on credit cards. Provision for credit losses rose by 20.5% year-on-year, mainly attributable to increase in product assets and an internal adjustment in provisioning standards, which went effect in January, 2019.

Shinhan Investment Shinhan Investment recorded a net income of KRW 220.9 billion in 2019, down 12.1% compared to the previous year. Although IB and proprietary trading achieved solid growth, losses from valuations related to prime brokerage service (PBS) and reduced income from stock brokerage and sales of financial products led to the decrease in company-wide income.

Shinhan Investment Income		(KRW billion)	
	FY19	FY18	YoY %
Operating Revenue	882.9	959.1	-8.0
Fees & Commissions	508.8	506.7	0.4
Proprietary Trading	476.0	321.4	48.1
Others	-102.0	131.0	n.a.
Operating Expenses	643.4	624.3	3.1
G&A Expenses	521.6	500.3	4.2
Commission Expenses	123.2	113.5	8.6
Provision for Credit Losses	-1.3	10.5	n.a.
Operating Income	239.4	334.8	-28.5
Net Income	220.9	251.3	-12.1
Net Capital Ratio (%)	1,248%	797%	451%p
ROE ²⁾	5.9%	7.6%	-1.8%p
ROA ²⁾	0.7%	0.9%	-0.2%p

Note 2) ROE and ROA are calculated on a cumulative basis



MANAGEMENT'S DISCUSSION AND ANALYSIS

2019 in Review

Income

[Asset Growth](#)

Asset Quality

Capital Adequacy

Fees and commissions income decreased by 9.8% compared to the previous year, to KRW 444.8 billion. IB income from acquisition and arrangement commissions rose, but stock brokerage income and financial product sales were weak. Proprietary trading income rose by 48.1% as a result of strong performances in equity and fixed income, currency, and commodity (FICC). G&A expenses rose by 4.2% to KRW 521.6 billion, attributable to increased payroll and incentive payments resulting from performance improvements of trading departments.

Shinhan Life Insurance Net income of Shinhan Life Insurance fell by 5.5% compared to the previous year, to KRW 123.9 billion. Mortality & morbidity margins decreased due to an increase in claims paid, and lower levels of new business caused a reduction in expenses margins. Investment margins rose, however, thanks to increases in dividend yields and securities-related income.

Shinhan Life Insurance Income (KRW billion)			
	FY19	FY18	YoY %
Insurance Operating Margins	223.4	287.5	-22.3
Expenses Margins	177.0	231.3	-23.5
Mortality & Morbidity Margins	46.4	56.2	-17.5
Investment Margins	-9.6	-93.8	n.a.
Other Margins	-15.9	-12.3	n.a.
Earnings before Income Tax	197.9	181.4	9.1
Income Tax	74.0	50.4	46.7
Net Income	123.9	131.0	-5.5

OrangeLife Insurance OrangeLife became a subsidiary of Shinhan Financial Group in February 2019. It recorded a net income of KRW 271.5 billion in 2019, down 39.8% from the previous year. Expenses margins increased as the effect of one-off payments made in 2018 – stock-based compensation expenses and expenses related to bonuses given to employees after the decision has been made to be acquired by Shinhan Financial Group – were eliminated. Investment margins decreased due to declining reinvestment rates of return caused by lower market interest rates.

OrangeLife Insurance Income (KRW billion)			
	FY19	FY18	YoY %
Insurance Operating Margins	372.8	288.8	29.1
Expenses Margins	222.2	141.6	56.9
Mortality & Morbidity Margins	150.7	147.2	2.3
Investment Margins	42.6	106.1	-59.9
Other Margins	-30.4	17.9	n.a.
Earnings before Income Tax	385.1	412.9	-6.7
Income Tax	113.6	101.6	11.8
Net Income	271.5	311.3	-12.8

Asset Growth

Group Asset Growth

The Group's total consolidated assets at the end of 2019 stood at KRW 552.4 trillion, up 20.2% compared to the previous year. Total assets, including invested assets, increased by 26.8% to reach KRW 765.1 trillion. Group assets grew through the acquisition of OrangeLife and Asia Trust as part of the Group's strategy to expand its non-banking business, and through organic growth in existing businesses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2019 in Review

Income

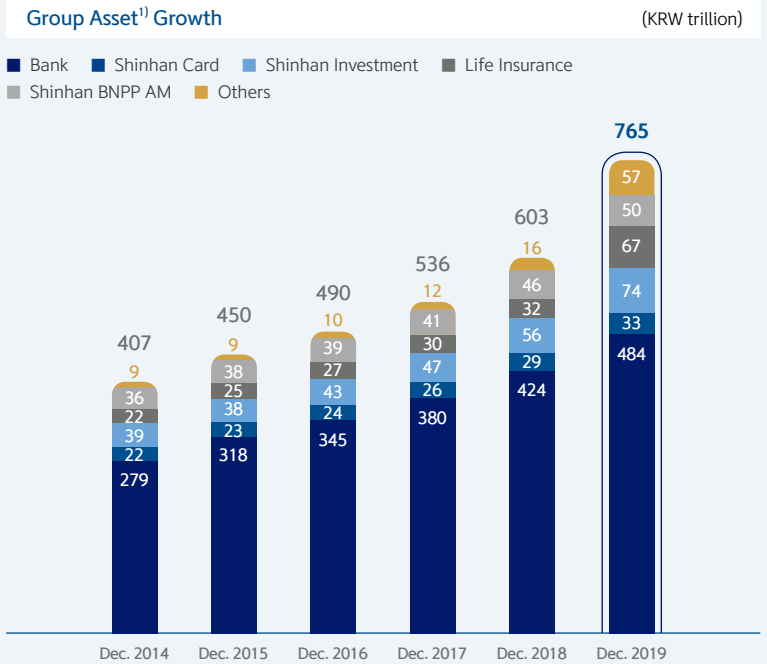
Asset Growth

Asset Quality

Capital Adequacy

Group Asset Growth		(KRW billion)	
	FY19	FY18	YTD %
Bank	483,644.9	423,928.2	14.1
Shinhan Bank	477,289.6	417,947.3	14.2
Jeju Bank	6,355.3	5,980.9	6.3
Non-Bank	278,401.9	175,787.8	58.4
Shinhan Card	32,917.9	29,429.5	11.9
Shinhan Investment	73,589.7	55,703.6	32.1
Shinhan Life Insurance	34,133.6	31,823.6	7.3
OrangeLife Insurance	32,841.4	-	n.a.
Shinhan BNPP AM	50,466.9	46,165.7	9.3
Shinhan Capital	7,566.4	6,116.6	23.7
Shinhan Savings Bank	1,602.9	1,454.3	10.2
Asia Trust	36,560.7	-	n.a.
Shinhan DS	89.1	43.1	106.8
Shinhan AITAS	77.1	65.7	17.3
Shinhan Credit Information	25.3	24.4	3.8
Shinhan Alternative Investment	4,114.3	1,211.6	239.6
Shinhan REITs Management	1,071.6	801.3	33.7
Shinhan AI	42.4	-	n.a.
Others	3,302.6	2,948.6	12.0
Total ¹⁾	765,085.7	603,453.5	26.8
Consolidated Total Assets	552,419.6	459,600.5	20.2

Note 1) Trust A/C of Shinhan Bank, Jeju Bank, Shinhan Investment, Asia Trust and AUM (including ordinary discretionary assets) of Shinhan BNPP AM, Shinhan Alternative Investment, Shinhan REITs Management are included



Note 1) Trust A/C of Shinhan Bank, Jeju Bank, Shinhan Investment, Asia Trust and AUM (including ordinary discretionary assets) of Shinhan BNPP AM, Shinhan Alternative Investment, Shinhan REITs Management are included

Group Subsidiaries Asset Growth

Shinhan Bank

Loans Total value of Shinhan Bank's loans in KRW as at the end of 2019 stood at KRW 225.0 trillion, up 7.4% year-on-year. The Bank has maintained its pace of growth in profitability-oriented assets through balanced growth between its retail and corporate sectors, thereby contributing substantially to the interest income of the Bank and the Group.

In 2019, retail loans in KRW rose by 9.0% year-on-year to reach KRW 115.9 trillion. Although the increase in mortgage loans was limited to 1.2% due to tighter government regulations on the real estate industry, increases in *jeonse* loans and high profile unsecured personal loans led to overall growth in retail loans.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Asset Quality

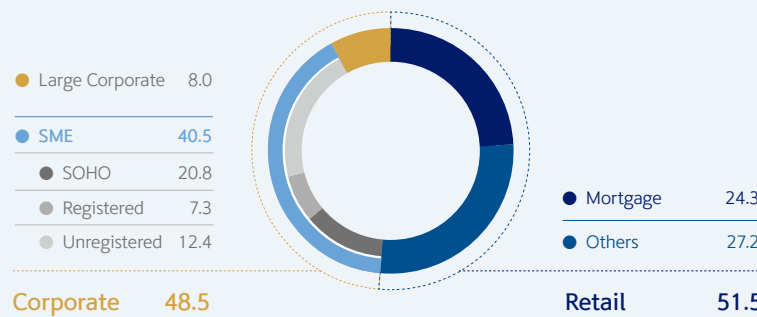
Capital Adequacy

Corporate loans in KRW went up by 5.7% to KRW 109.1 trillion. Loans to SMEs increased by 7.3% year-on-year, as a result of the implementation of a growth and profitability strategy focused on loans to unaudited SMEs and SOHOs.

Shinhan Bank Loans (KRW billion)			
	Dec. 2019	Dec. 2018	YTD %
Loans in KRW	225,002	209,568	7.4
Retail	115,875	106,304	9.0
Mortgage	54,605	53,935	1.2
Others ¹⁾	61,270	52,369	17.0
Corporate	109,127	103,264	5.7
SME	91,162	84,972	7.3
SOHO	46,785	42,664	9.7
Large Corporate, etc.	17,965	18,292	-1.8
Loans in FX	10,779	7,807	38.1

Note 1) Including unsecured personal loans, secured loans, *jeonse* loans, etc.

Shinhan Bank Loan Composition (%)

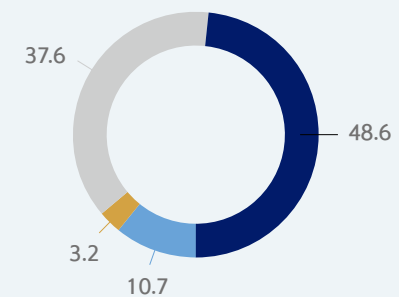


Deposits Shinhan Bank's deposits in KRW recorded KRW 233.0 trillion at the end of 2019, up 11.8% year-on-year. Lower market interest rates led to a surge in low-cost deposits. In addition, Shinhan Bank was selected as the main depository bank for the Seoul Metropolitan Government for four years from 2019 to 2022. As a result, there were substantial increases in time deposits and low-cost deposits, with deposits by the Seoul Metropolitan Government in 2019 totaling around KRW 4.2 trillion – low-cost deposits of KRW 1.8 trillion and time deposits of KRW 2.4 trillion.

Shinhan Bank Deposits (KRW billion)			
	Dec. 2019	Dec. 2018	YTD %
Total Deposits in KRW	232,997	208,349	11.8
Low-Cost Deposits	101,700	92,950	9.4
Demand	30,455	28,455	7.0
Savings	71,245	64,495	10.5
Time Savings	131,297	115,399	13.8
Time Deposits	122,073	106,684	14.4
Accumulative, etc.	9,225	8,715	5.8
Certificate of Deposits	8,602	8,603	-0.0
Debentures in KRW	28,813	23,814	21.0

Shinhan Bank Funding Composition (%)

● Time Savings ● Debentures ● CDs ● Low-Cost Deposits





MANAGEMENT'S DISCUSSION AND ANALYSIS

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Shinhan Card

Number of Members The number of active cardholders of Shinhan Card recorded 12.7 million at the end of 2019, up 1.4% compared to the previous year. Its number of merchants also rose by 3.5% to 2.9 million. As Korea's leading credit card provider, Shinhan Card focuses on qualitative rather than quantitative growth. It is diversifying its earnings by increasing the number of its digital-based cardholders and merchants, and building partnerships in major alliance markets.

Number of Active Card Customers and Merchants (Thousand)			
	Dec. 2019	Dec. 2018	YTD %
Effective Cardholders	12,667	12,495	1.4
Merchants	2,909	2,810	3.5

Assets Shinhan Card's earning assets stood at KRW 30.2 trillion at the end of 2019, up 10.7% year-on-year. Credit purchases rose by 8.3% thanks to increases in mobile and online payments, while card loans also increased by 7.7%. Lease assets increased by 37.0% on the back of the expansion of the long-term car rental business and additional lease assets at overseas subsidiaries. As such, the company is making continuous efforts to diversify its range of business.

Shinhan Card Operating Assets (KRW billion)			
	Dec. 2019	Dec. 2018	YTD %
Earning Assets	30,180	27,254	10.7
Credit Purchase	15,184	14,015	8.3
Cash Advances	1,864	1,986	-6.2
Card Loans	6,761	6,276	7.7
(Re-aged Loan)	269	239	12.7
Installment Finance	3,212	2,671	20.3
Lease, etc.	3,159	2,306	37.0

Funding Shinhan Card's total funding was valued at KRW 21.7 trillion at the end of 2019, up 13.9% from the previous year. The company continues to diversify its funding portfolio according to market conditions, including by issuing debentures, ABS and CPs. It also manages liquidity risk by diversifying the maturity dates of its funding.

Shinhan Card Funding (KRW billion)			
	Dec. 2019	Dec. 2018	YTD %
Earning Assets	21,670	19,033	13.9
Debentures	14,945	14,112	5.9
ABS	3,357	2,556	31.3
CP	1,850	1,665	11.1
Others	1,518	700	116.9

Shinhan Investment

The value of Shinhan Investment's total assets at the end of 2019 recorded KRW 37.4 trillion, up 28.9% compared to the previous year. Securities assets rose by 35.3% as a result of an increase in holdings of debt securities, while loans went up by 9.5% owing to increases in loans secured against stocks and loans related to IB transactions.

Shinhan Investment Total Asset (KRW billion)			
	Dec. 2019	Dec. 2018	YTD %
Total Assets	37,375.5	28,987.2	28.9
Cash and Cash Equivalents	709.0	259.8	172.9
Deposit	1,911.7	2,301.2	-16.9
Securities	26,670.0	19,718.5	35.3
Derivatives	677.7	316.2	144.3
Loans	4,583.1	4,186.6	9.5
Tangible Fixed Assets	139.3	122.9	13.3
Others	2,685.0	2,082.0	29.0

MANAGEMENT'S DISCUSSION AND ANALYSIS

2019 in Review

Income

Asset Growth

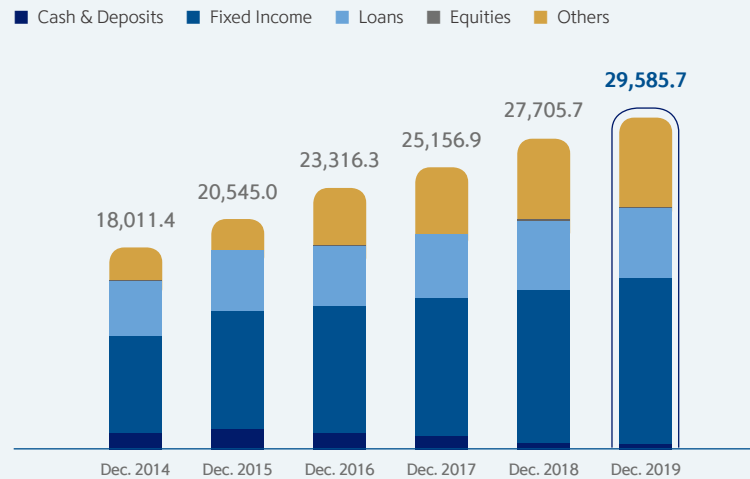
Asset Quality

Capital Adequacy

Shinhan Life Insurance

Operating assets of Shinhan Life Insurance recorded KRW 29.6 trillion at the end of 2019, up 6.8% compared to the previous year. The company expanded its holdings of long-term bonds and policy loan assets in line with its asset and liability management (ALM) strategy. As a result, fixed income assets rose by 8.4% to KRW 14.8 trillion, while loans increased by 1.1% to reach KRW 6.2 trillion.

Shinhan Life Insurance Operating Assets Growth (KRW billion)

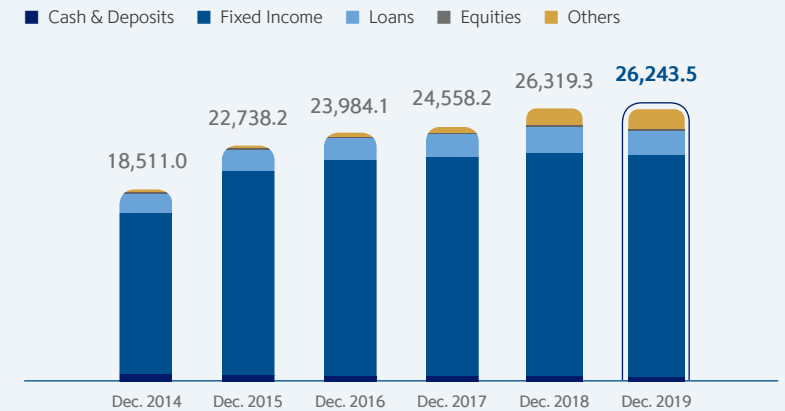


	Dec. 2014	Dec. 2015	Dec. 2016	Dec. 2017	Dec. 2018	Dec. 2019
Operating Assets	18,011.4	20,545.0	23,316.3	25,156.9	27,705.7	29,585.7
Cash & Deposits	1,485.7	1,831.6	1,457.8	1,170.6	619.7	490.1
Fixed Income	8,558.9	10,505.2	11,281.7	12,344.2	13,636.9	14,787.0
Loans	4,919.4	5,372.1	5,404.7	5,643.3	6,136.6	6,203.0
Equities	94.7	80.7	72.7	66.0	132.0	109.0
Others	2,952.8	2,755.4	5,099.4	5,932.9	7,180.5	7,996.6

OrangeLife Insurance

OrangeLife's operating assets stood at KRW 26.2 trillion at the end of 2019. The company implements an ALM strategy which balances long-term liabilities with long-term assets. Because insurance liabilities are inherently long-term, the company is substantially increasing its holdings of long-term assets such as fixed income bonds and policy loans. It is also striving to enhance rates of return by increasing the proportion of its portfolio which is comprised of strategic assets, such as overseas bonds, domestic stocks, and overseas real estate and infrastructure assets.

OrangeLife Insurance Operating Assets Growth (KRW billion)



	Dec. 2014	Dec. 2015	Dec. 2016	Dec. 2017	Dec. 2018	Dec. 2019
Operating Assets	18,511.0	22,738.2	23,984.1	24,558.2	26,319.3	26,243.5
Cash & Deposits	740.0	596.7	565.4	560.1	539.3	472.3
Fixed Income	15,498.4	19,692.0	20,782.4	21,073.7	21,401.5	21,315.8
Loans	1,827.2	2,018.2	2,089.4	2,133.9	2,588.6	2,355.3
Equities	114.6	131.8	98.1	117.0	135.1	124.9
Others	330.9	299.5	448.7	673.5	1,654.9	1,975.3

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Asset Quality

Group Asset Quality

The Group's non-performing loan ratio recorded 0.52% at the end of 2019, down 0.01%p compared to the previous year, and the lowest NPL ratio since its establishment. This was achieved by steadily reducing the amount of high risk loans as part of the Group policy of preemptive risk management, and the implementation of strategies centered on high quality, secure assets. The NPL coverage ratio was 152% at the end of 2019, sufficient to cover any potential losses in the foreseeable future.

Group Asset Quality (KRW billion)

	Dec. 2019	Dec. 2018	YTD %
Total Loans ¹⁾	312,243	287,918	8.4
Normal	308,565	284,181	8.6
Precautionary	2,040	2,226	-8.3
Substandard	621	479	29.8
Doubtful	404	498	-19.0
Estimated Loss	613	535	14.7
Substandard & Below	1,638	1,512	8.4
NPL Ratio	0.52%	0.53%	-0.01%p
Loan Loss Allowance ²⁾	4,774	4,562	4.7
Reserve for Credit Losses ³⁾	2,286	1,987	15.0
NPL Coverage Ratio ⁴⁾	152%	170%	-18%p

Note 1) Sum of Shinhan Bank, Jeju Bank, Shinhan Card, Shinhan Investment, Shinhan Life Insurance, OrangeLife, Shinhan Capital, Shinhan Savings Bank and Aisa Trust

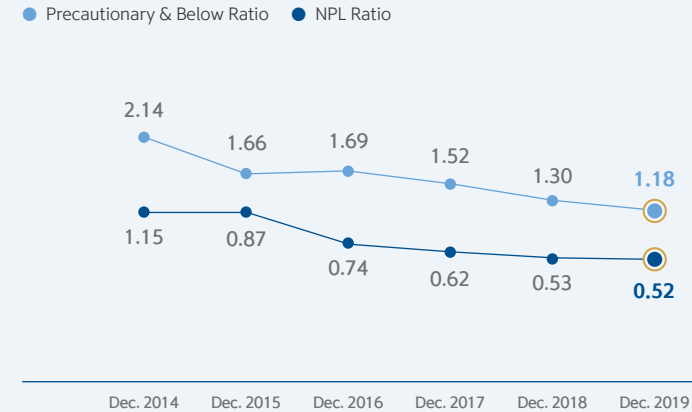
Note 2) Sum of IFRS standard LLA and reserves for credit losses

Note 3) Excluding reserve for contingent acceptances & guarantees and unused credit lines

Note 4) Excluding reserve for credit losses in accordance with the revision of relevant regulation (starting Dec. 2016)

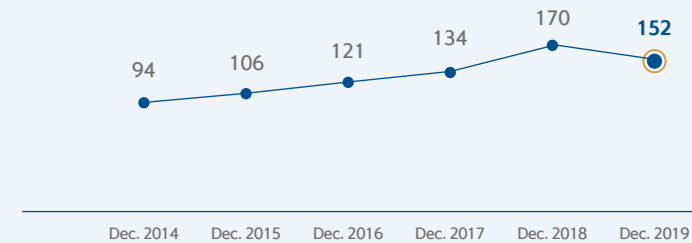
Group NPL Ratio

(%)



Group NPL Coverage Ratio

(%)



Note) Excluding reserve for credit losses in accordance with the revision of relevant regulation (starting Dec. 2016)

MANAGEMENT'S DISCUSSION AND ANALYSIS

2019 in Review

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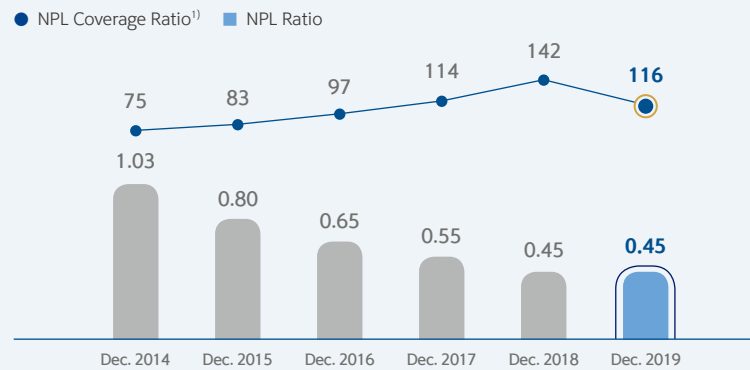
Asset Quality

Capital Adequacy

Group Subsidiaries Asset Quality

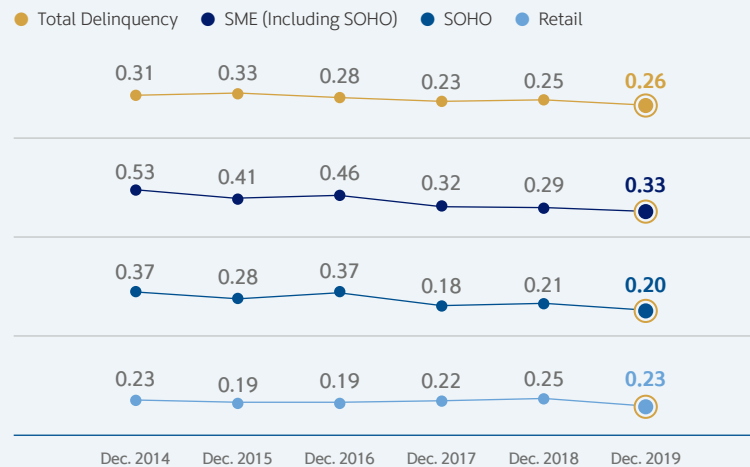
Shinhan Bank Shinhan Bank's NPL ratio stood at 0.45% at the end of 2019, the same level as the previous year. The Bank remains profitable and financially sound thanks to a growth strategy focusing on assets which are profitable but also relatively low risk, such as *jeonse* loans and SME loans. The delinquency ratio at the end of 2019 was 0.26%, with both the SME and retail sectors maintaining a stable delinquency ratio.

Shinhan Bank NPL Coverage Ratio & NPL Ratio (%)



Note 1) Excluding reserve for credit losses in accordance with the revision of relevant regulation (starting Dec. 2016)

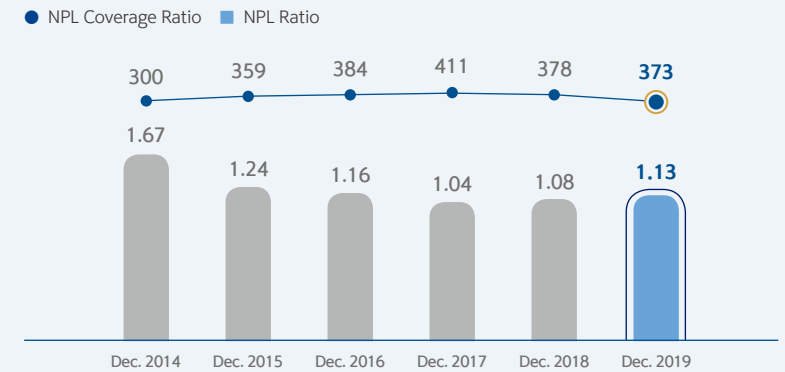
Shinhan Bank Delinquency Ratio (%)



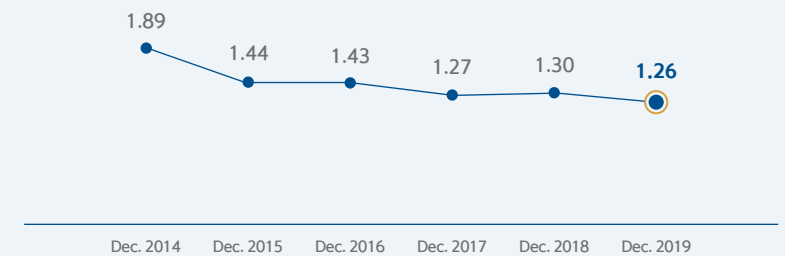
Note) 1 month overdue

Shinhan Card Shinhan Card's NPL ratio increased slightly during the year, to reach 1.13% at the end of 2019. Despite recent increases in card loans, the company is maintaining its NPL ratio at a stable level thanks to its preemptive risk management. It also continues to maintain a low delinquency ratio at 1.26%.

Shinhan Card NPL Coverage Ratio & NPL Ratio (%)



Shinhan Card Delinquency Ratio (%)



Note) 1 month overdue from total credit

MANAGEMENT'S DISCUSSION AND ANALYSIS

- 2019 in Review
- Income
- Asset Growth
- Asset Quality

Capital Adequacy

Capital Adequacy

Group Capital Adequacy

The Group's Common Equity Tier (CET) 1 capital rose by 5.1% in 2019 due to the increase in net income. Risk-weighted assets (RWA), however, grew by 12.3% year-on-year, the outcome of a growth strategy based on high quality assets and expanded global operations. As a result, the CET 1 ratio declined slightly, to 11.1%.

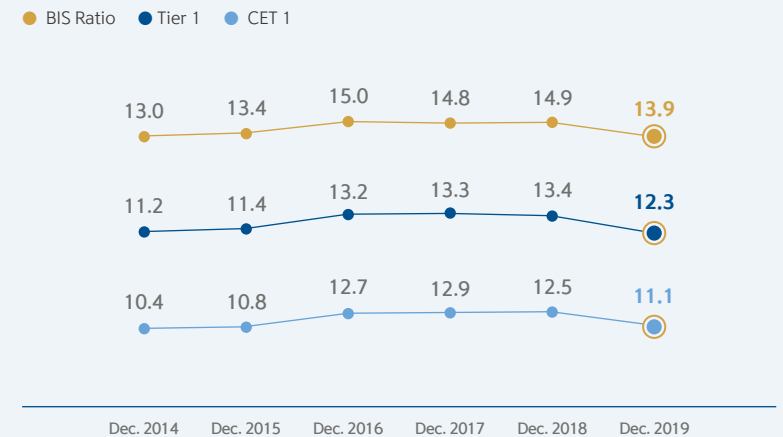
The Basel 3 recommended minimum CET 1 ratio for a financial institution is 8%, or 10.5% taking into account a 2.5% counter-cyclical buffer which is expected to be officially adopted in the future. The Group's CET 1 ratio at the end of 2019 was 11.1%, indicating that it is being maintained at a stable level above the required level.

The Group has decided to pay a dividend of KRW 1,850 per common share for the 2019 fiscal year, implying a dividend payout ratio of 25.0% and a dividend yield of 4.1%. The Group has gradually raised its dividend payout ratio since 2011 as part of its commitment to improving shareholder value. It will continue to improve its ROE through better capital utilization, including share buybacks, increasing its non-banking business, and expanding globally.

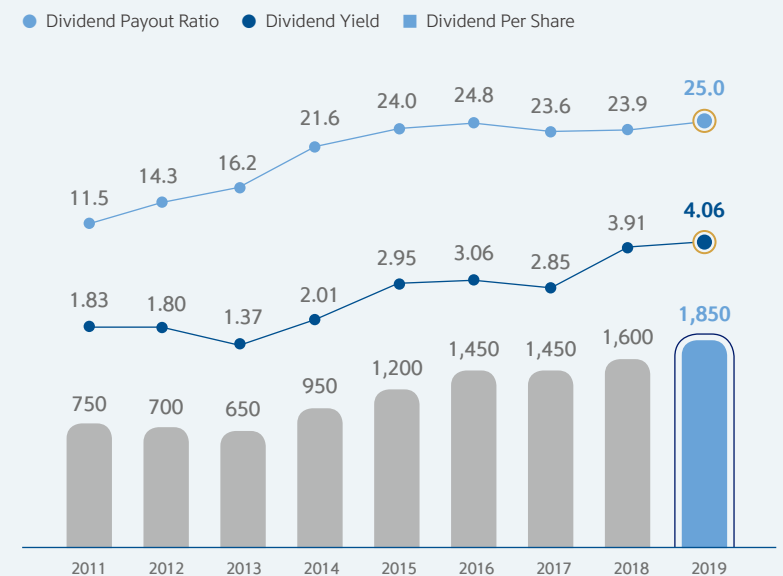
	Dec. 2019	Dec. 2018	YTD %
Risk-Weighted Assets	256,892	228,678	12.3
Capital	35,715	33,993	5.1
CET 1	28,562	28,696	-0.5
Tier 1	31,700	30,678	3.3
BIS Ratio	13.9%	14.9%	-1.0%p
CET 1	11.1%	12.5%	-1.4%p
Tier 1	12.3%	13.4%	-1.1%p

Note) Based on Basel 3

Group BIS Ratio Trend (%)



Group Dividend (KRW, %)



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Group Subsidiaries Capital Adequacy

Shinhan Bank Shinhan Bank's CET 1 ratio at the end of 2019 was 12.8%, and its Tier 1 ratio was 13.3%. being managed at a stable level. The capital ratios of the Bank have remained stable thanks to a focus on profitable loans and steady net income.

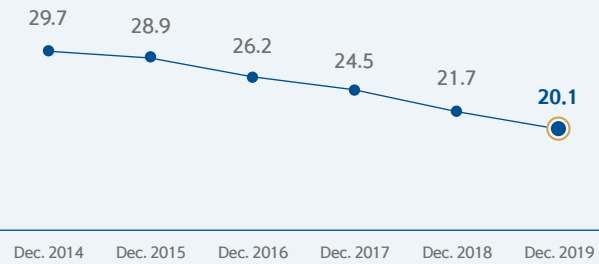
Shinhan Bank BIS Ratio (KRW billion)

	Dec. 2019	Dec. 2018	YTD %
Risk-Weighted Assets	181,637	171,593	5.9
Capital	28,905	27,500	5.1
CET 1	23,159	22,114	4.7
Tier 1	24,157	22,812	5.9
BIS Ratio	15.9%	16.0%	-0.1%p
CET 1	12.8%	12.9%	-0.1%p
Tier 1	13.3%	13.3%	0.0%p

Note) Based on Basel 3

Shinhan Card Shinhan Card's capital adequacy ratio at the end of 2019 recorded 20.1%, well above the minimum regulatory ratio of 8%. The company's capital adequacy ratio has been 20% or above since 2007, mainly attributable to its commitment to reducing credit losses through preemptive risk management, and its continuing efforts to generate stable net income.

Shinhan Card Capital Adequacy Ratio (%)





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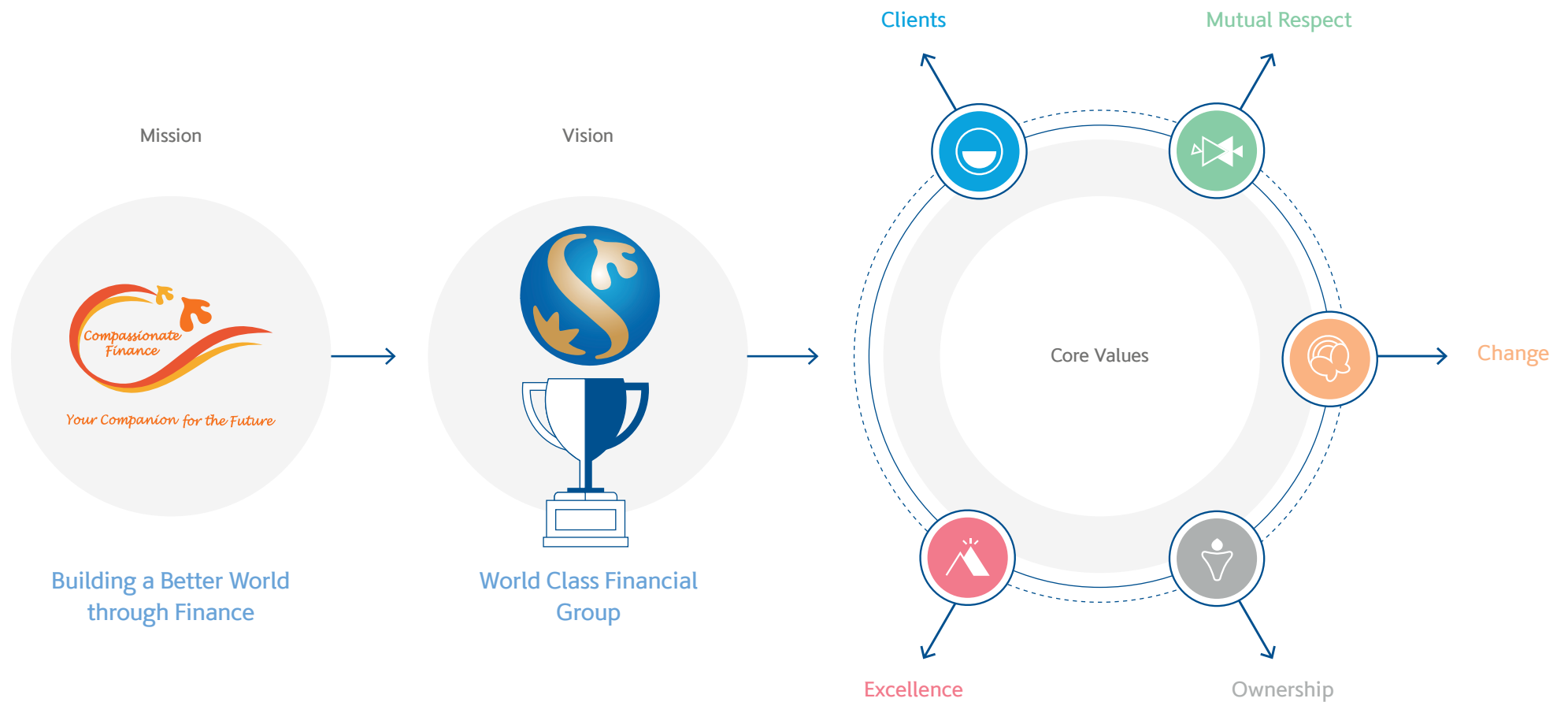
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Shinhan WAY

Shinhan WAY, comprised of the Group's mission, core values and vision, represents a value system by which all members of Shinhan Financial Group measure their thoughts and actions.



Group Mission

Shinhan Financial Group has set “Compassionate Finance, Your Companion for the Future” as its mission. Under our mission, which is the fundamental reason and purpose of the Group, we strive to uphold a virtuous cycle of shared prosperity that will create greater value for our clients and society as a whole. To this end, we need to part with the past and practice “Creative Finance” with new methods befitting a new environment with regard to products, services, and money management, in order to make a better world through finance.

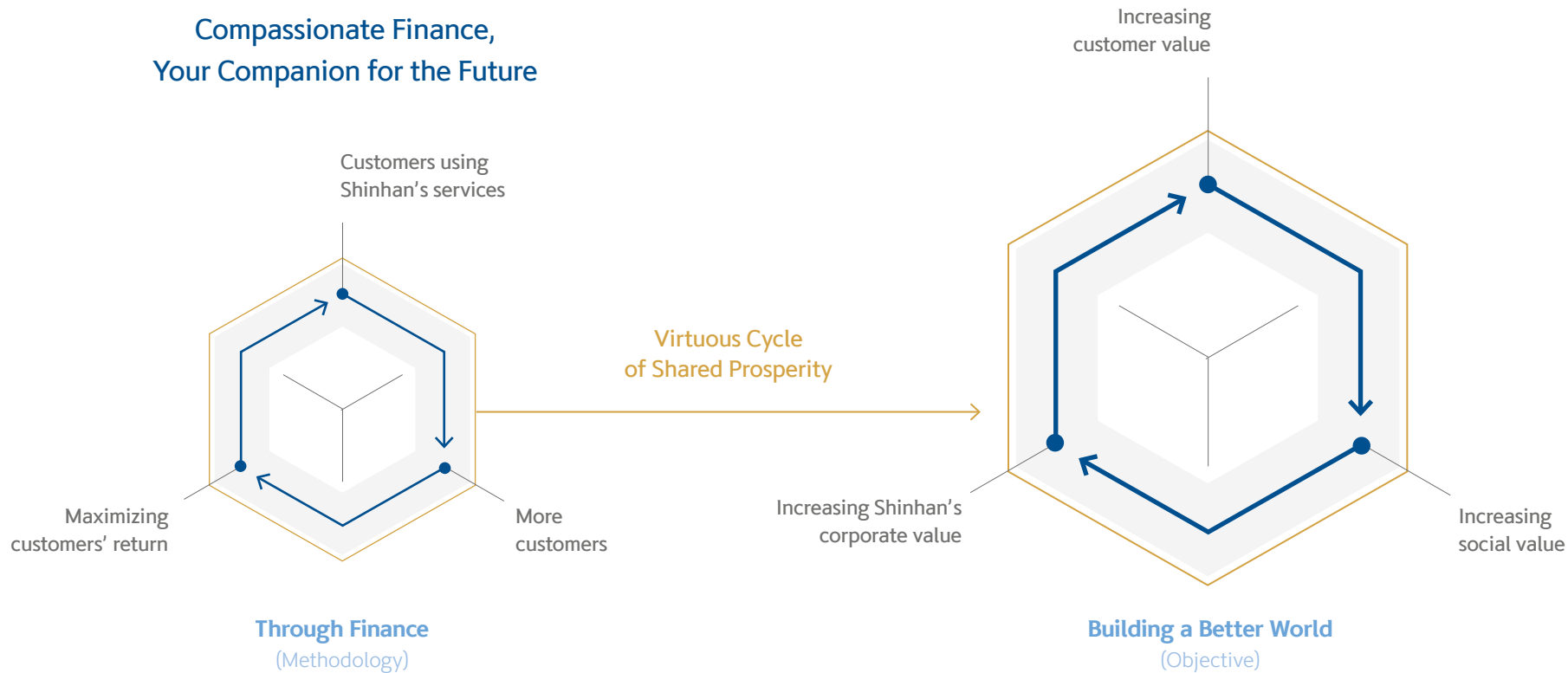
We help clients achieve their goals by providing financial products and services that meet the latest trends, and delivering high returns on the funds entrusted to us. Financial products, services, and money management must evolve along with the changing times and business environment in order for our core business to succeed. Departing from past conventions, we seek innovative new solutions using a methodology we call “Creative Finance”.

As Shinhan helps more clients succeed and fulfills the fundamental role of finance, that is, the efficient allocation of resources, value will increase for the whole of society. The interlinked values of Shinhan and society will grow together and lead to progress in a virtuous cycle of shared prosperity.

“Compassionate Finance, Your Companion for the Future” is significant in that it shows how corporate value and client (social) value can coexist instead of merely competing. In order to realize such coexistence, Shinhan Financial Group will work to ensure that all employees embody the spirit of compassionate finance when working and upgrade its policies and systems so that clients can benefit from differentiated services.

A Better World Through Finance

Compassionate Finance, Your Companion for the Future

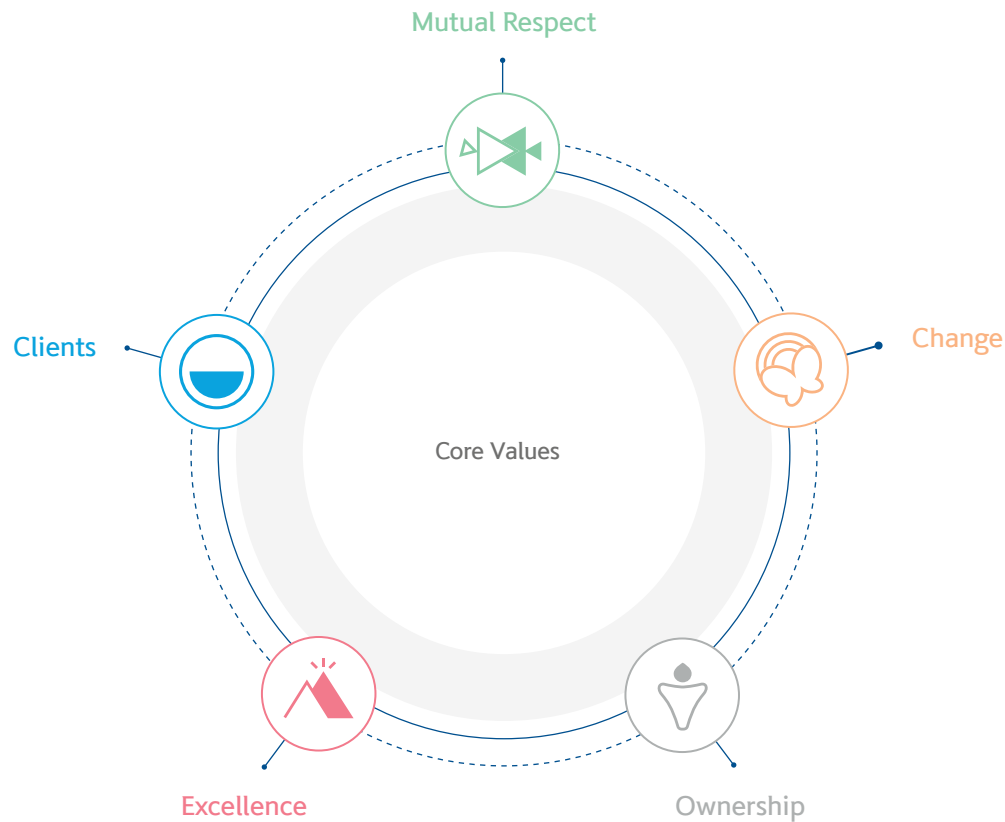


Core Values

Core values guide the thoughts and actions of all Shinhan members united under the idea of One Shinhan.

While the five core values remain constant, the code of conduct serves as a specific guideline to understanding and practicing these values. In January 2017, we issued a revised code of conduct that better reflects our mission statement and newly established standards for management as ascribed to the Shinhan Leader so that all members of Shinhan can continue practicing the core values in an evolving business environment.

Core Values



Meaning

Clients

We maintain high ethical standards to build trust with our clients, and see things from their perspective to provide products and services that raise clients' values.

Mutual Respect

We seek cooperation and openness in pursuit of shared prosperity for the Group and all members of society.

Change

We initiate meaningful changes based on our insight into shifting trends so that we can respond swiftly and boldly with creative solutions.

Excellence

We continue to challenge and educate ourselves to become the leading experts in our fields so that we can produce sustainable results.

Ownership

We practice the Shinhan WAY with pride, passion and sincerity as members of the Group and take the lead in fulfilling our responsibilities.



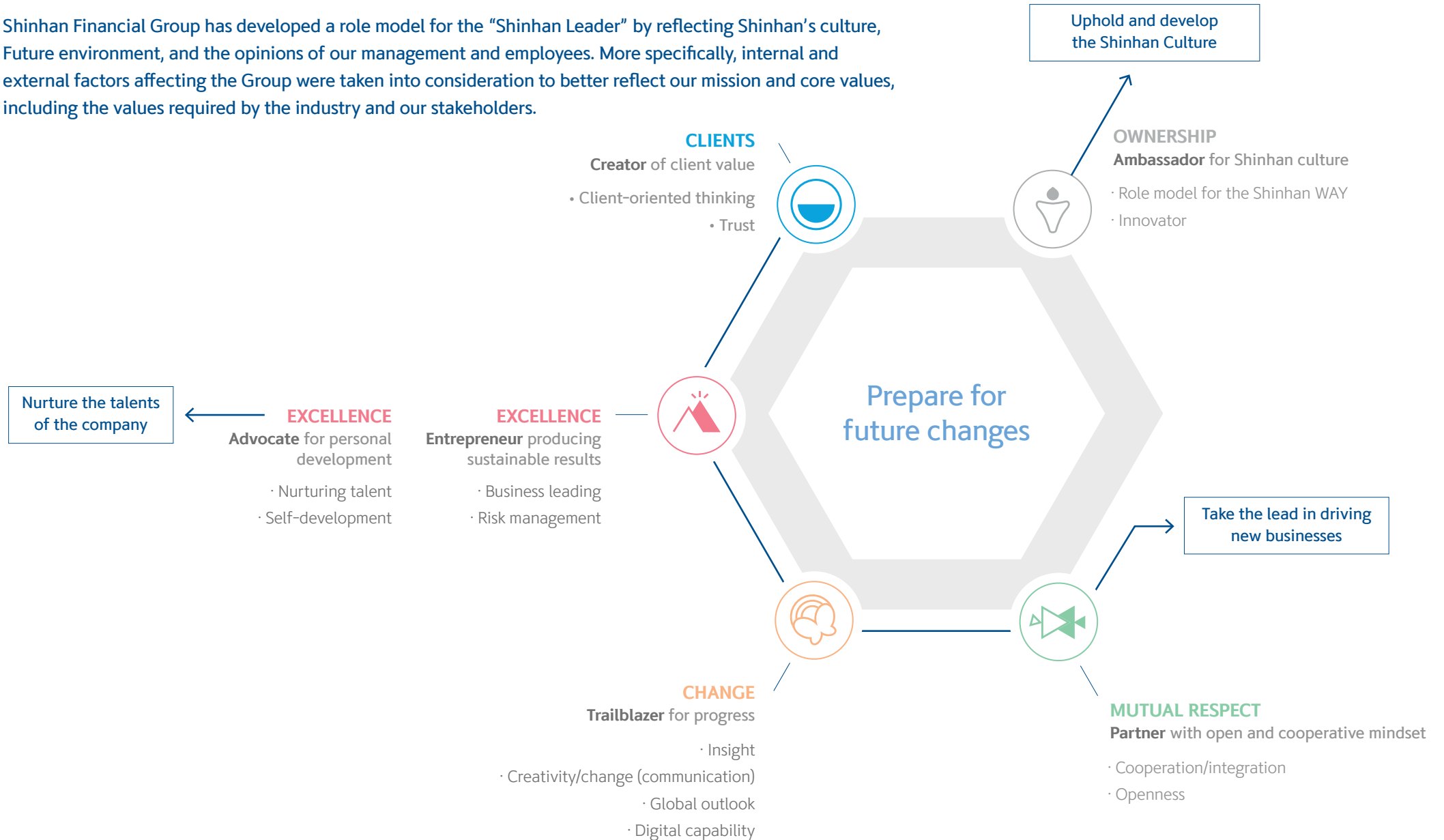
Code of Conduct

The code of conduct outlines the standards for employees' judgment and actions when applying the core values to their duties.

CORE VALUES		KEYWORD	CODE OF CONDUCT
Clients		Client-oriented thinking	Provide products and services based on in-depth understanding of clients' needs and their perspective
		Client value	Make every effort to increase client value as the client's companion for the future
		Trust	Build trust with clients by adhering to strict ethical standards and principles
Mutual Respect		Coordination and integration	Pursue cooperation as a member of One Shinhan but with respect and consideration from another's perspective
		Openness	Form a broad and diverse network of stakeholders beyond financial businesses with emphasis on open communication
		Shared prosperity	Make judgments and take action to raise the value of Shinhan and society at large
Change		Insight	Predict the direction and implication of changes from a broad and comprehensive standpoint
		Creativity	Think outside the box to discover new solutions and implement new approaches
		Innovation	Take bold and swift action to introduce meaningful changes without being afraid of failure
Excellence		Challenge and execution	Set challenging goals and follow through with specific plans and perseverance
		Sustainable performance	Strive to produce results that can be sustained over the long term
		Self-development	Continue learning to gain the highest level of expertise and constantly explore new pursuits
Ownership		Role model for the Shinhan WAY	Set an example through actions based on a deep and sincere understanding of the Shinhan WAY
		Pride	Take pride and satisfaction in doing good work as a member of Shinhan
		Self-motivation	Harness one's passion to inspire passion in others and take the initiative in fulfilling one's responsibilities

Shinhan Leader

Shinhan Financial Group has developed a role model for the “Shinhan Leader” by reflecting Shinhan’s culture, Future environment, and the opinions of our management and employees. More specifically, internal and external factors affecting the Group were taken into consideration to better reflect our mission and core values, including the values required by the industry and our stakeholders.



Code of Conduct for the Shinhan Leader

The Shinhan Leader serves as the management's role model when implementing the Shinhan WAY and as the management's guide when preparing for the future in a changing environment. Leading the way toward achieving Shinhan's mission and vision, all members of management abide by the code of conduct when making decisions and carrying out their responsibilities.



Ownership

Ambassador for Shinhan culture

Practice and promote the Shinhan WAY with conviction and sincerity, and uphold and develop the Group's culture in step with changes in the business environment

Role model for the Shinhan WAY

Promote the Shinhan WAY and foster an organizational culture where employees are recognized for following its principles

Innovator Find solutions by taking an interest in cultural issues and continue developing Shinhan's culture in step with changes in the business environment



Clients

Creator of client value

Think from the client's perspective when making judgments and decisions, and build a relationship of trust by observing high ethical standards

Client-oriented thinking Gain a thorough understanding of the client's needs and ensure delivery of products and services from the client's perspective

Trust Foster trust by following strict ethical guidelines and aspire to increasing value for the client, Shinhan and society



Mutual Respect

Partner with open and cooperative mindset

Combine resources and capabilities for optimal Group-wide performance and cultivate strategic partnerships through cooperation

Cooperation/integration Establish strategies from the perspective of One Shinhan, find common ground through communication and constructive feedback, and allocate resources to suit changes in the business environment

Openness Develop a broad and diverse network of stakeholders beyond financial businesses, and enter into strategic partnerships to create new value



Change

Trailblazer for progress

Predict the future based on knowledge and insight, and make changes through honest communication and cooperation

Insight Anticipate changes based on in-depth expertise with a broad and comprehensive perspective

Creativity/change (communication) Foster an atmosphere that encourages creative thinking, and reach consensus by sharing concrete visions about change

Global outlook Evaluate and respond to the consequences of changes in the world, and satisfy global standards in communication and other aspects

Digital capability Help employees adapt to changing times by presenting a vision for the digital future and reflect their input in setting the strategic direction



Excellence

Entrepreneur producing sustainable results

Discover new business opportunities from a comprehensive standpoint, and deliver sustainable results through preemptive risk management

Business leading Embrace an integrated view to discover business opportunities, strive for sustainable performance, and take responsibility for the outcome

Risk management Embrace an expansive view to identify risk factors in an evolving business environment and take preemptive action to manage the risks

Board of Directors & Management

Executive Director

Cho Yong-byoung

Date of Birth June 30, 1957
Current Position CEO, Shinhan Financial Group
Education B.A. in Law, Korea University
Main Work Experience
 2017–Current CEO, Shinhan Financial Group
 2015–2017 President & CEO, Shinhan Bank
 2013–2015 CEO, Shinhan BNP Paribas Asset Management
 2011–2013 Deputy President, Shinhan Bank

Non-Executive Directors

Jin Ok-dong

Date of Birth February 21, 1961
Current Position President & CEO, Shinhan Bank
Education MBA, Chung Ang University
Main Work Experience
 2019–Current CEO, Shinhan Bank
 2017–2018 Deputy President, Shinhan Financial Group
 2017–2017 Deputy President, Shinhan Bank
 2015–2016 CEO, Shinhan Bank Japan

Philippe Avril

Date of Birth April 27, 1960
Current Position Director, BNP Paribas Securities (Japan) Ltd.
Education M.A. in Economics, Universite de Paris Dauphine
Main Work Experience
 2019–Current Director, BNP Paribas Securities (Japan) Ltd.
 2012–2019 Chairman & Representative Director, BNP Paribas Securities (Japan) Ltd.

Independent Directors

Park Cheul (Chair of the Board)

Date of Birth April 27, 1946
Current Position Retired Chairman & CEO, Leading Investment & Securities Co., Ltd.
Education M.A. in Economics, New York University
Main Work Experience
 2007–2013 Chairman & CEO, Leading Investment & Securities Co., Ltd.
 2003–2005 Member of the Committee, National Economy Advisory Council
 2003–2006 Independent Director, Korea Development Bank
 2000–2003 Senior Deputy Governor, Bank of Korea

Park Ansoon

Date of Birth January 24, 1945
Current Position CEO, Taisei Group Co., Ltd.
Education B.A. in Philosophy, Waseda University
Main Work Experience
 2010–Current CEO, Taisei Group Co., Ltd.
 2018–Current Chairman, the Korean Residents Union in Japan
 2012–2018 Vice Chairman, the Korean Residents Union in Japan



Independent Directors (continued)

Byeon Yang-ho

Date of Birth July 30, 1954

Current Position Company Advisor, VIG Partners

Education Ph.D. in Economics, Northern Illinois University

Main Work Experience

2016–Current Company Advisor, VIG Partners

2011–2015 Non-Executive Director, TongYang Life Insurance

2005 Founder of Korean 1st Private Equity Fund, Vogo Fund

2004–2005 President, Korea Financial Intelligence Unit

1995–2004 Director, Bureau of Financial Policy, Ministry of Finance and Economy

1990–1992 Senior Economist, International Monetary Fund

Sung Jae-ho

Date of Birth March 18, 1960

Current Position Professor, Sung Kyun Kwan University School of Law

Education Ph.D. in Law, Sung Kyun Kwan University

Main Work Experience

1994–Current Professor, Sung Kyun Kwan University School of Law

2018–2019 Independent Director, NICE Holdings

2015–2019 Independent Director, Shinhan Card

2015 Chairman, Korea Council of International Law

Yoon Jaewon

Date of Birth August 29, 1970

Current Position Professor, College of Business Administration, Hongik University

Education Ph.D. in Accounting, Korea University

Main Work Experience

2004–Current Professor, College of Business Administration, Hongik University

2017–Current Member, Committee on Development Tax System, Ministry of Economy and Finance

2017–Current Member, Committee on National Accounting policy, Ministry of Economy and Finance

2013–2019 Non-executive Judge, Tax Tribunal

Lee Yoon-jae

Date of Birth November 3, 1950

Current Position Retired CEO, KorEl

Education AMP, Harvard Business School
MBA, Stanford Graduate School of Business

Main Work Experience

2015–2018 Independent Director, CJ Freshway

2012–2016 Independent Director, Busan Bank

2009–2014 Independent Director, LG

2001–2010 CEO, KorEl

2000–2006 Outside Director, Samsung Fire and Marine Insurance
Non-Executive Director, Korea First Bank

1999–2003 Company Advisor, Kim&Chang Law Firm

1998–1999 Secretary of Chief Economist, Office of President

1980–1994 Secretary General of Deputy Prime Minister, Economic Planning Board

Jin Hyun-duk

Date of Birth September 10, 1955

Current Position CEO, PHOEDRA Co., Ltd.

Education MBA, Keio Business School

Main Work Experience

1988–Current CEO, PHOEDRA Co., Ltd.

Current Councilor, The Korea Educational Foundation

2014–Current Visiting Professor, Business administration, Sakushin-gakuin University, Japan

Visiting Professor, Engineering, Utsunomiya University, Graduate School, Japan

Choi Kyong-rok

Date of Birth May 25, 1966

Current Position CEO, CYS Corporation

Education M.S. in Computational Science, Keio University

Main Work Experience

2002–Current CEO, CYS Corporation

2010–2015 Independent Director, Shinhan Life Insurance

2001–2002 Deputy President, CYS Corporation

1999–2000 Research Associate, Information Technology Center at Keio University



Independent Directors (continued)

Huh Yong-hak

Date of Birth September 10, 1958
Current Position CEO, First Bridge Strategy Ltd.
Education M.S. in International Affairs, Columbia University
Main Work Experience
 2015–Current CEO, First Bridge Strategy Ltd.
 2008–2014 CIO of Alternative Investment, Hong Kong Monetary Authority
 2004–2008 Executive Director of Asia Investment Banking Division, HSBC
 2003–2004 Managing Director, Olympus Capital Investment

Yuki Hirakawa

Date of Birth October 21, 1960
Current Position CEO, Primer Korea LLC
Education B.A. in Spanish, Osaka University
Main Work Experience
 2014–Current CEO, Primer Korea LLC
 1994–2012 CEO, Hirakawa Industry Development Co., Ltd.

Deputy Presidents and Managing Directors

Yi Sunny

Date of Birth March 25, 1962
Current Position Deputy President & Chief Digital Officer (CDO), Shinhan Financial Group
Main Work Experience
 2020–Current Deputy President & CDO, Shinhan Financial Group
 CEO, Shinhan DS
 2019–2019 Head of Future Strategy Research Institute, Shinhan Financial Group
 2000–2017 Global Director & Managing Partner (Korea), Bain & Company
 1991–2000 Managing Partner (Asia), AT Kearney

Jang Dong-ki

Date of Birth January 2, 1964
Current Position Deputy President & Head of Global Markets and Securities (GMS), Shinhan Financial Group
Main Work Experience
 2019–Current Deputy President, Shinhan Financial Group
 Deputy President & Head of GMS, Shinhan Bank, Shinhan Investment, Shinhan Life
 2018–2019 Deputy President & CFO, Shinhan Financial Group

Jeong Woon-jin

Date of Birth April 20, 1964
Current Position Deputy President & Head of Group and Global Investment Banking (GIB), Shinhan Financial Group
Main Work Experience
 2019–Current Deputy President, Shinhan Financial Group
 Deputy President & Head of GIB, Shinhan Bank, Shinhan Investment, Shinhan Life, Shinhan Capital
 2018–2019 Deputy President, Shinhan Bank

Lee Byeong Cheol

Date of Birth January 22, 1963
Current Position Deputy President & Chief Public Relation Officer (CPRO), Shinhan Financial Group
Main Work Experience
 2019–Current Deputy President & CPRO, Shinhan Financial Group
 2017–2019 Managing Director, Shinhan Financial Group

Jeong Jiho

Date of Birth June 25, 1963
Current Position Deputy President & Head of Global Business, Shinhan Financial Group
Main Work Experience
 2019–Current Deputy President, Shinhan Financial Group
 Deputy President & Head of Global Business, Shinhan Bank, Shinhan Card, Shinhan Investment, Shinhan Life
 2017–2019 Managing Director, International Trade Business Division, Shinhan Bank



Deputy Presidents and Managing Directors (continued)

Wang Mi-hwa

Date of Birth October 5, 1964

Current Position Deputy President & Head of Wealth Management (WM), Shinhan Financial Group

Main Work Experience

2019–Current Deputy President, Shinhan Financial Group
Deputy President & Head of WM, Shinhan Bank,
Shinhan Investment

2018–2019 Managing Director, Shinhan Bank

Roh Yong-hoon

Date of Birth March 16, 1964

Current Position Deputy President & Chief Financial Officer (CFO),
Shinhan Financial Group

Main Work Experience

2020–Current Deputy President & CFO, Shinhan Financial Group

2017–2020 Head of Global Business Division, Shinhan Bank

An Hyo Ryul

Date of Birth May 26, 1965

Current Position Deputy President & Head of Retirement Pension,
Shinhan Financial Group

Main Work Experience

2020–Current Deputy President, Shinhan Financial Group
Deputy President & Head of Retirement Pension,
Shinhan Bank

2018–2020 Head of Management Planning and Consumer
Protection, Shinhan Bank

Wang Ho-min

Date of Birth March 4, 1964

Current Position Managing Director & Chief Compliance Officer (CCO),
Shinhan Financial Group

Main Work Experience

2019–Current Managing Director & CCO, Shinhan Financial Group

2017–2019 General Manager of Jamsil-nam Branch,
Shinhan Bank

Lee Een-kyoon

Date of Birth April 1, 1967

Current Position Managing Director & Chief Operation Officer (COO),
Shinhan Financial Group

Main Work Experience

2019–Current Managing Director & COO, Shinhan Financial Group

2017–2019 Head of Management Support Team,
Shinhan Financial Group

Park Sung-hyun

Date of Birth November 8, 1965

Current Position Managing Director & Chief Strategy and
Sustainability Officer (CSO), Shinhan Financial Group

Main Work Experience

2020–Current Managing Director & CSO, Shinhan Financial Group

2018–2020 Head of Strategic Planning Team,
Shinhan Financial Group

Bang Dong Kwon

Date of Birth February 10, 1966

Current Position Managing Director & Chief Risk Officer (CRO),
Shinhan Financial Group

Main Work Experience

2020–Current Managing Director & CRO, Shinhan Financial Group

2019–2020 General Manager, Risk Management Department,
Shinhan Bank

Lee Keon Hyok

Date of Birth July 17, 1963

Current Position Head of Future Strategy Research Institute,
Shinhan Financial Group

Main Work Experience

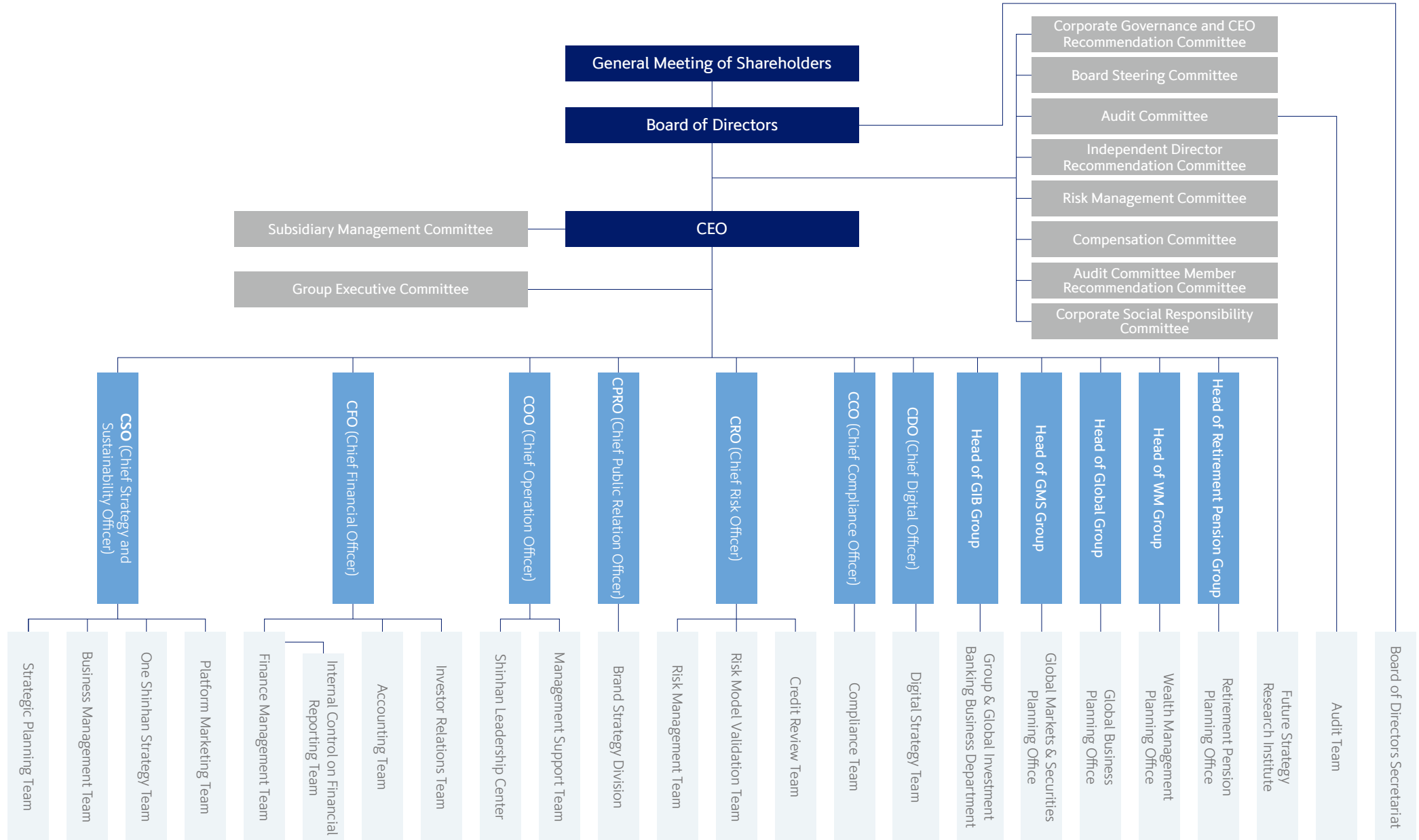
2020–Current Head of Future Strategy Research Institute,
Shinhan Financial Group

2018–2019 Senior Advisor, Kim & Chang Law Firm

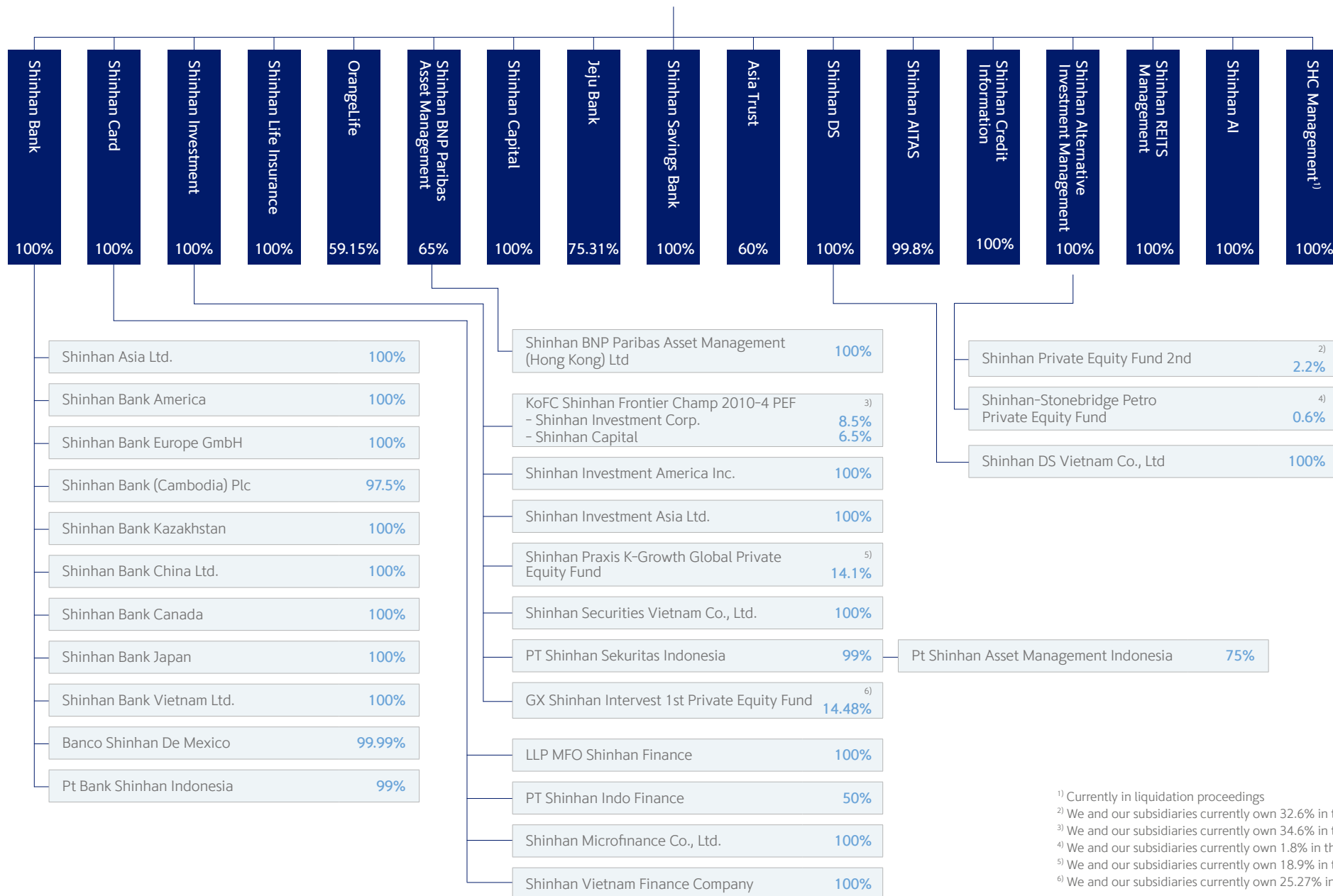
2016–2017 Vice President, Samsung Economic Research Institute

Organization

Shinhan Financial Group



Business Portfolio



¹⁾ Currently in liquidation proceedings
²⁾ We and our subsidiaries currently own 32.6% in the aggregate
³⁾ We and our subsidiaries currently own 34.6% in the aggregate
⁴⁾ We and our subsidiaries currently own 1.8% in the aggregate
⁵⁾ We and our subsidiaries currently own 18.9% in the aggregate
⁶⁾ We and our subsidiaries currently own 25.27% in the aggregate



Global Network

Shinhan Bank

Country	Name	Telephone	Address
Japan	Shinhan Bank Japan	+81-3-6403-0505	The Mita Bellju Building 5F, 108-0014 5-36-7 Shiba, Minato-ku, Tokyo, Japan
China	Shinhan Bank (China)	+86-10-8529-0088	12th Fl. Zhongyu Plaza No.6, Workers' Stadium Road N., Chaoyang District, Beijing 100027, China
Vietnam	Shinhan Bank Vietnam	+84-8-3829-1581	Ground Floor, Mezzanine, 2nd & 3rd floor, Empress Tower, 138 – 142 Hai Ba Trung, Dakao Ward, District 1, Ho Chi Minh City, Vietnam
USA	Shinhan Bank America	+1-646-843-7300	330 5th Avenue 4th Floor New York, NY 10001 USA
Indonesia	PT Bank Shinhan Indonesia	+62-21-2975-1500	International Financial Centre Tower 2, Ground floor, Mezzanine, 30th and 31st floor, Jl. Jenderal Sudirman Kav.22-23 South Jakarta, Indonesia
Germany	Shinhan Bank Europe GmbH	+49-69-975-7130	Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany
Canada	Shinhan Bank Canada	+1-416-250-3500	5140 Yonge Street Suite 2300 Toronto, Ontario, M2N6L7, Canada
Hong Kong	Shinhan Asia Limited	+852-3717-0700	Units 7704, 77/F International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong
Cambodia	Shinhan Bank (Cambodia) Plc	+855-23-971-100	No.79 Kampuchea Krom, Sangkat Mororom, Khan 7 Makara, Phnom Penh, Cambodia
Kazakhstan	Shinhan Bank Kazakhstan	+7-727-356-9620	38 Dostyk ave. Almaty, 050010, Kazakhstan
Mexico	Banco Shinhan de Mexico	+52-55-6722-8000	Av. Paseo de la Reforma 250, Reforma Capital Torre B Cuauhtemoc, Juarez, 06600, Mexico D.F., Mexico
Hong Kong	Hong Kong Branch	+852-2867-0100	Unit 7703, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong
USA	New York Branch	+1-212-371-8000	600 3rd Ave, 17th Floor, New York, NY10016, USA
UK	London Branch	+44-207-600-0606	6th Floor, 77 Gracechurch Street, London, EC3V 0AS. UK
Singapore	Singapore Branch	+65-6536-1144	1 George St. #15-03, Singapore 049145
India	Mumbai Branch	+91-22-6199-2000	5th Floor, Wockhardt Towers, C2, G Block, Bandra Kurla Complex, Bandra, Mumbai, 400-051, India
India	New Delhi Branch	+91-11-4500-4800	3rd Floor, D-6, Part II South Extension, New Delhi, India
India	Kancheepuram Branch	+91-44-2714-3500	Survey No:69/4A1 B No.101A, Bangalore Highway Road, Thandalam Village, Kancheepuram, Tamilnadu, India 602105
India	Pune Branch	+91-20-3086-4800	Ground Floor, Red Building. Plot No.2, Galaxy Society, Boat Club Road, Pune, Maharashtra, India 411001
India	Ahmedabad Branch	+91-79-7117-0400	FF2&FF3, 1st Floor, Shapath V Building, Opp. Karnavati Club, S.G.Highway, Ahmedabad, Gujarat, India 380015
India	Ranga Reddy Branch	+91-40-6635-2000	SLN Terminus, 1st Floor, Survey No 133, Gachibowli, Serilingampally, Mandal, Ranga Reddy District, Telangana State, India 500032
Myanmar	Yangon Branch	+95-1-9345-170	No.192, 10th Floor, Myanmar Centre Tower 1, Kabaraye Pagoda Road, Bahan Township, Yangon, Myanmar
Australia	Sydney Branch	+61-2-9224-7901	Level 25, 52 Martin Place, Sydney, NSW 2000, Australia
Philippines	Manila Branch	+63-2-405-6300	21st Floor, RCBC Savings Bank Corporate Center (RSBCC), 26th & 25th Street, Bonifacio South, Bonifacio Global City, Taguig City, Manila, Philippines
UAE	Dubai Branch	+971-4-551-2820	S1204, Emirates Financial Tower, DIFC, P.O. Box 507001, Dubai, UAE
Uzbekistan	Shinhan Bank Uzbekistan Representative Office	+998-71-150-1184	Neworld Bldg. 3rd Fl., Oybek St. 22 Tashkent, Uzbekistan 100015



Shinhan Card

Country	Name	Telephone	Address
Indonesia	PT Shinhan Indo Finance	+62-21-857+9095	Wisma Indomobil 1, 10th Floor, Jl. Letjen M.T. Haryono Kav. 8, Jakarta 13330, Indonesia
Kazakhstan	LLP MFO Shinhan Finance	+7-727-355-2550	2nd Floor, 48 Auezov street, Almaty, Kazakhstan
Myanmar	Shinhan Microfinance Co., Ltd.	+95-94-5296-7837	No. 206, Thiri Mingalar Street, East Ywama, Insein Township, Yangon, Myanmar
Vietnam	Shinhan Vietnam Finance Limited (SVFC)	+84 1900 5454 49	Units 2301-06 & 2311 23F, Saigon Trade Center, No. 37 Ton Duc Thang Street, Ben Nghe, District 1, Ho Chi Minh City, Vietnam
Myanmar	Shinhancard Co., LTD (Representative Office)	+95-9251890332	(3/A) Kan Taw Mon Housing, Lay Htang Street, Lay Htang Kan Ward, Thingangyun Township, Yangon, Myanmar

Shinhan Investment

Country	Name	Telephone	Address
Indonesia	PT. Shinhan Sekuritas Indonesia	+62-21-8086-9900	Jalan Jendral Sudirman Kav. 22-23, RT.10/RW.1, Karet, Setia Budi, Kota Jakarta Selatan, DKI Jakarta 12920, Indonesia
Hong Kong	Shinhan Investment Asia Ltd.	+852-3713-5301	Units 7705A, Level 77 International Commerce Center (ICC), 1 Austin Road West, Kowloon, Hong Kong
Vietnam	Shinhan Securities Vietnam Co., Ltd.	+84-28-6299-8000	22nd floor, Centec Tower, 72-74 Nguyen Thi Minh Khai, Phuong 6, District 3, Ho Chi Minh City, Vietnam
USA	Shinhan Investment America Inc.	+1-212-397-4000	1325 Avenue of the Americas #2002A, New York, NY 10019, USA
China	Shinhan Investment Shanghai Representative Office	+86-21-6194-6624	#2262, 22/F, One Lujiazui, 68 Yin Cheng Road, Pudong, Shanghai, China
Vietnam	Shinhan Investment Ho-Chi-Minh City Representative Office	+84-28-6287-8034	22nd Floor, Centec Tower, 72-74 Nguyen Thi Minh Khai, Phuong 6, District 3, Ho Chi Minh City, Vietnam
Indonesia	Shinhan Asset Management Indonesia	+62 21 3100078	Sucaco, Jl. Kebon Sirih No.71, RT.3/RW.2, Kb. Sirih, Menteng, Kota Jakarta Pusat, Daerah Khusus Ibukota, Jakarta 10340, Indonesia

Shinhan Life Insurance

Country	Name	Telephone	Address
Vietnam	Shinhan Life Hanoi Office	+84-24-3766-2000	2501-2 Keangnam Hanoi Landmark Tower, Plot E6, Cau Giay, New Urban Area, Me Tri Ward, Nam Tu Liem District, Hanoi City, Vietnam
UK	Shinhan Life London Office	+44-7494-712945	Level 30, The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB, UK

Shinhan BNP Asset Management

Country	Name	Telephone	Address
Hong Kong	Shinhan BNP Paribas Asset MGT HK Limited	+852-2525-9110	Unit 7702B, Level 77, International Commerce Centre, 1 Austin Road West Kowloon, Hong Kong

Shinhan DS

Country	Name	Telephone	Address
Vietnam	Shinhan DS Vietnam Company Limited	+84-28-3823-7255	Room 201, 2nd Floor, Centec Tower, 72-74 Nguyen Thi Minh Khai, Ward 6, District 3, Ho Chi Minh City, Vietnam

Independent Auditor's Report (Consolidated Financial Statements) of Shinhan Financial Group as of December 31, 2019

**SHINHAN FINANCIAL GROUP CO., LTD.
AND SUBSIDIARIES**

**Consolidated Financial Statements
December 31, 2019 and 2018**

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

To the Board of Directors and Stockholders of
Shinhan Financial Group Co., Ltd.:

Opinion

We have audited the consolidated financial statements of Shinhan Financial Group Co., Ltd. and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing (KSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as of and for the year ended December 31, 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(1) Assessment of the allowance for credit loss

As discussed in Notes 4(b) and 12 to the consolidated financial statements, the Group recognized an allowance for credit loss using the Expected Credit loss (ECL) impairment model for the loans at amortized cost amounting to KRW 2,684,835 million as of December 31, 2019. ECL allowances are measured at amounts equal to either (i) 12-month ECL; or (ii) lifetime ECL for those loans that have experienced a Significant Increase in Credit Risk (SICR) since initial recognition or when the loans are impaired. The Group measures ECL allowance on an individual basis for individually significant corporate loans which have had significant increases in credit risk or have become impaired. The individual assessment involves judgment by the Group in estimating the future cash flows including the value of related collateral. The allowance for credit loss for all other loans is measured on a collective basis. For these loans, the Group measures ECL by estimating the Probability of Default (PD), the Loss Given Default (LGD) and the Exposure at Default (EAD) as well as the impact of Forward-looking Information (FLI). For corporate loans, one of the relevant inputs for determining PD is the internal credit risk rating of the borrower. The internal credit risk rating of the borrower is defined by the Group using quantitative and qualitative factors. The evaluation of the qualitative factors involves a high level of judgment by the Group.

We have identified the following as key audit matters, considering the possibility of errors, the level of involvement of management judgment, and the impact of risks:

- Risk that the allowance for credit loss is misstated due to the Group's biased judgment on the estimates of future cash flows for the corporate loans with ECL measured on an individual basis
- Risk that the allowance for credit loss is misstated due to error or fraud in determination of when a loan's credit risk has significantly increased since initial recognition, the analysis of the qualitative factors in determining the internal

credit risk ratings of corporate loans, the calculation of 12 month and lifetime PD, the calculation of LGD and the manner in which FLI is incorporated in the ECL calculation.

The primary audit procedures we performed to address the above key audit matters included:

- We tested certain internal controls over: (i) the estimated future cash flows for individually assessed corporate loans, including controls over the work of external valuation specialists' engaged by the Group; (ii) the assessment of qualitative factors in the process of determining the internal credit risk rating of the loans, including the review of internal credit risk ratings performed by an independent department with access to the same qualitative information; (iii) the validation of the models used to determine the inputs to the collective ECL calculation and the impact of FLI; (iv) the determination of SICR; and (v) the completeness and accuracy of data used in the models.
- We assessed the estimates of future cash flows on a sample basis by (i) comparing assumptions made with information obtained from internal and external sources, and (ii) assessing the reliability of information used in the estimates, including the qualification of external valuation specialists engaged by the Group.
- We involved credit risk and information technology professionals with specialized skills, industry knowledge and relevant experience who assisted in: (i) evaluating the methodology and key inputs used in determining the PD and LGD parameters and SICR; (ii) evaluating how FLI was incorporated in the collective ECL model; and (iii) recalculating a sample of ECL models and related inputs.
- We checked, for a sample of corporate loans with ECL measured on a collective basis, that Group policy was applied in the internal credit risk rating process and assessed if the Group's policy is aligned with international financial reporting standards.

(2) Assessment of the measurement of fair value of level 3 financial instruments

As discussed in Note 4(e) to the consolidated financial statements, the Group classifies financial instruments measured at fair value using valuation techniques where one or more significant inputs are not based on observable market data as level 3. As of December 31, 2019, the recorded fair values of the Group's debt securities, equity securities, derivative assets, derivative liabilities, and financial liabilities designated at fair value through profit or loss classified as level 3 were KRW 8,951,398 million, KRW 511,831 million, KRW 464,826 million, KRW 308,970 million, and KRW 8,511,489 million, respectively. In order to measure these financial instruments, the Group uses discounted cash flow models, option models, or net asset value models and these models use various inputs and assumptions, depending on the nature of the level 3 financial instruments.

We have identified the following as key audit matters, considering the possibility of errors, the level of involvement of management judgment, and the impact of risks:

- Risk that the estimate of the financial instruments' fair value is misstated due to applying inappropriate valuation methodologies, models' significant inputs which were not directly observable in financial markets, such as volatility of underlying assets, correlations, regression coefficients, discount rates, and growth rates, and the related assumptions. The primary audit procedures we performed to address the above key audit matters included:

We tested certain internal controls over the Group's process to measure the fair value of level 3 financial instruments. This included controls related to (1) the development, validation and changes in the methodology of the models used to value the level 3 financial instruments, (2) the development and application of the significant unobservable inputs and assumptions used in the measurement of fair values, and (3) the monitoring of changes to the inputs and assumptions. We evaluated the characteristics of new products and the valuation techniques used by the Group for these new products. For a sample of level 3 financial instruments, we compared the Group's fair value measurement recorded at period end to the sales price of a subsequent transaction. We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the valuation techniques and significant unobservable inputs on a sample basis; and
- Developing models and significant unobservable inputs independently and comparing the resulting fair

value estimate to the Group's fair value measurement for a sample of level 3 financial instruments.

Other Matter

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with K-IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with KSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with KSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used in the preparation of the consolidated financial statements and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Min-Seon Chae.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 5, 2020

This report is effective as of March 5, 2020, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Financial Position

As of December 31, 2019 and 2018

(In millions of won)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Assets			
Cash and due from banks at amortized cost	4, 8, 19	₩ 28,423,744	17,348,626
Financial assets at fair value through profit or loss	4, 9, 19	53,163,143	43,534,766
Derivative assets	4, 10	2,829,274	1,793,613
Securities at fair value through other comprehensive income	4, 11, 19	59,381,053	38,314,170
Securities at amortized cost	4, 11, 19	45,582,065	28,478,136
Loans at amortized cost	4, 12, 19	323,244,979	299,609,472
Property and equipment, net	13, 18, 19, 48	4,083,328	3,003,886
Intangible assets	14	5,558,714	4,320,134
Investments in associates	15	1,452,861	671,330
Current tax receivable		88,433	45,100
Deferred tax assets	41	218,254	426,965
Investment property	16	488,610	474,820
Employee benefits	25	1,682	-
Other assets	4, 17	27,878,281	21,571,918
Assets held for sale		<u>25,160</u>	<u>7,574</u>
Total assets		<u>₩ 552,419,581</u>	<u>459,600,510</u>

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position (Continued)
As of December 31, 2019 and 2018

<i>(In millions of won)</i>	<u>Note</u>	<u>2019</u>	<u>2018</u>
Liabilities			
Deposits	4, 20	₩ 294,874,256	265,000,190
Financial liabilities at fair value through profit or loss	4, 21	1,632,457	1,420,306
Financial liabilities designated at fair value through profit or loss	4, 22	9,409,456	8,535,800
Derivative liabilities	4, 10	2,303,012	2,439,892
Borrowings	4, 23	34,863,156	29,818,542
Debt securities issued	4, 24	75,363,364	63,227,699
Liabilities for defined benefit obligations	25	121,140	127,348
Provisions	26	557,024	508,416
Current tax payable		512,757	430,306
Deferred tax liabilities	41	451,603	22,020
Liabilities under insurance contracts	27	52,163,417	26,218,882
Other liabilities	4, 28, 48	38,237,558	25,199,679
Total liabilities		<u>510,489,200</u>	<u>422,949,080</u>
Equity			
	29		
Capital stock		2,732,463	2,645,053
Hybrid bonds		1,731,235	1,531,759
Capital surplus		10,565,353	9,895,488
Capital adjustments		(1,116,770)	(552,895)
Accumulated other comprehensive loss		(260,156)	(753,220)
Retained earnings		25,525,821	22,959,440
Total equity attributable to equity holders of Shinhan Financial Group Co., Ltd.		<u>39,177,946</u>	<u>35,725,625</u>
Non-controlling interests		2,752,435	925,805
Total equity		<u>41,930,381</u>	<u>36,651,430</u>
Total liabilities and equity	₩	<u>552,419,581</u>	<u>459,600,510</u>

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

<i>(In millions of won)</i>	Note	2019	2018
Interest income			
Financial assets at fair value through other comprehensive income and at amortized cost	₩	14,878,516	12,891,850
Financial assets at fair value through profit or loss		828,846	680,606
		<u>15,707,362</u>	<u>13,572,456</u>
Interest expense		(5,969,398)	(4,992,367)
Net interest income	31	9,737,964	8,580,089
Fees and commission income		3,557,013	3,295,256
Fees and commission expense		(1,416,494)	(1,356,259)
Net fees and commission income	32	2,140,519	1,938,997
Insurance income		7,569,425	4,398,738
Insurance expenses		(8,066,351)	(4,870,437)
Net insurance expenses	27	(496,926)	(471,699)
Dividend income	33	82,158	87,826
Net gain on financial instruments at fair value through profit or loss	34	1,385,482	420,026
Net gain (loss) on financial instruments at fair value through profit or loss (overlay approach)	9	(247,585)	74,944
Net loss on financial instruments designated at fair value through profit or loss	35	(846,046)	(26,643)
Net foreign currency transaction gain		440,948	194,136
Net gain on disposal of financial asset at fair value through other comprehensive income	11	152,278	20,554
Net gain (loss) on disposal of securities at amortized cost	11	66	(9)
Provision for allowance for credit loss	36	(980,692)	(747,877)
General and administrative expenses	37	(5,134,674)	(4,741,575)
Other operating expenses, net	39	(1,187,242)	(829,355)
Operating income		5,046,250	4,499,414
Equity method income	15	53,287	17,488
Other non-operating income (expense), net	40	(188,029)	(50,292)
Profit before income taxes		<u>4,911,508</u>	<u>4,466,610</u>
Income tax expense	41	(1,269,124)	(1,268,345)
Profit for the year	₩	<u><u>3,642,384</u></u>	<u><u>3,198,265</u></u>

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Continued)
For the years ended December 31, 2019 and 2018

<i>(In millions of won, except earnings per share data)</i>	Note	2019	2018
Other comprehensive income for the year, net of income tax	29		
Items that are or may be reclassified to profit or loss:			
Gain on financial asset at fair value through other comprehensive income	₩	352,085	161,008
Gain (loss) on financial instruments at fair value through profit or loss (overlay approach)	9	162,967	(54,333)
Equity in other comprehensive income of associates		3,302	7,407
Foreign currency translation adjustments for foreign operations		105,771	19,983
Net change in unrealized fair value of cash flow hedges		(18,589)	(20,192)
Other comprehensive income of separate account		10,427	8,676
		<u>615,963</u>	<u>122,549</u>
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liability		(54,644)	(93,098)
Equity in other comprehensive income (loss) of associates		(8)	28
Valuation gain on financial asset at fair value through other comprehensive income		18,885	22,725
Loss on disposal of financial asset at fair value through other comprehensive income		(5,861)	(2,635)
Changes in own credit risk on financial liabilities designated at fair value through profit of loss		(8,425)	1,723
		<u>(50,053)</u>	<u>(71,257)</u>
Total other comprehensive income, net of income tax		<u>565,910</u>	<u>51,292</u>
Total comprehensive income for the year	₩	<u>4,208,294</u>	<u>3,249,557</u>
Profit attributable to:			
Equity holders of Shinhan Financial Group Co., Ltd.	29, 42 ₩	3,403,497	3,156,722
Non-controlling interests		238,887	41,543
	₩	<u>3,642,384</u>	<u>3,198,265</u>
Total comprehensive income attributable to:			
Equity holders of Shinhan Financial Group Co., Ltd.	₩	3,890,701	3,207,602
Non-controlling interests		317,593	41,955
	₩	<u>4,208,294</u>	<u>3,249,557</u>
Earnings per share:	29, 42		
Basic and diluted earnings per share in won	₩	<u>7,000</u>	<u>6,579</u>

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the year ended December 31, 2019 and 2018

(In millions of won)

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.							Non-controlling interests	Total
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Sub-total		
Balance at January 1, 2018	2,645,053	423,921	9,887,335	(398,035)	(806,745)	20,539,826	32,291,355	880,242	33,171,597
Total comprehensive income (loss) for the year									
Profit for the year	-	-	-	-	-	3,156,722	3,156,722	41,543	3,198,265
Other comprehensive income (loss), net of income tax:									
Gain on financial asset at fair value through other comprehensive income	-	-	-	-	179,793	-	179,793	1,305	181,098
Loss on financial instruments at fair value through profit or loss (overlay approach)	-	-	-	-	(54,333)	-	(54,333)	-	(54,333)
Equity in other comprehensive income of associates	-	-	-	-	7,435	-	7,435	-	7,435
Foreign currency translation adjustments	-	-	-	-	20,465	-	20,465	(482)	19,983
Net change in unrealized fair value of cash flow hedges	-	-	-	-	(20,192)	-	(20,192)	-	(20,192)
Other comprehensive income of separate account	-	-	-	-	8,676	-	8,676	-	8,676
Remeasurements of defined benefit plans	-	-	-	-	(92,687)	-	(92,687)	(411)	(93,098)
Changes in own credit risk on financial liabilities designated at fair value through profit or loss	-	-	-	-	1,723	-	1,723	-	1,723
Total other comprehensive income	-	-	-	-	50,880	-	50,880	412	51,292
Total comprehensive income	-	-	-	-	50,880	3,156,722	3,207,602	41,955	3,249,557
Other changes in equity									
Dividends	-	-	-	-	-	(687,589)	(687,589)	-	(687,589)
Dividends to hybrid bonds	-	-	-	-	-	(40,357)	(40,357)	-	(40,357)
Issuance of hybrid bonds	-	1,107,838	-	-	-	-	1,107,838	-	1,107,838
Acquisition of treasury stock	-	-	-	(155,923)	-	-	(155,923)	-	(155,923)
Change in other capital adjustments	-	-	8,153	1,063	-	(6,517)	2,699	-	2,699
Change in other non-controlling interests	-	-	-	-	-	-	-	3,608	3,608
	-	1,107,838	8,153	(154,860)	-	(734,463)	226,668	3,608	230,276
Reclassification of OCI to retained earnings	-	-	-	-	2,645	(2,645)	-	-	-
Balance at December 31, 2018	₩ 2,645,053	1,531,759	9,895,488	(552,895)	(753,220)	22,959,440	35,725,625	925,805	36,651,430

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity (Continued)

For the year ended December 31, 2019 and 2018

(In millions of won)

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.								Non-controlling interests	Total
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Sub-total			
Balance at January 1, 2019	₩ 2,645,053	1,531,759	9,895,488	(552,895)	(753,220)	22,959,440	35,725,625	925,805	36,651,430	
Total comprehensive income for the year										
Profit for the year	-	-	-	-	-	3,403,497	3,403,497	238,887	3,642,384	
Other comprehensive income (loss), net of income tax:										
Gain on financial asset at fair value through other comprehensive income	-	-	-	-	297,652	-	297,652	67,457	365,109	
Gain on financial instruments at fair value through profit or loss (overlay approach)	-	-	-	-	150,678	-	150,678	12,289	162,967	
Equity in other comprehensive income of associates	-	-	-	-	3,294	-	3,294	-	3,294	
Foreign currency translation adjustments	-	-	-	-	104,388	-	104,388	1,383	105,771	
Net change in unrealized fair value of cash flow hedges	-	-	-	-	(15,960)	-	(15,960)	(2,629)	(18,589)	
Other comprehensive income of separate account	-	-	-	-	10,427	-	10,427	-	10,427	
Remeasurements of defined benefit plans	-	-	-	-	(54,850)	-	(54,850)	206	(54,644)	
Changes in own credit risk on financial liabilities designated at fair value through profit or loss	-	-	-	-	(8,425)	-	(8,425)	-	(8,425)	
Total other comprehensive income	-	-	-	-	487,204	-	487,204	78,706	565,910	
Total comprehensive income	-	-	-	-	487,204	3,403,497	3,890,701	317,593	4,208,294	
Other changes in equity										
Dividends	-	-	-	-	-	(753,041)	(753,041)	-	(753,041)	
Dividends to hybrid bonds	-	-	-	-	-	(61,993)	(61,993)	-	(61,993)	
Issuance of hybrid bonds	-	199,476	-	-	-	-	199,476	-	199,476	
Issuance of convertible preferred shares	87,410	-	660,381	-	-	-	747,791	-	747,791	
Acquisition of treasury stock	-	-	-	(444,077)	-	-	(444,077)	-	(444,077)	
Change in other capital adjustments	-	-	9,484	(119,798)	-	(16,222)	(126,536)	-	(126,536)	
Change in other non-controlling interests	-	-	-	-	-	-	-	1,509,037	1,509,037	
	87,410	199,476	669,865	(563,875)	-	(831,256)	(438,380)	1,509,037	1,070,657	
Reclassification of OCI retained earnings	-	-	-	-	5,860	(5,860)	-	-	-	
Balance at December 31, 2019	₩ 2,732,463	1,731,235	10,565,353	(1,116,770)	(260,156)	25,525,821	39,177,946	2,752,435	41,930,381	

See accompanying notes to the consolidated financial statements

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

<i>(In millions of won)</i>	<u>Note</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities			
Profit before income taxes	₩	4,911,508	4,466,610
Adjustments for:			
Interest income	31	(15,707,362)	(13,572,456)
Interest expense	31	5,969,398	4,992,367
Dividend income	33	(82,158)	(87,826)
Net fees and commission expense		125,975	176,932
Net insurance loss		2,098,617	2,080,509
Net loss (gain) on financial instruments at fair value through profit or loss	34	(427,618)	66,455
Net loss (gain) on financial instruments at fair value through profit or loss (overlay approach)	9	247,585	(74,944)
Net foreign currency translation loss		147,952	377,632
Net loss (gain) on financial instruments designated at fair value through profit or loss	35	33,872	(382,667)
Net gain on disposal of financial asset at fair value through other comprehensive income	11	(152,278)	(20,554)
Net loss (gain) on disposal of securities at amortized cost	11	(66)	9
Provision for allowance for credit loss	36	980,692	747,877
Employee costs	25	188,313	155,672
Depreciation and amortization	37	677,152	301,916
Other operating expense (income)	39	305,781	(278,274)
Equity method income, net	15	(53,287)	(17,488)
Other non-operating expense	40	148,091	3,147
		<u>(5,499,341)</u>	<u>(5,531,693)</u>
Changes in assets and liabilities:			
Cash and due from banks at amortized cost		(10,059,356)	6,024,743
Securities at fair value through profit or loss		(3,977,211)	(3,082,516)
Due from banks at fair value through profit or loss		73,904	(82,014)
Loans at fair value through profit or loss		(943,321)	(422,326)
Financial asset designated at fair value through profit or loss		847,715	723,037
Derivative instruments		58,532	203,006
Loans at amortized cost		(18,831,825)	(27,547,413)
Other assets		(4,452,651)	(5,177,725)

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)
For the years ended December 31, 2019 and 2018

<i>(In millions of won)</i>	<u>Note</u>	<u>2019</u>	<u>2018</u>
Deposits	₩	29,123,272	16,699,467
Liabilities for defined benefit obligations		(263,882)	(145,639)
Provisions		28,380	14,542
Other liabilities		7,851,505	174,590
		<u>(544,938)</u>	<u>(12,618,248)</u>
Income taxes paid		(1,130,148)	(850,696)
Interest received		15,200,114	13,208,601
Interest paid		(5,793,865)	(5,058,596)
Dividends received		35,716	63,826
		<u>7,179,046</u>	<u>(6,320,196)</u>
Net cash provided by (used in) operating activities			
Cash flows from investing activities			
Decrease in financial instruments at fair value through profit or loss		3,690,283	2,150,860
Increase in financial instruments at fair value through profit or loss		(6,712,873)	(3,290,960)
Proceeds from disposal of securities at fair value through other comprehensive income		36,334,241	27,074,948
Acquisition of securities at fair value through other comprehensive income		(46,908,632)	(27,037,290)
Proceeds from disposal of securities at amortized cost		6,722,627	2,093,506
Acquisition of securities at amortized cost		(12,209,898)	(5,836,342)
Proceeds from disposal of property and equipment	13, 40	51,942	39,202
Acquisition of property and equipment	13	(270,386)	(142,933)
Proceeds from disposal of intangible assets	14, 40	24,825	3,638
Acquisition of intangible assets	14	(318,930)	(157,160)
Proceeds from disposal of investments in associates		182,604	189,118
Acquisition of investments in associates		(669,341)	(227,914)
Proceeds from disposal of investment property	16, 40	86,422	15,433
Acquisition of investment property	16	(2,774)	(115,333)
Proceeds from disposal of assets held for sale		137	4,498
Other, net		(264,585)	(311,744)
Proceeds from settlement of hedging derivative financial instruments for available-for-sale financial assets		19,303	67,039
Settlement of hedging derivative financial instruments for available-for-sale financial assets		(195,900)	(26,653)
Acquisition of subsidiaries, net of cash acquired	47	(2,246,932)	(4,498)
Net cash used in investing activities		<u>(22,687,867)</u>	<u>(5,512,585)</u>

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2019 and 2018

(In millions of won)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Cash flows from financing activities			
Issuance of hybrid bonds	₩	199,476	1,107,838
Net increase in borrowings		5,017,269	1,772,203
Proceeds from debt securities issued		31,083,390	26,487,712
Repayments of debt securities issued		(19,881,717)	(14,689,246)
Other liabilities		(33,619)	528
Dividends paid		(830,772)	(714,705)
Proceeds from settlement of hedging derivative financial instruments for debt securities issued		1,694,362	10,675
Settlement of hedging derivative financial instruments for debt securities issued		(1,716,320)	(16,832)
Acquisition of treasury stock		(444,077)	(151,993)
Increase in non-controlling interests		312,390	347
Redemption of lease liabilities		(269,362)	-
Issuance of convertible preferred shares		747,791	-
Net cash provided by financing activities		<u>15,878,811</u>	<u>13,806,527</u>
Effect of exchange rate fluctuations on cash and cash equivalents held		<u>29,428</u>	<u>(30,640)</u>
Increase in cash and cash equivalents		399,418	1,943,106
Cash and cash equivalents at beginning of year	44	<u>8,179,756</u>	<u>6,236,650</u>
Cash and cash equivalents at end of year	44	<u>₩ 8,579,174</u>	<u>8,179,756</u>

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

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”), a controlling company, was incorporated on September 1, 2001 for the main purposes of Shinhan Bank, Shinhan Securities Co., Ltd., Shinhan Capital Co., Ltd., and Shinhan BNP Asset Management Co., Ltd. with a stock transfer. The total capital stock amounted to ₩1,461,721 million. Also, Shinhan Financial Group’s shares has been listed on the Korea Exchange since September 10, 2001 and Shinhan Financial Group’s American Depositary Shares were listed on the New York Stock Exchange since September 16, 2003.

(b) Ownership of Shinhan Financial Group and its major consolidated subsidiaries as of December 31, 2019 and 2018 are as follows:

Investor	Investee(*1)	Location	Date of financial information	Ownership (%)	
				2019	2018
Shinhan Financial Group Co., Ltd.	Shinhan Bank	Korea	December 31	100.0	100.0
"	Shinhan Card Co., Ltd.	"	"	100.0	100.0
"	Shinhan Investment Corp.(*2)	"	"	100.0	100.0
"	Shinhan Life Insurance Co., Ltd.	"	"	100.0	100.0
"	Orange Life Insurance Co., Ltd.(*3)	"	"	59.2	-
"	Shinhan Capital Co., Ltd.	"	"	100.0	100.0
"	Jeju Bank(*4)	"	"	75.3	71.9
"	Shinhan Credit Information Co., Ltd.	"	"	100.0	100.0
"	Shinhan Alternative Investment Management 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 DS	"	"	100.0	100.0
"	Shinhan Savings Bank	"	"	100.0	100.0
"	Asia Trust Co., Ltd.(*5)	"	"	60.0	-
"	Shinhan AITAS Co., Ltd.	"	"	99.8	99.8
"	Shinhan REITs Management Co., Ltd.	"	"	100.0	100.0
"	Shinhan AI Co., Ltd.(*6)	"	"	100.0	-
Shinhan Bank	Shinhan Asia Limited	Hong Kong	"	99.9	99.9
"	Shinhan Bank America	USA	"	100.0	100.0
"	Shinhan Bank Europe GmbH	Germany	"	100.0	100.0
"	Shinhan Bank Cambodia	Cambodia	"	97.5	97.5
"	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	"	99.9	99.9
"	PT Bank Shinhan Indonesia	Indonesia	"	99.0	99.0
Shinhan Card Co., Ltd.	LLP MFO Shinhan Finance	Kazakhstan	"	100.0	100.0
"	PT. Shinhan Indo Finance	Indonesia	"	50.0	50.0
"	Shinhan Microfinance Co., Ltd.	Myanmar	"	100.0	100.0
"	Shinhan Vietnam Finance(*7)	Vietnam	"	100.0	-
Shinhan Investment Corp.	Shinhan Investment Corp. USA Inc.	USA	"	100.0	100.0
"	Shinhan Investment Corp. Asia Ltd.	Hong Kong	"	100.0	100.0

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

1. Reporting entity (continued)

Investor	Investee(*1)	Location	Date of financial information	Ownership (%)	
				2019	2018
Shinhan Investment Corp.	SHINHAN SECURITIES VIETNAM CO., LTD	Vietnam	December 31	100.0	100.0
"	PT. Shinhan Sekuritas Indonesia	Indonesia	"	99.0	99.0
PT Shinhan Sekuritas Indonesia	PT. Shinhan Asset Management Indonesia	"	"	75.0	75.0
Shinhan BNP Paribas Asset Management Co., Ltd.	Shinhan BNP Paribas Asset Management (Hong Kong) Limited	Hong Kong	"	100.0	100.0
Shinhan DS	SHINHAN DS VIETNAM CO., LTD.	Vietnam	"	100.0	100.0

(*1) Trusts, beneficiary certificates, securitization special limited liability companies, associates and private equity investment specialists that are not actually operating their own business are excluded.

(*2) The controlling company has participated in issuing additional shares of Shinhan Investment Corp. amounting to ₩660 billion for the year ended December 31, 2019.

(*3) The Group entered into a share purchase agreement to acquire a 59.15% stake in Orange Life Insurance Co., Ltd. for the years ended December 31, 2018, and the effective stake increased to 60.24% due to the acquisition of treasury shares by Orange Life Insurance Co. Ltd. for the years ended December 31, 2019.

(*4) The Group purchased 1,100,000 shares of Jeju Bank from the Group's largest shareholder, the National Pension Service for the year ended December 31, 2019.

(*5) The Group acquired 60.00% stake in Asia Trust Co., Ltd. for the year ended December 31, 2019.

(*6) Shinhan AI Co., Ltd. is a subsidiary newly invested for the year ended December 31, 2019. The controlling company has participated in issuing additional shares of Shinhan AI Co., Ltd. shares amounting to ₩40 billion.

(*7) The Group acquired 100% stake in Vietnam-based Prudential Vietnam Finance Co., Ltd. for the year ended December 31, 2019 and changed the name of corporate to Shinhan Vietnam Finance Co., Ltd.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
 December 31, 2019 and 2018

1. Reporting entity (continued)

(c) Consolidated structured entities

Consolidated structured entities are as follows:

Category	Consolidated structured entities	Description
Trust	18 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 196 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.	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 111 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 ABCP credit contribution (purchase agreements) of ₩3,901,421 million for the purpose of credit enhancement of structured companies.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

2. Basis of preparation

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards (“K-IFRS”), as prescribed the Act on External Audits of Stock Companies in the Republic of Korea.

The consolidated financial statements were authorized for issue by the Board of Directors on February 5, 2020, which will be submitted for approval to the stockholder’s meeting to be held on March 26, 2020.

(a) 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 measured at fair value
- financial instruments at fair value through profit or loss measured at fair value
- other comprehensive income at fair values measured at fair value
- liabilities for cash-settled share-based payment arrangements 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 recognized in profit or loss
- liabilities for defined benefit plans recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

(b) Functional and presentation currency

These consolidated financial statements are presented in Korean won, which is the Controlling Company’s functional currency and the currency of the primary economic environment in which the Group operates.

(c) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with K-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 reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are described in Note 5.

In preparing these consolidated financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements as of and for the year ended December 31, 2018 except for the main sources of critical judgments and estimated uncertainties related to the adoption of K-IFRS No. 1116 ‘Leases’ described in Note 3.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

2. Basis of preparation (continued)

(d) Change in accounting policy

Except for the following new standard, which has been applied from January 1, 2019, the accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2018. There are other new standards applied from January 1, 2019, which does not have a significant impact to the Group's financial statements.

i) K-IFRS No.1116, 'Leases'

K-IFRS No.1116, published on May 22, 2017, replaces existing standards including K-IFRS No.1017, 'Leases', K-IFRS No.2104, 'Determining whether an Arrangement contains a Lease', K-IFRS No.2015, 'Operating Leases - Incentives' and K-IFRS No.2027, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

The Group has applied K-IFRS No.1116 from the year beginning on January 1, 2019, the date of initial application.

At the commencement date of the lease, the Group assesses whether the contract is, or contains, a lease, and assessed whether the contract was, or contained, a lease in accordance with K-IFRS No.1116 at the date of initial application. For a contract that is, or contains, a lease, a lessee or a lessor shall account for each lease component within the contract as a lease separately from non-lease components (hereinafter called 'non-lease components') of the contract.

A lessee shall recognize a lease right-of-use asset, which indicates an asset that represents a lessee's right to use an underlying asset (leased asset) for the lease term, and a lease liability, which indicates obligation to make lease payments. However, a lessee may elect not to apply the requirements to short-term leases and leases for which the underlying asset is of low value. Also, the Group used the following practical expedients when applying K-IFRS No.1116 to leases previously classified as operating leases applying K-IFRS No.1017.

- Elects not to apply the requirements to recognize lease right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- Excludes initial direct costs from the measurements of the lease right-of-use assets at the date of initial application.
- If the contract contains an option to extend or terminate the lease, hindsight is used to determine the lease term

As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The accounting treatment as a lessor did not change significantly from the one under K-IFRS No.1017.

The accumulated effect on retained earnings from initial application of K-IFRS No.1116 was zero, and the comparative financial information presented has applied K-IFRS No.1017 and the related Interpretations as previously reported and has not been retrospectively restated. The transition effects arising from changes in accounting policies are explained in Note 48.

On December 16, 2019, the IFRS Interpretations Committee published the agenda decision on 'Lease term and useful life of leasehold improvements' that the entity should consider all economic penalties for the termination of the lease in the determination of the enforceable period. The Group is analyzing the impact of changes in accounting policies of determination of the enforceable period on the consolidated financial statements, and plans to reflect the impact on the consolidated financial statements when the analysis is completed.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

2. Basis of preparation (continued)

(d) Change in accounting policy (continued)

ii) K-IFRS No.1109, 'Financial Instruments', K-IFRS No.1107, 'Financial Instruments: Disclosures' Revision

The interest rate index reform has added an exception that allows hedge accounting to be applied while uncertainty exists. In a hedging relationship, the assume that the interest rate index that is the underlying variable of cash flows does not change to the interest rate index reform when reviewing the probability of occurrence and the prospective assessment of the effectiveness of the hedge. For hedges of non-contractually specified interest rate risk components, the requirement that the hedged risk should be separately identifiable applies only at the inception of the hedging relationship. Through the interest rate index reform, this application of exception is ended when the timing and amount of cash flows based on the interest rate index will no longer appear, or the hedging relationship is discontinued. These amendments take effect on 1 January 2020 but have been applied early as early entry is allowed. A significant interest rate indicator for hedging relationships is LIBOR and CD rates. The subject affected by this amendment is derivatives of Note 10.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

3. Significant accounting policies

Except for the new standards and the amendment to the following standard, which are applied from January 1, 2019, the accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2019 and have mentioned on the note 2.

(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, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The segment reporting to a chief executive officer includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly general expenses and income tax assets and liabilities. The Group considers the Chief Executive Officer ("CEO") of the Bank as the chief operating decision maker.

It is CEO's responsible for evaluating the resources to be distributed to the business and the performance of the business, and makes strategic decisions.

(b) Basis of consolidation

i) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that 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 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 as equity in relation to structured entities in the consolidated statements of financial position since the non-controlling interests in these entities are recognized as liabilities of the Group.

iii) Intra-group 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. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

3. Significant accounting policies (continued)

(b) Basis of consolidation (continued)

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 interests 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 K-IFRS No.1012, 'Income Taxes'
- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No.1019, 'Employee Benefits'
- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset
- Reacquired rights are measured in accordance with special provisions
- Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in K-IFRS No.1102, 'Share-based Payment'
- Non-current assets held for sale are measured at fair value less costs to sell in accordance with K-IFRS No.1105, 'Non-current Assets Held for Sale and Discontinued Operations'

As of the acquisition date, non-controlling interests in the acquirer are measured as the non-controlling interests' proportionate share of the acquirer's identifiable net assets.

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 acquirer 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 acquirer's employee that is 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, which are recognized in accordance with K-IFRS No.1032 and 1109, are expensed in the periods in which the costs are incurred and the services are received.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

3. Significant accounting policies (continued)

(c) Business combinations (continued)

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, a 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.

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 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 call deposits with original 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. Equity instruments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date. However, the Group's account overdraft is included in borrowings.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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3. Significant accounting policies (continued)

(f) Non-derivative financial assets

Financial assets are recognized when the Group becomes a party to the contractual provisions of the instrument. In addition, a regular way purchase or sale (a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market concerned) is recognized on the trade date.

A financial asset is measured initially at its fair value plus, for an item not at Fair Value Through Profit or Loss (“FVTPL”), transaction costs that are directly attributable to its acquisition of the financial asset. Transaction costs on the financial assets at FVTPL that are directly attributable to the acquisition are recognized in profit or loss as incurred.

i) Financial assets designated at FVTPL

Financial assets can be irrevocably designated as measured at FVTPL despite of classification standards stated below, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains or losses on them on different bases.

ii) Equity instruments

For the equity instruments that are not held for trading, at initial recognition, the Group may make an irrevocable election to present subsequent changes in fair value in other comprehensive income. Equity instruments that are not classified as financial assets at Fair Value through Other Comprehensive Income (“FVOCI”) are classified as financial assets at FVTPL.

The Group subsequently measures all equity investments at fair value. Valuation gains or losses of the equity instruments that are classified as financial assets at FVOCI previously recognized as other comprehensive income is not reclassified as profit or loss on derecognition. The Group recognizes dividends in profit or loss when the Group’s right to receive payments of the dividend is established.

Valuation gains or losses due to changes in fair value of the financial assets at FVTPL are recognized as gains or losses on financial assets at FVTPL. Impairment loss (reversal) on equity instruments at FVOCI is not recognized separately.

iii) Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model in which the asset is managed and the contractual cash flow characteristics of the asset. Debt instruments are classified as financial assets at amortized cost, at FVOCI, or at FVTPL. Debt instruments are reclassified only when the Group’s business model changes.

① Financial assets at amortized cost

Assets that are held within a business model whose objective is to hold assets to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Impairment losses, and gains or losses on derecognition of the financial assets at amortized cost are recognized in profit or loss. Interest income on the effective interest method is included in the ‘Interest income’ in the consolidated statement of comprehensive income.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

3. Significant accounting policies (continued)

(f) Non-derivative financial assets (continued)

② Financial assets at FVOCI

Assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Other than impairment losses, interest income amortized using effective interest method and foreign exchange differences, gains or losses of the financial assets at FVOCI are recognized as other comprehensive income in equity. On derecognition, gains or losses accumulated in other comprehensive income are reclassified to profit or loss. The interest income on the effective interest method is included in the 'Interest income' in the consolidated statement of comprehensive income. Foreign exchange differences and impairment losses are included in the 'Net foreign currency transaction gain' and 'Provision for allowance for credit loss' in the consolidated statement of comprehensive income, respectively.

③ Financial assets at FVTPL

Debt securities other than financial assets at amortized costs or FVOCI are classified at FVTPL. Unless hedge accounting is applied, gains or losses from financial assets at FVTPL are recognized as profit or loss and are included in 'Net gain on financial assets at fair value through profit or loss' in the consolidated statement of comprehensive income.

iv) Embedded derivatives

Financial assets with embedded derivatives are classified regarding the entire hybrid contract, and the embedded derivatives are not separately recognized. The entire hybrid contract is considered when it is determined whether the contractual cash flows represent solely payments of principal and interest.

v) Derecognition 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

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 set off the recognized amounts, and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

3. Significant accounting policies (continued)

(g) Derivative financial instruments

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.

① 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 separate 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. Any adjustment arising from G/L on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

② 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.

③ Net investment hedge

The portion of the change in fair value of a financial instrument designated as a hedging instrument that meets the requirements for hedge accounting for a net investment in a foreign operation is recognized in other comprehensive income and the ineffective portion of the hedge is recognized in profit or loss. Recognize. The portion recognized as other comprehensive income that is effective as a hedge is recognized in the statement of comprehensive income as a result of reclassification adjustments in accordance with K-IFRS No. 1021, "Effect of Changes in Foreign Exchange Rates" at the time of disposing of its overseas operations or disposing of a portion of its overseas operations. To profit or loss.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
 December 31, 2019 and 2018

3. Significant accounting policies (continued)

(g) Derivative financial instruments (continued)

ii) 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.

iii) 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: Financial assets and contract assets

The Group recognizes allowance for credit loss for debt instruments measured at amortized cost and fair value through other comprehensive income, and lease receivable, loan commitments and financial guarantee contracts using the expected credit loss impairment model. Financial assets migrate through the following three stages based on the change in credit risk since initial recognition and allowance for credit loss for the financial assets are measured at the 12-month expected credit losses (“ECL”) or the lifetime ECL, depending on the stage.

	Category	Allowance for credit loss
STAGE 1	When credit risk has not increased significantly since the initial recognition	12-months ECL: the ECL associated with the probability of default events occurring within the next 12 months
STAGE 2	When credit risk has increased significantly since the initial recognition	Lifetime ECL: a lifetime ECL associated with the probability of default events occurring over the remaining lifetime
STAGE 3	When assets are impaired	Same as above

The Group, meanwhile, only recognizes the cumulative changes in lifetime expected credit losses since the initial recognition as an allowance for credit loss for purchased or originated credit-impaired financial assets. The total period refers to the expected life span of the financial instrument up to the contract expiration date.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

3. Significant accounting policies (continued)

(h) Impairment: Financial assets and contract assets (continued)

i) Reflection of forward-looking information

The Group reflects forward-looking information presented by internal experts based on a variety of information when measuring expected credit losses. For the purpose of estimating these forward-looking information, the Group utilizes the economic outlook published by domestic and overseas research institutes or government and public agencies.

The Group reflects future macroeconomic conditions anticipated from a neutral standpoint that is free from bias in measuring expected credit losses. Expected credit losses in this respect reflect conditions that are most likely to occur and are based on the same assumptions that the Group used in its business plan and management strategy.

ii) Measurement of amortization cost regarding the expected credit loss of financial assets

The expected credit loss of an amortized financial asset is measured as the difference between the present value of the cash flows expected to be received and the cash flow expected to be received. For this purpose, we calculate expected cash flows for individually significant financial assets.

For non-individual significant financial assets, the financial assets collectively include expected credit losses as part of a set of financial assets with similar credit risk characteristics.

Expected credit losses are deducted using the allowance for credit loss account and are written off if the financial assets were not recoverable. The allowance for credit loss is increased when the written-off loan receivables are subsequently collected and changes in the allowance for credit loss are recognized in profit or loss.

iii) Measurement of estimated credit loss of financial assets at FVOCI

The calculation of expected credit losses is the same as for financial assets measured at amortized cost, but changes in allowance for credit loss are recognized in other comprehensive income. In the case of disposal and redemption of other comprehensive income - fair value, the allowance for credit loss is reclassified from other comprehensive income to profit or loss and recognized in profit or loss.

(i) Property and equipment

The Group recognizes in the carrying amount of an item of property and equipment the cost of replacing part of property and equipment when that cost is incurred if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognized. The costs 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 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 leases 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	Useful lives
Buildings	40 years
Other properties	4~5 years

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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3. Significant accounting policies (continued)

(i) Property and equipment (continued)

The gain or loss arising from the derecognition of an item of property and equipment, which is included in profit or loss, is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. Depreciation methods, useful lives and residual values 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.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets as below 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	Useful lives
Software and capitalized development cost	5 years
Other intangible assets	5 years or contract periods, whichever the shorter

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.

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.

(k) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or both. An investment property is initially recognized at cost including any directly attributable expenditure. Subsequent to initial recognition, the asset is measured at cost less accumulated depreciation and accumulated impairment losses, if any.

The depreciation method and the estimated useful lives for the current and comparative periods were as follows:

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as changes in accounting estimates.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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3. Significant accounting policies (continued)

(I) Leased assets - policy applicable from January 1, 2019

i) Accounting treatment as the lessee

The Group leases various tangible assets, such as real estate and vehicles, and the each lease contract is negotiated individually and includes a variety of terms and conditions. There are no other restrictions imposed by the lease contracts, but the lease assets cannot be provided as collaterals for borrowings.

At the commencement date of the lease, the Group recognizes the right-of-use assets and the lease liabilities. Each lease payment is allocated to payment for the principal portion of the lease liability and financial costs. The Group recognizes in profit or loss the amount calculated to produce a constant periodic rate of interest on the lease liability balance for each period as financial costs. Right-of-use assets are depreciated using a straight-line method from the commencement date over the lease term.

Lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date of the lease, and the lease payments included in the measurement of the liabilities consist of the following payments:

- Fixed payments (including in-substance fixed payments, less any lease incentives receivable)
- Variable lease payments depending on the index or rate
- Amounts expected to be paid by the lessee under the residual value guarantee
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- Extended Lease payments in an optional renewal period if the lessee is reasonably certain to that they will exercise the extension option
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease

If the interest rate implicit in the lease is readily determined, the lease payments are discounted by the rate; if the rate is not readily determined, the lessee's incremental borrowing rate is used.

The cost of the right-of-use assets comprise:

- The amount of the initial measurement of the lease liability
- Any lease payments made at or before the commencement date (less any lease incentives received)
- Any initial direct costs incurred by the lessee
- An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease

Lease payments related to short-term leases or low-value assets are recognized as current expenses over the lease term using the straight-line method. A short-term lease is a lease that has a lease term of 12 months or less, and the low-value assets lease is a lease of which the underlying asset value is not more than ₩6 million.

Extension and termination options are included in a number of real estate lease contracts of the Group. In determining the lease term, management considers all relevant facts and circumstances that create an economic incentive not to exercise the options. The periods covered by, a) an option to extend the lease if the lessee is reasonably certain to exercise that option, or b) an option to terminate the lease if the lessee is reasonably certain not to exercise that option, is included when determining the lease term. The Group reassesses whether the Group is reasonably certain to exercise the extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee, and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

3. Significant accounting policies (continued)

(l) Leased assets - policy applicable from January 1, 2019 (continued)

ii) Accounting treatment as the lessor

The Group leases out to lessees various tangible assets, including vehicles under operating and finance lease contracts, and the each lease contract is negotiated individually and includes a variety of terms and conditions. The risk management method for all rights held by the Group in the underlying assets includes repurchase agreements, residual value guarantees, etc.

For finance leases, the Group recognizes them as a receivable at an amount equal to the net investment in the lease, and the difference from the carrying amount of the leasing asset as of the commencement date is recognized as profit or loss from disposal of the lease asset. In addition, interest income is recognized by applying the effective interest method for the amount of the Group's net investment in finance leases. Lease-related direct costs are included in the initial recognition of financial lease receivables and are accounted for in a way that reduces the revenue for the lease term.

For operating leases, the Group recognizes the lease payments as income on straight-line basis, and adds the lease initial direct costs incurred during negotiation and contract phase of the operating lease to the carrying amount of the underlying asset. In addition, the depreciation policy of operating lease assets is consistent with the Group's depreciation policy of other similar assets.

(m) Leased assets - policy applicable before January 1, 2019

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

i) Finance leases

At the commencement of the lease term, the Group recognizes as finance assets and finance liabilities in its consolidated statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased asset may be impaired.

ii) Operating leases

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the period of the lease.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

3. Significant accounting policies (continued)

(m) Leased assets - policy applicable before January 1, 2019 (continued)

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.

(n) 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 K-IFRS No. 1036 '*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).

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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3. Significant accounting policies (continued)

(o) 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 non-current 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 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 group of assets. The recoverable amount of an asset or a 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 reflects current market assessments of the time value of money and the risks specific to the asset or the 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 the 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.

(p) Non-derivative 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 in accordance with the substance of the contractual arrangement and the definitions of financial liabilities.

Transaction costs on the financial liabilities at FVTPL are recognized in profit or loss as incurred.

i) Financial liabilities designated at FVTPL

Financial liabilities can be irrevocably designated as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases, or a group of financial instruments is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. The amount of change in the fair value of the financial liabilities designated at FVTPL that is attributable to changes in the credit risk of that liabilities shall be presented in other comprehensive income.

ii) Financial liabilities at FVTPL

Since initial recognition, financial liabilities at FVTPL is measured at fair value, and changes in the fair value are recognized as profit or loss.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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3. Significant accounting policies (continued)

(p) Non-derivative financial liabilities (continued)

iii) 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 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).

(q) Foreign currencies

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group 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 using the reporting date's exchange rate. 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 was determined.

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 are treated as assets and liabilities of the foreign operation and are translated using the exchange rate at the reporting date.

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 in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognized in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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3. Significant accounting policies (continued)

(r) Equity capital

i) Capital stock

Capital stock is classified as equity. Incremental costs directly attributable to the transaction of stock are deducted from equity, net of any tax effects.

Preferred stocks are classified as equity if they do not need to be repaid or are repaid only at the option of the Group and if payment is determined by the Group's discretion, and dividends are recognized when the shareholders' meeting approves the dividends. Preferred stocks that are eligible for reimbursement of a defined or determinable amount on or after a certain date are classified as liabilities. The related dividend is recognized in profit or loss at the time of occurrence as interest expense.

ii) Hybrid bonds

The Group classifies an issued financial instrument, or its component parts, as a financial liability or an equity instrument depending on the substance of the contractual arrangement of such financial instrument. 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 an equity instrument and presented in equity.

iii) Capital structure

The effect of changes in ownership interests in subsidiaries that do not lose control over the equity attributable to owners of the parent is included in capital adjustments.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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3. Significant accounting policies (continued)

(s) 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

The Group's net obligation in respect of other long-term employee benefits that are not expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, 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. Remeasurements are recognized in profit or loss in the period in which they arise.

iii) Retirement benefits: defined contribution plans

The Group recognizes the contribution expense as an account of severance payments in profit or loss in the period according to the defined contribution plans.

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.

Defined benefit liabilities are calculated annually by independent actuaries using the predicted unit credit method. If the net present value of the defined benefit obligation less the fair value of the plan assets is an asset then the present value of the economic benefits available to the entity in the form of a refund from the plan or a reduction in future contributions to the plan.

The remeasurement component of net defined benefit liability is the change in the effect of the asset except for the amount included in the net interest income of plan assets and net revenues of plan assets excluding actuarial gains and losses to the net of defined benefit liabilities. It is immediately recognized in other comprehensive income. The Group determines the net interest on the net defined benefit obligation (asset) by multiplying the net defined benefit obligation (asset) by the discount rate determined at the beginning of the annual reporting period and is the net present value of the net defined benefit obligation. It is determined by taking into consideration the fluctuations. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When an amendment or reduction of the system occurs, the gain or loss resulting from the change or decrease in the benefits to the past service is immediately recognized in profit or loss. The Group recognizes gains or losses on settlement when the defined benefit plan is settled.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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3. Significant accounting policies (continued)

(s) Employee benefit (continued)

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 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.

(t) 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.

(u) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of 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.

Provisions shall be used only for expenditures for which the provisions are originally recognized.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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3. Significant accounting policies (continued)

(v) Financial guarantee contract

A financial guarantee contract is a contract that requires the Group 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 original or modified terms of a debt instrument.

Financial guarantee contracts are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee contract. The financial guarantee liability is subsequently measured at the higher of the amount of the best estimate of the expenditure required to settle the present obligation at the end of reporting period; and the amount initially recognized less, cumulative amortization recognized on a straight-line basis over the guarantee period. Financial guarantee liabilities are included within other liabilities.

After initial recognition, financial guarantee contracts are measured at the higher of:

- Loss allowance in accordance with K-IFRS No.1109, 'Financial Instruments'
- The amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of K-IFRS No.1115, 'Revenue from Contracts with Customers'

(w) Insurance contracts

i) Investment contract liabilities, including insurance contract liabilities and discretionary dividend factors

The group establishes liability reserves in accordance with the Insurance Business Law and the related regulations. The reserves are calculated according to the insurance policy, insurance premiums and liability reserve calculation method. The main contents are as follows.

i-1) Premium reserves

The present value of the premiums payable to the policy holders after the balance sheet date is the present value of the net premium to be paid after the end of the reporting period. The amount is deducted from the value.

i-2) Unpaid premium reserves

As of the end of the reporting period, premiums that have paid due are calculated based on premiums and the liability reserve calculation method.

i-3) Guarantee reserves

The total amount of reserve for variable minimum guarantee (①) and reserve for general account guarantee (②) is provided as guarantee reserve.

① Variable minimum guarantee reserve

This reserve is the amount that must be accumulated to guarantee insurance premiums above a certain level for contracts maintained as of the end of the reporting period, and is measured at the higher of :

- i) the average amount of the top 30% of net loss expected in the future
- ii) the minimum required amount by insurance types, minimum guarantees and limits of stock investment portion

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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3. Significant accounting policies (continued)

(w) Insurance contracts (continued)

② General account guarantee reserve

As of the end of the reporting period, the amount of reserve for insurance contracts that are insured under general account is required to be paid to guarantee the level of refunds,

- i) Average of the amount deducted from the appropriateness of the liability reserve calculated by excluding the guarantee option from the appropriateness evaluation of the liability reserve calculated by including the guarantee option for each interest rate scenario
- ii) The amount of compensation (including annulment contract) against the guarantee received from the policy holder by the rate applied at the premium calculation in the insurance premium and liability reserve calculation method

i-4) Reserve for outstanding claims

As of the end of the reporting period, the Group has accrued the amount for which the reason for the payment of insurance claims, etc. has been incurred and the amount of the claim payment has not been paid yet due to the dispute or lawsuit related to the insurance settlement. In addition, the Group recognizes unrecognized losses based on historical experience.

i-5) Reserves for participating policyholders' dividends

The reserve is provided for the purpose of contributing to the policyholder dividend according to the laws and regulations and the reserve for dividend reserve for the policyholder and the dividend reserve for the subsequent business year.

The policyholder dividend reserve is the amount that is not paid as of the end of the reporting period for the settlement amount and the reserve for dividend policy for the next fiscal year is based on the policyholder dividend calculated on the insurance contract effective as of the end of the reporting period.

① Excess crediting rate reserve

In the case of a dividend insurance contract which has been maintained for more than one year as of the end of the reporting period among contracts signed before October 1, 1997, the difference between the planned interest rate and the one-year maturity deposit rate shall be preserved.

② Mortality dividend reserve

Dividends arising from contracts that are maintained for more than one year at the end of the reporting period are used to offset the expected mortality and actual mortality rates applied to premiums.

③ Interest dividend reserve

For the contracts that have been maintained for more than one year as of the end of the reporting period, the amount calculated by applying the interest dividend reserve rate to the net written premium reserve less the unearned acquisition costs. However, the insurance sold before October 1, 1997 is applied to the amount deducted from the net premium in the event that the planned interest rate by the insurance product is less than the dividend standard.

④ Reserves for long-term special dividends

For the effective dividend policy agreement that has been maintained for 6 years or more, the amount calculated by applying the long-term special dividend rate to the amount deducted from the net premiums for the end of the year.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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3. Significant accounting policies (continued)

(w) Insurance contracts (continued)

However, insurance sold before October 1, 1997 is applied to the deduction of unearned premiums at the end of the year when the expected interest rate by the insurance product is less than the dividend standard rate

i-6) Reserve for interest dividends

In order to cover the policyholder dividend in the future, the amount is accumulated in accordance with the laws and regulations and the insurance contracts.

i-7) Reserve for dividend insurance loss reserve

In accordance with the regulations set by the supervisory authority, dividend insurance profit is accumulated within 30/100 of the contractor's stake. The reserve loss for dividend insurance shall be preserved at the end of the reporting period and shall be used as the policyholder dividend source for the individual contractor.

ii) Contractor's equity adjustment

The Group classifies the gains and losses on available-for-sale financial assets as of the end of the reporting period as contractor's equity and shareholder's equity based on the ratio of the average liability reserves of the dividend and non-dividend policies for the fiscal year.

iii) Evaluation of debt appropriateness

At the end of each reporting period, the group assesses whether the recognized insurance liability is appropriate using the current estimates of future cash flows of the policy, and if the carrying amount of the insurance liability is deemed to be inappropriate in terms of the estimated future cash flows. The reserve for premiums is added to the profit or loss by the amount corresponding to the deficiency.

iv) Reinsurance assets

The group presents the recoverable amount of reinsurance assets. The group assesses at the end of each reporting period whether there is objective evidence that a reinsurance asset is impaired. If there is objective evidence that the entity will not be able to collect all amounts under the terms of the agreement as a result of an event that occurred after the initial recognition and if the event has a reliable and measurable impact on the amount to be received. If reinsurance assets are determined to be impaired, impairment loss is recognized in the profit and loss for the current period.

v) Deferred acquisition cost

The group recognizes unrealized gains and losses arising from long-term insurance contracts as assets and amortizes the premiums over the life of the insurance contracts equally. If the contribution period exceeds 7 years, the amortization period is 7 years if there is an unrecognized balance at the date of the cancellation, the entire amount of the cancellation is amortized in the fiscal year to which the cancellation date belongs. But, if the ratio of additional premiums is higher at the early stage of the insurance period for the purpose of recovering the excess of the unearned premiums and the early settlement costs, the new settlement expenses are treated as the period expense.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
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3. Significant accounting policies (continued)

(x) Recognition of revenues and expenses

Other than revenues under the scope of K-IFRS No.1017, '*Leases*', K-IFRS No.1028, '*Investments in Associates and Joint Ventures*', K-IFRS No.1109, '*Financial Instruments*', K-IFRS No.1110, '*Consolidated Financial Statements*', and K-IFRS No.1111, '*Joint Arrangements*', the Group's revenues are recognized using five-step revenue recognition model as follows: ① 'Identifying the contract' → ② 'Identifying performance obligations' → ③ 'Determining the transaction price' → ④ 'Allocating the transaction price to performance obligations' → ⑤ 'Recognizing the revenue by satisfying performance obligations'.

i) Interest income and expense

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 net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, and all other premiums or discounts. When it is not possible to estimate reliably the cash flows or the expected life of a financial instrument, the Group uses the contractual cash flows over the full contractual term of the financial instrument.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

ii) Fees and commission

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument.

① Fees that are an integral part of the effective interest rate of a financial instrument

Such fees are generally treated as an adjustment to the effective interest rate. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, preparing and processing documents, closing the transaction and the origination fees received on issuing financial liabilities. However, when the financial instrument is measured at fair value with the change in fair value recognized in profit or loss, the fees are recognized as revenue when the instrument is initially recognized.

② Fees earned as services are provided

Fees and commission income, including investment management fees, sales commission, and account servicing fees, are recognized as the related services are provided.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

3. Significant accounting policies (continued)

(x) Recognition of revenues and expenses (continued)

③ Fees that are earned on the execution of a significant act

The fees that are earned on the execution of a significant act including commission on the allotment of shares or other securities to a client, placement fee for arranging a loan between a borrower and an investor and sales commission, are recognized as revenue when the significant act has been completed.

iii) Insurance income

The Group recognizes insurance income for the insurance premium paid of which the payment date arrived by the premium payment methods of the insurance contract; and recognizes advance receipts for the insurance premium paid of which the payment date has not arrived at the end of the reporting period.

iv) Dividends

Dividends income is recognized when the shareholder's right to receive payment is established. Usually this is the ex-dividend date for equity securities. The Group provides compensation in various forms such as payment discounts and gifts.

(y) Revenue from Contracts with Customers

The fair value of the consideration received or receivable in exchange for the initial transaction is allocated to the reward points ("points") and the remainder of the fee income. The consideration to be allocated to the points is estimated based on the fair value of the monetary benefits to be provided in consideration of the expected recovery rate of points awarded in accordance with the customer loyalty program and the expected time of recovery. Points for distribution through the cost paid by the customer is recognized by deducting from the revenue from fees.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

3. Significant accounting policies (continued)

(z) 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 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 recognizes deferred tax liabilities 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 deferred tax assets 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.

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.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduced 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 offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

If any additional income tax expense exists by payment of dividends, the Group recognizes it when the liability relating to the payment is recognized.

Because of the tax policies taken by the Group, tax uncertainties arise from the complexity of transactions and differences in tax law analysis. Also, it arises from a tax refund suit, tax investigation, or a refund suit against the tax authorities' tax amount.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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3. Significant accounting policies (continued)

(z) Income tax (continued)

ii) Deferred tax (continued)

Because of the tax policies taken by the Group, tax uncertainties arise from the complexity of transactions and differences in tax law analysis. Also, it arises from a tax refund suit, tax investigation, or a refund suit against the tax authorities' tax amount. The Group paid the tax amount by the tax authorities in accordance with K-IFRS No. 2123. However, it will be recognized as the corporate tax assets if there is a high possibility of a refund in the future. In addition, the amount expected to be paid as a result of the tax investigation is recognized as the tax liability.

(aa) Accounting for trust accounts

The Group accounts for trust accounts separately from its bank accounts under the Financial Investment Services and Capital Markets Act and thus the trust accounts are not included in the accompanying consolidated financial statements. Borrowings from trust accounts are included in other liabilities. Trust fees and commissions in relation to the service provided to trust accounts by the Group are recognized as fees and commission income.

(ab) 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 the ordinary shareholder of the Group 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 share options granted to employees.

(ac) Issued/Amended Accounting Standards that are not applied

The following issued/amended standards have been published but have not yet been effective during the fiscal year beginning January 1, 2019. Hence, the Group did not apply the following issued/amended standards in preparing financial statements:

i) K-IFRS No. 1001 'Presentation of Financial Statements' and K-IFRS No. 1008 'Accounting Policies, Changes in Accounting Estimates and Errors' amended

The definition of materiality has been clarified, and the feature of information users is taken into account when determining the information to be disclosed and the effects of immaterial information as well as omission or misstatement of material information when determining materiality. This amendment is effective for annual periods beginning on or after January 1, 2020. The Group expects that the amendment will not have a material impact on its financial statements.

ii) K-IFRS No. 1103 'Business Combination'

The amended definition of business requires that the inputs that have the ability to create outputs and substantial process to be included in the assessment of acquired businesses and the collection of assembled assets, excluding economic benefits from cost reduction. In addition, if the fair value of most of the total assets acquired is concentrated in a single identifiable asset or a set of assets, an optional concentration test has been added that determines that the acquired activities and sets of assets are not a business but assets or a set of assets. This amendment is effective for annual periods beginning on or after January 1, 2020. The Group expects that the amendment will not have a material impact on its financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

4. Financial risk management

(a) Overview

As a financial services provider, Shinhan Financial Group Co., Ltd. and its subsidiaries (collectively the “Group”) are exposed to various risks relating to lending, credit card, insurance, securities investment, and 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 Group 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 with the following hierarchy: from the top and at the Group 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 group and each of subsidiaries, and the Risk Management Committee and the Risk Management Council of each of subsidiaries manage the subsidiary-specific risks by establishing and managing risk limits in more details by type of risk and type of product for each department and division within such subsidiary.

Shinhan Financial Group has a hierarchical limit system to manage the risks of the Group to an appropriate level. The Group Risk Management Committee sets the risk limits that can be assumed by the Group and its subsidiaries, while the Risk Management Committee and the Committee of each subsidiary set and manages detailed risk limits such as risk, department, desk and product types.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

4. Financial risk management (continued)

(a) Overview (continued)

ii) Risk management organization(continued)

① Group Risk Management Committee

The Group establish the risk management system for the Group and each of its subsidiaries, and comprehensively manage group risk-related matters such as establishing risk policies, limits, and approvals. The Committee consists of directors of the Group

The resolution of the Committee is as follows:

- Establish risk management basic policy in line with management strategy
- Determine the level of risk that can be assumed by the Group and each subsidiary
- Appropriate investment limit or loss allowance limit
- Enacted and revised the Group Risk Management Regulations and the Group Risk Council Regulations
- Matters concerning risk management organization structure and division of duties
- Matters concerning the operation of the risk management system;
- Matters concerning the establishment of various limits and approval of limits
- Decisions on approval of the FSS's internal rating law for non-retail and retail credit rating systems
- Matters concerning risk disclosure policy
- Analysis of crisis situation, related capital management plan and financing plan
- Matters deemed necessary by the board of directors
- Materials required by external regulations such as the Financial Services Commission and other regulations and guidelines
- Matters deemed necessary by the Chairman

The resolution of the Group Risk Management Committee is reported to the Board of Directors.

② Group Risk Management Council

In order to maintain the Group's risk policy and strategy consistently, the Group decides what is necessary to discuss the risks of the Group and to carry out the policies set by the Group Risk Management Committee. The members are chaired by the group's risk management officer and consist of the risk management officers of major subsidiaries. However, if the subsidiary's risk management officer is not an executive, the chief executive officer of risk management may attend.

iii) Group Risk Management System

① Management of the risk capital

Risk capital refers to the capital required to compensate for the potential loss (risk) if it is actually realized. Risk capital management refers to the management of the risk assets considering its risk appetite, which is a datum point on the level of risk burden compared to available capital, so as to maintain the risk capital at an appropriate level. The Group and subsidiaries establish and operate a risk planning process to reflect the risk plan in advance when establishing financial and business plans for risk capital management, and establish a risk limit management system to control risk to an appropriate level.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

4. Financial risk management (continued)

(a) Overview (continued)

iii) Group Risk Management System(continued)

② Risk Monitoring

In order to proactively manage risks by periodically identifying risk factors that can affect the group's business environment, the Group has established a multi-dimensional risk monitoring system. Each subsidiary is required to report to the Group on key issues that affect risk management at the group level. The Group prepares weekly, monthly and occasional monitoring reports to report to Group management including the CRO.

In addition, the Risk Dash Board is operated to derive abnormal symptoms through three-dimensional monitoring of major portfolios, increased risks, and external environmental changes (news) of assets for each subsidiary. If necessary, the Group take preemptive risk management to establish and implement countermeasures.

③ Risk Reviewing

When conducting new product / new business and major policy changes, risk factors are reviewed by using a pre-defined checklist to prevent indiscriminate promotion of business that is not easy to judge risk and support rational decision making. The subsidiary's risk management department conducts a preliminary review and post-monitoring process on products, services, and projects to be pursued in the business division. After consultation, the Group conduct risk reviews.

④ 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.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

4. Financial risk management (continued)

(b) Credit risk

Credit risk is the risk of potential economic loss that may be caused if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and the largest risk which the Group is facing. 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 derivative 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-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 credit loss. 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.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

4. Financial risk management (continued)

(b) Credit risk (continued)

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 behaviour scoring system. The behaviour 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 Shinhan Card 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 behaviour scoring system. The behaviour 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 behaviour 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.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

4. Financial risk management (continued)

(b) Credit risk (continued)

i) Techniques, assumptions and input variables used to measure impairment

i-1) Determining significant increases in credit risk since initial recognition

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

i-1-1) Measuring the risk of default

The Group assigns an internal credit risk rating to each individual exposure based on observable data and historical experiences that have been found to have a reasonable correlation with the risk of default. The internal credit risk rating is determined by considering both qualitative and quantitative factors that indicate the risk of default, which may vary depending on the nature of the exposure and the type of borrower.

i-1-2) Measuring term structure of probability of default

The Group accumulates information after analyzing the information regarding exposure to credit risk and default information by the type of product and borrower and results of internal credit risk assessment. For some portfolios, the Group uses information obtained from external credit rating agencies when performing these analyses. The Group applies statistical techniques to estimate the probability of default for the remaining life of the exposure from the accumulated data and to estimate changes in the estimated probability of default over time.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

4. Financial risk management (continued)

(b) Credit risk (continued)

i-1-3) Significant increases in credit risk

The Group uses the indicators defined as per portfolio to determine the significant increase in credit risk and such indicators generally consist of changes in the risk of default estimated from changes in the internal credit risk rating, qualitative factors, days of delinquency, and others. The method used to determine whether credit risk of financial instruments has significantly increased after the initial recognitions is summarized as follows:

Corporate exposures	Retail exposures	Card exposures
Significant change in credit ratings	Significant change in credit ratings	Significant change in credit ratings
Continued past due more than 30 days	Continued past due more than 30 days	Continued past due more than 7 days(personal card)
Loan classification of and below precautionary	Loan classification of and below precautionary	Loan classification of and below precautionary
Borrower with early warning signals	Borrower with early warning signals	Specific pool segment
Negative net assets	Specific pool segment	
Adverse audit opinion or disclaimer of opinion	Loans relating to constructor whose collective loans are insolvent	
Interest coverage ratios of below 1 for consecutive three years		
Negative cash flows from operating activities for consecutive two years		

The Group considers the credit risk of financial instrument has been significantly increased since initial recognition if a specific exposure is past due more than 30 days (however, for a specific portfolio if it is past due more than 7 days). The Group counts the number of days past due from the earliest date on which the Group has not fully received the contractual payments from the borrower and does not consider the grace period granted to the borrower.

The Group regularly reviews the criteria for determining if there have been significant increases in credit risk from the following perspective.

- A significant increase in credit risk shall be identified prior to the occurrence of default.
- The criteria established to judge the significant increase in credit risk shall have a more predictive power than the criteria for days of delinquency.
- As a result of applying the judgment criteria, financial instruments shall not be to move too frequently between the 12-months expected credit losses measurement and the lifetime expected credit losses measurement.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

4. Financial risk management (continued)

(b) Credit risk (continued)

i-2) Modified financial assets

If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognized, the Group assesses whether there has been a significant increase in the credit risk of the financial instrument by comparing the risk of a default occurring at initial recognition based on the original, unmodified contractual terms and the risk of a default occurring at the reporting date based on the modified contractual terms.

The Group may adjust the contractual cash flows of loans to customers who are in financial difficulties in order to manage the risk of default and enhance the collectability (hereinafter referred to as 'debt restructuring'). These adjustments generally involve extension of maturity, changes in interest payment schedule, and changes in other contractual terms.

Debt restructuring is a qualitative indicator of a significant increase in credit risk and the Group recognizes lifetime expected credit losses for the exposure expected to be the subject of such adjustments. If a borrower faithfully makes payments of contractual cash flows that were modified in accordance with the debt restructuring or if the borrower's internal credit rating has recovered to the level prior to the recognition of the lifetime expected credit losses, the Group recognizes the 12-months expected credit losses for that exposure again.

i-3) Risk of default

The Group considers a financial asset to be in default if it meets one or more of the following conditions:

- If a borrower is overdue 90 days or more from the contractual payment date,
- If the Group judges that it is not possible to recover principal and interest without enforcing the collateral on a financial asset

The Group uses the following indicators when determining whether a borrower is in default:

- Qualitative factors (e.g. breach of contract terms),
- Quantitative factors (e.g. if the same borrower does not perform more than one payment obligations to the Group, the number of days past due per payment obligation. However, in the case of a specific portfolio, the Group uses the number of days past due for each financial instrument)
- Internal data and external data

The definition of default applied by the Group generally conforms to the definition of default defined for regulatory capital management purposes; however, depending on the situations, the information used to determine whether a default has incurred and the extent thereof may vary.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
 December 31, 2019 and 2018

4. Financial risk management (continued)

(b) Credit risk (continued)

i-4) Reflection of forward-looking information

The Group reflects forward-looking information presented by internal experts based on a variety of information when measuring expected credit losses. For the purpose of estimating these forward-looking information, the Group utilizes the economic outlook published by domestic and overseas research institutes or government and public agencies.

The Group reflects future macroeconomic conditions anticipated from a neutral standpoint that is free from bias in measuring expected credit losses. Expected credit losses in this respect reflect conditions that are most likely to occur and are based on the same assumptions that the Group used in its business plan and management strategy.

The Group identified the key macroeconomic variables needed to forecast credit risk and credit losses for each portfolio as follows by analyzing past experience data and drew correlations across credit risk for each variable.

Key macroeconomic variables	Correlation with credit risk
Economic growth	Negative
Consumer price index	Positive
Benchmark rate	Positive
3-year Korea Treasury Bond	Positive
3-year Corporate Bond	Positive
KOSPI	Negative

The predicted correlations between the macroeconomic variables and the risk of default, used by the Group, were derived based on data from the past nine years.

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Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

4. Financial risk management (continued)

(b) Credit risk (continued)

i-5) Measurement of expected credit losses

Key variables used in measuring expected credit losses are as follows:

- Probability of default (“PD”)
- Loss given default (“LGD”)
- Exposure at default (“EAD”)

These variables have been estimated from historical experience data by using the statistical techniques developed internally by the Group and have been adjusted to reflect forward-looking information.

Estimates of PD over a specified period are estimated by reflecting characteristics of counterparties and their exposure, based on a statistical model at a specific point of time. The Group uses its own information to develop a statistical credit assessment model used for the estimation, and additional information observed in the market is considered for some portfolios such as a group of large corporates. When a counterparty or exposure is concentrated in specific grades, the method of measuring PD for that grades would be adjusted, and the PD by grade is estimated by considering contract expiration of the exposure.

LGD refers to the expected loss if a borrower defaults. The Group calculates LGD based on the experience recovery rate measured from past default exposures. The model for measuring LGD is developed to reflect type of collateral, seniority of collateral, type of borrower, and cost of recovery. In particular, LGD for retail loan products uses loan to value (LTV) as a key variable. The recovery rate reflected in the LGD calculation is based on the present value of recovery amount, discounted at the effective interest rate.

EAD refers to the expected exposure at the time of default. The Group derives EAD reflecting a rate at which the current exposure is expected to be used additionally up to the point of default within the contractual limit. EAD of financial assets is equal to the total carrying amount of the asset, and EAD of loan commitments or financial guarantee contracts is calculated as the sum of the amount expected to be used in the future.

When measuring expected credit losses on financial assets, the Group reflects a period of expected credit loss measurement based on a contractual maturity. The Group takes into consideration of the extension rights held by a borrower when deciding the contractual maturity.

Risk factors of PD, LGD and EAD are collectively estimated according to the following criteria:

- Type of products
- Internal credit risk rating
- Type of collateral
- Loan to value (LTV)
- Industry that the borrower belongs to
- Location of the borrower or collateral
- Days of delinquency

The criteria classifying groups is periodically reviewed to maintain homogeneity of the group and adjusted if necessary. The Group uses external benchmark information to supplement internal information for a particular portfolio that did not have sufficient internal data accumulated from the past experience.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

4. Financial risk management (continued)

(b) Credit risk (continued)

i-6) Write-off of financial assets

The Group writes off a portion of or entire loan or debt security that is not expected to receive its principal and interest. In general, the Group conducts write-off when it is deemed that the borrower has no sufficient resources or income to repay the principal and interest. Such determination on write-off is carried out in accordance with the internal rules of the Group and is carried out with the approval of an external institution, if necessary. Apart from write-off, the Group may continue to exercise its right of collection under its own recovery policy even after the write-off of financial assets.

ii) *Maximum exposure to credit risk*

Exposure to credit risk is the exposure related to due from banks, loans, investments in debt securities, derivative transactions, off-balance sheet accounts such as loan commitment. The exposures of due from banks and loans were classified into government, bank, corporation, or retail based on the exposure classification criteria of BASEL III credit risk weights.

The Group's maximum exposure to credit risk without taking into account of any collateral held or other credit enhancements as of December 31, 2019 and December 31, 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Due from banks and loans at amortized cost(*1)(*2):		
Banks	₩ 12,950,561	17,935,816
Retail	152,840,826	136,499,558
Government	19,461,567	6,517,215
Corporations	140,718,619	131,795,992
Card receivable	23,114,264	21,592,287
	<u>349,085,837</u>	<u>314,340,868</u>
Deposits and loans at FVTPL(*1)(*2)		
Bank	897,525	890,660
Corporations	2,154,821	1,189,190
	<u>3,052,346</u>	<u>2,079,850</u>
Securities measured at FVTPL(*3)	48,512,857	40,289,846
Securities measured at fair value - OCI	58,573,094	37,677,646
Securities measured at amortized cost	45,582,065	28,478,136
Derivative assets	2,829,274	1,793,613
Other financial assets(*1)(*4)	17,477,778	16,837,141
Financial guarantee contracts	4,698,558	4,413,874
Loan commitments and other credit liabilities	177,660,547	165,399,937
	<u>₩ 707,472,356</u>	<u>611,310,911</u>

(*1) The maximum exposure amounts for due from banks, loans and other financial assets at amortized cost are recorded as net of allowances.

(*2) Due from banks and loans were classified as similar credit risk group when calculating the BIS ratio under new Basel Capital Accord (Basel III).

(*3) Financial asset at fair value through profit or loss comprise debt securities at fair value through profit of loss, gold deposits.

(*4) 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.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

4. Financial risk management (continued)

(b) Credit risk (continued)

iii) The maximum amount of exposure to credit risk by type of collateral of held financial instruments as of December, 2019 and 2018 is as follows:

Classification	2019			
	12 months Expected credit loss	Life time expected credit loss		Total
		Not recognized	Recognized	
Guarantee	₩ 12,232,197	3,756,006	64,386	16,052,589
Deposits and Savings	1,058,353	266,407	2,437	1,327,197
Property and equipment	1,021,002	307,502	12,840	1,341,344
Real estate	128,098,318	14,932,637	370,361	143,401,316
Securities	3,340,337	137,105	-	3,477,442
Other	5,035,192	4,437	364	5,039,993
Total	₩ 150,785,399	19,404,094	450,388	170,639,881

Classification	2018			
	12 months Expected credit loss	Life time expected credit loss		Total
		Not recognized	Recognized	
Guarantee	₩ 13,608,254	3,870,047	61,623	17,539,924
Deposits and Savings	1,016,391	241,567	1,379	1,259,337
Property and equipment	1,051,573	244,571	18,766	1,314,910
Real estate	119,174,347	13,856,638	281,943	133,312,928
Securities	3,460,263	105,397	-	3,565,660
Other	2,593,792	28	218	2,594,038
Total	₩ 140,904,620	18,318,248	363,929	159,586,797

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

4. Financial risk management (continued)

(b) Credit risk (continued)

iv) Impairment information by credit risk of financial assets

- Allowance for credit loss of financial assets as of December 31, 2019 and 2018 are as follows:

	2019								Mitigation of credit risk due to collateral
	12 months expected credit loss		Life time expected credit loss			Total	Allowances	Net	
	Grade 1(*1)	Grade 2(*1)	Grade 1(*1)	Grade 2(*1)	Impaired				
Due from banks and loans at amortized cost:									
Banks	₩ 11,703,863	1,179,294	77,675	1,804	-	12,962,636	(12,075)	12,950,561	57,087
Retail	136,124,712	7,443,675	5,694,210	3,608,216	476,897	153,347,710	(506,884)	152,840,826	87,826,564
Government Corporations	19,274,854	111,987	80,648	-	-	19,467,489	(5,922)	19,461,567	-
Card receivable	85,202,285	32,112,103	10,219,343	13,546,622	956,772	142,037,125	(1,318,506)	140,718,619	77,732,792
	17,161,184	2,249,276	1,879,073	2,233,942	444,311	23,967,786	(853,522)	23,114,264	8,728
	269,466,898	43,096,335	17,950,949	19,390,584	1,877,980	351,782,746	(2,696,909)	349,085,837	165,625,171
Securities at fair value through other comprehensive income(*2)	49,276,299	9,057,701	-	239,094	-	58,573,094	-	58,573,094	-
Securities at amortized cost	44,296,882	1,271,681	23,272	-	-	45,591,835	(9,770)	45,582,065	-
	₩ 363,040,079	53,425,717	17,974,221	19,629,678	1,877,980	455,947,675	(2,706,679)	453,240,996	165,625,171

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

4. Financial risk management (continued)

(b) Credit risk (continued)

iv) Impairment information by credit risk of financial assets

- Allowance for credit loss of financial assets as of December 31, 2019 and 2018 are as follows:

		2018								
		12 months expected credit loss		Life time expected credit loss					Mitigation of credit risk due to collateral	
		Grade 1(*1)	Grade 2(*1)	Grade 1(*1)	Grade 2(*1)	Impaired	Total	Allowances	Net	
Due from banks and loans at amortized cost:										
Banks	₩	16,873,064	980,673	94,866	11,493	-	17,960,096	(24,280)	17,935,816	55,008
Retail		122,318,451	6,122,202	4,991,709	3,103,779	402,975	136,939,116	(439,558)	136,499,558	81,216,489
Government Corporations		6,474,219	2,399	45,871	-	-	6,522,489	(5,274)	6,517,215	17,050
Card receivable		82,476,923	28,445,914	9,800,260	11,659,375	882,394	133,264,866	(1,468,874)	131,795,992	74,069,579
		16,129,536	2,022,525	1,791,147	2,039,390	411,595	22,394,193	(801,906)	21,592,287	7,599
		<u>244,272,193</u>	<u>37,573,713</u>	<u>16,723,853</u>	<u>16,814,037</u>	<u>1,696,964</u>	<u>317,080,760</u>	<u>(2,739,892)</u>	<u>314,340,868</u>	<u>155,365,725</u>
Securities at fair value through other comprehensive income(*2)										
		30,705,879	6,865,937	-	105,830	-	37,677,646	-	37,677,646	-
Securities at amortized cost										
		27,661,749	803,174	22,474	-	-	28,487,397	(9,261)	28,478,136	-
	₩	<u>302,639,821</u>	<u>45,242,824</u>	<u>16,746,327</u>	<u>16,919,867</u>	<u>1,696,964</u>	<u>383,245,803</u>	<u>(2,749,153)</u>	<u>380,496,650</u>	<u>155,365,725</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

4. Financial risk management (continued)

(b) Credit risk (continued)

iv) Impairment information by credit risk of financial assets (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 individual card holders, score of below 7 in Shinhan Card's internal behavior scoring system
	For corporate cardholders, same as corporate loans	For corporate cardholders, same as corporate loans

(*2) As of December 31, 2019 and 2018, allowance for credit loss for securities at fair value through other comprehensive income amounted to ₩28,236 million and ₩26,084 million, respectively.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

4. Financial risk management (continued)

(b) Credit risk (continued)

v) Credit risk exposures per credit grade of off-balance items

- Credit risk exposures per credit grade of off-balance items as of December 31, 2019 and 2018 are as follows:

		2019			
		Grade 1(*1)	Grade 2(*1)	Impaired	Total
Financial guarantee:					
12 months expected credit loss	₩	2,805,417	1,495,091	-	4,300,508
Life time expected credit loss		248,544	148,696	-	397,240
Impaired		-	-	810	810
		<u>3,053,961</u>	<u>1,643,787</u>	<u>810</u>	<u>4,698,558</u>
Loan commitment and other credit line					
12 months expected credit loss		146,010,944	21,044,977	-	167,055,921
Life time expected credit loss		7,850,945	2,730,143	-	10,581,088
Impaired		-	-	23,538	23,538
		<u>153,861,889</u>	<u>23,775,120</u>	<u>23,538</u>	<u>177,660,547</u>
	₩	<u>156,915,850</u>	<u>25,418,907</u>	<u>24,348</u>	<u>182,359,105</u>
		2018			
		Grade 1(*1)	Grade 2(*1)	Impaired	Total
Financial guarantee:					
12 months expected credit loss	₩	2,137,695	1,975,877	-	4,113,572
Life time expected credit loss		146,236	152,277	-	298,513
Impaired		-	-	1,789	1,789
		<u>2,283,931</u>	<u>2,128,154</u>	<u>1,789</u>	<u>4,413,874</u>
Loan commitment and other credit line					
12 months expected credit loss		137,920,323	19,044,745	-	156,965,068
Life time expected credit loss		6,636,365	1,787,965	-	8,424,330
Impaired		-	-	10,539	10,539
		<u>144,556,688</u>	<u>20,832,710</u>	<u>10,539</u>	<u>165,399,937</u>
	₩	<u>146,840,619</u>	<u>22,960,864</u>	<u>12,328</u>	<u>169,813,811</u>

(*1) The distinction between prime grade and normal grade is as follows:

Type of Borrower	Corporations and banks
Grade: 1. Prime	Internal credit rating of BBB+ or above
Grade: 2. Normal	Internal credit rating of below BBB+

vi) Credit risk exposures per credit quality of derivative assets

Credit quality of derivative assets as of December 31, 2019 and 2018 are as follows:

		2019	2018
Grade 1	₩	2,377,548	1,687,005
Grade 2		451,726	106,608
	₩	<u>2,829,274</u>	<u>1,793,613</u>

(*) Credit quality of derivative assets was classified based on the internal credit ratings.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

4. Financial risk management (continued)

(b) Credit risk (continued)

vii) Concentration by geographic location

An analysis of concentration by geographic location for financial instrument, net of allowance, as of December 31, 2019 and 2018 are as follows:

	2019								
	Korea	USA	England	Japan	Germany	Vietnam	China	Other	Total
Due from banks and loans at amortized cost									
Banks	₩ 5,124,738	1,263,568	423,788	289,233	203,166	1,068,822	2,816,320	1,760,926	12,950,561
Retail	144,700,885	371,602	5,444	3,888,964	1,548	1,612,761	1,211,857	1,047,765	152,840,826
Government Corporations	16,805,176	529,096	-	1,080,381	-	140,960	445,526	460,428	19,461,567
Card	122,926,428	3,116,777	187,856	3,403,806	99,083	2,140,573	2,758,888	6,085,208	140,718,619
	22,916,799	9,068	321	2,233	214	141,844	25,513	18,272	23,114,264
	<u>312,474,026</u>	<u>5,290,111</u>	<u>617,409</u>	<u>8,664,617</u>	<u>304,011</u>	<u>5,104,960</u>	<u>7,258,104</u>	<u>9,372,599</u>	<u>349,085,837</u>
Deposits and loans at FVTPL									
Bank	177,713	719,812	-	-	-	-	-	-	897,525
Corporations	2,146,949	-	-	-	-	-	-	7,872	2,154,821
	<u>2,324,662</u>	<u>719,812</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,872</u>	<u>3,052,346</u>
Securities measured at FVTPL	45,635,765	1,662,249	194,591	49,067	6,346	21,625	220,837	722,377	48,512,857
Securities at FVOCI	53,939,143	1,955,627	97,710	195,165	93,769	294,095	798,068	1,199,517	58,573,094
Securities at amortized cost	42,927,646	769,884	-	163,112	-	604,019	40,741	1,076,663	45,582,065
	<u>₩ 457,301,242</u>	<u>10,397,683</u>	<u>909,710</u>	<u>9,071,961</u>	<u>404,126</u>	<u>6,024,699</u>	<u>8,317,750</u>	<u>12,379,028</u>	<u>504,806,199</u>

(*) The following accounts are the net carrying value less provision for doubtful accounts.

	2018								
	Korea	USA	England	Japan	Germany	Vietnam	China	Other	Total
Due from banks and loans at amortized cost									
Banks	₩ 8,996,272	1,712,675	462,540	640,895	213,399	947,315	3,221,442	1,741,278	17,935,816
Retail	130,034,683	359,668	4,432	3,440,623	2,151	1,031,299	974,568	652,134	136,499,558
Government Corporations	4,257,877	499,742	-	750,676	108,667	182,822	546,597	170,834	6,517,215
Card	116,621,693	2,707,273	109,295	2,578,989	96,468	1,846,470	2,621,744	5,214,060	131,795,992
	21,453,128	8,435	301	2,107	208	92,992	20,785	14,331	21,592,287
	<u>281,363,653</u>	<u>5,287,793</u>	<u>576,568</u>	<u>7,413,290</u>	<u>420,893</u>	<u>4,100,898</u>	<u>7,385,136</u>	<u>7,792,637</u>	<u>314,340,868</u>
Deposits and loans at FVTPL									
Bank	186,465	704,195	-	-	-	-	-	-	890,660
Corporations	1,189,190	-	-	-	-	-	-	-	1,189,190
	<u>1,375,655</u>	<u>704,195</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,079,850</u>
Securities measured at FVTPL	38,782,201	973,716	163,658	28,062	11,507	20,740	104,853	205,109	40,289,846
Securities at FVOCI	34,667,702	1,209,756	21,749	197,234	46,417	392,668	616,143	525,977	37,677,646
Securities at amortized cost	26,053,245	1,048,909	-	68,594	-	360,953	34,923	911,512	28,478,136
	<u>₩ 382,242,456</u>	<u>9,224,369</u>	<u>761,975</u>	<u>7,707,180</u>	<u>478,817</u>	<u>4,875,259</u>	<u>8,141,055</u>	<u>9,435,235</u>	<u>422,866,346</u>

(*) The following accounts are the net carrying value less provision for doubtful accounts.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

4. Financial risk management (continued)

(b) Credit risk (continued)

viii) Concentration by industry sector

An analysis of concentration by industry sector of financial instrument, net of allowance, as of December 31, 2019 and 2018 are as follows:

	2019								Total
	Finance and insurance	Manufacturing	Retail and wholesale	Real estate and business	Construction service	Lodging and Restaurant	Other	Retail customers	
Due from banks and loans at amortized cost:									
Banks	₩ 12,461,379	-	-	-	-	-	489,182	-	12,950,561
Retail	-	-	-	-	-	-	-	152,840,826	152,840,826
Government Corporations	19,342,308	-	-	2,295	-	-	116,964	-	19,461,567
Card receivable	9,456,194	44,781,794	17,004,407	30,029,000	3,485,602	6,003,383	29,958,239	-	140,718,619
	39,003	212,863	170,873	49,000	41,664	23,397	22,427,544	149,920	23,114,264
	<u>41,298,884</u>	<u>44,994,657</u>	<u>17,175,280</u>	<u>30,080,295</u>	<u>3,527,266</u>	<u>6,026,780</u>	<u>52,991,929</u>	<u>152,990,746</u>	<u>349,085,837</u>
Due from banks and loans at FVTPL:									
Banks	897,525	-	-	-	-	-	-	-	897,525
Corporations	1,301,066	505,198	120,636	7,872	3,500	900	215,649	-	2,154,821
	<u>2,198,591</u>	<u>505,198</u>	<u>120,636</u>	<u>7,872</u>	<u>3,500</u>	<u>900</u>	<u>215,649</u>	<u>-</u>	<u>3,052,346</u>
Securities at fair value through profit or loss	29,826,338	2,466,874	1,112,688	350,720	262,183	75,152	14,418,902	-	48,512,857
Securities at fair value through other comprehensive income	28,673,958	3,500,514	673,614	807,274	1,164,947	12,889	23,739,898	-	58,573,094
Securities at amortized cost	9,930,409	49,876	-	884,072	1,076,086	-	33,641,622	-	45,582,065
	<u>₩ 111,928,180</u>	<u>51,517,119</u>	<u>19,082,218</u>	<u>32,130,233</u>	<u>6,033,982</u>	<u>6,115,721</u>	<u>125,008,000</u>	<u>152,990,746</u>	<u>504,806,199</u>

(*) The following accounts are the net carrying value less provision for doubtful accounts.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

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4. Financial risk management (continued)

(b) Credit risk (continued)

viii) Concentration by industry sector (continued)

An analysis of concentration by industry sector of financial instrument, net of allowance, as of December 31, 2019 and 2018 are as follows:

	2018								Total
	Finance and insurance	Manufacturing	Retail and wholesale	Real estate and business	Construction service	Lodging and Restaurant	Other	Retail customers	
Due from banks and loans at amortized cost:									
Banks	₩ 17,579,099	2,219	-	300	-	-	354,198	-	17,935,816
Retail	-	-	-	-	-	-	-	136,499,558	136,499,558
Government Corporations	6,385,776	-	-	2,795	-	-	128,644	-	6,517,215
Card receivable	8,456,599	43,957,565	17,420,532	27,009,286	3,272,406	5,610,146	26,066,753	2,705	131,795,992
	36,343	210,324	169,070	43,236	42,209	23,506	20,968,820	98,779	21,592,287
	<u>32,457,817</u>	<u>44,170,108</u>	<u>17,589,602</u>	<u>27,055,617</u>	<u>3,314,615</u>	<u>5,633,652</u>	<u>47,518,415</u>	<u>136,601,042</u>	<u>314,340,868</u>
Due from banks and loans at FVTPL:									
Banks	870,656	-	-	20,004	-	-	-	-	890,660
Corporations	554,832	213,715	209,631	2,593	1,621	900	205,898	-	1,189,190
	<u>1,425,488</u>	<u>213,715</u>	<u>209,631</u>	<u>22,597</u>	<u>1,621</u>	<u>900</u>	<u>205,898</u>	<u>-</u>	<u>2,079,850</u>
Securities at fair value through profit or loss	25,067,491	1,646,132	1,185,571	342,124	208,455	60,829	11,779,244	-	40,289,846
Securities at fair value through other comprehensive income	22,436,768	1,695,624	302,789	480,979	480,585	-	12,280,901	-	37,677,646
Securities at amortized cost	6,634,975	99,437	-	775,580	595,334	-	20,372,810	-	28,478,136
	<u>₩ 88,022,539</u>	<u>47,825,016</u>	<u>19,287,593</u>	<u>28,676,897</u>	<u>4,600,610</u>	<u>5,695,381</u>	<u>92,157,268</u>	<u>136,601,042</u>	<u>422,866,346</u>

(*) The following accounts are the net carrying value less provision for doubtful accounts.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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(In millions of won)

4. Financial risk management (continued)

(c) Market risk

i) Market risk management from trading positions

i-1) Concept of Market risk

Market risk is defined as the risk of loss of trading account position of financial institutions due to fluctuations in market price, such as interest rates, exchange rates and stock prices, etc. and is divided into general market risks and individual risks. A general market risk refers to a loss from price variability caused by events affecting the market as a whole, such as interest rates, exchange rates and stock prices; and an individual risk refers to a loss from price variability related to individual events of securities issuer, such as bonds and stocks.

i-2) Market risk Management Method

The basic principle of market risk management in the trading sector is to maintain the maximum possible loss due to market risks within a certain level. To that end, the Group sets and operates the VaR limit, investment limit, position limit, sensitivity limit, and loss limit from portfolio to individual desks. These limits are managed daily by the Risk Management Department independent of Operation Department. Trading position refers to securities, foreign exchange position and derivative financial instruments held for the purpose of short-term trading profit. VaR is the representative method for measuring market risk and is a statistical measure of maximum potential loss that can be caused by changes in market conditions. VaR calculates the market risk amount of the standard method by using TRMS, and Shinhan Bank and Shinhan Investment Corp. use own internal model of market risk calculation system.

The Group conducts stress test to supplement risk measurements by statistical method and to manage losses that may arise from rapid changes in the economic environment.

Shinhan Bank measures the market risk of linear products, such as stocks and bonds, as well as non-linear products, such as options by applying historical simulation method of 99% confidence level-based VaR. Trading position data is automatically interfaced into measurement system, and the system conducts VaR measurement and manages the limit. In addition, the Bank sets loss limit, sensitivity limit, investment limit, stress limit, etc. for Trading Department and desks, and monitors daily.

Shinhan Investment measures daily market risk by applying historical simulation VaR method of 99.9% confidence level-based VaR. Historical simulation VaR method does not require assumption on a particular distribution since the method derives scenarios directly from historical market data, and measures non-linear products, such as options, in details. In addition to the VaR limit, the Shinhan Investment sets and manages issuance and transaction limit, stop-loss limit for each department.

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(In millions of won)

4. Financial risk management (continued)

(c) Market risk (continued)

i) Market risk management from trading positions (continued)

i-2) Managements (continued)

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, 2019 and 2018 based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, is as follows:

		2019			
		<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>December 31</u>
Interest rate	₩	508,039	527,349	479,121	504,948
Stock price		191,019	210,589	162,595	210,589
Foreign exchange		143,317	151,779	138,543	139,562
Commodity		7,691	10,558	4,953	10,558
Option volatility		57,972	74,892	39,591	67,160
	₩	<u>908,038</u>	<u>975,167</u>	<u>824,803</u>	<u>932,817</u>

		2018			
		<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>December 31</u>
Interest rate	₩	425,235	453,644	403,195	453,644
Stock price		201,408	227,167	143,238	143,238
Foreign exchange		143,202	174,702	124,292	139,617
Commodity		6,250	9,026	4,501	6,343
Option volatility		34,334	56,834	22,045	56,834
	₩	<u>810,429</u>	<u>921,373</u>	<u>697,271</u>	<u>799,676</u>

i-3) Shinhan Bank

The analyses of the ten-day 99% confidence level-based VaR for managing market risk for trading positions of Shinhan Bank as of and for the years ended December 31, 2019 and 2018 are as follows:

		2019			
		<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>December 31</u>
Interest rate	₩	21,208	32,430	12,709	28,313
Stock price		18,136	49,424	8,171	15,386
Foreign exchange(*)		24,727	29,085	22,259	25,910
Option volatility		161	325	60	212
Commodity		15	104	-	10
Portfolio diversification					(21,879)
	₩	<u>47,925</u>	<u>81,553</u>	<u>31,482</u>	<u>47,952</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

4. Financial risk management (continued)

(c) Market risk (continued)

i) Market risk management from trading positions (continued)

i-3) Shinhan Bank (continued)

		2018			
		Average	Maximum	Minimum	December 31
Interest rate	₩	22,559	29,748	16,194	18,797
Stock price		12,118	25,701	1,976	22,212
Foreign exchange(*)		39,282	45,738	34,162	34,294
Option volatility		131	511	30	261
Commodity		17	61	-	24
Portfolio diversification					(21,298)
	₩	43,957	57,462	38,026	54,290

(*) Both trading and non-trading accounts are included since Shinhan Bank manages foreign exchange risk on a total position basis.

i-4) 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 2019, and 2018, based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, are as follows:

		2019			
		Average	Maximum	Minimum	December 31
Interest rate	₩	1,417	2,000	1,000	2,000

		2018			
		Average	Maximum	Minimum	December 31
Interest rate	₩	1,257	1,972	768	1,269

(*) Foreign subsidiaries are excluded from the calculation.

i-5) 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, 2019 and 2018 are as follows:

		2019			
		Average	Maximum	Minimum	December 31
Interest rate	₩	13,725	20,857	5,671	11,946
Stock price		31,330	74,421	15,449	25,691
Foreign exchange		4,107	37,970	368	4,369
Option volatility		9,889	31,711	2,504	9,876
Portfolio diversification					(15,150)
	₩	38,262	85,597	5,780	36,732

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)

(c) Market risk (continued)

i) Market risk management from trading positions (continued)

i-5) Shinhan Investment (continued)

		2018			
		Average	Maximum	Minimum	December 31
Interest rate	₩	7,563	14,314	3,656	7,321
Stock price		64,107	103,846	6,202	43,748
Foreign exchange		5,992	13,798	154	154
Option volatility		9,200	31,810	2,195	31,810
Portfolio diversification					(1,375)
	₩	74,821	128,261	11,174	81,658

i-6) 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 the year ended December 31, 2019 and 2018 are as follows:

		2019			
		Average	Maximum	Minimum	December 31
Interest rate	₩	1,853	8,856	313	600
Stock price		5,015	6,520	4,374	4,978
Foreign exchange		1,581	3,434	3	2,050
Option volatility		316	632	124	472
	₩	8,765	19,442	4,814	8,100

		2018			
		Average	Maximum	Minimum	December 31
Interest rate	₩	2,994	6,410	260	293
Stock price		4,084	4,933	2,030	4,793
Foreign exchange		1,111	2,825	40	352
Option volatility		824	4,916	89	106
	₩	9,013	19,084	2,419	5,544

i-6) Orange Life Insurance Co., Ltd.

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Orange Life Insurance as of and for the year ended December 31, 2019 are as follows:

		2019			
		Average	Maximum	Minimum	December 31
Foreign exchange	₩	18,578	23,614	12,577	16,710

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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(In millions of won)

4. Financial risk management (continued)

(c) Market risk (continued)

ii) Interest rate risk management from non-trading positions

ii-1) Principle

Interest rate risk refers to the possibility of a decrease in net interest income or in net asset value that occurs when interest rates fluctuate unfavorably from the Group's financial position. Through the interest rate risk management, changes in net interest income or net asset value arising from interest rate fluctuations are anticipated by early forecasting changes in interest rate risks related to net interest income and net asset value.

ii-2) Managements

Shinhan Financial Group's major financial subsidiaries manage interest rate risks independently by the risk management organization and the treasury department, and have internal regulations on interest rate risk management strategies, procedures, organization, measurement, and major assumptions.

One of the key indicators of managing interest rate risk is the Earnings at Risk (EaR) from an earning perspective and the Value at Risk (VaR) from an economic value perspective. 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. The precision of risk management system differs by each subsidiary. Interest rate VaR and interest rate EaR are measured by internal method or IRRBB (Interest Rate Risk In The Banking Book), and interest rate risk limits are set and monitored based on the interest rate VaR.

The Basel III-based IRRBB measures the interest rate risk more precisely than the existing BIS standard framework by segmenting maturities of interest rates, reflecting customer behaviour models, and diversifying interest rate shocks. The interest rate VaR scenario based IRRBB measures ① parallel up shock ② parallel down shock ③ Steepener shock ④ flattener shock ⑤ short rate up shock ⑥ short rate down shock. By the parallel up shock and parallel down shock, the interest rate VaR scenario measures the scenario value with the largest loss as interest rate risk. Under the existing BIS standard framework, ± 200 bp parallel shock scenario was applied to all currency. However, as the shock width is set differently by currency and period, interest rate risk is measured significantly by the IRRBB. ((KRW) Parallel ± 300 bp, Short Term ± 400 bp, Long Term ± 200 bp, (USD) Parallel ± 200 bp, Short Term ± 300 bp, Long Term ± 150 bp) In the IRRBB method, the existing interest rate VaR and the interest rate EaR are expressed as Δ EVE (Economic Value of Equity) and Δ NII (Net Interest Income), respectively.

Since impacts of each subsidiary on changes of interest rates are differentiate by portfolios, the Group is preparing to respond proactively while monitoring the financial market and regulatory environment, and making efforts to hedge or reduce interest rate risk. In addition, the subsidiaries conduct the crisis analysis on changes in market interest rates and report it to management and the Group.

In particular, 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.

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(In millions of won)

4. Financial risk management (continued)

(c) Market risk (continued)

ii) Interest rate risk management from non-trading positions (continued):

Non-trading positions for interest rate VaR and EaR as of December 31, 2019 and 2018 are as follows:

ii-3) Shinhan Bank

		<u>2019</u>	<u>2018</u>
△EVE (*1)	₩	369,944	930,461
△NII (*2)		161,385	405,501

ii-4) Shinhan Card

		<u>2019</u>	<u>2018</u>
△EVE (*1)	₩	696,505	773,293
△NII (*2)		554,499	501,272

ii-5) Shinhan Investment

		<u>2019</u>	<u>2018</u>
△EVE (*1)	₩	77,436	82,568
△NII (*2)		127,476	72,906

ii-6) Shinhan Life Insurance

		<u>2019</u>	<u>2018</u>
△EVE (*1)	₩	4,831,042	5,268,879
△NII (*2)		77,000	67,638

ii-7) Orange Life Insurance Co., Ltd.

		<u>2019</u>
△EVE (*1)	₩	2,800,603
△NII (*2)		46,372

(*1) △EVE is the economic value of equity capital that can arise from changes in interest rates that affect the present value of assets, liabilities and off-balance sheet items by using the Basel III standard based IRRBB method.

(*2) △NII is the change in net interest income that can occur over the next year due to changes in interest rates by using the Basel III standard based IRRBB method.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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(In millions of won)

4. Financial risk management (continued)

(c) Market risk (continued)

iii) Foreign exchange risk

Exposure to foreign exchange risk can be defined as the difference (net position) between assets and liabilities presented in foreign currency, including derivative financial instruments linked to foreign exchange rate. Foreign exchange risk is a factor that causes market risk of the trading position and is managed by the Group under the market risk management system.

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. Shinhan Bank sets a limit for net open positions by currency and the limits for currencies other than the U.S. dollars, Japanese yen, Euros and Chinese yuan are set in order to minimize exposures from the other foreign exchange trading.

Foreign currency denominated assets and liabilities as of December 31, 2019 and 2018 are as follows:

	2019					
	USD	JPY	EUR	CNY	Other	Total
Assets:						
Cash and due from banks at amortized cost	₩ 4,235,225	1,532,661	354,686	1,714,524	1,715,443	9,552,539
Due from banks at FVTPL	719,812	-	-	-	-	719,812
Loan receivables measured at FVTPL	479,950	-	7,872	-	-	487,822
Loan at amortized cost	18,275,153	8,256,756	955,836	3,350,557	7,960,731	38,799,033
Securities at FVTPL	5,391,450	32,565	303,917	-	357,018	6,084,950
Derivative assets	342,120	1,403	16,922	391	80,506	441,342
Securities at FVOCI	4,775,714	83,713	337,573	436,236	917,335	6,550,571
Securities at amortized cost	1,392,901	183,133	67,080	40,769	1,482,574	3,166,457
Other financial assets	3,176,509	136,419	171,080	380,955	462,734	4,327,697
	₩ 38,788,834	10,226,650	2,214,966	5,923,432	12,976,341	70,130,223
Liabilities:						
Deposits	₩ 14,658,624	9,057,393	843,946	4,426,507	6,906,741	35,893,211
Financial liabilities at FVTPL	-	-	-	-	474,080	474,080
Derivative liabilities	320,176	6,466	20,833	1,163	15,564	364,202
Borrowings	8,938,762	347,881	190,366	407,767	139,658	10,024,434
Debt securities issued	7,882,293	319,041	960,890	-	1,526,661	10,688,885
Financial liabilities designated at FVTPL	1,444,254	-	-	-	-	1,444,254
Other financial liabilities	4,391,046	155,736	125,172	567,860	978,153	6,217,967
	₩ 37,635,155	9,886,517	2,141,207	5,403,297	10,040,857	65,107,033
Net assets	₩ 1,153,679	340,133	73,759	520,135	2,935,484	5,023,190
Off-balance derivative exposure	(1,335,794)	(160,734)	273,571	(114,015)	(844,534)	(2,181,506)
Net position	₩ (182,115)	179,399	347,330	406,120	2,090,950	2,841,684

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

4. **Financial risk management (continued)**

(c) **Market risk (continued)**

iii) *Foreign exchange risk (continued)*

Foreign currency denominated assets and liabilities as of December 31, 2019 and 2018 are as follows (continued):

	2018					
	USD	JPY	EUR	CNY	Other	Total
Assets:						
Cash and due from banks at amortized cost	₩ 4,797,714	1,216,221	259,631	1,595,799	1,654,668	9,524,033
Due from banks at FVTPL	704,195	-	-	-	-	704,195
Loan receivables measured at FVTPL	347,966	3,430	4,127	-	-	355,523
Loan at amortized cost	16,301,367	6,862,146	1,275,174	3,496,937	5,934,670	33,870,294
Securities at FVTPL	3,812,541	998	81,300	-	313,750	4,208,589
Derivative assets	133,197	285	2,299	406	11,875	148,062
Securities at FVOCI	3,209,293	125,512	-	357,682	728,456	4,420,943
Securities at amortized cost	1,405,775	128,512	-	34,955	1,175,733	2,744,975
Other financial assets	2,958,609	135,984	70,321	456,405	357,856	3,979,175
	₩ 33,670,657	8,473,088	1,692,852	5,942,184	10,177,008	59,955,789
Liabilities:						
Deposits	₩ 13,333,500	7,217,318	727,291	4,565,067	5,232,529	31,075,705
Financial liabilities at FVTPL	4,389	-	-	-	458,934	463,323
Derivative liabilities	172,556	-	1,914	2,089	4,892	181,451
Borrowings	6,287,797	446,102	280,949	395,719	173,731	7,584,298
Debt securities issued	6,168,615	317,125	293,708	-	1,715,780	8,495,228
Financial liabilities designated at FVTPL	1,168,024	-	-	-	-	1,168,024
Other financial liabilities	2,684,717	192,161	125,434	573,544	548,754	4,124,610
	₩ 29,819,598	8,172,706	1,429,296	5,536,419	8,134,620	53,092,639
Net assets	₩ 3,851,059	300,382	263,556	405,765	2,042,388	6,863,150
Off-balance derivative exposure	(2,056,586)	(157,445)	(217,232)	(34,986)	(164,797)	(2,631,046)
Net position	₩ 1,794,473	142,937	46,324	370,779	1,877,591	4,232,104

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(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 group 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.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

4. Financial risk management (continued)

(d) Liquidity risk (continued)

Contractual maturities for financial instruments including cash flows of principal and interest and off balance as of December 31, 2019 and 2018 are as follows:

	2019						Total
	Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	
Non-derivative financial instruments:							
Assets:							
Cash and due from banks at amortized cost	₩ 25,543,400	1,039,822	421,453	1,145,323	50,070	249,503	28,449,571
Due from banks at fair value through profit or loss	130,780	150,217	594,643	21,885	-	-	897,525
Loans at fair value through profit or loss	29,961	783,429	12,638	142,756	773,305	488,326	2,230,415
Loans at amortized cost	28,857,297	36,706,993	46,672,732	74,931,639	103,334,861	70,169,035	360,672,557
Securities at fair value through profit or loss	39,736,655	1,852,680	728,518	1,120,791	2,716,677	3,774,694	49,930,015
Securities at fair value through other comprehensive income	57,317,802	-	-	40,145	30,195	2,111,220	59,499,362
Securities at amortized cost	1,214,108	2,015,590	1,704,574	2,098,374	17,491,024	32,951,459	57,475,129
Other financial assets	13,291,239	122,258	122,893	562,793	249,166	3,122,107	17,470,456
	₩ 166,121,242	42,670,989	50,257,451	80,063,706	124,645,298	112,866,344	576,625,030
Liabilities:							
Deposits(*2)	₩ 149,773,324	31,415,213	38,077,790	61,746,589	14,972,484	3,590,916	299,576,316
Financial liabilities at fair value through profit or loss	1,558,186	1,096	12,095	17,997	48,609	-	1,637,983
Borrowings	15,314,322	3,690,803	3,608,178	4,028,183	5,244,109	3,002,243	34,887,838
Debt securities issued	5,367,601	4,370,308	4,876,333	8,945,916	49,804,651	6,467,621	79,832,430
Financial liabilities designated at fair value through profit or loss	487,743	110,965	678,041	1,651,198	5,414,944	1,066,565	9,409,456
Other financial liabilities	23,504,746	118,689	253,779	510,768	416,868	3,449,392	28,254,242
	₩ 196,005,922	39,707,074	47,506,216	76,900,651	75,901,665	17,576,737	453,598,265
Off balance(*3):							
Finance guarantee contracts	₩ 4,698,558	-	-	-	-	-	4,698,558
Loan commitments and other	178,516,047	-	-	-	-	-	178,516,047
	₩ 183,214,605	-	-	-	-	-	183,214,605
Derivatives:							
Net and gross settlement of derivatives	₩ 407,885	9,640	34,228	18,196	160,292	176,976	807,217

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4. Financial risk management (continued)

(d) Liquidity risk (continued)

Contractual maturities for financial instruments including cash flows of principal and interest and off balance as of December 31, 2019 and 2018 are as follows (continued):

	2018						Total
	Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	
Non-derivative financial instruments:							
Assets:							
Cash and due from banks at amortized cost	₩ 14,451,366	796,510	905,259	1,196,790	1,526	57,259	17,408,710
Due from banks at fair value through profit or loss	115,476	131,712	518,109	105,359	6,053	-	876,709
Loans at fair value through profit or loss	290,724	388,218	42,550	201,591	257,873	48,982	1,229,938
Loans at amortized cost	34,025,588	34,254,065	45,151,571	68,239,781	87,760,434	66,889,553	336,320,992
Securities at fair value through profit or loss	36,043,891	41,287	35,677	403,849	1,572,268	3,351,681	41,448,653
Securities at fair value through other comprehensive income	37,519,813	12,093	5,145	20,291	255,091	507,920	38,320,353
Securities at amortized cost	505,417	1,378,525	481,193	2,270,447	15,067,164	16,896,833	36,599,579
Other financial assets	15,130,599	5,629	19,173	433,060	92,753	1,215,953	16,897,167
	₩ 138,082,874	37,008,039	47,158,677	72,871,168	105,013,162	88,968,181	489,102,101
Liabilities:							
Deposits(*2)	₩ 123,166,403	24,736,962	34,096,334	56,060,670	28,316,319	2,880,197	269,256,885
Financial liabilities at fair value through profit or loss	1,402,726	193	53	10,403	10,124	-	1,423,499
Borrowings	13,542,317	2,879,693	2,207,560	2,965,132	5,854,335	2,553,162	30,002,199
Debt securities issued	3,779,407	5,433,266	5,633,286	10,468,221	36,694,200	5,291,240	67,299,620
Financial liabilities designated at fair value through profit or loss	332,249	303,996	171,927	1,061,443	5,552,824	1,113,361	8,535,800
Other financial liabilities	19,423,802	22,744	110,883	146,256	432,277	71,318	20,207,280
	₩ 161,646,904	33,376,854	42,220,043	70,712,125	76,860,079	11,909,278	396,725,283
Off balance(*3):							
Finance guarantee contracts	₩ 4,413,874	-	-	-	-	-	4,413,874
Loan commitments and other	166,498,542	-	-	-	-	-	166,498,542
	₩ 170,912,416	-	-	-	-	-	170,912,416
Derivatives:							
Net and gross settlement of derivatives	₩ (451,926)	(5,741)	(26,570)	(6,552)	(37,532)	(10,656)	(538,977)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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4. Financial risk management (continued)

(d) Liquidity risk (continued)

(*1) These amounts include cash flows of principal and interest on financial assets and financial liabilities.

(*2) Demand deposits amounting to ₩116,282,706 million and ₩106,160,833 million as of December 31, 2019 and 2018 are included in the 'Less than 1 month' category, respectively.

(*3) 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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4. **Financial risk management (continued)**

(e) **Measurement of fair value (continued)**

i) *Financial instruments measured at fair value*

i-1) The fair value hierarchy of financial instruments presented at their fair values in the statements of financial position as of December 31, 2019 and 2018 are as follows:

		2019			Total
		Level 1	Level 2	Level 3	
Financial assets					
Due from banks measured at FVTPL	₩	-	66,870	830,655	897,525
Loan receivables measured at FVTPL		-	686,446	1,468,375	2,154,821
Financial assets at FVTPL:					
Debt securities and other securities		6,304,161	33,145,583	8,951,398	48,401,142
Equity securities		890,714	195,395	511,831	1,597,940
Gold deposits		111,715	-	-	111,715
Derivative assets:					
Trading		35,711	2,088,307	462,050	2,586,068
Hedging		-	240,430	2,776	243,206
Securities measured at FVOCI:					
Debt securities		16,892,704	41,645,124	35,266	58,573,094
Equity securities		183,107	-	624,852	807,959
	₩	<u>24,418,112</u>	<u>78,068,155</u>	<u>12,887,203</u>	<u>115,373,470</u>
Financial liabilities:					
Financial liabilities measured at FVTPL:					
Securities sold	₩	1,164,697	-	-	1,164,697
Gold deposits		467,760	-	-	467,760
Financial liabilities designated at fair value through profit or loss:					
Derivatives-combined securities		-	897,967	8,511,489	9,409,456
Derivative liabilities:					
Trading		46,854	1,834,930	119,220	2,001,004
Hedging		-	112,258	189,750	302,008
	₩	<u>1,679,311</u>	<u>2,845,155</u>	<u>8,820,459</u>	<u>13,344,925</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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4. **Financial risk management (continued)**

(e) **Measurement of fair value (continued)**

i) *Financial instruments measured at fair value*

i-1) The fair value hierarchy of financial instruments presented at their fair values in the statements of financial position as of December 31, 2019 and 2018 are as follows (continued):

		2018			Total
		Level 1	Level 2	Level 3	
Financial assets					
Due from banks measured at FVTPL	₩	-	57,236	813,420	870,656
Loan receivables measured at FVTPL		-	891,636	317,558	1,209,194
Financial assets at FVTPL:					
Debt securities and other securities		5,084,767	29,552,429	5,497,769	40,134,965
Equity securities		528,113	143,139	493,818	1,165,070
Gold deposits		154,881	-	-	154,881
Derivative assets:					
Trading		62,275	1,548,769	116,277	1,727,321
Hedging		-	61,706	4,586	66,292
Securities measured at FVOCI:					
Debt securities		10,532,244	27,095,555	49,846	37,677,645
Equity securities		135,866	-	500,659	636,525
	₩	<u>16,498,146</u>	<u>59,350,470</u>	<u>7,793,933</u>	<u>83,642,549</u>
Financial liabilities:					
Financial liabilities measured at FVTPL:					
Securities sold	₩	961,372	-	-	961,372
Gold deposits		458,934	-	-	458,934
Financial liabilities designated at fair value through profit or loss:					
Derivatives-combined securities		-	1,702,063	6,833,737	8,535,800
Derivative liabilities:					
Trading		116,160	1,444,545	285,965	1,846,670
Hedging		-	232,102	361,120	593,222
	₩	<u>1,536,466</u>	<u>3,378,710</u>	<u>7,480,822</u>	<u>12,395,998</u>

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(In millions of won)

4. **Financial risk management (continued)**

(e) **Measurement of fair value (continued)**

i) *Financial instruments measured at fair value*

i-2) Changes in carrying values of financial instruments classified as Level 3 for the years ended December 31, 2019 and 2018 are as follows :

	2019			
	Financial asset at fair value through profit or loss	Securities at fair value through other comprehensive profit or loss	Financial liabilities designated at fair value through profit or loss	Derivative assets and liabilities, net
Beginning balance	₩ 7,122,565	550,505	(6,833,737)	(526,223)
Recognized in total comprehensive income for the year:				
Recognized in profit (loss) for the year(*1)	61,738	1,461	(826,594)	591,332
Recognized in other comprehensive income (loss) for the year	125,037	34,716	(13,654)	-
	186,775	36,177	(840,248)	591,332
Purchase	5,941,978	103,564	-	2,221
Issue	-	-	(8,821,680)	-
Settlement	(2,332,781)	(22,842)	7,984,176	88,312
Reclassification	-	(7,286)	-	-
Transfer to level3(*2)	162,906	-	-	248
Transfer from level3(*2)	(27,075)	-	-	(34)
Business combination (Note 47)	707,891	-	-	-
Ending balance	₩ 11,762,259	660,118	(8,511,489)	155,856

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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4. Financial risk management (continued)

(e) Measurement of fair value (continued)

i) *Financial instruments measured at fair value*

i-2) Changes in carrying values of financial instruments classified as Level 3 for the years ended December 31, 2019 and 2018 are as follows (continued):

	2018					
	Financial asset at fair value through profit or loss	Financial asset designated at fair value through profit or loss	Securities at fair value through other comprehensive profit or loss	Financial liabilities designated at fair value through profit or loss	Derivative assets and liabilities, net	
Beginning balance	₩ 5,831,369	152,091	621,207	(7,273,754)	(250,662)	
Recognized in total comprehensive income for the year:						
Recognized in profit (loss) for the year(*1)	359,160	3,390	4,692	10,090	(128,816)	
Recognized in other comprehensive income (loss) for the year	-	-	29,388	235	-	
	359,160	3,390	34,080	10,325	(128,816)	
Purchase	2,143,853	-	2,510	-	2,236	
Issue	-	-	-	(7,127,670)	-	
Settlement	(1,212,202)	(155,481)	(107,292)	7,557,362	(148,987)	
Transfer to level3(*2)	1,370	-	-	-	6	
Transfer from level3(*2)	(985)	-	-	-	-	
Ending balance	₩ 7,122,565	-	550,505	(6,833,737)	(526,223)	

(*1) Recognized profit or loss of the changes in carrying value of financial instruments classified as Level 3 for the years ended December 31, 2019 and 2018 are included in the accounts of the statements of comprehensive income, of which the amounts and the related accounts are as follows:

	2019	
	Amounts recognized in profit or loss	Recognized profit or loss from the financial instruments held as of December 31
Net gain (loss) on financial assets at fair value through profit or loss	₩ 544,849	23,912
Net gain on financial assets designated at fair value through profit or loss	(826,594)	(66,113)
Net gain on securities at fair value through other comprehensive income	1,461	1,191
Other operating expenses	108,221	109,547
	₩ (172,063)	68,537

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4. Financial risk management (continued)

(e) Measurement of fair value (continued)

i) Financial instruments measured at fair value

i-2) Changes in carrying values of financial instruments classified as Level 3 for the years ended December 31, 2019 and 2018 are as follows (continued):

	2018	
	Amounts recognized in profit or loss	Recognized profit or loss from the financial instruments held as of December 31
Net gain (loss) on financial assets at fair value through profit or loss	₩ 179,658	(14,586)
Net gain on financial assets designated at fair value through profit or loss	10,090	392,096
Net gain on securities at fair value through other comprehensive income	2,575	-
Reversal of (provision for) allowance for credit loss	17	(28)
Other operating expenses	56,176	57,317
	<u>₩ 248,516</u>	<u>434,799</u>

(*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.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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4. **Financial risk management (continued)**

(e) **Measurement of fair value (continued)**

i) *Financial instruments measured at fair value*

i-3) Valuation techniques and significant inputs not observable in markets

i-3-1) Valuation techniques and inputs used in measuring the fair value of financial instruments classified as level 2 as of December 31, 2019 and 2018 are as follows:

Type of financial instrument	Valuation technique	2019		Significant inputs
		Carrying Value		
Assets				
Financial asset at fair value through profit or loss				
Debt securities	DCF	₩	33,898,899	Discount rate, interest rate, stock price and price of underlying assets such as stocks, bonds, etc.
Equity securities	NAV		195,395	
			<u>34,094,294</u>	
Derivative assets				
Trading	Option model, DCF		2,088,307	Discount rate, foreign exchange rate, volatility, stock price, and commodity index, etc.
Hedging			240,430	
			<u>2,328,737</u>	
Securities at fair value through other comprehensive income	DCF, NAV		41,645,124	Discount rate, growth rate and price of underlying assets such as stock, bonds, etc.
		₩	<u>78,068,155</u>	
Liabilities				
Financial liabilities designated at fair value through profit or loss				
Borrowings	DCF	₩	897,967	Discount rate
Derivative liabilities				
Trading	Option model, DCF		1,834,930	Discount rate, foreign exchange rate, volatility, stock price, and commodity index, etc.
Hedging			112,258	
			<u>1,947,188</u>	
		₩	<u>2,845,155</u>	

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

4. Financial risk management (continued)

(e) Measurement of fair value (continued)

i) Financial instruments measured at fair value (continued)

i-3) Valuation techniques and significant inputs not observable in markets (continued)

i-3-1) Valuation techniques and inputs used in measuring the fair value of financial instruments classified as level 2 as of December 31, 2019 and 2018 are as follows (continued):

Type of financial instrument	Valuation technique	2018		Significant inputs
		Carrying Value		
Assets				
Financial asset at fair value through profit or loss				
Debt securities	DCF	₩	30,501,301	Discount rate
Equity securities	NAV		143,139	Price of underlying assets
			<u>30,644,440</u>	
Derivative assets				
Trading	Option model,		1,548,769	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
Hedging	DCF		61,706	
			<u>1,610,475</u>	
Securities at fair value through other comprehensive income	DCF		27,095,555	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
		₩	<u>59,350,470</u>	
Liabilities				
Financial liabilities designated at fair value through profit or loss				
Derivative liabilities				
Trading	Option model		1,444,545	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
Hedging	DCF		232,102	
			<u>1,676,647</u>	
		₩	<u>3,378,710</u>	

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4. **Financial risk management (continued)**

(e) **Measurement of fair value (continued)**

i) *Financial instruments measured at fair value (continued)*

i-3) Valuation techniques and significant inputs not observable in markets (continued)

i-3-2) 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, 2019 and 2018 are as follows:

Type of financial instrument	Valuation technique	Carrying value(*2)	2019	
			Significant unobservable inputs	Range
Financial assets				
Financial asset at fair value through profit or loss				
Debt securities	DCF, Option model(*1)	₩ 11,250,428	The volatility of the underlying asset Discount rate	0.00%~46.36% 1.14%~30.70%
Equity securities	DCF, NAV	511,831	The volatility of the underlying asset Correlations Discount rate	1.00%~43.00% 5.00%~88.00% 5.06%~15.42%
		<u>11,762,259</u>		
Derivative assets				
Equity and foreign exchange related	Option model(*1)	145,011	The volatility of the underlying asset Correlations	1.51%~56.00% -42.00%~82.00%
Interest rates related	Option model(*1)	30,983	The volatility of the underlying asset Regression coefficient Correlations	0.50%~0.67% 1.30%~1.57% 59.53%
Credit and commodity related	Option model(*1)	288,832	The volatility of the underlying asset Correlations	0.00%~39.00% 0.00%~93.00%
		<u>464,826</u>		
Securities at fair value through other comprehensive income				
Debt securities	DCF	35,266	Discount rate	7.78%~19.32%
Equity securities	NAV	624,852	Growth rate	0.00%~2.00%
		<u>660,118</u>		
		<u>₩ 12,887,203</u>		
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Equity related	Option model(*1)	₩ 8,511,489	The volatility of the underlying asset Correlations	0.00%~140.00% -46.00%~93.00%
Derivative liabilities				
Equity and foreign exchange related	Option model(*1)	30,412	The volatility of the underlying asset Correlations	0.00%~140.00% 0.00%~78.00%

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4. **Financial risk management (continued)**

(e) **Measurement of fair value (continued)**

i) *Financial instruments measured at fair value (continued)*

i-3) Valuation techniques and significant inputs not observable in markets (continued)

i-3-2) 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, 2019 and 2018 are as follows (continued):

		2019		
Type of financial instrument	Valuation technique	Carrying value(*2)	Significant unobservable inputs	Range
Interest rates related	Option model(*1)	₩ 213,170	The volatility of the underlying asset	0.00%~55.00%
			Regression coefficient	1.30%~2.77%
			Correlations	45.06%~90.34%
Credit and commodity related	Option model(*1)	65,388	The volatility of the underlying asset	0.00%~109.00%
			Correlations	-46.00%~93.00%
		<u>308,970</u>		
		<u>₩ 8,820,459</u>		

(*1) Option model that the Group uses in derivative valuation includes Black-Scholes model, Hull-White model, Monte Carlo simulation, etc.

(*2) There is no disclosure for valuation techniques and input variables related to items where the carrying amount is recognized as a reasonable approximation of fair value and the carrying amount is disclosed at fair value.

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4. Financial risk management (continued)

(e) Measurement of fair value (continued)

i) *Financial instruments measured at fair value (continued)*

i-3) Valuation techniques and significant inputs not observable in markets

i-3-2) 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, 2019 and 2018 are as follows (continued):

		2018		
Type of financial instrument	Valuation technique	Carrying value(*2)	Significant unobservable inputs	Range
Financial assets				
Financial asset at fair value through profit or loss				
Debt securities	DCF, Option model(*1)	₩ 6,628,747	The volatility of the underlying asset Correlations	16.39%~42.56% 1.26%~39.45% 0.00%
Equity securities	DCF, NAV	493,818	The volatility of the underlying asset Correlations	5.80%~41.00% 0.00%~74.00%
		<u>7,122,565</u>		
Derivative assets				
Equity and foreign exchange related	Option model(*1)	43,183	The volatility of the underlying asset Correlations	2.20%~38.00% 12.00%~82.00%
Interest rates related	Option model(*1)	44,848	The volatility of the underlying asset Regression coefficient Correlations	0.00%~1.00% 0.42%~1.65% 44.93%~91.00%
Credit and commodity related	Option model(*1)	32,832	The volatility of the underlying asset Correlations	1.00%~33.00% 33.00%~67.00%
		<u>120,863</u>		
Securities at fair value through other comprehensive income				
Debt securities	DCF	49,846	Discount rate	8.43%~17.40%
Equity securities	NAV	500,659	Growth rate	0.00%~3.00%
		<u>550,505</u>		
		₩ <u>7,793,933</u>		
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Equity related	Option model(*1)	₩ 6,833,737	The volatility of the underlying asset Correlations	0.00%~107.00% -42.00%~93.00%
Derivative liabilities				
Equity and foreign exchange related	Option model(*1)	199,504	The volatility of the underlying asset Correlations	2.20%~98.00% -3.00%~82.00%
Interest rates related	Option model(*1)	374,976	The volatility of the underlying asset Regression coefficient Correlations	0.00%~33.00% 0.42%~2.77% 28.15%~91.00%
Credit and commodity related	Option model(*1)	72,605	The volatility of the underlying asset Correlations	1.00%~107.00% -20.00%~93.00%
		<u>647,085</u>		
		₩ <u>7,480,822</u>		

(*1) Option model that the Group uses in derivative valuation includes Black-Scholes model, Hull-White model, Monte Carlo simulation, etc.

(*2) There is no disclosure for valuation techniques and input variables related to items where the carrying amount is recognized as a reasonable approximation of fair value and the carrying amount is disclosed at fair value.

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4. **Financial risk management (continued)**

(e) **Measurement of fair value (continued)**

i) *Financial instruments measured at fair value (continued)*

i-4) *Sensitivity analysis for fair value measurements in Level 3*

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, 2019 and 2018.

	2019	
	Favorable changes	Unfavorable changes
Financial assets:		
Effects on profit or loss for the period(*1):		
Financial asset at fair value through profit or loss	₩ 44,108	(23,618)
Derivative assets	24,792	(22,184)
	<u>68,900</u>	<u>(45,802)</u>
Effects on other comprehensive income for the period:		
Securities at fair value through other comprehensive income(*2)	36,258	(22,183)
	<u>₩ 105,158</u>	<u>(67,985)</u>
Financial liabilities:		
Effects on profit or loss for the period(*1):		
Financial liabilities designated at fair value through profit or loss	₩ 55,224	(53,294)
Derivative liabilities	16,830	(22,535)
	<u>₩ 72,054</u>	<u>(75,829)</u>
2018		
	Favorable changes	Unfavorable changes
Financial assets:		
Effects on profit or loss for the period(*1):		
Financial asset at fair value through profit or loss	₩ 45,760	(20,662)
Derivative assets	28,115	(27,201)
	<u>73,875</u>	<u>(47,863)</u>
Effects on other comprehensive income for the period:		
Securities at fair value through other comprehensive income(*2)	23,885	(17,231)
	<u>₩ 97,760</u>	<u>(65,094)</u>
Financial liabilities:		
Effects on profit or loss for the period(*1):		
Financial liabilities designated at fair value through profit or loss	₩ 112,212	(131,080)
Derivative liabilities	103,938	(88,348)
	<u>₩ 216,150</u>	<u>(219,428)</u>

(*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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4. Financial risk management (continued)

(e) Measurement of fair value (continued)

ii) Financial instruments measured at amortized cost

ii-1) The method of measuring the fair value of financial instruments measured at amortized cost is as follows:

<u>Type</u>	<u>Measurement methods of fair value</u>
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.
Securities measured at amortized cost	The minimum price between the Korea Asset Pricing's valuation, and KIS Pricing's is used as a fair value.
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	Where available, 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.

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(In millions of won)

4. Financial risk management (continued)

(e) Measurement of fair value (continued)

ii) Financial instruments measured at amortized cost (continued)

ii-2) The carrying value and the fair value of financial instruments measured at amortized cost as of December 31, 2019 and 2018 are as follows:

	2019		2018	
	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Deposits measured at amortized cost	₩ 25,840,858	25,852,497	14,731,395	14,731,327
Loans measured at amortized cost				
Retails	134,510,282	135,620,862	125,265,676	126,266,820
Corporations	159,560,873	160,818,205	146,302,462	147,420,557
Public and other funding loans	3,427,855	3,446,485	2,868,154	2,891,202
Loans between banks	2,629,999	2,644,603	3,579,169	3,580,576
Credit card	23,115,970	23,489,180	21,594,011	21,930,174
Securities measured at amortized cost				
Government bonds	30,385,084	32,242,339	18,000,454	18,974,413
Financial institution bonds	4,770,204	4,882,081	2,171,623	2,195,425
Debentures	10,426,777	10,878,059	8,306,059	8,506,853
Other financial assets	17,477,778	17,493,331	16,837,141	16,859,986
	₩ 412,145,680	417,367,642	359,656,144	363,357,333
Deposit liabilities:				
Demand deposits	₩ 116,282,707	116,282,707	106,160,834	106,160,834
Time deposits	158,427,447	158,478,949	139,644,763	139,580,314
Certificate of deposit	9,707,791	9,714,806	9,247,088	9,298,457
Issued bill deposit	4,579,587	4,579,425	4,087,530	4,087,338
CMA deposits	3,987,372	3,987,372	4,084,709	4,084,709
Other	1,889,352	1,889,700	1,775,266	1,775,276
Borrowing debts:				
Call-money	712,247	712,247	1,425,162	1,425,162
Bills sold	19,070	19,035	14,536	14,506
Bonds sold under repurchase agreements	9,089,736	9,089,736	7,614,659	7,614,659
Borrowings	25,042,103	25,205,292	20,764,185	20,844,318
Debts:				
Borrowings in won	64,717,212	65,322,413	54,769,670	55,240,467
Borrowings in foreign currency	10,646,152	10,783,027	8,458,029	8,265,842
Other financial liabilities	28,231,911	27,949,306	20,545,181	20,233,920
	₩ 433,332,687	434,014,015	378,591,612	378,625,802

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4. Financial risk management (continued)

(e) Measurement of fair value (continued)

ii) Financial instruments measured at amortized cost (continued)

ii-3) The fair value hierarchy of financial assets and liabilities which are not measured at their fair values in the statements of financial position but with their fair value disclosed as of December 31, 2019 and 2018 are as follows:

		2019			
		Level 1	Level 2	Level 3	Total
Assets:					
Deposits measured at amortized cost	₩	3,133,425	22,149,706	569,366	25,852,497
Loans measured at amortized cost					
Retails		-	-	135,620,862	135,620,862
Corporations		108	-	160,818,097	160,818,205
Public and other funding loans		-	-	3,446,485	3,446,485
Loans between banks		-	960,827	1,683,776	2,644,603
Credit card		-	-	23,489,180	23,489,180
Securities measured at amortized cost:					
Government bonds		20,524,820	11,717,519	-	32,242,339
Financial institution bonds		2,252,484	2,629,597	-	4,882,081
Debentures		-	10,792,000	86,059	10,878,059
Other financial assets		526,813	10,813,821	6,152,697	17,493,331
	₩	<u>26,437,650</u>	<u>59,063,470</u>	<u>331,866,522</u>	<u>417,367,642</u>
Deposit liabilities:					
Demand deposits	₩	1,053,963	115,216,336	12,408	116,282,707
Time deposits		-	-	158,478,949	158,478,949
Certificate of deposit		-	-	9,714,806	9,714,806
Issued bill deposit		-	-	4,579,425	4,579,425
CMA deposits		-	3,987,372	-	3,987,372
Other		1,747,509	-	142,191	1,889,700
Borrowing debts:					
Call-money		174,000	538,247	-	712,247
Bills sold		-	-	19,035	19,035
Bonds sold					
under repurchase agreements		6,734,162	-	2,355,574	9,089,736
Borrowings		-	-	25,205,292	25,205,292
Debts:					
Borrowings in won		-	43,747,553	21,574,860	65,322,413
Borrowings in foreign currency		-	7,535,065	3,247,962	10,783,027
Other financial liabilities		526,685	7,932,723	19,489,898	27,949,306
	₩	<u>10,236,319</u>	<u>178,957,296</u>	<u>244,820,400</u>	<u>434,014,015</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

4. Financial risk management (continued)

(e) Measurement of fair value (continued)

ii) Financial instruments measured at amortized cost (continued)

ii-3) The fair value hierarchy of financial assets and liabilities which are not measured at their fair values in the statements of financial position but with their fair value disclosed as of December 31, 2019 and 2018 are as follows (continued):

		2018			
		Level 1	Level 2	Level 3	Total
Assets:					
Deposits measured at amortized cost	₩	3,364,995	10,587,086	779,246	14,731,327
Loans measured at amortized cost					
Retails		-	-	126,266,820	126,266,820
Corporations		-	-	147,420,557	147,420,557
Public and other funding loans		-	-	2,891,202	2,891,202
Loans between banks		590	2,498,193	1,081,793	3,580,576
Credit card		-	-	21,930,174	21,930,174
Securities measured at amortized cost:					
Government bonds		7,887,135	11,087,278	-	18,974,413
Financial institution bonds		719,925	1,475,500	-	2,195,425
Debentures		-	8,423,809	83,044	8,506,853
Other financial assets		74,625	11,606,369	5,178,992	16,859,986
	₩	12,047,270	45,678,235	305,631,828	363,357,333
Deposit liabilities:					
Demand deposits	₩	1,136,610	104,998,305	25,919	106,160,834
Time deposits		-	-	139,580,314	139,580,314
Certificate of deposit		-	-	9,298,457	9,298,457
Issued bill deposit		-	-	4,087,338	4,087,338
CMA deposits		-	4,084,709	-	4,084,709
Other		1,665,090	-	110,186	1,775,276
Borrowing debts:					
Call-money		465,000	960,162	-	1,425,162
Bills sold		-	-	14,506	14,506
Bonds sold					
under repurchase agreements		5,243,217	-	2,371,442	7,614,659
Borrowings		-	123,874	20,720,444	20,844,318
Debts:					
Borrowings in won		-	36,335,879	18,904,588	55,240,467
Borrowings in foreign currency		-	5,558,527	2,707,315	8,265,842
Other financial liabilities		74,638	6,630,725	13,528,557	20,233,920
	₩	8,584,555	158,692,181	211,349,066	378,625,802

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

4. **Financial risk management (continued)**

(e) **Measurement of fair value (continued)**

ii) *Financial instruments measured at amortized cost (continued)*

ii-4) 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, 2019 and 2018 are as follows:

	2019		
	Fair value(*)	Valuation technique	Inputs
Financial instruments classified as level 2 :			
Assets			
Due from banks measured at amortized cost	₩ 22,149,706	DCF	Discount rate
Loans measured at amortized cost	960,827	DCF	Discount rate, credit spread, prepayment rate
Securities measured at amortized cost	25,139,116	DCF	Discount rate
Other financial assets	10,813,821	DCF	Discount rate
	<u>59,063,470</u>		
Financial instruments classified as level 3 :			
Assets			
Due from banks measured at amortized cost	569,366	DCF	Discount rate
Loans measured at amortized cost	325,058,400	DCF	Discount rate, credit spread, prepayment rate
Securities measured at amortized cost	86,059	DCF	Discount rate
Other financial assets	6,152,697	DCF	Discount rate
	<u>331,866,522</u>		
	<u>₩ 390,929,992</u>		
Financial instruments classified as level 2 :			
Liabilities			
Deposits	₩ 119,203,708	DCF	Discount rate
Borrowings	538,247	DCF	Discount rate
Debt securities issued	51,282,618	DCF	Discount rate
Other financial liabilities	7,932,723	DCF	Discount rate
	<u>178,957,296</u>		
Financial instruments classified as level 3 :			
Liabilities			
Deposits	172,927,779	DCF	Discount rate
Borrowings	27,579,901	DCF	Discount rate
		DCF	Discount rate, regression coefficient, correlation coefficient
Debt securities issued	24,822,822		
Other financial liabilities	19,489,898	DCF	Discount rate
	<u>244,820,400</u>		
	<u>₩ 423,777,696</u>		

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

4. **Financial risk management (continued)**

(e) **Measurement of fair value (continued)**

ii) *Financial instruments measured at amortized cost (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, 2019 and 2018 are as follows:

	2018		
	Fair value(*)	Valuation technique	Inputs
Financial instruments classified as level 2 :			
Assets			
Due from banks measured at amortized cost	₩ 10,587,086	DCF	Discount rate
Loans measured at amortized cost	2,498,193	DCF	Discount rate, credit spread, prepayment rate
Securities measured at amortized cost	20,986,587	DCF	Discount rate
Other financial assets	11,606,369	DCF	Discount rate
	<u>₩ 45,678,235</u>		
Liabilities			
Deposits	₩ 109,083,014	DCF	Discount rate
Borrowings	1,084,036	DCF	Discount rate
Debt securities issued	41,894,406	DCF	Discount rate
Other financial liabilities	6,630,725	DCF	Discount rate
	<u>₩ 158,692,181</u>		
Financial instruments classified as level 3 :			
Assets			
Due from banks measured at amortized cost	₩ 779,246	DCF	Discount rate
Loans measured at amortized cost	299,590,546	DCF	Discount rate, credit spread, prepayment rate
Securities measured at amortized cost	83,044	DCF	Discount rate
Other financial assets	5,178,992	DCF	
	<u>₩ 305,631,828</u>		
Liabilities			
Deposits	₩ 153,102,214	DCF	Discount rate
Borrowings	23,106,392	DCF	Discount rate
Debt securities issued	21,611,903	DCF	Discount rate, regression coefficient, correlation coefficient
Other financial liabilities	13,528,557	DCF	Discount rate
	<u>₩ 211,349,066</u>		

(*) Valuation techniques and inputs are not disclosed when the carrying amount is a reasonable approximation of fair value

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, 2019 and 2018*

	2019	2018
Beginning balance	₩ (126,111)	(137,393)
Deferral on new transactions	(178,223)	(91,625)
Recognized in profit for the year	131,475	102,907
Ending balance	<u>₩ (172,859)</u>	<u>(126,111)</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

4. Financial risk management (continued)

(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 costs 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, 2019 and 2018 are as follows:

	2019				
	FVTPL	FVOCI	Amortized cost	Derivatives held for hedging	Total
Assets:					
Cash and due from banks at amortized cost	₩ -	-	28,423,744	-	28,423,744
Due from banks at fair value through profit or loss	897,525	-	-	-	897,525
Securities at fair value through profit or loss	50,110,797	-	-	-	50,110,797
Derivatives assets	2,586,068	-	-	243,206	2,829,274
Loans at fair value through profit or loss	2,154,821	-	-	-	2,154,821
Loans at amortized cost	-	-	323,244,979	-	323,244,979
Securities at fair value through other comprehensive income	-	59,381,053	-	-	59,381,053
Securities at amortized cost	-	-	45,582,065	-	45,582,065
Other	-	-	17,477,778	-	17,477,778
	₩ <u>55,749,211</u>	<u>59,381,053</u>	<u>414,728,566</u>	<u>243,206</u>	<u>530,102,036</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

4. Financial risk management (continued)

(f) Classification by categories of financial instruments (continued)

The carrying amounts of each category of financial assets and financial liabilities as of December 31, 2019 and 2018 are as follows:

	2019				
	FVTPL	FVTPL liabilities designated	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities:					
Deposits	₩ -	-	294,874,256	-	294,874,256
Financial liabilities at fair value through profit or loss	1,632,457	-	-	-	1,632,457
Financial liabilities designated at FVTPL	-	9,409,456	-	-	9,409,456
Derivatives liabilities	2,001,004	-	-	302,008	2,303,012
Borrowings	-	-	34,863,156	-	34,863,156
Debt securities issued	-	-	75,363,364	-	75,363,364
Other	-	-	28,231,911	-	28,231,911
	₩ 3,633,461	9,409,456	433,332,687	302,008	446,677,612

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

4. Financial risk management (continued)

(f) Classification by categories of financial instruments (continued)

The carrying amounts of each category of financial assets and financial liabilities as of December 31, 2019 and 2018 are as follows:

	2018				
	FVTPL	FVOCI	Amortized cost	Derivatives held for hedging	Total
Assets:					
Cash and due from banks at amortized cost	₩ -	-	17,348,626	-	17,348,626
Due from banks at fair value through profit or loss	870,656	-	-	-	870,656
Securities at fair value through profit or loss	41,454,916	-	-	-	41,454,916
Derivatives	1,727,321	-	-	66,292	1,793,613
Loans at fair value through profit or loss	1,209,194	-	-	-	1,209,194
Loans at amortized cost	-	-	299,609,472	-	299,609,472
Securities at fair value through other comprehensive income	-	38,314,170	-	-	38,314,170
Securities at amortized cost	-	-	28,478,136	-	28,478,136
Other	-	-	16,837,141	-	16,837,141
	₩ <u>45,262,087</u>	<u>38,314,170</u>	<u>362,273,375</u>	<u>66,292</u>	<u>445,915,924</u>

	2018				
	FVTPL	FVTPL liabilities designated	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities:					
Deposits	₩ -	-	265,000,190	-	265,000,190
Financial liabilities at fair value through profit or loss	1,420,306	-	-	-	1,420,306
Financial liabilities designated at FVTPL	-	8,535,800	-	-	8,535,800
Derivatives	1,846,669	-	-	593,223	2,439,892
Borrowings	-	-	29,818,542	-	29,818,542
Debt securities issued	-	-	63,227,699	-	63,227,699
Other	-	-	20,545,181	-	20,545,181
	₩ <u>3,266,975</u>	<u>8,535,800</u>	<u>378,591,612</u>	<u>593,223</u>	<u>390,987,610</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

4. Financial risk management (continued)

(g) Transfer of financial instruments

i) Transfers that do not qualify for derecognition

① Sale of repurchase bonds

Among the Group's sale of repurchase bonds, followings are the details of financial instruments that do not qualify for derecognition because the Group sold on the condition that the Group repurchases at a fixed price as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Transferred asset:		
Securities at FVTPL	₩ 7,924,953	6,711,060
Securities at FVOCI	1,867,470	688,593
Securities at amortized cost	818,470	156,066
	<u>₩ 10,610,893</u>	<u>7,555,719</u>
Associated liabilities:		
Bonds sold under repurchase agreements	₩ 8,717,336	7,167,364

② Securities loaned

If the securities owned by the Group are loaned, the ownership of the securities is transferred, but is required to be returned at the end of the loan period. Thus, the Group continues to recognize all of the securities loaned as it holds most of the risks and compensation of the securities.

Securities loaned as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>	<u>Borrowers</u>
Government bonds	₩ 3,951,869	1,216,381	Korea Securities Finance Corp., Korea Securities Depository, Sumitomo Mitsui Banking Corp and etc.
Financial institutions bonds	460,052	409,831	Korea Securities Finance Corp., Korea Securities Depository
Equity securities	30,242	6,029	Mirae Asset Daewoo Securities Co., Ltd, and etc.
	<u>₩ 4,442,163</u>	<u>1,632,241</u>	

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, 2019, and 2018.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

4. Financial risk management (continued)

(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, 2019 and 2018 are as follows:

	2019					
	Gross amounts of recognized financial assets/ liabilities	Gross amounts of recognized financial assets/ liabilities set off in the statement of financial position	Net amounts of financial assets/ liabilities 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)	₩ 2,694,236	-	2,694,236	8,090,372	263,541	1,645,802
Other financial instruments(*1)	8,624,844	1,319,365	7,305,479			
Bonds purchased under repurchase agreements(*2)	11,828,135	-	11,828,135	11,051,075	-	777,060
Securities loaned(*2)	1,927,674	-	1,927,674	1,927,674	-	-
Domestic exchange settlement debit(*3)	31,814,310	27,008,189	4,806,121	526,653	-	4,279,468
Receivables from disposal of securities(*4)	25,808	1,134	24,674	-	-	24,674
Insurance receivables	10,353	-	10,353	8,008	-	2,345
	<u>₩ 56,925,360</u>	<u>28,328,688</u>	<u>28,596,672</u>	<u>21,603,782</u>	<u>263,541</u>	<u>6,729,349</u>
Liabilities:						
Derivatives(*1)	₩ 12,803,450	-	12,803,450	8,279,924	11,693	10,704,107
Other financial instruments(*1)	7,511,639	1,319,365	6,192,274			
Bonds purchased under repurchase agreements(*2)	8,717,336	-	8,717,336	8,717,336	-	-
Securities borrowed(*2)	1,135,614	-	1,135,614	1,135,614	-	-
Domestic exchange settlement pending(*3)	28,936,661	27,008,189	1,928,472	1,857,152	-	71,320
Payable from purchase of securities(*4)	1,607	1,134	473	473	-	-
Insurance payables	8,202	-	8,202	8,008	-	194
	<u>₩ 59,114,509</u>	<u>28,328,688</u>	<u>30,785,821</u>	<u>19,998,507</u>	<u>11,693</u>	<u>10,775,621</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

4. Financial risk management (continued)

(h) Offsetting financial assets and financial liabilities (continued)

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2019 and 2018 are as follows:

	2018					
	Gross amounts of recognized financial assets/ liabilities	Gross amounts of recognized financial assets/ liabilities set off in the statement of financial position	Net amounts of financial assets/ liabilities 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)	₩ 1,730,828	-	1,730,828	6,746,640	26,638	1,165,276
Other financial instruments(*1)	7,476,505	1,268,779	6,207,726			
Bonds purchased under repurchase agreements(*2)	12,945,380	-	12,945,380	12,557,025	-	388,355
Securities loaned(*2)	1,827,066	-	1,827,066	1,246,157	-	580,909
Domestic exchange settlement debit(*3)	32,647,367	26,502,611	6,144,756	74,552	-	6,070,204
Receivables from disposal of securities(*4)	22,906	519	22,387	-	-	22,387
Insurance receivables	8,014	-	8,014	4,872	-	3,142
	<u>₩ 56,658,066</u>	<u>27,771,909</u>	<u>28,886,157</u>	<u>20,629,246</u>	<u>26,638</u>	<u>8,230,273</u>
Liabilities:						
Derivatives(*1)	₩ 11,858,108	-	11,858,108	7,850,210	-	9,334,098
Other financial instruments(*1)	6,594,979	1,268,779	5,326,200			
Bonds purchased under repurchase agreements(*2)	7,170,744	-	7,170,744	7,170,744	-	-
Securities borrowed(*2)	746,521	-	746,521	746,521	-	-
Domestic exchange settlement pending(*3)	27,647,185	26,502,611	1,144,574	1,090,808	-	53,766
Payable from purchase of securities(*4)	552	519	33	33	-	-
Insurance payables	4,984	-	4,984	4,871	-	113
	<u>₩ 54,023,073</u>	<u>27,771,909</u>	<u>26,251,164</u>	<u>16,863,187</u>	<u>-</u>	<u>9,387,977</u>

(*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 under normal business terms. 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.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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4. Financial risk management (continued)

(i) Capital risk management

The controlling company, 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 classified as 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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Capital :		
Tier I common equity capital	₩ 28,561,567	28,696,267
Additional tier 1 capital	3,138,262	1,981,609
Tier I capital	31,699,830	30,677,876
Tier II capital	4,014,740	3,315,185
Total capital (A)	₩ <u>35,714,570</u>	<u>33,993,061</u>
Total risk-weighted assets (B)	₩ 256,891,664	228,678,105
Capital adequacy ratio (A/B)	13.90%	14.87%
Tier I capital adequacy ratio	12.34%	13.42%
Common equity capital adequacy ratio	11.12%	12.55%

The Group complies with the capital adequacy criteria as shown in the table above (the minimum capital adequacy ratio of 8%).

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

5. Significant estimates and judgments

The preparation of consolidated financial statements requires the application of certain critical estimates and judgments relative to the future. Management's estimated outcomes may differ from actual outcomes. The change in an accounting estimate is recognized prospectively in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both.

(a) Estimation of impairment of goodwill

The Group reviews the goodwill annually in accordance with the accounting policy in Note 3. The recoverable amount of the cash-generating unit (group) was determined based on the value-in-use calculation. These calculations are based on estimates.

(b) Income taxes

The Group is subject to tax laws from various countries. In the normal course of business, there are various types of transactions and different accounting methods that may add uncertainties to the decision of the final income taxes. The Group has recognized current and deferred taxes that reflect tax consequences based on the best estimates in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. However, actual income taxes 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 period when the final tax effect is determined.

(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 techniques and assumptions based on significant market conditions at the end of each reporting period. Diverse valuation techniques are used to determine the fair value of financial instruments, from generic valuation techniques to internally developed valuation models that incorporate various types of assumptions and variables.

(d) Allowance for credit loss, guarantees and unused loan commitments

The Group determines and recognizes allowances for losses on debt securities, loans and other receivables measured at amortized cost or FVOCI, and recognizes provisions for guarantees and unused loan commitments through impairment testing. The accuracy of allowances and provisions for credit losses are determined by the estimation of expected cash flows for individually assessed allowances, and methodology and assumptions used for collectively assessed allowances and provisions for groups of loans, guarantees and unused loan commitments.

(e) Defined benefit obligation

The present value of a defined benefit obligation that is measured by actuarial valuation methods 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 period 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. Other significant assumptions related to defined benefit obligations are based on current market situations.

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5. Significant estimates and judgments (continued)

(f) Hedging relationship

The Group expects a high risk hedging effect throughout the hedging period in designating the hedging relationship and it is probable that the hedged transaction will be highly probable in the cash flow hedge.

6. Investment in subsidiaries

(a) The summarized financial information of the controlling company and the Group's major subsidiaries as of December 31, 2019 and 2018 is as follows:

Investees(*1)	2019			2018		
	Asset balance	Liability balance	Equity balance	Asset balance	Liability balance	Equity balance
Shinhan Financial Group(separate)	₩ 32,261,322	9,795,896	22,465,426	30,114,232	8,464,164	21,650,068
Shinhan Bank	392,723,044	366,629,929	26,093,115	348,523,615	324,331,076	24,192,539
Shinhan Card Co., Ltd.	32,917,910	26,769,044	6,148,866	29,429,455	23,427,988	6,001,467
Shinhan Investment Corp.	37,375,487	33,138,930	4,236,557	28,987,216	25,614,647	3,372,569
Shinhan Life Insurance Co., Ltd.	34,133,649	32,062,490	2,071,159	31,823,631	30,078,522	1,745,109
Orange Life Insurance Co., Ltd.	32,841,359	29,654,711	3,186,648	-	-	-
Shinhan Capital Co., Ltd.	7,566,428	6,612,519	953,909	6,116,585	5,368,265	748,320
Jeju Bank	6,192,927	5,695,223	497,704	5,980,941	5,507,949	472,992
Shinhan Credit Information Co., Ltd.	25,292	10,044	15,248	24,377	8,750	15,627
Shinhan Alternative Investment Management Inc.	87,694	75,665	12,029	102,079	92,194	9,885
Shinhan BNP Paribas Asset Management Co., Ltd.	184,203	19,678	164,525	173,964	14,841	159,123
SHC Management Co., Ltd.	9,639	-	9,639	9,755	198	9,557
Shinhan DS	89,141	67,954	21,187	43,095	23,118	19,977
Shinhan Savings Bank	1,602,902	1,418,317	184,585	1,454,290	1,291,012	163,278
Asia Trust Co., Ltd.	172,793	43,933	128,860	-	-	-
Shinhan AITAS Co., Ltd.	77,086	10,962	66,124	65,725	7,367	58,358
Shinhan REITs Management Co., Ltd.	45,832	5,619	40,213	36,298	3,496	32,802
Shinhan AI Co., Ltd.	42,402	1,674	40,728	-	-	-

(*1) The consolidated financial statements of the consolidated subsidiaries are based on consolidated financial statements, if applicable.

(*2) Trusts, beneficiary certificates, securitization special limited liability companies, associates and private equity investment specialists that are not actually operating their own business are excluded.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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6. Investment in subsidiaries (continued)

(b) The summarized income information of the controlling company and the Group's major subsidiaries for the years ended December 31, 2019 and 2018 is as follows:

Investees(*1)	2019			2018		
	Operating Operating Revenue	Net Income	Comprehensive Income	Operating Revenue	Net Income	Comprehensive Income
Shinhan Financial Group(separate)	₩ 1,480,030	1,129,173	1,127,202	1,519,197	1,234,883	1,234,044
Shinhan Bank	23,145,476	2,329,268	2,527,665	19,731,711	2,279,362	2,333,266
Shinhan Card Co., Ltd.	3,892,257	509,032	486,114	3,752,232	517,761	477,135
Shinhan Investment Corp.	6,139,926	220,764	225,963	5,279,567	251,268	269,058
Shinhan Life Insurance Co., Ltd.	5,413,175	123,870	326,783	5,633,679	131,021	150,997
Orange Life Insurance Co., Ltd.	4,662,085	271,455	433,510	-	-	-
Shinhan Capital Co., Ltd.	455,246	126,050	123,032	439,031	103,400	100,317
Jeju Bank	239,732	27,934	30,519	224,766	27,446	30,579
Shinhan Credit Information Co., Ltd.	38,648	507	658	37,616	1,392	985
Shinhan Alternative Investment Management Inc.	32,401	2,144	2,144	21,590	(780)	(780)
Shinhan BNP Paribas Asset Management Co., Ltd.	84,256	23,090	22,655	78,378	18,868	18,980
SHC Management Co., Ltd.	154	82	82	140	309	309
Shinhan DS	138,697	2,074	1,292	99,279	1,314	1,525
Shinhan Savings Bank	116,849	23,122	22,972	94,636	19,384	18,919
Asia Trust Co., Ltd.	54,920	18,098	18,128	-	-	-
Shinhan AITAS Co., Ltd.	51,823	10,821	10,821	44,729	8,461	8,461
Shinhan REITs Management Co., Ltd.	7,342	7,414	7,411	7,386	3,564	3,552
Shinhan AI Co., Ltd.	3,088	(654)	(654)	-	-	-

(*1) The consolidated financial statements of the consolidated subsidiaries are based on consolidated financial statements, if applicable.

(*2) Trusts, beneficiary certificates, securitization special limited liability companies, associates and private equity investment specialists that are not actually operating their own business are excluded.

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6. Investment in subsidiaries (continued)

(c) Change in the scope of consolidation

i) Change in consolidated subsidiaries for the year ended December 31, 2019 are as follows:

	<u>Company</u>	<u>Description</u>
Included	Orange Life Insurance Co., Ltd.	Newly acquired subsidiary
	Asia Trust Co., Ltd.	Newly acquired subsidiary
	Shinhan Vietnam Finance Ltd.	Newly acquired subsidiary
	Shinhan AI Co., Ltd.	Newly invested subsidiary

ii) Change in consolidated subsidiaries for the year ended December 31, 2018 are as follows:

	<u>Company</u>	<u>Description</u>
Included	PT Shinhan Asset Management Indonesia	Newly acquired subsidiary
	SHINHAN DS VIETNAM CO,LTD	Newly invested subsidiary

(*) 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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7. Operating segments

(a) Segment information

The general descriptions by operating segments as of December 31, 2019 are as follows:

Segment	Description
Banking	The banking segment offers commercial banking services such as lending to and receiving deposits from corporations and individuals and also includes securities investing and trading and derivatives trading primarily through domestic and overseas bank branches and subsidiaries.
Credit card	The credit card segment primarily consists of the credit card business of Shinhan Card, including its installment finance and automobile leasing businesses.
Securities	Securities segment comprise securities trading, underwriting and brokerage services.
Life insurance	Life insurance segment consists of life insurance services provided by Shinhan Life Insurance and Orange Life Insurance.
Others	Leasing, assets management and other businesses

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7. Operating segments (continued)

(b) The following tables provide information of income and expense for each operating segment for the years ended December 31, 2019 and 2018:

		2019						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income	₩	5,989,462	1,753,966	457,852	1,647,795	127,564	(238,675)	9,737,964
Net fees and commission income		950,389	403,259	351,303	167,324	272,244	(4,000)	2,140,519
Reversal of (provision for) allowance for credit loss (“ACL”)		(389,004)	(566,415)	1,325	(797)	(25,030)	(771)	(980,692)
General and administrative expenses		(3,177,158)	(745,848)	(511,418)	(443,013)	(335,090)	77,853	(5,134,674)
Other income (expense), net		(211,882)	(33,204)	(59,006)	(786,103)	129,272	244,056	(716,867)
Operating income		3,161,807	811,758	240,056	585,206	168,960	78,463	5,046,250
Equity method income (loss)		(764)	-	18,163	(1,296)	12,265	24,919	53,287
Income tax expense		718,650	205,863	68,311	187,608	73,213	15,479	1,269,124
Profit for the year	₩	<u>2,256,652</u>	<u>609,582</u>	<u>220,764</u>	<u>395,325</u>	<u>100,259</u>	<u>59,802</u>	<u>3,642,384</u>
Controlling interest	₩	2,256,576	609,350	220,850	395,325	100,259	(178,863)	3,403,497
Non-controlling interests		76	232	(86)	-	-	238,665	238,887

		2018						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income	₩	5,707,813	1,583,100	429,095	761,742	95,618	2,721	8,580,089
Net fees and commission income		850,646	433,043	388,944	69,780	198,828	(2,244)	1,938,997
Reversal of (provision for) ACL		(250,134)	(466,447)	(9,226)	(13,400)	(10,238)	1,568	(747,877)
General and administrative expenses		(3,098,629)	(751,580)	(493,906)	(227,740)	(263,046)	93,326	(4,741,575)
Other income (expense), net		(163,104)	74,954	17,963	(409,151)	80,857	(131,739)	(530,220)
Operating income(loss) (expense)		3,046,592	873,070	332,870	181,231	102,019	(36,368)	4,499,414
Equity method income (loss)		(977)	-	15,228	(1,026)	6,909	(2,646)	17,488
Income tax expense		832,494	225,837	95,438	50,429	59,556	4,591	1,268,345
Profit for the year	₩	<u>2,195,263</u>	<u>629,307</u>	<u>251,268</u>	<u>131,021</u>	<u>49,168</u>	<u>(57,762)</u>	<u>3,198,265</u>
Controlling interest	₩	2,194,950	630,993	251,265	131,021	49,168	(100,675)	3,156,722
Non-controlling interests		313	(1,686)	3	-	-	42,913	41,543

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7. **Operating segments (continued)**

(c) The following tables provide information of net interest income (expense) of each operating segment for the years ended December 31, 2019 and 2018:

		2019						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment (*)	Total
Net interest income from:								
External customers(*)	₩	5,995,097	1,781,266	450,268	1,647,988	103,161	(239,816)	9,737,964
Internal transactions		(5,635)	(27,300)	7,584	(193)	24,403	1,141	-
	₩	<u>5,989,462</u>	<u>1,753,966</u>	<u>457,852</u>	<u>1,647,795</u>	<u>127,564</u>	<u>(238,675)</u>	<u>9,737,964</u>

(*) Consolidated adjustment to net interest income from external customers is from the securities and others which were measured in fair values as a part of business combination accounting .

		2018						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income from:								
External customers	₩	5,714,568	1,602,849	423,156	762,978	76,538	-	8,580,089
Internal transactions		(6,755)	(19,749)	5,939	(1,236)	19,080	2,721	-
	₩	<u>5,707,813</u>	<u>1,583,100</u>	<u>429,095</u>	<u>761,742</u>	<u>95,618</u>	<u>2,721</u>	<u>8,580,089</u>

(d) The following tables provide information of net fees and commission income (expense) of each operating segment for the years ended December 31, 2019 and 2018:

		2019						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net fees and commission income from:								
External customers	₩	1,157,020	254,139	361,526	175,171	192,663	-	2,140,519
Internal transactions		(206,631)	149,120	(10,223)	(7,847)	79,581	(4,000)	-
	₩	<u>950,389</u>	<u>403,259</u>	<u>351,303</u>	<u>167,324</u>	<u>272,244</u>	<u>(4,000)</u>	<u>2,140,519</u>

		2018						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net fees and commission income from:								
External customers	₩	872,631	464,342	400,227	77,145	124,652	-	1,938,997
Internal transactions		(21,985)	(31,299)	(11,283)	(7,365)	74,176	(2,244)	-
	₩	<u>850,646</u>	<u>433,043</u>	<u>388,944</u>	<u>69,780</u>	<u>198,828</u>	<u>(2,244)</u>	<u>1,938,997</u>

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7. Operating segments (continued)

(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, 2019 and 2018.

		<u>2019</u>	<u>2018</u>
Domestic	₩	4,378,239	4,023,916
Overseas		668,011	475,498
	₩	<u>5,046,250</u>	<u>4,499,414</u>

The following table provides information of non-current assets by geographical area as of December 31, 2019 and 2018.

		<u>2019</u>	<u>2018</u>
Domestic	₩	9,816,600	7,597,266
Overseas		314,052	201,574
	₩	<u>10,130,652</u>	<u>7,798,840</u>

(*) Non-current assets comprise property and equipment, intangible assets and investment properties.

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8. Cash and due from banks at amortized cost

(a) Cash and due from banks at amortized cost as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	₩ 2,582,886	2,617,231
Deposits in won:		
Reserve deposits	13,840,988	2,360,416
Time deposits	1,413,964	1,346,015
Other	1,890,541	2,271,812
	<u>17,145,493</u>	<u>5,978,243</u>
Deposits in foreign currency:		
Deposits	5,616,049	5,045,513
Time deposits	2,393,885	2,791,486
Other	697,505	930,977
	<u>8,707,439</u>	<u>8,767,976</u>
Allowance for credit losses	(12,074)	(14,824)
	<u>₩ 28,423,744</u>	<u>17,348,626</u>

(b) Restricted due from banks at amortized cost as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Deposits denominated in won:		
Reserve deposits	₩ 13,840,988	2,360,416
Other	1,081,698	2,182,119
	<u>14,922,686</u>	<u>4,542,535</u>
Deposits denominated in foreign currency	1,584,239	1,632,971
	<u>₩ 16,506,925</u>	<u>6,175,506</u>

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9. Financial assets at fair value through profit or loss

(a) Financial assets at fair value through profit or loss as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Debt instruments:		
Governments	₩ 2,873,419	2,765,054
Financial institutions	12,711,074	9,415,470
Corporations	8,541,514	6,664,839
Stocks with put option	598,858	381,844
Equity investment with put option	1,458,933	1,080,723
Beneficiary certificates	10,678,620	9,062,004
Commercial papers	5,160,063	5,535,397
CMA	3,723,401	3,001,831
Others(*)	2,655,260	2,227,802
	<u>48,401,142</u>	<u>40,134,964</u>
Equity instruments:		
Stocks	1,488,743	1,050,097
Equity investment	-	4,908
Others	109,197	110,066
	<u>1,597,940</u>	<u>1,165,071</u>
	<u>49,999,082</u>	<u>41,300,035</u>
Other:		
Loans at fair value	2,154,821	1,209,194
Due from banks at fair value	897,525	870,656
Gold deposits	111,715	154,881
	<u>₩ 3,164,061</u>	<u>2,234,731</u>
	<u>₩ 53,163,143</u>	<u>43,534,766</u>

(*) As of December 31, 2019 and 2018, restricted reserve for claims of customers' deposits (trusts) are ₩1,103,050 million and 1,040,180 million, respectively.

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9. Financial assets at fair value through profit or loss (continued)

(b) Financial assets to which overlay approach were applied in accordance with K-IFRS No. 1109 'Financial Instruments' and K-IFRS No. 1104 'Insurance Contracts' as of December 31, 2019 and 2018 are as follows.

		<u>2019</u>	<u>2018</u>
Due from banks at fair value through profit or loss	₩	897,525	870,656
Securities at fair value through profit or loss		5,139,380	3,160,525
	₩	<u>6,036,905</u>	<u>4,031,181</u>

A financial asset is eligible for designation for the overlay approach, if it is measured at fair value through profit or loss applying K-IFRS No. 1109 but would not have been measured at fair value through profit or loss in its entirety applying K-IFRS No. 1039; and it is not held in respect of an activity that is not associated with contracts within the scope of K-IFRS No. 1104.

The reclassified amounts between profit or loss and other comprehensive income due to the overlay approach as of and for the years ended December 31, 2019 and 2018 are as follows:

		<u>2019</u>			
		Profit or loss		Other comprehensive income	
		By K-IFRS No. 1109	By K-IFRS No. 1039	Amount	Tax effect
Net gain (loss) on valuation of financial assets at fair value through profit or loss	₩	150,865	(74,586)	225,451	(50,042)
Net gain (loss) on disposal of financial assets at fair value through profit or loss		65,627	43,493	22,134	(4,672)
	₩	<u>216,492</u>	<u>(31,093)</u>	<u>247,585</u>	<u>(54,714)</u>
		<u>2018</u>			
		Profit or loss		Other comprehensive income	
		By K-IFRS No. 1109	By K-IFRS No. 1039	Amount	Tax effect
Net gain (loss) on valuation of financial assets at fair value through profit or loss	₩	(77,179)	(4,425)	(72,754)	20,007
Net gain (loss) on disposal of financial assets at fair value through profit or loss		4,310	6,498	(2,188)	602
	₩	<u>(72,869)</u>	<u>2,073</u>	<u>(74,942)</u>	<u>20,609</u>

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10. **Derivatives**

(a) The notional amounts of derivatives as of December 31, 2019 and 2018 are as follows:

	2019	2018
Foreign currency related:		
Over the counter:		
Currency forwards	₩ 137,383,704	139,804,552
Currency swaps	40,826,444	31,794,900
Currency options	2,758,801	1,939,939
	<u>180,968,949</u>	<u>173,539,391</u>
Exchange traded:		
Currency futures	1,045,138	436,714
	<u>182,014,087</u>	<u>173,976,105</u>
Interest rates related:		
Over the counter:		
Interest rate swaps	37,801,528	31,228,489
Interest rate options	286,000	294,000
	<u>38,087,528</u>	<u>31,522,489</u>
Exchange traded:		
Interest rate futures	2,455,450	1,739,697
Interest rate swaps(*)	65,868,540	56,862,374
	<u>68,323,990</u>	<u>58,602,071</u>
	<u>106,411,518</u>	<u>90,124,560</u>
Credit related:		
Over the counter:		
Credit swaps	5,404,257	3,840,660
Equity related:		
Over the counter:		
Equity swaps and forwards	4,255,831	5,134,004
Equity options	864,038	645,709
	<u>5,119,869</u>	<u>5,779,713</u>
Exchange traded:		
Equity futures	876,220	630,409
Equity options	4,039,226	2,708,557
	<u>4,915,446</u>	<u>3,338,966</u>
	<u>10,035,315</u>	<u>9,118,679</u>
Commodity related:		
Over the counter:		
Commodity swaps and forwards	758,533	890,289
Commodity options	-	4,780
	<u>758,533</u>	<u>895,069</u>
Exchange traded:		
Commodity futures and options	344,329	245,751
	<u>1,102,862</u>	<u>1,140,820</u>
Hedge:		
Currency forwards	1,869,518	1,522,306
Currency swaps	4,532,114	4,143,828
Interest rate swaps	10,091,632	10,147,731
	<u>16,493,264</u>	<u>15,813,865</u>
	<u>₩ 321,461,303</u>	<u>294,014,689</u>

(*) The notional amount of derivatives which is settled in the 'Central Counter Party (CCP)' system.

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10. Derivatives (continued)

(b) Fair values of derivative instruments as of December 31, 2019 and 2018 are as follows:

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Foreign currency related:				
Over the counter:				
Currency forwards	₩ 1,360,384	1,056,760	912,795	870,984
Currency swaps	473,797	519,445	393,702	372,725
Currency options	9,007	9,430	7,637	12,273
	<u>1,843,188</u>	<u>1,585,635</u>	<u>1,314,134</u>	<u>1,255,982</u>
Exchange traded:				
Currency futures	-	-	11	-
	<u>1,843,188</u>	<u>1,585,635</u>	<u>1,314,145</u>	<u>1,255,982</u>
Interest rates related:				
Over the counter:				
Interest rate swaps	260,020	247,723	251,251	172,019
Interest rate options	835	5,626	-	5,347
	<u>260,855</u>	<u>253,349</u>	<u>251,251</u>	<u>177,366</u>
Exchange traded:				
Interest rate futures	697	595	412	1,569
	<u>261,552</u>	<u>253,944</u>	<u>251,663</u>	<u>178,935</u>
Credit related:				
Over the counter:				
Credit swaps	283,015	38,598	43,382	30,372
Equity related:				
Over the counter:				
Equity swap and forwards	144,276	39,422	51,243	205,611
Equity options	4,526	9,402	2,265	2,352
	<u>148,802</u>	<u>48,824</u>	<u>53,508</u>	<u>207,963</u>
Exchange traded:				
Equity futures	4,318	6,417	15,937	778
Equity options	28,355	29,741	37,690	109,795
	<u>32,673</u>	<u>36,158</u>	<u>53,627</u>	<u>110,573</u>
	<u>181,475</u>	<u>84,982</u>	<u>107,135</u>	<u>318,536</u>
Commodity related:				
Over the counter:				
Commodity swaps and forwards	14,496	27,745	2,743	58,800
Commodity options	-	-	27	29
	<u>14,496</u>	<u>27,745</u>	<u>2,770</u>	<u>58,829</u>
Exchange traded:				
Commodity futures	2,342	10,100	8,226	4,016
	<u>16,838</u>	<u>37,845</u>	<u>10,996</u>	<u>62,845</u>
Hedge:				
Currency forwards	14,380	21,121	9,185	30,497
Currency swaps	74,240	48,396	21,976	79,492
Interest rate swaps	154,586	232,491	35,131	483,233
	<u>243,206</u>	<u>302,008</u>	<u>66,292</u>	<u>593,222</u>
₩	<u>2,829,274</u>	<u>2,303,012</u>	<u>1,793,613</u>	<u>2,439,892</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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10. Derivatives (continued)

(c) Gain or loss on valuation of derivatives for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Foreign currency related		
Over the counter:		
Currency forwards	₩ 174,340	41,188
Currency swaps	(24,827)	(34,444)
Currency options	4,056	8,247
	<u>153,569</u>	<u>14,991</u>
Exchange traded:		
Currency futures	-	11
	<u>153,569</u>	<u>15,002</u>
Interest rates related		
Over the counter:		
Interest rate swaps	(75,349)	86,675
Interest rate options	(1,938)	(1,459)
	<u>(77,287)</u>	<u>85,216</u>
Exchange traded:		
Interest rate futures	1,008	(2,512)
	<u>(76,279)</u>	<u>82,704</u>
Credit related		
Over the counter:		
Credit swaps	213,754	(18,396)
Equity related		
Over the counter:		
Equity swap and forwards	46,770	(271,457)
Equity options	(841)	4,326
	<u>45,929</u>	<u>(267,131)</u>
Exchange traded:		
Equity futures	(2,275)	15,159
Equity options	58,721	(44,163)
	<u>56,446</u>	<u>(29,004)</u>
	<u>102,375</u>	<u>(296,135)</u>
Commodity related		
Over the counter:		
Commodity swaps and forwards	3,191	(79,296)
Commodity options	29	33
	<u>3,220</u>	<u>(79,263)</u>
Exchange traded:		
Commodity futures	(7,759)	4,209
	<u>(4,539)</u>	<u>(75,054)</u>
Hedge	<u>332,778</u>	<u>78,892</u>
	<u>₩ 721,658</u>	<u>(212,987)</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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10. Derivatives (continued)

(d) Impact of hedge accounting on the consolidated financial statements

i) Gains (losses) on fair value hedged items and hedging instruments attributable to the hedged ineffectiveness for the years ended December 31, 2019 and 2018 were as follows:

		2019		
		Gains (losses) on fair value hedges (hedged items)	Gains (losses) on fair value hedges (hedging instruments)	Hedge ineffectiveness recognized in profit or loss (*2)
Fair value hedges				
Interest rate swaps(*1)	₩	(370,787)	377,121	6,334
Foreign exchange risk(*1)		13,725	(18,786)	(5,061)
	₩	<u>(357,062)</u>	<u>358,335</u>	<u>1,273</u>
		2018		
		Gains (losses) on fair value hedges (hedged items)	Gains (losses) on fair value hedges (hedging instruments)	Hedge ineffectiveness recognized in profit or loss (*2)
Fair value hedges				
Interest rate swaps(*1)	₩	(76,573)	79,635	3,062
Foreign exchange risk(*1)		55,188	(60,380)	(5,192)
	₩	<u>(21,385)</u>	<u>19,255</u>	<u>(2,130)</u>

(*1) The related account categories are presented as interest rate swap assets / liabilities and currency swap assets.

(*2) Ineffective portion of hedge: the difference between hedging instruments and hedged items.

ii) Due to the ineffectiveness of hedge of cash flow risk and hedge of net investment in foreign operations during the year, the amounts recognized in the income statement and other comprehensive income are as follows.

		2019		
		Gains (losses) on hedges recognized in other comprehensive income	Hedge ineffectiveness recognized in profit or loss (*2)	From cash flow hedge reserve to profit or loss Reclassified amount
Cash flow hedges				
Interest rate risk(*1)	₩	(11,126)	-	-
Foreign exchange risk(*1)		52,932	(25,709)	(57,870)
Discontinuation of cash flow hedges		(7,986)	-	7,986
Hedge of net investments				
Foreign exchange risk(*1)		(49,463)	(2,327)	-
	₩	<u>(15,643)</u>	<u>(28,036)</u>	<u>(49,884)</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

10. Derivatives (continued)

(d) Impact of hedge accounting on the consolidated financial statements (continued)

ii) Due to the ineffectiveness of hedge of cash flow risk and hedge of net investment in foreign operations during the year, the amounts recognized in the income statement and other comprehensive income are as follows (continued):

		2018		
		Gains on hedges recognized in other comprehensive income	Hedge ineffectiveness recognized in profit or loss (*2)	From cash flow hedge reserve to profit or loss Reclassified amount
Cash flow hedges				
Interest rate risk(*1)	₩	(23,186)	-	-
Foreign exchange risk(*1)		65,386	(5,188)	70,051
Hedge of net investments				
Foreign exchange risk(*1)		(35,879)	(3,765)	-
	₩	<u>6,321</u>	<u>(8,953)</u>	<u>70,051</u>

(*1) The related account categories are presented as interest rate swap assets / liabilities and currency swap assets / liabilities, currency forwards assets / liabilities and borrowings.

(*2) Ineffective portion of hedge: The difference between hedging instruments and hedged items.

(e) Nominal values and average hedge ratio for derivatives as of December 31, 2019 and December 31, 2018 were as follows:

		2019						
		Less than 1 year	1~2 years	2~3 years	3~4 years	4~5 years	More than 5 years	Total
Interest risk:								
Nominal values:	₩	750,469	704,985	717,948	1,228,424	575,481	6,114,325	10,091,632
Average hedge ratio:		100%	100%	100%	100%	100%	100%	100%
Exchange risk:								
Nominal values:		3,651,118	1,075,886	1,269,520	968,770	84,275	534,898	7,584,467
Average hedge ratio:		100%	100%	100%	100%	100%	100%	100%
		2018						
		Less than 1 year	1~2 years	2~3 years	3~4 years	4~5 years	More than 5 years	Total
Interest risk:								
Nominal values:	₩	190,000	737,632	723,177	707,254	1,305,584	6,484,084	10,147,731
Average hedge ratio:		100%	100%	100%	100%	100%	100%	100%
Exchange risk:								
Nominal values:		2,731,517	1,958,746	827,158	1,038,935	302,423	-	6,858,779
Average hedge ratio:		100%	100%	100%	100%	100%	-	100%

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

10. Derivatives (continued)

(f) Effect of hedge accounting on financial statement, statement of comprehensive income, statement of changes in equity

i) Purpose and strategy of risk avoidance

The Group transacts with derivative financial instruments to hedge its interest rate risk and currency risk arising from the assets and liabilities of the Group. The Group applies the fair value hedge accounting for the changes in the market interest rates of the Korean won structured notes, foreign currency generated financial debentures, structured deposits in foreign currencies, foreign currency structured deposits and foreign currency investment receivables; and cash flow hedge accounting for interest rate swaps and currency swaps to hedge cash flow risk due to interest rates and foreign exchange rates of the Korean won debt, the Korean won bonds, foreign currency bonds, etc. In addition, in order to hedge the exchange rate risk of the net investment in overseas business, the Group applies the net investment hedge accounting for foreign operations using currency forward and non-derivative financial instruments.

ii) Effect of derivatives on statement financial position, statement of comprehensive income, statement of changes in equity

		2019			
		Nominal amount	Carrying value of asset(*)	Carrying value of liabilities(*)	Changes if fair value in the period
Fair value hedges					
Interest rate swap	₩	9,371,632	154,586	210,079	-
Currency swap		-	-	248	(1,813)
Currency forward		261,486	776	1,358	(582)
Cash flow hedge					
Interest rate swap		720,000	-	22,412	(11,126)
Currency swap		4,532,114	74,240	48,148	(29,829)
Currency forward		1,376,472	11,854	19,763	(4,426)
Hedge of net investments in foreign operations					
Currency forward		231,560	1,750	-	(4,036)
Borrowings		1,182,835	-	1,177,897	(47,755)
		2018			
		Nominal amount	Carrying value of asset(*)	Carrying value of liabilities(*)	Changes if fair value in the period
Fair value hedges					
Interest rate swap	₩	9,377,731	35,093	467,381	55,244
Currency swap		33,543	433	-	(1,502)
Cash flow hedge					
Interest rate swap		770,000	38	15,853	(23,186)
Currency swap		4,110,285	21,543	79,492	(54)
Currency forward		1,298,686	3,191	24,925	(33,460)
Hedge of net investments in foreign operations					
Currency forward		223,620	5,994	5,572	(3,261)
Borrowings		1,192,645	-	1,186,792	(36,383)

(*) The related account categories are presented as interest rate swap assets / liabilities and currency forwards

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

10. Derivatives (continued)

(f) Effect of hedge accounting on financial statement, statement of comprehensive income, statement of changes in equity (continued)

iii) Effect of hedging items on statement financial position, statement of comprehensive income, statement of changes in equity

		2019						
		Carrying value of asset(*)	Carrying value of liabilities(*)	Assets of Cumulative fair value hedge adjustment	Liabilities of Cumulative fair value hedge adjustment	Changes if fair value in the year	Cash flow hedge reserve	Foreign currency conversion reserves
Fair value hedges								
Interest rate risk	₩	432,172	8,859,022	4,846	(56,292)	(308,463)	-	-
Foreign exchange risk		306,638	-	-	-	1,671	-	-
Cash flow hedge								
Interest rate risk		645,723	1,740,000	-	-	(11,126)	80,674	-
Foreign exchange risk		4,116,068	3,035,423	-	-	115,867	(11,188)	-
Hedge of net investments in foreign operations								
Foreign exchange risk		-	-	-	-	(49,463)	-	(88,953)
		2018						
		Carrying value of asset(*)	Carrying value of liabilities(*)	Assets of Cumulative fair value hedge adjustment	Liabilities of Cumulative fair value hedge adjustment	Changes if fair value in the year	Cash flow hedge reserve	Foreign currency conversion reserves
Fair value hedges								
Interest rate risk	₩	293,215	8,873,059	(2,832)	(524,459)	(56,462)	-	-
Foreign exchange risk		62,406	-	-	-	2,675	-	-
Cash flow hedge								
Interest rate risk		-	1,539,005	-	-	-	(10,184)	-
Foreign exchange risk		2,795,320	2,716,148	-	-	63,860	(2,006)	-
Hedge of net investments in foreign operations								
Foreign exchange risk		-	-	-	-	(35,879)	-	138,416

(*) The related account categories are presented as interest rate swap assets / liabilities and currency forwards.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

11. Securities at fair value through other comprehensive income and securities at amortized cost

(a) Details of securities at FVOCI and securities at amortized cost as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Securities at FVOCI:		
Debt securities:		
Government bonds	₩ 17,597,910	8,975,391
Financial institutions bonds	21,527,242	17,341,330
Corporate bonds and others	19,447,942	11,360,924
	<u>58,573,094</u>	<u>37,677,645</u>
Equity securities(*):		
Stocks	728,311	630,010
Equity investments	5,356	6,515
Others	74,292	-
	<u>807,959</u>	<u>636,525</u>
	<u>59,381,053</u>	<u>38,314,170</u>
Securities at amortized cost:		
Debt securities:		
Government bonds	30,385,084	18,000,454
Financial institutions bonds	4,770,204	2,171,623
Corporate bonds and others	10,426,777	8,306,059
	<u>45,582,065</u>	<u>28,478,136</u>
	<u>₩ 104,963,118</u>	<u>66,792,306</u>

(*) Equity securities in the above table are classified as other comprehensive income - equity securities designated as fair value items, and other comprehensive income and fair value options were exercised for the purpose of holding as required by the policy.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

11. Securities at fair value through other comprehensive income and securities at amortized cost (continued)

(b) Changes in carrying value of debt securities at fair value through other comprehensive income and securities at amortized cost for the years ended December 31, 2019 and 2018 are as follows:

		2019					
		Securities at fair value through other comprehensive income			Securities at amortized cost		
		12 months expected credit loss	Life time expected credit loss	Total	12 months expected credit loss	Life time expected credit loss	Total
Beginning allowance	₩	37,571,814	105,831	37,677,645	28,464,921	22,475	28,487,396
Transfer to 12 months expected credit loss		34,555	(34,555)	-	20,198	(20,198)	-
Transfer to life time expected credit loss		(64,928)	64,928	-	-	-	-
Transfer to impaired financial asset		-	-	-	-	-	-
Purchase		46,847,222	61,410	46,908,632	12,209,898	-	12,209,898
Disposal		(16,109,006)	(10,222)	(16,119,228)	-	-	-
Repayment		(21,129,182)	-	(21,129,182)	(6,722,560)	-	(6,722,560)
Others (*)		230,733	51,702	282,435	322,107	20,995	343,102
Business combination (Note 47)		10,952,792	-	10,952,792	11,273,999	-	11,273,999
Ending balance	₩	58,334,000	239,094	58,573,094	45,568,563	23,272	45,591,835

(*) Included the effects from changing currency rate, amortization of fair value adjustments recognized through business combination accountings.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

11. Securities at fair value through other comprehensive income and securities at amortized cost (continued)

(b) Changes in carrying value of debt securities at fair value through other comprehensive income and securities at amortized cost for the years ended December 31, 2019 and 2018 are as follows (continued):

		2018					
		Securities at fair value through other comprehensive income			Securities at amortized cost		
		12 months expected credit loss	Life time expected credit loss	Total	12 months expected credit loss	Life time expected credit loss	Total
Beginning allowance	₩	36,641,928	15,879	36,657,807	24,403,423	21,444	24,424,867
Transfer to 12 months expected credit loss		-	-	-	-	-	-
Transfer to life time expected credit loss		(26,187)	26,187	-	-	-	-
Transfer to impaired financial asset		-	-	-	-	-	-
Purchase		26,938,512	98,778	27,037,290	5,836,342	-	5,836,342
Disposal		(7,182,343)	(18,687)	(7,201,030)	-	-	-
Repayment		(19,338,938)	-	(19,338,938)	(1,607,467)	(3)	(1,607,470)
Others (*)		538,842	(16,326)	522,516	(167,377)	1,034	(166,343)
Ending balance	₩	37,571,814	105,831	37,677,645	28,464,921	22,475	28,487,396

(*) Included the effects from changing currency rate.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

11. Securities at fair value through other comprehensive income and securities at amortized cost (continued)

(c) Changes in allowance for credit loss of debt securities at fair value through other comprehensive income and securities at amortized cost for the years ended December 31, 2019 and 2018 are as follows:

		2019					
		Securities at fair value through other comprehensive income			Securities at amortized cost		
		12 months expected credit loss	Life time expected credit loss	Total	12 months expected credit loss	Life time expected credit loss	Total
Beginning allowance	₩	25,722	362	26,084	9,243	17	9,260
Transfer to 12 months expected credit loss		33	(33)	-	4,301	(4,301)	-
Transfer to life time expected credit loss		(60)	60	-	-	-	-
Transfer to impaired financial asset		-	-	-	-	-	-
Provision (reversal)		8,403	(2,616)	5,787	(3,752)	4,295	543
Disposal		(5,340)	(258)	(5,598)	-	-	-
Others (*)		(1,177)	3,140	1,963	(33)	-	(33)
Ending balance	₩	27,581	655	28,236	9,759	11	9,770

(*) Included the effects from changing currency rate, restructuring, bond-equity swap.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

11. Securities at fair value through other comprehensive income and securities at amortized cost (continued)

(c) Changes in allowance for credit loss of debt securities at fair value through other comprehensive income and securities at amortized cost for the years ended December 31, 2019 and 2018 are as follows:

		2018					
		Securities at fair value through other comprehensive income			Securities at amortized cost		
		12 months expected credit loss	Life time expected credit loss	Total	12 months expected credit loss	Life time expected credit loss	Total
Beginning allowance	₩	17,038	1,938	18,976	6,327	2,232	8,559
Transfer to 12 months expected credit loss		-	-	-	-	-	-
Transfer to life time expected credit loss		(234)	234	-	-	-	-
Transfer to impaired financial asset		-	-	-	-	-	-
Provision (reversal)		15,286	(3,220)	12,066	4,615	(2,215)	2,400
Disposal		(5,251)	(229)	(5,480)	-	-	-
Others (*)		(1,117)	1,639	522	(1,699)	-	(1,699)
Ending balance	₩	25,722	362	26,084	9,243	17	9,260

(*) Included the effects from changing currency rate.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

11. Securities at fair value through other comprehensive income and securities at amortized cost (continued)

(d) Gain or loss on disposal of securities at fair value through other comprehensive income and securities at amortized cost for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Gain on disposal of securities at FVOCI	₩ 159,883	28,018
Loss on disposal of securities at FVOCI	(7,605)	(7,464)
Gain on disposal of securities at amortized cost (*)	86	-
Loss on disposal of securities at amortized cost (*)	(20)	(9)
	<u>₩ 152,344</u>	<u>20,545</u>

(*) The issuers of those securities have exercised the early redemption options.

(e) Income or loss on equity securities at fair value through other comprehensive income

As of December 31, 2019 and 2018, the Group recognizes dividends amounting to ₩16,586 million and ₩16,871 million related to equity securities at fair value through other comprehensive income.

In addition, the disposition of equity securities at fair value through other comprehensive income are as follows:

	<u>2019</u>	<u>2018</u>
Fair value at the date of disposal	₩ 45,074	3,285
Cumulative net loss at the time of disposal	(10,843)	(3,635)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

12. Loans at amortized cost

(a) Loans at amortized cost as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Household loans	₩ 134,423,473	120,832,081
Corporate loans	161,029,877	152,164,476
Public and other loans	3,311,735	2,831,026
Loans to banks	2,633,532	3,585,563
Credit card receivables	24,024,491	22,447,614
	<u>325,423,108</u>	<u>301,860,760</u>
Discount	(27,824)	(23,588)
Deferred loan origination costs	534,530	497,368
	<u>325,929,814</u>	<u>302,334,540</u>
Less: Allowance for credit loss	(2,684,835)	(2,725,068)
	<u>₩ 323,244,979</u>	<u>299,609,472</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

12. Loans at amortized cost (continued)

(b) Changes in carrying value of loans at amortized cost and other assets as of December 31, 2019 and 2018 are as follows:

i) Loans at amortized cost

	2019												Total
	Retail			Corporate			Credit card			Others			
	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	
Beginning balance	₩ 114,279,870	6,820,058	348,722	129,468,766	21,782,590	919,381	18,155,156	3,830,509	413,175	5,695,187	605,440	15,686	302,334,540
Transfer (from) to 12 months expected credit losses	2,619,036	(2,614,416)	(4,620)	4,093,725	(4,088,373)	(5,352)	320,288	(320,129)	(159)	37,430	(37,430)	-	-
Transfer (from) to lifetime expected credit losses	(5,385,659)	5,406,091	(20,432)	(16,484,206)	16,597,346	(113,140)	(603,069)	603,280	(211)	(210,161)	210,333	(172)	-
Transfer (from) to credit-impaired financial assets	(627,950)	(43,168)	671,118	(1,088,270)	(76,177)	1,164,447	(36,483)	(22,473)	58,956	(39,844)	-	39,844	-
Origination	51,784,970	25,296	4,469	75,800,467	480,163	2,485	1,647,393	315,643	305,487	5,495,139	-	-	135,861,512
Collection	(38,870,803)	(1,814,003)	(238,174)	(56,902,113)	(9,966,512)	(395,670)	(59,799)	(5,328)	253	(5,949,565)	(149,802)	(11,979)	(114,363,495)
Charge off	-	-	(257,742)	-	-	(259,400)	-	-	(332,862)	-	-	(8,718)	(858,722)
Disposal	-	(5,122)	(108,624)	(273,058)	(3,806)	(283,747)	-	-	-	-	-	(18,398)	(692,755)
Others (*1)	320,096	88,420	10,744	583,534	(80,749)	(50,283)	(3,880)	(276,926)	(404)	139,207	927	-	730,686
Business combination (Note 47)	2,466,991	7,752	10,431	392,828	17,180	22,866	-	-	-	-	-	-	2,918,048
Ending balance	₩ 126,586,551	7,870,908	415,892	135,591,673	24,661,662	1,001,587	19,419,606	4,124,576	444,235	5,167,393	629,468	16,263	325,929,814

(*1) Other changes are due to restructuring, debt-equity swap and exchange rate fluctuations.

(*2) The amount of uncollected loans currently in recovery (principal and interest) is ₩10,155,562 million, which is written off as of December 31, 2019.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

12. Loans at amortized cost (continued)

(b) Changes in carrying value of loans at amortized cost and other assets as of December 31, 2019 and 2018 are as follows (continued):

ii) Other financial assets

	2019			
	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	Total
Beginning balance	₩ 31,508,694	99,461	32,003	31,640,158
Transfer (from) to 12 month expected credit losses	12,685	(12,675)	(10)	-
Transfer (from) to lifetime expected credit losses	(253,546)	253,575	(29)	-
Transfer (from) to credit- impaired financial assets	(3,124)	(5,324)	8,448	-
Origination	62,331,232	29,315	27,281	62,387,828
Collection	(51,845,962)	(259,371)	(2,036)	(52,107,369)
Charge off	-	-	(29,456)	(29,456)
Disposal (*2)	(182,212)	(3)	(1,062)	(183,277)
Others (*3)	261,019	42	-	261,061
Business combination (Note 47)	1,416,216	1,497	10,826	1,428,539
Ending balance	₩ <u>43,245,002</u>	<u>106,517</u>	<u>45,965</u>	<u>43,397,484</u>

(*1) The amortized cost includes the gross carrying amount of deposits and other assets.

(*2) Included the disposal amount of financial instruments for the purpose of collecting loans for credit concentration risk management of non-current assets, which recognized gains of ₩13,317 million.

(*3) Other changes are due to restructuring, debt-equity swap and exchange rate fluctuations.

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December 31, 2019 and 2018

(In millions of won)

12. Loans at amortized cost (continued)

(b) Changes in carrying value of loans at amortized cost and other assets as of December 31, 2019 and 2018 are as follows (continued):

i) Loans at amortized cost

	2018												Total
	Retail			Corporate			Credit cards			Others			
	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	
Beginning balance	₩ 104,325,268	7,345,842	301,838	119,852,620	18,455,422	1,084,348	16,467,623	3,743,265	385,252	4,665,298	486,090	13,163	277,126,029
Transfer (from) to 12 months expected credit losses	3,406,566	(3,402,543)	(4,023)	3,736,019	(3,734,730)	(1,289)	318,142	(318,025)	(117)	71,381	(71,381)	-	-
Transfer (from) to lifetime expected credit losses	(4,920,514)	4,935,853	(15,339)	(15,002,047)	15,051,204	(49,157)	(587,777)	588,002	(225)	(366,998)	366,998	-	-
Transfer (from) to credit-impaired financial assets	(536,996)	(36,489)	573,485	(1,349,787)	(114,560)	1,464,347	(37,526)	(25,522)	63,048	(24,068)	(8,557)	32,625	-
Origination	47,789,131	34,200	5,396	75,450,183	386,318	9,260	2,633,086	6,285	181,250	5,244,411	-	-	131,739,520
Collection	(35,972,892)	(2,046,703)	(215,294)	(53,902,860)	(8,365,144)	(758,426)	(74,777)	(120,969)	(1,511)	(3,988,422)	(169,909)	(12,980)	(105,629,887)
Charge off	-	-	(227,787)	-	-	(312,841)	-	-	(308,202)	-	-	(2,567)	(851,397)
Disposal	(42,664)	(3,059)	(74,664)	(79,250)	(15,997)	(493,273)	-	-	-	-	-	(14,555)	(723,462)
Others (*1)	231,971	(7,043)	5,110	763,888	120,077	(23,588)	(563,615)	(42,527)	93,680	93,585	2,199	-	673,737
Ending balance	₩ 114,279,870	6,820,058	348,722	129,468,766	21,782,590	919,381	18,155,156	3,830,509	413,175	5,695,187	605,440	15,686	302,334,540

(*1) Other changes are due to restructuring, debt-equity swap and exchange rate fluctuations.

(*2) The amount of uncollected loans currently in recovery (principal and interest) is ₩9,597,389 million, which is written off as of December 31, 2018.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

12. Loans at amortized cost (continued)

(b) Changes in carrying value of loans at amortized cost and other assets as of December 31, 2019 and 2018 are as follows (continued):

ii) Other financial assets

		2018			
		12 months expected credit loss	Life time expected credit loss	Impaired financial asset	Total
Beginning balance	₩	31,599,203	456,538	23,243	32,078,984
Transfer (from) to 12 months expected credit losses		28,028	(28,024)	(4)	-
Transfer (from) to lifetime expected credit losses		(51,596)	51,607	(11)	-
Transfer (from) to credit- impaired financial assets		(22,162)	(2,986)	25,148	-
Origination		30,085,141	27,251	21,930	30,134,322
Collection		(30,207,574)	(410,559)	(4,236)	(30,622,369)
Charge off		-	-	(20,984)	(20,984)
Disposal		-	(495)	(13,083)	(13,578)
Others (*2)		77,654	6,129	-	83,783
Ending balance	₩	<u>31,508,694</u>	<u>99,461</u>	<u>32,003</u>	<u>31,640,158</u>

(*1) The amortized cost includes the gross carrying amount of deposits and other assets.

(*2) Other changes are due to restructuring, debt-equity swap and exchange rate fluctuations.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

12. Loans at amortized cost (continued)

(c) Changes in allowance for credit loss of loans at amortized cost and other financial assets as of December 31, 2019 and 2018 are as follows:

i) Loans at amortized cost

	2019												Total
	Retail			Corporate			Credit cards			Others			
	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	
Beginning balance	₩ 115,295	88,360	156,459	434,793	581,915	519,683	170,242	351,765	280,098	10,670	5,882	9,906	2,725,068
Transfer (from) to 12 months expected credit losses	18,079	(17,592)	(487)	50,720	(48,295)	(2,425)	55,815	(55,712)	(103)	757	(757)	-	-
Transfer (from) to lifetime expected credit losses	(9,411)	17,342	(7,931)	(35,790)	118,605	(82,815)	(20,607)	20,756	(149)	(159)	289	(130)	-
Transfer (from) to credit-impaired financial assets	(942)	(3,739)	4,681	(565)	(13,332)	13,897	(1,250)	(3,916)	5,166	-	-	-	-
Provision (reversal)	(7,751)	19,130	214,260	(43,230)	(31,265)	277,436	57,062	280,047	147,332	(4,067)	1,907	37	910,898
Charge off	-	-	(257,742)	-	-	(259,400)	-	-	(332,862)	-	-	(8,718)	(858,722)
Amortization of discount	-	-	(274)	-	-	(19,396)	-	-	(5,541)	-	-	-	(25,211)
Disposal	-	(241)	(21,561)	(6)	(245)	(30,436)	-	-	-	-	-	(820)	(53,309)
Collection	-	-	70,319	-	-	62,973	-	-	190,738	-	-	1,876	325,906
Others (*)	2,484	(15,353)	4,522	13,810	(76,711)	(27,910)	(75,933)	(208,284)	(682)	300	160	-	(383,597)
Business combination (Note 47)	15,658	3,118	6,792	20	614	17,600	-	-	-	-	-	-	43,802
Ending balance	₩ 133,412	91,025	169,038	419,752	531,286	469,207	185,329	384,656	283,997	7,501	7,481	2,151	2,684,835

(*) Other changes are due to restructuring, debt-equity swap and exchange rate fluctuations.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

12. Loans at amortized cost (continued)

(c) Changes in allowance for credit loss of loans at amortized cost and other financial assets as of December 31, 2019 and 2018 are as follows (continued):

ii) Other financial assets

	2019			
	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	Total
Beginning balance	₩ 39,927	6,930	24,764	71,621
Transfer (from) to 12 months expected credit losses	458	(453)	(5)	-
Transfer (from) to lifetime expected credit losses	(231)	244	(13)	-
Transfer (from) to credit- impaired financial assets	(172)	(2,310)	2,482	-
Provision	2,822	2,667	28,456	33,945
Charge off	-	-	(29,456)	(29,456)
Collection	-	-	1,873	1,873
Others (*2)	(9,738)	9	435	(9,294)
Business combination (Note 47)	921	185	9,054	10,160
Ending balance	₩ <u>33,987</u>	<u>7,272</u>	<u>37,590</u>	<u>78,849</u>

(*1) The amortized cost includes the gross carrying amount of deposits and other assets.

(*2) Other changes are due to restructuring, debt-equity swap and exchange rate fluctuations

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

12. Loans at amortized cost (continued)

(c) Changes in allowance for credit loss of loans at amortized cost and other financial assets as of December 31, 2019 and 2018 are as follows (continued):

i) Loans at amortized cost

	2018												Total
	Retail			Corporate			Credit cards			Others (*)			
	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	
Beginning balance	₩ 88,167	125,362	160,536	472,685	624,730	609,925	160,478	335,170	278,759	9,283	2,997	3,894	2,871,986
Transfer (from) to 12 month expected credit losses	45,985	(45,516)	(469)	49,898	(49,552)	(346)	57,848	(57,814)	(34)	433	(433)	-	-
Transfer (from) to lifetime expected credit losses	(5,862)	11,415	(5,553)	(43,180)	79,567	(36,387)	(19,671)	19,687	(16)	(221)	221	-	-
Transfer (from) to credit-impaired financial assets	(750)	(3,551)	4,301	(798)	(34,627)	35,425	(1,288)	(3,793)	5,081	(4)	(140)	144	-
Provision (reversal)	(10,735)	369	169,495	(49,962)	(43,876)	203,667	122,112	132,670	166,338	1,165	3,229	10,043	704,515
Charge off	-	-	(227,787)	-	-	(312,841)	-	-	(308,202)	-	-	(2,567)	(851,397)
Amortization of discount	-	-	(218)	-	-	(17,653)	-	-	(2,907)	-	-	-	(20,778)
Disposal	(302)	(17)	(4,242)	(334)	(357)	(52,871)	-	-	-	-	-	(2,454)	(60,577)
Collection	-	-	57,065	-	-	78,249	-	-	175,120	-	-	846	311,280
Others (*)	(1,208)	298	3,331	6,484	6,030	12,515	(149,237)	(74,155)	(34,041)	14	8	-	(229,961)
Ending balance	₩ 115,295	88,360	156,459	434,793	581,915	519,683	170,242	351,765	280,098	10,670	5,882	9,906	2,725,068

(*) Other changes are due to restructuring, debt-equity swap and exchange rate fluctuations.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

12. Loans at amortized cost (continued)

(c) Changes in allowance for credit loss of loans at amortized cost and other financial assets as of December 31, 2019 and 2018 are as follows (continued):

ii) Other financial assets

	2018			
	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	Total
Beginning balance	₩ 39,048	7,666	20,166	66,880
Transfer (from) to 12 months expected credit losses	581	(578)	(3)	-
Transfer (from) to lifetime expected credit losses	(212)	222	(10)	-
Transfer (from) to credit- impaired financial assets	(94)	(2,209)	2,303	-
Provision (reversal)	(1,998)	1,775	24,293	24,070
Charge off	-	-	(20,984)	(20,984)
Disposal	-	(7)	(2,736)	(2,743)
Collection	-	-	1,815	1,815
Others (*2)	2,602	61	(80)	2,583
Ending balance	₩ 39,927	6,930	24,764	71,621

(*1) The amortized cost includes the gross carrying amount of deposits and other assets.

(*2) Other changes are due to restructuring, debt-equity swap and exchange rate fluctuations.

(d) Changes in deferred loan origination costs for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Beginning balance	₩ 497,368	434,746
Loan origination	232,943	235,032
Amortization	(208,998)	(172,410)
Business combination (Note 47)	13,217	-
Ending balance	₩ 534,530	497,368

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December 31, 2019 and 2018

(In millions of won)

13. Property and equipment

(a) Details of property and equipment as of December 31, 2019 and 2018 are as follows:

		2019		
		Acquisition cost	Accumulated depreciation	Carrying value
Land	₩	1,815,112	-	1,815,112
Buildings		1,167,514	(377,065)	790,449
Right-of-use assets		1,357,206	(244,410)	1,112,796
Others		2,130,805	(1,765,834)	364,971
	₩	<u>6,470,637</u>	<u>(2,387,309)</u>	<u>4,083,328</u>
		2018		
		Acquisition cost	Accumulated depreciation	Carrying value
Land	₩	1,827,711	-	1,827,711
Buildings		1,173,888	(321,319)	852,569
Others		2,002,755	(1,679,149)	323,606
	₩	<u>5,004,354</u>	<u>(2,000,468)</u>	<u>3,003,886</u>

(b) Changes in property and equipment for the years ended December 31, 2019 and 2018 are as follows:

		2019				
		Land	Buildings	Right-of-use assets (Note 18)	Others	Total
Beginning balance(*1)	₩	1,827,711	852,569	583,576	313,853	3,577,709
Acquisitions(*2)		69,045	16,946	805,783	184,630	1,076,404
Disposals(*2)		(249)	(1,719)	(12,595)	(29,081)	(43,644)
Depreciation		-	(55,450)	(298,538)	(125,669)	(479,657)
Amounts transferred from(to) investment property		(81,311)	(23,262)	-	-	(104,573)
Amounts transferred from(to) intangible assets		-	-	-	271	271
Amounts transferred from(to) non-current assets held for sale(*3)		(410)	(45)	-	-	(455)
Effects of foreign currency movements		326	1,410	2,981	9,314	14,031
Business combination (Note 47)		-	-	31,589	11,653	43,242
Ending balance	₩	<u>1,815,112</u>	<u>790,449</u>	<u>1,112,796</u>	<u>364,971</u>	<u>4,083,328</u>

(*1) The 9,753 million is transferred from other property and equipment to right-of-use assets due to the adoption of K-IFRS No. 1116.

(*2) ₩76,004 million transferred from construction-in progress was included.

(*3) Included buildings, and land.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

13. Property and equipment (continued)

(b) Changes in property and equipment for the years ended December 31, 2019 and 2018 are as follows (continued):

		2018			
		Land	Buildings	Others	Total
Beginning balance	₩	1,819,912	883,421	318,439	3,021,772
Acquisitions(*1)		33	14,612	136,244	150,889
Disposals(*1)		(17,735)	(3,282)	(9,699)	(30,716)
Depreciation		-	(47,207)	(124,564)	(171,771)
Amounts transferred from(to) investment properties		23,972	4,227	-	28,199
Amounts transferred from(to) non-current assets held for sale (*2)		(32)	(48)	-	(80)
Effects of foreign currency movements		1,561	846	3,186	5,593
Ending balance	₩	<u>1,827,711</u>	<u>852,569</u>	<u>323,606</u>	<u>3,003,886</u>

(*1) ₩6,319 million transferred from construction-in progress was included.

(*2) Included buildings, land.

(c) Insured assets and liability insurance as of December 31, 2019 are as follows:

		2019	
Type of insurance	Insured assets	Amount covered	Insurance company
Comprehensive insurance for financial institutions	Cash(including ATM)	23,200	Samsung Fire & Marine Insurance Co., Ltd., etc.
Comprehensive Property insurance	Property Total Risk, Machine Risk, General Liability Liability Collateral	1,315,820	Samsung Fire & Marine Insurance Co., Ltd., etc.
Fire insurance	Business property and real estate	22,141	Meritz Fire & Marine Insurance Co., Ltd., etc.
Compensation liability insurance for officers	Officer liability	60,000	Meritz Fire & Marine Insurance Co., Ltd., etc.
Compensation liability insurance for employee accident	Executives	70,841	Meritz Fire & Marine Insurance Co., Ltd., etc.
Burglary insurance	Cash and securities	87,015	Samsung Fire & Marine Insurance Co., Ltd., etc.
Others	Personal information liability insurance etc.	28,730	Samsung Fire & Marine Insurance Co., Ltd.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

14. Intangible assets

(a) Details of intangible assets as of December 31, 2019 and 2018 were as follows:

		<u>2019</u>	<u>2018</u>
Goodwill	₩	4,690,049	3,903,518
Software		129,235	102,393
Development cost		144,100	82,536
Others		595,330	231,687
	₩	<u>5,558,714</u>	<u>4,320,134</u>

(b) Changes in intangible assets for the years ended December 31, 2019 and 2018 are as follows:

		<u>2019</u>				
		<u>Goodwill</u>	<u>Software</u>	<u>Development cost</u>	<u>Others</u>	<u>Total</u>
Beginning balance	₩	3,903,518	102,393	82,536	231,687	4,320,134
Acquisitions		-	56,834	71,713	675,070	803,617
Business combination (Note 47)		786,531	9,469	30,435	44,850	871,285
Disposals		-	(428)	(1,310)	(16,476)	(18,214)
Amounts transferred from(to) property and equipment		-	697	(968)	-	(271)
Impairment(*1)(*2)		-	-	(474)	(151,169)	(151,643)
Amortization(*3)		-	(40,578)	(37,832)	(189,533)	(267,943)
Effects of foreign currency movements		-	848	-	901	1,749
Ending balance	₩	<u>4,690,049</u>	<u>129,235</u>	<u>144,100</u>	<u>595,330</u>	<u>5,558,714</u>

(*1) The Group reviewed the recoverable value of intangible assets related to the rights to be the depository bank of local governments due to the performance below forecast and future prospects. For the year ended December 31, 2019, the impairment loss amounted to ₩151,523 million. The impairment loss was included in the non-operating expenses in the consolidated statement of comprehensive income.

(*2) Memberships such as golf and condominium memberships are intangible assets that cannot be limited to a specific period of time. If the market value of the exchanges is less than the carrying amount at the end of the reporting period, the impairment loss is recognized.

(*3) Included in general administrative expense and other operating income of the consolidated statements of comprehensive income.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

14. Intangible assets

(b) Changes in intangible assets for the years ended December 31, 2019 and 2018 were as follows (continued):

	2018				
	Goodwill	Software	Development cost	Others	Total
Beginning balance	₩ 3,901,260	83,829	75,322	212,910	4,273,321
Acquisitions	-	56,009	38,230	69,501	163,740
Disposals	-	(334)	(5,880)	(7,117)	(13,331)
Impairment(*1)	-	-	(706)	(362)	(1,068)
Amortization(*2)	-	(40,792)	(24,430)	(41,957)	(107,179)
Effects of foreign currency movements	-	3,681	-	(1,288)	2,393
Business combination	2,258	-	-	-	2,258
Ending balance	₩ <u>3,903,518</u>	<u>102,393</u>	<u>82,536</u>	<u>231,687</u>	<u>4,320,134</u>

(*1) Memberships such as golf and condominium memberships are intangible assets that cannot be limited to a specific period of time. If the market value of the exchanges is less than the carrying amount at the end of the reporting period, the impairment loss is recognized.

(*2) Included in general administrative expense and other operating income of the consolidated comprehensive income.

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December 31, 2019 and 2018

(In millions of won)

14. Intangible asset (continued)

(c) Goodwill

i) Goodwill allocated in the Group's CGUs as of December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Banking	₩ 810,058	810,058
Credit card	2,880,383	2,773,231
Securities	7,904	7,904
Life insurance (Shinhan Life Insurance)	275,371	275,371
Life insurance (Orange Life Insurance Co., Ltd.)	564,576	-
Others	151,757	36,954
	<u>₩ 4,690,049</u>	<u>3,903,518</u>

ii) Changes in goodwill for the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Beginning balance	₩ 3,903,518	3,901,260
Acquisitions through business combinations (*1)(*2)	786,531	2,258
Ending balance	<u>₩ 4,690,049</u>	<u>3,903,518</u>

(*1) recognized as a result of the Group's acquisitions of Orange Life Insurance Co., Ltd. ("Orange Life"), Asia Trust Co., and the Shinhan Card's acquisition of the new business for the year ended December 31, 2019 (Note 47).

(*2) recognized as a result of the Shinhan Financial Investment Corp. acquisition of the new business for the year ended December 31, 2018.

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, 5.0~5.5 years of cash flow estimates were used in projection and the value thereafter was reflected as terminal value. 30 years and 60 years of cash flow estimates for Shinhan Life and Orange Life, respectively were applied and the present value of the future cash flows thereafter is not considered as it is insignificant.

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14. Intangible assets, net (continued)

- 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:

	<u>Discount rates(%)</u>	<u>Terminal growth rate(%)</u>
Banking	8.3 ~ 13.9	1.0 ~ 3.0
Credit card	8.9 ~ 13.3	1.0 ~ 3.0
Securities	12.1 ~ 13.3	3.0
Life insurance (Shinhan Life Insurance)	8.0	-
Life insurance (Orange Life Insurance Co., Ltd.)	8.0	-
Others	9.2 ~ 14.0	1.0

iv) Key assumptions

Key assumptions used in the discounted cash flow calculations of CGUs (other than life insurance components) are as follows:

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
CPI growth(%)	0.7	1.1	1.6	1.8	1.7	1.7
Private consumption growth(%)	2.0	2.0	2.2	2.5	2.4	2.4
Real GDP growth(%)	1.9	2.2	2.4	2.7	2.6	2.6

Key assumptions used in the discounted cash flow calculations of life insurance components are as follows:

	<u>Key assumptions</u>
Rate of return on investment(%)	2.45 ~ 2.75
Risk-based capital ratio(%)	150.00

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, are as follows:

	<u>Amount</u>
Total recoverable amount	₩ 46,896,966
Total carrying value	₩ 41,902,106
	<u>₩ 4,994,860</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

15. Investments in associates

(a) Investments in associates as of December 31, 2019 and December 31, 2018 are as follows:

Investees	Country	Reporting date	Ownership (%)	
			2019	2018
BNP Paribas Cardif Life Insurance(*1),(*3)	Korea	September 30	14.99	14.99
Songrim Partners.(*1),(*4)	“	December 31	35.34	35.34
Daewontos Co., Ltd.(*7)	“	-	-	36.33
Neoplux Technology Valuation Investment Fund(*1)	“	September 30	33.33	33.33
Partners 4th Growth Investment Fund(*1)	“	“	25.00	25.00
KTB Newlake Global Healthcare PEF(*1)	“	“	30.00	30.00
JAEYANG INDUSTRY(*7)	“	-	-	25.90
Daekwang Semiconductor Co., Ltd. (*1),(*4)	“	September 30	20.94	20.94
Shinhan-Neoplux Energy Newbiz Fund(*1)	“	September 30	23.33	23.33
Shinhan-Albatross tech investment Fund	“	December 31	50.00	50.00
KCLAVIS Meister Fund No.17	“	“	26.09	26.09
Plutus-SG Private Equity Fund	“	“	26.67	26.67
SG ARGES Private Equity Fund No.1(*7)	“	-	-	24.06
Eum Private Equity Fund No.3	“	December 31	20.76	20.76
KTB Confidence Private Placement	“	“	31.43	30.29
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	“	“	23.89	23.89
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	“	“	20.16	20.16
VOGO Debt Strategy Qualified INV Private R/E INV TR 4	“	“	20.00	20.00
Platform Partners brick save Private Investment trust(*7)	“	-	-	98.77
Shinhan-Midas Donga Secondary Fund	“	December 31	50.00	50.00
ShinHan – Soo Young Entrepreneur Investment Fund No.1	“	“	24.00	24.00
Synergy-Shinhan Mezzanine New Technology Investment Fund	“	“	47.62	47.62
Shinhan Praxis K-Growth Global Private Equity Fund(*5)	“	“	18.87	18.87
Credian Healthcare Private Equity Fund II	“	“	34.07	34.07
Kiwoom Milestone Professional Private Real Estate Trust 19	“	“	50.00	50.00
AIP EURO Green Private Real Estate Trust No.3	“	“	21.28	21.28
Brain Professional Private Trust No.4(*7)	“	-	-	27.50
Hanhwa US Equity Strategy Private Real Estate Fund No.1	“	December 31	44.84	44.84
Brain KS Qualified Privately Placed Fund No.6(*7)	“	-	-	50.00
Shinhan Global Healthcare Fund 1(*5)	“	December 31	4.41	4.41
JB Power TL Investment Type Private Placement Special Asset Fund 7	“	“	33.33	33.33
IBK AONE convertible 1	“	“	47.25	47.25
Rico synergy collabo Multi-Mezzanine 3(*8)	“	“	50.03	50.03
KB NA Hickory Private Special Asset Fund	“	“	37.50	37.50
GB Professional Private Investment Trust 6(*7)	“	-	-	94.51
Koramco Europe Core Private Placement Real Estate Fund No.2-2	“	December 31	44.02	44.02

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(In millions of won)

15. Investments in associates (continued)

(a) Investments in associates as of December 31, 2019 and December 31, 2018 are as follows (continued):

Investees	Country	Reporting date	Ownership (%)	
			2019	2018
SHBNPP Private Korea Equity Long-Short Professional Feeder(*10)	Korea	-	-	21.52
Shinhan-Stonebridge Petro PEF(*5)	"	December 31	1.82	1.82
BNP Paribas Cardif General Insurance(*1),(*2)	"	September 30	10.00	10.00
Axis Global Growth New Technology Investment Association	"	December 31	31.85	31.85
Polaris No7 Start up and Venture Private Equity Fund	"	"	28.57	28.57
Hermes Private Investment Equity Fund	"	"	29.17	29.17
SHC ULMUS Fund No.1	"	"	29.41	29.41
Shinhan-Nvestor Liquidity Solution Fund	"	"	24.92	24.92
Shinhan AIM FoF Fund 1a	"	"	25.00	24.91
Daishin Heim Qualified Investor Private Investment Trust No.1808(*7)	"	-	-	34.48
Heungkuk High Class Professional Trust Private Fund 37(*7)	"	-	-	50.00
IGIS Global Credit Fund 150-1	"	December 31	25.00	25.11
GX Shinhan Intervest 1st Private Equity Fund	"	"	25.27	25.27
Soo Commerce Platform Growth Fund	"	"	24.62	24.62
Partner One Value up I Private Equity Fund	"	"	27.91	27.91
Genesis No.1 Private Equity Fund	"	"	22.80	22.80
GMB ICT New Technology Investment Fund	"	"	26.75	26.75
Korea Omega Project Fund III	"	"	23.53	23.53
Soo Delivery Platform Growth Fund	"	"	30.00	30.00
Genesis North America Power Company No.1 PEF	"	"	39.92	39.92
Hyungje art printing(*1),(*4)	"	"	31.54	31.54
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	"	"	23.33	23.33
Shinhan-Rhinos 1 Fund	"	"	22.48	-
Pacific Private Investment Trust No.20	"	"	21.74	-
Susung Mezzanine project P1 Private Investment Trust	"	"	41.18	-
Korea Finance Security (*1),(*9)	"	September 30	14.91	-
MIEL CO.,LTD(*4)	"	December 31	28.77	-
AIP Transportation Specialized Privately Placed Fund Trust #1	"	"	35.73	-
Lime Neptune Professional Private 6	"	"	50.00	-
PCC S/W 2nd Fund	"	"	29.56	-
E&Healthcare Investment Fund No.6(*5)	"	"	20.37	-
One Shinhan Global Fund 1(*5)	"	"	19.98	-
Kiwoom-Shinhan Innovation Fund I	"	"	50.00	-
Daishin-K&T New Technology Investment Fund	"	"	31.25	-
Midas Asset Global CRE Debt Private Fund No.6	"	"	20.05	-
Richmond Private Investment Trust No.82(*6)	"	"	60.00	-
Tiger Alternative Real Estate Professional Private5	"	"	48.71	-
Samchully Midstream Private Placement Special Asset Fund 5-4	"	"	42.92	-
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.3	"	"	20.00	-

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December 31, 2019 and 2018

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15. Investments in associates (continued)

(a) Investments in associates as of December 31, 2019 and December 31, 2018 are as follows (continued):

Investees	Country	Reporting date	Ownership (%)	
			2019	2018
AUCTUS FITRIN Corporate Recovery Private Equity Fund	“	“	21.43	-
NH-Amundi Global Infrastructure Trust 14	“	“	30.00	-
Pacific Private Real Estate Fund Investment Trust No.30	“	“	37.50	-
Jarvis Memorial Private Investment Trust 1(*6)	“	“	99.01	-
Mastern Private Private Investment Trust 68(*6)	“	“	53.76	-
Vestas Qualified Investors Private Real Estate Fund Investment Trust No.37(*8)	“	“	60.00	-
Milestone Private Real Estate Fund 3 (Derivative Type)	“	“	32.06	-
IGIS Private Real Estate Investment Trust 286 (2 class)	“	“	41.56	-
Nomura-Rifa Private Real Estate Investment Trust 31 (2 class)	“	“	31.31	-
Lime Pricing Private Equity Fund	“	“	25.85	-
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.2	“	“	21.27	-
DS Solid.II Hedge Fund	“	“	27.41	-
Hana Semiconductor New Technology Fund	“	“	24.30	-
J&Magnet Startup Venture Specialized Private Equity Fund(*1)	“	September 30	24.39	-
Cape IT Fund No.3	“	December 31	32.89	-
Vogo Realty Partners Private Real Estate Fund V	“	“	21.64	-
IL GU FARM CO.,LTD(*1)(*4)	-	“	28.47	-
Korea Credit Bureau(*1)(*9)	“	September 30	9.00	-
SBC PFV Co., Ltd(*11)	“	December 31	25.00	-
Sprott Global Renewable Private Equity Fund II	“	“	23.10	-
NH-amundi global infra private fund 16	“	“	50.00	-
IMM Global Private Equity Fund	“	“	31.85	-
HANA Alternative Estate Professional Private122(*8)	“	“	75.19	-
Hanwha-Incus Plus New Technology Fund No.1	“	“	42.64	-
SHBNPP Corporate Professional Investment Type Private Security Investment Trust No.7[Bond]	“	“	45.96	-
SHBNPP BNCT Professional Investment Type Private Special Asset Investment Trust(*8)	“	“	57.50	-
PSA EMP Private Equity Fund	“	“	28.99	-
Deutsche Global Professional Investment Type Private Real Estate Investment Trust No. 24(*8)	“	“	52.28	-
SHBNPP Peace of Mind TDF 2035 Security Investment Trust [Equity Balanced-FoF]	“	“	25.70	-
SHBNPP Peace of Mind TDF 2040 Security Investment Trust [Equity Balanced-FoF]	“	“	25.42	-
BRAIN DO PROFESSIONALE PRIVATE No. 27	“	“	29.13	-
VISION US Muni US Local Debt Opportunities Professional Private1(S)	“	“	25.00	-

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December 31, 2019 and 2018

(In millions of won)

15. Investments in associates (continued)

(a) Investments in associates as of December 31, 2019 and December 31, 2018 are as follows (continued):

(*1) The latest financial statements were used for the equity method since the financial statements as of December 31, 2019 were not available. Significant trades and events occurred within the period were properly reflected.

(*2) The Group applies the equity method accounting as the Group has significant influence on the financial and operating policies of the investee through the ability to elect investees' board members and representation in decision making bodies of the investee.

(*3) The Group applies the equity method accounting as the Group has a significant influence on the investees through important business transactions.

(*4) As a part of the rehabilitation process, the Group acquired shares through the conversion of equity investments, as the Group cannot exercise voting rights during the process, the Group has classified the shares as investments at fair value through profit or loss. The Group reclassified Securities at fair value through profit or loss to investments in associates as the reorganization procedures were completed and now the Group can normally exercise its voting rights to the investees.

(*5) As a managing partner, the Group has a significant influence over the investees.

(*6) As a limited partner, the Group does not have an ability to participate in policy-making processes to obtain economic benefit from the investees that would allow the Group to control the entity.

(*7) Excluded from the investments in associates due to full or partial disposal of shares, or loss of significant influence.

(*8) Although the ownership interests were more than 50%, the Group applies the equity method accounting as the Group does not have an ability to participate in the financial and operating policy-making process.

(*9) Although the ownership percentages were less than 20%, the Group applies the equity method accounting since it participates in policy-making processes and therefore can exercise significant influence on investees.

(*10) The investment in the associate is consolidated due to the additional acquisition of the shares from the year ended December 31, 2019.

(*11) The rate of Group's voting rights is 4.65%.

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(In millions of won)

15. Investments in associates (continued)

(b) Changes in investments in associates for the years ended December 31, 2019 and 2018 were as follows:

Investees	2019					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
BNP Paribas Cardif Life Insurance	₩ 49,816	(373)	(517)	3,660	-	52,586
Songrim Partners.(*1)	-	-	-	-	-	-
Neoplux Technology Valuation Investment Fund	18,738	(1,661)	(693)	-	-	16,384
Partners 4th Growth Investment Fund	16,612	(1,219)	(476)	-	-	14,917
KTB Newlake Global Healthcare PEF	9,885	1,500	(105)	-	-	11,280
Daekwang Semiconductor Co., Ltd.	3,334	-	52	2	-	3,388
Shinhan-Neoplux Energy Newbiz Fund	3,974	4,200	(294)	-	-	7,880
Shinhan-Albatross tech investment Fund	8,908	-	132	(306)	-	8,734
KCLAVIS Meister Fund No.17	3,083	(1,801)	(84)	-	-	1,198
Plutus-SG Private Equity Fund	4,252	(132)	111	-	-	4,231
SG ARGES Private Equity Fund No.1	4,341	(4,796)	455	-	-	-
Eum Private Equity Fund No.3	4,889	(2,476)	1,161	-	-	3,574
KTB Confidence Private Placement	5,302	(215)	980	-	-	6,067
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	5,432	(1,266)	90	-	-	4,256
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	8,429	242	245	-	-	8,916
VOGO Debt Strategy Qualified INV Private R/E INV TR 4	4,831	4,820	279	-	-	9,930
Platform Partners brick save Private Investment trust	8,120	(8,197)	77	-	-	-
Shinhan-Midas Donga Secondary Fund	2,061	1,750	(325)	-	-	3,486
ShinHan – Soo Young Entrepreneur Investment Fund No.1	2,554	1,968	27	-	-	4,549
Synergy-Shinhan Mezzanine New Technology Investment Fund	10,149	(6,492)	255	-	-	3,912
Shinhan Praxis K-Growth Global Private Equity Fund	16,527	(8,745)	2,520	-	-	10,302
Credian Healthcare Private Equity Fund II	4,553	(2,526)	350	-	-	2,377
Kiwoom Milestone Professional Private Real Estate Trust 19	10,419	(241)	229	-	-	10,407
AIP EURO Green Private Real Estate Trust No.3	20,544	(1,248)	1,588	-	-	20,884
Brain Professional Private Trust No.4	5,244	(5,175)	(69)	-	-	-
Hanhwa US Equity Strategy Private Real Estate Fund No.1	26,232	(1,866)	1,598	-	-	25,964
Brain KS Qualified Privately Placed Fund No.6	5,097	(5,041)	(56)	-	-	-
Shinhan Global Healthcare Fund 1	3,285	-	(76)	-	-	3,209

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

15. Investments in associates (continued)

(b) Changes in investments in associates for the years ended December 31, 2019 and 2018 were as follows (continued):

Investees	2019					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
JB Power TL Investment Type Private Placement Special Asset Fund 7	₩ 17,484	(1,513)	829	-	-	16,800
IBK AONE convertible 1	5,906	-	171	-	-	6,077
Rico synergy collabo Multi-Mezzanine 3	5,290	(2,501)	428	-	-	3,217
KB NA Hickory Private Special Asset Fund	34,360	445	1,125	-	-	35,930
GB Professional Private Investment Trust 6	8,588	(8,588)	-	-	-	-
Koramco Europe Core Private Placement Real Estate Fund No.2-2	18,616	(1,458)	2,404	-	-	19,562
SHBNPP Private Korea Equity Long-Short Professional Feeder	14,370	(14,325)	(45)	-	-	-
Shinhan-Stonebridge Petro PEF	18,681	(19,589)	909	-	-	1
BNP Paribas Cardif General Insurance	3,423	-	(1,296)	(14)	-	2,113
Axis Global Growth New Technology Investment Association	4,875	(1,592)	(78)	-	-	3,205
Polaris No7 Start up and Venture Private Equity Fund	4,338	(2,300)	265	-	-	2,303
Hermes Private Investment Equity Fund	7,065	-	(689)	-	-	6,376
SHC ULMUS Fund No.1	2,890	-	259	-	-	3,149
Shinhan-Nvestor Liquidity Solution Fund	2,689	2,700	(524)	-	-	4,865
Shinhan AIM FoF Fund 1a	4,351	2,363	528	-	-	7,242
Daishin Heim Qualified Investor Private Investment Trust No.1808	10,126	(10,297)	171	-	-	-
Heungkuk High Class Professional Trust Private Fund 37	9,438	(9,505)	67	-	-	-
IGIS Global Credit Fund 150-1	8,896	781	41	-	-	9,718
GX Shinhan Intervest 1st Private Equity Fund	31,831	-	1,335	-	-	33,166
Soo Commerce Platform Growth Fund	6,378	-	(35)	-	-	6,343
Partner One Value up I Private Equity Fund	11,939	-	(48)	-	-	11,891
Genesis No.1 Private Equity Fund	45,758	404	4,988	-	-	51,150
GMB ICT New Technology Investment Fund	7,934	-	(80)	-	-	7,854
Korea Omega Project Fund III	1,992	-	1,024	-	-	3,016
Soo Delivery Platform Growth Fund	8,983	(171)	110	-	-	8,922
Genesis North America Power Company No.1 PEF	20,824	(4,035)	1,486	-	-	18,275
Hyungje art printing(*1)	-	-	-	-	-	-

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15. Investments in associates (continued)

(b) Changes in investments in associates for the years ended December 31, 2019 and 2018 were as follows
(continued) :

Investees	2019					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	₩ 6,204	14,147	361	-	-	20,712
Shinhan-Rhinos 1 Fund	-	3,000	29	-	-	3,029
Pacific Private Investment Trust No.20	-	3,819	257	-	-	4,076
Susung Mezzanine project P1 Private Investment Trust	-	4,000	1,128	-	-	5,128
Korea Finance Security (*2)	-	3,448	(213)	-	-	3,235
MIEL CO.,LTD(*3)	-	-	-	-	-	-
AIP Transportation Specialized Privately Placed Fund Trust #1	-	31,136	444	-	-	31,580
Lime Neptune Professional Private 6	-	5,000	63	-	-	5,063
PCC S/W 2nd Fund	-	3,000	1	-	-	3,001
E&Healthcare Investment Fund No.6	-	7,030	746	-	-	7,776
One Shinhan Global Fund 1	-	4,520	(79)	-	-	4,441
Kiwoom-Shinhan Innovation Fund I Daishin-K&T New Technology Investment Fund	-	7,500	(216)	-	-	7,284
Midas Asset Global CRE Debt Private Fund No.6	-	23,194	537	-	-	23,731
Richmond Private Investment Trust No.82	-	14,569	551	-	-	15,120
Tiger Alternative Real Estate Professional Private5	-	19,876	(56)	-	-	19,820
Samchully Midstream Private Placement Special Asset Fund 5-4	-	29,436	1,306	-	-	30,742
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.3	-	52,048	1,783	-	-	53,831
AUCTUS FITRIN Corporate Recovery Private Equity Fund	-	14,250	108	-	-	14,358
NH-Amundi Global Infrastructure Trust 14	-	17,769	728	-	-	18,497
Pacific Private Real Estate Fund Investment Trust No.30	-	14,236	580	-	-	14,816
Jarvis Memorial Private Investment Trust 1	-	9,888	278	-	-	10,166
Mastern Private Private Investment Trust 68	-	9,764	235	-	-	9,999
Vestas Qualified Investors Private Real Estate Fund Investment Trust No.37	-	4,434	(37)	-	-	4,397
Milestone Private Real Estate Fund 3 (Derivative Type)	-	17,016	170	-	-	17,186
IGIS Private Real Estate Investment Trust 286 (2 class)	-	10,100	(332)	-	-	9,768
Nomura-Rifa Private Real Estate Investment Trust 31 (2 class)	-	9,018	(104)	-	-	8,914
Lime Pricing Private Equity Fund	-	8,400	(100)	-	-	8,300

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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15. Investments in associates (continued)

(b) Changes in investments in associates for the years ended December 31, 2019 and 2018 were as follows
(continued) :

Investees	2019					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.2	₩ -	39,376	2,615	-	-	41,991
DS Solid.II Hedge Fund	-	4,300	(177)	-	-	4,123
Hana Semiconductor New Technology Fund	-	13,000	(144)	-	-	12,856
J&Magnet Startup Venture Specialized Private Equity Fund	-	6,000	(21)	-	-	5,979
Cape IT Fund No.3	-	10,000	(33)	-	-	9,967
Vogo Realty Partners Private Real Estate Fund V	-	10,611	(235)	-	-	10,376
IL GU FARM CO.,LTD	-	-	-	-	-	-
Korea Credit Bureau(*2)	-	4,500	2,312	-	-	6,812
SBC PFV Co., Ltd	-	20,000	-	-	-	20,000
Sprott Global Renewable Private Equity Fund II	-	20,131	(1,115)	-	-	19,016
NH-amundi global infra private fund 16	-	49,530	(1,372)	-	-	48,158
IMM Global Private Equity Fund	-	28,945	(20)	-	-	28,925
HANA Alternative Estate Professional Private122	-	28,487	(2,282)	-	-	26,205
Hanwha-Incus Plus New Technology Fund No.1	-	5,500	(1)	-	-	5,499
SHBNPP Corporate Professional Investment Type Private Security Investment Trust No.7[Bond]	-	51,293	-	-	-	51,293
SHBNPP BNCT Professional Investment Type Private Special Asset Investment Trust	-	146,045	4,272	-	-	150,317
PSA EMP Private Equity Fund	-	10,000	(73)	-	-	9,927
Deutsche Global Professional Investment Type Private Real Estate Investment Trust No. 24	-	28,314	1,149	-	-	29,463
SHBNPP Peace of Mind TDF 2035 Security Investment Trust [Equity Balanced-FoF]	-	5,727	-	-	-	5,727
SHBNPP Peace of Mind TDF 2040 Security Investment Trust [Equity Balanced-FoF]	-	5,729	-	-	-	5,729
BRAIN DO PROFESSIONALE PRIVATE No. 27	-	3,000	65	-	-	3,065
VISION US Muni US Local Debt Opportunities Professional Private1(S)	-	9,500	369	-	-	9,869
Others	81,490	(14,513)	18,954	-	-	85,931
	₩ 671,330	724,902	53,287	3,342	-	1,452,861

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15. Investments in associates (continued)

(b) Changes in investments in associates for the years ended December 31, 2019 and 2018 were as follows
(continued):

(*1) The Group has stopped recognizing its equity method income or loss due to the investees' cumulative loss.

(*2) Classified as investments in associates without cash transactions.

(*3) No gains or losses from the equity method investees have been recognized after the acquisition of a debt-to-equity swap in 2019.

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(In millions of won)

15. Investments in associates (continued)

(b) Changes in investments in associates for the years ended December 31, 2019 and 2018 were as follows
(continued):

Investees	2018					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
BNP Paribas Cardif Life Insurance	₩ 52,616	(2,043)	783	(1,540)	-	49,816
Daewontos Co., Ltd.(*1)	-	-	-	-	-	-
Songrim Partners.(*1)	48	-	(48)	-	-	-
Neoplux Technology Valuation Investment Fund	13,470	6,000	(242)	(490)	-	18,738
JAEOUNG SOLUTEC CO., LTD. Partners 4th Growth Investment Fund	3,849	(2,865)	(836)	(148)	-	-
JAERYANG INDUSTRY(*1)	-	-	-	-	-	-
KTB Newlake Global Healthcare PEF	2,653	7,470	(238)	-	-	9,885
DAEKWANG SEMICONDUCTOR CO., LTD.	3,824	-	(490)	-	-	3,334
Shinhan-Neoplux Energy Newbiz Fund	1,400	2,800	(226)	-	-	3,974
Shinhan-Albatross Tech Investment Fund	2,672	6,000	(70)	306	-	8,908
Asia Pacific No.39 Ship Investment Co., Ltd.	4,682	(4,803)	121	-	-	-
KCLAVIS Meister Fund No.17	3,039	-	44	-	-	3,083
SG No.9 Corporate Recovery Private Equity Fund	3,963	(3,102)	566	-	-	1,427
Plutus-SG Private Equity Fund	4,251	(132)	133	-	-	4,252
SG ARGES Private Equity Fund No.1	6,422	(2,295)	214	-	-	4,341
OST Progress- 2 Fund	4,895	(4,895)	-	-	-	-
Eum Private Equity Fund No.3	4,925	(277)	241	-	-	4,889
Richmond Private Yong in Retail Facility Real Estate Fund No.1	8,101	(10,286)	2,185	-	-	-
KTB Confidence Private Placement	6,403	(389)	387	(1,099)	-	5,302
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	6,757	(1,518)	193	-	-	5,432
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	8,387	(305)	347	-	-	8,429
Pine Asia Unsecured Individual Rehabilitation Bond Fund 18	6,012	(6,035)	23	-	-	-
VOGO DEBT STRATEGY QUALIFIED INV PRIVATE R/E INV TR 4	1,638	3,060	133	-	-	4,831
Platform Partners Brick Save Private Investment Trust	8,069	(496)	547	-	-	8,120
Synergy-Shinhan Mezzanine New Technology Investment Fund	4,999	5,000	150	-	-	10,149
The Asia Pacific Capital Fund II L.P.	7,307	(3,004)	(656)	2,602	(5,849)	400

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15. Investments in associates (continued)

(b) Changes in investments in associates for the years ended December 31, 2019 and 2018 were as follows
(continued):

Investees	2018					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
Shinhan Praxis K-Growth Global Private Equity Fund	₩ 18,954	(7,473)	5,046	-	-	16,527
Credian Healthcare Private Equity Fund II	3,813	-	740	-	-	4,553
Kiwoom Milestone Professional Private Real Estate Trust 19	10,408	(199)	210	-	-	10,419
AIP EURO GREEN PRIVATE REAL ESTATE TRUST No.3	20,460	(1,253)	1,337	-	-	20,544
Brain Professional Private Trust No.4	5,847	(1,274)	671	-	-	5,244
Hanhwa US Equity Strategy Private Real Estate Fund No.1	25,479	(2,000)	2,753	-	-	26,232
Brain KS Qualified Privately Placed Fund No.6	4,805	-	292	-	-	5,097
M360 CRE Income Fund	153,905	(171,215)	6,183	11,127	-	-
Shinhan Global Healthcare Fund 1	3,407	-	(122)	-	-	3,285
JB Power TL Investment Type Private Placement Special Asset Fund 7	18,690	(2,075)	869	-	-	17,484
IBK AONE convertible 1	5,122	-	784	-	-	5,906
Rico synergy collabo Multi-Mezzanine 3	5,026	-	264	-	-	5,290
KB NA Hickory Private Special Asset Fund	34,091	(1,560)	1,829	-	-	34,360
GB Professional Private Investment Trust 6	8,600	-	(12)	-	-	8,588
Koramco Europe Core Private Placement Real Estate Fund No.2-2	20,760	(2,357)	213	-	-	18,616
SHBNPP Private Korea Equity Long-Short Professional Feeder	4,861	9,412	97	-	-	14,370
Shinhan-Stonebridge Petro PEF	19,201	(1,133)	613	-	-	18,681
BNP Paribas Cardif General Insurance	4,429	-	(1,026)	20	-	3,423
Axis Global Growth New Technology Investment Association	4,953	-	(78)	-	-	4,875
Polaris No7 Start up and Venture Private Equity Fund	4,359	-	(21)	-	-	4,338
Hermes Private Investment Equity Fund	17,497	(5,158)	(5,274)	-	-	7,065
Shinhan AIM FoF Fund 1a	-	4,125	226	-	-	4,351
Daishin Heim Qualified Investor Private Investment Trust No.1808	-	9,786	340	-	-	10,126
Heungkuk High Class Professional Trust Private Fund 37	-	9,178	260	-	-	9,438
IGIS Global Credit Fund 150-1	-	8,529	367	-	-	8,896
GX SHINHAN INTERVEST 1st Private Equity Fund	-	34,900	(3,069)	-	-	31,831

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(In millions of won)

15. Investments in associates (continued)

(b) Changes in investments in associates for the years ended December 31, 2019 and 2018 were as follows (continued):

Investees	2018					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
Soo Commerce Platform Growth Fund	₩ -	6,500	(122)	-	-	6,378
Partner One Value up I Private Equity Fund	-	12,000	(61)	-	-	11,939
Genesis No.1 Private Equity Fund	-	46,068	(310)	-	-	45,758
GMB ICT New Technology Investment Fund	-	8,000	(66)	-	-	7,934
Soo Delivery Platform Growth Fund		9,000	(17)	-	-	8,983
Genesis North America Power Company No.1 PEF		21,592	(768)	-	-	20,824
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3		6,300	(96)			6,204
Others(*2)	52,855	37,442	1,550	2	-	91,849
	₩ 631,294	17,617	17,488	10,780	(5,849)	671,330

(*1) The Group has stopped recognizing its equity method income or loss due to the investees' cumulative loss.

(*2) Included disposal by account reclassification involving non-cash transactions.

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December 31, 2019 and 2018

(In millions of won)

15. Investments in associates (continued)

(c) The statement of financial information as of and for the year ended December 31, 2019 and 2018 were as follows:

Investees	2019					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
BNP Paribas Cardif Life Insurance	₩ 3,896,875	3,545,682	37,067	(3,919)	24,402	20,483
Neoplux Technology Valuation Investment Fund	49,890	738	3,953	(2,078)	-	(2,078)
Partners 4th Growth Investment Fund	60,775	1,106	14	(1,904)	-	(1,904)
KTB Newlake Global Healthcare PEF	37,187	151	387	(349)	-	(349)
Daekwang Semiconductor Co., Ltd.	23,507	7,328	1,248	248	9	257
Shinhan-Neoplux Energy Newbiz Fund	33,791	18	26	(1,259)	-	(1,259)
Shinhan-Albatross tech investment Fund	17,681	182	1,263	551	(917)	(366)
KCLAVIS Meister Fund No.17	4,689	96	425	(322)	-	(322)
Plutus-SG Private Equity Fund	16,006	138	700	419	-	419
Eum Private Equity Fund No.3	17,243	27	6,305	5,604	-	5,604
KTB Confidence Private Placement	19,369	64	7,328	3,122	-	3,122
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	17,821	1	1,280	377	-	377
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	44,228	2	3,445	1,217	-	1,217
VOGO Debt Strategy Qualified INV Private R/E INV TR 4	49,683	33	4,198	1,391	-	1,391
Shinhan-Midas Donga Secondary Fund	6,973	1	88	(651)	-	(651)
ShinHan – Soo Young Entrepreneur Investment Fund No.1	18,963	9	1,656	113	-	113
Synergy-Shinhan Mezzanine New Technology Investment Fund	8,266	51	834	535	-	535
Shinhan Praxis K-Growth Global Private Equity Fund	54,786	185	27,588	13,361	-	13,361
Credian Healthcare Private Equity Fund II	7,001	24	1,542	1,031	-	1,031
Kiwoom Milestone Professional Private Real Estate Trust 19	59,559	38,744	3,100	470	-	470
AIP EURO Green Private Real Estate Trust No.3	98,221	86	18,362	7,462	-	7,462
Hanhwa US Equity Strategy Private Real Estate Fund No.1	59,652	1,750	14,838	3,742	-	3,742
Shinhan Global Healthcare Fund 1	73,388	701	5,480	(1,722)	-	(1,722)

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15. Investments in associates (continued)

(c) The statement of financial information as of and for the year ended December 31, 2019 and 2018 were as follows (continued):

Investees	2019					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
JB Power TL Investment Type Private Placement Special Asset Fund 7	₩ 50,468	66	15,476	2,487	-	2,487
IBK AONE convertible 1	12,861	0	1,515	410	-	410
Rico synergy collabo Multi-Mezzanine 3	6,433	2	1,296	856	-	856
KB NA Hickory Private Special Asset Fund	96,289	476	16,132	2,489	-	2,489
Koramco Europe Core Private Placement Real Estate Fund No.2-2	46,742	2,304	9,328	5,462	-	5,462
Shinhan-Stonebridge Petro PEF	1,388	1,350	52,928	49,878	-	49,878
BNP Paribas Cardif General Insurance	43,064	21,936	17,613	(12,962)	(136)	(13,098)
Axis Global Growth New Technology Investment Association	10,064	-	1	(244)	-	(244)
Polaris No7 Start up and Venture Private Equity Fund	8,113	52	1,037	928	-	928
Hermes Private Investment Equity Fund	21,954	95	45	(2,366)	-	(2,366)
SHC ULMUS Fund No.1	10,706	-	1,073	881	-	881
Shinhan-Nvestor Liquidity Solution Fund	19,524	-	209	(2,101)	-	(2,101)
Shinhan AIM FoF Fund 1a	28,987	20	5,556	2,111	-	2,111
IGIS Global Credit Fund 150-1	38,912	38	2,674	166	-	166
GX Shinhan Intervest 1st Private Equity Fund	131,237	-	6,689	5,283	-	5,283
Soo Commerce Platform Growth Fund	25,765	3	36	(140)	-	(140)
Partner One Value up I Private Equity Fund	42,602	-	457	(173)	-	(173)
Genesis No.1 Private Equity Fund	224,322	7	23,180	21,872	-	21,872
GMB ICT New Technology Investment Fund	29,359	-	2	(298)	-	(298)
Korea Omega Project Fund III	12,818	-	4,432	4,351	-	4,351
Soo Delivery Platform Growth Fund	29,743	3	675	367	-	367
Genesis North America Power Company No.1 PEF	46,041	281	4,323	3,756	-	3,756
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	89,450	687	4,262	1,546	-	1,546
Shinhan-Rhinos 1 Fund	13,474	-	143	129	-	129
Pacific Private Investment Trust No.20	18,764	15	1,247	1,187	-	1,187
Susung Mezzanine project P1 Private Investment Trust	10,023	351	22	(91)	-	(91)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

15. Investments in associates (continued)

(c) The statement of financial information as of and for the year ended December 31, 2019 and 2018 were as follows (continued):

Investees	2019						
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	
Korea Finance Security	₩ 32,079	10,386	64,964	(1,297)	-	(1,297)	
AIP Transportation Specialized Privately Placed Fund Trust #1	94,437	6,042	12,473	1,242	-	1,242	
Lime Neptune Professional Private 6	10,166	41	460	125	-	125	
PCC S/W 2nd Fund	10,154	-	151	4	-	4	
E&Healthcare Investment Fund No.6	38,181	2	4,405	3,664	-	3,664	
One Shinhan Global Fund 1	22,244	-	92	(406)	-	(406)	
Kiwoom-Shinhan Innovation Fund I	14,719	151	13	(432)	-	(432)	
Daishin-K&T New Technology Investment Fund	55,686	33,103	1,292	183	-	183	
Midas Asset Global CRE Debt Private Fund No.6	118,438	70	3,907	2,677	-	2,677	
Richmond Private Investment Trust No.82	50,079	24,879	1,155	919	-	919	
Tiger Alternative Real Estate Professional Private5	40,792	103	1,628	(116)	-	(116)	
Samchully Midstream Private Placement Special Asset Fund 5-4	71,680	55	14,423	3,015	-	3,015	
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.3	269,203	48	8,854	8,289	-	8,289	
AUCTUS FITRIN Corporate Recovery Private Equity Fund	67,222	218	1,187	449	-	449	
NH-Amundi Global Infrastructure Trust 14	61,696	39	7,404	2,427	-	2,427	
Pacific Private Real Estate Fund Investment Trust No.30	39,779	270	1,817	1,547	-	1,547	
Jarvis Memorial Private Investment Trust 1	10,279	12	293	281	-	281	
Mastern Private Private Investment Trust 68	18,600	2	533	437	-	437	
Vestas Qualified Investors Private Real Estate Fund Investment Trust No.37	7,336	7	214	(61)	-	(61)	
Milestone Private Real Estate Fund 3 (Derivative Type)	53,610	3	603	532	-	532	
IGIS Private Real Estate Investment Trust 286 (2 class)	75,372	51,870	2,838	(798)	-	(798)	
Nomura-Rifa Private Real Estate Investment Trust 31 (2 class)	99,976	71,507	2,383	(331)	-	(331)	
Lime Pricing Private Equity Fund	32,231	118	10	(388)	-	(388)	
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.2	197,536	119	12,963	12,296	-	12,296	
DS Solid.II Hedge Fund	15,042	-	4	(605)	-	(605)	

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

15. Investments in associates (continued)

(c) The statement of financial information as of and for the year ended December 31, 2019 and 2018 were as follows (continued) :

Investees	2019					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Hana Semiconductor New Technology Fund	₩ 52,905	-	73	(595)	-	(595)
J&Magnet Startup Venture Specialized Private Equity Fund	24,513	-	-	(87)	-	(87)
Cape IT Fund No.3	30,333	35	-	(101)	-	(101)
Vogo Realty Partners Private Real Estate Fund V	47,992	34	281	(1,084)	-	(1,084)
Korea Credit Bureau	95,764	20,075	66,314	10,604	-	10,604
SBC PFV Co., Ltd	120,000	40,000	-	-	-	-
Sprott Global Renewable Private Equity Fund II	82,721	3	1,416	(4,833)	-	(4,833)
NH-amundi global infra private fund 16	100,513	4,197	4,128	(2,744)	-	(2,744)
IMM Global Private Equity Fund	90,870	63	-	(63)	-	(63)
HANA Alternative Estate Professional Private122	34,897	45	1,561	(3,035)	-	(3,035)
Hanwha-Incus Plus New Technology Fund No.1	12,900	1	-	(1)	-	(1)
SHBNPP Corporate Professional Investment Type Private Security Investment Trust No.7[Bond]	127,339	15,732	-	-	-	-
SHBNPP BNCT Professional Investment Type Private Special Asset Investment Trust	402,633	141,200	10,036	7,256	-	7,256
PSA EMP Private Equity Fund	34,535	285	1	(250)	-	(250)
Deutsche Global Professional Investment Type Private Real Estate Investment Trust No. 24	57,088	728	2,735	2,198	-	2,198
SHBNPP Peace of Mind TDF 2035 Security Investment Trust [Equity Balanced-FoF]	22,926	641	-	-	-	-
SHBNPP Peace of Mind TDF 2040 Security Investment Trust [Equity Balanced-FoF]	23,865	1,329	-	-	-	-
BRAIN DO PROFESSIONALE PRIVATE No. 27	10,305	10	58	(5)	-	(5)
VISION US Muni US Local Debt Opportunities Professional Private1(S)	39,175	80	1,440	1,088	-	1,088

(*) Excluded the associates' financial information that are not subject to recognizing equity method income or loss or financial information is not available.

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(In millions of won)

15. Investments in associates (continued)

(c) The statement of financial information as of and for the year ended December 31, 2019 and 2018 were as follows (continued):

Investees	2018						
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	
BNP Paribas Cardif Life Insurance	₩ 3,995,746	3,662,567	53,756	5,191	(10,268)	(5,077)	
Neoplux Technology Valuation Investment Fund	57,018	804	390	(724)	(1,969)	(2,693)	
Partners 4th Growth Investment Fund	67,403	954	4,424	3,025	-	3,025	
KTB Newlake Global Healthcare PEF	32,508	123	69	(793)	-	(793)	
DAEKWANG SEMICONDUCTOR CO., LTD.	25,459	9,537	15,794	(2,341)	-	(2,341)	
Shinhan-Neoplux Energy Newbiz Fund	17,347	315	19	(968)	-	(968)	
Shinhan-Albatross Tech Investment Fund	18,009	182	299	(435)	917	482	
KCLAVIS Meister Fund No.17	11,866	47	398	167	-	167	
SG No.9 Corporate Recovery Private Equity Fund	5,566	181	-	2,136	-	2,136	
Plutus-SG Private Equity Fund	16,012	69	778	499	-	499	
SG ARGES Private Equity Fund No.1	18,085	46	-	888	-	888	
Eum Private Equity Fund No.3	23,552	5	1,667	1,311	-	1,311	
KTB Confidence Private Placement	38,559	21,054	506	256	(3,629)	(3,373)	
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	22,739	1	1,451	62	-	62	
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	41,809	2	3,027	1,044	-	1,044	
VOGO DEBT STRATEGY QUALIFIED INV PRIVATE R/E INV TR 4	24,174	15	3,046	1,165	-	1,165	
Platform Partners brick save Private Investment trust	8,286	64	809	763	-	763	
Synergy-Shinhan Mezzanine New Technology Investment Fund	21,312	-	553	331	-	331	

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15. Investments in associates (continued)

(c) The statement of financial information as of and for the year ended December 31, 2019 and 2018 were as follows (continued):

Investees	2018					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
The Asia Pacific Capital Fund II L.P.	₩ 1,674	86	1	(25,828)	-	(25,828)
Shinhan Praxis K-Growth Global Private Equity Fund	87,897	307	31,059	26,381	-	26,381
Credian Healthcare Private Equity Fund II	13,408	47	2,364	2,171	-	2,171
Kiwoom Milestone Professional Private Real Estate Trust 19	57,678	36,839	3,383	422	-	422
AIP EURO GREEN PRIVATE REAL ESTATE TRUST No.3	96,624	86	18,700	6,287	-	6,287
Brain Professional Private Trust No.4	19,113	46	4,306	2,435	-	2,435
Hanhwa US Equity Strategy Private Real Estate Fund No.1	58,575	77	10,098	6,139	-	6,139
Brain KS Qualified Privately Placed Fund No.6	10,089	-	812	477	-	477
Shinhan Global Healthcare Fund 1	74,409	-	4	(2,757)	-	(2,757)
JB Power TL Investment Type Private Placement Special Asset Fund 7	52,627	174	9,878	2,607	-	2,607
IBK AONE Convertible 1	12,807	307	2,042	1,660	-	1,660
Rico Synergy Collabo Multi-Mezzanine 3	10,736	161	686	529	-	529
KB NA Hickory Private Special Asset Fund	91,694	67	9,601	4,877	-	4,877
GB Professional Private Investment Trust 6	9,088	1	1	(13)	-	(13)
Koramco Europe Core Private Placement Real Estate Fund No.2-2	44,491	2,202	6,470	878	-	878
SHBNPP Private Korea Equity Long-Short Professional Feeder	77,465	10,728	18,729	728	-	728
Shinhan-Stonebridge Petro PEF	1,025,884	807	36,968	33,616	-	33,616
BNP Paribas Cardif General Insurance	51,211	16,986	10,972	(10,264)	196	(10,068)
Axis Global Growth New Technology Investment Association	15,308	-	1	(245)	-	(245)
Polaris No7 Start up and Venture Private Equity Fund	15,193	10	-	(75)	-	(75)
Hermes Private Investment Equity Fund	24,233	8	6	(18,025)	-	(18,025)
Shinhan AIM FoF Fund 1a	17,478	11	3,004	342	-	342
Daishin Heim Qualified Investor Private Investment Trust No.1808	29,770	405	806	741	-	741
Heungkuk High Class Professional Trust Private Fund 37	20,523	1,646	1,045	1,005	-	1,005

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15. Investments in associates (continued)

(c) The statement of financial information as of and for the year ended December 31, 2019 and 2018 were as follows (continued) :

Investees	2018						
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	
IGIS Global Credit Fund 150-1	₩ 35,453	27	3,457	214	-	214	
GX SHINHAN INTERVEST 1st Private Equity Fund	125,954	-	6	(12,146)	-	(12,146)	
Soo Commerce Platform Growth Fund	25,905	3	-	(497)	-	(497)	
Partner One Value up I Private Equity Fund	42,776	-	326	(224)	-	(224)	
Genesis No.1 Private Equity Fund	201,103	434	-	(1,360)	-	(1,360)	
GMB ICT New Technology Investment Fund	29,657	-	3	(242)	-	(242)	
Soo Delivery Platform Growth Fund	29,946	2	-	(56)	-	(56)	
Genesis North America Power Company No.1 PEF	52,393	223	1	(1,922)	-	(1,922)	
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	26,826	237	2	(411)	-	(411)	

(*) Excluded the associates' financial information that are not subject to recognizing equity method income or loss or financial information is not available.

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15. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of December 31, 2019 and 2018 are as follows:

Investees	2019					
	Net assets (a)	Ownership (%)(b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
BNP Paribas Cardif Life Insurance	₩ 351,193	14.99	52,665	(79)	-	52,586
Songrim Partners.(*1)	(62)	35.34	(22)	-	22	-
Neoplux Technology Valuation Investment Fund	49,152	33.33	16,384	-	-	16,384
Partners 4th Growth Investment Fund	59,669	25.00	14,917	-	-	14,917
KTB Newlake Global Healthcare PEF(*2)	37,036	30.00	11,110	-	170	11,280
Daekwang Semiconductor Co., Ltd.	16,179	20.94	3,388	-	-	3,388
Shinhan-Neoplux Energy Newbiz Fund	33,773	23.33	7,880	-	-	7,880
Shinhan-Albatross tech investment Fund	17,499	50.00	8,734	-	-	8,734
KCLAVIS Meister Fund No.17	4,593	26.09	1,198	-	-	1,198
Plutus-SG Private Equity Fund	15,868	26.67	4,231	-	-	4,231
Eum Private Equity Fund No.3	17,216	20.76	3,574	-	-	3,574
KTB Confidence Private Placement	19,305	31.43	6,067	-	-	6,067
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	17,820	23.89	4,256	-	-	4,256
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	44,226	20.16	8,916	-	-	8,916
VOGO Debt Strategy Qualified INV Private R/E INV TR 4	49,650	20.00	9,930	-	-	9,930
Shinhan-Midas Donga Secondary Fund	6,972	50.00	3,486	-	-	3,486
ShinHan – Soo Young Entrepreneur Investment Fund No.1	18,954	24.00	4,549	-	-	4,549
Synergy-Shinhan Mezzanine New Technology Investment Fund	8,215	47.62	3,912	-	-	3,912
Shinhan Praxis K-Growth Global Private Equity Fund	54,601	18.87	10,302	-	-	10,302
Credian Healthcare Private Equity Fund II	6,977	34.07	2,377	-	-	2,377
Kiwoom Milestone Professional Private Real Estate Trust 19	20,816	50.00	10,407	-	-	10,407
AIP EURO Green Private Real Estate Trust No.3	98,135	21.28	20,884	-	-	20,884
Hanhwa US Equity Strategy Private Real Estate Fund No.1	57,901	44.84	25,964	-	-	25,964
Shinhan Global Healthcare Fund 1	72,687	4.41	3,209	-	-	3,209
JB Power TL Investment Type Private Placement Special Asset Fund 7	50,402	33.33	16,800	-	-	16,800
IBK AONE convertible 1	12,861	47.25	6,077	-	-	6,077
Rico synergy collabo Multi-Mezzanine 3	6,431	50.03	3,217	-	-	3,217
KB NA Hickory Private Special Asset Fund	95,813	37.50	35,930	-	-	35,930
Koramco Europe Core Private Placement Real Estate Fund No.2-2	44,438	44.02	19,562	-	-	19,562
Shinhan-Stonebridge Petro PEF	38	1.82	1	-	-	1
BNP Paribas Cardif General Insurance	21,128	10.00	2,113	-	-	2,113

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15. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of December 31, 2019 and December 31, 2018 are as follows (continued):

Investees	2019					
	Net assets (a)	Ownership (%)(b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
Axis Global Growth New Technology Investment Association	₩ 10,064	31.85	3,205	-	-	3,205
Polaris No7 Start up and Venture Private Equity Fund	8,061	28.57	2,303	-	-	2,303
Hermes Private Investment Equity Fund	21,859	29.17	6,376	-	-	6,376
SHC ULMUS Fund No.1	10,706	29.41	3,149	-	-	3,149
Shinhan-Nvestor Liquidity Solution Fund	19,524	24.92	4,865	-	-	4,865
Shinhan AIM FoF Fund 1a	28,967	25.00	7,242	-	-	7,242
IGIS Global Credit Fund 150-1	38,874	25.00	9,718	-	-	9,718
GX Shinhan Interwest 1st Private Equity Fund	131,237	25.27	33,166	-	-	33,166
Soo Commerce Platform Growth Fund	25,762	24.62	6,343	-	-	6,343
Partner One Value up I Private Equity Fund	42,602	27.91	11,891	-	-	11,891
Genesis No.1 Private Equity Fund	224,315	22.80	51,150	-	-	51,150
GMB ICT New Technology Investment Fund	29,359	26.75	7,854	-	-	7,854
Korea Omega Project Fund III	12,818	23.53	3,016	-	-	3,016
Soo Delivery Platform Growth Fund	29,740	30.00	8,922	-	-	8,922
Genesis North America Power Company No.1 PEF	45,759	39.92	18,275	-	-	18,275
Hyungje art printing(*1)	(264)	31.54	(83)	-	83	-
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	88,763	23.33	20,712	-	-	20,712
Shinhan-Rhinos 1 Fund	13,474	22.48	3,029	-	-	3,029
Pacific Private Investment Trust No.20	18,749	21.74	4,076	-	-	4,076
Susung Mezzanine project P1 Private Investment Trust	9,672	41.18	5,128	-	-	5,128
Korea Finance Security	21,693	14.91	3,235	-	-	3,235
MIEL CO.,LTD(*1)	(119)	28.77	(34)	-	34	-
AIP Transportation Specialized Privately Placed Fund Trust #1	88,395	35.73	31,580	-	-	31,580
Lime Neptune Professional Private 6	10,125	50.00	5,063	-	-	5,063
PCC S/W 2nd Fund	10,154	29.56	3,001	-	-	3,001
E&Healthcare Investment Fund No.6	38,179	20.37	7,776	-	-	7,776
One Shinhan Global Fund 1	22,244	19.98	4,441	-	-	4,441
Kiwoom-Shinhan Innovation Fund I	14,568	50.00	7,284	-	-	7,284
Daishin-K&T New Technology Investment Fund	22,583	31.25	7,057	-	-	7,057
Midas Asset Global CRE Debt Private Fund No.6	118,368	20.05	23,731	-	-	23,731
Richmond Private Investment Trust No.82	25,200	60.00	15,120	-	-	15,120
Tiger Alternative Real Estate Professional Private5	40,689	48.71	19,820	-	-	19,820

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15. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of December 31, 2019 and December 31, 2018 are as follows (continued):

Investees	2019					
	Net assets (a)	Ownership (%)(b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
Samchully Midstream Private Placement Special Asset Fund 5-4	₩ 71,625	42.92	30,742	-	-	30,742
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.3	269,155	20.00	53,831	-	-	53,831
AUCTUS FITRIN Corporate Recovery Private Equity Fund	67,004	21.43	14,358	-	-	14,358
NH-Amundi Global Infrastructure Trust 14	61,657	30.00	18,497	-	-	18,497
Pacific Private Real Estate Fund Investment Trust No.30	39,509	37.50	14,816	-	-	14,816
Jarvis Memorial Private Investment Trust 1	10,267	99.01	10,166	-	-	10,166
Mastern Private Private Investment Trust 68	18,598	53.76	9,999	-	-	9,999
Vestas Qualified Investors Private Real Estate Fund Investment Trust No.37	7,329	60.00	4,397	-	-	4,397
Milestone Private Real Estate Fund 3 (Derivative Type)	53,608	32.06	17,186	-	-	17,186
IGIS Private Real Estate Investment Trust 286 (2 class)	23,502	41.56	9,768	-	-	9,768
Nomura-Rifa Private Real Estate Investment Trust 31 (2 class)	28,469	31.31	8,914	-	-	8,914
Lime Pricing Private Equity Fund	32,113	25.85	8,300	-	-	8,300
SHBNPP Senior Loan Professional Investment Type Private Mixed Asset Investment Trust No.2	197,417	21.27	41,991	-	-	41,991
DS Solid.II Hedge Fund	15,042	27.41	4,123	-	-	4,123
Hana Semiconductor New Technology Fund	52,905	24.30	12,856	-	-	12,856
J&Magnet Startup Venture Specialized Private Equity Fund	24,513	24.39	5,979	-	-	5,979
Cape IT Fund No.3	30,298	32.89	9,967	-	-	9,967
Vogo Realty Partners Private Real Estate Fund V	47,958	21.64	10,376	-	-	10,376
IL GU FARM CO.,LTD(*1)	(316)	28.47	(90)	-	90	-
Korea Credit Bureau	75,689	9.00	6,812	-	-	6,812
SBC PFV Co., Ltd	80,000	25.00	20,000	-	-	20,000
Sprott Global Renewable Private Equity Fund II	82,718	23.10	19,016	-	-	19,016
NH-amundi global infra private fund 16	96,316	50.00	48,158	-	-	48,158
IMM Global Private Equity Fund	90,807	31.85	28,925	-	-	28,925
HANA Alternative Estate Professional Private122	34,853	75.19	26,205	-	-	26,205
Hanwha-Incus Plus New Technology Fund No.1	12,899	42.64	5,499	-	-	5,499

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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15. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of December 31, 2019 and December 31, 2018 are as follows (continued):

Investees	2019					
	Net assets (a)	Ownership (%)(b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
SHBNPP Corporate Professional Investment Type Private Security Investment Trust No.7[Bond]	₩ 111,607	45.96	51,293	-	-	51,293
SHBNPP BNCT Professional Investment Type Private Special Asset Investment Trust	261,433	57.50	150,317	-	-	150,317
PSA EMP Private Equity Fund	34,250	28.99	9,927	-	-	9,927
Deutsche Global Professional Investment Type Private Real Estate Investment Trust No. 24	56,360	52.28	29,463	-	-	29,463
SHBNPP Peace of Mind TDF 2035 Security Investment Trust [Equity Balanced-FoF]	22,285	25.70	5,727	-	-	5,727
SHBNPP Peace of Mind TDF 2040 Security Investment Trust [Equity Balanced-FoF]	22,536	25.42	5,729	-	-	5,729
BRAIN DO PROFESSIONALE PRIVATE No. 27	10,295	29.13	3,065	-	-	3,065
VISION US Muni US Local Debt Opportunities Professional Private1(S)	39,095	25.00	9,869	-	-	9,869
Other	337,794	-	85,931	-	-	85,931
	₩ 4,951,196	-	1,452,541	(79)	399	1,452,861

(*1) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero.

(*2) Other represents the adjustments of fair value when acquired.

(*3) Other represents the amount of preferred stock capital.

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15. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of December 31, 2019 and 2018 are as follows:

Investees	Net assets (a)	Ownership (%)(b)	2018			Carrying Value
			Interests in the net assets (a)*(b)	Intra-group transactions	Other	
BNP Paribas Cardif Life Insurance	₩ 333,179	14.99	49,952	(136)	-	49,816
Daewontos Co., Ltd.(*1)	(2,092)	36.33	(760)	-	760	-
Songrim Partners(*1)	(23)	35.34	(8)	-	8	-
Neoplux Technology Valuation Investment Fund	56,214	33.33	18,738	-	-	18,738
Partners 4th Growth Investment Fund	66,449	25.00	16,612	-	-	16,612
JAERYANG INDUSTRY(*2)	(2,571)	25.90	(666)	-	666	-
KTB Newlake Global Healthcare PEF(*2)	32,385	30.00	9,715	-	170	9,885
DAEKWANG SEMICONDUCTOR CO., LTD.	15,922	20.94	3,334	-	-	3,334
Shinhan-Neoplux Energy Newbiz Fund	17,032	23.33	3,974	-	-	3,974
Shinhan-Albatross Tech Investment Fund	17,827	50.00	8,908	-	-	8,908
KCLAVIS Meister Fund No.17	11,819	26.09	3,083	-	-	3,083
SG No.9 Corporate Recovery Private Equity Fund	5,385	26.49	1,427	-	-	1,427
Plutus-SG Private Equity Fund	15,943	26.67	4,252	-	-	4,252
SG ARGES Private Equity Fund No.1	18,039	24.06	4,341	-	-	4,341
Eum Private Equity Fund No.3	23,547	20.76	4,889	-	-	4,889
KTB Confidence Private Placement	17,505	30.29	5,302	-	-	5,302
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	22,738	23.89	5,432	-	-	5,432
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	41,807	20.16	8,429	-	-	8,429
VOGO DEBT STRATEGY QUALIFIED INV PRIVATE R/E INV TR 4	24,159	20.00	4,831	-	-	4,831
Platform Partners brick save Private Investment trust	8,222	98.77	8,120	-	-	8,120
Synergy-Shinhan Mezzanine New Technology Investment Fund	21,312	47.62	10,149	-	-	10,149
The Asia Pacific Capital Fund II L.P.	1,588	25.18	400	-	-	400
Shinhan Praxis K-Growth Global Private Equity Fund	87,590	18.87	16,527	-	-	16,527
Credian Healthcare Private Equity Fund II	13,361	34.07	4,553	-	-	4,553
Kiwoom Milestone Professional Private Real Estate Trust 19	20,839	50.00	10,419	-	-	10,419
AIP EURO GREEN PRIVATE REAL ESTATE TRUST No.3	96,538	21.28	20,544	-	-	20,544
Brain Professional Private Trust No.4	19,067	27.50	5,244	-	-	5,244

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15. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of December 31, 2019 and December 31, 2018 are as follows (continued) :

Investees	2018					
	Net assets (a)	Ownership (%)(b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
Hanhwa US Equity Strategy Private Real Estate Fund No.1	₩ 58,498	44.84	26,232	-	-	26,232
Brain KS Qualified Privately Placed Fund No.6	10,089	50.00	5,097	-	-	5,097
Shinhan Global Healthcare Fund 1	74,409	4.41	3,285	-	-	3,285
JB Power TL Investment Type Private Placement Special Asset Fund 7	52,453	33.33	17,484	-	-	17,484
IBK AONE Convertible 1	12,500	47.25	5,906	-	-	5,906
Rico Synergy Collabo Multi- Mezzanine 3	10,575	50.03	5,290	-	-	5,290
KB NA Hickory Private Special Asset Fund	91,627	37.50	34,360	-	-	34,360
GB Professional Private Investment Trust 6	9,087	94.51	8,588	-	-	8,588
Koramco Europe Core Private Placement Real Estate Fund No.2-2	42,289	44.02	18,616	-	-	18,616
SHBNPP Private Korea Equity Long- Short Professional Feeder	66,737	21.52	14,370	-	-	14,370
Shinhan-Stonebridge Petro PEF	1,025,077	1.82	18,681	-	-	18,681
BNP Paribas Cardif General Insurance	34,225	10.00	3,423	-	-	3,423
Axis Global Growth New Technology Investment Association	15,308	31.85	4,875	-	-	4,875
Polaris No7 Start up and Venture Private Equity Fund	15,183	28.57	4,338	-	-	4,338
Hermes Private Investment Equity Fund	24,225	29.17	7,065	-	-	7,065
Shinhan AIM FoF Fund 1a	17,467	24.91	4,351	-	-	4,351
Daishin Heim Qualified Investor Private Investment Trust No.1808	29,365	34.48	10,126	-	-	10,126
Heungkuk High Class Professional Trust Private Fund 37	18,877	50.00	9,438	-	-	9,438
IGIS Global Credit Fund 150-1	35,426	25.11	8,896	-	-	8,896
GX SHINHAN INTERVEST 1st Private Equity Fund	125,954	25.27	31,831	-	-	31,831
Soo Commerce Platform Growth Fund	25,902	24.62	6,378	-	-	6,378
Partner One Value up I Private Equity Fund	42,776	27.91	11,939	-	-	11,939
Genesis No.1 Private Equity Fund	200,669	22.80	45,758	-	-	45,758
GMB ICT New Technology Investment Fund	29,657	26.75	7,934	-	-	7,934
Soo Delivery Platform Growth Fund	29,944	30.00	8,983	-	-	8,983
Genesis North America Power Company No.1 PEF	52,170	39.92	20,824	-	-	20,824
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	26,589	23.33	6,204	-	-	6,204
Others	315,179	-	91,483	-	366	91,849
	₩ 3,476,038	-	669,496	(136)	1,970	671,330

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15. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of December 31, 2019 and 2018 are as follows (continued):

(*1) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero.

(*2) Other on this investee represents the cumulative losses as the Group has stopped the equity method, and its carrying value becomes zero due to the adjustment for 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.

(*3) Other represents the adjustments of fair value when acquired.

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15. Investments in associates (continued)

(e) The unrecognized equity method losses as of and for the years ended December 31, 2019 and 2018 are as follows:

Investees	2019	
	Unrecognized equity method losses	Cumulative unrecognized equity method losses
Songrim Partners.	₩ (14)	(22)
Hyungje art printing	(45)	(83)
MIEL CO.,LTD	(34)	(34)
IL GU FARM CO.,LTD	(90)	(90)
	₩ (183)	(229)

Investees	2018	
	Unrecognized equity method losses	Cumulative unrecognized equity method losses
Daewontos Co., Ltd.(*)	₩ -	(760)
JAEYANG INDUSTRY(*)	-	(18)
Songlim Partners.	(8)	(8)
Hyungje art printing	(38)	(38)
	₩ (46)	(824)

(*) Since the Group has disposed the investees fully or partially, the investees were excluded from the investments in associates.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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16. Investment properties

(a) Investment properties as of December 31, 2019 and 2018 are as follows:

	2019	2018
Acquisition cost	₩ 605,773	579,852
Accumulated depreciation	(117,163)	(105,032)
Carrying value	₩ 488,610	474,820

(b) Changes in investment properties for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Beginning balance	₩ 474,820	418,303
Acquisitions	2,767	115,333
Disposals	(73,588)	(13,608)
Depreciation	(17,565)	(16,917)
Amounts transferred from (to) property and equipment	104,573	(28,199)
Amounts transferred to assets held for sale(*)	(15,795)	-
Foreign currency adjustment	(169)	(92)
Business combination (Note 47)	13,567	-
Ending balance	₩ 488,610	474,820

(*) Comprise land and buildings, etc.

(c) Income and expenses on investment property for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Rental income	₩ 43,777	32,488
Direct operating expenses for investment properties that generated rental income	12,107	12,191

(d) The fair value of investment property as of December 31, 2019 and 2018 is as follows:

	2019	2018
Land and buildings(*)	₩ 1,062,195	1,121,985

(*) 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.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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17. Other assets

Other assets as of December 31, 2019 and 2018 are as follows:

	2019	2018
Accounts receivable	₩ 9,355,388	7,666,217
Domestic exchange settlement debit	4,337,628	6,121,332
Guarantee deposits	1,184,572	1,152,434
Present value discount on guarantee deposits	(45,316)	(44,694)
Accrued income	2,612,823	1,896,822
Prepaid expense	193,849	194,040
Suspense payments	71,764	73,153
Sundry assets	93,766	92,221
Separate account assets	8,253,351	2,650,302
Advance payments	317,365	616,996
Unamortized deferred acquisition cost	907,868	786,134
Other	661,998	423,759
Allowances for credit loss of other assets	(66,775)	(56,798)
	₩ <u>27,878,281</u>	<u>21,571,918</u>

18. Leases

(a) Finance lease receivables of the Group as lessor as of December 31, 2019 and 2018 are as follows:

		2019		
		Gross investment	Unearned finance income	Present value of minimum lease payment
Not later than 1 year	₩	529,326	94,809	434,517
1 ~ 2 years		443,708	63,226	380,482
2 ~ 3 years		469,754	37,725	432,029
3 ~ 4 years		289,798	16,773	273,025
4 ~ 5 years		150,811	4,225	146,586
Later than 5 years		16,782	44	16,738
	₩	<u>1,900,179</u>	<u>216,802</u>	<u>1,683,377</u>

(*) Interest income on finance lease receivables recognized during the year is ₩74,933 million.

		2018		
		Gross investment	Unearned finance income	Present value of minimum lease payment
Not later than 1 year	₩	595,427	85,333	510,094
1 ~ 5 years		1,306,571	106,333	1,200,238
Later than 5 years		16,529	38	16,491
	₩	<u>1,918,527</u>	<u>191,704</u>	<u>1,726,823</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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18. Leases (continued)

(b) The scheduled maturities of minimum lease payments for operating leases of the Group as lessor as of December 31, 2019 and 2018 are as follows:

i) Finance lease

		2019		
		Minimum lease payment	Present value adjustment	Present value of minimum lease payment
Not later than 1 year	₩	529,326	94,809	434,517
1 ~ 2 years		443,708	63,226	380,482
2 ~ 3 years		469,754	37,725	432,029
3 ~ 4 years		289,798	16,773	273,025
4 ~ 5 years		150,811	4,225	146,586
Later than 5 years		16,782	44	16,738
	₩	<u>1,900,179</u>	<u>216,802</u>	<u>1,683,377</u>

		2018		
		Minimum lease payment	Present value adjustment	Present value of minimum lease payment
Not later than 1 year	₩	595,427	85,333	510,094
1 ~ 5 years		1,306,571	106,333	1,200,238
Later than 5 years		16,529	38	16,491
	₩	<u>1,918,527</u>	<u>191,704</u>	<u>1,726,823</u>

ii) Operating lease

		2019	
		Minimum lease payment	
Not later than 1 year	₩		142,140
1 ~ 2 years			118,781
2 ~ 3 years			76,379
3 ~ 4 years			37,047
4 ~ 5 years			14,984
Later than 5 years			83
	₩		<u>389,414</u>
		2018	
		Minimum lease payment	
Not later than 1 year	₩		94,540
1 ~ 5 years			180,304
Later than 5 years			10
	₩		<u>274,854</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

18. Leases (continued)

(c) The details of the changes in operating lease assets for the year ended December 31, 2019 are as follows:

		2019
Beginning balance	₩	370,868
Acquisition		411,971
Disposition		(134,810)
Depreciation		(98,288)
Ending balance	₩	549,741

(d) The details of the right-of-use assets by the lessee's underlying asset type as of December 31, 2019 are as follows:

		2019		
		<u>Acquisition cost</u>	<u>Accumulated depreciation</u>	<u>Carrying value</u>
Real estate	₩	1,306,759	(228,956)	1,077,803
Vehicle		30,051	(8,057)	21,994
Others		20,396	(7,397)	12,999
	₩	<u>1,357,206</u>	<u>(244,410)</u>	<u>1,112,796</u>

(e) The details of the changes in the right-of-use assets for the year ended December 31, 2019 are as follows:

		2019			
		<u>Real estate</u>	<u>Vehicle</u>	<u>Others</u>	<u>Total</u>
Beginning balance	₩	554,478	16,528	12,570	583,576
Acquisitions		781,097	16,523	8,163	805,783
Disposals		(10,808)	(1,638)	(149)	(12,595)
Depreciation		(280,691)	(10,094)	(7,753)	(298,538)
Effects of foreign currency movements		2,890	91	-	2,981
Business combination (Note 47)		30,837	584	168	31,589
Ending balance	₩	<u>1,077,803</u>	<u>21,994</u>	<u>12,999</u>	<u>1,112,796</u>

(f) The details of the maturity of the lease liability as of December 31, 2019 are as follows:

		2019						
		<u>1 month or less</u>	<u>1 month ~ 3 months or less</u>	<u>3 months ~ 6 months or less</u>	<u>6 months ~ 1 year or less</u>	<u>1 year ~ 5 years or less</u>	<u>More than 5 years</u>	<u>Total</u>
Real estate	₩	20,967	34,357	47,644	86,228	848,699	28,973	1,066,868
Vehicle		1,378	1,542	2,178	4,108	14,410	-	23,616
Others		959	994	1,288	2,057	8,477	-	13,775
	₩	<u>23,304</u>	<u>36,893</u>	<u>51,110</u>	<u>92,393</u>	<u>871,586</u>	<u>28,973</u>	<u>1,104,259</u>

(*) The above amounts are based on undiscounted cash flows, and have been classified at the earliest maturity that the Group has the obligation to pay.

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18. Leases (continued)

(g) The lease payments for low-value assets and short-term leases for the year ended December 31, 2019 are as follows:

	2019	
Low-value assets	₩	5,045
Short-term lease (*)		907
Total	₩	5,952

(*) The payments less than 1 month are included.

19. Pledged assets

(a) Assets pledged as collateral as of December 31, 2019 and 2018 are as follows:

	2019	2018
Loans		
Loans at amortized cost	₩ 128,163	129,210
Securities		
Securities at FVTPL	15,016,057	11,533,107
Securities at FVOCI	2,387,555	1,372,746
Securities at amortized cost	12,791,744	10,670,253
	30,195,356	23,576,106
Deposits		
Deposits at amortized cost	1,090,161	1,481,085
Property and Equipment (real estate)	121,446	154,490
Other financial assets	404	-
	₩ 31,535,530	25,340,891

The carrying amounts of assets pledged that the pledgees have the right to sell or re-pledge regardless of the Group's default as of December 31, 2019 and 2018 are ₩9,696,487 million and ₩8,026,332 million, respectively.

(b) The fair value of collateral held that the Group has the right to sell or re-pledge regardless of pledger's default as of December 31, 2019 and 2018 are as follows:

		2019	
		Collateral held	
		Assets pledged as collateral	Assets received as collateral
Securities	₩	9,240,573	2,007,036
		2018	
		Collateral held	
		Assets pledged as collateral	Assets received as collateral
Securities	₩	7,342,239	5,190,387

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20. Deposits

Deposits as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Demand deposits:		
Korean won	₩ 103,048,895	94,210,806
Foreign currencies	13,233,812	11,950,027
	<u>116,282,707</u>	<u>106,160,833</u>
Time deposits:		
Korean won	139,824,896	123,572,793
Foreign currencies	18,602,551	16,071,970
	<u>158,427,447</u>	<u>139,644,763</u>
Negotiable certificates of deposits	9,707,791	9,247,088
Note discount deposits	4,579,587	4,087,530
CMA	3,987,372	4,084,709
Others	1,889,352	1,775,267
	<u>₩ 294,874,256</u>	<u>265,000,190</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

21. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss as of December 31, 2019 and 2018 are as follows:

		<u>2019</u>	<u>2018</u>
Securities sold:			
Stocks	₩	298,008	488,873
Bonds		825,942	440,382
Others		40,747	32,117
		<u>1,164,697</u>	<u>961,372</u>
Gold deposits		467,760	458,934
	₩	<u>1,632,457</u>	<u>1,420,306</u>

22. Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss as of December 31, 2019 and 2018 are as follows:

		<u>2019</u>	<u>2018</u>	<u>Reason for designation</u>
Equity-linked securities sold	₩	6,880,811	6,439,292	Combined instrument
Securities sold with embedded derivatives		2,528,645	2,096,508	Combined instrument
	₩	<u>9,409,456</u>	<u>8,535,800</u>	

(*) The Group designated the financial liabilities at the initial recognition (or subsequently) in accordance with paragraph 6.7.1 of K-IFRS No. 1109 as financial liabilities at fair value through profit or loss.

Maximum credit risk exposure of the financial liabilities designated at fair value through profit or loss amounts to ₩9,409,456 million as of December 31, 2019. Decrease in values of the liability due to credit risk changes are ₩11,621 million for the year ended December 31, 2019 and the accumulated changes in values are ₩(-)11,386 million as of December 31, 2019.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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23. **Borrowings**

Borrowings as of December 31, 2019 and 2018 are as follows:

	2019		2018	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Call money	0.00~ 5.25	₩ 712,247	0.00~6.85	₩ 1,425,162
Bill sold	0.80~ 1.60	19,070	0.75~1.70	14,536
Bonds sold under repurchase agreements:	0.95~ 5.40	9,089,736	0.50~6.50	7,614,659
Borrowings in Korean won:				
Borrowings from Bank of Korea	0.50~0.75	2,429,346	0.50~0.75	2,329,946
Others	0.00~6.00	14,202,096	0.00~4.25	12,108,741
		<u>16,631,442</u>		<u>14,438,687</u>
Borrowings in foreign currencies:				
Overdraft due to banks	0.00	86,791	0.00	77,673
Borrowings from banks	0.11~7.50	6,576,849	0.00~12.00	4,653,055
Others	1.94~13.65	1,748,031	2.60~7.90	1,596,626
		<u>8,411,671</u>		<u>6,327,354</u>
Deferred origination costs		(1,010)		(1,856)
		<u>₩ 34,863,156</u>		<u>₩ 29,818,542</u>

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24. Debt securities issued

Debt securities issued as of December 31, 2019 and 2018 were as follows:

	2019		2018	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Debt securities issued in Korean won:				
Debt securities issued	0.71~8.00	₩ 60,501,093	0.00~8.00	₩ 50,661,472
Subordinated debt securities issued	2.20~4.60	4,370,145	2.20~4.60	4,400,145
Loss on fair value hedges		(87,692)		(206,985)
Discount on debt securities issued		(66,334)		(84,962)
		<u>64,717,212</u>		<u>54,769,670</u>
Debt securities issued in foreign currencies:				
Debt securities issued	0.01~7.59	6,750,085	0.20~4.01	6,278,680
Subordinated debt securities issued	3.34~5.10	3,797,536	3.75~5.00	2,271,799
Gain(Loss) on fair value hedges		141,264		(55,251)
Discount on debt securities issued		(42,733)		(37,199)
		<u>10,646,152</u>		<u>8,458,029</u>
		<u>₩ 75,363,364</u>		<u>₩ 63,227,699</u>

25. Employee benefits

(a) Defined benefit obligations and plan assets

Defined benefit obligations and plan assets as of December 31, 2019 and 2018 are as follows:

	2019	2018
Present value of defined benefit obligations	₩ 2,063,102	1,841,982
Fair value of plan assets	<u>(1,943,644)</u>	<u>(1,714,634)</u>
Recognized liabilities for defined benefit obligations(*)	<u>₩ 119,458</u>	<u>127,348</u>

(*) The net defined benefit liability of ₩119,458 million as of December 31, 2019 is the net defined benefit liability of ₩121,140 million less the net plan assets of ₩1,682 million.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

25. Employee benefits (continued)

(b) Changes in the present value of defined benefit obligation and plan assets for the years ended December 31, 2019 and 2018 are as follows:

	2019		
	Defined benefit obligation	Plan assets	Net defined benefit liability
Beginning balance	₩ 1,841,982	(1,714,634)	127,348
Included in profit or loss:			
Current service cost	172,490	-	172,490
Past service cost	(1,588)	-	(1,588)
Interest expense (income)	57,253	(54,336)	2,917
Settlement expense (income)	(29)	-	(29)
	<u>228,126</u>	<u>(54,336)</u>	<u>173,790</u>
Included in other comprehensive income:			
Remeasurement loss (gain):			
- Actuarial gains (losses) arising from :			
Demographic assumptions	(7,584)	-	(7,584)
Financial assumptions	53,475	-	53,475
Experience adjustment	8,001	-	8,001
- Return on plan assets excluding interest income	-	21,719	21,719
	<u>53,892</u>	<u>21,719</u>	<u>75,611</u>
Other:			
Benefits paid by the plan	(87,066)	80,063	(7,003)
Contributions paid into the plan	-	(252,858)	(252,858)
Settlement gain or loss	216	-	216
Business combination (Note 47)	25,965	(23,598)	2,367
Effect of movements in exchange rates	(13)	-	(13)
	<u>(60,898)</u>	<u>(196,393)</u>	<u>(257,291)</u>
Ending balance	₩ <u>2,063,102</u>	<u>(1,943,644)</u>	<u>119,458</u>

(*) Profit and loss related to defined benefit plans are included in the general administrative expense.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

25. Employee benefits (continued)

(b) Changes in the present value of defined benefit obligation and plan assets for the years ended December 31, 2019 and 2018 were as follows (continued):

		2018		
		Defined benefit obligation	Plan assets	Net defined benefit liability
Beginning balance	₩	1,695,191	(1,688,047)	7,144
Included in profit or loss:				
Current service cost		144,923	-	144,923
Past service cost		54	-	54
Interest expense (income)		59,836	(66,676)	(6,840)
		<u>204,813</u>	<u>(66,676)</u>	<u>138,137</u>
Included in other comprehensive income:				
Remeasurement loss (gain):				
- Actuarial gains (losses) arising from :				
Demographic assumptions		18,399	-	18,399
Financial assumptions		79,038	-	79,038
Experience adjustment		(10,762)	-	(10,762)
- Return on plan assets excluding interest income		-	41,701	41,701
		<u>86,675</u>	<u>41,701</u>	<u>128,376</u>
Other:				
Benefits paid by the plan		(142,938)	137,335	(5,603)
Contributions paid into the plan		-	(139,348)	(139,348)
Settlement gain or loss		407	-	407
Effect of movements in exchange rates		(1,273)	-	(1,273)
Others(*2)		(893)	401	(492)
		<u>(144,697)</u>	<u>(1,612)</u>	<u>(146,309)</u>
Ending balance	₩	<u>1,841,982</u>	<u>(1,714,634)</u>	<u>127,348</u>

(*1) Profit or loss arising from defined benefit plans is included in general and administrative expenses.

(*2) Others represent the change amounts due to the conversion to defined contribution.

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December 31, 2019 and 2018

(In millions of won)

25. Employee benefits (continued)

(c) The composition of plan assets as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Plan assets comprise:		
Equity securities	₩ 256,353	257,581
Debt securities	28,094	817
Due from banks	1,577,274	1,394,634
Other	81,923	61,602
	<u>₩ 1,943,644</u>	<u>1,714,634</u>

(d) Actuarial assumptions as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>	<u>Description</u>
Discount rate	2.71%~3.17%	3.02%~3.22%	AA0 corporate bond yields
Future salary increase rate	1.80%~4.00%	0.99%~3.40%	Average for 5 years
	+ Upgrade rate	+ Upgrade rate	
Weighted average maturity	8.2 years~ 16.2 years	7.7 years ~ 9.9 years	

(e) Sensitivity analysis

As of December 31, 2019 and 2018, reasonably possible changes in one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	<u>2019</u>	
	<u>Defined benefit obligation</u>	
	<u>Increase</u>	<u>Decrease</u>
Discount rate (1%p movement)	₩ (201,770)	233,057
Future salary increase rate (1%p movement)	231,967	(204,242)
	<u>2018</u>	
	<u>Defined benefit obligation</u>	
	<u>Increase</u>	<u>Decrease</u>
Discount rate (1%p movement)	₩ (159,549)	180,542
Future salary increase rate (1%p movement)	176,924	(159,169)

26. Provisions

(a) Provisions as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Asset retirement obligations	₩ 64,922	49,183
Expected loss related to litigation	8,789	25,554
Unused credit commitments	263,752	232,347
Financial guarantee contracts issued	100,430	115,325
Others	119,131	86,007
	<u>₩ 557,024</u>	<u>508,416</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

26. Provisions (continued)

(b) Changes in provision for unused credit commitments and financial guarantee contracts issued for the years ended December 31, 2019 and 2018 are as follows.:

	2019							
	Unused credit commitments			Financial guarantee contracts issued			Total	
	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset		
Beginning allowance	₩	126,402	100,808	5,137	64,194	5,904	1,757	304,202
Transfer to 12 months expected credit loss		42,838	(42,728)	(110)	2,629	(2,629)	-	-
Transfer to life time expected credit loss		(9,286)	9,314	(28)	(1,245)	1,245	-	-
Transfer to impaired financial asset		(229)	(752)	981	(12)	-	12	-
Provided (reversed)		(28,611)	53,076	5,905	(4)	96	(943)	29,519
FX change		914	121	-	1,302	323	102	2,762
Others (*)		-	-	-	1,603	630	(117)	2,116
Ending balance	₩	132,028	119,839	11,885	68,467	5,569	811	338,599

(*) Others include effects of the provision from the new financial guarantee contracts measured at fair value, and the expired contracts, and the change of discount rate.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

26. Provisions (continued)

(b) Changes in provision for unused credit commitments and financial guarantee contracts issued for the years ended December 31, 2019 and 2018 are as follows (continued):

	2018							
	Unused credit commitments			Financial guarantee contracts issued			Total	
	12 months expected credit loss	Life time expected credit loss	Impaired financial asset	12 months expected credit loss	Life time expected credit loss	Impaired financial asset		
Beginning allowance	₩	124,492	96,010	2,137	31,456	3,368	2,464	259,927
Transfer to 12 months expected credit loss		42,514	(42,057)	(457)	1,140	(1,140)	-	-
Transfer to life time expected credit loss		(8,899)	8,976	(77)	(1,804)	1,804	-	-
Transfer to impaired financial asset		(213)	(802)	1,015	(13)	-	13	-
Provided (reversed)		(32,070)	38,576	2,519	(3,964)	455	(690)	4,826
FX change		578	105	-	758	481	449	2,371
Others (*)		-	-	-	36,621	936	(479)	37,078
Ending balance	₩	126,402	100,808	5,137	64,194	5,904	1,757	304,202

(*) Others include effects of the provision from the new financial guarantee contracts measured at fair value, and the expired contracts, and the change of discount rate.

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26. Provisions (continued)

(c) Changes in provisions for the years ended December 31, 2019 and 2018 are as follows:

2019					
	Asset retirement	Litigation	Guarantee	Other	Total
Beginning balance	₩ 49,183	25,554	43,470	86,007	204,214
Provision(reversal)	(1,280)	(981)	(19,329)	(5,753)	(27,343)
Provision used	(1,930)	(17,365)	-	(47,217)	(66,512)
Foreign exchange translation	-	-	1,420	382	1,802
Others(*)	4,476	-	22	3,784	8,282
Business combination (Note 47)	14,473	1,581	-	81,928	97,982
Ending balance	₩ 64,922	8,789	25,583	119,131	218,425

(*)Others include the effects of unwinding and changes in discount rate.

2018					
	Asset retirement	Litigation	Guarantee	Other	Total
Beginning balance(*1)	₩ 45,495	32,650	46,340	75,512	199,997
Provision(reversal)	4,789	(1,138)	(2,833)	4,900	5,718
Provision used	(4,210)	(6,343)	-	(7,554)	(18,107)
Foreign exchange translation	-	385	1,677	(1,006)	1,056
Others(*2)	3,109	-	(1,714)	14,155	15,550
Ending balance	₩ 49,183	25,554	43,470	86,007	204,214

(*1) In accordance with K-IFRS No. 1115, the Group has adjusted all bonus card point reward program related to customer loyalty programs.

(*2) Others include the effects of unwinding and changes in discount rate.

(d) 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.

(e) Allowance for guarantees and acceptances as of December 31, 2019 and 2018 are as follows:

	2019	2018
Guarantees and acceptances outstanding	₩ 9,317,412	9,437,691
Contingent guarantees and acceptances	3,669,681	3,985,532
ABS and ABCP purchase commitments	2,116,354	2,083,522
Endorsed bill	11,287	37,667
	₩ 15,114,734	15,544,412
Allowance for loss on guarantees and acceptances	₩ 100,430	115,325
Ratio	%	0.66
		0.74

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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27. Liability under insurance contracts

(a) Insurance liabilities as of December 31, 2019 and 2018 are as follows:

	2019	2018
Policy reserve	₩ 52,086,132	26,211,044
Policyholder's equity adjustment	77,285	7,838
	<u>₩ 52,163,417</u>	<u>26,218,882</u>

(b) Policy reserve as of December 31, 2019 and 2018 are as follows:

	2019	2018
Interest rate linked	₩ 30,058,020	17,328,353
Fixed interest rate	22,028,112	8,882,691
	<u>₩ 52,086,132</u>	<u>26,211,044</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

27. Liability under insurance contracts (continued)

(c) The details of policy reserves as of December 31, 2019 and 2018 are as follows:

	2019								
	Individual insurance				Group insurance			Total	
	Pure endowment	Death	Endowment	Subtotal	Pure protection	Savings	Subtotal		
Premium reserve	₩ 14,668,777	24,979,936	10,443,287	50,092,000	21,912	60	21,972	50,113,972	
Guarantee reserve	29,400	249,845	744	279,989	-	-	-	279,989	
Unearned premium reserve	2	945	-	947	291	-	291	1,238	
Reserve for outstanding claims	212,641	1,084,472	233,259	1,530,372	16,858	-	16,858	1,547,230	
Interest rate difference guarantee reserve	2,158	149	10	2,317	-	-	-	2,317	
Mortality gains reserve	8,945	42,173	153	51,271	2	-	2	51,273	
Interest gains reserve	24,486	267	17	24,770	-	-	-	24,770	
Expense gains reserve	6,211	9,434	1	15,646	-	-	-	15,646	
Long term duration dividend reserve	31,202	15,388	13	46,603	-	-	-	46,603	
Reserve for policyholder's profit dividend	2,268	-	-	2,268	-	-	-	2,268	
Reserve for losses on dividend insurance contract	826	-	-	826	-	-	-	826	
	₩	14,986,916	26,382,609	10,677,484	52,047,009	39,063	60	39,123	52,086,132

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December 31, 2019 and 2018

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27. Liability under insurance contracts (continued)

(c) The details of policy reserves as of December 31, 2019 and 2018 are as follows (continued):

		2018							
		Individual insurance				Group insurance			
		Pure endowment	Death	Endowment	Subtotal	Pure protection	Savings	Subtotal	Total
Premium reserve	₩	5,729,045	11,722,964	7,482,084	24,934,093	24,422	58	24,480	24,958,573
Guarantee reserve		10,148	64,978	124	75,250	-	-	-	75,250
Unearned premium reserve		3	301	-	304	506	-	506	810
Reserve for outstanding claims		99,676	837,317	185,328	1,122,321	18,089	-	18,089	1,140,410
Interest rate difference guarantee reserve		2,068	148	11	2,227	-	-	-	2,227
Mortality gains reserve		7,026	4,741	176	11,943	3	-	3	11,946
Interest gains reserve		18,662	254	19	18,935	-	-	-	18,935
Long term duration dividend reserve		52	9	1	62	-	-	-	62
Reserve for policyholder's profit dividend		1,773	-	-	1,773	-	-	-	1,773
Reserve for losses on dividend insurance contract		1,058	-	-	1,058	-	-	-	1,058
	₩	<u>5,869,511</u>	<u>12,630,712</u>	<u>7,667,743</u>	<u>26,167,966</u>	<u>43,020</u>	<u>58</u>	<u>43,078</u>	<u>26,211,044</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

27. Liability under insurance contracts (continued)

(d) Reinsurance credit risk as of December 31, 2019 and 2018 are as follows:

	2019		2018	
	Reinsurance assets	Reinsurance account receivable	Reinsurance assets	Reinsurance account receivable
AAA	₩ 11,477	18,192	-	-
AA- to AA+	34,498	46,302	2,451	4,416
A- to A+	2,287	4,113	1,622	3,598
	₩ 48,262	68,607	4,073	8,014

(e) Income or expenses on insurance for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Insurance income:		
Premium income	₩ 7,386,854	4,348,745
Reinsurance income	146,564	15,222
Separate account income	36,007	34,771
	7,569,425	4,398,738
Insurance expenses:		
Claims paid	5,436,069	2,549,147
Reinsurance premium expenses	165,979	18,482
Provision for policy reserves (*)	1,724,816	1,694,716
Separate account expenses	36,007	34,770
Discount charge	657	669
Acquisition costs	805,508	454,479
Collection expenses	19,049	16,046
Deferred acquisition costs	(495,534)	(283,665)
Amortization of deferred acquisition costs	373,800	385,793
	8,066,351	4,870,437
Net loss on insurance	₩ (496,926)	(471,699)

(*) Interest expenses on savings insurance contracts are included. (Accumulated ₩1,907,954 million as of December 31, 2019 and accumulated ₩964,816 million as of December 31, 2018)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

27. **Liability under insurance contracts (continued)**

(f) Maturity of premium reserve as of December 31, 2019 and 2018 are as follows:

		2019						
		Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	Total
Fixed interest rate	₩	845,304	2,079,125	2,118,652	941,413	2,236,313	20,732,909	28,953,716
Interest rate linked		213,892	329,647	1,032,366	572,153	2,058,859	16,953,340	21,160,257
Ending balance	₩	1,059,196	2,408,772	3,151,018	1,513,566	4,295,172	37,686,249	50,113,973

		2018						
		Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	Total
Fixed interest rate	₩	111,102	247,619	741,222	502,572	1,288,815	5,284,548	8,175,878
Interest rate linked		195,843	922,832	1,247,871	343,562	1,500,893	12,571,694	16,782,695
Ending balance	₩	306,945	1,170,451	1,989,093	846,134	2,789,708	17,856,242	24,958,573

(g) Liability adequacy test, LAT – Shinhan Life Insurance Co., Ltd.

i) Scope

Liability adequacy tests were performed on the premium reserve, unearned premium reserve and guarantee reserve for the contracts held at December 31, 2019 and 2018. 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.

ii) Output overview

In the debt appraisal system, the insurance premium surplus method is applied to calculate premium deficits.

Premium deficiency refers to deficiency when the amount of accumulated reserve is insufficient due to a decrease in the interest rate after the sale of the product or an increase in the risk rate compared with the expected basic rate at the time of product development.

The insurance premium standard inspection method is a method of calculating the reserve amount based on the present value of total income reflecting the interest rate, the risk rate, the business ratio, the cancellation rate, etc. and the present value of the total expenditure, that is, (discount rate), business ratio, risk rate, and cancellation rate calculated based on the Group's own experience, which reflects company-specific characteristics, and does not reflect subjective factors such as management's willingness to improve management.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

27. **Liability under insurance contracts (continued)**

(g) Liability adequacy test, LAT – Shinhan Life Insurance Co., Ltd. (continued)

iii) The assumptions of the current estimation used to assessment and their basis for calculation was as follows:

	Assumptions		Measurement basis
	2019	2018	
Discount rate	2.02% ~ 8.35%	2.25% ~ 8.32%	The scenario adding liquidity premium to risk-free rate, which is suggested from Financial Supervisory Service
Mortality rate	11.36% ~ 497.99%	2.58% ~ 247.65%	Ratio by claims paid per premium paid on risk premium based on experience-based rate by products, collateral of last 5 years.
Operating expense rate	Acquisition cost - The first time : 90.00% ~ 1,022.75% - From the second time : 0.00% ~ 193.50% Maintenance expense (each case): 1,229 won ~ 3,332 won Collection expenses (on gross premium): 0.05% ~ 1.27%	Acquisition cost - The first time : 90.00% ~ 982.70% - From the second time : 0.00% ~ 193.50% Maintenance expense (each case): 207 won ~ 3,531 won Collection expenses (on gross premium): 0.04% ~ 1.10%	Business rate on insurance premium or expenses per contract based on experience-based rate of last 1 year
Surrender ratio	0.76% ~ 33.03%	0.95% ~ 48.35%	Surrender ratio by elapsed period, classes of sales channel, product of last 5 years

iv) The result of liability adequacy test as of December 31, 2019 and 2018 are as follows:

	2019		
	Provisions for test	LAT base	Premium loss (surplus)
Participating:			
Fixed interest	₩ 595,317	1,248,489	653,172
Variable interest	900,378	1,002,149	101,771
	1,495,695	2,250,638	754,943
Non- Participating:			
Fixed interest	6,608,221	3,079,715	(3,528,506)
Variable interest	14,563,065	12,340,762	(2,222,303)
	21,171,286	15,420,477	(5,750,809)
₩	22,666,981	17,671,115	(4,995,866)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

27. Liability under insurance contracts (continued)

(g) Liability adequacy test, LAT – Shinhan Life Insurance Co., Ltd. (continued)

iv) The result of liability adequacy test as of December 31, 2019 and 2018 are as follows (continued):

	2018		
	Provisions for test	LAT base(*)	Premium loss (surplus)
Participating:			
Fixed interest	₩ 589,618	1,322,481	732,863
Variable interest	859,858	939,791	79,933
	<u>1,449,476</u>	<u>2,262,272</u>	<u>812,796</u>
Non- Participating:			
Fixed interest	6,009,771	2,822,160	(3,187,611)
Variable interest	14,149,581	12,037,953	(2,111,628)
	<u>20,159,352</u>	<u>14,860,113</u>	<u>(5,299,239)</u>
	<u>₩ 21,608,828</u>	<u>17,122,385</u>	<u>(4,486,443)</u>

(*) It is recalculated in accordance with the revised discount rate calculation rules for the year December 31, 2019.

v) Sensitivity analysis as of December 31, 2019 and 2018 are as follows:

	LAT fluctuation	
	2019	2018(*)
Discount rate increased by 0.5%	₩ (1,582,746)	(1,610,988)
Discount rate decreased by 0.5%	1,906,134	1,938,357
Operating expense increased by 10%	292,246	229,339
Mortality rate increased by 10%	873,184	837,453
Mortality rate increased by 5%	438,685	420,774
Surrender ratio increased by 10%	373,062	291,806

(*) It is recalculated in accordance with the revised discount rate calculation rules for the year December 31, 2019.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

27. Liability under insurance contracts (continued)

(h) Liability adequacy test, LAT – Orange Life Insurance Co., Ltd.

i) Scope

Liability adequacy tests were performed on the premium reserve, unearned premium reserve and guarantee reserve for the contracts held at December 31, 2019. 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.

ii) Output overview

In the debt appraisal system, the insurance premium surplus method is applied to calculate premium deficits.

Premium deficiency refers to deficiency when the amount of accumulated reserve is insufficient due to a decrease in the interest rate after the sale of the product or an increase in the risk rate compared with the expected basic rate at the time of product development.

The insurance premium standard inspection method is a method of calculating the reserve amount based on the present value of total income reflecting the interest rate, the risk rate, the business ratio, the cancellation rate, etc. and the present value of the total expenditure, that is, (discount rate), business ratio, risk rate, and cancellation rate calculated based on the Group's own experience, which reflects company-specific characteristics, and does not reflect subjective factors such as management's willingness to improve management.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

27. **Liability under insurance contracts (continued)**

(h) Liability adequacy test, LAT – Orange Life Insurance Co., Ltd. (continued)

iii) The assumptions of the current estimation used to assessment and their basis for calculation was as follows:

	Assumptions	
	2019	Measurement basis
Discount rate	2.07% ~ 10.86%	The scenario adding liquidity premium to risk-free rate, which is suggested from Financial Supervisory Service
Mortality rate	20.00% ~ 255.00%	Ratio by claims paid per premium paid on risk premium based on experience-based rate by products, collateral of last 5 years.
Operating expense rate	Acquisition cost (each case): 5,500 won ~ 1,227,000 won - Proportional to annualized premium: 0.00% ~ 12.55% Maintenance expense (each case): 50 won ~ 32,500 won - Proportional to premium income: 0.42% ~ 3.45% - Proportional to surrender value: 0.12%	Based on the recent one-year experience statistics, the Company reflects the company's future business cost policy to calculate the unit business cost by cost driver by division (new contract cost / maintenance cost) and sales channel. However, temporary expenses incurred unusually is excluded.
Surrender ratio	0.00% ~ 50.00%	Based on experience statistics for the last five years or more, annual premiums are calculated based on product group, payment method, channel, and elapsed period. Payment status (full payment and pension initiation) and tax benefits are included.

iv) The result of liability adequacy test as of December 31, 2019 are as follows:

	2019		
	Provisions for test	LAT base	Premium loss (surplus)
Participating:			
Fixed interest	₩ 716,607	644,715	(71,892)
Variable interest	1,134,245	1,541,967	407,722
	1,850,852	2,186,682	335,830
Non- Participating:			
Fixed interest	9,296,542	4,629,266	(4,667,276)
Variable interest	9,236,731	8,635,022	(601,709)
Variable type (*)	(268,818)	(1,882,573)	(1,613,755)
	18,264,455	11,381,715	(6,882,740)
	₩ 20,115,307	13,568,397	(6,546,910)

(*) Variable type refers to a variable insurance.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018
(In millions of won)

27. Liability under insurance contracts (continued)

(h) Liability adequacy test, LAT – Orange Life Insurance Co., Ltd. (continued)

v) Sensitivity analysis as of December 31, 2019 is as follows:

	LAT fluctuation	
	2019	
Discount rate increased by 0.5%	₩	(1,203,136)
Discount rate decreased by 0.5%		1,686,867
Operating expense increased by 10%		245,181
Mortality rate increased by 10%		877,624
Mortality rate increased by 5%		440,025
Surrender ratio increased by 10%		421,767

28. Other liabilities

Other liabilities as of December 31, 2019 and 2018 are as follows:

	2019	2018
Lease liabilities	₩ 1,104,259	-
Accounts payable	11,894,764	9,748,168
Accrued expenses	3,502,538	3,267,188
Dividend payable	31,599	49,486
Advance receipts	173,850	131,386
Unearned income	294,710	236,827
Withholding value-added tax and other taxes	720,053	547,097
Securities deposit received	1,903,119	651,153
Foreign exchange remittances pending	243,532	225,956
Domestic exchange remittances pending	1,452,955	1,115,939
Borrowing from trust account	5,350,285	2,999,445
Due to agencies	744,660	779,473
Deposits for subscription	60,500	76,019
Separate account liabilities	8,700,695	2,845,380
Sundry liabilities	1,968,823	2,496,169
Other	151,056	50,881
Present value discount	(59,840)	(20,888)
	₩ <u>38,237,558</u>	<u>25,199,679</u>

(*) As of December 31, 2019, the Group accounts for the lease liabilities as other liabilities. During the year ended December 31, 2019, the amount of variable lease payments that are not included in the measurement of lease liabilities is ₩189 million, cash outflows from leases are ₩275,218 million, and interest expense on lease liabilities is ₩11,291 million.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

29. Equity

(a) Equity as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Capital stock:		
Common stock	₩ 2,370,998	2,370,998
Preferred stock(*1)	361,465	274,055
	<u>2,732,463</u>	<u>2,645,053</u>
Hybrid bond	1,731,235	1,531,759
Capital surplus:		
Share premium(*1)	10,155,150	9,494,769
Others	410,203	400,719
	<u>10,565,353</u>	<u>9,895,488</u>
Capital adjustments(*2)	(1,116,770)	(552,895)
Accumulated other comprehensive income, net of tax:		
Gain on financial assets at fair value through other comprehensive income	306,470	2,958
Gain(Loss) on financial assets at fair value through profit or loss (overlay approach)	71,621	(79,057)
Equity in other comprehensive income of associates	8,177	4,883
Foreign currency translation adjustments for foreign operations	(217,465)	(321,853)
Net loss from cash flow hedges	(33,711)	(17,751)
Other comprehensive income of separate account	14,539	4,112
Actuarial losses	(401,532)	(346,682)
Changes in own credit risk on financial liabilities designated under fair value option	(8,255)	170
	<u>(260,156)</u>	<u>(753,220)</u>
Retained earnings(*3),(*4),(*5)	25,525,821	22,959,440
Non-controlling interest (*6),(*7)	2,752,435	925,805
	₩ <u>41,930,381</u>	<u>36,651,430</u>

(*1) For the year ended December 31, 2019, ₩750,000 million scale of convertible preferred share was issued. Investors may claim the conversion after one year from the date of issue to the day before the fourth year from the date of issue and convertible shares not converted until the fourth year from the date of issue will be automatically converted on the day of the fourth year from the date of issue.

(*2) The Group acquired treasury stocks through a treasury stock trust for the years ended December 31, 2019 and 2018 and has recognized the consideration paid in equity, directly. The Group entered into a shareholders' agreement to acquire additional shares in the Asia Trust Co., Ltd., resulting in decrease of ₩125,829 million in capital adjustment for the year ended December 31, 2019.

(*3) As of December 31, 2019 and 2018, profits reserved by the Group as of Article 53 of the Financial Holding Companies Act amounted to ₩2,191,677 million and ₩2,068,190 million, respectively.

(*4) As of December 31, 2019 and 2018, the regulatory reserves for loan losses the Group appropriated in retained earnings are ₩8,728 million and ₩7,572 million, respectively.

(*5) As of December 31, 2019, profit dividends within retained earnings of subsidiaries of the Group subject to a restricted dividend in accordance with laws, etc. are amounted to ₩6,419,934 million.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won, except per share data)

29. Equity (continued)

(a) Equity as of December 31, 2019 and 2018 are as follows (continued):

(*6) As of December 31, 2019 and 2018, the total amounts of hybrid bonds that Shinhan Bank, Jeju Bank and Shinhan Capital have recognized as non-controlling interests were ₩1,147,635 million and ₩748,497 million, respectively. And, as of December 31, 2019 and 2018, the amounts of dividends paid for the hybrid bonds by Shinhan Bank, Jeju Bank, and Shinhan Capital, ₩36,729 million and ₩27,546 million, respectively, are allocated to the net income of non-controlling interest.

(*7) The non-controlling interest of ₩1,250,333 million increased due to business combination with Orange Life Insurance Co.,Ltd and Asia Trust Co., Ltd. for the year ended December 31, 2019. (Note 47)

(b) Capital stock

Capital stock of the Group as of December 31, 2019 and 2018 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 as of December 31,2019	17,482,000

(c) Hybrid bonds

Hybrid bonds classified as other equity instruments as of December 31, 2019 and December 31, 2018 are as follows:

Issue date	Currency	Maturity date	Interest rate (%)		2019	2018
June 25, 2015	KRW	June 25, 2045	4.38	₩	199,455	199,455
September 15, 2017	"	-	3.77		134,683	134,683
September 15, 2017	"	-	4.25		89,783	89,783
April 13, 2018	"	-	4.08		134,678	134,678
April 13, 2018	"	-	4.56		14,955	14,955
August 29, 2018	"	-	4.15		398,679	398,679
June 28, 2019	"	-	3.27		199,476	-
August 13, 2018	USD	-	5.88		559,526	559,526
				₩	1,731,235	1,531,759

The Group can make advanced redemption for the above bonds, after 5 or 10 years from the issuance date; and has unconditional rights to extend the maturity under the same condition. In addition, if the determination has been made that dividend is not paid for common shares, then the interest for the above bonds is also not paid.

(d) Capital adjustments

Changes in capital adjustments for the years ended December 31, 2019 and 2018 are as follows:

		2019	2018
Beginning balance	₩	(552,895)	(398,035)
Acquisition of stocks		(444,077)	(155,923)
The Acquisition commitment amount for subsidiaries's remaining shares		(125,830)	-
Other transactions with owners		6,032	1,063
Ending balance	₩	(1,116,770)	(552,895)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

29. Equity (continued)

(e) Accumulated other comprehensive income

Changes in accumulated other comprehensive income for the years ended December 31, 2019 and 2018 are as follows:

	2019										
	Items that are or may be reclassified to profit or loss						Items that will never be reclassified to profit or loss				
	Gain (loss) on financial asset at fair value through other comprehensive income	Gain (loss) on valuation of financial asset measured at FVTPL (overlay approach)	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net gain (loss) from cash flow hedges	Other comprehensive income of separate account	Remeasurements of the defined benefit plans	Equity in other comprehensive income of associates	Gain (loss) on financial asset at fair value through other comprehensive income	Gain (loss) on financial Liabilities measured at FVTPL attributable to changes in credit risk	Total
Beginning balance	₩ (51,300)	(79,057)	4,891	(321,853)	(17,751)	4,112	(346,682)	(8)	54,258	170	(753,220)
Change due to fair value	491,953	225,706	3,353	-	-	14,382	-	(11)	19,935	(11,621)	743,697
Reclassification:											
Change due to impairment or disposal	(23,281)	-	-	-	-	-	-	-	-	-	(23,281)
Effect of hedge accounting	-	-	-	-	(75,020)	-	-	-	-	-	(75,020)
Hedging	(731)	-	-	(49,361)	50,083	-	-	-	-	-	(9)
Effects from exchange rate fluctuations	-	-	-	147,899	-	-	-	-	293	-	148,192
Remeasurements of the defined benefit plans	-	-	-	-	-	-	(75,595)	-	-	-	(75,595)
Deferred income taxes	(115,856)	(62,739)	(51)	7,233	6,348	(3,955)	20,951	3	(7,204)	3,196	(152,074)
Transfer to other account	-	-	-	-	-	-	-	-	5,860	-	5,860
Non-controlling interests	(67,457)	(12,289)	-	(1,383)	2,629	-	(206)	-	-	-	(78,706)
Ending balance	₩ 233,328	71,621	8,193	(217,465)	(33,711)	14,539	(401,532)	(16)	73,142	(8,255)	(260,156)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

29. Equity (continued)

(e) Accumulated other comprehensive income (continued)

Changes in accumulated other comprehensive income for the years ended December 31, 2019 and 2018 are as follows (continued):

	2018											
	Items that are or may be reclassified to profit or loss						Items that will never be reclassified to profit or loss					Total
	Gain (loss) on financial asset at fair value through other comprehensive income	Gain (loss) on valuation of financial asset measured at FVTPL (overlay approach)	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net gain (loss) from cash flow hedges	Other comprehensive income of separate account	Remeasurements of the defined benefit plans	Equity in other comprehensive income of associates	Gain (loss) on financial asset at fair value through other comprehensive income	Gain (loss) on financial Liabilities measured at FVTPL attributable to changes in credit risk		
Beginning balance	₩ (211,003)	(24,724)	(2,516)	(342,318)	2,441	(4,564)	(253,995)	(46)	31,533	(1,553)	(806,745)	
Change due to fair value	225,173	(74,942)	(2,327)	-	-	11,967	-	39	25,077	2,376	187,363	
Reclassification:												
Change due to impairment or disposal	15,812	-	13,103	-	-	-	-	-	-	-	28,915	
Effect of hedge accounting	-	-	-	-	(92,272)	-	-	-	-	-	(92,272)	
Hedging	(2,365)	-	-	(35,879)	60,501	-	-	-	-	-	22,257	
Effects from exchange rate fluctuations	1,733	-	-	45,904	-	-	-	-	423	-	48,060	
Remeasurements of the defined benefit plans	-	-	-	-	-	-	(128,139)	-	-	-	(128,139)	
Deferred income taxes	(79,345)	20,609	(3,369)	9,958	11,579	(3,291)	35,041	(11)	(5,410)	(653)	(14,892)	
Transfer to other account	-	-	-	-	-	-	-	10	2,635	-	2,645	
Non-controlling interests	(1,305)	-	-	482	-	-	411	-	-	-	(412)	
Ending balance	₩ (51,300)	(79,057)	4,891	(321,853)	(17,751)	4,112	(346,682)	(8)	54,258	170	(753,220)	

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

29. Equity (continued)

(f) Appropriation of retained earnings

Statements of appropriation of retained earnings for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
	March 26, 2020	March 27, 2019
Date of appropriation:		
Unappropriated retained earnings:		
Balance at beginning of year	₩ 5,184,339	4,867,521
Net effect due to change in accounting policy	-	(23)
Dividend to hybrid bonds	(61,993)	(40,357)
Net income	1,129,173	1,234,883
	<u>6,251,519</u>	<u>6,062,024</u>
Appropriation of retained earnings:		
Legal reserve	(112,917)	(123,488)
Dividends		
Dividends on common stocks paid	(851,587)	(753,041)
Dividends on preferred stocks paid	(32,342)	-
Regulatory reserve for loan losses	(3,260)	(1,156)
	<u>(1,000,106)</u>	<u>(877,685)</u>
Unappropriated retained earnings to be carried over to subsequent year	₩ 5,251,413	5,184,339

(*) These statements of appropriation of retained earnings are based on the separate financial statements of Shinhan Finance Group.

(g) Regulatory reserve for loan losses

In accordance with Regulations for the Supervision of Financial Institutions, the Group reserves the difference between allowance for credit losses by K-IFRS and that as required by the Regulations at the account of regulatory reserve for loan losses in retained earnings.

i) Changes in regulatory reserve for loan losses including non-controlling interests for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Beginning balance	₩ 2,844,690	2,885,018
K-IFRS No. 1109 adoption	-	(388,551)
Business combination	25,608	-
Planned regulatory reversal of loan losses	290,872	348,223
Ending balance	<u>₩ 3,161,170</u>	<u>2,844,690</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won, except per share data)

29. Equity (continued)

(g) Regulatory reserve for loan losses (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, 2019 and 2018 are as follows:

		<u>2019</u>	<u>2018</u>
Profit attributable to equity holders of Shinhan Financial Group	₩	3,403,497	3,156,722
Provision for regulatory reserve for loan losses (*1)		(292,728)	(348,127)
Profit attributable to equity holders of Shinhan Financial Group adjusted for regulatory reserve	₩	<u>3,110,769</u>	<u>2,808,595</u>
Basic and diluted earnings per share adjusted for regulatory reserve in won(*2)		6,387	5,844

(*1) The increase in reserve for credit losses, ₩25,608 million, due to the business combination with Orange Life insurance and Asia Trust. during the year is excluded.

(*2) Dividends for hybrid bonds are deducted.

(h) Treasury stock

The acquisitions of treasury stock as of December 31, 2019 and 2018 are as follows::

		2019		
		<u>Beginning balance</u>	<u>Acquisition</u>	<u>Ending balance</u>
The number of share		3,648,659	10,233,403	13,882,062
Carrying value	₩	155,923	444,077	600,000

(*) The Group entered into a treasury stock trust agreement with Samsung Securities Co., Ltd., and acquired treasury stocks.

		2018		
		<u>Beginning balance</u>	<u>Acquisition</u>	<u>Ending balance</u>
The number of share		-	3,648,659	3,648,659
Carrying value	₩	-	155,923	155,923

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30. Dividends

(a) Details of dividends recognized as distributions to stockholders for the years ended December 31, 2019 and 2018 are as follows:

		<u>2019 (*1)</u>	<u>2018</u>
Common Stock			
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		1,850	1,600
Dividends(*2)	₩	<u>851,587</u>	<u>753,041</u>
Dividend rate per share	%	<u>37.0</u>	<u>32.0</u>
Preferred Stock			
Total number of shares issued and outstanding	₩	17,482,000	-
Par value per share in won		5,000	-
Dividend per share in won		1,850	-
Dividends	₩	<u>32,342</u>	-
Dividend rate per share	%	<u>37.0</u>	-

(*1) The dividend is the amount of dividend that will be paid on March 26, 2020 and is not recognized as a distribution to the owners during the year.

(*2) Dividends on own shares held by the Group are excluded.

(b) Dividend for hybrid bond was calculated as follows for the years ended December 31, 2019 and 2018:

		<u>2019</u>	<u>2018</u>
Amount of hybrid bond	₩	1,738,150	1,538,150
Interest rate	%	<u>3.27 ~ 5.88</u>	<u>3.77 ~ 5.88</u>
Dividend	₩	<u>61,993</u>	<u>40,357</u>

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(In millions of won)

31. Net interest income

Net interest income for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Interest income:		
Cash and deposits at amortized cost	₩ 210,415	155,075
Deposits at FVTPL	31,506	33,845
Securities at FVTPL	740,378	623,651
Securities at FVOCI	1,077,995	759,301
Securities at amortized cost	1,061,262	730,382
Loans at amortized cost	12,435,302	11,158,558
Loans at FVTPL	56,961	23,110
Others	93,543	88,534
	<u>15,707,362</u>	<u>13,572,456</u>
Interest expense:		
Deposits	(3,644,632)	(3,091,659)
Borrowings	(551,416)	(468,068)
Debt securities issued	(1,666,257)	(1,336,840)
Others	(107,093)	(95,800)
	<u>(5,969,398)</u>	<u>(4,992,367)</u>
Net interest income	₩ <u>9,737,964</u>	<u>8,580,089</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

32. Net fees and commission income

Net fees and commission income for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Fees and commission income:		
Credit placement fees	₩ 66,666	62,766
Commission received as electronic charge receipt	151,584	146,309
Brokerage fees	353,382	412,165
Commission received as agency	140,484	120,508
Investment banking fees	151,031	91,273
Commission received in foreign exchange activities	244,325	214,395
Asset management fees	307,167	235,275
Credit card fees	1,234,239	1,360,322
Operating lease fees (*)	142,025	82,141
Others	766,110	570,102
	<u>3,557,013</u>	<u>3,295,256</u>
Fees and commission expense:		
Credit-related fee	(42,023)	(36,817)
Credit card fees	(915,521)	(944,533)
Others	(458,950)	(374,909)
	<u>(1,416,494)</u>	<u>(1,356,259)</u>
Net fees and commission income	₩ <u>2,140,519</u>	<u>1,938,997</u>

(*) Among operating lease fees recognized during the current period, there is no variable lease fee income which does not vary by index or rate.

33. Dividend income

Dividend income for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Securities at FVTPL	₩ 65,572	70,955
Securities at FVOCI	16,586	16,871
	<u>₩ 82,158</u>	<u>87,826</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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34. Net gain (loss) on financial instruments measured at fair value through profit or loss

Net gain (loss) on financial instruments measured at fair value through profit or loss for the ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Net gain (loss) on deposits measured at FVTPL		
Gain (loss) on valuation	₩ 87,374	(61,848)
Gain on sale	13,400	-
	<u>100,774</u>	<u>(61,848)</u>
Net gain (loss) on loans measured at FVTPL		
Gain (loss) on valuation	(248,032)	916
Gain on sale	10,395	9,133
	<u>(237,637)</u>	<u>10,049</u>
Net gain (loss) on securities measured at FVTPL		
Debt securities		
Gain on valuation	137,181	111,029
Gain on sale	125,431	78,718
Other gains	297,024	223,731
	<u>559,636</u>	<u>413,478</u>
Equity securities		
Gain on valuation	141,246	286,801
Gain (loss) on sale	183,969	(275,356)
	<u>325,215</u>	<u>11,445</u>
Other		
Gain on valuation	28,803	19,086
Net gain (loss) on financial liabilities measured at FVTPL		
Debt securities		
Loss on valuation	(16,810)	(115,667)
Gain (loss) on disposition	(35,710)	268,932
	<u>(52,520)</u>	<u>153,265</u>
Other		
Loss on valuation	(91,025)	(14,892)
Gain on disposition	4,169	1,394
	<u>(86,856)</u>	<u>(13,498)</u>
Derivatives:		
Gain (loss) on valuation	388,880	(291,879)
Gain on transaction	359,187	179,928
	<u>748,067</u>	<u>(111,951)</u>
	<u>₩ 1,385,482</u>	<u>420,026</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won)

35. 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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Financial assets designated at fair value through profit or loss:		
Equity securities:		
Loss on sale	₩ -	(4,737)
Financial liabilities designated at fair value through profit or loss:		
Borrowings:		
Gain (loss) on valuation	(33,871)	382,667
Loss on sale and redemption	(812,175)	(404,573)
	₩ <u>(846,046)</u>	<u>(26,643)</u>

36. Provision for allowance for credit loss

Provision for allowance for credit loss on financial assets for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Loans at amortized cost	₩ (910,898)	(704,515)
Other financial assets at amortized cost	(33,945)	(24,070)
Securities at fair value through other comprehensive income	(5,787)	(12,066)
Others (unused credit line and financial guarantee, etc)	(29,519)	(4,826)
Securities at amortized cost	(543)	(2,400)
	₩ <u>(980,692)</u>	<u>(747,877)</u>

37. General and administrative expenses

General and administrative expenses for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Employee benefits:		
Salaries	₩ 2,918,065	2,736,604
Severance benefits:		
Defined contribution	35,972	23,745
Defined benefit	168,732	133,749
Termination benefits	122,732	115,275
	<u>3,245,501</u>	<u>3,009,373</u>
Entertainment	36,931	30,442
Depreciation	479,657	171,771
Amortization	99,208	73,575
Taxes and dues	197,691	176,133
Advertising	265,739	287,688
Research	17,742	13,928
Others	792,205	978,665
	₩ <u>5,134,674</u>	<u>4,741,575</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

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38. Share-based payments

(a) Stock options granted as of December 31, 2019 are as follows:

	<u>5th grant(*1)</u>	<u>6th grant(*1)</u>	<u>7th grant(*1)(*2)</u>
Type	Cash payment	Cash payment	Cash payment
Grant date	March 21, 2006	March 20, 2007	March 19, 2008
Exercise price in won	₩ 38,829	₩ 54,560	₩ 49,053
Number of shares granted	3,296,200	1,301,050	808,700
Options expiry dates	August 21, 2019	August 19, 2020	May 17, 2021/ September 17, 2021
Changes in number of shares granted:			
Balance at January 1, 2019	2,500	58,764	45,628
Exercised and cancelled	2,500	-	9,466
Balance at December 31, 2019	<u>-</u>	<u>58,764</u>	<u>36,162</u>
Fair value per share in won	-	₩ 88	₩ 1,122 (Expiration of contractual exercise period : May 17, 2021) ₩ 1,301 (Expiration of contractual exercise period : Sep 17, 2021)

(*1) The weighted average exercise price for 94,926 stock options outstanding at December 31, 2019 is ₩52,462.

(*2) As of December 31, 2019, the exercise of the remaining for 9,466 stock options (7th grant) was cancelled.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won, except per share data)

38. Share-based payments (continued)

(b) Performance shares granted as of December 31, 2019 are as follows:

	Expired	Not expired
Type	Cash-settled share-based payment	
Performance conditions	Increase rate of the stock price and achievement of target ROE	
Operating period	4 or 5 years	
Estimated number of shares vested at December 31, 2019	20,427	2,074,713
Fair value per share in won	₩40,889, ₩45,766, ₩49,405, ₩40,580, ₩44,222, for the expiration of operating period from 2015 to 2019	₩43,350

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. Share price to be paid in the future is evaluated using the share price as of the end of the reporting period. For share-based payment transactions among the controlling company and its subsidiaries, the controlling company and its subsidiaries receiving the services shall measure the services received as a cash-settled and an equity-settled share-based payment transaction, respectively.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

38. Share-based payments (continued)

(c) Share-based compensation costs for the years ended December 31, 2019 and 2018 were as follows:

		2019		
		Employees of		
		The controlling company	The subsidiaries	Total
Stock options granted:				
5th	₩	-	9	9
6th		(3)	(15)	(18)
7th		(5)	(6)	(11)
Performance share		4,678	32,646	37,324
	₩	<u>4,670</u>	<u>32,634</u>	<u>37,304</u>
		2018		
		Employees of		
		The controlling company	The subsidiaries	Total
Stock options granted:				
4th	₩	-	(14)	(14)
5th		-	(19)	(19)
6th		(23)	(139)	(162)
7th		(59)	(86)	(145)
Performance share		1,154	9,768	10,922
	₩	<u>1,072</u>	<u>9,510</u>	<u>10,582</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

38. Share-based payments (continued)

(d) Accrued expenses and the intrinsic value as of December 31, 2019 and 2018 are as follows:

	2019		
	Accrued expenses(*)		
	The controlling company	The subsidiaries	Total
Stock options granted:			
6th	₩ 1	4	5
7th	19	27	46
Performance share	10,003	81,352	91,355
	₩ 10,023	81,383	91,406

(*)The intrinsic value of share-based payments is ₩91,355 million as of December 31, 2019. For calculating, the quoted market price ₩43,350 per share was used for stock options and the fair value was considered as intrinsic value for performance shares, respectively.

	2018		
	Accrued expenses(*)		
	The controlling company	The subsidiaries	Total
Stock options granted:			
5th	₩ -	7	7
6th	3	20	23
7th	24	33	57
Performance share	7,328	61,790	69,118
	₩ 7,355	61,850	69,205

(*) The intrinsic value of share-based payments is ₩69,120 million as of December 31, 2018. For calculating, the quoted market price ₩39,600 per share was used for stock options and the fair value was considered as intrinsic value for performance shares, respectively.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

39. Net other operating expense

Other operating income and other operating expense for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Other operating income		
Gain on sale of assets:		
Loans at amortized cost	₩ 18,298	40,624
Others:		
Gain on hedged items	564,438	418,390
Reversal of allowance for acceptances and guarantee	19,329	2,834
Gain on trust account	27	-
Reversal of other allowance	11,194	5,033
Others	97,777	131,345
	<u>692,765</u>	<u>557,602</u>
	<u>711,063</u>	<u>598,226</u>
Other operating expense		
Loss on sale of assets:		
Loans at amortized cost	(27,291)	(14,271)
Others:		
Loss on hedged items	(596,533)	(406,872)
Contribution	(311,336)	(283,331)
Provision for other allowance	(6,939)	(13,036)
Depreciation of operating lease assets	(98,288)	(56,570)
Others	(857,918)	(653,501)
	<u>(1,871,014)</u>	<u>(1,413,310)</u>
	<u>(1,898,305)</u>	<u>(1,427,581)</u>
Net other operating expenses	₩ <u>(1,187,242)</u>	<u>(829,355)</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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40. Net other non-operating income

Other non-operating income and other non-operating expense for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Other non-operating income		
Gain on disposal of assets:		
Property and equipment (*)	₩ 1,452	12,611
Investment property	12,640	4,783
Lease assets	1,681	1,153
Right-of-use assets	1,112	-
Others	407	-
	<u>17,292</u>	<u>18,547</u>
Gain on disposal of Investments in associates	3,461	17,427
Others:		
Rental income on investment property	43,777	32,488
Reversal of impairment losses on intangible asset	438	62
Gain from assets contributed	86	77
Others	82,879	49,276
	<u>127,180</u>	<u>81,903</u>
	<u>147,933</u>	<u>117,877</u>
Other non-operating expense		
Loss on disposal of assets:		
Property and equipment (*)	(870)	(3,082)
Investment property	-	(2,958)
Lease assets	(3,221)	(3,964)
Right-of-use assets	(306)	-
Others	-	(3)
	<u>(4,397)</u>	<u>(10,007)</u>
Loss on disposal of investments in associates	(3,974)	(11,546)
Impairment loss on investments in associates	-	(5,849)
	<u>(3,974)</u>	<u>(17,395)</u>
Others:		
Donations	(94,937)	(88,650)
Depreciation of investment properties	(17,565)	(16,917)
Impaired loss on intangible assets	(152,081)	(771)
Write-off of intangible assets	(9,221)	(1,537)
Collecting of written-off expenses	(7,322)	(6,048)
Others	(46,465)	(26,844)
	<u>(327,591)</u>	<u>(140,767)</u>
	<u>(335,962)</u>	<u>(168,169)</u>
Net other non-operating loss	₩ <u>(188,029)</u>	<u>(50,292)</u>

(*) Gains or losses on sale and leaseback transactions are included in gains or losses on disposal of property and equipment respectively, and there are no gains or losses recognized on sale and leaseback transactions for the year ended December 31, 2019.

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(In millions of won)

41. Income tax expense

(a) Income tax expense for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Current income tax expense	₩ 1,115,724	896,755
Temporary differences	296,244	383,190
Income tax recognized in other comprehensive income	(142,844)	(11,600)
Income tax expenses	₩ <u>1,269,124</u>	<u>1,268,345</u>

(b) Income tax expense calculated by multiplying net income before tax with the tax rate for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Profit before income taxes	₩ 4,911,508	4,466,610
Income taxes at statutory tax rates	1,345,187	1,222,840
Adjustments:		
Non-taxable income	8,500	(9,561)
Non-deductible expense	18,461	12,854
Tax credit	(2,289)	(23,317)
Other	(100,735)	65,529
Income tax expense	₩ <u>1,269,124</u>	<u>1,268,345</u>
Effective tax rate	%	25.84
		28.40

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December 31, 2019 and 2018

(In millions of won)

41. 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, 2019 and 2018 are as follows:

	2019				
	Beginning Balance	Business combination	Profit or loss	Other comprehensive income	Ending Balance(*)
Unearned income	₩ (255,336)	(62,077)	(14,266)	-	(331,679)
Account receivable	(24,139)	-	(2,185)	-	(26,324)
Financial assets at fair value through profit or loss	48,277	9,284	(20,972)	(56,654)	(20,065)
Securities at fair value through other comprehensive income	177,358	(554,017)	425,491	(130,344)	(81,512)
Investment in associates	24,743	-	(5,937)	(48)	18,758
Valuation and depreciation of property and equipment	(161,996)	-	10,950	-	(151,046)
Derivative asset (liability)	111,751	(1,132)	(97,147)	7,533	21,005
Deposits	28,036	-	2,605	-	30,641
Accrued expenses	132,689	15,298	(2,493)	-	145,494
Defined benefit obligation	447,658	4,805	33,321	20,348	506,132
Plan assets	(446,323)	(4,610)	(57,165)	958	(507,140)
Other provisions	194,475	2,283	16,297	-	213,055
Allowance for acceptances and guarantees	29,157	42,234	8,623	-	80,014
Allowance related to asset revaluation	(49,713)	-	-	-	(49,713)
Allowance for expensing depreciation	(465)	-	64	-	(401)
Deemed dividend	-	-	-	-	-
Accrued contributions	21,711	-	15,107	-	36,818
Financial instruments designated at fair value through profit of loss	(87,408)	-	130,225	-	42,817
Allowances	48,784	-	(10,716)	-	38,068
Fictitious dividend	1,325	-	16	-	1,341
Liability under insurance contracts	22,593	-	1,554	-	24,147
Deficit carried over	-	-	-	-	-
Other	(225,676)	204,351	(537,808)	15,363	(543,770)
	<u>37,501</u>	<u>(343,581)</u>	<u>(104,436)</u>	<u>(142,844)</u>	<u>(553,360)</u>
Expired unused tax losses:					
Extinguishment of deposit and insurance liabilities	367,444	-	(47,433)	-	320,011
	<u>₩ 404,945</u>	<u>(343,581)</u>	<u>(151,869)</u>	<u>(142,844)</u>	<u>(233,349)</u>

(*) Deferred tax assets from overseas subsidiaries were increased by ₩1,530 million due to foreign exchange rate movements.

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41. 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, 2019 and 2018 are as follows (continued) :

	2018			
	Beginning Balance (*1)	Profit or loss	Other comprehensive income	Ending Balance(*2)
Unearned income	₩ (202,069)	(53,267)	-	(255,336)
Account receivable	(19,267)	(4,872)	-	(24,139)
Financial assets at fair value through profit or loss	(47,548)	79,000	16,825	48,277
Securities at fair value through other comprehensive income	307,729	(47,548)	(82,823)	177,358
Investment in associates	24,918	3,205	(3,380)	24,743
Valuation and depreciation of property and equipment	(163,313)	1,317	-	(161,996)
Derivative asset (liability)	(70,828)	171,000	11,579	111,751
Deposits	27,904	132	-	28,036
Accrued expenses	171,310	(38,621)	-	132,689
Defined benefit obligation	408,266	6,965	32,427	447,658
Plan assets	(411,935)	(37,117)	2,729	(446,323)
Other provisions	191,298	3,177	-	194,475
Allowance for acceptances and guarantees	23,929	5,228	-	29,157
Allowance related to asset revaluation	(52,886)	3,173	-	(49,713)
Allowance for expensing depreciation	(529)	64	-	(465)
Deemed dividend	5,317	(5,317)	-	-
Accrued contributions	11,904	9,807	-	21,711
Financial instruments designated at fair value through profit of loss	(7,194)	(80,214)	-	(87,408)
Allowances	131,222	(82,438)	-	48,784
Fictitious dividend	4,990	(3,665)	-	1,325
Liability under insurance contracts	18,105	4,488	-	22,593
Deficit carried over	1,505	(1,505)	-	-
Other	59,471	(296,190)	11,043	(225,676)
	<u>412,299</u>	<u>(363,198)</u>	<u>(11,600)</u>	<u>37,501</u>
Expired unused tax losses:				
Extinguishment of deposit and insurance liabilities	375,807	(8,363)	-	367,444
	<u>₩ 788,106</u>	<u>(371,561)</u>	<u>(11,600)</u>	<u>404,945</u>

(*1) Changes in the scope of application of K-IFRS No.1109 and 1115 have been reflected.

(*2) Deferred tax assets from overseas subsidiaries were increased by ₩29 million due to foreign exchange rate movements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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(In millions of won)

41. Income tax expense (continued)

(d) Deferred tax assets and liabilities that were directly charged or credited to equity for the years ended December 31, 2019 and 2018 are as follows:

	January 1, 2019		Changes		December 31, 2019	
	OCI	Tax effect	OCI	Tax effect	OCI	Tax effect
Gain (loss) on valuation of financial assets measured at FVOCI	₩ 11,713	(8,754)	427,657	(124,147)	439,370	(132,901)
Gain (loss) on financial liabilities measured at FVTPL attributable to changes in credit risk	235	(65)	(11,621)	3,196	(11,386)	3,131
Foreign currency translation adjustments for foreign operations	(306,766)	(15,087)	98,418	5,970	(208,348)	(9,117)
Gain (loss) on cash flow hedge	(24,485)	6,733	(23,492)	7,533	(47,977)	14,266
Equity in other comprehensive income of associates	4,957	(74)	3,343	(48)	8,300	(122)
The accumulated other comprehensive income in separate account(*)	5,672	(1,560)	14,382	(3,955)	20,054	(5,515)
Remeasurements of the defined benefit liability	(477,382)	130,700	(76,156)	21,306	(553,538)	152,006
Gain (loss) on valuation of financial asset measured at FVTPL (Overlay approach)	<u>(108,655)</u>	<u>29,597</u>	<u>207,333</u>	<u>(56,654)</u>	<u>98,678</u>	<u>(27,057)</u>
Income tax charged or credited directly to equity	₩ <u>(894,711)</u>	<u>141,490</u>	<u>639,864</u>	<u>(146,799)</u>	<u>(254,847)</u>	<u>(5,309)</u>

	January 1, 2018		Changes		December 31, 2018	
	OCI	Tax effect	OCI	Tax effect	OCI	Tax effect
Gain (loss) on valuation of financial assets measured at FVOCI	₩ (255,593)	76,124	267,306	(84,878)	11,713	(8,754)
Gain (loss) on financial liabilities measured at FVTPL attributable to changes in credit risk	(2,141)	588	2,376	(653)	235	(65)
Foreign currency translation adjustments for foreign operations	(317,264)	(25,054)	10,498	9,967	(306,766)	(15,087)
Gain (loss) on cash flow hedge	7,286	(4,845)	(31,771)	11,578	(24,485)	6,733
Equity in other comprehensive income of associates	(5,868)	3,306	10,825	(3,380)	4,957	(74)
The accumulated other comprehensive income in separate account(*)	(6,295)	1,731	11,967	(3,291)	5,672	(1,560)
Remeasurements of the defined benefit liability	(349,538)	95,543	(127,844)	35,157	(477,382)	130,700
Gain (loss) on valuation of financial asset measured at FVTPL (Overlay approach)	<u>(33,713)</u>	<u>8,988</u>	<u>(74,942)</u>	<u>20,609</u>	<u>(108,655)</u>	<u>29,597</u>
Income tax charged or credited directly to equity	₩ <u>(963,126)</u>	<u>156,381</u>	<u>68,415</u>	<u>(14,891)</u>	<u>(894,711)</u>	<u>141,490</u>

(*) Deferred tax effects, which are originated from the accumulated other comprehensive income in separate account, were included in the other liabilities of separate account's financial statement.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

41. Income tax expense (continued)

(e) The amount of deductible temporary differences, unused tax losses, and unused tax credits that are not recognized as deferred tax assets as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Tax loss carry forward	₩ -	99,449

(f) The amount of temporary difference regarding investment in subsidiaries that are not recognized as deferred tax liabilities as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Investment in associates	₩ (766,888)	(686,107)

(g) The Group set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets and liabilities presented on a gross basis prior to any offsetting as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Deferred tax assets	₩ 518,337	483,517
Deferred tax liabilities	(751,686)	(78,572)

(h) As of December 31, 2019, the Group has filed a dispute against the tax authorities and the courts for the refund of the corporate tax on seven cases (claim amount: ₩ 34,449 million). If the likelihood of winning a lawsuit increases, the Group will recognize the related assets.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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(In millions of won, except per share data)

42. Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Profit attributable to equity holders of Shinhan Financial Group	₩ 3,403,497	3,156,722
Less:		
Dividends to hybrid bond	(61,993)	(40,357)
Net profit available for common stock	<u>₩ 3,341,504</u>	<u>3,116,365</u>
Weighted average number of common shares outstanding(*)	477,346,731	473,649,076
Basic and diluted earnings per share in won	<u>₩ 7,000</u>	<u>6,579</u>

(*) The number of basic ordinary shares outstanding is 474,199,587 shares and the above weighted-average stocks are calculated by reflecting treasury stocks issued and 17,482,000 shares of convertible preferred shares issued on May 1, 2019. If the convertible preferred shares issued during the year are not included in common stocks, the basic and diluted earnings per share of the net profit of the Group is ₩7,176.

43. Commitments and contingencies

(a) Guarantees, acceptances and credit commitments as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Guarantees:		
Guarantees outstanding	₩ 9,319,885	9,437,691
Contingent guarantees	3,669,697	3,985,532
	<u>12,989,582</u>	<u>13,423,223</u>
Commitments to extend credit:		
Loan commitments in won	74,393,722	69,906,336
Loan commitments in foreign currency	22,542,776	19,967,297
ABS and ABCP commitments	2,116,354	2,083,522
Others	81,387,165	73,816,233
	<u>180,440,017</u>	<u>165,773,388</u>
Endorsed bills:		
Secured endorsed bills	11,287	37,667
Unsecured endorsed bills	6,737,097	7,758,242
	<u>6,748,384</u>	<u>7,795,909</u>
Loans sold with recourse	2,099	2,099
	<u>₩ 200,180,082</u>	<u>186,994,619</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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(In millions of won)

43. Commitments and contingencies (continued)

(b) Legal contingencies

The Group's pending lawsuits as a defendant as of December 31, 2019 are as follows:

Case	Number of claim	Descriptions	Claim amount
Payment Guarantee	1	The plaintiff filed claims against the Group for guarantee deposit of receivable-backed ABL of KT ENS. The case are currently pending in its second appeal.	₩ 10,767
Compensation for a loss	1	According to the asset custody contract, the plaintiff is liable for damages caused by a fire in the property of the real estate investment company in which the Group is holding assets. In 2015 and 2017, the plaintiffs prevailed, but the first and second decisions were different.	6,893
Confirm deposit accounts	1	Hanwha Savings Bank, a party to the lender of Meat Loan, filed a lawsuit against all creditors to confirm deposit accounts for the sale of frozen meat. As a result, the lawsuit has been commissioned by the legal firm proceed a Matron's private lawsuit related the Group.	5,575
Others	425	Compensation for a loss claim, etc.	234,131
	428		₩ 257,366

As of the December 31, 2019, the Group has recorded ₩8,789 million and ₩1,727 million, respectively, as other provisions and insurance contract liabilities (reserve for claims) for litigations, etc., The outcome of the lawsuits is not expected to have a material impact on the consolidated financial statements, but additional losses may result from future litigation.

(c) The Group entered into an agreement with Asia Trust Co., Ltd. (60% of its total shares) to acquire remaining stake in the Group. In accordance with the agreement, the Group has the right to purchase shares held by the shareholders of Asia Trust Co., Ltd. In response, the shareholders of Asia Trust Co., Ltd. have the right to demand to purchase the shares to the Group.

(d) In relation to Asia Trust Co., Ltd., ("Asia Trust") a subsidiary of the Group, a number of complaints have arisen due to misuse of the seals discarded by employees prior to the Group's acquisition of Asia Trust. Some of them filed a lawsuit against the Group (claim amount of ₩50.3 billion) during the current year, and a special inspection was conducted by the Financial Supervisory Service in February 2019. The Group did not reflect these financial effects in the consolidated financial statements as of December 31, 2019 because the Group could not reliably measure the likelihood of loss and extent of loss.

(e) Regarding the currency option contracts, the Group has received the dispute arbitration request from the Financial Dispute Arbitration Committee on December 19, 2019; the Group will proceed with Board of Directors' decision. The Group's management anticipates that the result of the adjustment will not have a significant impact on the Group's financial position.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

43. Commitments and contingencies (continued)

(f) The Group as the Prime Brokerage Service provider has performed the TRS transactions (Total Return Swap: Derivatives that exchange risk with income from underlying assets, such as stocks, bonds, funds, etc.) as per the TRS Agreement with a fund managed by Lime Asset Management (“Lime Fund”).

Through the TRS Agreement with the Group, Lime Fund indirectly invested about \$200 million of IIG Global Trade Finance Fund, IIG Trade Finance Fund and IIG Trade Finance Fund-FX Hedged (collectively, “IIG Funds”) from May 2017 to September 2017.

In accordance with the Lime Fund's directions in 2019, the Group invested IIG Fund in kind in LAM Enhanced Finance III L.P. (“LAM III Fund”) and acquired the LAM III Fund's beneficiary certificates. The recoverable amount on the LAM III Fund beneficiary certificates is affected by the recoverable amounts of the IIG funds contributed in kind. The IIG Funds received cancellation of registration and asset freeze order from the U.S Securities and Exchange Commission in November 2019.

The Financial Supervisory Service (“FSS”) announced in February 2020 that the Group was suspected of being involved in misconduct and fraudulent activities while the Group made the TRS transactions with the Lime Asset Management. The related prosecutors’ investigations on Lime Asset Management are also underway. As of now whether the Group as the Prime Brokerage Service provider is legally responsible depends on the FSS’s additional inspections, prosecutors’ inspections and the future litigation; and the legal obligation of the Group relating to the suspected involvement in the fraudulent activities is not determined.

In addition, some of the private equity funds sold by the Group and managed by Lime Asset management are being inspected for whether any mis-selling has been involved by the supervisory authority. Depending on the results of the inspection, proceedings for dispute settlement and loss compensation on the miss-selling, if any, may take place. Whether a mis-selling has happened or the amount of compensation cannot be estimated reliably, the Group did not recognized a provision.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

44. Statement of cash flows

(a) Cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Cash and due from banks at amortized cost	₩ 28,435,818	17,363,450
Adjustments:	(3,349,719)	(3,008,188)
Due from financial institutions with a maturity over three months from date of acquisition	(16,506,925)	(6,175,506)
Restricted due from banks	(19,856,644)	(9,183,694)
	<u>₩ 8,579,174</u>	<u>8,179,756</u>

(b) Significant non-cash activities for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Debt-equity swap	₩ 224,093	28,759
Transfers from construction-in-progress to property and equipment	76,004	6,319
Transfers between property and equipment and investment property	104,573	28,199
Transfers between assets held for sale to property and equipment	455	80
Transfers between investment property and assets held for sale	15,795	-
Accounts payable for purchase of intangible assets, etc.	472,798	1,047
Transaction for right-of-use assets	1,376,764	-

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

44. Statement of cash flows (continued)

(c) Changes in assets and liabilities arising from financing activities for the years ended December 31, 2019 and 2018 are as follows:

	2019						
	Assets		Liabilities			Total	
	Derivative assets	Derivative liabilities	Borrowings	Debentures	Lease liabilities(*)		
Balance at January 1, 2019	₩	7,477	84,579	29,818,542	63,227,699	536,842	93,675,139
Changes from cash flows		-	(21,958)	5,017,269	11,201,673	(269,362)	15,927,622
Changes from non-cash flows							
Amortization of discount on borrowings and debentures		-	-	58,320	352,524	11,291	422,135
Changes in foreign currency exchange rate		-	-	173,623	282,534	-	456,157
Others		47,020	(13,946)	(204,598)	298,934	792,901	920,311
Business combination(Note47)		-	-	-	-	32,587	32,587
Balance at December 31, 2019	₩	<u>54,497</u>	<u>48,675</u>	<u>34,863,156</u>	<u>75,363,364</u>	<u>1,104,259</u>	<u>111,434,951</u>

(*) At the beginning balance of 2019, the lease liabilities are included due to the adoption of K-IFRS No. 1116.

	2018					
	Assets		Liabilities		Total	
	Derivative assets	Derivative liabilities	Borrowings	Debentures		
Balance at January 1, 2018	₩	3,966	146,278	27,586,610	51,340,821	79,077,675
Changes from cash flows		(5,845)	(12,002)	1,772,203	11,798,466	13,552,822
Changes from non-cash flows						
Amortization of discount on borrowings and debentures		-	-	181,050	335,935	516,985
Changes in foreign currency exchange rate		-	-	955,512	229,277	1,184,789
Others		9,356	(49,697)	(676,833)	(476,800)	(1,193,974)
Balance at December 31, 2018	₩	<u>7,477</u>	<u>84,579</u>	<u>29,818,542</u>	<u>63,227,699</u>	<u>93,138,297</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

45. Related parties

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(a) Balances with the related parties as of December 31, 2019 and 2018 are as follows:

<u>Related party</u>	<u>Account</u>	<u>2019</u>	<u>2018</u>
Investments in associates:			
BNP Paribas Cardif Life Insurance	Other assets	₩ 92	9,860
"	Credit card loans	173	116
"	Deposits	402	444
Partners 4th Growth Investment Fund	Deposits	1,443	1,855
BNP Paribas Cardif General Insurance	Credit card loans	26	29
"	Allowances for credit Loss ("ACL")	-	(2)
"	Other assets	401	-
"	Deposits	17	157
Shinhan Praxis K-Growth Global Private Equity Fund	Other assets	91	151
Dream High Fund III	Deposits	5	4
Midas Dong-A Snowball Venture Fund(*1)	Deposits	-	159
Credian Healthcare Private Equity Fund II	Deposits	4	45
Midas Dong-A Snowball Venture Fund 2	Deposits	233	354
IBKS-Shinhan Creative Economy New Technology Fund II (*1)	Deposits	-	672
Eum Private Equity Fund No.3	Deposits	353	49
SHBNPP Private Korea Equity Long-Short Professional Feeder (*2)	Other assets	-	133
Shinhan Global Healthcare Fund 1	Unearned revenue	-	360
Shinhan Fintech New Technology Fund No.1(*1)	Unearned revenue	-	123
Taihan Industrial System Co., Ltd.(*3)	Deposits	-	85
Incorporated association Finance Saving Information Center	Credit card loans	-	3
	Deposits	6	4
GX Shinhan interest 1 st Private Equity Fund	Unearned revenue	248	278
Nomura investment property trust No.19	Loans	11,973	11,966
"	Other assets	42	45
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	Other assets	678	236
Shinhan-Stonebridge Petro Private Equity Fund	Other assets	810	484
Korea Finance Security	Deposits	362	-
SHINHAN-CORE TREND GLOBAL FUND 1	Unearned revenue	9	-
Hermes Private Investment Equity Fund	Deposits	275	-
Multimedia Tech Co.Ltd	Deposits	3	-
Korea Credit Bureau	Deposits	80	-
Goduck Gangil PFV Co., Ltd	Loans	24,000	-
"	ACL	(78)	-
SBC PFV Co., Ltd	Deposits	5,142	-
GMG Development Co., Ltd	Deposits	300	-
Sprott Global Renewable Private Equity Fund I	Deposits	342	-
IMM Global Private Equity Fund	Loans	800	-
"	ACL	(3)	-
"	Deposits	7,598	-
Key management personnel and their immediate relatives:	Loans	4,426	3,313
	Assets	43,431	26,334
	Liabilities	₩ 16,822	4,589

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December 31, 2019 and 2018

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45. Related parties (continued)

(a) Balances with the related parties as of December 31, 2019 and 2018 are as follows (continued) :

(*1) Excluded from related parties due to the disposal or liquidation.

(*2) As the Group held control due to increases in the equity ratio during the year, it was changed from an associates to a consolidated subsidiary.

(*3) As the Group does not have significant influence to this entity, this has been removed from the related parties for the year ended December 31, 2019.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

45. Related parties (continued)

(b) Transactions with the related parties for the years ended December 31, 2019 and 2018 are as follows:

Related party	Account	2019	2018
Investments in associates			
BNP Paribas Cardif Life Insurance	Fees and commission income	₩ 4,230	3,716
"	Reversal of credit losses	3	4
"	Other operating expenses	(1)	-
"	General and administrative expenses	(9)	(17)
Shinhan Praxis K-Growth Global Private Equity Fund	Fees and commission income	448	685
BNP Paribas Cardif General Insurance	Fees and commission income	11	9
"	Other operating expenses	468	-
"	Provision for credit losses	-	(2)
Midas Dong-A Snowball Venture Fund(*1)	Fees and commission income	119	47
"	Interest expense	(1)	(2)
SP New Technology Business investment Fund I (*2)	Fees and commission income	-	317
IBKS-Shinhan Creative Economy New Technology Fund I (*2)	Fees and commission income	380	13
IBKS-Shinhan Creative Economy New Technology Fund II(*1)	Fees and commission income	8	16
SM New Technology Business Investment Fund I	Fees and commission income	14	55
JAEOUNG SOLUTEC CO., LTD.(*2)	Interest income	-	523
"	Fees and commission income	-	2
"	Other operating income	-	3
"	Interest expenses	-	(2)
"	Provision for credit losses	-	(1)
Partners 4th Growth Investment Fund	Interest expense	(7)	(19)
Shinhan-Albatross Technology Investment	Fees and commission income	216	216
SHBNPP Private Korea Equity Long-Short Professional Feeder(*3)	Fees and commission income	363	975
KDBC Midas Dong-A Snowball Venture Fund II	Interest expense	-	(2)
STI-New Growth Engines Investment(*2)	Fees and commission income	-	16
Shinhan Fintech New Technology Fund No.1(*1)	Fees and commission income	38	153
Shinhan Global health Care Investment No.1	Fees and commission income	360	785
Taihan Industrial System Co., Ltd.(*4)	Fees and commission income	-	1
Shinhan capital-Cape FN Fund No.1(*1)	Fees and commission income	101	82
SHC-K2 Global Material Fund	Fees and commission income	19	20
Synergy-Shinhan Mezzanine New Technology Investment Fund	Fees and commission income	₩ 94	127

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(In millions of won)

45. Related parties (continued)

(b) Transactions with the related parties for the years ended December 31, 2019 and 2018 are as follows:

Related party	Account	2019	2018
Shinhan-Midas Dong-A Secondary Venture Fund	Fees and commission income	₩ 187	71
GX Shinhan interest 1st Private Equity Fund	Fees and commission income	545	412
Shinhan-Nvestor Liquidity Solution Fund	Fees and commission income	361	214
SHC ULMUS Fund No.1	Fees and commission income	76	51
Shinhan-PS Investment Fund No.1	Fees and commission income	20	12
Nomura investment property trust No.19	Interest income	519	312
"	Other operating income	7	-
"	Provision for credit loss	-	(34)
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	Fees and commission income	2,694	236
Shinhan-Stonebridge Petro Private Equity Fund	Fees and commission income	1,762	1,920
Korea Finance Security	Fees and commission income	10	-
ShinHan – Soo Young Entrepreneur Investment Fund No.1	Fees and commission income	275	-
Shinhan-Rhinos 1 Fund	Fees and commission income	64	-
SHINHAN-CORE TREND GLOBAL FUND 1	Fees and commission income	45	-
Kiwoom-Shinhan Innovation Fund I	Fees and commission income	67	-
One Shinhan Global Fund 1	Fees and commission income	151	-
Yeollim-Shinhan Portfolio Fund I	Fees and commission income	59	-
FuturePlay-Shinhan TechInnovation Fund 1	Fees and commission income	7	-
WON JIN HOME PLAN CO.,LTD	Interest income	186	-
Korea Credit Bureau	Fees and commission income	13	-
"	Interest expense	(5)	-
Goduck Gangill PFV Co., Ltd	Interest income	328	-
"	Fees and commission income	1,120	-
"	Provision for credit loss	(78)	-
SBC PFV Co., Ltd	Interest expense	(3)	-
IMM Global Private Equity Fund	Interest income	28	-
"	Interest expense	(25)	-
"	Provision for credit loss	(3)	-
Key management personnel and their immediate relatives			
Interest income		161	101
		₩ 15,425	11,015

(*1) Excluded from the associates due to disposal and liquidation for the year ended December 31, 2019.

(*2) Excluded from the associates due to disposal and liquidation for the year ended December 31, 2018

(*3) Included in the related party due to the additional acquisition for the year ended December 31, 2019.

(*4) As the Group does not have significant influence to this entity, this has been removed from the related parties for the year ended December 31, 2019.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

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45. Related parties (continued)

(c) Key management personnel compensation

Key management personnel compensation for the years ended December 31, 2019 and 2018 are as follows:

		2019	2018
Short-term employee benefits	₩	21,237	22,502
Severance benefits		731	419
Share-based payment transactions(*)		12,343	4,944
	₩	<u>34,311</u>	<u>27,865</u>

(*) The expenses of share-based payment transactions are the remuneration expenses during the vesting period.

(d) The guarantees provided between the related parties as of December 31, 2019 and 2018 are as follows:

Guarantor	Guaranteed Parties	Amount of guarantees		Account
		2019	2018	
Shinhan Bank	BNP Paribas Cardif Life Insurance	₩ 10,000	10,000	Unused credit line

(e) Details of collaterals provided by the related parties as of December 31, 2019 and December 31, 2018 are as follows:

Provided to	Provided by	Pledged assets	2019	2018
Shinhan Bank	BNP Paribas Cardif Life Insurance	Government bonds	₩ 12,000	12,000
"	Hyungje art printing	Properties	120	-
"	Goduck Gangil1 PFV Co., Ltd	Guarantee insurance policy	28,800	-
			₩ <u>40,920</u>	<u>12,000</u>

(f) Details of significant loan transactions with related parties as of December 31, 2019 and 2018 are as follows:

Classification	Company	2019				Ending
		Beginning	Loan	Recover	Other (*)	
Investments in associates	Nomura investment property trust No.19	₩ 11,966	-	-	7	11,973
"	Goduck Gangil1 PFV Co., Ltd	-	24,000	-	-	24,000
"	IMM Global Private Equity Fund	-	800	-	-	800
	Total	₩ <u>11,966</u>	<u>24,800</u>	<u>-</u>	<u>7</u>	<u>36,773</u>

(*)The effect on changes in allowance for credit loss is included.

Classification	Company	2018				Ending
		Beginning	Loan	Recover	Other (*)	
Investments in associates	Nomura investment property trust No.19	₩ -	12,000	-	(34)	11,966

(*)The effect on changes in allowance for credit loss is included.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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December 31, 2019 and 2018

(In millions of won)

46. Interests in unconsolidated structured entities

(a) The nature and extent of interests in unconsolidated structured entities

The Group involved in assets-backed securitization, structured financing, beneficiary certificates (primarily investment funds) and other structured entities and characteristics of these structured entities are as follows:

	<u>Description</u>
Assets-backed securitization	<p>Securitization vehicles are established to buy assets from originators and issue asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The Group is involved in the securitization vehicles by purchasing (or committing to purchase) the asset-backed securities issued and/or providing other forms of credit enhancement.</p> <p>The Group does not consolidate a securitization vehicle if (i) the Group is unable to make or approve decisions as to the modification of the terms and conditions of the securities issued by such vehicle or disposal of such vehicles' assets, (ii) (even if the Group is so able) if the Group does not have the exclusive or primary power to do so, or (iii) if the Group does not have exposure, or right, to a significant amount of variable returns from such entity due to the purchase (or commitment to purchase) of asset-backed securities so issued or subordinated obligations or by providing other forms of credit support.</p>
Structured financing	<p>Structured entities for project financing are established to raise funds and invest in a specific project such as M&A (mergers and acquisitions), BTL (build-transfer-lease), shipping finance, etc. The Group is involved in the structured entities by originating loans, investing in equity, or providing credit enhancement.</p>
Investment fund	<p>Investment fund means an investment trust, a PEF (private equity fund) or a partnership which invests in a group of assets such as stocks or bonds by issuing a type of beneficiary certificates to raise funds from the general public, and distributes its income and capital gains to their investors. The Group manages assets by investing in shares of investment fund or playing a role of an operator or a GP (general partner) of investment fund, on behalf of other investors.</p>

The size of unconsolidated structured entities as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Total assets:		
Asset-backed securitization	₩ 208,441,947	196,108,655
Structured financing	195,374,046	132,050,391
Investment fund	215,371,530	71,487,406
	<u>₩ 619,187,523</u>	<u>399,646,452</u>

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46. Interests in unconsolidated structured entities (continued)

(b) Nature of risks

i) The carrying amounts of the assets and liabilities relating to its interests in unconsolidated structured entities as of December 31, 2019 and 2018 are as follows:

	2019			
	Assets-backed securitization	Structured financing	Investment fund	Total
Assets:				
Loans measured at fair value through profit or loss	₩ 10,646	69,727	-	80,373
Loan at amortized cost	785,134	10,207,866	664,024	11,657,024
Securities at fair value through profit or loss	3,705,565	70,407	9,378,374	13,154,346
Derivate assets	21,494	1,027	-	22,521
Securities at fair value through other comprehensive income	2,144,846	188,429	-	2,333,275
Securities at amortized cost	4,894,942	-	-	4,894,942
Other assets	3,244	14,776	58,948	76,968
	<u>₩ 11,565,871</u>	<u>10,552,232</u>	<u>10,101,346</u>	<u>32,219,449</u>
Liabilities:				
Other liabilities	₩ 682	10,457	-	11,139

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(In millions of won)

46. Interests in unconsolidated structured entities (continued)

(b) Nature of risks (continued)

	2018			
	Assets-backed securitization	Structured financing	Investment fund	Total
Assets:				
Loans measured at fair value through profit or loss	₩ 292	504,571	802,825	1,307,688
Loan at amortized cost	478,998	6,925,438	33,500	7,437,936
Securities at fair value through profit or loss	4,263,817	288,757	5,293,807	9,846,381
Derivate assets	16,390	578	-	16,968
Securities at fair value through other comprehensive income	2,244,364	91,316	32,279	2,367,959
Securities at amortized cost	4,277,675	-	-	4,277,675
Other assets	5,453	48,457	34,333	88,243
	₩ <u>11,286,989</u>	<u>7,859,117</u>	<u>6,196,744</u>	<u>25,342,850</u>
Liabilities:				
Derivative liabilities	₩ 111	-	-	111
Other	5,368	4,128	-	9,496
	₩ <u>5,479</u>	<u>4,128</u>	<u>-</u>	<u>9,607</u>

ii) Exposure to risk relating to its interests in unconsolidated structured entities as of December 31, 2019 and 2018 are as follows:

	2019			
	Assets-backed securitization	Structured financing	Investment fund	Total
Assets held	₩ 11,565,871	10,552,232	10,101,346	32,219,449
ABS and ABCP commitments	1,208,707	2,300	868,498	2,079,505
Loan commitments	845,904	855,520	-	1,701,424
Guarantees	139,522	4,000	-	143,522
Others	-	118,969	-	118,969
	₩ <u>13,760,004</u>	<u>11,533,021</u>	<u>10,969,844</u>	<u>36,262,869</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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(In millions of won)

46. Interests in unconsolidated structured entities (continued)

(b) Nature of risks (continued)

ii) *Exposure to risk relating to its interests in unconsolidated structured entities as of December 31, 2019 and 2018 are as follows (continued):*

	2018			
	Assets-backed securitization	Structured financing	Investment fund	Total
Assets held	₩ 11,286,989	7,859,117	6,196,744	25,342,850
ABS and ABCP commitments	1,395,417	2,300	602,594	2,000,311
Loan commitments	1,791,650	815,910	26,100	2,633,660
Guarantees	88,810	142,032	-	230,842
Others	-	49,464	-	49,464
	<u>₩ 14,562,866</u>	<u>8,868,823</u>	<u>6,825,438</u>	<u>30,257,127</u>

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(In millions of won)

47. **Business combination**

(a) Orange Life Insurance Co., Ltd

i) *General information*

On February 1, 2019, the Group obtained control over Orange Life Insurance Co., Ltd. by acquiring 59.15% of its shares after obtaining approval from the Financial Services Commission on January 16, 2019. The primary reason for the acquisition is to strengthen the life insurance business in response to changes in the financial market environment.

ii) *Identifiable net assets*

Fair values of assets acquired and liabilities assumed as of acquisition date are as follows:

	<u>Amount(*1)</u>
Assets:	
Cash and due from banks at amortized cost	₩ 739,071
Financial assets at fair value through profit or loss	1,573,453
Securities at fair value through other comprehensive income	11,111,395
Securities at amortized cost	11,273,999
Loans at amortized cost	2,588,588
Derivatives	13,934
Properties and equipment	35,489
Intangible assets(*2)	38,475
Other assets	5,847,621
	<u>33,222,025</u>
Liabilities:	
Liabilities under insurance contracts(*3)	24,187,474
Derivative liabilities	3,991
Other liabilities	6,098,301
	<u>30,289,766</u>
Fair value of the identifiable net assets	₩ <u>2,932,259</u>

(*1) The Group measured the identifiable assets and liabilities of the acquirer at fair value at the date of the business combination for the allocation of the consideration transferred. The fair value was measured at the price that would be received at the date of the business combination when the asset was sold, or when the liability was transferred in an orderly transaction between market participants, and in case the price was not directly observed, it was estimated using appropriate valuation techniques.

(*2) Includes membership, software, and development costs that Orange Life Insurance Co., Ltd. holds.

(*3) The Group has reflected VOBA (Value of Business Acquired), which was measured separately by applying the indirect method based on the intrinsic value, to the carrying value of the liabilities under insurance contracts that the Orange Life Insurance Co., Ltd. had.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

47. Business combination (continued)

(a) Orange Life Insurance Co., Ltd (continued)

iii) Goodwill

Goodwill recognized as a result of business combination is as follows:

	<u>Amount</u>
Consideration paid in cash	₩ 2,298,900
Fair value of identifiable net assets	(2,932,259)
Non-controlling interests (*)	<u>1,197,935</u>
Goodwill	<u>₩ 564,576</u>

(*) The non-controlling interests in Orange Life Insurance Co., Ltd was measured as a proportionate shares of the non-controlling interests in the identifiable net assets at acquisition date.

iv) Cost related to business combination

In connection with the business combination, the Group incurred expenses of ₩8,415 million, including legal fees and due diligence fees, which were recognized as fees and commission expense in the consolidated statement of comprehensive income.

v) Net cash outflows due to business combination

Net cash outflows due to business combination for the year ended December 31, 2019 are as follows:

	<u>Amount</u>
Consideration transferred in cash	₩ 2,298,900
Acquired cash and cash equivalents	<u>(154,754)</u>
	<u>₩ 2,144,146</u>

Operating income and net profit for the year ended December 31, 2019 from Orange Life Insurance Co., Ltd, are ₩387,440 million and ₩271,455 million, respectively, which are reflected in the consolidated statement of comprehensive income after the acquisition date.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

47. **Business combination (continued)**

(b) Asia Trust Co., Ltd

i) General information

On May 2, 2019, the Group obtained control over Asia Trust Co., Ltd. by acquiring 60% of its shares after obtaining approval from the Financial Services Commission on April 17, 2019. The primary reason for the acquisition is to strengthen the non-banking portfolio through real estate business line.

ii) Identifiable net assets

Fair values of assets acquired and liabilities assumed as of acquisition date are as follows:

	<u>Amount</u>
Assets:	
Cash and due from banks at amortized cost	₩ 27,647
Financial assets at fair value through profit or loss	53,477
Loans at amortized cost(*1)(*3)	26,197
Properties and equipment	662
Intangible assets(*2)	40,649
Investment property	13,567
Other assets	13,367
	<u>175,566</u>
Liabilities:	
Other liabilities(*3)	44,571
Fair value of the identifiable net assets	₩ <u>130,995</u>

(*1) Acquired loans were measured at fair value. The total amount of loans under contract is ₩44,356 million, and the cash flows that are not expected to be collected as of the acquisition date is ₩18,159 million.

(*2) Includes the value of contract balance of ₩36,584 million. The Group has considered the contracts that Asia Trust Co., Ltd held to be significant enough to generate future additional revenue, and evaluated them by incremental cash flow method.

(*3) In regard to the land trust project at Ramada Hotel in Gampo, Gyeongju, some owners of parcels filed a lawsuit to return the down payments, and the intermediate payments. The loan financial institution of the business has filed a suit against Asia Trust Co., Ltd for the balance of the loans delinquent based on the intermediate payment loan agreement and subsequent agreement with the Group. The Group recorded the expected loss as allowance and provision for the trust business loans. In addition, the creditor of the constructor filed a suit claiming the construction fee; however, the Group did not reflect the effect in the consolidated financial statements as of December 31, 2019 since the potential and extent of the losses regarding the lawsuit is not reliably estimated.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

47. Business combination (continued)

(b) Asia Trust Co., Ltd (continued)

iii) Goodwill

Goodwill recognized as a result of the business combination is as follows:

	<u>Amount</u>
Consideration paid in cash	₩ 193,400
Fair value of identifiable net assets	(130,995)
Non-controlling interests (*)	<u>52,398</u>
Goodwill	<u>₩ 114,803</u>

(*) The non-controlling interests in Asia Trust Co., Ltd was measured as a proportionate shares of the non-controlling interests in the identifiable net assets at acquisition date.

iv) Cost related to business combination

In connection with the business combination, the Group incurred expenses of ₩2,124 million, including legal fees and due diligence fees, which were recognized as fees and commission expense in the consolidated statement of comprehensive income.

v) Net cash outflows due to business combination

Net cash outflows due to business combination for the year ended December 31, 2019 are as follows:

	<u>Amount</u>
Consideration transferred	₩ 193,400
Acquired cash and cash equivalents	<u>(18,647)</u>
	<u>₩ 174,753</u>

Operating income and profit for the year ended December 31, 2019 from Asia Trust Co., Ltd. are ₩29,394 million and ₩18,098 million, respectively, which are reflected in the consolidated statement of comprehensive income after the acquisition date.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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(In millions of won)

47. Business combination (continued)

(c) Shinhan Vietnam Finance Company Limited

i) General information

On January 22, 2019, the Group has acquired control over Prudential Vietnam Finance Co., Ltd in Vietnam by acquiring 100% of its shares, and changed the name to Shinhan Vietnam Finance Co., Ltd. The primary reason for the acquisition is to expand its new market through credit loan business in Vietnam.

ii) Identifiable net assets

Fair values of assets acquired and liabilities assumed as follows:

	<u>Amount</u>
Assets:	
Cash and due from banks at amortized cost	₩ 12,271
Loans at amortized cost	259,082
Properties and equipment	4,163
Intangible assets	5,629
Other assets	12,258
	<u>293,403</u>
Liabilities:	
Deposits	211,325
Other liabilities	19,036
	<u>230,361</u>
Fair value of the identifiable net assets	₩ <u>63,042</u>

iii) Goodwill

Goodwill recognized as a result of the business combination is as follows:

	<u>Amount</u>
Consideration paid in cash	₩ 170,194
Fair value of identifiable net assets	<u>(63,042)</u>
Goodwill	₩ <u>107,152</u>

The Group assessed the goodwill based on the financial information as of January 1, 2019 (“assessment date”) as reliable financial information as of the acquisition date, January 22, 2019, were not available.

Between the assessment date and the acquisition date, no significant transactions that affected the fair value of the identifiable net assets were identified.

iv) Cost related to business combination

In connection with the business combination, the Group incurred expenses of ₩92 million, including legal fees and due diligence fees, which were recognized as fees and commission expense in the consolidated statement of comprehensive income.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(In millions of won)

47. Business combination (continued)

(c) Shinhan Vietnam Finance Company Limited (continued)

v) *Net cash outflows due to business combination*

Net cash outflows due to business combination for the year ended December 31, 2019 are as follows:

		Amount
Consideration transferred	₩	170,194
Acquired cash and cash equivalents		(12,271)
	₩	<u>157,923</u>

Operating income and profit for the year ended December 31, 2019 from Shinhan Vietnam Finance Company Limited are ₩22,912 million and ₩18,363 million, respectively, which are reflected in the consolidated statement of comprehensive income after the acquisition date.

(d) If the business combination had been consolidated from the beginning of 2019, the operating income and net income that would have been included in the consolidated statement of comprehensive income do not differ materially from the current operating income and net income recognised from the acquisition date of the business combination.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

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48. Transition effects arising from changes in accounting policies

Upon adoption of K-IFRS No.1116 ‘Leases’, the Group recognized lease liabilities in relation to leases that had previously been classified as operating leases in accordance with K-IFRS No.1017. These liabilities were measured at the present value of the future lease payments at the lessee's incremental borrowing rate on January 1, 2019. The lessee's incremental borrowing rates applied to the lease liabilities are between 2.06% and 8.96% on January 1, 2019. The difference between the amount of operating lease agreements disclosed as of December 31, 2018 discounted at the Group's incremental borrowing rate and the lease liabilities recognized at the date of initial application is as follows:

	<u>Amount</u>
Operating lease agreement commitment disclosed as of December 31, 2018	₩ 610,080
Amount discounted using the Group's incremental borrowing rate	591,725
Less:	
Low-value leases recognized as current expenses through the straight-line method	(3,454)
Value-added Tax	<u>(51,429)</u>
 Lease liabilities recognized at the beginning of 2019	 ₩ <u>536,842</u>

Right-of-use assets were measured by adjusting the amount of prepaid or unpaid lease payments in relation to leases recognized in the consolidated statement of financial position at the same amount as the lease liability. As a result, property, plant and equipment increased by ₩573,823 million at the beginning of 2019, and prepaid expense, unearned revenue and accrued expenses decreased by ₩42,196 million, ₩5,197 million and ₩17 million, respectively.

49. Subsequent events occurred after reporting period

The Group, pursuant to its Board of Directors' resolution on November 14, 2019, reached a decision on exchanging of the common shares of Shinhan Financial Group Co., Ltd.(the “Company”) and Orange Life Insurance Co. Ltd. (“Orange Life”) by means of a small-scale stock exchange, with the purpose to enable the Group to hold 100% of the stock of Orange Life. The stock exchange was consummated on January 28, 2020, at an exchange ratio of 0.6601483 shares of the Company for each share of Orange Life. As a result, the shares issued by Orange Life and owned by shareholders of Orange Life other than the Company were transferred to the Company on January 28, 2020 and such shareholders became shareholders of the Group by acquiring 8,232,906 newly issued shares in exchange for 13,882,062 treasury shares of the Group. Upon the share exchange, Orange Life became a wholly owned subsidiary of the Group.



