SHINHAN FINANCIAL GROUP CO., LTD.

Separate Financial Statements

December 31, 2014

(With Independent Auditors' Report Thereon)

Contents

KPMG SAMJONG

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Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying separate financial statements of Shinhan Financial Group Co., Ltd. (the "Company"), which comprise the separate statements of financial position as at December 31, 2014 and 2013, the separate statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of separated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the separated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2014 and 2013 and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Other matters

The accompanying statement of financial position of the Company as of December 31, 2013, and the related statements of comprehensive income, changes in equity and cash flows for the year then ended, were audited by us in accordance with the previous auditing standards generally accepted in the Republic of Korea.

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

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 10, 2015

This report is effective as of March 10, 2015, 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 separate 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.

Separate Statements of Financial Position

As of December 31, 2014 and 2013

(In millions of won)	Note		December 31, 2014	December 31, 2013
Assets				
Due from banks	5, 30	₩	120,790	385
Trading assets	6		69,338	520,116
Loans, net	7, 30		1,337,083	1,337,083
Property and equipment, net	8		1,029	1,159
Intangible assets, net	9		6,093	6,508
Investments in subsidiaries	10		25,203,159	25,261,909
Deferred tax assets	27		3,421	2,331
Other assets, net	11, 30		353,635	295,154
Total assets		₩	27,094,548	27,424,645
Liabilities				
Borrowings	12	₩	7,500	7,500
Debt securities issued	13		6,451,436	7,098,797
Liabilities for defined benefit obligations	14		4,502	2,981
Other liabilities	15, 30		395,991	340,895
Total liabilities			6,859,429	7,450,173
Equity	16			
Capital stock			2,645,053	2,645,053
Hybrid bonds			537,443	537,443
Capital surplus			9,494,842	9,494,842
Accumulated other comprehensive loss			(4,788)	(2,919)
Retained earnings			7,562,569	7,300,053
Total equity			20,235,119	19,974,472
Total liabilities and equity		₩	27,094,548	27,424,645

See accompanying notes to the separate financial statements.

SHINHAN FINANCIAL GROUP CO., LTD.

Separate Statements of Comprehensive Income

For the years ended December 31, 2014 and 2013

(In millions of won, except earnings per share data)	Note		2014	2013
Interest income	30	₩	58,363	61,864
Interest expense			(271,909)	(310,438)
Net interest expense	18		(213,546)	(248,574)
Fees and commission income	30		70,034	114,321
Fees and commission expense			(182)	(214)
Net fees and commission income	19		69,852	114,107
Dividend income	20, 30		922,734	919,805
Net trading income	21		10,409	10,991
Reversal of (provision for) credit losses	22, 30		(37)	10
General and administrative expenses	23, 30		(68,125)	(66,785)
Operating income	26		721,287	729,554
Non-operating income (expense)	25		(59,157)	1,654
Profit before income taxes			662,130	731,208
Income tax benefit	27		493	430
Net profit for the year			662,623	731,638
Other comprehensive income for the year, net of income tax	16			
Items that will never be reclassified to profit or loss :				
Remeasurements of the defined benefit liability			(1,869)	(269)
Total comprehensive income for the year		₩	660,754	731,369
Basic and diluted earnings per share in won	16, 28	₩	1,204	1,349

See accompanying notes to the separate financial statements.

SHINHAN FINANCIAL GROUP CO., LTD.

Separate Statements of Changes in Equity

For the years ended December 31, 2014 and 2013

(In millions of won)

		Capital stock	Hybrid bonds	Capital surplus	Accumulated other comprehensive loss	Retained earnings	Total equity
Balance at January 1, 2013	₩	2,645,053	537,443	9,494,842	(2,650)	6,992,233	19,666,921
Total comprehensive income for the year:							
Net profit for the year		-	-	-	-	731,638	731,638
Other comprehensive income, net of income tax:							
Remeasurements of the defined benefit liability		-	-	-	(269)	-	(269)
		-	-	-	(269)	731,638	731,369
Transactions with owners:							
Dividends		-	-	-	-	(393,878)	(393,878)
Dividend to hybrid bonds		-	-	-	-	(29,940)	(29,940)
		-	-	-	-	(423,818)	(423,818)
Balance at December 31, 2013	₩	2,645,053	537,443	9,494,842	(2,919)	7,300,053	19,974,472

		Capital stock	Hybrid bonds	Capital surplus	Accumulated other comprehensive loss	Retained earnings	Total equity
Balance at January 1, 2014	₩	2,645,053	537,443	9,494,842	(2,919)	7,300,053	19,974,472
Total comprehensive income for the year:							
Net profit for the year		-	-	-	-	662,623	662,623
Other comprehensive income, net of income tax:							
Remeasurements of the defined benefit liability		-	-	-	(1,869)	-	(1,869)
		-	-	-	(1,869)	662,623	660,754
Transactions with owners:							
Dividends		-	-	-	-	(370,167)	(370,167)
Dividend to hybrid bonds		-	-	-	-	(29,940)	(29,940)
		-	-	-	-	(400,107)	(400,107)
Balance at December 31, 2014	₩	2,645,053	537,443	9,494,842	(4,788)	7,562,569	20,235,119

See accompanying notes to the separate financial statements.

SHINHAN FINANCIAL GROUP CO., LTD.

Separate Statements of Cash Flows

For the years ended December 31, 2014 and 2013

(In millions of won)	Note		2014	2013
Cash flows from operating activities				
Profit before income taxes		₩	662,130	731,208
Adjustments for:				
Interest income			(58,363)	(61,864)
Interest expense			271,909	310,438
Dividend income	20		(922,734)	(919,805)
Net trading income	21		(116)	(1,116)
Provision for (reversal of) credit losses	7		37	(10)
Employee costs			3,991	4,732
Depreciation and amortization	23		1,034	1,113
Non-operating expense			58,904	57
			(645,338)	(666,455)
Changes in assets and liabilities:				
Trading assets			450,894	(400,452)
Other assets			474	404
Liabilities for defined benefit obligations			(2,718)	(1,878)
Other liabilities			(1,637)	96
			447,013	(401,830)
Interest received			57,861	62,672
Interest paid			(271,854)	(304,086)
Dividend received	20		922,734	919,805
Net cash provided by operating activities	29		1,172,546	341,314
Cash flows from investing activities				
Lending of loans			(50,000)	(137,500)
Collection of loans			50,000	160,000
Acquisition of property and equipment	8		(327)	(363)
Acquisition of intangible assets	9		(2,428)	(85)
Disposal of intangible assets			2,190	-
Acquisition of subsidiaries	10		-	(45,813)
Net cash used in investing activities			(565)	(23,761)
Cash flows from financing activities				
Increase in borrowings			37,500	17,500
Repayments of borrowings			(37,500)	(20,000)
Issuance of debt securities			820,000	1,600,000
Redemption of debt securities issued			(1,470,000)	(1,700,000)
Debentures issuance cost paid			(1,762)	(3,475)
Dividends paid			(399,791)	(424,014)
Net cash used in financing activities			(1,051,553)	(529,989)
Net increase (decrease) in cash and cash equivalents			120,428	(212,436)
Cash and cash equivalents at beginning of year			382	212,818
Cash and cash equivalents at end of year	29	₩	120,810	382

See accompanying notes to the separate financial statements.

1. Reporting entity

Shinhan Financial Group Co., Ltd. (the "Company") was incorporated on September 1, 2001 through a business combination involving the exchange of the Company's common stock with the former shareholders of Shinhan Bank, Shinhan Investment Corp., Shinhan Capital Co., Ltd. and Shinhan BNP Paribas Investment Trust Management Co., Ltd. The Company's shares were listed on the Korea Exchange on September 10, 2001 and the Company's American depository shares were listed on the New York Stock Exchange on September 16, 2003.

2. Basis of preparation

(a) Statement of compliance

The accompanying separate financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in *the Act on External Audits of Corporations in the Republic of Korea.*

These financial statements are separate financial statements prepared in accordance with K-IFRS No.1027 *Separate Financial Statements* presented by a parent, an investor with joint control of, significant influence over, an investee, in which the investments are accounted for cost.

(b) Basis of measurement

The separate financial statements have been prepared on the historical cost basis except for the following material items in the separate statement of financial position.

- Financial instruments at fair value through profit or loss are measured at fair value
- Liabilities for cash-settled share-based payment arrangements are measured at fair value
- Liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

(c) Functional and presentation currency

These separate financial statements are presented in Korean won which is the Company's functional currency and the currency of the primary economic environment in which the Company operates.

(d) Use of estimates and judgments

The preparation of the separate 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.

2. Basis of preparation (continued)

(e) Approval of separate financial statements

These separate financial statements were approved by the Board of Directors on February 4, 2015, which will be submitted for approval to shareholder's meeting to be held on March 25, 2015.

3. Significant accounting policies

The significant accounting policies applied by the Company in preparation of its separate financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

(a) Investments in subsidiaries

The accompanying separate financial statements have been prepared on a stand-alone basis in accordance with K-IFRS No.1027 *Separate Financial Statements*. The Company's investments in subsidiaries are recorded at cost in accordance with K-IFRS No.1027. The Company applied K-IFRS No.1101 *First-time Adoption of K-IFRS*, and considered the amount reported previously in separate financial statements prepared in accordance with previous K-GAAP as deemed cost at the date of transition. Dividends received from its subsidiaries are recognized in profit or loss when the Company is entitled to receive the dividend.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and are used by the Company in management of its short-term commitments. Generally equity investments are excluded from cash and cash equivalents.

3. Significant accounting policies (continued)

(c) Non-derivative financial assets

The Company recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Company recognizes financial assets in the separate statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

i) Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

3. Significant accounting policies (continued)

v) Derecognition of financial assets

The Company 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 Company is recognized as a separate asset or liability.

If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company 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 separate statement of financial position only when the Company currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(d) Derivative financial instruments

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity. The amount recognized in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognized in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognized. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

3. Significant accounting policies (continued)

(e) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

(f) Property and equipment

Property and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of replacing a part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced cost is derecognized. The cost of the day to day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of 5 years, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Depreciation methods, useful lives and residual value are reassessed at each fiscal year-end and any adjustment is accounted for as a change in accounting estimate.

3. Significant accounting policies (continued)

(g) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Amortization of intangible assets is calculated on a straight-line basis over the estimated useful lives of 5 years 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.

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.

(h) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than assets arising from employee benefits and deferred tax assets, 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. 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 Company estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Company estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

3. Significant accounting policies (continued)

(i) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Depending on commitments in a contract and definition of financial liabilities, the non-derivative financial liabilities are categorized as either at fair value through profit or loss or other financial liabilities.

i) Financial liabilities at fair value through profit or loss

The financial liabilities at fair value through profit or loss include a financial liability held for trading or designated at fair value through profit or loss upon initial recognition. These financial liabilities are measured at fair value after initial recognition and changes in the fair value are recognized through profit or loss of the period. Costs attributable to the issuance or acquisition are immediately expensed in the period.

ii) Other financial liabilities

The financial liabilities not classified as at fair value through profit or loss are classified into other financial liabilities. The liabilities are measured at a fair value minus cost relating to issuance upon initial recognition. Then, they are carried at amortized cost, using the effective interest rate method.

Only when financial liabilities become extinct, or obligations in a contract are cancelled or terminated, they are derecognized form the Company's separate statement of financial position.

(j) Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3. Significant accounting policies (continued)

(k) Capital stock

i) Capital stock

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

ii) Hybrid bond

The Company classifies 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 bond where the Company 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.

(l) Employee benefits

i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company'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.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company determines the net interest expense(income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in personnel expenses in profit or loss.

The discount rate is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Company recognizes service cost and net interest on the net defined benefit liability (asset) in profit or loss and remeasurements of the net defined benefit liability (asset) in other comprehensive income.

3. Significant accounting policies (continued)

The discount rate is the yield at the reporting date on high-quality corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Company recognizes service cost and net interest on the net defined benefit liability (asset) in profit or loss and remeasurements of the net defined benefit liability (asset) in other comprehensive income

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Company recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Past service costs which are the change in the present value of the defined benefits obligation for employee service in prior periods, resulting in the current period from the introduction of, or change to post-employment benefits, are recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately following the introduction of, or changes to, a defined benefit plan, the Company recognizes the past service cost immediately.

iii) Other long-term employee benefits

The Company's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(m) 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.

3. Significant accounting policies (continued)

(n) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provision shall be used only for expenditures for which the provision was originally recognized.

(o) Financial income and expense

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 year) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

ii) Fees and commissions

Fees and commission income are recognized as the related services are performed.

Fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

iii) Dividend income

Dividend income is recognized when the right to receive income is authorized.

3. Significant accounting policies (continued)

(p) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Company files its national income tax return with the Korean tax authorities under the consolidated corporate tax system, which allows it to make national income tax payments based on the combined profits or losses of the Company and its wholly owned domestic subsidiaries. Deferred taxes are measured based on the future tax benefits expected to be realized in consideration of the expected combined profits or losses of eligible companies in accordance with the consolidated corporate tax system. Consolidated corporate tax amounts, once determined, are allocated to each of the subsidiaries and are used as a basis for the income taxes to be recorded in their separate financial statements.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

3. Significant accounting policies (continued)

(q) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(r) New standards and interpretations not yet adopted

The following new amendments to existing standards have been published and are mandatory for the Company for annual periods beginning after January 1, 2015, and the Company has not early adopted them.

i) K-IFRS 1027 'Separate Financial Statements'
Amendments to K-IFRS 1027 introduced equity accounting as a third option in the entity's separate financial statements, in addition to the existing cost and fair value options. This amendment is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

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, trading and leasing businesses, its deposit taking and borrowing activities in addition to the operating environment.

The principal risks to which the Group is exposed are credit risk, market risk, interest rate risk, liquidity risk and operational risk. These risks are recognized, measured and reported in accordance with risk management guidelines established at the controlling company level and implemented at the subsidiary level through a carefully stratified checks-and-balances system.

i) Risk management principles

The Group risk management is guided by the following core principles:

- identifying and managing all inherent risks;
- standardizing risk management process and methodology;
- ensuring supervision and control of risk management independent of business activities;
- continuously assessing risk preference;
- preventing risk concentration;
- operating a precise and comprehensive risk management system including statistical models; and
- balancing profitability and risk management through risk-adjusted profit management.

ii) Risk management organization

The Group risk management system is organized along the following hierarchy: from the top and at the controlling company level, the Group Risk Management Committee, the Group Risk Management Council, the Chief Risk Officer and the Group Risk Management Team, and at the subsidiary level, the Risk Management Committees and the Risk Management Team of the relevant subsidiary. The Group Risk Management Committee, which is under the supervision of the Company's board of directors, sets the basic groupwide risk management policies and strategies. The Company's Chief Risk Officer reports to the Group Risk Management Committee, and the Group Risk Management Council, whose members consist of the 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 groupwide 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 groupwide guidelines. The Company also has the Group Risk Management Team, which supports the Company's Chief Risk Officer in his or her risk management and supervisory role.

4. Financial risk management (continued)

In order to maintain the groupwide 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 subsidiary, and the Risk Management Committee and the Management Council of each subsidiary manage the subsidiary-specific risks by establishing and managing risk limits in more detail by type of risk and type of product for each department and division within such subsidiary.

The Group Risk Management Committee consists of directors of the Company. The Group Risk Management Committee convenes at least once every quarter and may also convene on an ad hoc basis as needed. Specifically, the Group Risk Management Committee does the following: (i) establish the overall risk management policies consistent with management strategies, (ii) set reasonable risk limits for the entire group and each of subsidiaries, (iii) approve appropriate investment limits or allowed loss limits, (iv) enact and amends risk management regulations, and (v) decide other risk management-related issues the Board of Directors or the Group Risk Management Committee sees fit to discuss. The results of the Group Risk Management Committee meetings are reported to the Board of Directors of the controlling company. The Group Risk Management Committee makes decisions through affirmative votes by a majority of the committee members.

The Group Risk Management Council is comprised of the Company's chief risk officer, head of risk management team, and risk officers from each subsidiary. The Group Risk Management Council holds meetings for risk management executives from each subsidiary to discuss the Group's groupwide risk management guidelines and strategy in order to maintain consistency in the groupwide risk policies and strategies.

4. Financial risk management (continued)

iii) Risk management framework

The Group takes the following steps to implement the foregoing risk management principles:

- *Risk capital management* – Risk capital refers to capital necessary to compensate for losses in case of a potential risk being realized, and risk capital management refers to the process of asset management based on considerations of risk exposure and risk appetite among total assets so that the Group can maintain an appropriate level of risk capital. As part of the Group's risk capital management, the Group has adopted and maintains various risk planning processes and reflect such risk planning in the Group's business and financial planning. The Group also has adopted and maintains a risk limit management system to ensure that risks in the Group's business do not exceed prescribed limits.

- *Risk monitoring* – The Group proactively, preemptively and periodically review risks that may impact our overall operations, including through a multidimensional risk monitoring system. Currently, each of subsidiaries is required to report to the controlling company any factors that could have a material impact on the group-wide risk management, and the controlling company reports to the Group's chief risk officer and other members of the Group's senior management the results of risk monitoring on a weekly, monthly and on an ad hoc basis as needed. In addition, the Group perform preemptive risk management through a "risk dashboard system" under which the Group closely monitor any increase in asset size, risk levels and sensitivity to external factors with respect to the major asset portfolios of each of subsidiaries, and to the extent such monitoring yields any warning signals, the Group promptly analyze the causes and, if necessary, formulate and implement actions in response to these warning signals.

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

- *Risk management* – The Group maintain a groupwide 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 groupwide, and upon the happening of any contingency at a subsidiary level, the Group directly takes charge of the situation so that the Group manages it on a concerted groupwide basis.

(In millions of won)

4. Financial risk management (continued)

(b) Credit risk

i) Credit risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities. The Company's credit risk management encompasses all areas of credit that may result in potential economic loss, including not just transactions that are recorded on balance sheets, but also off-balance-sheet transactions such as guarantees, loan commitments and derivatives transactions.

ii) The Company's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements as of December 31, 2014 and 2013 are as follows:

		2014	2013
Due from banks and loans (*1):			
Banks	₩	120,790	385
Corporations		1,337,083	1,337,083
		1,457,873	1,337,468
Other financial assets (*1)(*2)		353,433	294,918
	₩	1,811,306	1,632,386

(*1) The maximum exposure amounts for due from banks, loans and other financial assets are measured as net of allowances.
(*2) Comprise account receivables, accrued income, and guarantee deposits.

iii) Classification of financial assets under consideration of credit risk

Financial assets that are neither past due nor impaired as of December 31, 2014 and 2013 are as follows:

		2014		
		Banks	Corporations	Total
Due from banks and loans (*) not impaired nor overdue	₩	120,813	1,337,500	1,458,313
Less: allowance		(23)	(417)	(440)
	₩	120,790	1,337,083	1,457,873

		2013		
		Banks	Corporations	Total
Due from banks and loans (*) not impaired nor overdue	₩	385	1,337,500	1,337,885
Less: allowance		-	(417)	(417)
	₩	385	1,337,083	1,337,468

(*) Credit quality of due from banks and loans was classified as Grade 1.

(In millions of won)

4. Financial risk management (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

Interest rate risk is the risk of loss resulting from interest rate fluctuations that adversely affect the financial condition and results of operations of the Company.

Interest rate gap analysis measures the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and re-pricing date by preparing interest rate gap tables. Through the interest rate gap analysis that measures interest rate sensitivity gaps, cumulative gaps and gap ratios, the Company assesses its exposure to future interest risk fluctuations. For interest rate gap analysis, the Company assumes and uses the following maturities for different assets and liabilities:

The results of interest rate gap analysis as of December 31, 2014 and 2013 are as follows:

		2014						
		Less than 1 month	**1 ~ 3 months**	**3 ~ 6 months**	**6 months ~ 1 year**	**1 ~ 5 years**	**More than 5 years**	**Total**
Interest-earning assets								
Due from banks	₩	-	120,000	-	-	-	-	120,000
Loans		-	-	-	107,500	1,230,000	-	1,337,500
		-	120,000	-	107,500	1,230,000	-	1,457,500
Interest-bearing liabilities								
Borrowings		-	-	-	7,500	-	-	7,500
Debt securities issued		-	50,000	350,000	910,000	4,320,000	830,000	6,460,000
	₩	-	50,000	350,000	917,500	4,320,000	830,000	6,467,500
Sensitivity gap	₩	-	70,000	(350,000)	(810,000)	(3,090,000)	(830,000)	(5,010,000)
Cumulative gap		-	70,000	(280,000)	(1,090,000)	(4,180,000)	(5,010,000)	-

		2013						
		Less than 1 month	**1 ~ 3 months**	**3 ~ 6 months**	**6 months ~ 1 year**	**1 ~ 5 years**	**More than 5 years**	**Total**
Interest-earning assets								
Loans	₩	50,000	-	-	7,500	1,280,000	-	1,337,500
Interest-bearing liabilities								
Borrowings		-	-	-	7,500	-	-	7,500
Debt securities issued		220,000	200,000	490,000	560,000	4,720,000	920,000	7,110,000
	₩	220,000	200,000	490,000	567,500	4,720,000	920,000	7,117,500
Sensitivity gap	₩	(170,000)	(200,000)	(490,000)	(560,000)	(3,440,000)	(920,000)	(5,780,000)
Cumulative gap		(170,000)	(370,000)	(860,000)	(1,420,000)	(4,860,000)	(5,780,000)	-

(In millions of won)

4. Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company maintains the liquidity position of the balance of assets exceeding the balance of liabilities based on the remaining maturities at 30 days below at each month-end financial position in accordance with the Financial Holding Company Act.

Contractual maturities for financial instruments as of December 31, 2014 and 2013 are as follows:

		2014						
		Less than 1 month	1 ~ 3 months	3 ~ 6 months	6 months ~ 1 year	1 ~ 5 years	More than 5 years	Total
Non-derivatives								
Assets:								
Cash and due from banks	₩	813	120,000	-	-	-	-	120,813
Loans		5,358	8,847	14,204	135,909	1,281,814	-	1,446,132
Trading assets		69,338	-	-	-	-	-	69,338
Other financial assets		2,127	7,422	297,538	13,464	26,350	-	346,901
		77,636	136,269	311,742	149,373	1,308,164	-	1,983,184
Liabilities:								
Borrowings		-	-	-	7,500	-	-	7,500
Debt securities issued		27,997	84,051	411,390	1,017,873	4,689,487	900,605	7,131,403
Other financial liabilities		14,787	16,745	54,354	-	32,072	-	117,958
		42,784	100,796	465,744	1,025,373	4,721,559	900,605	7,256,861
	₩	34,852	35,473	(154,002)	(876,000)	(3,413,395)	(900,605)	(5,273,677)

		2013						
		Less than 1 month	1 ~ 3 months	3 ~ 6 months	6 months ~ 1 year	1 ~ 5 years	More than 5 years	Total
Non-derivatives								
Assets:								
Cash and due from banks	₩	385	-	-	-	-	-	385
Loans		55,474	8,847	13,755	35,009	1,380,983	-	1,494,068
Trading assets		520,116	-	-	-	-	-	520,116
Other financial assets		3,933	15,962	235,368	13,464	19,568	-	288,295
		579,908	24,809	249,123	48,473	1,400,551	-	2,302,864
Liabilities:								
Borrowings		-	-	-	7,500	-	-	7,500
Debt securities issued		250,547	242,245	557,480	680,630	5,189,885	1,003,786	7,924,573
Other financial liabilities		14,949	25,505	17,959	-	26,894	-	85,307
		265,496	267,750	575,439	688,130	5,216,779	1,003,786	8,017,380
	₩	314,412	(242,941)	(326,316)	(639,657)	(3,816,228)	(1,003,786)	(5,714,516)

(In millions of won)

4. Financial risk management (continued)

(e) Measurement for the fair value of financial instruments

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 Company 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 Company 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 Company 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.

i) Financial instruments measured at fair value

- The fair value hierarchy of financial assets which are presented at their fair value in the statements of financial position as of December 31, 2014 and 2013 are as follows:

		2014			
		Level 1	Level 2	Level 3	Total
Trading assets	₩	-	69,338	-	69,338

		2013			
		Level 1	Level 2	Level 3	Total
Trading assets	₩	-	520,116	-	520,116

- There was no transfer within level 1 and level 2 during the years ended December 31, 2014 and 2013.

- The valuation techniques and the fair value measurement input variables of financial instruments classified as level 2 as of December 31, 2014 and 2013 are as follows:

Classification	Valuation techniques	Type		2014	2013	Inputs
Trading assets	Net asset valuation approach	Beneficiary certificates	₩	69,338	520,116	Price of underlying assets

(In millions of won)

4. Financial risk management (continued)

ii) The financial instruments measured at amortized cost

- The methods of measuring the fair value of financial instruments measured at amortized cost are as follows:

Type	Measurement methods of fair value
Cash and due from banks	The carrying amount and the fair value for cash are identical and the most of deposits are floating interest rate deposit or the next day deposit 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 with the market interest rate reflecting credit risk, etc.
Borrowings and debt securities issued	The fair value of deposits and borrowings is based on the published price quotations in an active market. In case there is no data for an active market price, it is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.

- The carrying value and fair value of the financial instruments measured at amortized cost as of December 31, 2014 and 2013 are as follows:

		2014		2013	
		Carrying value	Fair value	Carrying value	Fair value
Assets:					
Loans (corporate)	₩	1,337,083	1,372,963	1,337,083	1,353,077
Liabilities:					
Borrowings		7,500	7,365	7,500	7,335
Debt securities issued in won		6,451,436	6,642,744	7,098,797	7,171,457
	₩	6,458,936	6,650,109	7,106,297	7,178,792

(In millions of won)

4. Financial risk management (continued)

- The fair value hierarchy of financial assets and liabilities which are not measured at their fair values in the statements of financial position but disclosed with their fair values as of December 31, 2014 and 2013 are as follows:

		2014			
		Level 1	Level 2	Level 3	Total
Assets:					
Loans (corporate)	₩	-	-	1,372,963	1,372,963
Liabilities:					
Borrowings		-	7,365	-	7,365
Debt securities issued in won		-	6,642,744	-	6,642,744
	₩	-	6,650,109	-	6,650,109

		2013			
		Level 1	Level 2	Level 3	Total
Assets:					
Loans (corporate)	₩	-	-	1,353,077	1,353,077
Liabilities:					
Borrowings		-	7,335	-	7,335
Debt securities issued in won		-	7,171,457	-	7,171,457
	₩	-	7,178,792	-	7,178,792

- Information about valuation technique and inputs used at December 31, 2014 in measuring financial instruments not measured at fair value classified as level 2 or 3 is as follows:

	2014			
	Valuation technique		Carrying value	Inputs
Assets				
Loans (corporate)	DCF(*1)	₩	1,337,083	Discount rate
Liabilities				
Borrowings	〃		7,500	〃
Debt securities issued in won	〃		6,451,436	〃
		₩	6,458,936	

(*1) DCF : Discounted cash flow

(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 Company's valuation methodologies, which are described in Note 4.(e) Measurement for the fair value of financial instruments. The carrying amounts of each category of financial assets and financial liabilities as of December 31, 2014 and 2013 are as follows:

		2014		
		Financial assets at fair value through profit or loss		
		Trading assets	Loans and receivable	Financial liabilities measured at amortized cost
Assets:				
Due from banks	₩	-	120,790	-
Trading assets		69,338	-	-
Loans		-	1,337,083	-
Other		-	353,433	-
	₩	69,338	1,811,306	-
Liabilities:				
Borrowings	₩	-	-	7,500
Debt securities issued		-	-	6,451,436
Other		-	-	149,282
	₩	-	-	6,608,218

		2013		
		Financial assets at fair value through profit or loss		
		Trading assets	Loans and receivable	Financial liabilities measured at amortized cost
Assets:				
Due from banks	₩	-	385	-
Trading assets		520,116	-	-
Loans		-	1,337,083	-
Other		-	294,918	-
	₩	520,116	1,632,386	-
Liabilities:				
Borrowings	₩	-	-	7,500
Debt securities issued		-	-	7,098,797
Other		-	-	121,008
	₩	-	-	7,227,305

(In millions of won)

4. Financial risk management (continued)

(g) Comprehensive income by categories

Comprehensive income by categories of financial instruments for the years ended December 31, 2014 and 2013 were as follows:

		2014				
		Net profit or loss				
		Interest income /expense(*)	Reversal of (provision for) credit losses	Other	Total	Other comprehensive income
Trading assets	₩	-	-	10,409	10,409	-
Loans		58,363	(37)	-	58,326	-
Financial liabilities measured at amortized cost	₩	(271,909)	-	-	(271,909)	-

		2013				
		Net profit or loss				
		Interest income /expense(*)	Reversal of (provision for) credit losses	Other	Total	Other comprehensive income
Trading assets	₩	-	-	10,991	10,991	-
Loans		61,864	10	-	61,874	-
Financial liabilities measured at amortized cost	₩	(310,438)	-	-	(310,438)	-

(*) Calculated by using the effective interest method

(h) Capital risk management

Pursuant to Financial Holding Company Supervisory Regulation, the Company complies with the debt ratio as "total liability divided by total equity subtracting regulatory reserve for credit loss', and calculates the dual leverage ratio as 'total invested amount on subsidiaries divided by total equity subtracting regulatory reserve for credit loss', for capital risk management purposes.

(In millions of won)

5. Due from banks

(a) Due from banks as of December 31, 2014 and 2013 are as follows:

		2014	2013
Due from banks in won			
Deposits	₩	120,000	-
Other financial institution deposits		813	385
		120,813	385
Less : allowance		(23)	-
	₩	120,790	385

(b) Restricted guaranteed deposits on bank accounts as of December 31, 2014 and 2013 are as follows:

		2014	2013
Other financial institution deposits	₩	3	3

6. Trading assets

Trading assets as of December 31, 2014 and 2013 are as follows:

		2014	2013
Beneficiary certificates	₩	69,338	520,116

7. Loans

(a) Loans as of December 31, 2014 and 2013 comprise the following:

		2014	2013
Loans (corporate)	₩	1,337,500	1,337,500
Less: allowance		(417)	(417)
	₩	1,337,083	1,337,083

(b) Changes in allowance for credit losses for the years ended December 31, 2014 and 2013 were as follows:

		2014		
		Loans	Others (*)	Total
Beginning balance	₩	417	59	476
Provision for credit losses		-	37	37
Ending balance	₩	417	96	513

		2013		
		Loans	Others (*)	Total
Beginning balance	₩	395	91	486
Provision for (reversal of) credit losses		22	(32)	(10)
Ending balance	₩	417	59	476

(*) Include allowance for due from banks and other assets.

(In millions of won)

8. Property and equipment

(a) Property and equipment as of December 31, 2014 and 2013 are as follows:

		2014		
		Acquisition cost	Accumulated depreciation	Carrying value
Furniture and fixtures	₩	2,871	(2,249)	622
Other tangible assets		4,421	(4,014)	407
	₩	7,292	(6,263)	1,029

		2013		
		Acquisition cost	Accumulated depreciation	Carrying value
Furniture and fixtures	₩	2,660	(2,009)	651
Other tangible assets		4,278	(3,770)	508
	₩	6,938	(5,779)	1,159

(b) Changes in property and equipment for the years ended December 31, 2014 and 2013 were as follows:

		2014		
		Furniture and fixtures	Other	Total
Beginning balance	₩	651	508	1,159
Acquisition (*)		232	143	375
Depreciation		(261)	(244)	(505)
Ending balance	₩	622	407	1,029

		2013		
		Furniture and fixtures	Other	Total
Beginning balance	₩	546	718	1,264
Acquisition (*)		318	58	376
Depreciation		(213)	(268)	(481)
Ending balance	₩	651	508	1,159

(*) ₩ 63 million are recognized as accounts payable.

(In millions of won)

9. Intangible assets

(a) Intangible assets as of December 31, 2014 and 2013 are as follows:

		2014	2013
Membership	₩	5,561	5,657
Software		532	851
	₩	6,093	6,508

(b) Changes in intangible assets for the years ended December 31, 2014 and 2013 were as follows:

		2014					
		Beginning balance	Acquisition	Disposal	Depreciation	Impairment losses(*)	Ending Balance
Membership	₩	5,657	2,247	(2,300)	-	(43)	5,561
Software		851	210	-	(529)	-	532
	₩	6,508	2,457	(2,300)	(529)	(43)	6,093

		2013					
		Beginning balance	Acquisition	Disposal	Depreciation	Impairment losses(*)	Ending Balance
Membership	₩	5,714	-	-	-	(57)	5,657
Software		1,398	85	-	(632)	-	851
	₩	7,112	85	-	(632)	(57)	6,508

(*) The Company recognized impairment losses from golf and condo memberships with indefinite useful life by comparing its recoverable amount with its carrying amount.

(In millions of won)

10. Investments in subsidiaries

Investments in subsidiaries as of December 31, 2014 and 2013 are as follows :

Investees	Location	Reporting date
Shinhan Bank	Korea	December 31
Shinhan Card	〃	〃
Shinhan Investment	〃	〃
Shinhan Life Insurance	〃	〃
Shinhan Capital	〃	〃
Jeju Bank	〃	〃
Shinhan BNP Paribas AMC	〃	〃
Shinhan Private Equity Investment Management	〃	〃
Shinhan Credit Information	〃	〃
SHC Management	〃	〃
Shinhan Data System	〃	〃
Shinhan Savings Bank	〃	June 30
Shinhan Aitas	〃	December 31

	2014		2013	
Investees	Ownership percentage (%)	Carrying value	Ownership percentage (%)	Carrying value
Shinhan Bank	100.0	₩ 13,617,579	100.0	₩ 13,617,579
Shinhan Card	100.0	7,919,672	100.0	7,919,672
Shinhan Investment	100.0	1,841,420	100.0	1,841,420
Shinhan Life Insurance	100.0	982,775	100.0	982,775
Shinhan Capital	100.0	408,922	100.0	408,922
Jeju Bank	68.9	135,220	68.9	135,220
Shinhan BNP Paribas AMC	65.0	91,565	65.0	91,565
Shinhan Private Equity Investment Management	100.0	14,783	100.0	14,783
Shinhan Credit Information	100.0	15,385	100.0	15,385
SHC Management	100.0	8,655	100.0	8,655
Shinhan Data System	100.0	10,026	100.0	10,026
Shinhan Savings Bank (*1,2)	100.0	107,065	100.0	165,815
Shinhan Aitas	99.8	50,092	99.8	50,092
		₩ 25,203,159		₩ 25,261,909

(*1) On January 31, 2013, Yehanbyoul Savings Bank was acquired by Shinhan Financial Group as a directly owned subsidiary subject to the approval of Financial Services Commission and on April 1, 2013, Shinhan Savings Bank and Yehanbyoul Savings Bank merged into a single entity, with Yehanbyoul Savings Bank being the surviving entity and the newly merged bank was renamed as Shinhan Savings Bank.

(*2) Industry environment of savings banks has deteriorated continuously and performance fell short of expectations primarily due to a decline of benchmark interest rate. Considering the aforementioned recent downturns, the Company recognized the impairment losses on investments in Shinhan Savings Bank.

(In millions of won)

11. Other assets

Other assets as of December 31, 2014 and 2013 are as follows:

		2014	2013
Guarantee deposits	₩	13,464	13,464
Accounts receivable (Note 24)		333,248	274,831
Accrued income		6,793	6,682
Advance payments		191	224
Sundry assets		12	12
		353,708	295,213
Less : allowance		(73)	(59)
	₩	353,635	295,154

12. Borrowings

Details of borrowings as of December 31, 2014 and 2013 are as follows:

	2014			2013		
	Interest rate (%)		Amount	Interest rate (%)		Amount
Borrowings in won (CP)	2.30 ~ 2.68	₩	7,500	2.75 ~ 2.95	₩	7,500

13. Debt securities issued

Debt securities issued as of December 31, 2014 and 2013 are as follows:

	2014			2013		
	Interest rate (%)		Amount	Interest rate (%)		Amount
Debt securities issued in won	2.24% ~ 5.27	₩	6,460,000	2.90 ~ 5.58	₩	7,110,000
Discount			(8,564)			(11,203)
		₩	6,451,436		₩	7,098,797

(In millions of won)

14. Employee benefits

(a) Defined benefit obligations and plan assets

Defined benefit obligations and plan assets as of December 31, 2014 and 2013 are as follows:

		2014	2013
Present value of defined benefit obligations	₩	14,955	11,099
Fair value of plan assets		(10,453)	(8,118)
Recognized liabilities for defined benefit obligations	₩	4,502	2,981

(b) Changes in the present value of defined benefit obligation and plan assets for the years ended December 31, 2014 and 2013 were as follows:

		2014		
		Defined benefit obligation	Plan assets	Net defined benefit liability
Beginning balance	₩	11,099	(8,118)	2,981
Recognized in profit or loss				
Current service costs		1,697	-	1,697
Interest expense (income)		471	(350)	121
		2,168	(350)	1,818
Recognized in other comprehensive income:				
Remeasurements loss (gain) :				
- Actuarial losses (gains) arising from :				
Demographic assumptions		-	-	-
Financial assumptions		1,454	-	1,454
Experience adjustment		868	-	868
- Return on plan assets excluding interest income		-	144	144
		2,322	144	2,466
Other :				
Benefits paid by the plan		(2,511)	636	(1,875)
Contributions paid into the plan		-	(2,765)	(2,765)
Succession		1,877	-	1,877
		(634)	(2,129)	(2,763)
Ending balance	₩	14,955	(10,453)	4,502

(*) Profit or loss arising from defined benefit plans is included in general and administrative expenses.

(In millions of won)

14. Employee benefits (continued)

		2013		
		Defined benefit obligation	Plan assets	Net defined benefit liability
Beginning balance	₩	9,701	(7,099)	2,602
Recognized in profit or loss				
Current service costs		1,808	-	1,808
Interest expense (income)		372	(278)	94
		2,180	(278)	1,902
Recognized in other comprehensive income:				
Remeasurements loss (gain) :				
- Actuarial losses (gains) arising from :				
Demographic assumptions		13	-	13
Financial assumptions		2,734	-	2,734
Experience adjustment		(2,468)	-	(2,468)
- Return on plan assets excluding interest income		-	76	76
		279	76	355
Other :				
Benefits paid by the plan		(2,242)	624	(1,618)
Contributions paid into the plan		-	(1,441)	(1,441)
Succession		1,181	-	1,181
		(1,061)	(817)	(1,878)
Ending balance	₩	11,099	(8,118)	2,981

(*) Profit or loss arising from defined benefit plans is included in general and administrative expenses.

(c) The Company's plan assets as of December 31, 2014 and 2013 are completely deposits.

(d) Actuarial assumptions as of December 31, 2014 and 2013 are as follows:

	2014	2013	Description
Discount rate	3.27%	4.31%	AA corporate bond yields
Future salary increasing rate	2.84% + Upgrade rate	2.44% + Upgrade rate	Average for 5 years

(In millions of won)

14. Employee benefits (continued)

(e) Sensitivity analysis

Reasonably possible changes as of December 31, 2014 to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

		The present value of defined benefit obligation	
		Increase	Decrease
Discount rate (1%p movement)	₩	13,605	16,523
Future salary increasing rate (1%p movement)		16,516	13,585

(f) As of December 31, 2014 and 2013, the weighted-average duration of the defined benefit obligation are 8.97 and 9.01 years, respectively.

15. Other liabilities

Other liabilities as of December 31, 2014 and 2013 are as follows:

		2014	2013
Accounts payable	₩	57,505	21,876
Accrued expense (Note 24)		82,966	90,638
Income taxes payable		245,438	217,409
Dividends payable		8,811	8,494
Unearned income		150	178
Taxes withheld		1,121	2,300
	₩	395,991	340,895

(In millions of won)

16. Equity

(a) Equity as of December 31, 2014 and 2013 are as follows:

		2014	2013
Capital stock			
Common stock	₩	2,370,998	2,370,998
Preferred stock		274,055	274,055
		2,645,053	2,645,053
Hybrid bond		537,443	537,443
Capital surplus			
Share premium		9,494,769	9,494,769
Other		73	73
		9,494,842	9,494,842
Accumulated other comprehensive loss		(4,788)	(2,919)
Retained earnings			
Legal reserve(*)		1,690,125	1,616,961
Regulatory reserve for loan loss		7,621	8,786
Unappropriated retained earnings		5,864,823	5,674,306
		7,562,569	7,300,053
	₩	20,235,119	19,974,472

(*) Legal reserve was restricted for the dividend to stockholders by law or legislation. According to the article 53 of the Financial Holding Companies Act, the controlling company is required to appropriate a legal reserve in an amount equal to at least 10% of cash dividends for each accounting period until the reserve equals 100% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to common stocks in connection with a free issue of shares.

(b) Capital stock

i) Capital stock of the Company as of December 31, 2014 and 2013 is as follows:

Number of authorized shares		1,000,000,000
Par value per share in won	₩	5,000
Number of issued common stocks outstanding		474,199,587
Number of issued preferred stocks outstanding		11,100,000

(In millions of won)

16. Equity (continued)

ii) The preferred stocks issued by the Company as of December 31, 2014 are as follows:

	Number of shares	Predetermined dividend rate (%) (*1)	Redeemable period
Redeemable preferred stock:			
Series 12 (*2)	11,100,000	5.58%	April 21, 2016 ~ April 21, 2031

(*1) Based on initial issue price
(*2) The Company maintains the right to redeem Series 12 redeemable preferred stocks in part or in its entirety within the redeemable year at par value (considered contract dividend rate). If the preferred shares are not redeemed by the end of the redeemable year, those rights will lapse.
The capital stock does not match the total amount of the par value for preferred stock issued ₩55,500 million as of December 31, 2014 because redeemable preferred stock (43,711,000 shares) has been repaid by retirement of stock method.

(c) Hybrid bond

Hybrid bond classified as other equity instrument as of December 31, 2014 and 2013 is as follows:

Issue date	Maturity date	Interest rate (%)		2014	2013
October 24, 2011	October 24, 2041	5.80	₩	238,582	238,582
May 22, 2012	May 22, 2042	5.34		298,861	298,861
			₩	537,443	537,443

The hybrid bonds above can be repaid at par value early after 5 years from date of issuance, and the Company has an unconditional right to extend the maturity under the same condition. In addition, if no dividend was to be paid for common shares, the agreed interest was also not paid.

(d) Accumulated other comprehensive

Changes in accumulated other comprehensive income for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Beginning balance	₩	(2,919)	(2,650)
Remeasurements of the defined benefit liabilities		(2,466)	(356)
Tax effect		597	87
Ending balance	₩	(4,788)	(2,919)

(In millions of won)

16. Equity (continued)

(e) Appropriation of retained earnings

Separate statements of appropriation of retained earnings for the years ended December 31, 2014 and 2013 are as follows:

		2014	2013
Unappropriated retained earnings:			
Balance at beginning of year	₩	5,232,139	4,972,608
Dividend to hybrid bonds		(29,940)	(29,940)
Net income		662,623	731,638
		5,864,822	5,674,306
Reversal of regulatory reserve for loan losses		-	1,165
Balance at end of year before appropriation		5,864,822	5,675,471
Appropriation of retained earnings:			
Legal reserve		66,262	73,164
Regulatory reserve for loan losses		858	-
Dividends			
Dividends on common stocks paid		450,490	308,230
Dividends on preferred stocks paid		61,938	61,938
		579,548	443,332
Unappropriated retained earnings to be carried over to subsequent year	₩	5,285,274	5,232,139
Date of appropriation:		March 25, 2015	March 26, 2014

(In millions of won)

16. Equity (continued)

(f) Regulatory reserve for loan losses

In accordance with Regulations for the Supervision of Financial Holding Companies, the Company reserves the difference between allowance for credit losses under K-IFRS and that as required by Regulations for the Supervision of Financial Holding Companies at the account of regulatory reserve for loan losses in retained earnings.

i) Changes in regulatory reserve for loan losses for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Beginning balance	₩	7,621	8,786
Planned regulatory reserve for (reversal of) loan losses		858	(1,165)
Ending balance	₩	8,479	7,621

ii) Profit for the year and earnings per share after adjusted for regulatory reserve for loan losses for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Profit for the year	₩	662,623	731,638
Adjustment for regulatory reserve for loan losses		(858)	1,165
Profit for the year after adjusted for regulatory reserve	₩	661,765	732,803
Basic and diluted earnings per share in won adjusted for regulatory reserve (*)	₩	1,202	1,352

(*) Dividends for preferred stocks and hybrid bonds are deducted.

(In millions of won)

17. Dividends

(a) Details of dividends recognized as distributions to common stockholders for the years ended December 31, 2014 and 2013 are as follows:

		2014 (*)	2013
Total number of shares issued and outstanding	₩	474,199,587	474,199,587
Par value per share in won		5,000	5,000
Dividend per share in won		950	650
Dividends	₩	450,490	308,230
Dividend rate per share	%	19.0	13.0

(*) The amount of dividends proposed or declared before the financial statements were authorized for issue but not recognized as a distribution to owners during the year, and the related amount per share.

(b) Dividends recognized as distributions to preferred stockholders for the years ended December 31, 2014 and 2013 are as follows:

	2014					
	Total shares outstanding		Dividend per share in won	Total dividend	Price per share in won	Dividend rate
Redeemable preferred stock Series 12	11,100,000	₩	5,580	61,938	100,000	5.58%

	2013					
	Total shares outstanding		Dividend per share in won	Total dividend	Price per share in won	Dividend rate
Redeemable preferred stock Series 12	11,100,000	₩	5,580	61,938	100,000	5.58%

(c) Dividend for hybrid bond for the years ended December 31, 2014 and 2013 were calculated as follows:

		2014	2013
Amount of hybrid bond	₩	540,000	540,000
Interest rate		5.34%~5.80%	5.34%~5.80%
Dividend	₩	29,940	29,940

(d) There is no unrecognized cumulative dividend on preferred stocks as of December 31, 2014 and 2013.

(In millions of won)

18. Net interest expense

Net interest expense for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Interest income:			
Due from banks	₩	923	2,702
Loans		57,075	58,780
Others		365	382
		58,363	61,864
Interest expense:			
Borrowings in won		(313)	(295)
Debt securities issued in won		(271,596)	(310,143)
		(271,909)	(310,438)
Net interest expense	₩	(213,546)	(248,574)

19. Net fees and commission income

Net fees and commission income for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Fees and commission income:			
Royalty	₩	70,022	114,301
Other		12	20
		70,034	114,321
Fees and commission expense:			
Other		(182)	(214)
Net fees and commission income	₩	69,852	114,107

20. Dividend income

Dividend income for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Dividends from subsidiaries	₩	922,734	919,805

21. Net trading income

Net trading income for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Securities			
Gain on valuation	₩	116	1,116
Gain on sale		10,293	9,875
	₩	10,409	10,991

(In millions of won)

22. Provision for (reversal of) credit losses

Provision for (reversal of) credit losses for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Provision for (reversal of) credit losses	₩	37	(10)

23. General and administrative expenses

General and administrative expenses for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Salaries:			
Salary expenses and bonuses	₩	28,789	29,363
Severance benefits		1,818	1,902
		30,607	31,265
Rent		2,021	1,937
Entertainment		1,670	1,634
Depreciation		505	481
Amortization		529	632
Taxes and dues		561	793
Advertising		21,973	19,205
Others		10,259	10,838
	₩	68,125	66,785

(In millions of won)

24. Share-based payments

(a) Stock options granted as of December 31, 2014 are as follows:

	4th grant(*1)(*2)	5th grant(*1)(*2)	6th grant	7th grant(*1)
Grant date	March 30, 2005	March 21, 2006	March 20, 2007	March 19,2008
Exercise price in won	₩28,006	₩38,829	₩54,560	₩49,053
Number of shares granted	2,695,200	3,296,200	1,301,050	808,700
Contractual exercise period	Within four years after three years from grant date	Within four years after three years from grant date	Within four years after three years from grant date	Within four years after three years from grant date
Changes in number of shares granted:				
Balance at January 1, 2014	102,389	108,356	1,025,856	619,778
Exercised	-	-	-	126,699
Expired	-	-	1,025,856	-
Balance at December 31, 2014	102,389	108,356	-	493,079
Assumptions used to determine the fair value of options:				
Risk-free interest rate	-	-	-	2.05%
Expected exercise period	-	-	-	2 months
Expected stock price volatility	-	-	-	16.90%
Expected dividend yield	-	-	-	1.58%
Fair value per share in won	₩16,444	₩ 5,621	-	₩ 39

(*1) The equity instruments granted are fully vested as of December 31, 2014. The weighted average share price for 703,824 stock options outstanding at December 31, 2014 is ₩44,417.

(*2) As of December 31, 2014, the exercise of the remaining stock options (4th and 5th grant) was temporarily suspended.

(In millions of won)

24. Share-based payments (continued)

(b) Performance shares granted as of December 31, 2014 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 (*1)	4 or 5 years	
Estimated number of shares vested at December 31, 2014	219,853	664,125
Fair value per share in won	₩45,926 and ₩47,376 (*2)	₩44,450

(*1) Four-year period is applied from the beginning of the year that the grant date belongs while five-year period for the shares with deferred payment.
(*2) ₩45,926 of fair value per unit is applied for the shares that are vested at December 31, 2013 and ₩47,376 for the shares that are vested at December 31, 2014, respectively.

The amount of cash payment for the Company's cash-settled share-based payment arrangements with performance conditions is determined at the fourth anniversary date from the grant date based on the share price which is an arithmetic mean of weighted average share prices of the past two-months, past one-month and past one-week. As such the fair value of number of shares expired is estimated using the arithmetic mean of weighted average share prices at the day after expiration date and the fair value of number of shares non-expired is estimated using the closing share price at the end of reporting year. For share-based payment transactions among the Company and its subsidiaries, the 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.

(In millions of won)

24. Share-based payments (continued)

(c) Share-based compensation costs

Share-based compensation costs for the years ended December 31, 2014 and 2013 were as follows:

		2014		
		Employees of		
		Shinhan Financial Group	Subsidiaries(*)	Total
Stock options granted:				
4th	₩	(26)	(266)	(292)
5th		(18)	(291)	(309)
6th		(1)	(4)	(5)
7th		(216)	(876)	(1,092)
Performance share		2,264	12,939	15,203
	₩	2,003	11,502	13,505

(*) The Company has granted the above share-based payment arrangements to its employees and those of its subsidiaries and the Company require the subsidiaries to reimburse the compensation costs for their employees. As of December 31, 2014, the Company recognized the corresponding accounts receivable from the subsidiaries in the amount of ₩35,709 million.

		2013		
		Employees of		
		Shinhan Financial Group	Subsidiaries(*)	Total
Stock options granted:				
4th	₩	76	789	865
5th		494	3,190	3,684
6th		(9)	(62)	(71)
7th		81	427	508
Performance share		2,189	12,272	14,461
	₩	2,831	16,616	19,447

(*) The Company has granted the above share-based payment arrangements to its employees and those of its subsidiaries and the Company require the subsidiaries to reimburse the compensation costs for their employees. As of December 31, 2013, the Company recognized the corresponding accounts receivable from the subsidiaries in the amount of ₩39,362 million.

(In millions of won)

24. Share-based payments (continued)

(d) Accrued expenses and the intrinsic value as of December 31, 2014 and 2013 are as follows:

		2014		
		Employees of		
		Shinhan Financial Group	Subsidiaries	Total
Stock options granted:				
4th	₩	147	1,537	1,684
5th		36	573	609
6th		-	-	-
7th		4	15	19
Performance share		6,327	33,584	39,911
	₩	6,514	35,709	42,223

The intrinsic value of share-based payments is ₩42,024 million as of December 31, 2014. For calculating, the quoted market price ₩ 44,450 per share was used for stock options and the fair value was considered as intrinsic value for performance shares, respectively.

		2013		
		Employees of		
		Shinhan Financial Group	Subsidiaries	Total
Stock options granted:				
4th	₩	173	1,802	1,975
5th		54	864	918
6th		1	4	5
7th		220	1,161	1,381
Performance share		5,267	35,531	40,798
	₩	5,715	39,362	45,077

The intrinsic value of share-based payments is ₩43,691 million as of December 31, 2013. For calculating, the quoted market price ₩47,300 per share was used for stock options and the fair value was considered as intrinsic value for performance shares, respectively.

(In millions of won)

25. Non-operating income and expense

Non-operating income and expense for the years ended December 31, 2014 and 2013 were as follows;

		2014	2013
Non-operating income			
Other	₩	437	2,207
Non-operating expense			
Impairment loss on investments in subsidiaries		(58,751)	-
Impairment losses on intangible assets		(44)	(57)
Donations and Contributions		(690)	(493)
Other		(109)	(3)
		(59,594)	(553)
	₩	(59,157)	1,654

26. Operating revenue

Operating revenue for the years ended December 31, 2014 and 2013 were as follows.

		2014	2013
Interest income	₩	58,363	61,864
Royalty		70,034	114,321
Dividend income		922,734	919,805
Gains on financial assets held for trading		10,409	10,991
Reversal of credit losses		-	10
	₩	1,061,540	1,106,991

27. Income taxes

(a) Income tax expense (benefit) for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Current income tax expense	₩	-	-
Temporary differences		(1,090)	(517)
Income tax recognized in other comprehensive income		597	87
Income tax benefit	₩	(493)	(430)

(b) Income tax expense (benefit) calculated by applying statutory tax rates to the company's taxable income differs from the actual income tax expense (benefit) in the separate statements of comprehensive income for the years ended December 31, 2014 and 2013 for the following reasons:

		2014	2013
Profit before income taxes	₩	662,130	731,208
Income taxes at statutory tax rates		160,235	176,952
Adjustment:			
Non-taxable income		(181,842)	(175,927)
Non-deductible expense		14,777	505
Other		6,337	(1,960)
Income tax benefit	₩	(493)	(430)
Effective income tax rate	%	(0.07)	(0.06)

(In millions of won)

27. Income taxes (continued)

(c) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2014 and 2013 were as follows:

		2014			
		Beginning balance	Net income effect	Other comprehensive income effect	Ending balance
Trading assets	₩	(268)	242	-	(26)
Accumulated depreciation		2	6	-	8
Allowances		(1,779)	5	-	(1,774)
Defined benefit obligation		2,358	381	562	3,301
Plan assets		(1,860)	(520)	35	(2,345)
Share-based payment		108	(63)	-	45
Accrued expenses		2,545	508	-	3,053
Other		1,225	(66)	-	1,159
	₩	2,331	493	597	3,421

		2013			
		Beginning balance	Net income effect	Other comprehensive income effect	Ending balance
Trading assets	₩	(92)	(176)	-	(268)
Accumulated depreciation		(8)	10	-	2
Allowances for credit losses		(1,775)	(4)	-	(1,779)
Defined benefit obligation		1,895	395	68	2,358
Plan assets		(1,718)	(161)	19	(1,860)
Share-based payment		137	(29)	-	108
Accrued expenses		2,164	381	-	2,545
Other		1,211	14	-	1,225
	₩	1,814	430	87	2,331

(In millions of won)

27. Income taxes (continued)

(d) The amount of deductible temporary differences that are not recognized as deferred tax assets as of December 31, 2014 and 2013 are as follows:

		2014	2013
Tax loss carry forward (*)	₩	99,449	99,449
Other accumulated temporary differences		9	57
	₩	99,458	99,506

(*) The expectation on extinction of tax loss carry forward and tax credits carry forward that are not recognized as deferred tax assets are as follows:

		1 year or less	1-2 years	2-3 years	More than 3 years
Tax loss carry forward	₩	-	-	-	99,449

(e) There are no deferred tax liabilities regarding investment in subsidiaries which are not recognized as of December 31, 2014.

(f) The Company 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, 2014 and 2013 are as follows:

		2014	2013
Deferred tax assets	₩	5,785	4,456
Deferred tax liabilities		(2,365)	(2,125)

(In millions of won)

28. Earning per Share

Basic and diluted earnings per share for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Net profit for the year	₩	662,623	731,638
Less: dividends on preferred stock and hybrid bond		91,878	91,878
Net profit available for common stock		570,745	639,760
Weighted average number of common shares outstanding		474,199,587	474,199,587
Basic and diluted earnings per share in won	₩	1,204	1,349

29. Statement of cash flows

(a) Cash and cash equivalents reported in the accompanying separate statements of cash flows as of December 31, 2014 and 2013 are as follows:

		2014	2013
Due from banks with a short maturity of three months or less from date of acquisition	₩	120,810	382

(b) Significant non-cash activities for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Share-based payments granted to the employees of subsidiaries	₩	3,654	12,480
Income tax receivable offset by income tax payable due to consolidated corporate income tax filing		297,540	235,368

(In millions of won)

30. Related party transactions

(a) Significant transactions with the related parties for the years ended December 31, 2014 and 2013 were as follows:

Related party	Account		2014	2013
Revenue:				
Shinhan Bank	Interest income	₩	1,201	2,916
〃	Fees and commission income		46,050	76,000
〃	Dividend income		360,000	450,000
〃	Reversal of credit losses		-	57
Shinhan Card	Interest income		31,980	31,980
〃	Fees and commission income		13,732	21,517
〃	Dividend income		524,044	400,054
〃	Other Non-operating income		4	-
Shinhan Investment	Interest income		8,038	8,118
〃	Fees and commission income		5,014	8,148
〃	Dividend income		10,000	10,000
Shinhan Life Insurance	Fees and commission income		2,924	4,972
〃	Dividend income		6,000	40,000
〃	Reversal of credit losses		-	1
Shinhan Capital	Interest income		16,927	18,572
〃	Fees and commission income		1,165	1,768
〃	Dividend income		4,902	451
Jeju Bank	Fees and commission income		657	1,043
〃	Dividend income		1,524	762
Shinhan Credit Information	Fees and commission income		32	52
Shinhan Private Equity Investment Management	Interest income		218	278
〃	Fees and commission income		20	26
〃	Reversal of credit losses		-	2
Shinhan BNP Paribas AMC	Fees and commission income		172	295
〃	Dividend income		13,260	18,538
Shinhan Data System	Fees and commission income		19	29
Shinhan Aitas	Fees and commission income		70	101
〃	Dividend income		3,004	-
Shinhan Savings Bank	Fees and commission income		181	370
		₩	1,051,138	1,096,050
Expense:				
Shinhan Bank	General and administrative expenses	₩	1,941	1,078
〃	Provision for credit losses		30	21
Shinhan Card	Provision for credit losses		4	12
Shinhan Investment	Interest expenses		694	1,728
〃	General and administrative expenses		105	173
〃	Provision for credit losses		-	7
Shinhan Life Insurance	General and administrative expenses		15	16
Shinhan Capital	Provision for credit losses		3	10
Shinhan Credit Information	Fees and commission expense		-	5
Shinhan Data System	General and administrative expenses		911	876
〃	Provision for credit losses		1	-
		₩	3,704	3,926

(In millions of won)

30. Related party transactions (continued)

(b) Significant balances with the related parties as of December 31, 2014 and 2013 are as follows:

Creditor	Debtor	Account		2014	2013
Assets:					
Shinhan Financial Group	Shinhan Bank	Due from banks	₩	120,790	385
〃	〃	Other assets		203,040	169,311
〃	Shinhan Card	Loans		699,865	699,865
〃	〃	Other assets		121,784	103,599
〃	Shinhan Investment	Loans		199,914	199,914
〃	〃	Other assets		3,801	3,357
〃	Shinhan Life Insurance	Other assets		4,404	5,290
〃	Shinhan Capital	Loans		429,815	429,815
〃	〃	Other assets		17,784	11,013
〃	Jeju Bank	Other assets		918	1,234
〃	Shinhan Credit Information	Other assets		597	493
〃	Shinhan Private Equity Investment Management	Loans		7,489	7,489
〃	〃	Other assets		119	306
〃	Shinhan Data System	Other assets		984	315
			₩	1,811,304	1,632,386
Liabilities:					
Shinhan Bank	Shinhan Financial Group	Other liabilities	₩	9	-
Shinhan Card	〃	Other liabilities		363	373
Shinhan Investment	〃	Other liabilities		33,601	16,353
Shinhan Life Insurance	〃	Other liabilities		18,158	1,553
Shinhan Private Equity Investment Management	〃	Other liabilities		151	178
Shinhan Data System	〃	Other liabilities		24	53
Shinhan Savings Bank	〃	Other liabilities		341	-
			₩	52,647	18,510

(In millions of won)

30. Related party transactions (continued)

(c) Compensation to key management personnel for the years ended December 31, 2014 and 2013 were as follows:

		2014	2013
Salaries	₩	4,637	5,417
Severance benefits		90	64
Share-based payments (*)		1,878	1,775
	₩	6,605	7,256

(*) Expenses recognized during the vesting period under the agreement on share-based payments

Independent Accountants' Review Report on Internal Accounting Control System

English translation of a Report Originally Issued in Korean

To the President of
Shinhan Financial Group Co., Ltd.:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of Shinhan Financial Group Co., Ltd (the "Company") as of December 31, 2014. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2014, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2014 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2014. We did not review the Company's IACS subsequent to December 31, 2014. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

March 10, 2015

KPMG Samjong Accounting Corp.

Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of and for the year ended December 31, 2014 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Report on the Operations of Internal Accounting Control System

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

I, as the Internal Accounting Control Officer ("IACO") of Shinhan Financial Group Co., Ltd. (the "Company"), have assessed the status of the design and operations of the Company's internal accounting control system ("IACS") for the year ended December 31, 2014.

The Company's management including IACO is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS Framework for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2014, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

Min, Jung Kee, *Internal Accounting Control Officer*

Han, Dong Woo, *Chief Executive Officer*

D.W. Han

February, 23 , 2015