

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

Separate Financial Statements

December 31, 2015

(With Independent Auditors' Report Thereon)

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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, 2015 and 2014, 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, 2015 and 2014 and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Other matters*

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 9, 2016

This report is effective as of March 9, 2016, 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, 2015 and 2014

(In millions of won)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
<b>Assets</b>			
Due from banks	5, 30	₩ 500,815	120,790
Trading assets	6	517,597	69,338
Loans, net	7, 30	1,234,622	1,337,083
Property and equipment, net	8	768	1,029
Intangible assets, net	9	4,383	6,093
Investments in subsidiaries	10	25,203,159	25,203,159
Deferred tax assets	27	4,596	3,421
Other assets, net	11, 30	<u>209,547</u>	<u>353,635</u>
<b>Total assets</b>		<u>₩ 27,675,487</u>	<u>27,094,548</u>
<b>Liabilities</b>			
Borrowings	12	₩ 5,000	7,500
Debt securities issued	13	6,642,830	6,451,436
Liabilities for defined benefit obligations	14	3,855	4,502
Other liabilities	15, 30	<u>242,816</u>	<u>395,991</u>
<b>Total liabilities</b>		<u>6,894,501</u>	<u>6,859,429</u>
<b>Equity</b>			
Capital stock	16	2,645,053	2,645,053
Hybrid bonds		736,898	537,443
Capital surplus		9,494,842	9,494,842
Accumulated other comprehensive loss		(4,501)	(4,788)
Retained earnings		<u>7,908,694</u>	<u>7,562,569</u>
<b>Total equity</b>		<u>20,780,986</u>	<u>20,235,119</u>
<b>Total liabilities and equity</b>		<u>₩ 27,675,487</u>	<u>27,094,548</u>

See accompanying notes to the separate financial statements.

SHINHAN FINANCIAL GROUP CO., LTD.  
**Separate Statements of Comprehensive Income**  
For the years ended December 31, 2015 and 2014

(In millions of won, except earnings per share data)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Interest income	30 ₩	58,872	58,363
Interest expense		(241,312)	(271,909)
<b>Net interest expense</b>	18	<u>(182,440)</u>	<u>(213,546)</u>
Fees and commission income	30	70,024	70,034
Fees and commission expense		(121)	(182)
<b>Net fees and commission income</b>	19	<u>69,903</u>	<u>69,852</u>
Dividend income	20, 30	1,063,347	922,734
Net trading income	21	9,706	10,409
Provision for credit losses	22, 30	(2)	(37)
General and administrative expenses	23, 30	<u>(68,423)</u>	<u>(68,125)</u>
<b>Operating income</b>		892,091	721,287
<b>Non-operating expense</b>	25	(317)	(59,157)
<b>Profit before income taxes</b>		<u>891,774</u>	<u>662,130</u>
Income tax benefit	27	1,267	493
<b>Net profit for the year</b>		<u>893,041</u>	<u>662,623</u>
<b>Other comprehensive income (loss) for the year, net of income tax</b>	16		
Items that will never be reclassified to profit or loss : Remeasurements of the defined benefit liability		<u>287</u>	<u>(1,869)</u>
<b>Total comprehensive income for the year</b>	₩	<u>893,328</u>	<u>660,754</u>
<b>Basic and diluted earnings per share in won</b>	16, 28 ₩	<u>1,680</u>	<u>1,204</u>

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, 2015 and 2014

(In millions of won)

		<u>Capital stock</u>	<u>Hybrid bonds</u>	<u>Capital surplus</u>	<u>Accumulated other comprehen- sive loss</u>	<u>Retained earnings</u>	<u>Total equity</u>
<b>Balance at January 1, 2014</b>	₩	2,645,053	537,443	9,494,842	(2,919)	7,300,053	19,974,472
<b>Total comprehensive income for the year:</b>							
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
<b>Transactions with owners:</b>							
Dividends		-	-	-	-	(370,167)	(370,167)
Dividend to hybrid bonds		-	-	-	-	(29,940)	(29,940)
		-	-	-	-	(400,107)	(400,107)
<b>Balance at December 31, 2014</b>	₩	<u>2,645,053</u>	<u>537,443</u>	<u>9,494,842</u>	<u>(4,788)</u>	<u>7,562,569</u>	<u>20,235,119</u>

		<u>Capital stock</u>	<u>Hybrid bonds</u>	<u>Capital surplus</u>	<u>Accumulated other comprehen- sive loss</u>	<u>Retained earnings</u>	<u>Total equity</u>
<b>Balance at January 1, 2015</b>	₩	2,645,053	537,443	9,494,842	(4,788)	7,562,569	20,235,119
<b>Total comprehensive income for the year:</b>							
Net profit for the year		-	-	-	-	893,041	893,041
Other comprehensive income, net of income tax:							
Remeasurements of the defined benefit liability		-	-	-	287	-	287
		-	-	-	287	893,041	893,328
<b>Transactions with owners:</b>							
Dividends		-	-	-	-	(512,428)	(512,428)
Dividend to hybrid bonds		-	-	-	-	(34,488)	(34,488)
Issuance of hybrid bonds		-	199,455	-	-	-	199,455
		-	199,455	-	-	(546,916)	(347,459)
<b>Balance at December 31, 2015</b>	₩	<u>2,645,053</u>	<u>736,898</u>	<u>9,494,842</u>	<u>(4,501)</u>	<u>7,908,694</u>	<u>20,780,986</u>

See accompanying notes to the separate financial statements.

SHINHAN FINANCIAL GROUP CO., LTD.

**Separate Statements of Cash Flows**

For the years ended December 31, 2015 and 2014

(In millions of won)

	Note	2015	2014
<b>Cash flows from operating activities</b>			
Profit before income taxes	₩	891,774	662,130
Adjustments for:			
Interest income	18	(58,872)	(58,363)
Interest expense	18	241,312	271,909
Dividend income	20	(1,063,347)	(922,734)
Net trading income	21	(1)	(116)
Provision for credit losses	7,22	2	37
Employee costs		3,766	3,991
Depreciation and amortization	23	640	1,034
Non-operating expense		46	58,904
		(876,454)	(645,338)
Changes in assets and liabilities:			
Trading assets		(448,258)	450,894
Other assets		374	474
Liabilities for defined benefit obligations		(2,292)	(2,718)
Other liabilities		(6,761)	(1,637)
		(456,937)	447,013
Interest received		57,895	57,861
Interest paid		(240,172)	(271,854)
Dividend received		1,063,347	922,734
<b>Net cash provided by operating activities</b>		<b>439,453</b>	<b>1,172,546</b>
<b>Cash flows from investing activities</b>			
Lending of loans		(5,000)	(50,000)
Collection of loans		107,500	50,000
Acquisition of property and equipment	8	(204)	(327)
Disposal of property and equipment		10	-
Acquisition of intangible assets	9	(86)	(2,428)
Disposal of intangible assets		75	2,190
<b>Net cash provided by (used in) investing activities</b>		<b>102,295</b>	<b>(565)</b>
<b>Cash flows from financing activities</b>			
Issuance of hybrid bonds		199,455	-
Increase in borrowings		95,000	37,500
Repayments of borrowings		(97,500)	(37,500)
Issuance of debt securities		1,500,000	820,000
Redemption of debt securities issued		(1,310,000)	(1,470,000)
Debentures issuance cost paid		(2,447)	(1,762)
Dividends paid		(546,160)	(399,791)
<b>Net cash used in financing activities</b>		<b>(161,652)</b>	<b>(1,051,553)</b>
<b>Net increase in cash and cash equivalents</b>		<b>380,096</b>	<b>120,428</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>120,810</b>	<b>382</b>
<b>Cash and cash equivalents at end of year</b>	29 ₩	<b>500,906</b>	<b>120,810</b>

See accompanying notes to the separate financial statements.



SHINHAN FINANCIAL GROUP CO., LTD.  
**Notes to the Separate Financial Statements**  
December 31, 2015 and 2014

**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* and the investments of the company in an associate or a venturer are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

**(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.

SHINHAN FINANCIAL GROUP CO., LTD.  
**Notes to the Separate Financial Statements**  
December 31, 2015 and 2014

**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, 2016, which will be submitted for approval to the coming shareholder's meeting.

**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 initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

#### *i) Hedge accounting*

##### *Fair value hedge*

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income.

The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

##### *Cash flow hedge*

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

**3. Significant accounting policies (continued)**

*ii) Other derivative financial instruments*

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

**(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 from 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 entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. 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. 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. Foreign currency differences arising on retranslation are recognized in profit or loss.

### **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.



SHINHAN FINANCIAL GROUP CO., LTD.  
**Notes to the Separate Financial Statements**  
December 31, 2015 and 2014

**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 standards and 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.

Management is in the process of evaluating the impact of the amendments on separate financial statements, if any.

*i) K-IFRS No. 1109, Financial Instruments*

K-IFRS 1109, published in December 2015, replaces the existing guidance in K-IFRS No. 1039, *Financial Instruments: Recognition and Measurement*. K-IFRS 1109 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from K-IFRS No. 1039. K-IFRS 1109 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

*ii) K-IFRS No. 1115, Revenue from Contracts with Customers*

K-IFRS 1115, published in January 2016, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including K-IFRS No. 1018, *Revenue*, K-IFRS No. 1011, *Construction Contracts* and K-IFRS No. 2113, *Customer Loyalty Programmes*. K-IFRS 1115 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

*iii) K-IFRS No. 1027, Separate Financial Statements*

K-IFRS 1027, published in December 2014, 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 group wide 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 group wide risk management policies and strategies at the subsidiary level as well as to set risk management policies and strategies specific to such subsidiary in line with the group wide guidelines. The 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 group wide risk at an appropriate level, the Group use a hierarchical risk limit system under which the Group Risk Management Committee assigns reasonable risk limits for the entire group and each 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 group wide risk management guidelines and strategy in order to maintain consistency in the group wide 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 group wide risk management system to detect the signals of any risk crisis and, in the event of a crisis actually happening, to respond on a timely, efficient and flexible basis so as to ensure the Group's survival as a going concern. Each subsidiary maintains crisis planning for three levels of contingencies, namely, "alert", "imminent crisis" and "crisis", determination of which is made based on quantitative and qualitative monitoring and consequence analysis, and upon the happening of any such contingency, is required to respond according to a prescribed contingency plan. At the controlling company level, the Group maintains and installs crisis detection and response system which is applied consistently group wide, and upon the happening of any contingency at a subsidiary level, the Group directly takes charge of the situation so that the Group manages it on a concerted group wide basis.

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**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, 2015 and 2014 are as follows:*

	<b>2015</b>	<b>2014</b>
Due from banks and loans (*1):		
Banks	₩ 500,815	120,790
Corporations	1,234,622	1,337,083
	1,735,437	1,457,873
Other financial assets (*1)(*2)	209,399	353,433
	₩ 1,944,836	1,811,306

(\*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, 2015 and 2014 are as follows:

	<b>2015</b>		
	<b>Banks</b>	<b>Corporations</b>	<b>Total</b>
Due from banks and loans (*) not impaired nor overdue	₩ 500,909	1,235,000	1,735,909
Less: allowance	(94)	(378)	(472)
	₩ 500,815	1,234,622	1,735,437
	<b>2014</b>		
	<b>Banks</b>	<b>Corporations</b>	<b>Total</b>
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

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



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**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, 2015 and 2014 are as follows:

		2015						
		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	₩	-	300,000	200,000	-	-	-	500,000
Loans		100,000	250,000	250,000	5,000	630,000	-	1,235,000
		100,000	550,000	450,000	5,000	630,000	-	1,735,000
Interest-bearing liabilities								
Borrowings		-	-	-	5,000	-	-	5,000
Debt securities issued		180,000	350,000	520,000	610,000	4,420,000	570,000	6,650,000
	₩	180,000	350,000	520,000	615,000	4,420,000	570,000	6,655,000
Sensitivity gap	₩	(80,000)	200,000	(70,000)	(610,000)	(3,790,000)	(570,000)	(4,920,000)
Cumulative gap		(80,000)	120,000	50,000	(560,000)	(4,350,000)	(4,920,000)	
		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)	

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**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, 2015 and 2014 are as follows:

		<b>2015</b>						
		<b>Less than 1 month</b>	<b>1 ~ 3 months</b>	<b>3 ~ 6 months</b>	<b>6 months ~ 1 year</b>	<b>1 ~ 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>Non-derivatives</b>								
Assets:								
Cash and due from banks	₩	909	300,000	200,000	-	-	-	500,909
Loans		104,265	258,847	258,872	17,067	647,764	-	1,286,815
Trading assets		517,597	-	-	-	-	-	517,597
Other financial assets		2,632	6,930	146,645	13,464	33,952	-	203,623
		<u>625,403</u>	<u>565,777</u>	<u>605,517</u>	<u>30,531</u>	<u>681,716</u>	<u>-</u>	<u>2,508,944</u>
Liabilities:								
Borrowings		-	-	-	5,000	-	-	5,000
Debt securities issued		203,582	381,079	568,419	691,625	4,746,334	615,879	7,206,918
Other financial liabilities		12,842	14,726	27,199	95	39,322	-	94,184
		<u>216,424</u>	<u>395,805</u>	<u>595,618</u>	<u>696,720</u>	<u>4,785,656</u>	<u>615,879</u>	<u>7,306,102</u>
	₩	<u>408,979</u>	<u>169,972</u>	<u>9,899</u>	<u>(666,189)</u>	<u>(4,103,940)</u>	<u>(615,879)</u>	<u>(4,797,158)</u>
		<b>2014</b>						
		<b>Less than 1 month</b>	<b>1 ~ 3 months</b>	<b>3 ~ 6 months</b>	<b>6 months ~ 1 year</b>	<b>1 ~ 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>Non-derivatives</b>								
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
		<u>77,636</u>	<u>136,269</u>	<u>311,742</u>	<u>149,373</u>	<u>1,308,164</u>	<u>-</u>	<u>1,983,184</u>
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
		<u>42,784</u>	<u>100,796</u>	<u>465,744</u>	<u>1,025,373</u>	<u>4,721,559</u>	<u>900,605</u>	<u>7,256,861</u>
	₩	<u>34,852</u>	<u>35,473</u>	<u>(154,002)</u>	<u>(876,000)</u>	<u>(3,413,395)</u>	<u>(900,605)</u>	<u>(5,273,677)</u>

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**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, 2015 and 2014 are as follows:

		<b>2015</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Trading assets	₩	-	517,597	-	517,597

		<b>2014</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Trading assets	₩	-	69,338	-	69,338

- There was no transfer within level 1 and level 2 during the years ended December 31, 2015 and 2014.

- The valuation techniques and the fair value measurement input variables of financial instruments classified as level 2 as of December 31, 2015 and 2014 are as follows:

<b>Classification</b>	<b>Valuation techniques</b>	<b>Type</b>			<b>Inputs</b>
			<b>2015</b>	<b>2014</b>	
Trading assets	Net asset valuation approach	Beneficiary certificates	₩ 517,597	69,338	Price of underlying assets

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**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, 2015 and 2014 are as follows:

	2015		2014	
	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Loans (corporate)	₩ 1,234,622	1,250,818	1,337,083	1,372,963
Liabilities:				
Borrowings	5,000	4,912	7,500	7,365
Debt securities issued in won	6,642,830	6,807,396	6,451,436	6,642,744
	₩ <u>6,647,830</u>	<u>6,812,308</u>	<u>6,458,936</u>	<u>6,650,109</u>

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**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, 2015 and 2014 are as follows:

		<b>2015</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Assets:					
Loans (corporate)	₩	-	-	1,250,818	1,250,818
Liabilities:					
Borrowings		-	4,912	-	4,912
Debt securities issued in won		-	6,807,396	-	6,807,396
	₩	-	6,812,308	-	6,812,308
		<b>2014</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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

- Information about valuation technique and inputs used at December 31, 2015 in measuring financial instruments not measured at fair value classified as level 2 or 3 is as follows:

		<b>2015</b>		
		<b>Valuation technique</b>	<b>Carrying value</b>	<b>Inputs</b>
Assets				
Loans (corporate)		DCF(*1)	₩ 1,234,622	Discount rate
Liabilities				
Borrowings		"	5,000	"
Debt securities issued in won		"	6,642,830	"
			₩ 6,647,830	

(\*1) DCF : Discounted cash flow

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**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, 2015 and 2014 are as follows:

		<b>2015</b>		
		Financial assets at fair value through profit or loss	Loans and receivable	Financial liabilities measured at amortized cost
		Trading assets		
<b>Assets:</b>				
Due from banks	₩	-	500,815	-
Trading assets		517,597	-	-
Loans		-	1,234,622	-
Other		-	209,399	-
	₩	<u>517,597</u>	<u>1,944,836</u>	<u>-</u>
<b>Liabilities:</b>				
Borrowings	₩	-	-	5,000
Debt securities issued		-	-	6,642,830
Other		-	-	122,662
	₩	<u>-</u>	<u>-</u>	<u>6,770,492</u>
		<b>2014</b>		
		Financial assets at fair value through profit or loss	Loans and receivable	Financial liabilities measured at amortized cost
		Trading assets		
<b>Assets:</b>				
Due from banks	₩	-	120,790	-
Trading assets		69,338	-	-
Loans		-	1,337,083	-
Other		-	353,433	-
	₩	<u>69,338</u>	<u>1,811,306</u>	<u>-</u>
<b>Liabilities:</b>				
Borrowings	₩	-	-	7,500
Debt securities issued		-	-	6,451,436
Other		-	-	149,282
	₩	<u>-</u>	<u>-</u>	<u>6,608,218</u>

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**4. Financial risk management (continued)**

**(g) Comprehensive income by categories**

Comprehensive income by categories of financial instruments for the years ended December 31, 2015 and 2014 were as follows:

		<b>2015</b>				
		Net profit or loss				Other comprehensive income
		Interest income /expense(*)	Reversal of (provision for) credit losses	Other	Total	
Trading assets	₩	-	-	9,706	9,706	-
Loans		58,872	(2)	-	58,867	-
Financial liabilities measured at amortized cost	₩	(241,312)	-	-	(241,312)	-

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

(\*) 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.

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**5. Due from banks**

(a) Due from banks as of December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Due from banks in won		
Deposits	₩ 500,000	120,000
Other financial institution deposits	909	813
	<u>500,909</u>	<u>120,813</u>
Less : allowance	(94)	(23)
	<u>₩ 500,815</u>	<u>120,790</u>

(b) Restricted guaranteed deposits on bank accounts as of December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Other financial institution deposits	₩ 3	3

**6. Trading assets**

Trading assets as of December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Beneficiary certificates	₩ 517,597	69,338

**7. Loans**

(a) Loans as of December 31, 2015 and 2014 comprise the following:

	<u>2015</u>	<u>2014</u>
Loans (corporate)	₩ 1,235,000	1,337,500
Less: allowance	(378)	(417)
	<u>₩ 1,234,622</u>	<u>1,337,083</u>

(b) Changes in allowance for credit losses for the years ended December 31, 2015 and 2014 were as follows:

	<u>2015</u>		
	<u>Loans</u>	<u>Others (*)</u>	<u>Total</u>
Beginning balance	₩ 417	96	513
Provision for (reversal of) credit losses	(39)	41	2
Ending balance	<u>₩ 378</u>	<u>137</u>	<u>515</u>
	<u>2014</u>		
	<u>Loans</u>	<u>Others (*)</u>	<u>Total</u>
Beginning balance	₩ 417	59	476
Provision for credit losses	-	37	37
Ending balance	<u>₩ 417</u>	<u>96</u>	<u>513</u>

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



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**8. Property and equipment**

(a) Property and equipment as of December 31, 2015 and 2014 are as follows:

		<b>2015</b>		
		Acquisition cost	Accumulated depreciation	Carrying value
Furniture and fixtures	₩	2,886	(2,418)	468
Other tangible assets		4,438	(4,138)	300
	₩	<u>7,324</u>	<u>(6,556)</u>	<u>768</u>

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

(b) Changes in property and equipment for the years ended December 31, 2015 and 2014 were as follows:

		<b>2015</b>		
		Furniture and fixtures	Other	Total
Beginning balance	₩	622	407	1,029
Acquisition		80	61	141
Disposal		(19)	-	(19)
Depreciation		(215)	(168)	(383)
Ending balance	₩	<u>468</u>	<u>300</u>	<u>768</u>

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

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**9. Intangible assets**

(a) Intangible assets as of December 31, 2015 and 2014 are as follows:

		<b>2015</b>	<b>2014</b>
Membership	₩	4,052	5,561
Software		331	532
	₩	<u>4,383</u>	<u>6,093</u>

(b) Changes in intangible assets for the years ended December 31, 2015 and 2014 were as follows:

		<b>2015</b>					
		Beginning balance	Acquisition	Disposal	Depreciation	Impairment losses(*)	Ending Balance
Membership	₩	5,561	-	(1,507)	-	(2)	4,502
Software		532	56	-	(257)	-	331
	₩	<u>6,093</u>	<u>56</u>	<u>(1,507)</u>	<u>(257)</u>	<u>(2)</u>	<u>4,383</u>
		<b>2014</b>					
		Beginning balance	Acquisition	Disposal	Depreciation	Impairment losses(*)	Ending Balance
Membership	₩	5,657	2,247	(2,300)	-	(43)	5,561
Software		851	210	-	(529)	-	532
	₩	<u>6,508</u>	<u>2,457</u>	<u>(2,300)</u>	<u>(529)</u>	<u>(43)</u>	<u>6,093</u>

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

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**10. Investments in subsidiaries**

Investments in subsidiaries as of December 31, 2015 and 2014 are as follows:

Investees	Location	Reporting date
Shinhan Bank Co.,Ltd.	Korea	December 31
Shinhan Card Co.,Ltd.	"	"
Shinhan Investment Corp.	"	"
Shinhan Life Insurance Co.,Ltd.	"	"
Shinhan Capital Co.,Ltd.	"	"
Jeju Bank	"	"
Shinhan BNP Paribas Asset Management Co.,Ltd.	"	"
Shinhan Private Equity Inc.	"	"
Shinhan Credit Information Co.,Ltd.	"	"
SHC Management Co.,Ltd.	"	"
Shinhan Data System	"	"
Shinhan Savings Bank	"	"
Shinhan AITAS Co.,Ltd.	"	"

Investees	2015		2014	
	Ownership percentage (%)	Carrying value	Ownership percentage (%)	Carrying value
Shinhan Bank Co.,Ltd.	100.0	₩ 13,617,579	100.0	₩ 13,617,579
Shinhan Card Co.,Ltd.	100.0	7,919,672	100.0	7,919,672
Shinhan Investment Corp.	100.0	1,841,420	100.0	1,841,420
Shinhan Life Insurance Co.,Ltd.	100.0	982,775	100.0	982,775
Shinhan Capital Co.,Ltd.	100.0	408,922	100.0	408,922
Jeju Bank	68.9	135,220	68.9	135,220
Shinhan BNP Paribas Asset Management Co.,Ltd.	65.0	91,565	65.0	91,565
Shinhan Private Equity Inc.	100.0	14,783	100.0	14,783
Shinhan Credit Information Co.,Ltd.	100.0	15,385	100.0	15,385
SHC Management Co.,Ltd.	100.0	8,655	100.0	8,655
Shinhan Data System	100.0	10,026	100.0	10,026
Shinhan Savings Bank (*1)	100.0	107,065	100.0	107,065
Shinhan AITAS Co.,Ltd.	99.8	50,092	99.8	50,092
		₩ 25,203,159		₩ 25,203,159

(\*1) In 2014, industry environment of savings banks has deteriorated continuously and the 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.

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**11. Other assets**

Other assets as of December 31, 2015 and 2014 are as follows:

	<b>2015</b>	<b>2014</b>
Guarantee deposits	₩ 13,464	13,464
Discount	(17)	-
Accounts receivable (Note 24)	188,567	333,248
Accrued income	7,428	6,793
Advance payments	136	191
Sundry assets	12	12
	<u>209,590</u>	<u>353,708</u>
Less : allowance	(43)	(73)
	<u>₩ 209,547</u>	<u>353,635</u>

**12. Borrowings**

Details of borrowings as of December 31, 2015 and 2014 are as follows:

	<b>2015</b>		<b>2014</b>	
	<b>Interest rate (%)</b>	<b>Amount</b>	<b>Interest rate (%)</b>	<b>Amount</b>
Borrowings in won (CP)	2.09	₩ 5,000	2.30 ~ 2.68	₩ 7,500

**13. Debt securities issued**

Debt securities issued as of December 31, 2015 and 2014 are as follows:

	<b>2015</b>		<b>2014</b>	
	<b>Interest rate (%)</b>	<b>Amount</b>	<b>Interest rate (%)</b>	<b>Amount</b>
Debt securities issued in won	1.75 ~ 4.77	₩ 6,650,000	2.24 ~ 5.27	₩ 6,460,000
Discount		(7,170)		(8,564)
		<u>₩ 6,642,830</u>		<u>₩ 6,451,436</u>

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**14. Employee benefits**

(a) Defined benefit obligations and plan assets

Defined benefit obligations and plan assets as of December 31, 2015 and 2014 are as follows:

		<b>2015</b>	<b>2014</b>
Present value of defined benefit obligations	₩	14,984	14,955
Fair value of plan assets		(11,129)	(10,453)
Recognized liabilities for defined benefit obligations	₩	<u>3,855</u>	<u>4,502</u>

(b) Changes in the present value of defined benefit obligation and plan assets for the years ended December 31, 2015 and 2014 were as follows:

		<b>2015</b>		
		Defined benefit obligation	Plan assets	Net defined benefit liability
Beginning balance	₩	14,955	(10,453)	4,502
Recognized in profit or loss				
Current service costs		2,029	-	2,029
Interest expense (income)		479	(342)	137
		<u>2,508</u>	<u>(342)</u>	<u>2,166</u>
Recognized in other comprehensive income :				
Remeasurements loss (gain) :				
- Actuarial losses (gains) arising from :				
Demographic assumptions		(319)	-	(319)
Financial assumptions		854	-	854
Experience adjustment		(1,096)	-	(1,096)
- Return on plan assets excluding interest income		-	183	183
		<u>(561)</u>	<u>183</u>	<u>(378)</u>
Other :				
Benefits paid by the plan		(2,927)	465	(2,462)
Contributions paid into the plan		-	(982)	(982)
Succession		1,009	-	1,009
		<u>(1,918)</u>	<u>(517)</u>	<u>(2,435)</u>
Ending balance	₩	<u>14,984</u>	<u>(11,129)</u>	<u>3,855</u>

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

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**14. Employee benefits (continued)**

	<b>2014</b>		
	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
	<u>2,168</u>	<u>(350)</u>	<u>1,818</u>
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
	<u>2,322</u>	<u>144</u>	<u>2,466</u>
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
	<u>(634)</u>	<u>(2,129)</u>	<u>(2,763)</u>
Ending balance	₩ <u>14,955</u>	<u>(10,453)</u>	<u>4,502</u>

(\*) 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, 2015 and 2014 are completely deposits.

(d) Actuarial assumptions as of December 31, 2015 and 2014 are as follows:

	<b>2015</b>	<b>2014</b>	<b>Description</b>
Discount rate	2.79%	3.27%	AA corporate bond yields
Future salary increasing rate	2.92%	2.84%	Average for 5 years
	+ Upgrade rate	+ Upgrade rate	

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**14. Employee benefits (continued)**

(e) Sensitivity analysis

Reasonably possible changes as of December 31, 2015 to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	<b>The present value of defined benefit obligation</b>	
	Increase	Decrease
Discount rate (1%p movement)	₩ 13,749	16,393
Future salary increasing rate (1%p movement)	16,378	13,738

(f) As of December 31, 2015 and 2014, the weighted-average duration of the defined benefit obligation are 8.31 and 8.97 years, respectively.

**15. Other liabilities**

Other liabilities as of December 31, 2015 and 2014 are as follows:

	<b>2015</b>	<b>2014</b>
Accounts payable	₩ 31,124	57,505
Accrued expense (Note 24)	81,971	82,966
Income taxes payable	118,810	245,438
Dividends payable	9,567	8,811
Unearned income	95	150
Taxes withheld	1,249	1,121
	₩ <u>242,816</u>	<u>395,991</u>

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**16. Equity**

(a) Equity as of December 31, 2015 and 2014 are as follows:

	<b>2015</b>	<b>2014</b>
Capital stock		
Common stock	₩ 2,370,998	2,370,998
Preferred stock	274,055	274,055
	<u>2,645,053</u>	<u>2,645,053</u>
Hybrid bond	736,898	537,443
Capital surplus		
Share premium	9,494,769	9,494,769
Other	73	73
	<u>9,494,842</u>	<u>9,494,842</u>
Accumulated other comprehensive loss	(4,501)	(4,788)
Retained earnings		
Legal reserve(*)	1,756,387	1,690,125
Regulatory reserve for loan loss	8,479	7,621
Unappropriated retained earnings	6,143,828	5,864,823
	<u>7,908,694</u>	<u>7,562,569</u>
	<u>₩ 20,780,986</u>	<u>20,235,119</u>

(\*) 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, 2015 and 2014 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



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**16. Equity (continued)**

ii) The preferred stocks issued by the Company as of December 31, 2015 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 of ₩55,500 million as of December 31, 2015 because redeemable preferred stock (43,711,000 shares) has been bought and retired.

(c) Hybrid bond

Hybrid bond classified as other equity instrument as of December 31, 2015 and 2014 is as follows:

Issue date	Maturity date	Interest rate (%)	<b>2015</b>	<b>2014</b>
October 24, 2011	October 24, 2041	5.80	₩ 238,582	238,582
May 22, 2012	May 22, 2042	5.34	298,861	298,861
June 25, 2015	June 25, 2045	4.38	199,455	-
			₩ 736,898	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, 2015 and 2014 were as follows:

	<b>2015</b>	<b>2014</b>
Beginning balance	₩ (4,788)	(2,919)
Remeasurements of the defined benefit liabilities	378	(2,466)
Tax effect	(91)	597
Ending balance	₩ (4,501)	(4,788)

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**16. Equity (continued)**

(e) Appropriation of retained earnings

Separate statements of appropriation of retained earnings for the years ended December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
<b>Unappropriated retained earnings:</b>		
Balance at beginning of year	₩ 5,285,274	5,232,139
Dividend to hybrid bonds	(34,488)	(29,940)
Net income	893,041	662,623
<b>Balance at end of year before appropriation</b>	<u>6,143,827</u>	<u>5,864,822</u>
<b>Appropriation of retained earnings:</b>		
Legal reserve	89,304	66,262
Regulatory reserve for loan losses	665	858
Dividends		
Dividends on common stocks paid	569,040	450,490
Dividends on preferred stocks paid	61,938	61,938
	<u>720,947</u>	<u>579,548</u>
<b>Unappropriated retained earnings to be carried over to subsequent year</b>	₩ <u>5,422,880</u>	<u>5,285,274</u>
Date of appropriation:	March 24, 2016	March 25, 2015

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**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, 2015 and 2014 were as follows:*

	<b>2015</b>	<b>2014</b>
Beginning balance	₩ 8,479	7,621
Planned regulatory reserve for loan losses	665	858
Ending balance	₩ 9,144	8,479

*ii) Profit for the year and earnings per share after adjusted for regulatory reserve for loan losses for the years ended December 31, 2015 and 2014 were as follows:*

	<b>2015</b>	<b>2014</b>
Profit for the year	₩ 893,041	662,623
Adjustment for regulatory reserve for loan losses	(665)	(858)
Profit for the year after adjusted for regulatory reserve	₩ 892,376	661,765
Basic and diluted earnings per share in won adjusted for regulatory reserve (*)	₩ 1,679	1,202

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

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**17. Dividends**

(a) Details of dividends recognized as distributions to common stockholders for the years ended December 31, 2015 and 2014 are as follows:

		<b>2015(*)</b>	<b>2014</b>
Total number of shares issued and outstanding	₩	474,199,587	474,199,587
Par value per share in won		5,000	5,000
Dividend per share in won		1,200	950
Dividends	₩	569,040	450,490
Dividend rate per share	%	24.0	19.0

(\*) 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, 2015 and 2014 are as follows:

	<b>2015</b>				
	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%

	<b>2014</b>				
	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, 2015 and 2014 were calculated as follows:

		<b>2015</b>	<b>2014</b>
Amount of hybrid bond	₩	740,000	540,000
Interest rate		4.38%~5.8%	5.34%~5.80%
Dividend	₩	34,488	29,940

(d) There is no unrecognized cumulative dividend on preferred stocks as of December 31, 2015 and 2014.

SHINHAN FINANCIAL GROUP CO., LTD.  
**Notes to the Separate Financial Statements**  
December 31, 2015 and 2014  
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**18. Net interest expense**

Net interest expense for the years ended December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Interest income:		
Due from banks	₩ 2,375	923
Loans	56,211	57,075
Others	286	365
	<u>58,872</u>	<u>58,363</u>
Interest expense:		
Borrowings in won	(225)	(313)
Debt securities issued in won	(241,087)	(271,596)
	<u>(241,312)</u>	<u>(271,909)</u>
Net interest expense	₩ <u>(182,440)</u>	<u>(213,546)</u>

**19. Net fees and commission income**

Net fees and commission income for the years ended December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Fees and commission income:		
Royalty	₩ 70,014	70,022
Other	10	12
	<u>70,024</u>	<u>70,034</u>
Fees and commission expense:		
Other	(121)	(182)
Net fees and commission income	₩ <u>69,903</u>	<u>69,852</u>

**20. Dividend income**

Dividend income for the years ended December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Dividends from subsidiaries	₩ 1,063,347	922,734

**21. Net trading income**

Net trading income for the years ended December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Securities		
Gain on valuation	₩ 1	116
Gain on sale	9,705	10,293
	<u>₩ 9,706</u>	<u>10,409</u>

SHINHAN FINANCIAL GROUP CO., LTD.  
**Notes to the Separate Financial Statements**  
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**22. Provision for credit losses**

Provision for credit losses for the years ended December 31, 2015 and 2014 were as follows:

	<b>2015</b>	<b>2014</b>
Provision for credit losses	₩ 2	37

**23. General and administrative expenses**

General and administrative expenses for the years ended December 31, 2015 and 2014 were as follows:

	<b>2015</b>	<b>2014</b>
Salaries:		
Salary expenses and bonuses	₩ 27,508	28,789
Severance benefits	2,166	1,818
	<u>29,674</u>	<u>30,607</u>
Rent	1,919	2,021
Entertainment	1,634	1,670
Depreciation	383	505
Amortization	257	529
Taxes and dues	679	561
Advertising	20,959	21,973
Others	12,918	10,259
	<u>₩ 68,423</u>	<u>68,125</u>

SHINHAN FINANCIAL GROUP CO., LTD.  
**Notes to the Separate Financial Statements**  
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**24. Share-based payments**

(a) Stock options granted as of December 31, 2015 are as follows:

	4th grant(*1)(*2)	5th grant(*1)(*2)	6th grant(*1)(*2)	7th grant(*1)(*2)
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, 2015	102,389	108,356	58,764	493,079
Exercised	-	-	-	447,451
Balance at December 31, 2015	102,389	108,356	58,764	45,628
Fair value per share in won	₩11,544	₩ 721	-	-

(\*1) The equity instruments granted are fully vested as of December 31, 2015. The weighted average exercise price for 315,137 stock options outstanding at December 31, 2015 is ₩39,726.

(\*2) As of December 31, 2015, the exercise of the remaining stock options (4th, 5th, 6th and 7th grant) was temporarily suspended.

SHINHAN FINANCIAL GROUP CO., LTD.  
**Notes to the Separate Financial Statements**  
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**24. Share-based payments (continued)**

(b) Performance shares granted as of December 31, 2015 are as follows:

	<b>Expired</b>	<b>Not expired</b>
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, 2015	187,637	953,410
Fair value per share in won	<del>₩45,926, ₩47,376</del> and <del>₩40,889</del> (*2)	<del>₩39,550</del>

(\*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, ~~₩47,376~~ for the shares that are vested at December 31, 2014 and ~~₩40,889~~ for the shares that are vested at December 31, 2015 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.



SHINHAN FINANCIAL GROUP CO., LTD.  
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**24. Share-based payments (continued)**

(c) Share-based compensation costs

Share-based compensation costs for the years ended December 31, 2015 and 2014 were as follows:

	<b>2015</b>		
	Employees of		
	Shinhan Financial Group	Subsidiaries(*)	Total
Stock options granted:			
4th	₩ (44)	(458)	(502)
5th	(31)	(500)	(531)
6th	-	-	-
7th	(4)	(15)	(19)
Performance share	1,599	13,878	15,477
	₩ 1,520	12,905	14,425

(\*) 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, 2015, the Company recognized the corresponding accounts receivable from the subsidiaries in the amount of ₩41,079 million.

	<b>2014</b>		
	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.

SHINHAN FINANCIAL GROUP CO., LTD.  
**Notes to the Separate Financial Statements**  
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**24. Share-based payments (continued)**

(d) Accrued expenses and the intrinsic value as of December 31, 2015 and 2014 are as follows:

	<b>2015</b>		
	Employees of		
	Shinhan Financial Group	Subsidiaries	Total
Stock options granted:			
4th	₩ 103	1,079	1,182
5th	5	73	78
6th	-	-	-
7th	-	-	-
Performance share	5,539	39,927	45,466
	<b>₩ 5,647</b>	<b>41,079</b>	<b>46,726</b>

The intrinsic value of share-based payments is ₩46,726 million as of December 31, 2015. For calculating, the quoted market price ₩39,550 per share was used for stock options and the fair value was considered as intrinsic value for performance shares, respectively.

	<b>2014</b>		
	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
	<b>₩ 6,514</b>	<b>35,709</b>	<b>42,223</b>

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.

SHINHAN FINANCIAL GROUP CO., LTD.  
**Notes to the Separate Financial Statements**  
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**25. Non-operating income and expense**

Non-operating income and expense for the years ended December 31, 2015 and 2014 were as follows;

	<b>2015</b>	<b>2014</b>
Non-operating income		
Other	₩ 392	437
Non-operating expense		
Impairment loss on investments in subsidiaries	-	(58,751)
Impairment losses on intangible assets	(12)	(44)
Donations and Contributions	(656)	(690)
Other	(41)	(109)
	<u>(709)</u>	<u>(59,594)</u>
	₩ <u>(317)</u>	<u>(59,157)</u>

**26. Operating revenue**

Operating revenue for the years ended December 31, 2015 and 2014 were as follows.

	<b>2015</b>	<b>2014</b>
Interest income	₩ 58,872	58,363
Royalty	70,024	70,034
Dividend income	1,063,347	922,734
Gains on financial assets held for trading	9,706	10,409
Effective income tax rate	₩ <u>1,201,949</u>	<u>1,061,540</u>

**27. Income taxes**

(a) Income tax expense (benefit) for the years ended December 31, 2015 and 2014 were as follows:

	<b>2015</b>	<b>2014</b>
Current income tax expense	₩ -	-
Temporary differences	(1,175)	(1,090)
Income tax recognized in other comprehensive income	(92)	597
Income tax benefit	₩ <u>(1,267)</u>	<u>(493)</u>

(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, 2015 and 2014 for the following reasons:

	<b>2015</b>	<b>2014</b>
Profit before income taxes	₩ 891,774	662,130
Income taxes at statutory tax rates	215,809	160,235
Adjustment:		
Non-taxable income	(220,280)	(181,842)
Non-deductible expense	541	14,777
Other	2,663	6,337
Income tax benefit	₩ <u>(1,267)</u>	<u>(493)</u>

(\*) Effective income tax rate is not calculated due to income tax benefit

SHINHAN FINANCIAL GROUP CO., LTD.  
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**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, 2015 and 2014 were as follows:

<b>2015</b>				
	Beginning balance	Net income effect	Other comprehensive income effect	Ending balance
Trading assets	₩ (26)	26	-	-
Accumulated depreciation	8	(11)	-	(3)
Allowances	(1,774)	1,889	-	115
Defined benefit obligation	3,301	326	(136)	3,491
Plan assets	(2,345)	(264)	44	(2,565)
Share-based payment	45	(19)	-	26
Accrued expenses	3,053	(723)	-	2,330
Other	1,159	43	-	1,202
	<b>₩ 3,421</b>	<b>1,267</b>	<b>(92)</b>	<b>4,596</b>

<b>2014</b>				
	Beginning balance	Net income effect	Other comprehensive income effect	Ending balance
Trading assets	₩ (268)	242	-	(26)
Accumulated depreciation	2	6	-	8
Allowances for credit losses	(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
	<b>₩ 2,331</b>	<b>493</b>	<b>597</b>	<b>3,421</b>

SHINHAN FINANCIAL GROUP CO., LTD.  
**Notes to the Separate Financial Statements**  
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**27. Income taxes (continued)**

(d) The amount of deductible temporary differences that are not recognized as deferred tax assets as of December 31, 2015 and 2014 are as follows:

	<b>2015</b>	<b>2014</b>
Tax loss carry forward (*)	₩ 99,449	99,449
Other accumulated temporary differences	40	9
	<u>₩ 99,489</u>	<u>99,458</u>

(\*) 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, 2015.

(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, 2015 and 2014 are as follows:

	<b>2015</b>	<b>2014</b>
Deferred tax assets	₩ 7,164	5,785
Deferred tax liabilities	(2,568)	(2,365)

SHINHAN FINANCIAL GROUP CO., LTD.  
**Notes to the Separate Financial Statements**  
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**28. Earning per Share**

Basic and diluted earnings per share for the years ended December 31, 2015 and 2014 were as follows:

		<u>2015</u>	<u>2014</u>
Net profit for the year	₩	893,041	662,623
Less: dividends on preferred stock and hybrid bond		<u>96,426</u>	<u>91,878</u>
Net profit available for common stock		796,615	570,745
Weighted average number of common shares outstanding		<u>474,199,587</u>	<u>474,199,587</u>
Basic and diluted earnings per share in won	₩	<u>1,680</u>	<u>1,204</u>

**29. Statement of cash flows**

(a) Cash and cash equivalents reported in the accompanying separate statements of cash flows as of December 31, 2015 and 2014 are as follows:

		<u>2015</u>	<u>2014</u>
Due from banks with a short maturity of three months or less from date of acquisition	₩	500,906	120,810

(b) Significant non-cash activities for the years ended December 31, 2015 and 2014 were as follows:

		<u>2015</u>	<u>2014</u>
Share-based payments granted to the employees of subsidiaries	₩	5,370	3,654
Income tax receivable offset by income tax payable due to consolidated corporate income tax filing		146,009	297,540

SHINHAN FINANCIAL GROUP CO., LTD.  
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**30. Related party transactions**

(a) Significant transactions with the related parties for the years ended December 31, 2015 and 2014 were as follows:

Related party	Account	2015	2014
<b>Revenue:</b>			
Shinhan Bank Co.,Ltd.	Interest income	₩ 2,429	1,201
"	Fees and commission income	45,368	46,050
"	Dividend income	450,000	360,000
Shinhan Card Co.,Ltd.	Interest income	31,217	31,980
"	Fees and commission income	13,679	13,732
"	Dividend income	550,121	524,044
"	Reversal of credit losses	24	-
"	Other Non-operating income	4	4
Shinhan Investment Corp.	Interest income	8,181	8,038
"	Fees and commission income	5,193	5,014
"	Dividend income	30,000	10,000
Shinhan Life Insurance Co.,Ltd.	Fees and commission income	3,289	2,924
"	Dividend income	10,000	6,000
Shinhan Capital Co.,Ltd.	Interest income	16,884	16,927
"	Fees and commission income	1,271	1,165
"	Dividend income	5,192	4,902
"	Reversal of credit losses	14	-
Jeju Bank	Fees and commission income	680	657
"	Dividend income	1,524	1,524
Shinhan Credit Information Co.,Ltd.	Fees and commission income	33	32
"	Reversal of credit losses	1	-
Shinhan Private Equity Inc.	Interest income	161	218
"	Fees and commission income	21	20
"	Reversal of credit losses	4	-
Shinhan BNP Paribas Asset Management Co.,Ltd.	Fees and commission income	178	172
"	Dividend income	16,510	13,260
Shinhan Data System	Fees and commission income	23	19
Shinhan AITAS Co.,Ltd.	Fees and commission income	71	70
"	Dividend income	-	3,004
Shinhan Savings Bank	Fees and commission income	218	181
		₩ 1,192,290	1,051,138
<b>Expense:</b>			
Shinhan Bank Co.,Ltd.	General and administrative expenses	₩ 2,054	1,941
"	Provision for credit losses	43	30
Shinhan Card Co.,Ltd.	General and administrative expenses	10	-
"	Provision for credit losses	-	4
Shinhan Investment Corp.	Interest expenses	560	694
"	General and administrative expenses	110	105
"	Provision for credit losses	2	-
Shinhan Life Insurance Co.,Ltd.	General and administrative expenses	17	15
Shinhan Capital Co.,Ltd.	Provision for credit losses	-	3
Shinhan Data System	General and administrative expenses	952	911
"	Provision for credit losses	-	1
		₩ 3,748	3,704

SHINHAN FINANCIAL GROUP CO., LTD.  
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**30. Related party transactions (continued)**

(b) Significant balances with the related parties as of December 31, 2015 and 2014 are as follows:

<b>Creditor</b>	<b>Debtor</b>	<b>Account</b>		<b>2015</b>	<b>2014</b>
<b>Assets:</b>					
Shinhan Financial Group Co.,Ltd.	Shinhan Bank Co.,Ltd.	Due from banks	₩	500,815	120,790
"	"	Other assets		57,879	203,040
"	Shinhan Card Co.,Ltd.	Loans		599,888	699,865
"	"	Other assets		120,194	121,784
"	Shinhan Investment Cop.	Loans		199,918	199,914
"	"	Other assets		17,759	3,801
"	Shinhan Life Insurance Co.,Ltd.	Other assets		5,237	4,404
"	Shinhan Capital Co.,Ltd.	Loans		429,823	429,815
"	"	Other assets		3,727	17,784
"	Shinhan BNP Paribas Asset Management Co.,Ltd	Other assets		383	-
"	Jeju Bank	Other assets		1,135	918
"	Shinhan Credit Information Co.,Ltd.	Other assets		499	597
"	Shinhan Private Equity Inc.	Loans		4,993	7,489
"	"	Other assets		21	119
"	Shinhan Data System	Other assets		766	984
"	Shinhan Savings Bank	Other assets		335	-
			₩	<u>1,943,372</u>	<u>1,811,304</u>
<b>Liabilities:</b>					
Shinhan Bank Co.,Ltd.	Shinhan Financial Group Co.,Ltd	Other liabilities	₩	47	9
Shinhan Card Co.,Ltd.	"	Other liabilities		362	363
Shinhan Investment Corp.	"	Other liabilities		4	33,601
Shinhan Life Insurance Co.,Ltd.	"	Other liabilities		22,265	18,158
Shinhan Capital Co.,Ltd.	"	Other liabilities		4,934	-
Shinhan Private Equity Inc.	"	Other liabilities		95	151
Shinhan Data System	"	Other liabilities		-	24
Shinhan Savings Bank	"	Other liabilities		-	341
			₩	<u>27,707</u>	<u>52,647</u>



SHINHAN FINANCIAL GROUP CO., LTD.  
**Notes to the Separate Financial Statements**  
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**30. Related party transactions (continued)**

(c) Compensation to key management personnel for the years ended December 31, 2015 and 2014 were as follows:

	<b>2015</b>	<b>2014</b>
Salaries	₩ 4,051	4,637
Severance benefits	74	90
Share-based payments (*)	1,197	1,878
	<u>₩ 5,322</u>	<u>6,605</u>

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

**KPMG Samjong Accounting Corp.**

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**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, 2015. 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, 2015, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

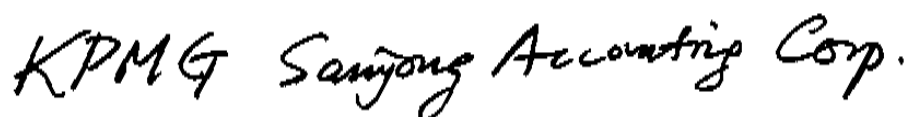
We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting 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, 2015 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, 2015. We did not review the Company's IACS subsequent to December 31, 2015. 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 9, 2016



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, 2015 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, 2015.

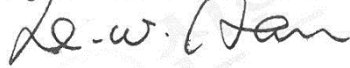
The Company's management including IACO is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the 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, 2015, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

Yim, Bo Hyuk, *Internal Accounting Control Officer*



Han, Dong Woo, *Chief Executive Officer*



February 19, 2016