

VISIONARY PIONEER in FINANCE

2017

Shinhan Financial Group
Annual Report



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Financial Section

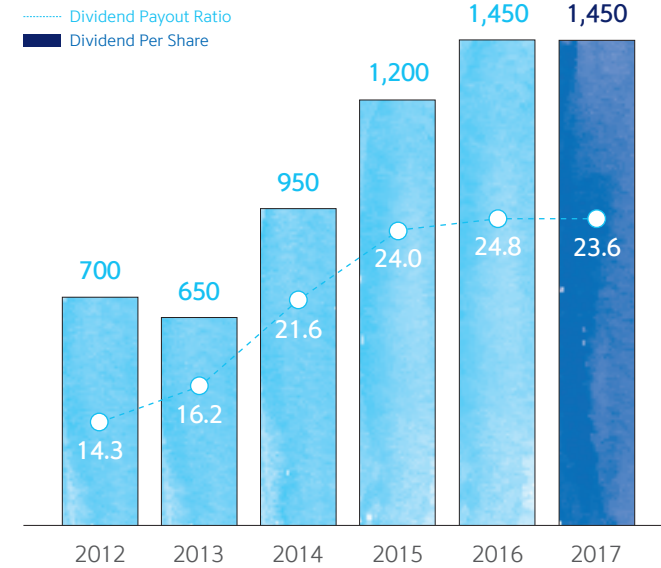
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Global Network

Stock Information

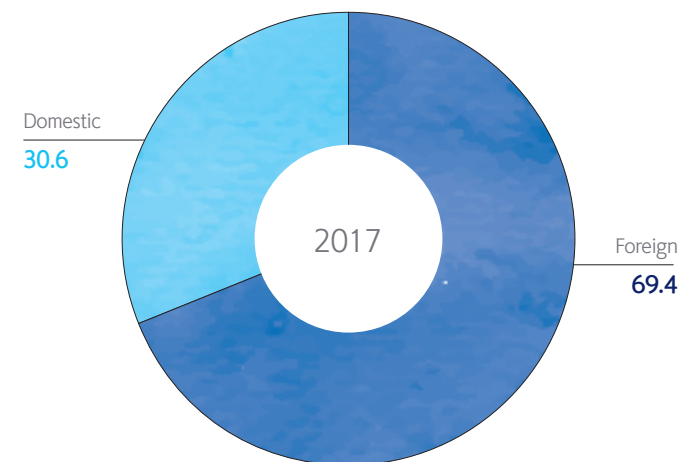
Dividend

(%, KRW)



Share Ownership

(%)



Number of Shares Issued

Type of Stock	No. of Shares
Common Stock	474,199,587

Stock Performance

	2017	2016
Market Capitalization (Year End)	23.4 trillion	21.5 trillion
Share Price	-	-
Year End	49,400	45,250
High	55,400	47,700
Low	44,800	36,100
Weighting in the KOSPI (Year End)	1.2%	1.6%
Average Daily Trading Volume	1.0 million shares	0.8 million shares
Dividend Per Share	1,450	1,450
Total Dividend Paid	688 billion	688 billion
Foreign Share Ownership	69.4%	68.7%

Shareholders Holding Ownership of More than 1%

Name of Shareholder	Number of Shares Owned	Ownership %
National Pension Service	45,285,762	9.55%
BlackRock Fund Advisors **	24,320,723	5.13%
SFG Employee Stock Ownership Association	22,324,027	4.71%
BNP Paribas SA***	16,826,276	3.55%
Citibank, N.A. (ADR Dept.)	14,503,452	3.06%
The Government of Singapore	10,737,500	2.26%
Norges Bank	6,348,963	1.34%
Vanguard Total International Stock Index	5,225,294	1.10%
Samsung Asset Management	5,214,188	1.10%
First State Investments ICVC-Stewart Inv.	4,933,492	1.04%
Stichting Depository APG Emerging Market	4,829,230	1.02%
Others	313,650,680	66.14%
Total	474,199,587	100.00%

* Based on the results of shareholder registry closing as of December 31, 2017

** Based on the large equity ownership disclosure by BlackRock Fund Advisors with the Financial Supervisory Service on October 20, 2016

*** Based on the large equity ownership disclosure by BNP Paribas SA with the Financial Supervisory Service on January 5, 2017

Financial Highlights

Financial Highlights

	2017	2016	Chg %
For the Year (KRW billion)			
Operating Income Before Provisioning	4,373.0	4,273.8	2.3%
Net Income	2,917.7	2,774.8	5.2%
As of Year End (KRW trillion)			
Total Assets	426.3	395.7	7.7%
Total Liabilities	392.6	363.9	7.9%
Total Equity	33.7	31.7	6.2%

Key Financial Ratio

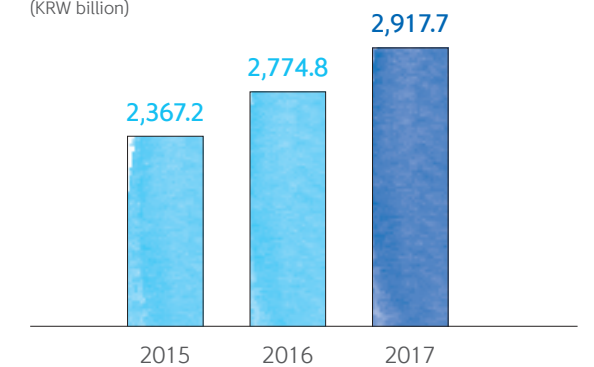
	2017	2016	Chg %
ROA	0.71%	0.73%	-0.02%p
ROE	9.19%	9.15%	0.04%p
Group Net Interest Margin	2.06%	2.02%	0.04%p
Cost to Income Ratio	52.39%	51.34%	1.05%p
NPL(Substandard and below loans) Ratio	0.62%	0.74%	-0.12%p
NPL Coverage Ratio	260%	220%	40%p
Group BIS Ratio	14.8%	15.0%	-0.2%p
Group Common Equity Tier1 Ratio	12.9%	12.7%	0.2%p
BPS (KRW)	68,316	64,554	5.8%
EPS (KRW)	6,116	5,742	6.5%

Credit Ratings

	S&P	Moody's	Fitch
Shinhan Bank			
Long Term	A+	Aa3	A
Short Term	A-1	P-1	F1
Shinhan Card			
Long Term	A-	A2	A-
Short Term	A-2	-	F1

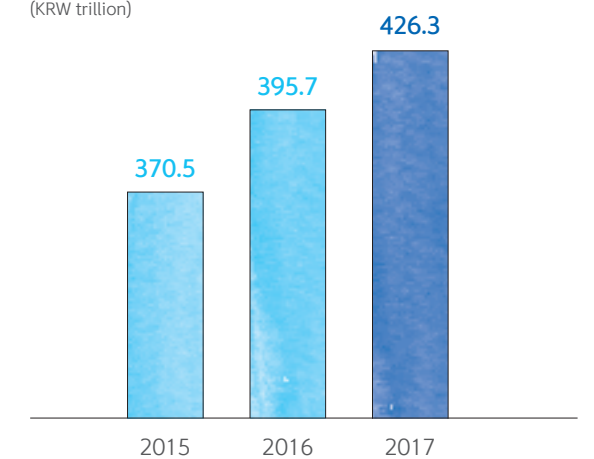
Net Income

(KRW billion)



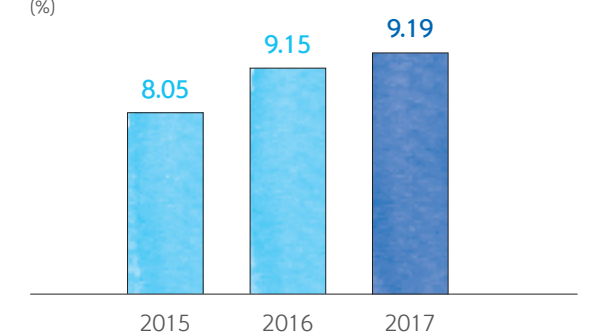
Total Assets

(KRW trillion)



ROE

(%)



Shinhan will navigate the evolving business environment with fresh new determination and aim even higher rather than resting on past success.

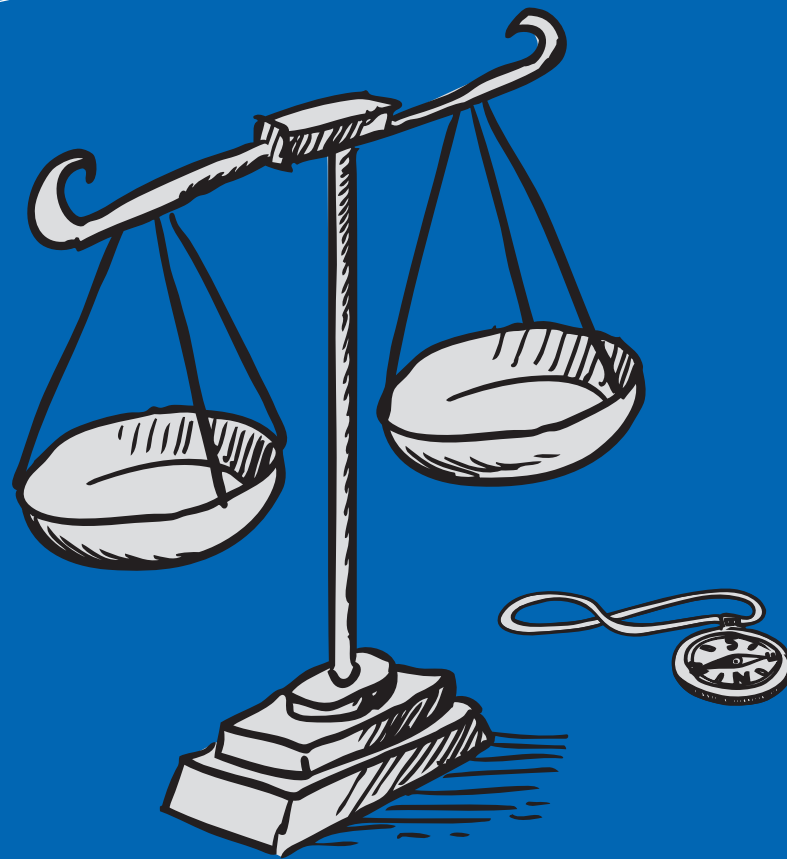
Under our new slogan, 'Shinhan, Aiming Higher and Creatively Pioneering Ahead,' we will continue to develop the strategies that we initiated under last year's slogan of 'Adding Pace to Original Ideas' while delivering tangible results through creative thinking and swift action.

Shinhan will diversify the Group's growth strategy to secure an early lead in new businesses and carry out diverse strategies to expand Group-wide glocalization initiatives.

We will expedite the Group's digital transformation and offer a differentiated level of customer experience through the One Shinhan platform. Furthermore, we will also improve Shinhan's verified risk management capabilities to strengthen our resilience and stability.

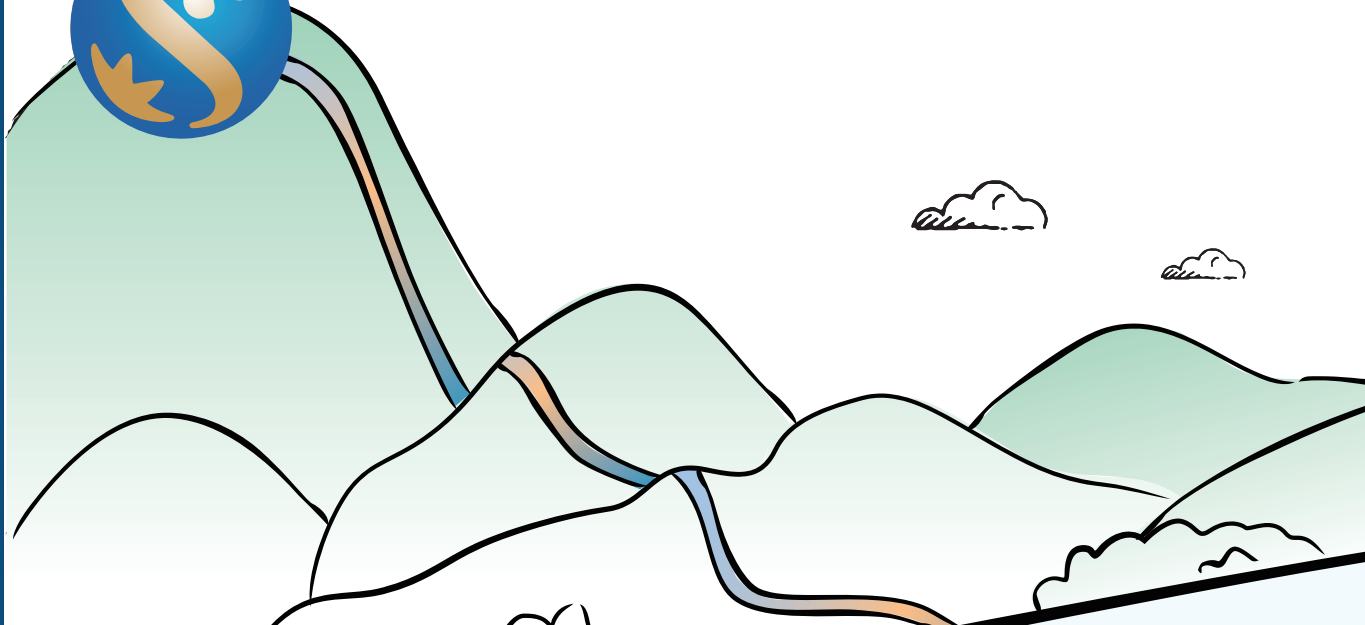
Shinhan will continue to open new paths as a trailblazer in the financial industry, not only making strides in Korea but launching the Group to new heights beyond Asia to become a World Class Financial Group.

BALANCED GROWTH

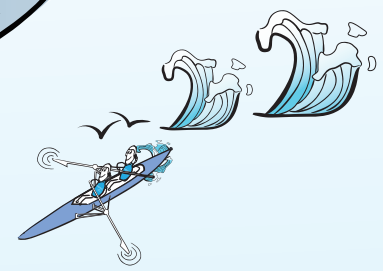




Shinhan seeks balanced growth among its business portfolio. Businesses that are already ranked at the top of their sectors such as Shinhan Bank and Shinhan Card, will expand their lead through their own competitive advantages, while businesses such as Shinhan Investment and Shinhan Life Insurance will leverage synergies among Shinhan business lines to level up their market positions. Shinhan will continue to build up its '2020 SMART Project' through balancing its business portfolio.

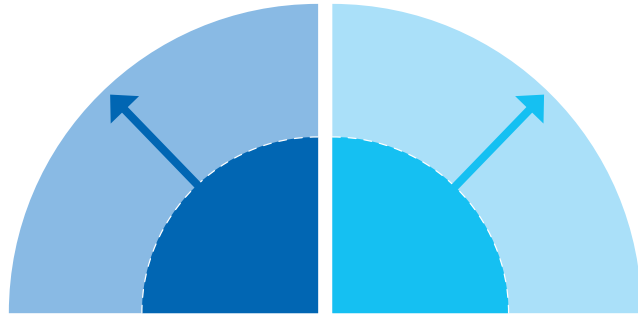


BALANCED
GROWTH



ORGANIC GROWTH

Solidifying Position **No.1** in segmented market



Bank / Card

Brokerage / Insurance etc.

INORGANIC GROWTH (M&A, Equity Investment)



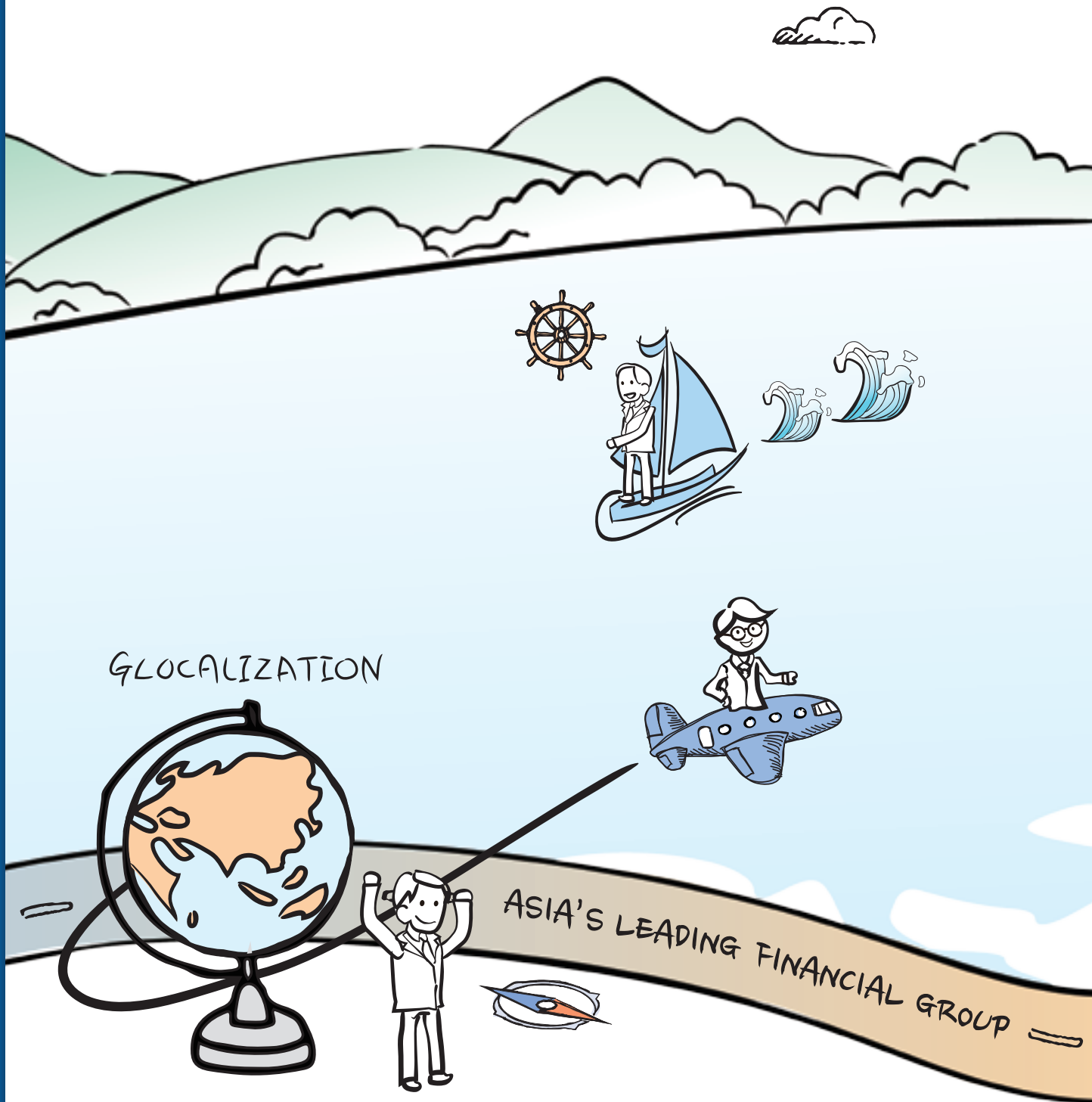
Domestic : Non-bank
Overseas : Bank + Non-bank

GLOCALIZATION



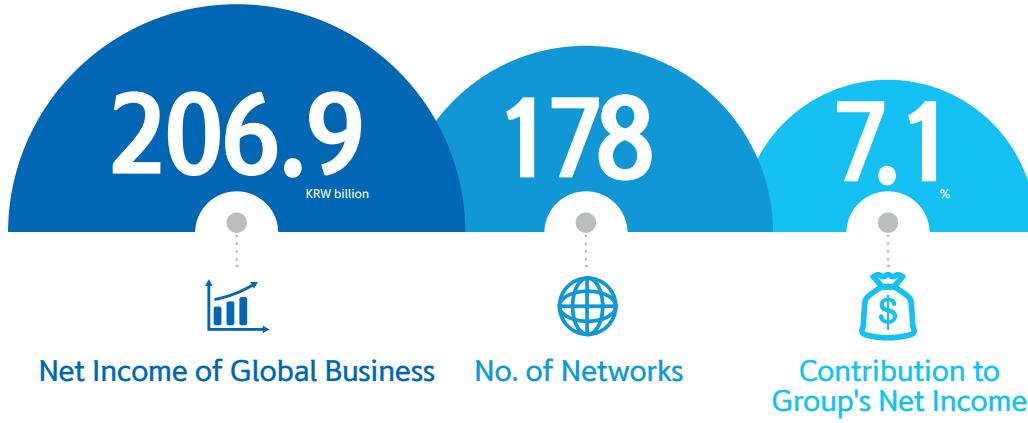


Shinhan aims to become a globally recognized financial group through its extension of businesses outside of Korea. Our global expansion strategy is based on localizing our businesses in each respective country; Glocalization. Through collaborated efforts among our numerous business lines, we seek to provide full range of financial services to our local customers that are suited for their local needs. Through Glocalization, we will be the true companion to our customers in their journey towards broader horizons.



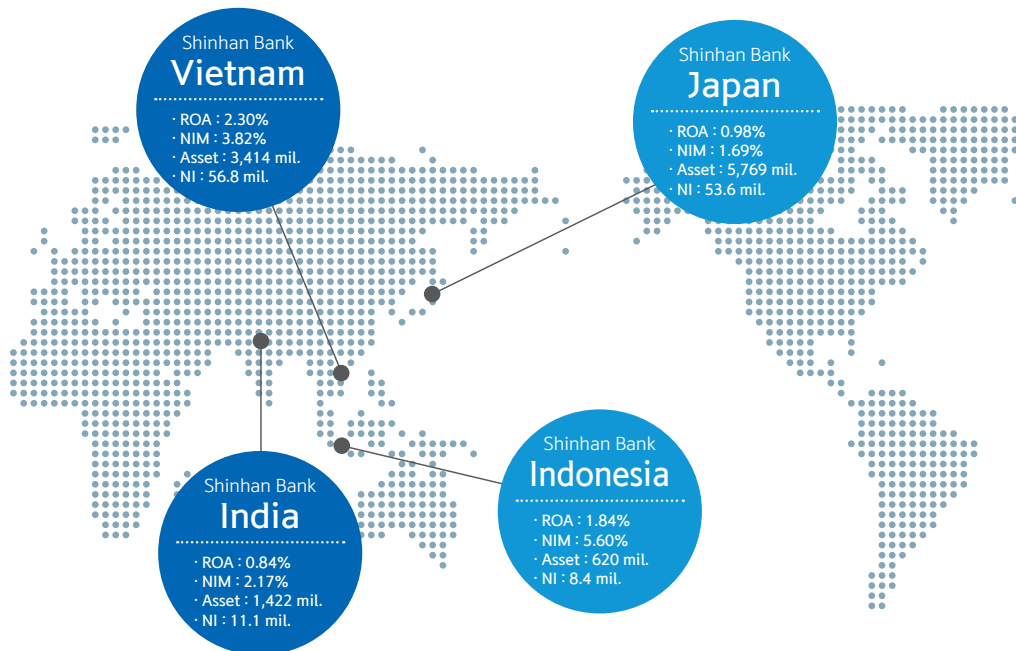
GLOCALIZATION

ASIA'S LEADING FINANCIAL GROUP



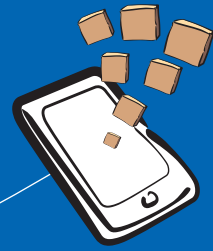
178 NETWORKS in 20 COUNTRIES

(USD million)

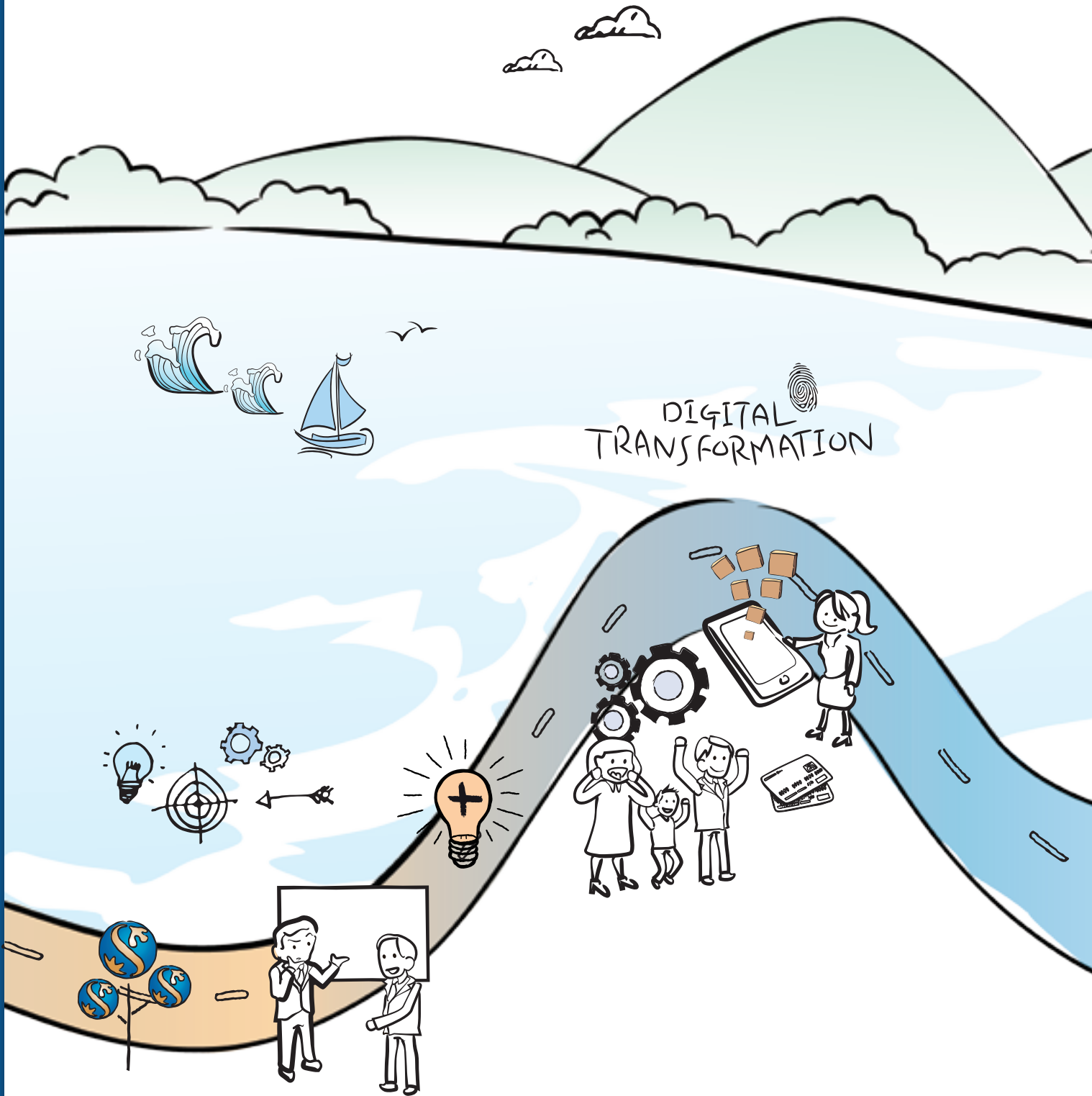


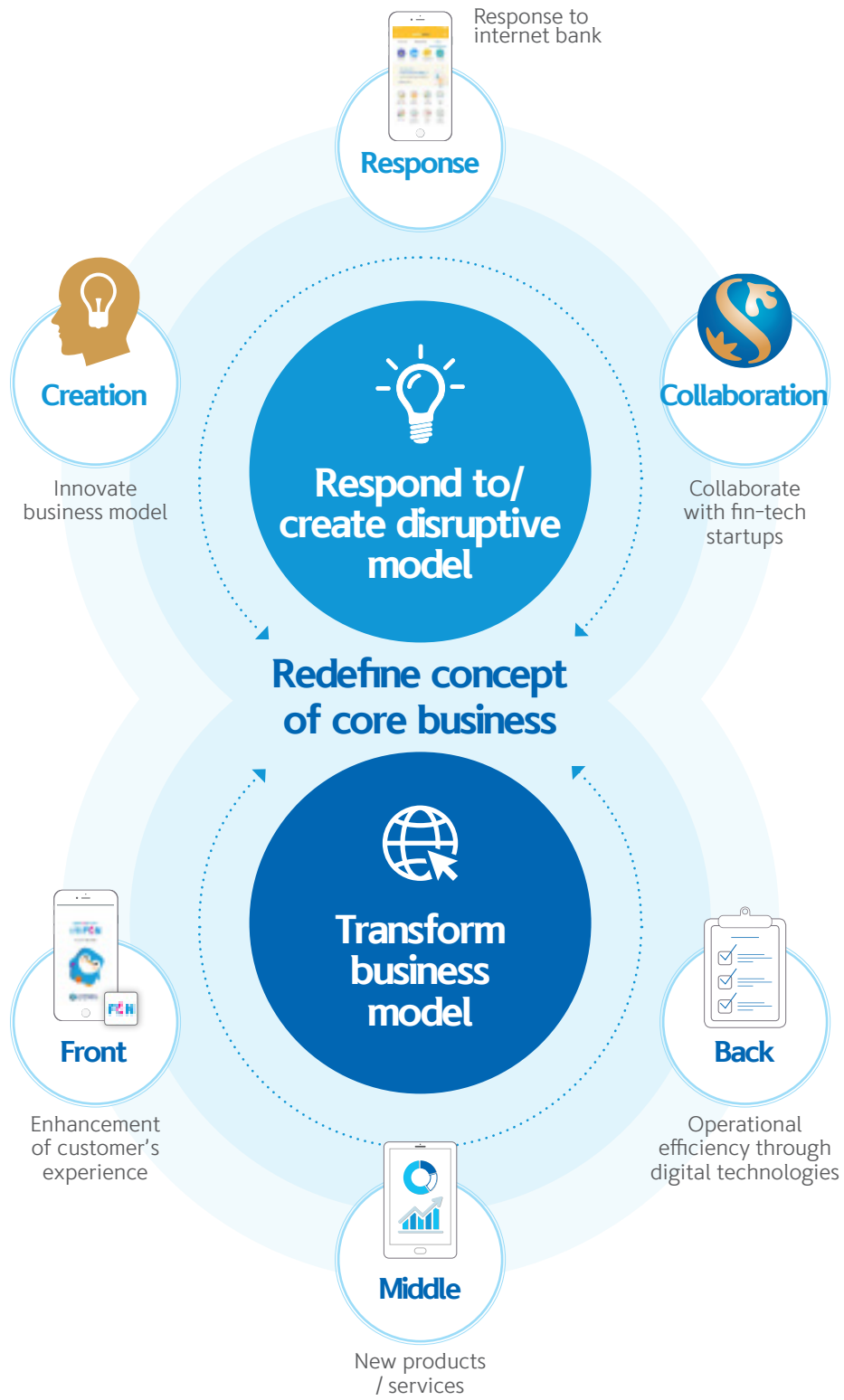
DIGITAL TRANSFORMATION





Shinhan will move ahead by actively adopting new technology through our Digital Transformation programs. To strengthen our digital business model, we have established '2 Tracks + 10 Enablers' initiatives that will rebuild our organizations and capabilities suitable for the new digital environment. Through our Digital Transformation, we will be able to support our customers in creating new opportunities and markets.



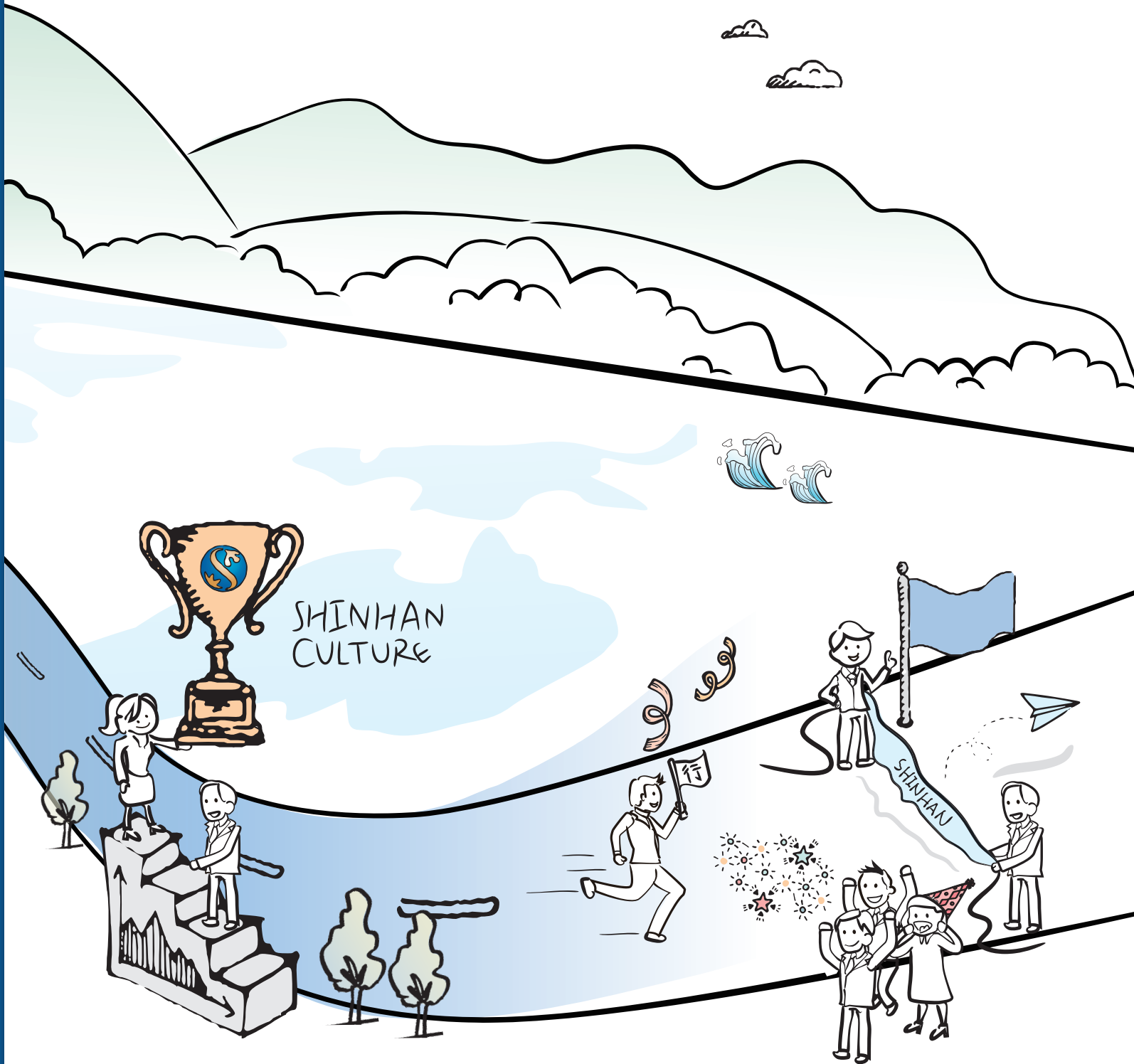


SHIMHAM CULTURE

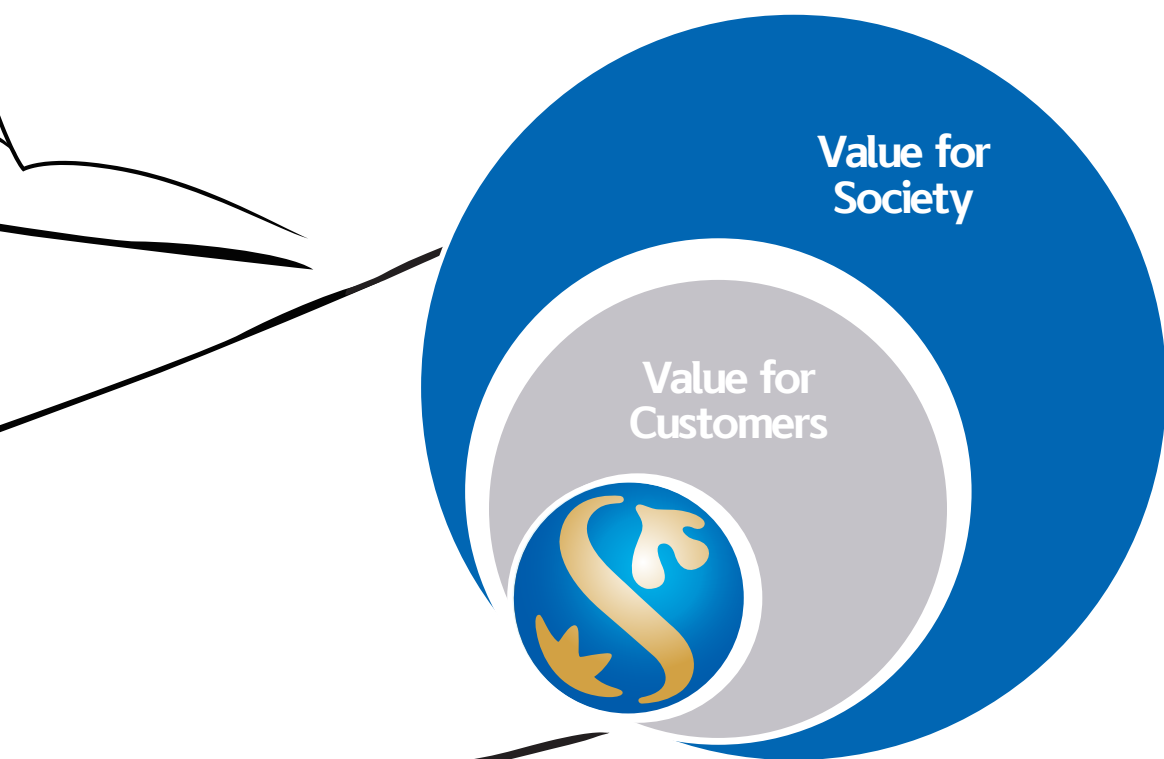
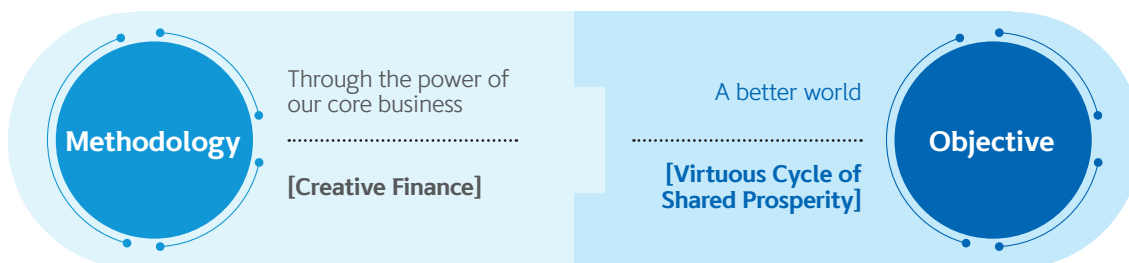




Shinhan will uphold and enrich its distinctive culture which is the foundation of its long record of successful development. The culture that embrace challenges, reacts with flexibility and think by originality are many of the cultural elements we will continue to succeed into the next level. Our mission 'Compassionate Finance, Your Companion for the Future' is the basis for our belief in sustainable contribution to our society. Shinhan will create better future by growing together with our customers and communities through upholding our corporate culture.



COMPASSIONATE FINANCE, YOUR COMPANION FOR THE FUTURE

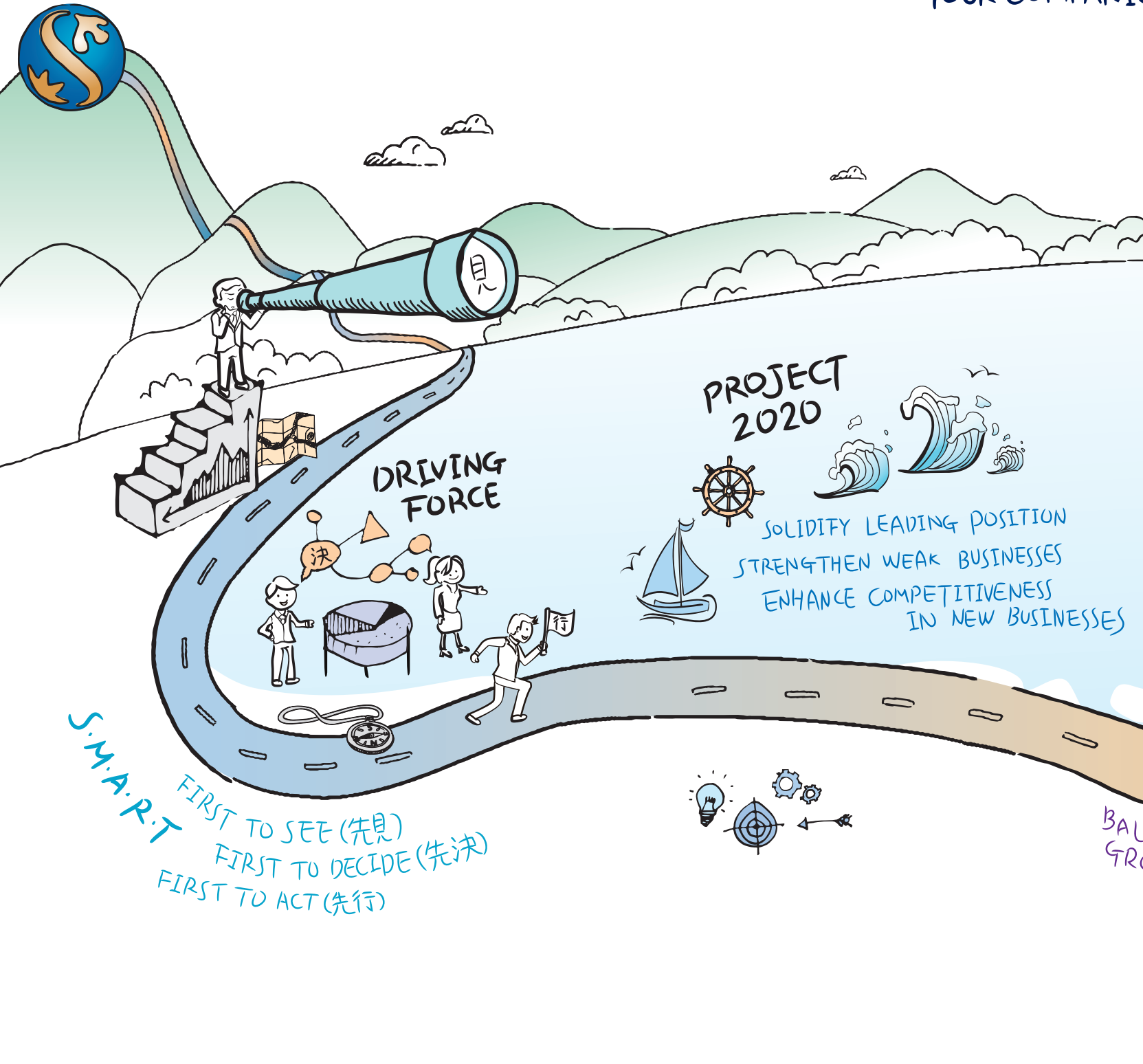


VIRTUOUS CYCLE OF SHARED PROSPERITY



2020 S.M.A.R.T.

COMPASSIONATE YOUR COMPANIES



S.M.A.R.T
FIRST TO SEE (先見)
FIRST TO DECIDE (先決)
FIRST TO ACT (先行)

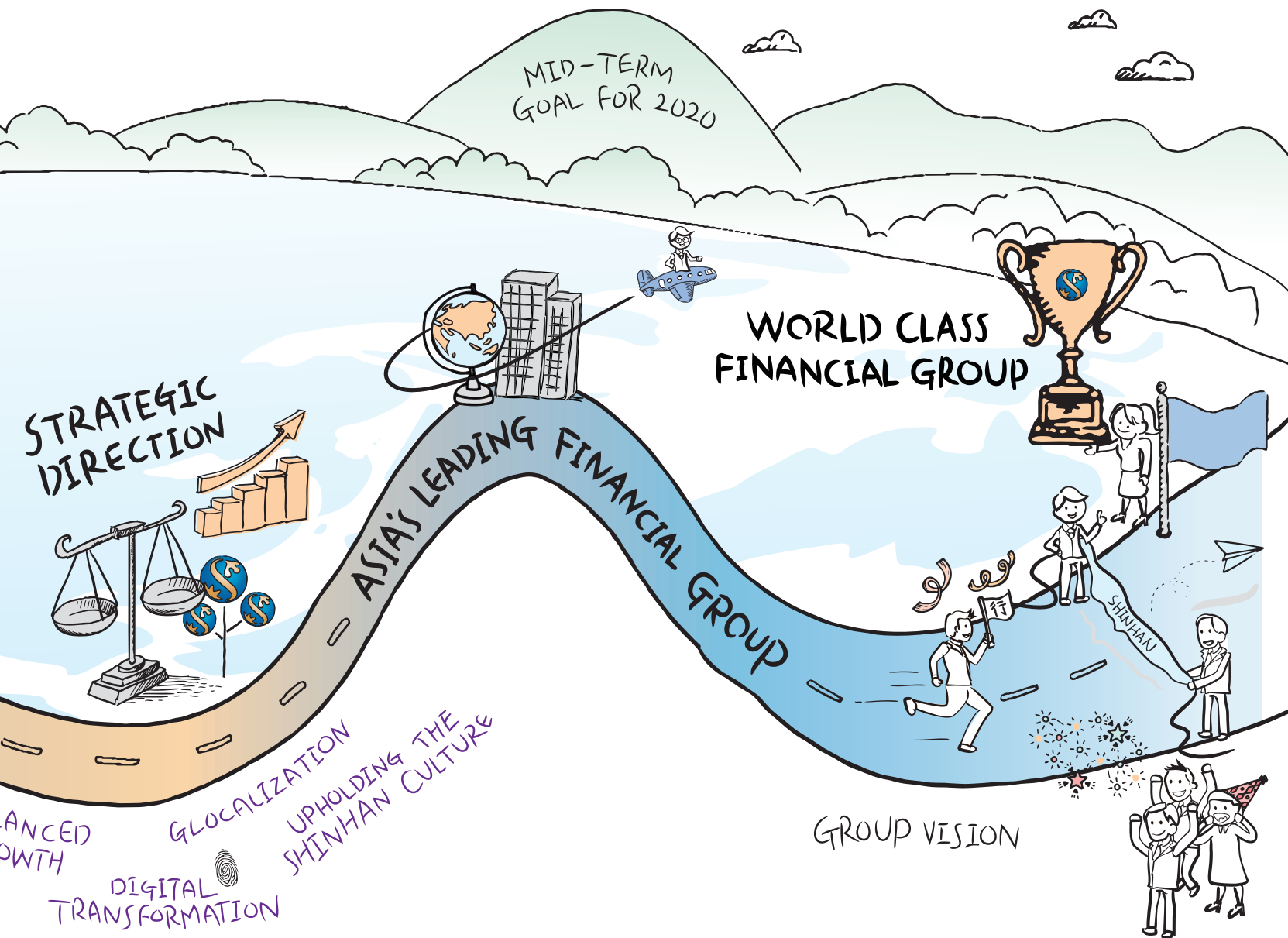
PROJECT 2020
SOLIDIFY LEADING POSITION
STRENGTHEN WEAK BUSINESSES
ENHANCE COMPETITIVENESS
IN NEW BUSINESSES

BAL
GR

R.T PROJECT



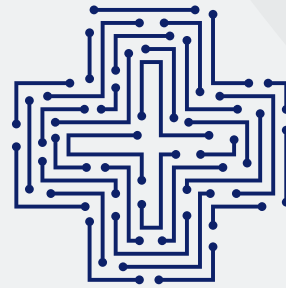
ATE FINANCE,
ON FOR THE FUTURE





NET INCOME

2,918 KRW billion



NET INTEREST MARGIN

2.06 % **1.56** %
Group Shinhan Bank

Non-bank Contribution

44 %



Proportion of transactions conducted through digital channels
(internet + mobile)

41 % **60** %
2011 2017

DIGITAL BANKING



CAPITAL ADEQUACY

14.8 %

14.8 % / **13.3** % / **12.9** %
BIS Ratio / Tier1 Ratio / CET1 Ratio



DIVIDEND PAYOUT RATIO

23.6 %

DIVIDEND PER SHARE

KRW **1,450**

GLOBAL NETWORKS



MESSAGE from the CEO





Dear respected shareholders,

In the last year, the global financial market saw the escalation of uncertainties such as interest rate hikes in the United States, growing protectionism, and increased concerns about financial instability in emerging countries. The domestic financial market likewise faced new challenges as it coped with low growth, low interest rate environment, and the transition to digital finance.

External and internal difficulties notwithstanding, Shinhan Financial Group focused its efforts on '2020 SMART Project,' and laid the foundation from which Shinhan can make the leap to become Asia's leading financial group.

2017 Performance

Balanced growth in banking and non-banking operations made Shinhan differentiate itself as a comprehensive financial group.

In the banking sector, Shinhan Bank recorded a net profit of KRW 1.71 trillion through solid asset growth geared toward profitability and proactive risk management.

The non-banking sector grew evenly across Group subsidiaries, including Shinhan Card, Shinhan Investment, Shinhan Life Insurance, Shinhan BNP Paribas Asset Management and Shinhan Capital.

Shinhan also succeeded in expanding and diversifying its earnings base overseas. Net income from global businesses increased by an impressive 28% compared to 2016, thanks to the strong growth momentum in Asia's core emerging markets including Vietnam and Japan.



we will strive to continue raising both the Group's corporate value and shareholder value based on a foundation of sustainable management.



The Group subsequently saw net profit climb to KRW 2.92 trillion for a year over year growth of 5.2%, representing the best performance since 2011.

We would not have been able to achieve such significant results without unwavering support and encouragement from our shareholders. So I would like to express my heartfelt gratitude on behalf of all Shinhan Financial Group members. Going forward, we will strive to continue raising both the Group's corporate value and shareholder value based on a foundation of sustainable management.

2018 Business Plan

The financial industry is undergoing an unprecedented change hastened by the digital technologies of the fourth industrial revolution. Rather than resting on past success, Shinhan will navigate the evolving business environment with fresh new determination and aim even higher.

Under our new slogan, 'Shinhan, Aiming Higher and Creatively Pioneering Ahead,' we will continue to develop the strategies that we initiated under last year's slogan of 'Adding Pace to Original Ideas' while delivering tangible results through creative thinking and swift action.

Shinhan will diversify the Group's growth strategy to secure an early lead in new businesses and carry out diverse strategies to expand Group-wide glocalization initiatives.

We will also expedite the Group's digital transformation and through the One Shinhan platform, offer a differentiated level of customer experience. Furthermore, we will improve Shinhan's verified risk management capabilities to strengthen our resilience and stability.

Valued shareholders,

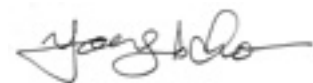
Since its establishment, Shinhan Financial Group has been able to break the mold of conventional finance and pioneer innovations thanks to shareholders and clients who steadfastly supported Shinhan through the many challenges and changes.

Shinhan will continue to open new paths as a trailblazer in the financial industry, not only making strides in Korea but launching the Group to new heights beyond Asia to become a World Class Financial Group.

I hope you will stand with Shinhan and grant us your continued support and trust.

I wish you and your family health and happiness.

Thank you.



Cho Yong-byoung

Chairman & CEO of Shinhan Financial Group

BOD and MANAGEMENT

Executive Director

Cho Yong-byoung

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

Non-Executive Director

Wi Sung-ho

Date of Birth : June 12, 1958
Current Position : President & CEO, Shinhan Bank
Education : B.A. in Economics, Korea University
Main Work Experience :
2017 ~ Current. President & CEO, Shinhan Bank
2013 ~ 2017. CEO, Shinhan Card
2011 ~ 2013. Deputy President and Head of Wealth Management Group, Shinhan Bank and Shinhan Investment Corp. (concurrent position)
2008 ~ 2011. Deputy President, Shinhan Financial Group

Outside Directors

Park Cheul

Date of Birth : April 27, 1946
Current Position : Former) Chairman & CEO, Leading Linvestment & Securities Co., Ltd.
Education : M.A. in Economics, New York University
Main Work Experience :
2006 ~ 2013. Chairman & CEO, Leading Investment & Securities Co., Ltd.
2004. Member of the Committee, National Economy Advisory Council
2003 ~ 2006. Outside Director, Korea Development Bank
2000 ~ 2003. Senior Deputy Governor, Bank of Korea

Kim Hwa-nam

Date of Birth : December 7, 1945
Current Position : CEO, Gimhae Corporation Co., Ltd.
Education : B.A. in Economics, Rikkyo University
Main Work Experience :
1996 ~ Current. CEO, Gimhae Corporation Co., Ltd.
1995 ~ Current. Chairman of Board of Directors, Jeju Girl's School Foundation
2015 ~ Current. Chairman, Korea Investment Association of Korean Residents in Japan
2013 ~ 2016. Chairman, The World Federation of Korea Association of Commerce in Japan

Park Byoung-dae

Date of Birth : September 5, 1957
Current Position : Chair Professor, Sungkyunkwan University Law School
Education : LL.M., Cornell Law School
Main Work Experience :
2017 ~ Current. Chair Professor, Sungkyunkwan University Law School
2014 ~ 2016. Minister, National Court Administration
2011 ~ 2017. Justice, Supreme Court
2011. Chief Judge, Daejeon District Court

Park Ansoon

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

Lee Manwoo

Date of Birth : November 22, 1954
Current Position : Professor, Korea University Business School
Education : Ph.D. in Business Administration, University of Georgia
Main Work Experience :
1988 ~ Current. Professor, Korea University Business School
2007 ~ 2008. Chairman, Korean Accounting Association
2006 ~ 2007. Chairman, Korean Academic Society of Taxation
2001 ~ 2007. Committee Member of Securities Listing, Korea Exchange

Lee Steven Sung-ryang

Date of Birth : August 30, 1955
Current Position : Professor, School of Economics, Dongguk University
Education : Ph.D. in Economics, Columbia University
Main Work Experience :
2007 ~ Current. Professor, School of Economics, Dongguk University
2015 ~ Current. Director, Research Institute of Social Science, Dongguk University
2013 ~ 2015. Dean, School of Economics, Dongguk University
2002 ~ 2004. Head of Graduate Department of Public Administration, Dongguk University
1997 ~ 2006. Professor, School of International Studies, Dongguk University

Joo Jaeseong

Date of Birth : January 17, 1956
Current Position : Senior Advisor, the law firm Kim & Chang
Education : M.A. in Business Administration, University of Illinois Urbana Champaign
Main Work Experience :
2016 ~ Current. Senior Advisor, the law firm, Kim & Chang
2013 ~ 2016. CEO, Woori Finance Research Institute
2011 ~ 2013. Senior Deputy Governor of Banking & Non-banking sector, Financial Supervisory Service

Choi Kyong-rok

Date of Birth : May 25, 1966
Current Position : CEO, CYS Corporation
Education : M.S. in Computational Science, Keio University
Main Work Experience :
2004 ~ Current. CEO, CYS Corporation
2010 ~ 2015. Outside Director, Shinhan Life Insurance
2001 ~ 2004. Deputy President, CYS Corporation
1997 ~ 2001. Research Associate, Information Technology Center at Keio University

Philippe Avril

Date of Birth : April 27, 1960
Current Position : CEO & Representative Director BNP Paribas Securities (Japan) Ltd.
Education : M.A. in Economics, Universite de Paris Dauphine
Main Work Experience :
2012 ~ Current. Chief Country Officer BNP Paribas, Tokyo Branch
2011 ~ Current. CEO & Representative Director BNP Paribas Securities (Japan) Ltd.

Yuki Hirakawa

Date of Birth : October 21, 1960
Current Position : CEO, Primer Korea LLC
Education : B.A. in Spanish, Osaka University
Main Work Experience :
2013 ~ Current. CEO, Primer Korea LLC
1994 ~ 2012. CEO, Hirakawa Industry Development Co., Ltd.

Deputy Presidents

Woo Young-woong

Date of Birth : March 5, 1960
Current Position : Deputy President, Shinhan Financial Group
Education : M.A. in International Business, Waseda University
Main Work Experience :
2017 ~ Current. Deputy President, Shinhan Financial Group
2016 ~ 2017. Executive Vice President, Shinhan Financial Group
Executive Vice President & Head of Corporate & Investment Banking Group, Shinhan Bank
2015 ~ 2016. Head of Investment Banking Division, Shinhan Bank

Jin Ok-dong

Date of Birth : February 21, 1961
Current Position : Deputy President, Shinhan Financial Group
Education : M.A. in Business Administration, Chung-Ang University
Main Work Experience :
2017 ~ Current. Deputy President, Shinhan Financial Group
2017. Deputy President, Shinhan Bank
2015 ~ 2017. President & CEO, Shinhan Bank Japan

Lee Dong-hwan

Date of Birth : September 18, 1959
Current Position : Deputy President, Shinhan Financial Group
Education : MBA, Duke University
Main Work Experience :
2017 ~ Current. Deputy President, Shinhan Financial Group
Deputy President & Head of Group & Global Investment Banking Group, Shinhan Bank
2016 ~ 2017. President & CEO, Shinhan Data System

Kim Byeong-cheol

Date of Birth : January 19, 1962
Current Position : Deputy President, Shinhan Financial Group
Education : M.A. in Economics, Seoul National University
Main Work Experience :
2018 ~ Current. Deputy President, Shinhan Financial Group
Deputy President & Head of Global Markets & Securities Group, Shinhan Investment Corp.
2012 ~ 2018. Deputy President & Head of Sales & Trading Group, Shinhan Investment Corp.

Heo Young-taeg

Date of Birth : August 13, 1961
Current Position : Deputy President, Shinhan Financial Group
Education : B.A. in Business Administration, Korea University
Main Work Experience :
2017 ~ Current. Deputy President, Shinhan Financial Group
Deputy President & Head of Global Business Group, Shinhan Bank
2016 ~ 2017. Executive Vice President & Head of Global Business Group, Shinhan Bank

Lee Chang-goo

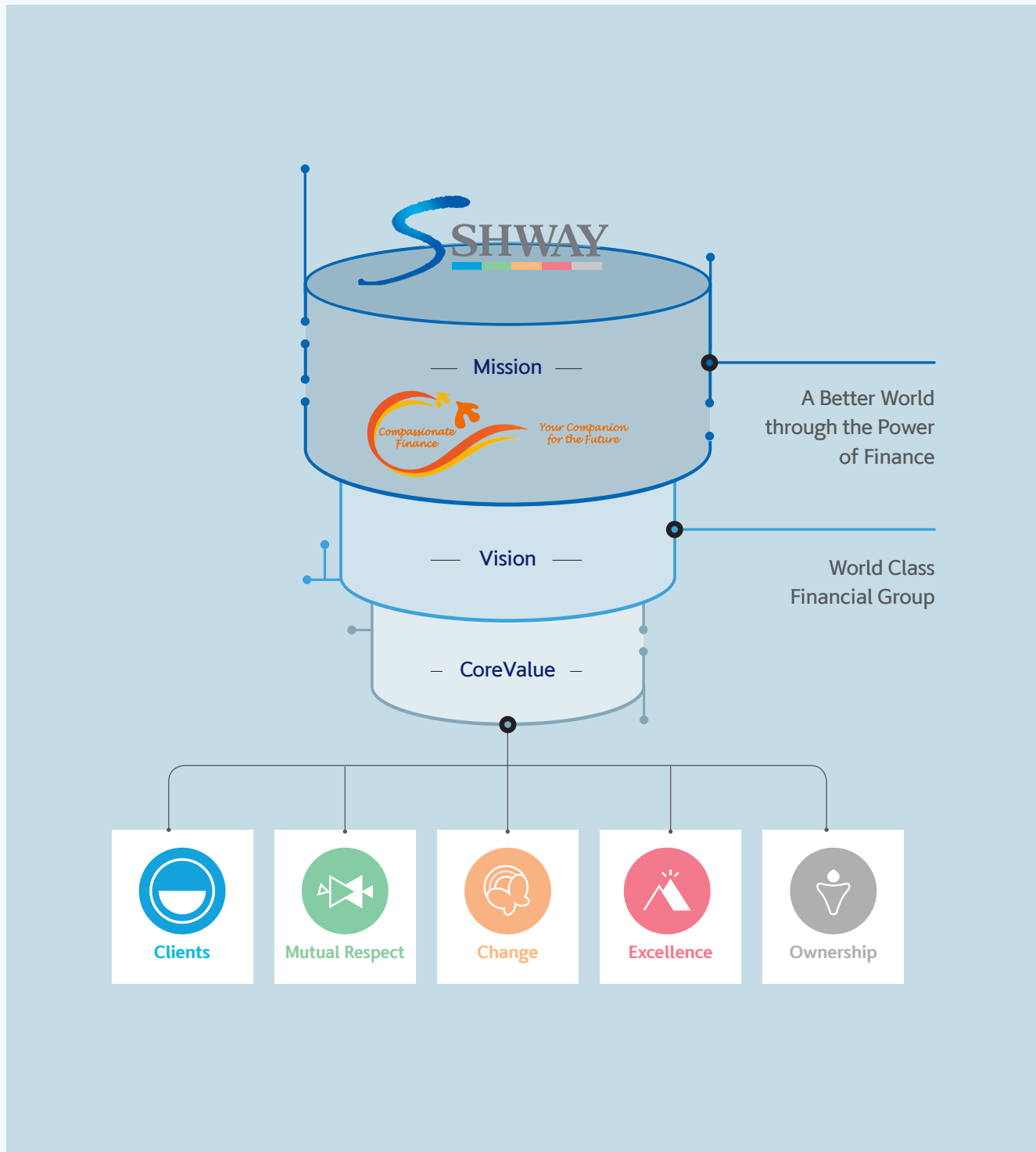
Date of Birth : January 14, 1961
Current Position : Deputy President, Shinhan Financial Group
Education : B.A. in Accounting, Hanyang University
Main Work Experience :
2018 ~ Current. Deputy President, Shinhan Financial Group
Deputy President & Head of Wealth Management Group, Shinhan Bank
2016 ~ 2017. Executive Vice President, Shinhan Financial Group
Executive Vice President & Head of Wealth Management Group, Shinhan Bank

Jang Dong-ki

Date of Birth : January 2, 1964
Current Position : Executive Vice President, Shinhan Financial Group
Education : B.A. in Economics, Seoul National University
Main Work Experience :
2018 ~ Current. Executive Vice President, Shinhan Financial Group
2017 ~ 2018. Managing Director & Head of Finance Management Team, Shinhan Financial Group

SHINHAN WAY

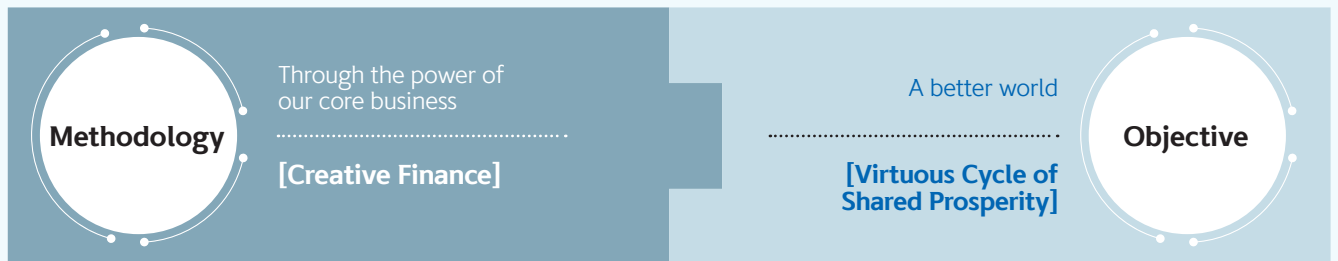
The mission statement, core values and vision that embody the Shinhan WAY represent a value system by which all members of the Shinhan Financial Group measure their thoughts and actions.



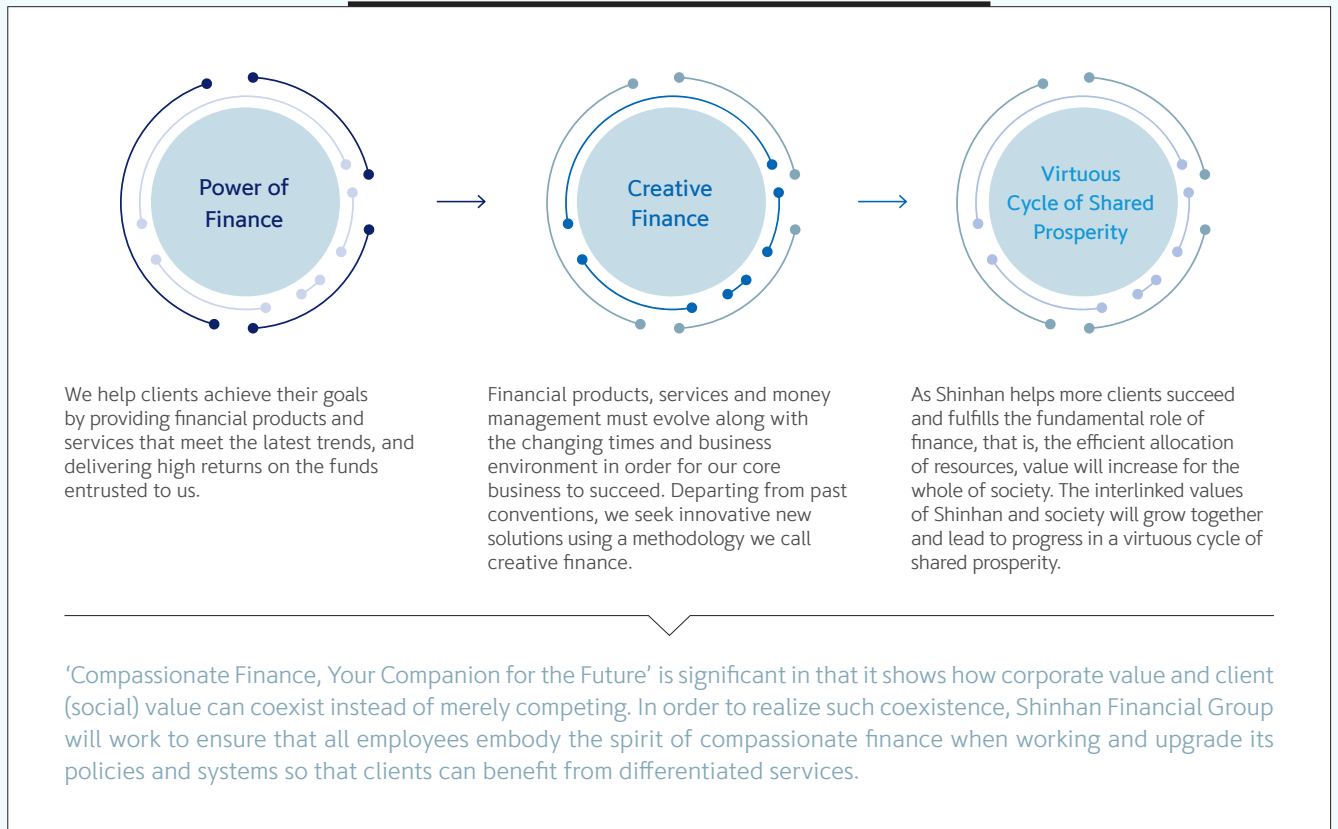
Group Mission

Shinhan Financial Group has set 'Compassionate Finance, Your Companion for the Future' as its mission. We strive to uphold a virtuous cycle of shared prosperity that will create greater value for our client and society as a whole. To this end, we need to part with the past and practice 'Creative Finance' with new methods befitting a new environment with regard to products, services, and money management.

A better world through the power of finance
Compassionate Finance, Your Companion for the Future



The Meaning of Compassionate Finance



Core Values

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

Core Values



Meaning

Clients

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

Mutual Respect

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

Change

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

Excellence

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

Ownership

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

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

Code of Conduct

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

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

THE SHINHAN LEADER

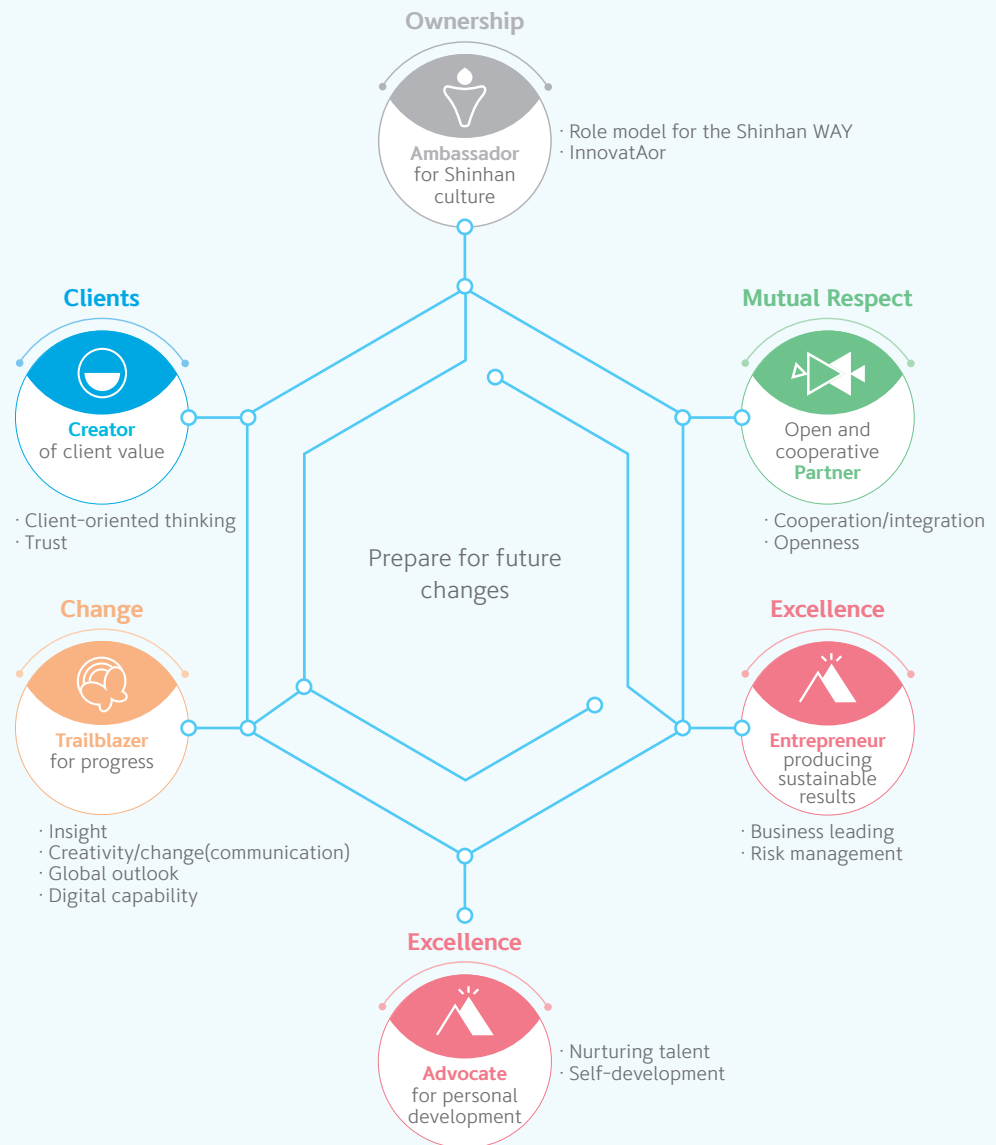
The mission statement, core values and vision that embody the Shinhan WAY represent a value system by which all members of the Shinhan Financial Group measure their thoughts and actions.

Role model for the Shinhan WAY

Uphold and develop the Shinhan Culture







Take the lead in driving new businesses

Nurture the talents of the company



Code of conduct for the Shinhan Leader

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

 Ambassador for Shinhan culture Ownership	<p>Practice and promote the Shinhan WAY with conviction and sincerity, and uphold and develop the Group's culture in step with changes in the business environment.</p>
	<ul style="list-style-type: none"> · Role model for the Shinhan WAY Promote the Shinhan WAY and foster an organizational culture where employees are recognized for following its principles. · Innovator Find solutions by taking an interest in cultural issues and continue developing Shinhan's culture in step with changes in the business environment.
 Creator of client value Clients	<p>Think from the client's perspective when making judgments and decisions, and build a relationship of trust by observing high ethical standards.</p>
	<ul style="list-style-type: none"> · Client-oriented thinking Gain a thorough understanding of the client's needs and ensure delivery of products and services from the client's perspective. · Trust Foster trust by following strict ethical guidelines and aspire to increasing value for the client, Shinhan and society.
 Open and cooperative partner Mutual Respect	<p>Combine resources and capabilities for optimal group-wide performance and cultivate strategic partnerships through cooperation.</p>
	<ul style="list-style-type: none"> · Cooperation/integration Establish strategies from the perspective of One Shinhan, find common ground through communication and constructive feedback, and allocate resources to suit changes in the business environment. · Openness Develop a broad and diverse network of stakeholders beyond financial businesses, and enter into strategic partnerships to create new value.
 Trailblazer for progress Change	<p>Predict the future based on knowledge and insight, and make changes through honest communication and cooperation.</p>
	<ul style="list-style-type: none"> · Insight Anticipate changes based on in-depth expertise with a broad and comprehensive perspective. · Creativity/change (communication) Foster an atmosphere that encourages creative thinking, and reach consensus by sharing concrete visions about change. · Global outlook Evaluate and respond to the consequences of changes in the world, and satisfy global standards in communication and other aspects. · Digital capability Help employees adapt to changing times by presenting a vision for the digital future and reflect their input in setting the strategic direction.
 Entrepreneur producing sustainable results Excellence	<p>Discover new business opportunities from a comprehensive standpoint, and deliver sustainable results through preemptive risk management.</p>
	<ul style="list-style-type: none"> · Business leading Embrace an integrated view to discover business opportunities, strive for sustainable performance, and take responsibility for the outcome. · Risk management Embrace an expansive view to identify risk factors in an evolving business environment and take preemptive action to manage the risks.
 Advocate for personal development Excellence	<p>Make a long-term commitment to nurturing talented employees, create an open corporate culture, and continue to acquire new skills and knowledge.</p>
	<ul style="list-style-type: none"> · Nurturing talent Strengthen the Group by helping employees grow capabilities in preparation for the future and by creating an open culture receptive to talented outsiders. · Self-development Continue education to become the top expert in a specific field and keep exploring new areas of interest.

GROUP VISION and STRATEGY

Group Vision

Since the launch of its holding company in 2001, Shinhan Financial Group has become the leading financial group in Korea by achieving balanced growth between its banking and non-banking units, exploring new growth engines, generating new values with differentiated business models, and deploying global-level capabilities and systems. During that time, the Group has also completed its efforts to expand and to diversify its business lines through M&As with Chohung Bank, LG Card and Good Morning Shinhan Securities, and has implemented significant improvements in its business management system.

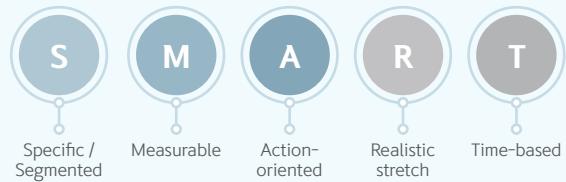
In 2011, the Group established a structure for sustainable growth based on its current mission of providing customers with 'Compassionate Finance, Your Companion for the Future.' It has also introduced a matrix business structure for its CIB/PWM units, effectively realizing a synergistic business model among the Group's major constituents. In 2017, the Group expanded its matrix business structure by further diversifying its business lines into investment banking (IB) and global business, while at the same time establishing Shinhan REITs Management. Shinhan Financial Group is working tirelessly to become a world-class financial group.

Group Strategy : 2020 SMART Project

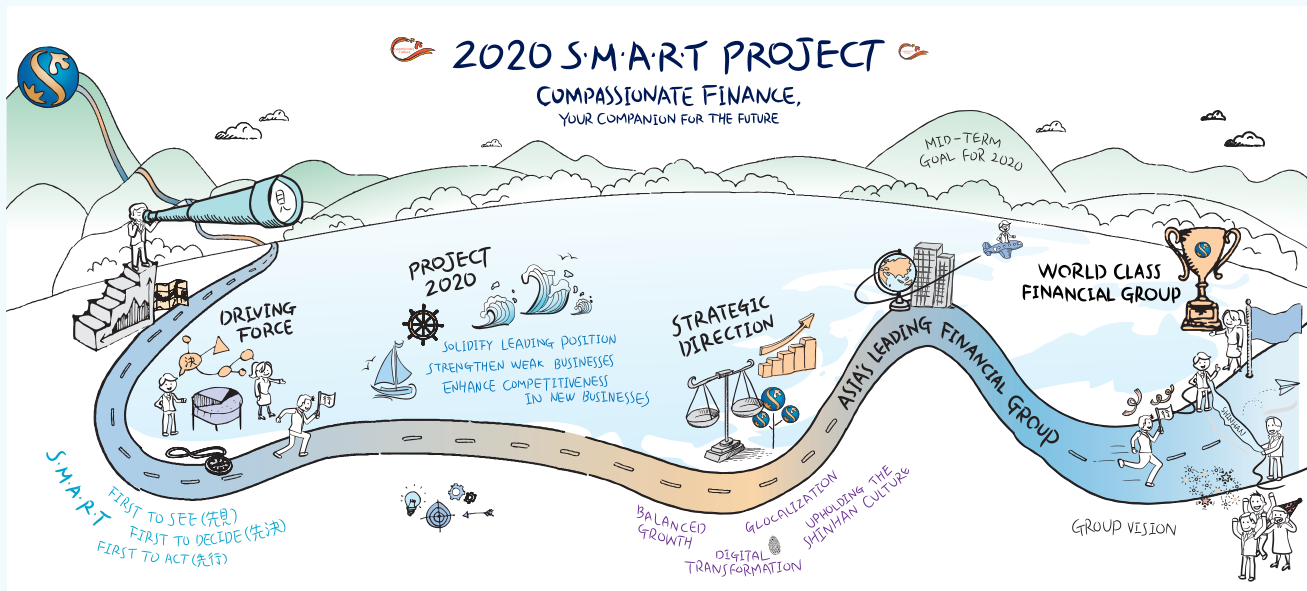
Shinhan Financial Group has begun to implement its 2020 SMART Project with the aim of attaining its mid-term target of becoming 'Asia's Leading Financial Group' and realizing its vision of becoming a 'World Class Financial Group.'

It has drawn up plans to implement the four strategic directions and the three key capabilities outlined below by 2020 in order to strengthen its position in the global financial market and its long-term growth:

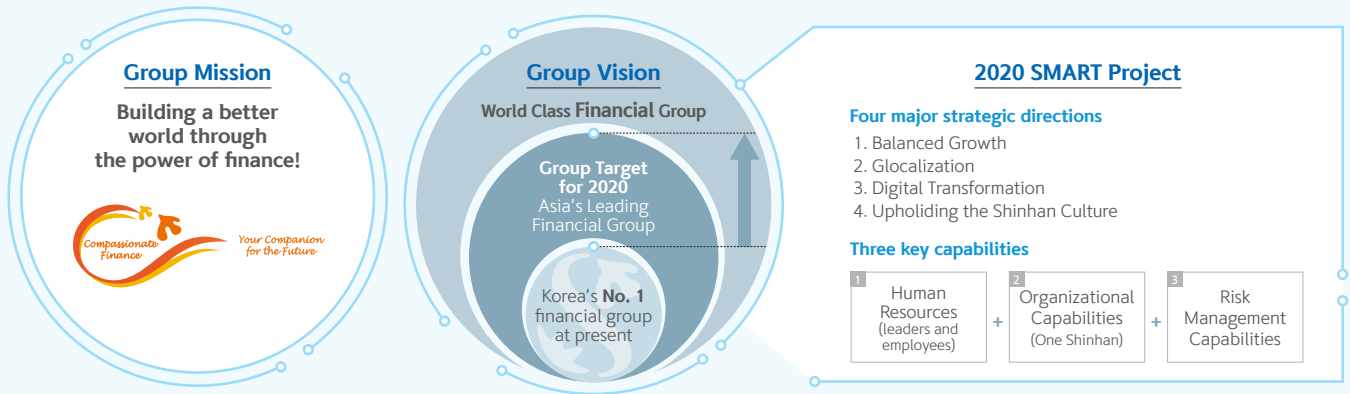
To leap forward as 'Asia's Leading Financial Group' by enhancing key capabilities with the strategic directions of the 2020 SMART Project



Shinhan Financial Group's Vision Map



Shinhan Financial Group's 2020 SMART Project



2017 was the first year in which Shinhan Financial Group promoted the 2020 SMART Project. The One Shinhan Strategy was developed in order to deploy a rapid and powerful implementation system by sharing its group resources as if it were one united company. It successfully deployed new growth foundations in the capital, global and digital service sectors by expanding its matrix system for major group business lines (IB, Global, GMS, WM, etc.), establishing a new subsidiary (Shinhan REITs Management), and constituting the Chief Digital Officer (CDO) Council.

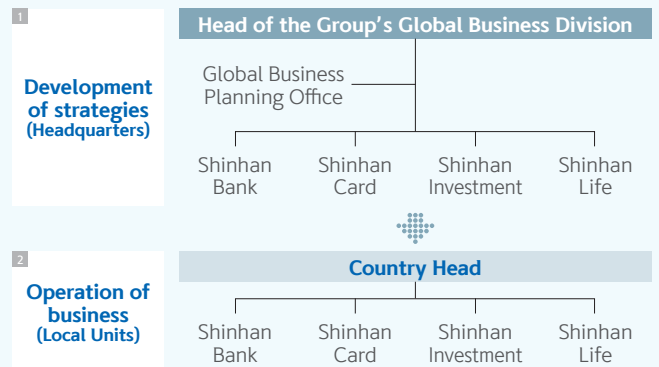
Matrix Structure for 2020 SMART Project

► Group & Global Investment Banking (GIB) Business

Shinhan Financial Group has set up a matrix system to boost the competitiveness of the Investment Banking (IB) division and channel the Group's capital and expertise into it. SFG has designed a system to enhance the capacity for group-level deal sourcing and structuring as well as improve risk-adjusted profitability through the Group and Global Investment Banking Committee. The system is expected not only to help increase efficiency in capital management, but also to ensure the consistency of investment strategy. Moreover, Shinhan REITs Management has been newly established to serve as the Group's real estate investment trust arm. Shinhan Private Equity, which was focused on traditional buyout investment banking, was recently renamed and relaunched as Shinhan Alternative Investment Management to strengthen the competitiveness of the Group's real estate and alternative investment business line.

► Global Business

SFG has introduced a matrix system within the Global Business division to diversify assets by reducing the concentration on domestic market and to enhance the Group's profitability. The matrix system is expected to contribute to group-wide consistency in global strategy and develop the global business capabilities of the group's subsidiaries. Furthermore, by appointing a country head, we have established a system that enables the rapid implementation of local strategies and the maximization of synergy between subsidiaries with a business presence in the same country.



► GMS (Global Markets and Securities) Business

SFG has newly established the GMS Business division to manage the Group's proprietary assets more effectively and to improve profitability. The GMS Business Division will strategically allocate the Group's subsidiaries' diverse proprietary assets by taking into consideration the risk tolerance of each subsidiary based on investment period and goals.

start-ups at home and abroad through mutual collaboration, while strategically responding to emerging digital business models. Furthermore, we will improve the group's digital operational platforms.

Strategy 4. Unveiling of Shinhan DNA

We will further uphold the group's mission of 'Compassionate Finance, Your Companion for the Future' as well as the internal organizational culture needed to contribute to the current generation and society as a whole. To that end, the group will explore and disseminate diverse internal success stories that reflect the characteristics of each financial service sector while strengthening the implementation system led by the leading tier. We will also reinforce our creative and dynamic operational culture by assisting the realization of creative ideas with which we can undertake and complete difficult tasks without fear of failure, while developing and improving our work conditions to boost the passion and loyalty of our employees. In addition, we will realize a virtuous circle of win-win development by successfully implementing the 'Society of Hope Project' the group has promoted in order to provide highly productive, all-embracing social financial services.

Strategy 5. Innovation in personnel management

We plan to systematically foster management leaders and outstanding human resources who will be responsible for the company's future growth. We will select and foster our future leaders based on the ideal profile of future group leaders. We will also improve the programs implemented by each of the group's companies with the aim of fostering outstanding personnel around business lines, including capital market, asset

management, global and digital services, while also carrying out internal and external programs for the development of expert personnel.

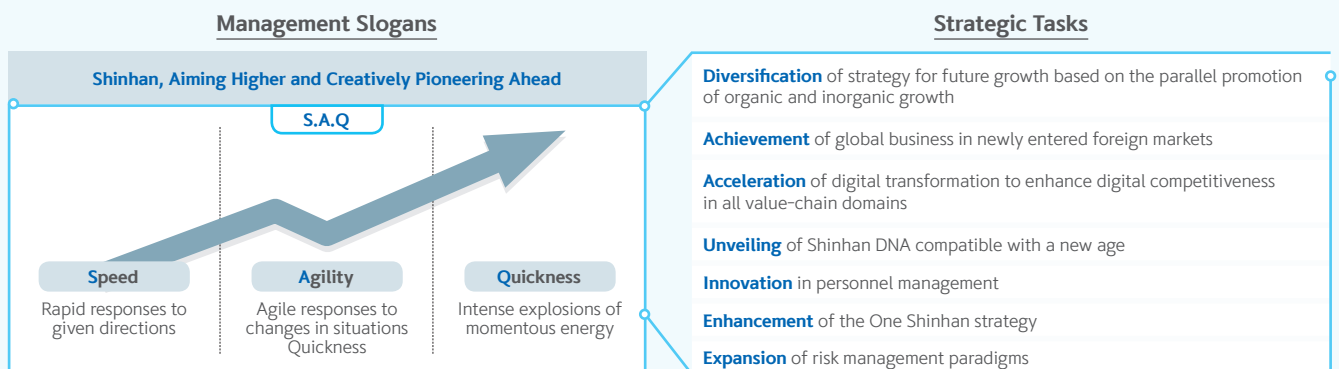
Strategy 6. Enhancement of the One Shinhan strategy

We will strengthen our operational systems based on the 'One firm perspective' while deploying a customer-oriented One-Stop marketing system. We also plan to deploy a customer-oriented One Portal system by strengthening collaboration between our subsidiaries and service divisions, and we will develop and expand 'One solution' for a more convergent group. In addition, we will upgrade the group-wide One Shinhan Committee, and our systems of performance evaluation and compensation. We plan to expand the areas of collaboration between group companies through the use of concurrent service posts and the entrustment of duties.

Strategy 7. Expansion of risk management paradigms

We will increase the depth and width of our risk management to address future changes in the business environment. We plan to upgrade our risk management systems and credit assessment models by utilizing big data, while deploying a preemptive crisis management system in preparation for the era of volatility, uncertainty, complexity and ambiguity (VUCA). We will also upgrade our non-financial risk management systems based on customer preferences, market trends, and technical developments in addition to the traditional risks related to interest rate risks, liquidity risks and credit risks, while simultaneously strengthening our risk management capacities in the future growth areas of the Group.

Shinhan Financial Group's Business Plan in 2018



CORPORATE GOVERNANCE

SFG's Corporate Governance Grades by the Korea Corporate Governance Service (KCGS)

Category	2012	2013	2014	2015	2016	2017
Corporate Governance Grades	A+	A+	A+	A+	A+	S

Principles of Governance Structure

In order to protect the interests of its shareholders, financial service consumers and other stakeholders and to promote long-term development, Shinhan Financial Group is committed to equipping itself with a corporate governance structure that reflects both its growth history and organizational culture while securing transparency, soundness and stability. As a result, it was awarded an A+ rating by the Korea Corporate Governance Service (KCGS) of the Korea Exchange in its integrated assessment of environment, social, and governance criteria for three consecutive years from 2015 to 2017. In particular, it was the first and only Korean company among businesses subject to the assessment to be awarded an S rating for corporate governance assessment.

Transparent governance structure

Shinhan Financial Group actively discloses its business and service performance standards and procedures and results related to its corporate governance as part of its efforts to maintain transparent corporate governance. We disclose to all our stakeholders any information related to our corporate governance by publishing an annual report on corporate governance on our website and the website of the Korea Federation of Banks twenty days prior to our annual general shareholders meeting. In addition, we help our stakeholders understand the operational practices related to our corporate governance by disclosing all of the internal policies related to our corporate governance in annual corporate governance reports, including articles of incorporation, the regulations of the sub-committees of Board of Directors, and the full text of the internal policies and regulations related to our corporate governance. In particular, we have made concerted efforts to enhance shareholder value by introducing a cumulative voting scheme designed to protect our minority shareholders along with a system that allows shareholders to exercise their voting rights in writing at general shareholders meetings.

Sound governance structure

SFG has organized and maintains a Board of Directors equipped with the independence and expertise necessary to maintain sound corporate governance. We have faithfully followed such statutes as the Commercial Act and the Financial Holding Companies Act as well as our own internal rules and regulations, including our articles of incorporation (by-laws) and internal code of corporate governance, and the regulations of the Board of Directors. In addition, we have faithfully followed the recommendations concerning the Board of Directors under the Act on Corporate Governance of Financial Companies and the KCGS (Korea Corporate Governance Service) Corporate Governance Code by reflecting them in our internal regulations.

Stable governance structure

To maintain a stable corporate governance based on the principle of checks and balances among constituents, SFG has delegated the authority for making and executing decisions to the Board of Directors and the management separately, while requiring the management to report on decision implementation status to the Board of Directors. In addition, SFG has actively supported board operations by ensuring that the majority of the sub-committees of the Board of Directors are composed of outside directors. To help the Board of Directors effectively keep tabs on management, the Board is vested with the right to appoint or dismiss the Chairman & CEO, executive directors of the board, and any members of management who are not directors, whereas the outside directors are vested with the right to request information and third-party advisory services. On the other hand, the company and its management is required to provide information to the outside directors. In particular, the term of service for the latter is guaranteed within the extent that the statutes and internal policies are followed in consideration of the stability and continuity of SFG's corporate governance when they demonstrate outstanding contributions.

To prevent the outside directors from becoming clubby boards, the Outside Director Recommendation Committee includes one executive director. As a rule, no outside directors are appointed as members of the Committee if they belong to SFG of candidates to be reappointed. Furthermore, we have introduced a virtuous cyclic structure for the succession of management members by restricting the age of the Chairman & CEO to 70 years or less.

Diversity and expertise of the Board of Directors

SFG strives to ensure that its corporate governance maintains diversity and expertise by specifying in its internal regulations on corporate governance the principle of diversity in the composition of the Board of Directors, in order to make sure that the board members do not share a certain common background or unfairly represent certain interests. Our Board of Directors is composed of members with diverse expertise to ensure the Board members do not share a certain common background or unfairly represent certain occupational or professional groups. We also fill our Board of Directors with members who evenly represent the five sectors of finance, business administration, economics, legal affairs, and accounting which the Act on Corporate Governance of Financial Companies presents as general expertise requirements.

We manage our pool of outside director candidates by receiving recommendations through diverse bodies, including our shareholders, the Outside Director Recommendation Committee, supporting departments, and outside advisory agencies. The current board includes outside directors from four countries (Korea, Japan, US, and France). In addition, we have also steadily increased the number of female candidates for outside directors appointments. We have faithfully abided by the principle of diversity in the composition of our board by including members of diverse age groups.

Governance structure that reflects SFG's growth paths

Shinhan Financial Group originates from Shinhan Bank, which was incorporated as Korea's first commercial bank in July 1982 with only 341 minority private investors, all of whom were Korean-Japanese shareholders (100% equity investment, paid-in capital of KRW 25.9 billion). Those initial shareholders have continued to offer their wholehearted support to Shinhan Financial Group to the present day. In particular, they have contributed to the group's growth by providing a diverse range of support, including participation in the 'Campaign for Holding Shinhan Shares' staged when the share price declined sharply during the Asian financial crisis. SFG has pursued

and maintained stable development through management by financial service experts armed with an in-depth understanding of Shinhan's corporate culture from its inception to the present, based on the deep trust of its initial shareholders, the Korean-Japanese. In addition, Shinhan Financial Group, inaugurated as Korea's first private-sector financial holding company in 2001, has secured the foundation for a new leap forward by forging a strategic alliance with BNP Paribas Group. To reflect such growth paths and corporate culture in its corporate governance, SFG's Board of Directors is partially composed of outside directors who are professional business managers, the Korean-Japanese who represent the founding spirit of the initial shareholders, and financial service experts recommended by BNP Paribas.

Governance Structure Features

SFG's Board of Directors is vested with the authority to appoint or dismiss its chief executive officer. Composed of twelve members, the Board's operations are centered around its ten outside directors, one of whom also presides over the board meetings in accordance with a provision enacted in March 2010. The Board manages eight sub-committees, including the Outside Director Recommendation Committee, Corporate Governance & CEO Recommendation Committee, Audit Committee, Remuneration Committee, Risk Management Committee, Audit Committee Member Recommendation Committee, Board Steering Committee, and CSR Committee, the first six of which are mandatory organs as provided for under the Act on Corporate Governance of Financial Companies and other statutes, whereas the Board Steering Committee and CSR Committee are voluntarily organized by the Board in order to enhance its expertise, independence, and efficiency. To recommend candidates for executive positions, SFG operates the Outside Director Recommendation Committee, Corporate Governance & CEO Recommendation Committee, Audit Committee Member Recommendation Committee, Board Steering Committee, and Subsidiary Management Committee. The Act on Corporate Governance of Financial Companies requires the mandatory formation of the Officer Recommendation Committee, which recommends candidates for executive positions. To improve efficiency, the authority to recommend executives was divided among the various sub-committees of the Board of Directors even before the Act was forced.

SFG's Governance Structure



Expertise-based Categorization of the Board of Directors

(Unit: No. of persons)

	Finance	Economics	Business Administration	Accounting	Legal Affairs	Total
Mar. 2016 ~ Mar. 2017	4	2	4	1	1	12
Mar. 2017 ~ Mar. 2018	5	1	4	1	1	12
Mar. 2018.3 ~ Current	5	1	4	1	1	12

Number of Female Candidates for Outside Director Positions










(Unit: No. of persons)

	Feb. 2015	Aug. 2015	Feb. 2016	Dec. 2016	Aug. 2017
Number of Female Candidates	11	14	39	49	42

Sub-committees of the Board of Directors










	Sep. 2001	May 2004	Feb. 2008	Aug. 2011	Mar. 2015
1	Audit Committee	Audit Committee	Audit Committee	Audit Committee	Audit Committee
2	Risk Management Committee	Risk Management Committee	Risk Management Committee	Risk Management Committee	Risk Management Committee
3	Board Steering Committee	Board Steering Committee	Board Steering Committee	Board Steering Committee	Board Steering Committee
4		Outside Director Recommendation Committee	Outside Director Recommendation Committee	Outside Director Recommendation Committee	Outside Director Recommendation Committee
5		Remuneration Committee	Remuneration Committee	Remuneration Committee	Remuneration Committee
6			Audit Committee Member Recommendation Committee	Audit Committee Member Recommendation Committee	Audit Committee Member Recommendation Committee
7				Corporate Governance & CEO Recommendation Committee	Corporate Governance & CEO Recommendation Committee
8					CSR Committee

Shinhan Financial Group Directors' Skills and Qualifications

Name	Director Classification	 Finance	 Economics	 Business Administration	 Accounting	 Legal Affairs	 Consumer Protection	 Information Technology	 Global Business	 Risk Management
Cho Yong-byoung	Executive Director	◎		○						
Wi Sung-ho	Non-executive Director	◎		○						
Park Ansoon	Outside Director			◎						
Park Cheul	Outside Director	◎	○	○						
Lee Manwoo	Outside Director			○	◎					
Lee Steven Sung-ryang	Outside Director		◎						○	
Joo Jaeseong	Outside Director	◎		○			○			○
Kim Hwa-nam	Outside Director			◎						
Park Byoung-dae	Outside Director					◎				
Choi Kyong-rok	Outside Director			◎				○		
Philippe Avril	Outside Director	◎		○					○	
Yuki Hirakawa	Outside Director			◎					○	

◎ Major expertise, ○ Expertise

Members of the Board of Directors after the 17th AGM

Name	Director Classification	Gender	Date of Birth	Nationality	Professional	End of Tenure
Cho Yong-byoung	Executive Director	Male	Jun. 30, 1957			FY2019 AGM
Wi Sung-ho	Non-Executive Director	Male	Jun. 12, 1958			FY2018 AGM
Park Ansoon	Outside Director	Male	Jan. 24, 1945			FY2018 AGM
Park Cheul	Outside Director	Male	Apr. 27, 1946			FY2018 AGM
Lee Manwoo	Outside Director	Male	Nov. 22, 1954			FY2018 AGM
Lee Steven Sung-ryang	Outside Director	Male	Aug. 30, 1955			FY2018 AGM
Joo Jaeseong	Outside Director	Male	Jan. 17, 1956			FY2018 AGM
Kim Hwa-nam	Outside Director	Male	Dec. 07, 1945			FY2019 AGM
Park Byoung-dae	Outside Director	Male	Sep. 05, 1957			FY2019 AGM
Choi Kyong-rok	Outside Director	Male	May 25, 1966			FY2019 AGM
Philippe Avril	Outside Director	Male	Apr. 27, 1960			FY2018 AGM
Yuki Hirakawa	Outside Director	Male	Oct. 21, 1960			FY2018 AGM

RISK MANAGEMENT

Shinhan Financial Group has developed basic principles for risk management and established them as the fundamental philosophy that employees must observe in the performance of their duties, and as the basic principles by which its business units must manage their diverse risks. The Group has also implemented a unified group-level risk management system based on a semi-matrix organizational model between the holding company and individual subsidiaries.

Shinhan Financial Group Risk Management Tools

Risk management philosophy

Shinhan Financial Group has established a Group-wide risk philosophy and risk management principles as guidelines for its daily risk management practices in front offices, ensuring various risks are taken into consideration in all its business activities.

Comprehensive risk monitoring system

We assess the Group's potential risks and core issues in a timely manner by implementing a comprehensive system for monitoring external economic indicators, the Group's core risk indicators, and the current status of the Group's risk management. We also develop and implement preemptive countermeasures at the group level by analyzing the potential risks that have been identified and their impact by core issue. In particular, we preemptively detect and control unexpected shifts in indicators by operating a risk dashboard that monitors assets, risks and external issues related to the portfolios managed by each subsidiary.

Risk Expert Network (REN)

Shinhan has formed a group-wide network consisting of risk experts who promote a corporate culture of risk management and train risk officers through group-wide training courses and workshops. The Group has established a solid risk management culture and fostered expert personnel by encouraging them to attend risk management training courses and workshops.

Group-wide corporate credit assessment system

All of the Group's subsidiaries are able to apply an identical credit assessment (rating) to identical borrowers by operating a unified business credit rating system at the group level. We have also enhanced the quality of the Group's credit portfolio as we are now able to manage credit risks preemptively using the group level credit rating system, which was approved by the Korea Financial Supervisory Service according to the Advanced Internal Ratings-Based (AIRB) Approach at the end of 2016.

Group-wide liquidity risk management system

Shinhan Financial Group carries out preemptive crisis management by deploying a systematic crisis management system at the group level - from the detection of crisis indicators to the determination of crisis stages and the application of countermeasures. Since 2017, it has operated a group-level liquidity risk management system for preemptive and efficient managerial decision-making about and emergency responses to external impacts by monitoring its subsidiaries' liquidity risk management in real time.

Risk management organization

The Group's risk management organization consists of the Group Risk Management Committee, Group Risk Management Council, Group Chief Risk Officer (Group CRO), Group Risk Management Teams, and other risk management-related committees as well as dedicated organizations within individual subsidiaries.

Group Risk Management Committee

The Group Risk Management Committee, the Group's highest decision-making organ, composed of external directors of the holding company board, develops basic policies and strategies concerning the group's risk management and decides on the following matters:

- (1) Development of basic risk management policies that are consistent with management strategies
- (2) Determination of the risk limits for the Group and each subsidiary
- (3) Approval of appropriate limits on investment and permitted losses
- (4) Enactment and amendment of risk management regulations
- (5) Decision-making concerning FSS approval according to internal rating-based approaches to the credit evaluation system
- (6) Determination of other matters as and when deemed necessary by the BOD

Group Risk Management Council

The Group Risk Management Council is a decision-making body that reviews the risk-related policies and strategies of the Group

and its subsidiaries and adopts resolutions on matters pertaining to the implementation of policies determined by the Group Risk Management Committee. It is composed of the Group's risk management officers and those of key subsidiaries. It reviews the following matters

- (1) Setting of risk appetites for the group and its subsidiaries
- (2) Determination and adjustment of risk limits for the group and its subsidiaries
- (3) Matters concerning the operation of risk measurement systems by the group and its subsidiaries
- (4) Matters requiring joint consultation on risk management at the group level
- (5) Risk management of financial assistance to subsidiaries

Group Chief Risk Officer

The Group Chief Risk Officer (CRO) assists the Group Risk Management Committee and implements the risk-related policies and strategies decided on by the Committee and ensures that they are implemented consistently by all of the Group's companies. The CROs are vested with a certain degree of authority to conduct performance assessments while inspecting the risk management practices implemented by individual subsidiary companies.

2017 Key Performances

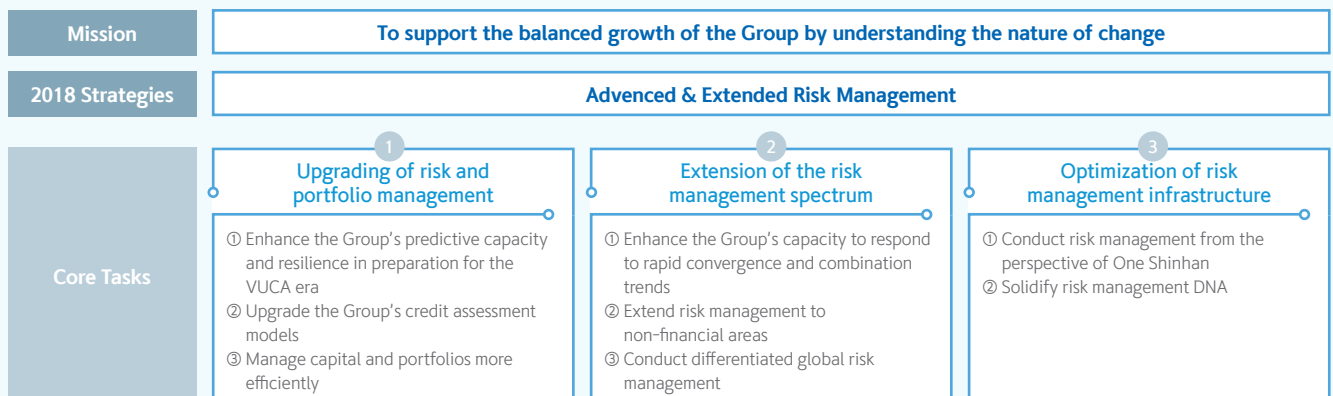
In 2017, we prepared preemptive responses in view of the heightened tensions between North Korea and the US, the possibility of a dispute with China over the deployment of the THAAD system, and the end of quantitative easing in the US. We also developed risk management directions and portfolio

strategies based on the Group's 2020 SMART Project, and prepared risk management operational systems for our overseas subsidiaries while aggressively responding to changes in regulations and amendments to accounting systems. In addition, we applied the group-wide corporate credit assessment system more extensively and prepared risk management programs with the aim of enhancing our competitiveness in the capital market. Lastly, we have managed liquidity risks preemptively by deploying the first group-level liquidity management system among Korea's financial groups.

2018 Business Plans

In 2018, Shinhan Financial Group adopted 'Advanced and Extended Risk Management' as its strategic direction for the new era of VUCA (Volatility, Uncertainty, Complexity, Ambiguity), in which it is hard to predict the future due to the projected full-scale rise in interest rates, changes in the regulatory environment, changes in customer needs and on/off-line channels, and the extension of competition beyond the boundaries of the financial service industry. We plan to enhance our core capabilities based on the know-how we have accumulated thus far by reinforcing our resilience and capacity to predict crises, upgrading our credit assessment models by using big data, and establishing our future capital and portfolio directions by using risk and performance indicators. In addition, we plan to enhance our ability to respond to the trend of rapid convergence and integration, non-financial risk management, including the management of environmental and social risks, and to expand the risk management spectrum by differentiating our global risk management systems. We will also optimize our risk management infrastructure from the perspective of 'One Shinhan.'

Shinhan Financial Group's Risk Management Plan in 2018



SUSTAINABILITY MANAGEMENT

Shinhan Financial Group, as a leader of the Korean financial service industry based on the unwavering trust of its customers, shareholders and local communities, strives to have a positive effect on the whole of society as well as its customers in accordance with its mission of 'Compassionate Finance, Your Companion for the Future.' It has laid solid foundations for sustainable growth by practicing 'Compassionate Finance' and actively accommodating the requirements of its stakeholders while resolving the issues of the constituents of local communities and the wider global community, to attain SFG's mid-term goal of becoming 'Asia's leading financial service group.'

Strategies for Creating Shared Values

Shinhan Financial Group has developed its 2020 CSR Strategy in order to contribute to the mid/long-term value enhancement of its customers, communities and shareholders by proactively addressing changes in the environment in its pursuit of sustainable management. It presents six core strategies for its products, services and overall management based on three goals: Responsible Growth, Social Partnerships, and Investment in the Future. In order to implement these core strategies successfully, it has set up annual targets for ten important indicators which are reflected in its assessment of the performance of the CEOs of the group companies. Their implementation progress is also monitored on an annual basis.

2017 Key Performances

Solutions for customer values

Shinhan Financial Group, pursuing customer-centric core values, provides higher margin products and services to ultimately improve customer values. In 2017, Shinhan Bank achieved an customers' rate of return in excess of the benchmark, i.e. funds by 13.6% and trusts by 3.2%. Shinhan Investment Corp. also achieved yield rates of 19.9% for equity investment and 4.1% for investment in financial instruments. Shinhan Bank plans to steadily expand its range of customer-oriented services while systematically managing its mid/long-term yield rates by providing diverse products from the perspective of its customers.

SFG 2020 CSR Strategy

9 CSR strategy adopted in 2014



2020 CSR strategy



It also conducts monthly customer satisfaction surveys on its online and offline channel services in order to provide differentiated exclusive financial services. It also operates SCALE (Service Capability Level) management indicators to assess the service capabilities of individual employees while intensively improving poorly-performing factors through an analysis of trends. As a result of these continuous customer-centric management efforts, Shinhan Bank was ranked No. 1 by an outside agency in its assessment of all five categories of customer satisfaction in 2017, thereby maintaining its position as Korea's No. 1 bank as recognized by its customers.

Formation of social partnerships

Shinhan Bank has contributed to reducing the debts of lower-income customers by providing them with New Hope Spore Loans, Stepping Stone Loans, and the 911 Debt Restructuring Program. It also provides them with opportunities to save a decent-sized sum by offering New Hope Savings to persons belonging to the socially alienated classes, including those who depend on basic livelihood assistance, the physically disabled, multi-culture families in need, and those who have fully repaid such privileged loans for lower-income earners. Its main achievements in this area have been recognized externally, including the receipt of the Best Financial Institution Award by Financial Supervisory Service for five consecutive years (2013 to 2017) for the first time among Korean banks.

Shinhan Bank has also led the industry in the field of small and medium-sized enterprise (SME) loans. By the end of 2017, it had provided loans worth a total of KRW 1.2 trillion through its relational financial services, which provide funds to businesses on the basis of their technological capabilities and business prospects even if they have a low credit standing or insufficient collateral. In addition, it plays a leading role in promoting relational financial services by providing SMEs with consulting

services related to accounting, tax and family business inheritance. (Shinhan Bank provided its consulting services to 361 small and medium-sized enterprises in 2017.)

It also provides emergency-aid financial support to SMEs and low-income families who are affected by disasters, including earthquakes, typhoons, and fire. Shinhan Financial Group defers the payment of insurance premiums and the repayment of loan principal and interest by providing emergency financial assistance or by extending loan maturity in order to help disaster-stricken SMEs reduce their financial costs and acquire financial liquidity.

Investment in the future

Shinhan Financial Group has actively participated in local community development projects while leading the affirmative transformation of the whole of Korean society by providing environmentally-friendly loans in tandem with its Socially Responsible Investment, which takes into consideration Environmental, Social and Governance (ESG). As investments in businesses or assets that are faithful to ESG in the long run have recorded better achievements, Shinhan-BNP Asset Management actively analyzes and reflects ESG factors in the businesses in which it invests by operating the SRI fund portfolio. In December 2017, it also laid the foundation for strengthening its responsible investments by introducing stewardship codes, guidelines on exercising its voting rights as an institutional investor. Meanwhile, the company has supported diverse new and renewable energy such as wind, bioenergy, photo-voltaic and fuel batteries by diverse means including the provision of loans for their construction, project financing, and fund-based equity investment amid rising concerns about the depletion of fossil fuels and environmental pollution across the world.

2017 Awards & Recognition

Organization	2017 Achievements
Robeco SAM	Listed in the Dow Jones Sustainability Indices (DJSI) for five consecutive years, listed in the DJSI Asia Pacific, Korea for nine consecutive years.
CDP (Carbon Disclosure Project)	Selected as a member of the CDP Honors Club for four consecutive years.
Korea Corporate Governance Service	Awarded the 'S' grade in the governance sector for the first time among publicly listed companies.
Corporate Knights	Selected as one of the 'Global 100 Most Sustainable Corporations in the World' for six consecutive years.

ETHICAL MANAGEMENT

Shinhan Financial Group is developing into a global financial group that is trusted by the general public as well as its stakeholders, including its customers and shareholders, and is further enhancing customer trust by promoting transparent ethical management. Shinhan Financial Group has been steadily upgrading its ethical management practices by improving the diverse monitoring activities of its programs and ensuring compliance with business ethics and statutes, as well as ensuring that all of its executives and employees can actively participate in ethical management with the ultimate aim of growing into a highly ethical enterprise.

Stringent Ethical Standards and Principles

Shinhan Financial Group has enacted and enforced the 'Shinhan Financial Group Code of Ethics' and the 'Employee Code of Conduct' in order to strengthen the ethical mindset of its executives and employees and embed ethical business ideals into its corporate culture. In addition, it has strived to further strengthen the ethical mindset of its executives and employees by carrying out group-wide online training programs on ethics and compliance as well as internal training programs appropriate for each employee's respective duties.

Reinforcement of the Internal Control System

Each Shinhan Financial Group company has appointed compliance officers and supported their proper execution of internal control activities, while the Group's compliance officer supervises its internal control processes. The Group's compliance officer periodically receives reports on compliance monitoring and internal trading from the compliance officers of the group companies in order to manage and supervise their performance of internal control activities. The group compliance officer also conducts theme-based inspections of group companies and their performance of internal control activities.

In line with the enactment of the Act on Corporate Governance of Financial Companies in August 2016, the group companies have reflected the key details related to internal control (whistleblower system, an ordered leave system, separation of duties for high-risk clerical employees, establishment of processes for developing and selling new products, and internal inspection by branches, etc.) in their internal control policies and compliance monitoring regulations so as to promptly respond to the newly enhanced statutes on financial supervision and to ensure implementation of the group's internal control system consistently and effectively. Furthermore, each of the group companies has constituted an internal control committee headed by its CEO as provided under the Act on Corporate Governance of Financial Companies. These

committees also conduct an annual inspection of the internal control system and its implementation during the preceding year and report the outcome to their Board of Directors.

Programs for ethical management

Shinhan Bank has designated the second week of each month as the Week for Anti-Bribery and Corruption (ABC) Training for the compliance representatives in each department in order to provide education and training on financial regulation statutes and the prevention of money laundering and other acts of corruption by circulating a compliance letter, which presents relevant case studies of ethical compliance. It has also become necessary to enhance the ethical mindset of group executives and employees serving at its overseas units given that the Group's member companies have now advanced into global markets. The Group has enhanced ethical compliance training for locally-hired foreign employees while circulating English version pop-up messages on the Group's ethical compliance code to its overseas subsidiaries and branches in the US, Japan, and Vietnam, as well as other locations.

Shinhan Card has implemented ethical management guidelines on an ongoing basis, including the mandatory signing by all executives and employees of a sworn statement on ethical performance, self-diagnosis of compliance with the statutes by all of its executives and employees, and internal inspections by all departments. It has also conducted ethical compliance training for its executives and employees on a continuous basis, including training aimed at upgrading the capabilities of compliance officers, re-fresher courses on compliance with a focus on relevant statutes for executives and employees, and enhanced training aimed at reducing the number of incomplete sales.

Shinhan Investment has enhanced the ethical compliance mindset of its executives and employees by conducting training programs on changes in financial service-related statutes and institutions, key compliance monitoring services, and the

prevention of fraud. Shinhan Life Insurance posts a monthly Law Letter covering ethical management issues on its internal portal in order to share the latest information with its executives and employees as well as sales personnel. Meanwhile, Shinhan BNP Paribas Asset Management has strengthened its regulation over sales activities by examining the details concerning the trading of its financial products, the particulars of improper transactions, and exchange of financial benefits by all of its executives and employees.

Whistleblower system

Shinhan Financial Group has made efforts to ensure the efficient operation of its internal control programs to prevent unethical acts through advance inspections and countermeasures by promoting a whistleblower system.

Shinhan Bank has established the 'Shinhan Guardian' program, a whistleblower system in which not only its executives and employees but also the personnel of its partner companies and customers can participate. Shinhan Bank offers a diverse range of whistleblowing channels including e-mail, fax, postal mail and enables whistleblowers to report infractions via its website. It has made the due protection of whistleblowers a clear priority by enacting its 'Guidelines for Shinhan Guardians.' Its website also clearly indicates that the company will protect the identity and position of whistleblowers.

Shinhan Card publicly notifies its executives and employees of the whistleblower system and has enhanced their access to the reporting system by creating an intuitive intranet popup message. The company has also set up institutional services such as anonymous reporting functions to ensure that the whistleblower system is implemented efficiently and actively protects whistleblowers from any improper or disadvantageous treatment.

Shinhan Investment operates a whistleblower system that enables its executives and employees to directly report violations to the executive auditors through the corporate intranet, offline meetings, phone or e-mail. It also publicly notifies all of its executives and employees of its whistleblower system each quarter, while enhancing their access to the reporting system with intuitive intranet banners.

Shinhan Life Insurance has also endeavored to promote its whistleblower system by expanding access to the 'Sinmungo,' an online bulletin board on its website to include external

stakeholders, including the executives and employees of its alliance partners.

Enhanced programs to prevent market abuse

To prevent market abuse, Shinhan Financial Group has strengthened relevant education programs and monitoring by each of its member companies in order to ensure that they fully understand its content and do not violate the Financial Investment Services and Capital Markets Act. In 2017, it bolstered education programs related to the prevention of market abuse for all executives and employees of group companies with training materials common to all Group companies.

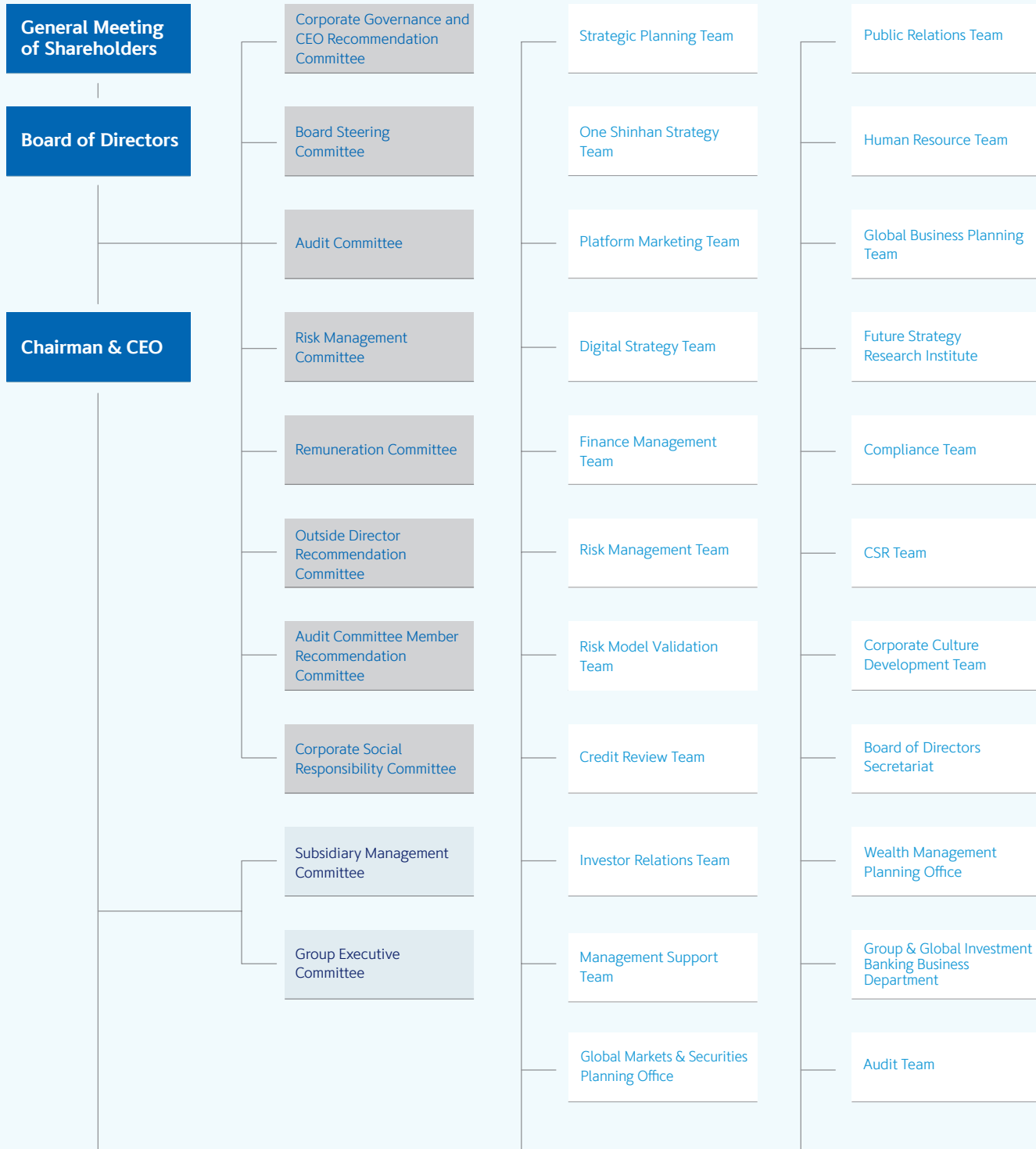
Shinhan Bank inspected the 'Declaration of financial investment accounts and declaration of trading particulars' in order to prevent the unauthorized use of confidential information and unfair trading activities. It also provided additional training for the personnel of departments that are likely to have access to confidential information.

Shinhan Card has made concerted efforts to prevent violations of the relevant statutes by educating its executives and employees on its 'Prohibition on the use of nonpublic material information.' It also examines possible unfair transactions through periodic monitoring.

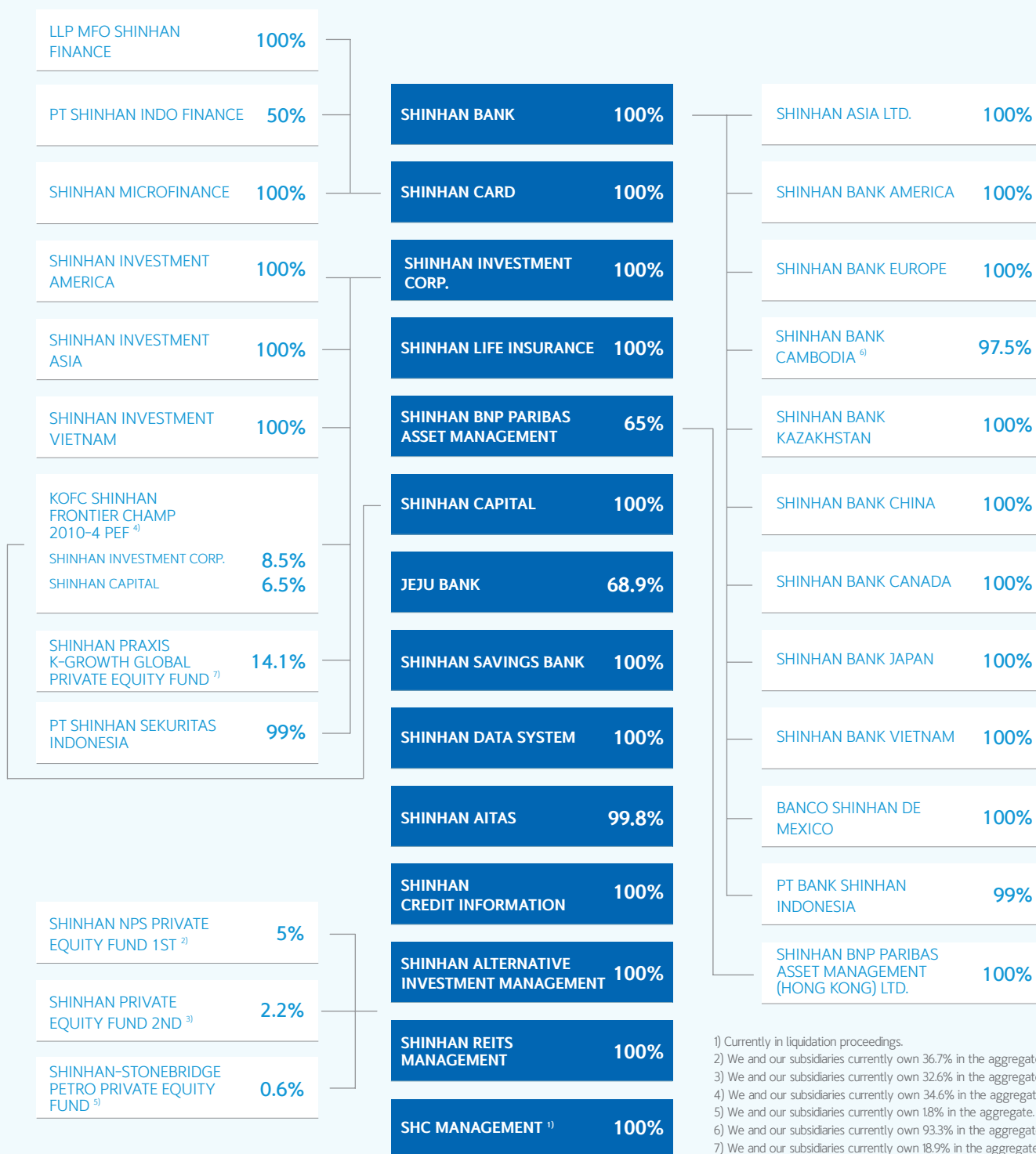
Shinhan Investment has made preemptive efforts to prevent acts of market abuse by providing periodic education programs on the 'Regulations on Market Abuse' that it enacted to that end. It has endeavored to prevent unfair transactions by examining and sharing case studies of unfair transactions through the 'Meeting for the promotion of and effective communication regarding the reporting of unfair trading practices' hosted by the Capital Markets Investigation Department of the Financial Supervisory Service.

Shinhan Life Insurance prevents unfair transactions by holding meetings, examining the details of communications, and verifying exchanges of information between its operational departments in order to prevent conflicts of interest between its special account department, which is responsible for managing customers' assets, and other departments that manage the company's own assets. In addition, it prevents insider trading by its executives and employees who have access to confidential information through its scheme for the 'Declaration of accounts opened for financial investment products and proprietary trading.'

ORGANIZATION



BUSINESS PORTFOLIO



1) Currently in liquidation proceedings.
 2) We and our subsidiaries currently own 36.7% in the aggregate.
 3) We and our subsidiaries currently own 32.6% in the aggregate.
 4) We and our subsidiaries currently own 34.6% in the aggregate.
 5) We and our subsidiaries currently own 18% in the aggregate.
 6) We and our subsidiaries currently own 93.3% in the aggregate.
 7) We and our subsidiaries currently own 18.9% in the aggregate.



Review of Operations

Shinhan Financial Group has constructed a balanced business portfolio through organic growth, business expansions and a series of successful mergers and acquisitions. We also made consistent efforts to enhance preemptive risk management framework, an advanced internal operating system, and business models. To continue on the path of growth, Shinhan announced '2020 SMART Project' to achieve its aspiration, a leading global financial group. Going forward, Shinhan will endeavor to employ various initiatives to raise the Group's competitiveness and bringing priceless value to our customers will always be at the very center of our initiatives.

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ONE SHINHAN

Shinhan plans to provide differentiated customer experiences through advanced One Shinhan platforms.

SFG's Synergy Strategy

Shinhan Financial Group's synergy strategy is focused on providing customers with differentiated value by creating synergy through creative convergence of the capabilities of Group's subsidiaries while removing barriers between business lines within the Group. In particular, Shinhan Financial Group has created an efficient, balanced business portfolio covering its credit card, securities, insurance and asset management lines with its banking service in the center.

Based on balanced business portfolio, SFG develops diverse products and services in order to provide integrated financial solutions that satisfy customer needs, thereby generating synergistic performance unrivalled by its competitors.

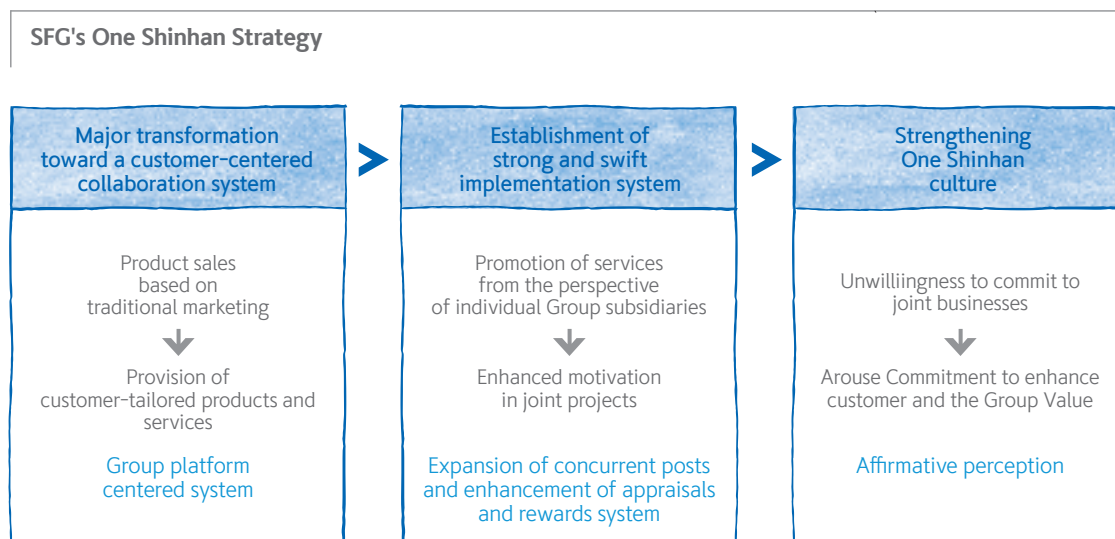
The synergy strategy of Shinhan Financial Group may be categorized by phases into the

- (1) quantitative growth phase
- (2) qualitative growth phase
- (3) advanced collaboration system phase

The quantitative growth phase (up to 2011) focused on the development of combined products through cross-division sales and joint group marketing, including those for funds, bancassurance, and payment accounts. The qualitative growth phase (from 2012 to 2015) focused on the exploration of synergy in service areas other than those for funds, bancassurance, and payment accounts by reforming the WM and CIB matrix organizations. In the advanced collaboration system phase (from 2016 to the present), Shinhan has promoted the Shinhan FAN Club and other joint group platforms and upgraded the collaboration systems among Group subsidiaries.

SFG's Synergy Strategy





Shinhan Financial Group has promoted the One Shinhan strategy with the aim of deploying a rapid and effective implementation structure at the group level while continuing to pursue differentiated growth by promoting collaboration between Group subsidiaries. The One Shinhan strategy is designed to provide the best products and services at the group level from the perspective of the customer rather than that of the company. We plan to offer products and services provided by all Group subsidiaries consistently and effectively through their respective channels by sharing the entire group's resources as if the Group was a single company from the perspective of our customers.

The key tasks to be promoted under the Group's One Shinhan strategy include as follows;

- (1) differentiation of platforms and content
- (2) improvement of way of work at the group level
- (3) promotion of One Shinhan as a group brand

First, the differentiation of platforms and content is designed to provide comprehensive solutions that meet customer's needs rather than a mere collection of products and services at one point. Second, the improvement of way of work consists of upgrading and extending the matrix system so that consistency can be maintained, and speed can be enhanced from the development of strategies for their implementation. Lastly, the promotion of One Shinhan as a group brand is intended to make One Shinhan a representative brand of Shinhan Financial Group.

2017 Key Performances

In 2017, Shinhan Financial Group focused its efforts on the implementation of three core tasks under the One Shinhan strategy in order to provide customer-centered services as a single company and to realize the targets of its 2020 SMART Project.

First, group-wide integrated marketing based on platforms

We actively implemented group-wide integrated marketing based on the Shinhan FAN Club, an integrated group-wide reward platform. The Shinhan FAN Club platform was upgraded for the second time to enhance customer convenience by reforming the UI/UX while deploying a marketing support system for Group subsidiaries. As a result, we were able to secure a solid foundation for integrated marketing at the group level, as the cumulative number of Shinhan FAN Club members exceeded 7,340,000. In addition, we explored and implemented group-wide joint marketing projects, including the deployment of a group-wide alliance to establish an information management system, joint marketing to the officers and employees of partner companies, and stronger external alliances based on collaboration between subsidiaries.

Second, enhancement of fundamental competitiveness via the customer-centered group-wide joint platforms

We actively promoted group-wide omni-channel strategies to enable customers to easily access the on/off-line channels of Shinhan Financial Group. Retail customers are now able to look up financial information related to their bank, credit card, securities and insurance accounts via a one-time login using Shinhan Financial Group's integrated mobile platform 'Exciting Bout.' In addition, products and services optimized for customer preferences are recommended by a big data-based recommendation process on the mobile 'Exciting Bout' platform. For corporate customers, all corporate financial products and services from Shinhan Financial Group are effectively provided to corporate customers through the newly developed One Shinhan corporate financial solution system 'So-live.'

Third, constitution of the One Shinhan Committee and improvement of collaboration systems

The One Shinhan Committee, which is composed of the officers responsible for synergy strategy between the holding and group subsidiaries, was formed to provide timely support for the exploration and promotion of joint projects inside the Group. In this way, we have supported the advancement of joint service systems, including the deployment of group-wide credit loan platforms, and promoted the spread of the One Shinhan attitude throughout the Group by uniformly renaming all of the departments related to synergy into 'One Shinhan' in respective Group subsidiaries. In addition, we have further strengthened our collaborative systems so that the Group's joint projects can be implemented rapidly through diverse working-level consultative bodies that ensure collaboration between the Group's subsidiaries.

2018 Business Plans

In 2018, Shinhan Financial Group plans to provide differentiated customer experiences through advanced group-level platforms, channels, products, and marketing activities and to focus on the promotion of the following three tasks in order to further enhance the Group's operational systems to ensure quick and powerful implementation of the One Shinhan strategy.

Shinhan FAN Club Members

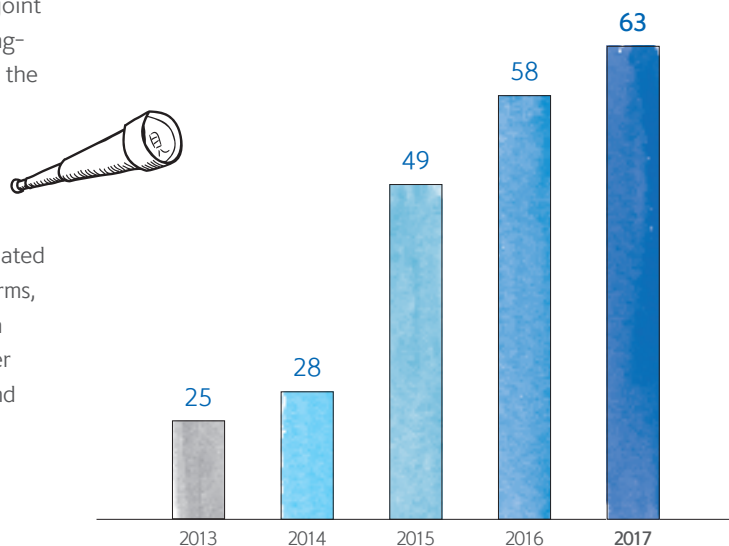
(Dec. 31, 2017)

7.3 Persons in million

First, upgrading of group platforms and channels

We plan to upgrade the One Shinhan marketing platforms and strengthen collaboration within the Group while extending its hybrid branches. To that end, we plan to upgrade the Group's on- and off-line channels in order to systematically connect the products and services of all Group subsidiaries. We are also working to enhance the efficiency of our digital channels by uniting Shinhan FAN Club and Exciting Bout, to expand our off-line channels by increasing the number of hybrid branches offering our banking and securities services, and to convert all 65 retail branches of Shinhan Investment Corp. into hybrid branches by 2020. In so doing, we expect to enhance the overall market competitiveness of the WM division.

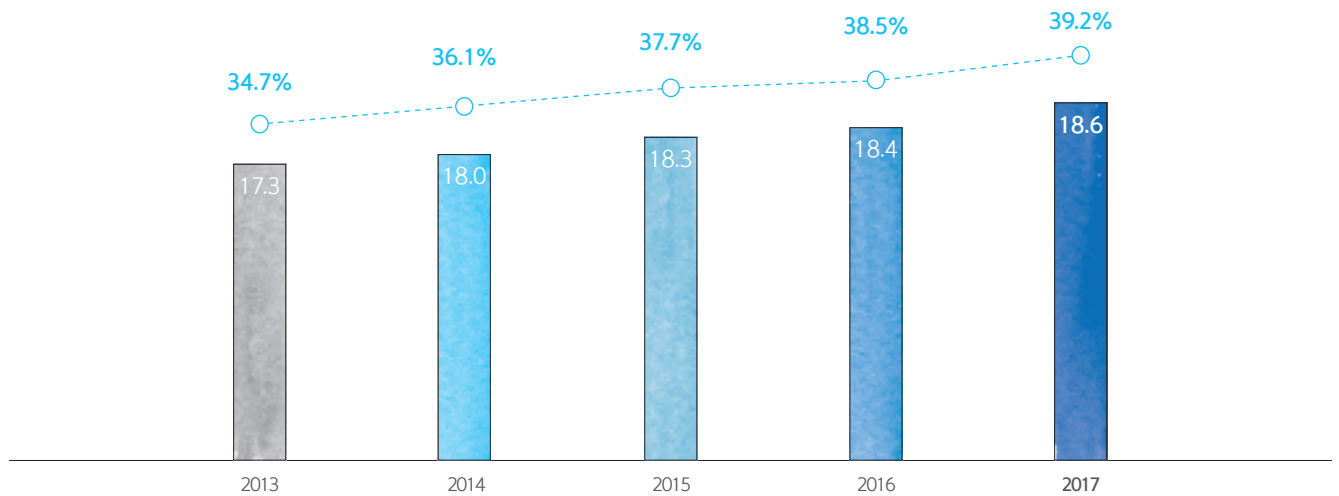
Number of Hybrid Branches



Number of Active Customers & Cross-selling Ratio

(Unit: Persons in million)

■ Number of Customers ○ Proportion of Transactions



Second, strengthening of operational systems to the one firm level

To strengthen the Group's operational systems to the One Firm level, we plan to expand shared services at the group level while upgrading the collaborative processes between Group subsidiaries. We will also upgrade the Group's operational systems by improving the systems for assessing and rewarding Group subsidiaries while speeding up the decision-making process within the Group. In addition, we plan to provide better quality products and services to customers who use Shinhan Financial Group through a consistent group-wide operational system.

Third, enhancing promotional initiatives by using representative brands

We aim to maximize the effect of promotional initiatives while raising customer awareness and brand recognition by using brands that can represent Shinhan Financial Group whenever the Group's joint services are promoted. In addition, we plan to aggressively assist the expansion of alliances between subsidiaries and external partners by upgrading the information system utilized by the partners.

We plan to integrate the Group's resources and capabilities into a single unit in all of its value chain areas so that it can explore and implement diverse new and joint projects. We will work to steadily promote new reforms so that we can create differentiated value at the level of the entire group rather than that of individual Group subsidiaries.



DIGITAL BANKING

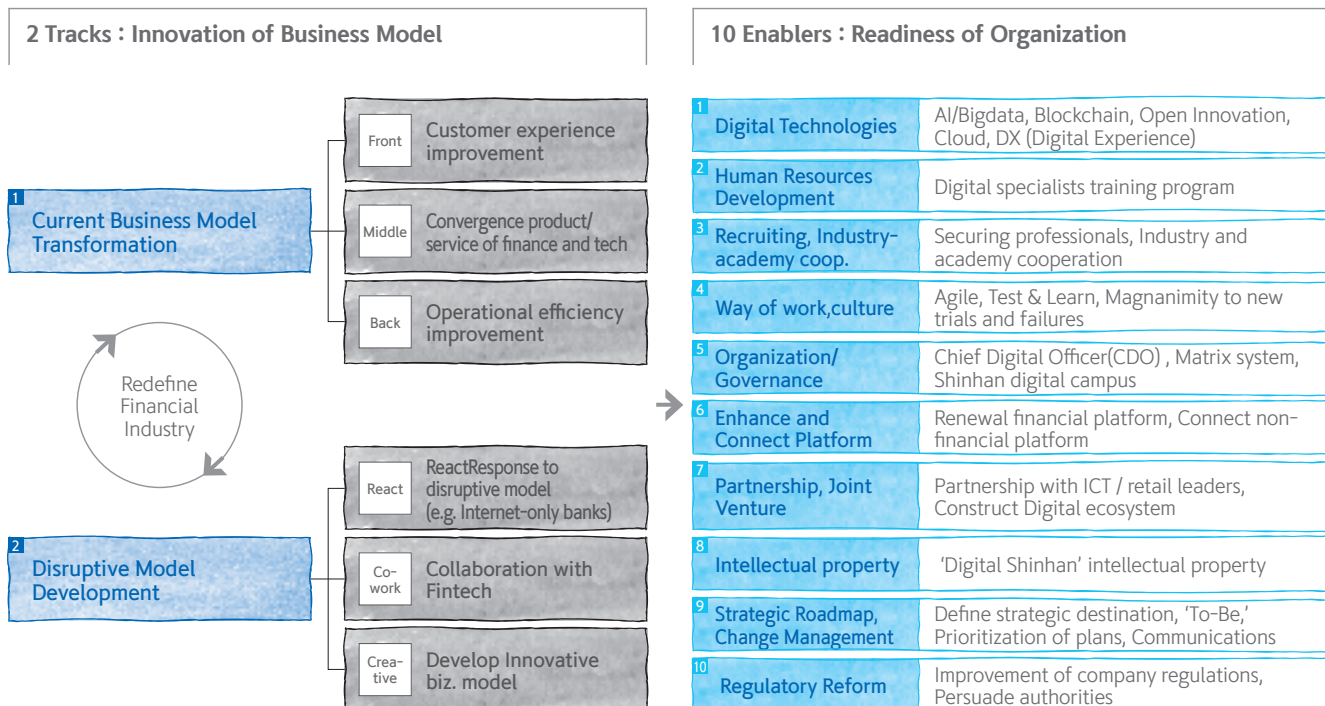
Shinhan plans to accomplish its Digital Transformation successfully with the '2 Tracks & 10 Enablers' Strategy.

SFG's Digital Transformation Strategy

2017 was the year in which Shinhan Financial Group prepared the necessary infrastructure for its imminent digital transformation. The Group introduced a strategic framework for its digital transformation with the aim of becoming Asia's leading digital company that fosters differentiated human talents as well as high levels of job satisfaction and attracts and maintains long-term relationships with customers who remain highly enthusiastic about Shinhan. The Shinhan Strategic Framework for Digital Transformation is represented by the '2 Tracks & 10 Enablers' Strategy. The first track of the strategy is the transformation of the existing business model with the fundamental goal of improving the customer

experience and operational efficiency. The second track consists of accommodating and promoting cooperation with newly emerging innovative fin-tech models while responding to new business models such as Internet-only banks by addressing and establishing new, disruptive innovative models. The 10 Enablers present frameworks for sustainable digital transformation and enhanced operational capabilities, including the required technologies, talent development, governance and innovation in the way of work.

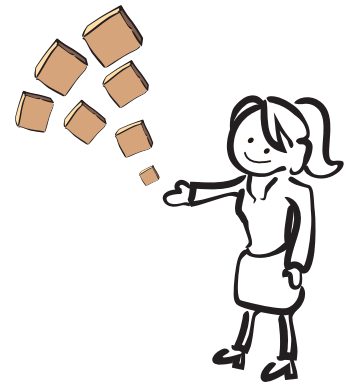
'2 Tracks & 10 Enablers' Strategy



2017 Key Performances

First, introduction of CDO and CoE systems

In 2017, Shinhan Financial Group appointed a Chief Digital Officer (CDO) to all Group subsidiaries in order to accelerate the speed of decision making, while uniting the Group's digital capabilities by reorganizing the digital organizations under the CDOs. In addition, Shinhan Financial Group launched the Center of Excellence (CoE), which is composed of approximately seventy Group experts from individual Group subsidiaries in fields of technology that are regarded to be core technologies for future digital financial services, including AI, Blockchain, Open Innovation, Cloud, and the DX (Digital Experience) Lab. The CoE develops group-level digital business models while sharing technological competencies with Group subsidiaries. Furthermore, the CoE lab carries out preemptive research through projects in partnership with academia while promoting exchanges with experts in the related academic fields.



Second, SHINHAN FUTURE'S LAB

Launched in 2015, SHINHAN FUTURE'S LAB achieved the most remarkable successes in the financial service industry by cooperating with fin-tech start-ups. As 21 start-up businesses were selected for the fourth SHINHAN FUTURE'S LAB starting in January 2018, a total of 61 businesses are now cooperating with SHINHAN FUTURE'S LAB, and the market value of these companies is evaluated to be more than KRW 300 billion. The Group also invested KRW 6.3 billion to support the growth of the fin-tech businesses while increasing cooperation with start-up business support and incubating agencies/programs, thus enabling them to receive additional support in diverse areas. It has also supported Korean start-ups seeking to enter the

Vietnamese market and expanded cooperation with five Vietnamese start-ups by opening the SHINHAN FUTURE'S LAB VIETNAM in Ho Chi Min City in 2016 – a first among Korean companies. In 2017, Shinhan Financial Group signed an MOU with Saigon Innovation (SI) Hub, Vietnam's largest start-up support agency, in a bid to forge a solid partnership between Korea and Vietnam with the aim of extending the Korean fin-tech ecosystem to the global market.

Third, establishment of ecosystem through alliance

In 2017, Shinhan Financial Group established a digital ecosystem around the group by steadily expanding digital partnerships with the ICT, retail and other convergence industries, including Amazon Web Services (AWS). We have also signed a strategic partnership for cooperation with PayPal to explore future business opportunities in the Asian payment service market. We are currently striving to explore new business models by pioneering new IoT-based payment channels with LG Electronics, and have strengthened cooperation with Mizuho Financial Group of Japan in the form of joint investments and the development of new business models.

In addition, we plan to steadily strengthen support for start-up support businesses, including an equity investment and mentoring service, while expanding our non-fin-tech expanding networks beyond fintech to secure growing markets and businesses with promising technologies through a strategic partnership with Seoul National University's Techno Holdings, Inc.



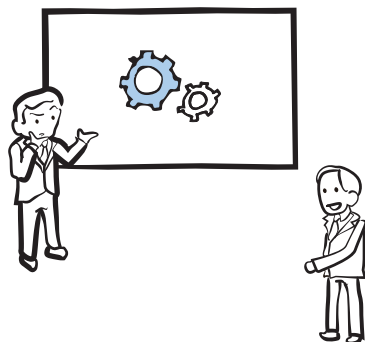
Signing of MOU between Shinhan Financial Group and Amazon Web Services
(Jun. 28, 2017)

Fourth, providing innovative and convenient digital channels

In 2017, Shinhan Financial Group continued to provide innovative and convenient services and products to its customers. The number of customers who use Shinhan Financial Group's mobile banking services has steadily increased to approximately 13 million, while Shinhan FAN Pay, an application card service of Shinhan Card, has attracted about 9.3 million customers, the largest figure among domestic card companies, leading the mobile easy payment service market. Furthermore, Shinhan Financial Group has enhanced customer convenience by installing paperless digital counters at all of its branches, as well as introducing them within its global network. Meanwhile, we have steadily enhancing online UX/UI to provide customers with experiences superior to its offline services.

Fifth, development of new products and services

Shinhan Financial Group provides its customers with greater value by developing products and services that incorporate new digital technologies. Shinhan Bank provides personal advisory services to individual customers through 7,000 digital counters, including financial product recommendations based on bigdata. Shinhan Card has garnered highly favorable responses by providing discount coupons based on customer location through the adoption of Geofencing technology. Not only that, Shinhan Bank has joined hands with LG U+ and GS Caltex and established an online mobile payment platform using automobiles. Meanwhile, Shinhan Life has launched Internet-based health insurance products in collaboration with providers of blood glucose management services.



Digital Transformation Strategy

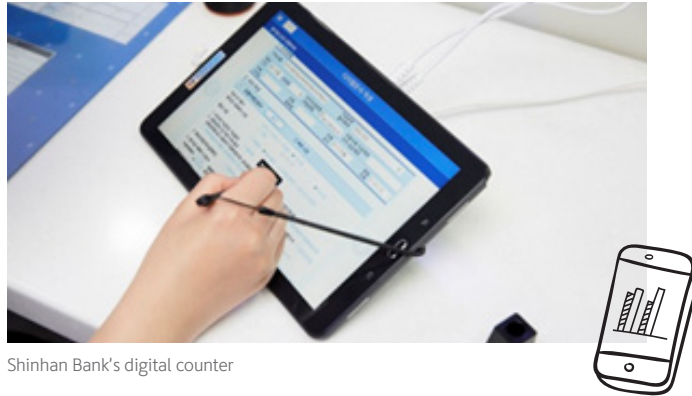
2 Tracks & 10 Enablers

2018 Business Plans

First, acceleration of digital transformation strategy

In 2018, Shinhan Financial Group will accelerate the implementation of its Digital Transformation Strategies while promoting its 2 Tracks & 10 Enablers strategies with a focus on its customers. To bring about the transformation of its existing business models, we plan to upgrade RPA (Robotic Process Automation), and other new digital technologies in order to enhance the operational efficiency of our financial services, while creating new customer experiences through our digital channels and extending the adoption of new digital technologies including AI to more of our products and services. We also plan to continue developing convergent and combined services in a strategic partnerships with ICT businesses at home and abroad while increasing cooperation with new technology-driven businesses in new markets, as we move into the Fourth Industrial Revolution, in preparation for the emergence of radically disruptive financial services.

To that end, we continue striving to enhance the competitiveness of our ICT infrastructure by utilizing digital technologies. In 2018, we plan to invest KRW 90 billion in the development of new digital technologies and to aggressively promote Digital Transformation by establishing group-level block chain, Open Innovation and big data platforms while enhancing the efficiency of our ICT operations by utilizing cloud computing services. In conjunction with these developments, we plan to upgrade the group's overall compliance system to the global level by strengthening its capacity to respond to new threats in collaboration with external specialists in the information security industry. In terms of global operation, we plan to strengthen overseas digital capabilities by improving the overall global ICT infrastructure and establishing overseas ICT centers.



Shinhan Bank's digital counter

Second, launch of new digital technology

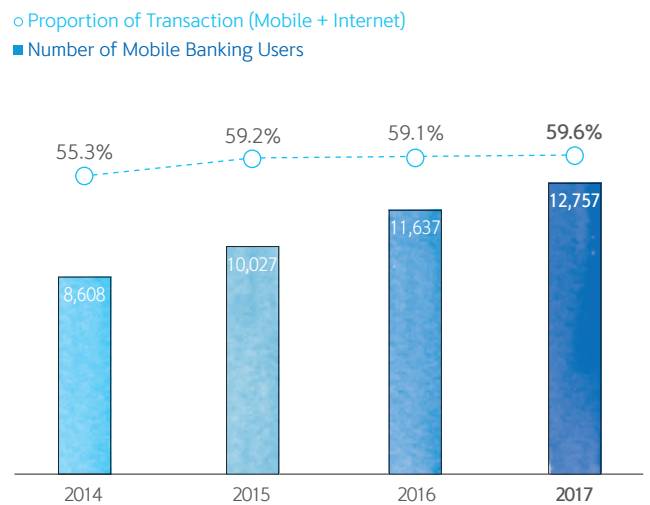
In 2017, Shinhan Financial Group attempted more than 250 Proof of Concept (PoC) tests in connection with the development of digital technologies. We plan to conduct more such tests in 2018 and attempt to develop forecasting and analyzing capabilities with an abundance of data available through the application of AI. Chatbot service, that enables 24/7 (24 hours x 7 days) customer support, will also be launched in 2018. The big data center of each SFG's subsidiary will be connected to the Group's integrated big data center to enable a more comprehensive analysis of diverse views.

A unified shinhan authentication system using blockchain technology is currently under development to enhance user convenience in terms of group-level digital platforms at the One Shinhan level. This will be expanded into an authentication platform for Group's business partners in the future. In addition, we are also playing a leading role in the blockchain service in the financial service industry by participating in R3 and other global consortia and collaborating with foreign financial institutions in various financial sectors where the blockchain technology can be applied, including import/export financing and overseas wire transfers.

We also plan to introduce cloud services more extensively so as to respond to global market trends quickly while improving the operational efficiency of our ICT infrastructure. We have introduced a Public Cloud to web-based banking at Shinhan Bank in America and Shinhan Bank in Japan where regulation is more relaxed, and plan to boost the pace of development by introducing a Private Cloud in Korea, too.

We plan to expand our technical alliances while upgrading our Open Innovation platforms in order to assist the development of innovative models that utilize the financial services of external businesses. We are also committed to enhancing our digital marketing capabilities by customizing to individuals' needs through data driven marketing, while improving the overall customer experience of our digital channels.

Shinhan Bank's Mobile Channel (Unit: Persons in thousand)



Third, transforming 26,000 SFG executives and employees into digital professionals

In 2017, we conducted diverse training courses aimed at enhancing our digital capabilities, including internal training programs, a master's degree course in Korea University Graduate School of Computer & Information Technology, and an in-depth digital course in connection with Amazon. In 2018, in order to foster SFG's 26,000 executives and employees into digital talent, we will endeavor to provide quality training programs that are tailored to various skill levels.. In addition, the Shinhan Digital Forum™ (provisional), which is currently in the planning phase, will allow executives and employees to personally experience AI/IoT AR/VR and other new technologies, the latest technologies from global ICT enterprises, and the innovative models of fin-tech partner businesses.

Fourth, operation of SDII & digital campus

Shinhan Financial Group plans to expand its Center of Excellence, which is staffed by digital experts, into the Shinhan Digital Innovation Institute (SDII) with 140 digital experts. To that end, we have recruited external professionals specializing in diverse digital technologies and opened a new digital campus as a digital technology hub where SDII experts can work in an innovative fashion in an open environment. The newly opened digital campus offers the best possible facilities to help researchers devote themselves to technology development. New way of work will be fully applied as part of innovation, including Agile & DevOps, Lean Startup, and Design Thinking.

Fifth, establishment of SHINHAN FUTURE'S LAB 2.0 strategy

SHINHAN FUTURE'S LAB, which is responsible for collaborating with and fostering fin-tech businesses, plans to broaden its scope as channels to explore new markets and new technologies related to the Fourth Industrial Revolution. To that end, it plans to expand cooperation with various start-up support organizations, venture capital companies, universities and government agencies and to attract more global partners. It also plans to increase investment in collaboration with Group's investment capacity in order to more effectively support the growth of innovative companies.

Sixth, full-scale formation of alliances

In 2018, Shinhan Financial Group will put more efforts into achieving results from the global and domestic partnerships we built. To ensure its Digital Transformation, Shinhan Financial Group has entered into strategic partnerships with industry-leading companies such as Amazon Web Services (AWS) and has developed working-level business models. We plan to expedite such developments in order to commercialize these burgeoning business models. Furthermore, we also plan to attract more strategic partners in the key regions in which SFG is operating, including India and Indonesia.















Seventh, exploration of innovative ideas

Shinhan Financial Group holds diverse idea contests and Shinhan Venture Programs for all of its group companies, through which a total of 1,035 ideas were discovered in 2017. Many diverse ideas are already in the commercialization phase, including (1) credit assessments using big data, (2) quick and easy mobile credit loans to merchant stores, (3) price comparison and curation request platform for interior designs with enhanced customer experiences, and (4) the development of cyber security platform responding to ransomware-like cyber attack. Furthermore, Shinhan Financial Group has also attempted to reflect customer ideas and feedback within its service processes through the 'S20 Digital Marketing Challenge.' In 2018, we plan to launch group-level integrated digital idea platforms to explore cross-domain ideas, encourage participation by all Group employees, and create substantial value with greater focus on venture business development, advancing a step beyond holding idea contests and Shinhan Venture Programs in each group company.

Eighth, transformation of the way of work

Shinhan Financial Group has endeavored to apply new digital way of work that transcends conventional one. Following the application of the Agile methodology to many pilot projects in 2017, the Group plans to create substantial value by applying the Agile & DevOps (Development + Operation), Lean Startup, and Design Thinking methodologies to the way of work of the executives and employees of all Group subsidiaries . To that end, we plan to provide enterprise-wide training as well as integrate SDII.

SHINHAN FUTURE'S LAB Participants

		Participants	Main business			Participants	Main business
2015		Real iDentity	Bio-authentication	2017		Tabogo	O2O
		Brandom	Payment solution			Ninano TV	e-commerce
		Blocko	Blockchain			CrePASS	Credit evaluation
		SmartForecast	Investment advisor			SBCN	Robo-advisor
		Steami	Blockchain			Doomoolmori	Robo-advisor
		Honest Fund	P2P lending			SECOND GROUND	Sports analytics
		Payment	Payment solution			Smallticket	InsurTech
		DNA	Rovo-advisor			Mtcom	Speech recognition
		Roof Funding	Crowd funding			Giip	IT infrastructure solutions
		Boxout Thinkers	O2O			NS Beyond	Authentication
2016		Scalechain	Blockchain		Visual Camp	Virtual reality (VR)	
		AIM Inc.	Rovo-advisor		Who's Good	Big-data	
		Ovro	Virtual reality (VR)		HowtoBiz Lab	Accounting service	
		Uberful	Big-data		Rocket Punch	Business network service	
		Interpay	Security solution		Alliver2017	Big-data	
		K&Company	Big-data		Babyfriends	Infant care service	
		tobecon	O2O		Money Brain	Chat-bot	
		Faya	Micro-investment		Quantec	Robo-advisor	
		Fount	Rovo-advisor		Redvelvet Ventures	InsurTech	
		Powervoice	Bio-authentication		MediBloc	Blockchain	
2017		Finos	Payment solution		Tryus&Company	Big-data	
		Fintech Magic	Payment solution		Enoline	InsurTech	
		Fin2B	Crowd funding		Fingern	InsurTech	
		Infinigru	FDS solution		Zimzom-Air	Tour service	
		Fintech	Credit evaluation		Stealien	Security solution	
		Finda	Online financial marketplace		CTiLab	Security solution	
		Infosonic	Bio-authentication		Bizsystem	Global financial service	
		1000under	Online Used-Car Marketplace		Victoria Production	Virtual reality (VR)	
		Gomi	IOT		Myggum	Manufacturing	
		Siksin	O2O		Eightcups	Manufacturing	
					TMX Korea	Payment service	

GLOBAL BUSINESS

Shinhan Financial Group has been consistently making an effort into the global business not only to secure long-term future growth but to diversify income base, with special emphasis on the Asian market

Shinhan Financial Group has established 178 global networks in 20 countries (as of the end of 2017) by steadily expanding its global business based on the three disciplined strategies – localization, selection and focus, and securing a sound foothold. In recent years, both the number of countries Shinhan Financial Group has entered and the scale of its global business have increased significantly by advancing into emerging markets in Asia based on its experience in global business over the past thirty years. The total assets of the Group's global networks as of 2017 year end increased by 82.9% since 2011, while the income proportion out of total Group net income rose from 3.5% in 2011 to 7.1% in 2017.

2017 Key Performances

Shinhan Financial Group has designated its global business as a key area for promoting its 2020 SMART Project. In 2018, we introduced a group matrix system for our global business operation in order to achieve our global strategic initiative, securing Group's growth engine by establishing strong foundations in the Asian market. Accordingly, we laid the foundations for the optimal resource allocation and solid sales capabilities under a consistent Group-wide global business strategy. In 2017, we selected four key tasks and pushed ahead with them after expanding and reorganizing our global business divisions across Group subsidiaries.

Organic growth

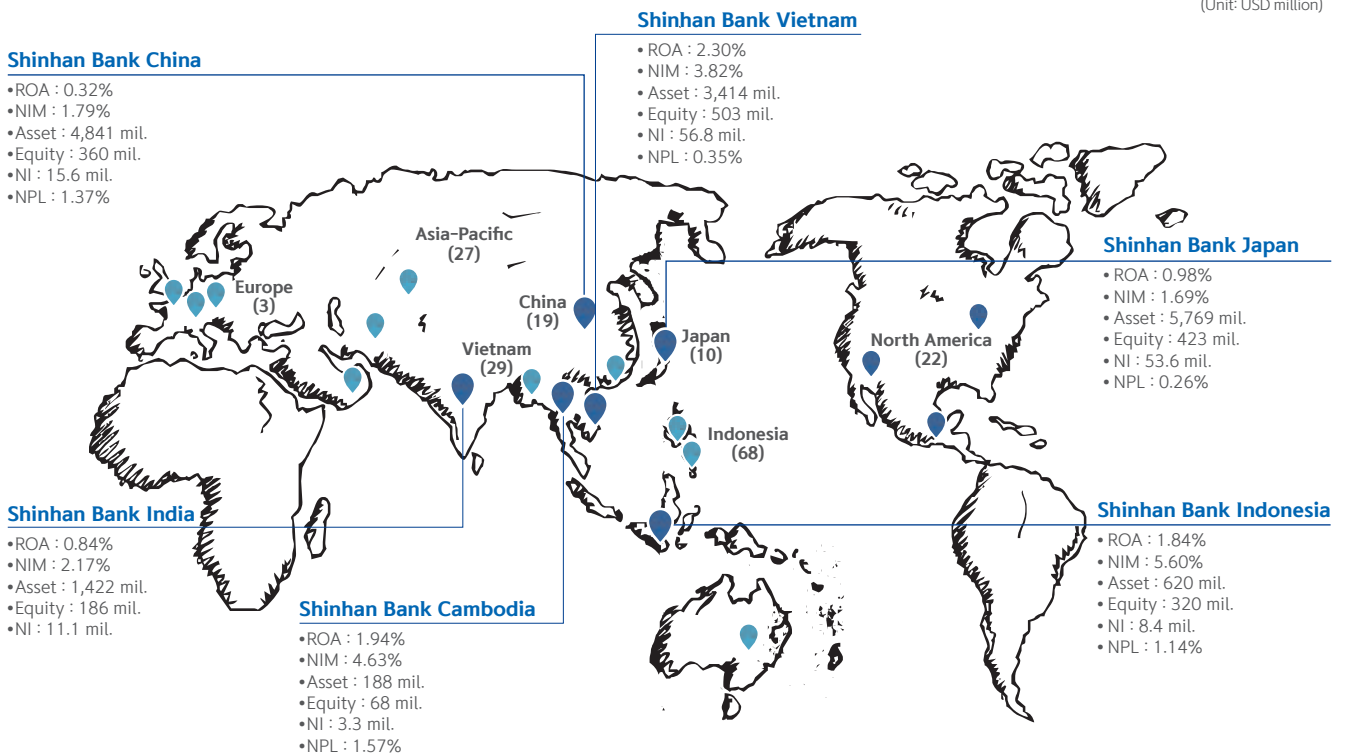
The Group increased the scale of its business by exploring retail markets in key regions (Japan, China, Vietnam, USA, India and Indonesia) through the launch of diverse products after considering the business conditions in each country and improving financial soundness by enhancing risk management efforts. As a result of such efforts, Shinhan successfully operates 178 networks in 20 countries after the expansion of its network in the Asian region. In particular, Shinhan Bank Vietnam actively launched a range of new services, including Global Custody Services, by obtaining a Custodial Service license for the first time among Korean banks. It also diversified its business portfolio by expanding its Global Trading Center, overseas IB deals (Securitization, IPO etc.), and establishing its Global Transaction Banking Business.

Inorganic growth

In 2017, Shinhan stabilized the achievements of its existing Inorganic Growth Strategies while exploring new growth opportunities through M&As. Through organic and inorganic growth, our total global assets (as of 2017 year end) increased to KRW26.6 trillion, representing a rise of 6.8% year-over-year, while our net income from global business increased to KRW 235 million, an increase of 30.8%, thus achieving both quantitative and qualitative growth.

Shinhan became the NO. 1 foreign bank in Vietnam, one of the fastest growing countries in Southeast Asia, by acquiring the retail division of ANZ Bank in Vietnam. In January 2018, Shinhan Card augmented consumer-finance service line, distinguished by its high growth potential and profitability, by acquiring Prudential Vietnam Finance Company (PVFC). In this way, Shinhan has been establishing the foundation for becoming a universal banking group by diversifying its business portfolio in Vietnam. It also expects additional growth through synergy among Group subsidiaries.

SFG's Global Networks



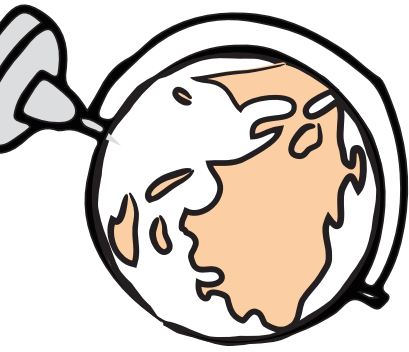
The Group also strengthened its revenue base by successfully uniting two previously acquired banks in Indonesia, namely, PT Bank Metro Express and PT Centratama Nasional Bank, into PT Bank Shinhan Indonesia. 2017 was a significant year as Shinhan was able to secure a global growth engine based on inorganic growth in both its banking and non-banking lines by making steady investments and launching new services in the Asian financial market.

Advance into global markets using digital technologies

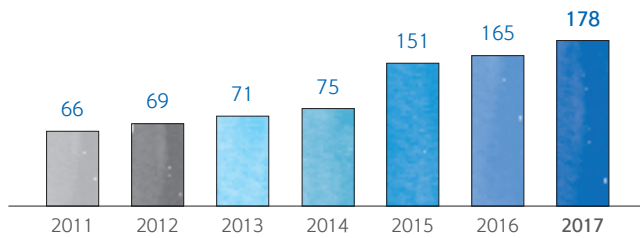
Shinhan expanded its overseas coverage utilizing online channels by continually entering into strategic partnerships with digital platform providers in many different countries. In Japan, we launched the 'LINE Pay currency exchange service' and a range of diverse additional services through a partnership between Shinhan Bank Japan and Line. In Vietnam, we launched 'Shinhan Vietnam Samsung Pay' through a partnership with Visa and Samsung after establishing our 'Sunny Bank,' a digital mobile banking service. In these countries Shinhan increased customer value by utilizing digital technologies for not only simple deposit and loan transactions, but also real-time wire transfer service by upgrading online service platforms.

Creation of global synergy of business models

Shinhan expanded its superior non-banking businesses, while strengthening the business capabilities of the bank in those global markets it has successfully entered and settled in. Shinhan strengthened its non-banking services in foreign markets in which Shinhan Bank already had a presence. It also introduced a 'country head system' in countries which Group subsidiaries have entered jointly as part of Group's global matrix system. Group subsidiaries utilized Shinhan's Shared Biz Platform together when proceeding with regional joint marketing. As country heads orchestrate collaboration among Group subsidiaries in the countries they jointly entered, it also improved efficiency in the use of resources through optimization.

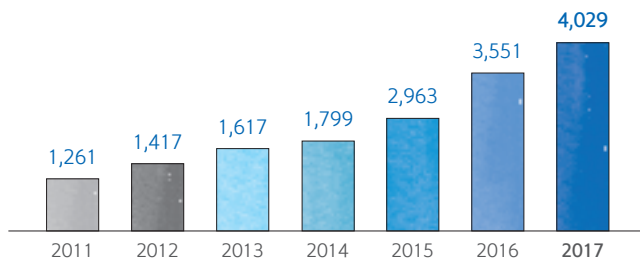


Number of Networks



Number of Local Employees

(Unit: persons)



2018 Business Plans

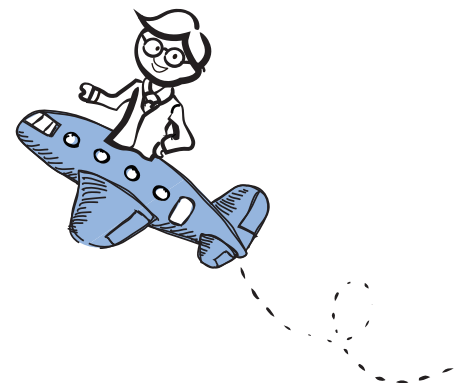
Shinhan Financial Group plans to implement a strategy to ensure balanced global growth through the efficient re-distribution of its resources based on experiences we learned from diverse businesses and successful initiatives in 2017. We will drive ahead with our business plans by focusing on consistency and further upgrading tasks promoted in the preceding year, while securing the basis for sustainable and stable growth based on the optimized business models for respective global market and the newly reorganized global matrix structure.

First, balanced growth

We plan to create diverse success stories by applying new business models in all our channels while increasing utilization of existing platforms to accelerate organic growth. We will cement our leading position in niche markets by sourcing advanced investment and structured products while growing our business around consumer finance services. We will continue exploring additional business models and strengthening our revenue basis through the various applications of the successfully deployed 4G model (Global IB, Global Transaction Banking, Global Trading Center, Global Custody) in many countries. We will enhance our management efficiency by reorganizing our business models and making use of resources efficiently. We also aims to actively explore opportunities for M&A and equity investment in the global market based on the principles of inorganic growth (return on investment, economies of scale, comparative advantages, and synergy). We will secure the foundation for the Group's long-term sustainable growth to ensure it grows in a balanced way through diverse approaches in regions with greater growth potential rather than concentrating on a limited number of countries.

Second, upgrading synergistic operational systems

We will continue with our efforts to expand the scope of joint financial services and products in global markets as our overseas banking network has expanded and more non-banking group subsidiaries have entered foreign markets along with Shinhan Bank. Shinhan Investment Asia(Hong Kong) will expand sales as the Shinhan Global Product Center (SGPC) responsible for supplying financial products through the effective sourcing

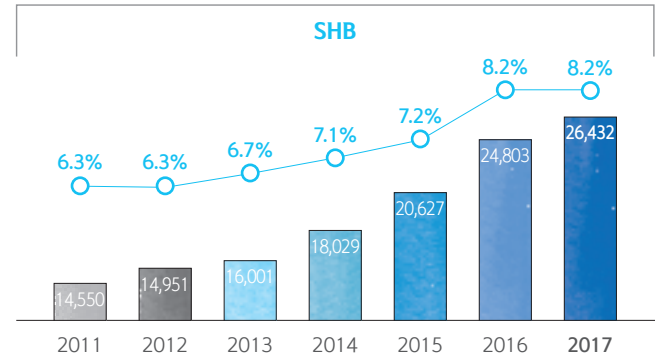
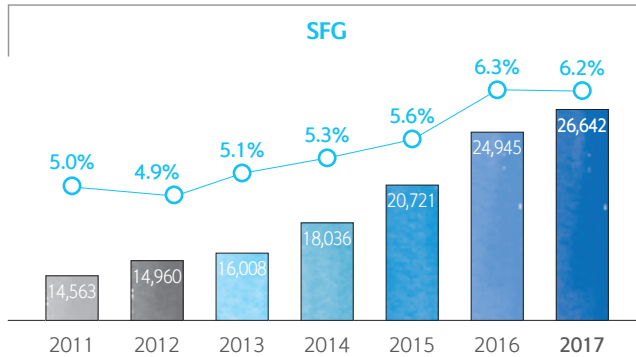


2020 SMART Project - Globalization Performances

Assets

(Unit: KRW billion)

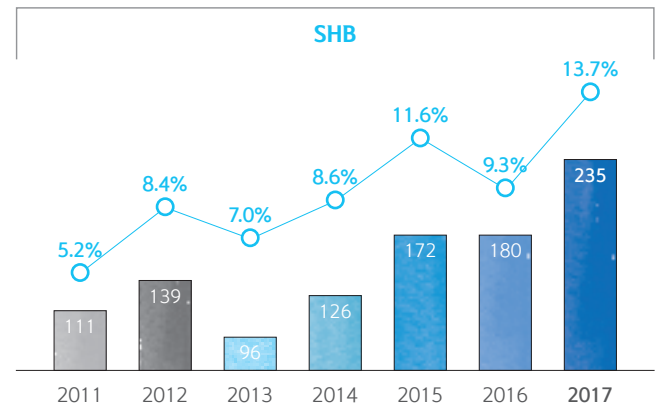
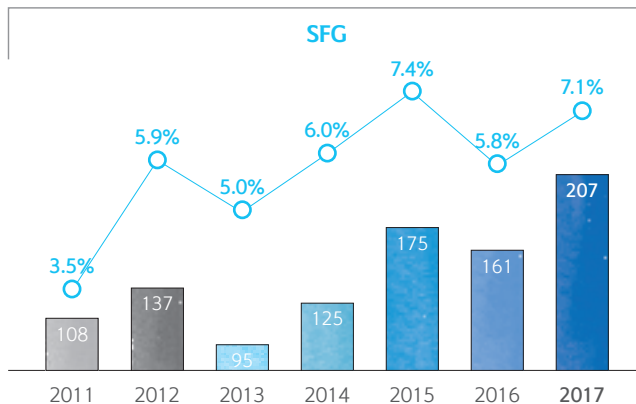
• Contribution by Global Business



Net Income

(Unit: KRW billion)

• Contribution by Global Business



and sale for the entire group, including investment and trust products. In addition, in Vietnam, we expect to see greater growth via synergy from an increase in the assets of profitability-focused financial products (Revolving/Card Loans) after stabilizing the acquisition of the ANZ retail division by Shinhan Bank and Prudential Vietnam Finance Company by Shinhan Card. We will continue implementing effective operational systems through group-level support for global businesses under the One Shinhan strategy while providing joint services and developing convergent and combined financial products to actively respond to the needs of local customers.

Third, digital transformation strategy

We will apply customized digital strategies to business models that have been optimized for each country and its respective economic development stage. The corporate banking division will expand its customer base by providing Cash Management Services (CMS) to businesses via a powerful payment system which is comprised of firm banking and SWIFT SCORE. The retail banking division will provide diverse services through collaboration with a variety of fin-tech companies, including the LINE Pay Currency Currency Exchange service in Japan, WeChat Pay in China, and MoMo in Vietnam, while enhancing the convenience and functionality of its Internet and Mobile Banking Platform. We will also promote the spread of Digital Transformation, one of the core components of the 2020 SMART Project, to all our global operation processes.

First, diversification of IB solutions for SMEs

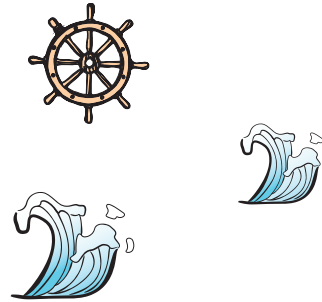
Shinhan Financial Group significantly enhanced its IB service capabilities for small and medium-sized enterprises (SMEs) through its Creative Finance Plaza, a common sales organization created by Group's Bank and Investment Corp. This organization has offered improved capital market solutions to SMEs by introducing diverse mezzanine products and Redeemable Convertible Preference Shares (RCPS) using equity investments and Technology Credit Bureau (TCB) equity investments. In 2017, collaboration between the Creative Finance Plaza and Shinhan Bank's branches generated revenue of KRW 15.8 billion from 115 cases, an increase of KRW 3.7 billion and 24 cases over the preceding year.

Second, strengthened IB market position

Shinhan Financial Group managed large IPOs such as Jeil Holdings (KRX003380), Colorry Holdings (KRX900310) and others. Furthermore, it arranged 25 acquisition financing deals (total amount raised: KRW 4 trillion) in 2017 alone by utilizing the capital strength of the GIB in the syndicate loan market.

Third, expansion of fund business

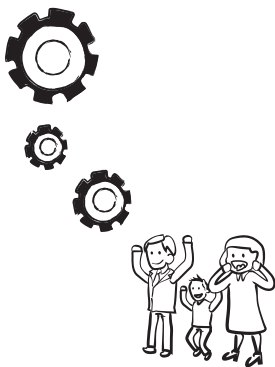
Shinhan GIB was selected as a commitment in the youth start-up category of the Korea Fund of Funds and launched diverse funds and private equity funds, including the formation of the Korea



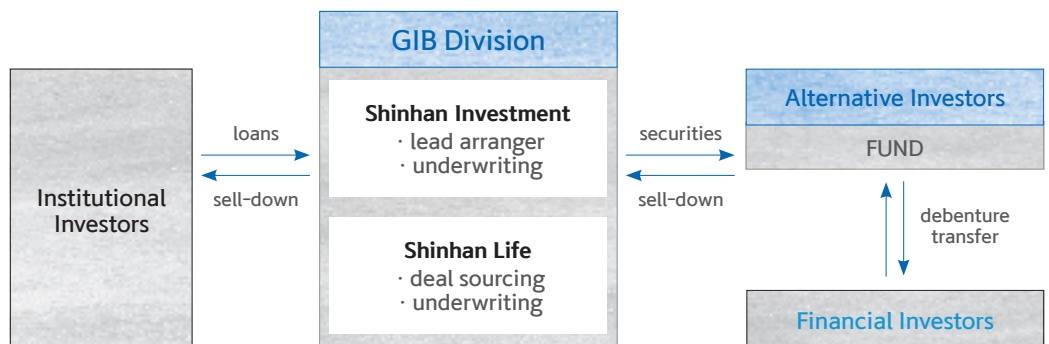
Youth Start-up Investment Cooperative, which amounted to KRW 58 billion (Shinhan Investment Corp. KRW 30.5 billion, Shinhan Capital KRW 27.5 billion) in total.

Fourth, establishment of One Shinhan operational system

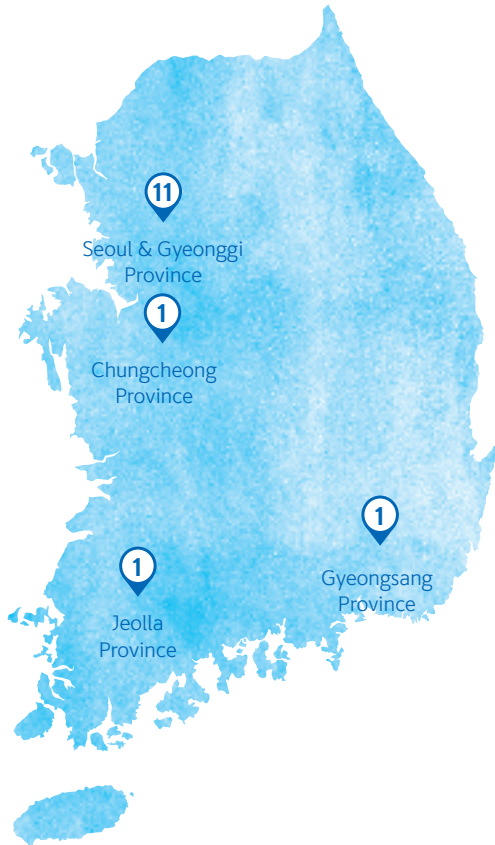
Along with the launch of the GIB, Group founded the 'GIB Community' system in order to operate relevant departments that perform similar services as a single unit. This system increases opportunities for creating synergy among subsidiaries by reviewing newly received deals to identify embedded risks from a diverse perspectives at their initial stage. It has also established diverse systems and committees for deploying the One Firm operational system, including the Investment Strategy Committee, which reviews collaborative deals exceeding a certain size among the Group's subsidiaries from the perspective of the front offices, and the Investment Review Committee, which reviews and preemptively controls risks from the reviewers' perspective.



SFG's Investment for One World Plaza, New York (Dec. 2017)



Creative Finance Plaza (14 Branches)



Fifth, provision of a total financial solution

All Group subsidiaries collectively have reviewed and participated in any single deal ranging from simple loans and equity investments to joint-investment for large-sized M&A deals. SFG's subsidiaries also offer comprehensive financial solutions based on prompt decision making process and thorough risk management capacity while designing financial products in collaboration with Group's GIB Division.

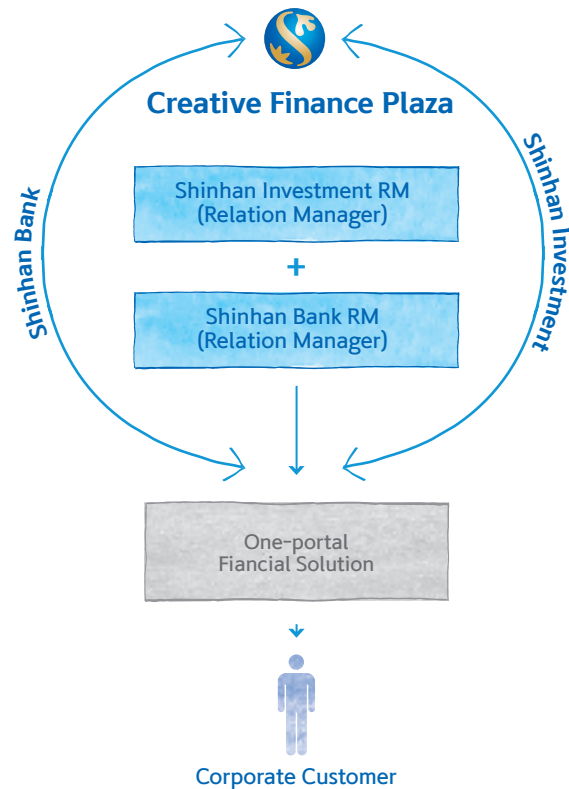
Sixth, growth of GIB based global business

Shinhan Financial Group has continued to invest in the global financial market, through the arrangement of secured office loans in Chicago (USD 175 million), acquisition financing for the Hikory Run Combined Gas Power Plant in Pennsylvania (USD 60

million) and participation in the financing for the acquisition of the Manhattan Worldwide Plaza Building in New York (USD 190 million). It has expanded its global business extensively in all IB service areas through cooperation with global IBs.

Seventh, extension of the GIB platform

Since 2017 the GIB division has operated the 'Global PathFinder' program under which carefully selected IB specialists are dispatched to key overseas locations for a short period (three months) to perform the functions of global deal sourcing and network establishment and to serve as local project managers. Furthermore, the Group is reviewing plans to expand its GIB desks based in Shanghai and New York, to other locations. It also plans to establish GIB desks in Vietnam starting in 2018.



2018 Business Plans

First, enhancement of advisory services

To enhance the competitiveness of its advisory services in capital markets, the Group plans to steadily upgrade its position in the IPO market, through the underwriting of large-scale IPO projects. In addition, we will reinforce our marketing in the loan market in order to strengthen our competitiveness and position in the corporate bond syndicate loan market.

Second, enhancement of One GIB solution capabilities

The Group plans to increase the scope of its One Stop solutions in the overall IB business sector with collaboration models that utilize synergy, including the investment characteristics and risk appetite of individual subsidiaries within the GIB Division. We will enhance our capabilities for One GIB Solution by developing project funds while providing Total Solutions based on the growth stage of businesses.

Third, accelerated entry into global markets

Shinhan Financial Group plans to continually expand the overseas network of its subsidiaries in order to grow its presence in global markets. We will continue our efforts to secure tangible

achievements in the global market by promoting our Global PathFinder Program and by promoting growth and upgrading the operations of our GIB Desks. Moreover, we will accelerate entry into the global market by diversifying the list of target countries and sectors in which we plan to penetrate, as well as our management strategies, while extending the investment scope of our global IB division through joint business and investment with the global IBs.

Fourth, development of the GIB platform

SFG will continue exploring promising business opportunities through increased investment in new technologies and venture capital. In addition, we will offer additional diversified capital market products for small and medium-sized enterprises that utilize the Shinhan Financial Group's Creative Finance Plaza network.



WEALTH MANAGEMENT

Shinhan has created the best value for WM customers by developing differentiated asset management model.

Since the successful launch of a joint PWM Center in 2012 by Shinhan Bank and Shinhan Investment, Shinhan has established a total of 27 PWM centers throughout the country. The Wealth Management unit has steadily promoted its services to secure a competitive advantage in the asset management sector while preemptively responding to market changes at achieve 'Leadership of the WM market through customer-centered asset management services.' In order to preemptively respond to the government's deregulation of integrated branches, it successfully developed the PWM Lounge concept, a retail branch developed by upgrading the PWM model.

2017 Key Performances

In 2017, the WM division recorded outstanding, market-leading performance figures amid a difficult environment in the asset management services market. The division provided customer value-centered asset management services, exceeded various performance indicators, and received favorable assessments both at home and abroad.

First, customer value-centered asset management services

We provided a foundation for enhancing customer profitability by improving asset management services with a focus on customer value. All of our executives and employees believe in 'the principles for providing customer-oriented asset management services' in order to engage in 'Compassionate Finance', the core mission of Shinhan Financial Group. In addition to practicing customer-centered asset management, we established the industry's best asset management system under which PWM Centers and PB team leaders are evaluated based on the earnings rates of their customers. Furthermore, the Investment Products and Services (IPS) Department presented a Group House View and offered timely investment products based on market issues.

Second, outstanding performance in WM market

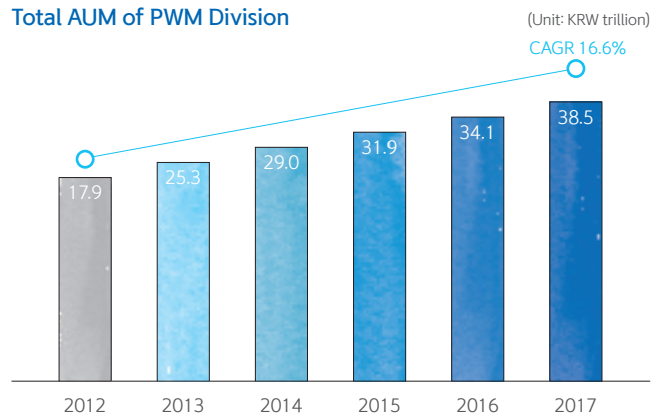
In 2017, Shinhan's PWM achieved its best performance figures since its launch by posting an increase in assets of more

than KRW 3.5 trillion and a gross income of KRW 210 billion (combining the pre-G&A expenses operating income of Shinhan Bank PWM and net operating income of Shinhan Investment). The department dedicated to serving customers with exceptionally high net worth financial portfolios has secured market competitiveness over the competition by reporting outstanding performance since its launch in 2012, maintaining the industry's highest annual average growth rate. (Shinhan Bank ranked No. 1 in the growth of high net worth customers with AUM of more than KRW 1 billion / Shinhan Investment also ranking top in growth of customers with AUM of more than KRW 100 million.)

Third, enhancement of brand value

The Shinhan PWM division's unique and differentiated asset management services have been favorably evaluated by an impressive number of key financial institutions at home and abroad. Shinhan has consolidated its position as Korea's best PB service provider by being awarded various prestigious prizes and awards, including 'Best WM' by *The Asset* for six consecutive years, 'Best PB' by *The Asset* for three consecutive years, and 'Best Private Bank in Korea' by *The Asian Banker*, and 'Best PB' by *The Korea Economic Daily*.

Total AUM of PWM Division



2018 Business Plans

Shinhan's PWM will continue providing the best asset management services coupled with its unique competitive advantages and will strive to provide further upgraded services in 2018. To that end, it plans to intensively promote the core tasks listed below in 2018 based on its mid and long-term objective of 'Only the Best WM, the Customers' Choice.'

First, enhanced corporate asset management services

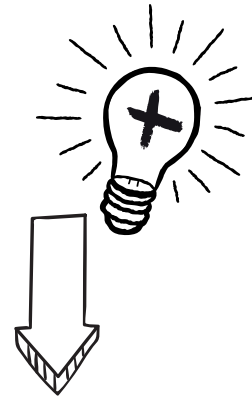
Since 2017, Shinhan's WM has promoted its corporate asset management service in a bid to secure a future growth engine. It established a close collaboration system with the risk managers exclusively responsible for corporate accounts while appointing personnel to run the asset management service for small and medium-sized businesses.

Second, increase in WM market leadership

We plan to steadily increase the number of PWM Lounges, which are designed to cater to customers with relatively high net worth financial portfolios of KRW 100 million or more and will further enhance our leadership in the WM market by establishing an inter-branch collaboration system within the community. Furthermore, we will upgrade our services, which are currently directed toward mass market customers, by directing them toward customers with high net worth financial portfolios and by providing customized asset management services to retail customers, while strengthening our online asset management services, including Robo Advisors and Chatbots.

Third, differentiated privileged services for customers

We plan to enhance the competitiveness of Shinhan's PWM Privilege Centers which mainly cover customers with net worth financial portfolios of KRW 5 billion or more. We plan to offer diverse products to overseas markets in addition to the local Korean market. We will also differentiate ourselves with family-business centers specialized in helping with the succession of family businesses while enhancing our consulting competencies by designating experts in the fields of inheritance, donation, law, and taxation.



Fourth, development of industry-leading asset managers

In 2018, Shinhan WM will steadily train essential WM personnel through systematic WM personnel training programs while enhancing the competitiveness of our asset management sales capabilities by steadily promoting our WM Transformation campaign. In addition, Shinhan WM will provide the conditions for 'industry-leading experts' to manage customer assets by recruiting and employing superior asset management personnel.

Fifth, steady promotion of new business models

In 2017, Shinhan WM opened real estate investment advice centers to provide expert counseling on real estate investment. In 2018, it will expand its customer access points by newly establishing mobile service-based and online real estate service platforms. Customer loyalty will be enhanced by providing counseling services on inheritances and donations derived from real estate counseling, while loans and other related services will be promoted by providing specialized consulting services on real estate. We also plan to provide customized retirement plans and integrated solutions by steadily unifying the capabilities of the group companies. We will provide exclusive Shinhan PWM differentiated financial services by enhancing the capabilities of staff members responsible for designing retirement plans.

Shinhan PWM will become 'Only the Best WM, the Customers' Choice' based on its newly developed mid- and long-term strategies in combination with the competitive advantages it has accumulated thus far.

RETAIL BANKING

Shinhan Financial Group achieved outstanding performance in its retail operation based on customer-oriented service.

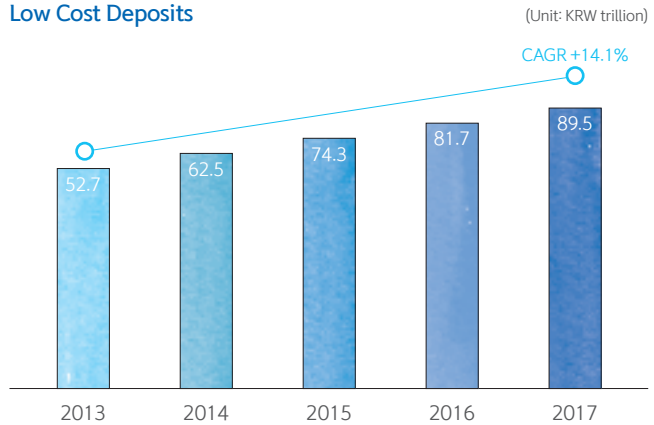
In 2017, Shinhan responded effectively to uncertainties such as concerns over household debt issues. We efficiently controlled the asset growth by carefully managing mortgage securitization. We also calibrated our net interest margin (NIM) based on the disciplined risk management by increasing the proportion of profitable assets, including auto loans and high-quality personal loans. In particular, we supported the introduction of digital technology to credit assessment processes that enable on-line S-Dream Credit Loans for employed customers with a superior credit rating.

2017 Key Performances

Throughout the whole of 2017, despite the challenging business environment appeared by the new property measures, the base rate hike, and the launch of Internet banks, Shinhan finished the year with outstanding performance achievements based on its unique management and operational excellence.

First, Shinhan Bank achieved 120% of its earnings target in 2017 by increasing the quality assets while enhancing risk management efforts. In 2017, Shinhan Bank's retail business contributed to its differentiated asset growth by increasing low cost core deposits, retail loans, and loans to small and medium-sized enterprises. Low cost core deposits increased by KRW 7.8 trillion over the preceding year thanks to increases in the number of active customers, card and merchant business payment accounts, and the stable influx of deposits.

Low Cost Deposits



Shinhan Bank also introduced the industry's first on-line housing loans under a strategy differentiated from other banks that enables housing loans (for both Jeonse (lump sum deposits for lease) and monthly rents) to be provided fully online. Furthermore, we recorded a balance of KRW 176 billion in S-Dream credit loans, on-line loans offered to employed customers with a high credit rating, within six months of launch. We have been steadily improving the loan portfolio structure from floating-rate / interest-only payment loans to fixed interest rate / principal & interest payment loans.

Second, the Group strengthened its future potential with a growing customer base while diversifying its revenue sources by increasing non-interest income. The Group recorded 18.6 million active customers who will serve as the foundation of its future growth. Active customers are both the backbone of sustainable growth and future-oriented assets even in the midst of volatile economic conditions. We also diversified our earnings structure by increasing our sales of non-interest-bearing products, including installment funds, credit card accounts, and bancassurance. In particular, the number of new credit card accounts reached 350,000, the largest since the merger with Shinhan Card in 2007, significantly contributing to the growth of non-interest gains.



Third, Shinhan Bank has become a bank characterized by excellence that satisfies customers with financial services for those with low-incomes under its mission of 'Compassionate Finance, Your Companion for the Future.' Shinhan Financial Group has made concerted efforts to provide its main services in such a way as to increase its customers' assets and improve its social value under its mission of 'A Better World Through the Power of Finance.' It has been recognized as the 'Best Provider of Financial Services for the Underprivileged' - and for the provision of its New Hope Loan - by the Financial Supervisory Service for five consecutive years.



Third, enhancing One Shinhan values

We aim to expand our platform for alliances with diverse industries to promote partnership marketing with telecoms and retail service providers, while completing our total marketing platform (TMC) for businesses, executives and employees, and customers based on enhanced collaborative marketing with large enterprises. Furthermore, we will expand our united marketing channels among subsidiaries, including the preferential offering of group products and services to existing customers and the marketing of bank accounts to the Group customers.

Shinhan has recorded stable performance on a continual basis while creating a virtuous cycle of shared prosperity by practicing creative finance under its mission, 'Compassionate Finance, Your Companion for the Future' with the aim of 'A Better World Through the Power of Finance.' Shinhan has the inbuilt DNA and driving force that enables it to overcome continued challenges with creative innovation and a customer-oriented service mindset. In accordance with our 2018 business plan, we now plan to develop an outstanding retail division with the ultimate aim of enhancing customer value.

2018 Business Plans

In 2018, the Group plans to continue a pace with its efforts to become a leading retail bank by overcoming the difficult business conditions at home and abroad. To that end, we have adopted the three strategic directions of increasing retail customer base, increasing SMART earnings, and enhancing One Shinhan values under the strategic goal of 'The Next Retail Service! Excellence Beyond Growth!'

First, increasing retail customer base

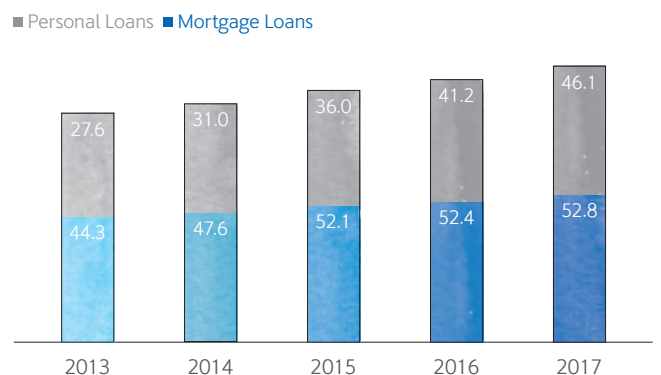
We plan to expand our digital channel and customer base by upgrading our non-face-to-face service platforms to enhance customer convenience, while promoting a united marketing initiative by strengthening our online and offline connectivity within diverse channels. We also aim to expand our customer base using the 'Baseball Platform' as the sponsor of the Korea Baseball Organization (KBO) over the next three years. We have created a system through which all departments can create synergy through enterprise-wide collaboration by setting up new KBO Labs at our retail banking units. The Baseball Platform is designed to promote active growth of the customer base by using a marketing pool of 8.5 million game spectators per year and 125 million TV viewers. Shinhan will also exploit diverse marketing channels to strengthen its bid to expand its customer base.

Second, increasing SMART earnings

We plan to increase non-interest earnings via such differentiated marketing channels as credit cards, apartment subscription and special purpose loans, while also increasing low cost deposits by launching new services with a focus on the three core customer groups of employed workers, SOHO customers and high net worth customers. In addition, we will attempt to optimize sustainable revenue sources through strategic cost-saving initiatives such as by expanding implementation of mobile messenger app. notifications.

Shinhan Bank's Retail Loans

(Unit: KRW trillion)



CORPORATE BANKING

Shinhan will lead the corporate banking market by providing the best financial solutions to meet the requirements of corporate customers.

Shinhan's corporate banking strives to maintain the competitive advantage of its existing core business lines, including its corporate lending, deposit and foreign currency services. We are also continuing with its efforts to diversify its revenue sources by exploring new business models, expanding our investment-loan integrated financial solutions, and supporting investment banking services for small and medium businesses. In addition, we effectively respond to the diverse financial requirements of our customers by providing currency exchange and wire transfer services, import and export financing, and inclusive financial solutions to foreign investment firms. In so doing, Shinhan's corporate banking aims to enhance customer value while providing optimum financial solutions to meet ever diversifying requirements.

2017 Key Performances

Shinhan's corporate banking has undertaken tireless efforts to identify specific strategic directions for creating 'strong customer-based corporate financial services,' 'smart corporate financial services based on a stable revenue structure,' and 'superior corporate financial services that lead the corporate banking market' under its 2017 strategic goal of 'Smart Territory Expansion, Excellence in Corporate Finance!' in order to attain differentiated growth by freeing itself from the frame of competition while overcoming stagnant sales in this era of prolonged low growth. As a result, corporate banking operations posted outstanding performance in all relevant areas including growth potential, profitability, and soundness.

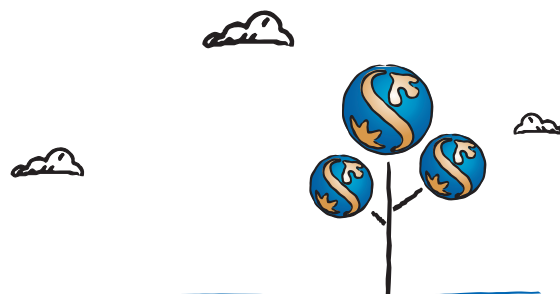
First, expansion of the corporate customer base

Shinhan's corporate banking endeavored to ensure balanced growth based on earnings in the core markets of mid-cap, blue-chip audited and non-audited corporations in order to maintain solid growth in assets with a focus on blue chip accounts. In particular, we aim to increase our market share of the blue-chip non-audited corporation

market, where we continued to expand successfully. In addition, we have maintained a competitive advantage in the pension market by taking the No. 1 position for eight consecutive years, while increasing our corporate customer base by strengthening services customized to the growth stage of customer businesses.

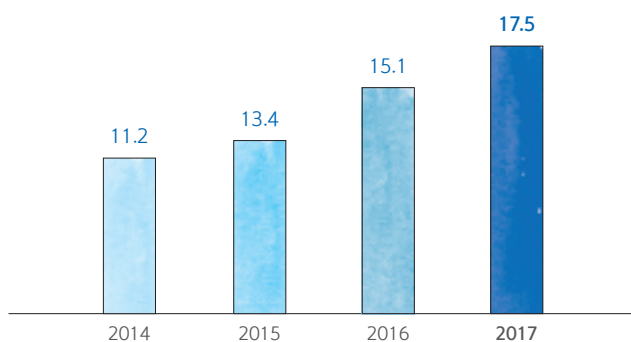
Second, development of a stable revenue structure

We have maintained our efforts to secure a stable revenue structure for sustainable growth. We have engaged in diverse marketing activities for small and medium-sized enterprises (SMEs) based on our systematic collaboration system. We have also explored new platform-based business opportunities by strengthening our strategic alliances with outside entities, including an IP evaluation warranty agreement with the Korea Intellectual Property Office, and our alliance with the Credit Guarantee Fund, with the aim of increasing M&A activities involving SMEs.



AUM of Retirement Pension

(Unit: KRW trillion)



Retirement Pension Market

1st

(Ranked first in the retirement pension market for 8 consecutive years in terms of assets under management)

Third, leadership of the corporate banking market

We have provided steady and systematic financial support to SMEs with outstanding potential. We have also supported quality financial services to SMEs corporate customers, including services related to M&As and IPOs, in order to strengthen support for the investment banking sector.

Fourth, reinforcing competency in foreign exchange

We have continued to increase our foreign exchange sales by developing new products that combine foreign exchange products with derivatives and by hedging exchange risks. In addition, we have made efforts to provide effective financial products and services to corporate customers both directly and indirectly so as to help SMEs enter overseas markets through alliance agreements with import-export agencies. We have provided more paperless wire transfers for import and export transactions in accordance with the group's global and digital service strategies.

2018 Business Plans

In order to effectively respond to increasing uncertainty in the business environment and intensifying competition, Shinhan has set 'Redefining Corporate Finance, Emergent Territory Expansion' as its main strategic goal for 2018.

First, becoming a leading corporate bank

We plan to continuously increase our loan assets in consideration of risks and profitability in the core markets of SMEs (mid-cap blue-chip audited and non-audited corporations). In addition, we plan to continue our efforts to expand the corporate customer base by actively utilizing bonds and external policy-related funds. We will also strive to

increase our market share of services related to F/X and foreign investment enterprises by promoting services related to our global business.

Second, establishing a sustainable earnings structure

We will continue our efforts to enhance marketing efficiency for sustainable growth. We will also attempt to increase business opportunities through agreements with various government agencies, including the Ministry of Trade, Industry and Energy and the Ministry of SMEs and Startups. We plan to increase investment in the cultural content, energy and other new growth industries. Furthermore, we will establish a stable earnings structure by increasing non-interest income and low cost deposits.

Third, becoming a leader in future banking market

We will continue striving to secure differentiated competitive advantages in a bid to lead the future market. We plan to foster human resources who will become leaders of the future market by developing groups of specialists in corporate banking services. Furthermore, we will enhance the efficiency of our channels through digital service strategies, such as by upgrading the CRM system so as to accelerate the switch from corporate finance to digital services and to increase digital services in the F/X sector.

Fourth, increasing F/X earnings

We plan to expand our customer base at home and abroad by increasing our affiliated sales with import-export agencies and by offering our global transaction banking services into additional regions. We plan to steadily increase our F/X earnings through the payroll transfer services for foreign workers and enhance our marketing campaigns aimed at the public and large enterprises. In addition, we plan to strengthen our marketing activities toward foreign investment enterprises that have entered the Korean market by increasing Korea Desk services that utilize the overseas networks of Shinhan Financial Group.

CREDIT CARD

Shinhan Card is preparing for another leap forward as a 'Digital Financial Service Partner' in commemoration of the 10th anniversary of its merger.

2017 was the year of the 'Fourth Industrial Revolution' when diverse digital technologies were transformed into practical customer services. Against difficult market conditions such as transaction fee cut for merchant members, Shinhan Card has posted steady financial performance with using big data and platform (FAN). Shinhan Card will pursue steady changes and reforms by smoothly responding to changes in the digital service environment and competitive markets.

2017 Key Performances

In 2017, Shinhan Card persisted in its efforts to overcome difficult market conditions by exploring the 'Triple 10' as a future growth agenda while declaring 'Beyond X for a Second Start' in order to transform itself into a digital service business amid a tough market environment characterized by stagnant growth in the credit card service sector. As a result, it was able to maintain steady growth in the industry's top position under trying market conditions, largely because of increased sales by both its credit card and check card businesses over the preceding year. The Deep Dream Card - launched on the basis of its digital and big data capabilities - achieved significant success with the issuance of 500,000 cards within just three months of its launch in late September.

Net Income

0.9 KRW trillion

Shinhan Card's Net Income in 2017

Furthermore, it strove to improve its cost structure across all operations and enhanced the efficiency of its high-cost services in order to prevent further deterioration of profitability due to the transaction fee cut for merchant members. As a result, net profits increased over the preceding year despite unfavorable conditions at home and abroad. Shinhan Card also posted significant achievements amidst competition to secure leadership in the future payment services market. Shinhan FAN PAY, an application-based mobile card launched in 2013 for the first time in the Korea's credit card service market, led the domestic simple payment services market by signing up 8.89 million members and accruing KRW 7.2 trillion in sales in 2017. In addition, it successfully attained its two objectives of providing the industry's best one-click payment service and improving accessibility by wholly reorganizing the FAN platform, which is now equipped with functionality adapted for diverse living.

2017 was the year when Shinhan Card recorded full-scale growth in its global services. Shinhan Card established subsidiaries in Kazakhstan and Indonesia in 2015 for the first time among Korean credit card companies. Shinhan also commenced full-fledged exploration of Southeast Asian markets by obtaining a credit card service license in Indonesia after founding a subsidiary in Myanmar in September 2016. In 2017, it achieved remarkable performance figures in implementing regionally-specialized service strategies and laying a firm foundation for sales growth, by improving its business structure, maintaining profitability, and expanding aggressive sales



programs. It has continued with its efforts to diversify into global services, including signing an agreement for the acquisition of Prudential Vietnam Finance Company (PVFC), a consumer financing company in Vietnam, in January 2018.

2018 Business Plans

Rapid market changes are expected in 2018, including the rapid growth of Internet-only banks and full-fledged digital financial services, and the diversification of payment service platforms. Shinhan Card has adopted 'Hyper Connected Management' and 'Deep Change' as its 2018 strategic directions by staying one step ahead of the 'Rapid Management' policy it has promoted over the past three years. The fundamental purpose of 'Hyper Connected Management' is to create new value by connecting all its customers, Merchant members and alliance partners in order to surpass the limited business speed momentum attainable by any individual company. To attain that goal, we need to implement 'Deep Change' as a fundamental reform that boldly abandons existing methods in order to provide differentiated customer experiences at a level that transcends individuals based on enhanced digital service capabilities, and the integration and expansion of our internal and external resources.

Firstly, 'Deep Change' implies business portfolio management that is focused on quality growth. The credit card service industry now faces an environment in which sales growth no longer guarantees enhanced earnings due to the stagnant market and ever worsening profitability. Therefore, Shinhan Card plans to execute a strategy aimed at balancing earnings and sales in order to maintain a sustainable growth infrastructure over the long-term while switching the focus of its business policies from sales to revenue assets. policies from sales to revenue assets.

Next, the 'Digital First Innovation' strategy needs to be expedited. Shinhan Card will maximize its achievements based on prompt action by definitively establishing project-oriented cell organs and flexible work processes by further accelerating the Digital First Innovation strategy. In addition, it will create new customer value that transcends individuals based on platforms and big data, while simplifying service processes and reducing costs by utilizing digital technologies.

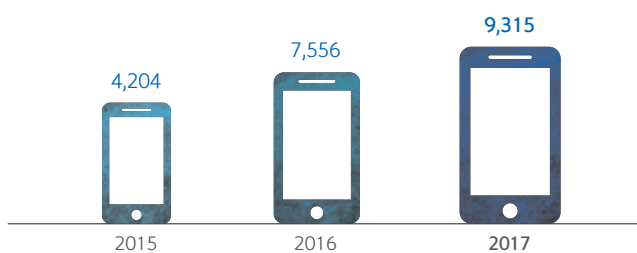
Its core strategic tasks for 2018 include the establishment of a powerful corporate culture based on its superior heritage of creativity, hard work, and strong execution, while creating tangible achievements in its global services through both quantitative and qualitative growth, by laying the foundation for its transformation into a Multi Finance Company that offers installment payments and lease financing services in addition to its core credit card business.

Shinhan Card aims to rapidly transform itself in a bid to secure leadership in a future-oriented market while firmly maintaining its position in the existing credit card market despite difficult conditions. In addition, it will do its utmost to enhance the trust of its customers in different markets by actively practicing 'Compassionate Finance' and implementing the '2020 SMART Project' as part of the Group's mid-term strategy.

Mobile Credit Card Holders

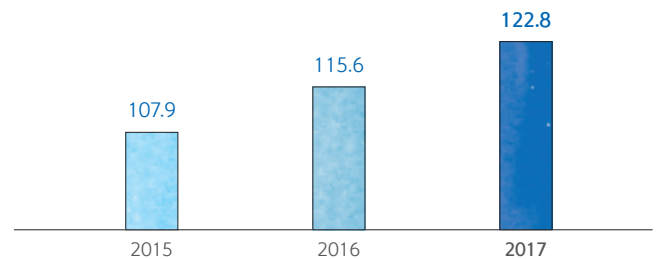
(Unit: Persons in thousand)

■ App. Card Holders (Shinhan FAN PAY)



Shinhan Card's Transaction Volume

(Unit: KRW trillion)



BROKERAGE

Shinhan Investment performs the Group's core roles in the capital market based on its industry-best research achievements, superior product development and management capabilities, and customer-oriented management philosophy.

2017 Key Performances

Shinhan Investment Corp. set 'Triple solutions for large financial investment companies' as its strategic goal for 2017 in order to achieve its mid and long-term target of becoming 'Asia's Best Financial Investment Company.' This strategy consists of the adoption of the three following solutions as the direction in which Shinhan Investment should move forward in its capacity as a large financial investment company:

- (1) innovation in channels to create added synergy,
- (2) acquisition of specialist-oriented investment capabilities, and
- (3) upgrading of management structures based on system improvements.

First, innovation in channels to create added synergy

The company adopted the three tasks of expanding its hybrid branches, completing its digital transformation, and promoting glocalization by actively utilizing the Group's synergy. We created 'One shinhan value' by increasing the number of hybrid branches with Shinhan Bank and focusing on customers, thereby offering financial investment products and services to even more customers. We also attempted to increase the number of on-line service customers while responding quickly to changes

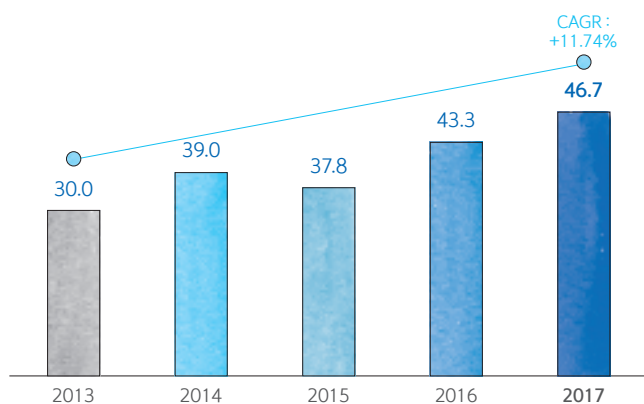
in the market environment by developing platforms that induce customer participation and launching more digital service branches through our accelerated digital transformation. Our most notable achievements include the opening of eight new hybrid branches and the innovative increase in the number of on-line service customers (by 376,000 in 2017 alone out of a cumulative total of 390,000). Our efforts to promote glocalization, i.e. the extension of our global network through localization, have enabled us to further upgrade our services in collaboration with our local subsidiaries while promoting the stable localization of our subsidiaries in Indonesia and Vietnam, where we already have an established presence. In particular, we scored a highly encouraging achievement by leading the IPO of a local Indonesian company for the first time among Korean securities companies.

Second, enhancement of IB capabilities

The company has secured future growth by enhancing the expertise of its investment division to a level befitting its status as a comprehensive financial investment company. To that end, we also enhanced our IB capabilities as well as our ability to supply products and manage assets while launching new services. We launched our GIB division by expanding our IB units into the Group & Global IB division and successfully concluded major IB deals, including those of the Pangyo Alpha Dome City (6 Block), Gyeonggi Province in Korea and One Worldwide Plaza, New York in the US. We also ensured the product competitiveness of PEFs, pension rebalancing, and asset allocation-based wrap accounts while increasing our market-leading products and IB and global investment products by enhancing our ability to offer products and manage assets. In order to further upgrade our asset management capabilities, we expanded the Group's asset management services in January 2018 by setting up a new group-wide division.

Total Assets of Shinhan Investment

(Unit: KRW trillion)



Third, upgrading of management structures

We also implemented preemptive dynamic risk management measures against changes in external conditions, including changes in regulatory systems and digital financial services. We executed strategic cost savings and enterprise-wide resource redistribution by carrying out innovative reforms of our HR division and improving our organizational operation systems. Meanwhile, we continue to offer active support aimed at securing the expertise of our employees by promoting corporate sales, global product sales, and certificate acquisition.

2018 Business Plans

It is widely expected that the financial investment industry will continue to face differentiated regulatory policies designed to foster very large IB firms in 2018. It is also expected that the overall profitability of the industry will decline as digital transformation and competition within the industry intensifies. We have created the vision of becoming Asia's most powerful financial investment company while serving as the hub of Shinhan Financial Group's capital market business under '2020 SMART Project.' As such, 2018 will be a very important year for us as we need to achieve exponential growth over and above our current growth rate in order to achieve our goal. Accordingly, we have set ourselves the strategic goals of 'Scaling up to enter the Top 3, expanding the range of products & global services and increasing investment' in 2018, as part of a bid to leap forward to the next stage and surpass our current levels of achievement in all areas.

First, 'Scaling up to enter the Top 3' refers to the company's implementation of its strategies with the goal of enhancing its business and service competitiveness to the level of the top three financial corporations in all business lines by expanding the scope of its vision. Second, 'Expanding the range of products & global services' consists of securing the industry's highest degree of competitiveness in the product value chain encompassing sourcing, production and sales by expanding its sourcing domain to the global market. Third, 'Increasing investment' means establishing the company's position as an investment bank by achieving differentiated achievements in IB services overseas as well as in the domestic market by securing GIB competitiveness.

Research Ranking



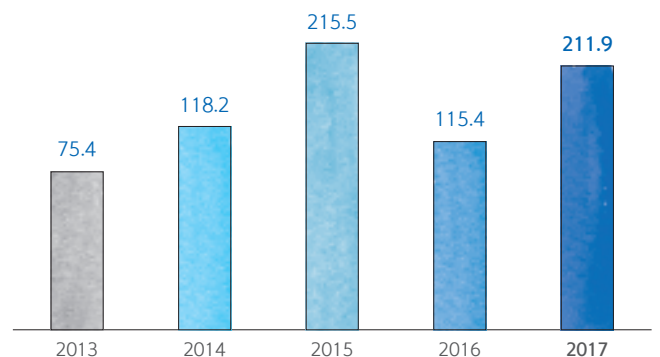
Research Ranking by *Maeil Business Newspaper*

To that end, we plan to continually implement our four core business agenda items of enhancing employees' capabilities, raising product competitiveness, promoting new business projects, and introducing innovation in business processes. We have also selected and implemented two core tasks for each of our five major strategic directions, namely, growth speed, client-focused, employee competency, optimum leverage based on risk management, business efficiency, as follows: 1) complete our digital transformation, 2) promote glocalization, 3) increase the number of customers by launching hybrid branches, 4) enhance the profitability of customer assets, 5) upgrade employee expertise, 6) enhance the company's ability to develop and supply products, 7) concentrate enterprise-wide GIB capabilities, 8) upgrade asset management capabilities, 9) introduce innovation in operations and infrastructure, and 10) pursue strategic cost savings by improving the corporate culture.

In 2018, we will consolidate our position as a differentiated investment bank while serving as the hub of Shinhan Financial Group in the capital markets by ensuring all related units grow together into a group.

Net Income of Shinhan Investment

(Unit: KRW billion)



INSURANCE

Shinhan Life Insurance pursues shared prosperity with its customers based on 'Compassionate Insurance' to provide diverse products and digital financial services that uphold the original value of insurance.

Shinhan Life Insurance continues to pursue balanced growth while offering insurance and pension products through diverse sales channels, including off-line FC channels, customer-based marketing (CBM) channels, agency marketing (AM) channels, bancassurance channels, and internet channels. Furthermore, Shinhan Life Insurance has reported solid performances for its asset management services through insurance policy loans, unsecured personal loans, collateral secured loans, and investment management of equities, bonds, derivatives and other financial instruments. We have enhanced business stability based on stable asset management and preemptive risk management. As we concentrated on the establishment of digital service platforms and capabilities in 2017, we consolidated our leading position as a digital insurance provider while enhancing customer convenience and accessibility.

2017 Key Performances

Shinhan Life Insurance defined 'A life insurance industry standard that maximizes the intrinsic value of insurance services' as its vision in order to withstand changes brought on by the introduction of IFRS17 in 2021 and the prolonged period of low growth. We also promoted 'Innovation 2017 - Evolution of Value Management' as its strategy for pursuing the core strategies of the 2020 SMART Project, which is being implemented on a track corresponding to the Group's growth.

Ration of Protection-type Insurance Policies

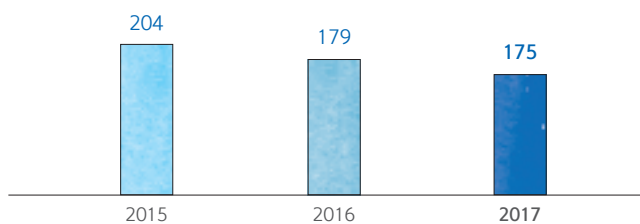
88.4%

First, innovation in digital financial services

Shinhan Life Insurance has appointed its Chief Digital Officer (CDO) and the Digital Strategy Team to preemptively respond to the fast-changing digital service environment. We were able to secure market competitiveness by allowing customers to access products and services more easily and conveniently via digital channels. Furthermore, our Big Data Center has striven to increase customer value based on advanced target analysis, strengthen sales competitiveness by establishing a one-stop system utilizing mobile devices from subscription to insurance claims. In the products area Shinhan Life Insurance continued its efforts to preemptively adapt to the digital environment by developing and offering the blood sugar control notebook, a healthcare service, along with 'Shinhan, double-care health insurance at diabetes,' and a healthcare chatbot in alliance with start-up businesses. In addition, we have strengthened the driving force for innovation in digital financial services by enhancing enterprise-wide focus on a variety of events, including an open intracompany idea contest related to digital services.

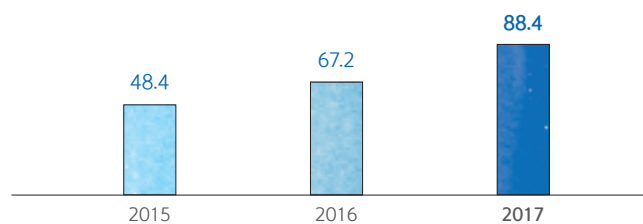
RBC(Risk Based Capital) Ratio

(Unit: %)



Ration of Protection-type Insurance Policies

(Unit: %)



Second, innovation in products and services

Shinhan Life Insurance has provided diverse insurance products and services that meet and exceed customer requirements by developing mid- and long-term product strategies in consideration of IFRS17. We have developed market-leading products by collecting on-site opinions and analyzing big data from an enterprise-wide perspective. We have made efforts to enhance customer convenience, including through the improvement of services for verifying payment amounts. In particular, we have added additional protective cover to the long-term survival benefits through the provision of 29 policy riders, including those for cancer and long-term care, while reducing the burden on customers by designing insurance policies allowing for reimbursement when not terminated before maturity and offering diverse insured periods of up to 100 years by launching the 'Shinhan, my optimized good insurance.'

Third, innovation of business models

Shinhan Life Insurance is making continuous efforts to deploy sustainable growth models through reinvestment while securing stable revenue sources through the development of efficient business models. We have improved profitability by increasing operational efficiency concerning sales personnel and deploying reasonable commission rate schemes while actively participating in strategic cost-saving efforts at the group level. We have expanded internet-based insurance sales through alliances with diverse internet platform operators, including KaKao and LGU+, while enhancing the efficiency of sales channels based on the 2020 SMART Project. The customer based marketing (CBM) channel introduced a phased off-line sales approach in the case of whole life policies in order to reduce incomplete sales. In addition, the bancassurance channel continued to raise the sales ratio of protection-type insurance policies through high-level prior education and marketing programs in collaboration with Shinhan Bank.

2018 Business Plans

In 2018, it is anticipated that financial market volatility will increase at home and abroad due to interest rate hikes in the US, while the low growth trend will continue and competition in the digital financial service sector will further intensify. Therefore, the situation requires continuous monitoring and an active response to imminent changes in the accounting system (IFRS17) that will significantly affect the earnings and capital soundness of insurance companies. In addition, it will become more important than ever before to develop differentiated products and advanced digital financial services.



In 2018, Shinhan Life Insurance will further accelerate the existing 'Evolution of Value Management' in line with innovation to successfully achieve its vision of 'Becoming the industry standard in maximizing the intrinsic value of insurance.' To that end, it made 'Innovation+ 2018 for Evolution of Value Management' its strategic goal and developed the three specific tasks of (1) profitability-oriented product sales and efficient asset management, (2) business model upgrade to respond to changes in the business environment, and (3) innovation in enterprise-wide operational systems in response to IFRS17.

First, product strategies will be implemented by considering the characteristics of each channel while increasing protection-type insurance policies, and will concentrate on efficient asset management through optimum asset allocation from the perspective of Asset Liability Management (ALM). In addition, it will strive to increase customer assets by re-establishing the related management processes for investment products, such as variable funds, and enhancing their efficiency while securing a stable earnings structure through diversified investment linked with the Group's GIB service lines.

Second, it will enhance channel profitability by streamlining respective sales channels with exclusively recruited insurance agents and will continue its efforts to upgrade its enterprise-wide digital services while enhancing efficiency through the optimum redistribution of resources.

Lastly, it will enhance organizational efficiency and lay a solid foundations for sustainable growth by improving performance evaluation systems while establishing optimal operation systems that can respond to changes in the new accounting system (IFRS17).

In 2018, Shinhan Life Insurance will do its best to become an insurance company that is admired by its customers by concentrating on maximizing the intrinsic value of insurance.

ASSET MANAGEMENT

Shinhan BNP Paribas AM offers diverse investment solutions and customer-tailored solutions based on a solid operational philosophy in the domestic and overseas market environments where uncertainty is growing.

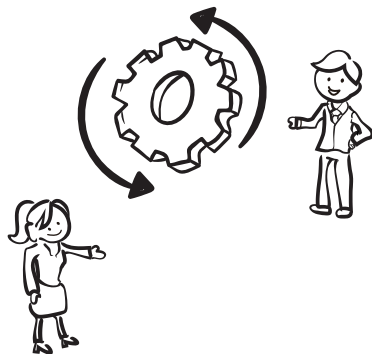
Shinhan BNP Paribas AM, the Group's hub for asset management services, has established a management philosophy of 'becoming a long-term investment solution partner that considers customer needs first based on diverse investment solutions and reliable expertise.'

Based on such a management philosophy, it offers diverse investment solutions to customers at home and abroad, including structured products (derivatives, ELFs, etc.) and alternative investment opportunities (real estates, mezzanine, infrastructure, etc.) as well as traditional investments such as equities and bonds. Shinhan BNP Paribas AM manages a total of KRW 46.6 trillion worth of assets, including wrap account assets. It was ranked 5th in terms of net assets among 200 Korean asset management firms as of December 2017.

2017 Key Performances

Shinhan BNP Paribas AM made concerted efforts to provide investment solutions to its customers in keeping with the consistently changing conditions of the capital market in 2017.

In domestic market, we boosted the returns on our representative funds by developing investment strategies and capabilities under the mission of creating value through creative innovation. We also developed small and medium-



Shinhan BNPP Covered Call Security Feeder Investment Trust

1.4 KRW trillion

Net asset value as of the end of 2017

sized funds to provide customized solutions to our customers. In particular, we worked to intensively develop hybrid products by surveying the needs of retail investors seeking safe assets as well as medium levels of risk and return. Our 'Covered Call Security Feeder Investment Trust,' one such hybrid product, has become the industry's leading fund in the public offering market, posting KRW 1 trillion in net growth in 2017. In addition, we provided stable returns and asset growth to institutional investors as a leader in the bonds market. Our asset distribution solution capabilities created a new service model in the asset management industry while providing a differentiated service known as 'Investor Asset Management.'

In overseas market, we endeavored to satisfy the needs of global investors by launching a 'Global Multi-Asset Security Investment Trust,' a global asset allocation product, in collaboration with the BNP Paribas MAQS (Multi-Asset, Quantitative and Solutions) division. In particular, as the Chinese stock market was expected to recover, we preemptively implemented the RQFII fund improvement processes.

In preparation for the interest rate hikes in the United States, we launched diverse funds while increasing our senior loan fund lineup. In addition, we steadily increased our overseas investment volume by investing in alternative assets in addition to traditional assets. We also developed CSR and other related environmentally-friendly ESG funds and solar power plant infrastructure funds.

In addition to such achievements at home and abroad, Shinhan BNP Paribas AM launched the Target Date Fund (TDF) in the retirement pension market, which requires stable long-term investment. We maintained our position as a leading comprehensive asset management company in the industry by steadily developing new products, including ELFs (Equity Linked Funds), which have diversified their return structure to increase customer assets. Based on these efforts and its success in increasing customer asset return, Shinhan BNP Paribas AM was awarded the Best Equity Fund at the 2017 Market Leader Awards by E-Today and Innovative Fund of the Year (Shinhan BNPP Covered Call Security Feeder Investment Trust) at the 2017 Korea Funds Awards by Moneytoday.

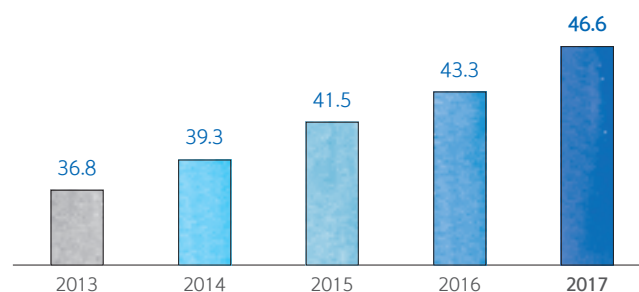
In addition, in accordance with the direction of the '2020 SMART Project' promoted by the Group for sustainable future growth, Shinhan BNP Paribas AM set itself the goal of playing the role of the asset management solution center of the Shinhan Financial Group in 2020 in terms of restoring its position as the No. 1 comprehensive asset management company among bank-affiliated companies. To that end, it established three-phase core tasks as its mid- and long-term strategic plans: (1) growth by enhancing the core capabilities as a comprehensive asset management company, (2) differentiated growth with multi-asset solutions and capabilities, and (3) fulfillment of its role as the Group's asset management solutions center. Shinhan BNP Paribas AM will attempt to realize its vision of becoming 'The Asset Management Company in Korea' based on collaboration with Group subsidiaries and a global partnership with BNP Paribas AM Holdings.

2018 Business Plans

In 2018, more variables are anticipated to come into play both at home and abroad, including the interest rate hikes in the US, the recovery of China economy, and the advent of the Fourth Industrial Revolution. It also appears that the volatility of the equity market and low interest rates will continue. In addition, it is anticipated that investors will demand diverse investment solutions and invest in new types of investment products including Absolute Return Funds such as 'deposits interest rate + α ' funds due to limited investment return from traditional investment. Shinhan BNP Paribas AM will firmly maintain its position as a large-scale asset management company representing the local industry while enhancing its capabilities as the asset management unit of the Shinhan Financial Group and steadily developing investment strategies and products.

Assets under Management

(Unit: KRW trillion, Net Asset Value)



To that end, the company has developed the following 'Eight Main Strategic Tasks' to attain its 2018 strategic objective of 'Accelerated Growth of the Solutions Business' under the direction of the '2020 SMART Project'

- (1) re-development of local equity funds by style
- (2) meaningful growth of the solution-based retirement pension and institutional investment markets
- (3) recapturing the leadership position in the Chinese public offering market
- (4) deployment of digital service systems in response to digital channels
- (5) maintenance of market leader position in public offerings with mid-level of risk and return
- (6) consolidation of the Group's leading asset management subsidiary in the alternative investment market
- (7) enhancement of internal control capacity to effectively respond to market changes
- (8) improvement of the evaluation and reward systems to secure competitive market advantages

In 2018, Shinhan BNP Paribas AM will make concerted efforts to enhance the trust of customers who invest in its products and services based on their confidence in the practice of 'Compassionate Finance, Your Companion for the Future.'

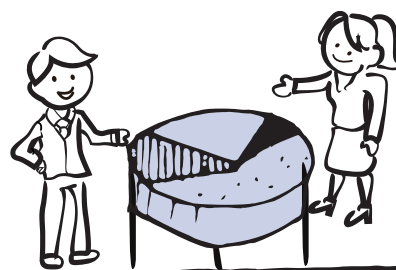


Financial Section

In 2017, Shinhan Financial Group posted KRW 2,917.9 billion of consolidated net income attributable to equity shareholders, driven by solid core earnings growth in both banking and non-banking units, consistent credit cost management and cost saving efforts. This represents an increase of 5.2% over the previous year and the Group has now posted net income growth for fourth consecutive years.

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MANAGEMENT'S DISCUSSION AND ANALYSIS



2017 Review

Global and Domestic Economic Conditions

In 2017, the global economy demonstrated positive growth due to the ongoing business recovery in advanced economies. The US raised its base interest rate three times during the year thanks to stable commodity prices and positive macroeconomic indicators. It also announced a plan to further shrink its balance sheet, indicating a solid economic recovery. The Euro zone also exhibited growth thanks to positive economic indicators and solid business performance, while political uncertainties were reduced. The UK also reported somewhat positive figures thanks to the global economic recovery, including a positive economic forecast published by the IMF. Elsewhere, the Japanese economy maintained a stable course as the unemployment rate steadily declined based on a continuing policy of monetary easing and fiscal expansion implemented by the government, while commodity prices showed a modest recovery. China, India, and a range of ASEAN countries (Indonesia, Thailand, Malaysia, the Philippines, and Vietnam) also displayed a stronger economic recovery compared to advanced economies as their political conditions have stabilized in line with global economic growth.

Though the Korean economy showed greater geopolitical uncertainty due to the change of administration and issues related to North Korea's nuclear missile program, business took a turn for the better as the GDP growth rate rose in line with the continued increase in private-sector spending, while business performance improved along with the steady growth of export thanks to the recovery of the global economy. Household debts, however, emerged as a concern as the Bank of Korea raised the base interest rate once in November, along with three consecutive hikes of the US base interest rate, but they soon regained stability. Furthermore, the tension with China caused by the Republic of Korea's deployment of THAAD (Terminal High Altitude Area Defense) also appeared to be easing by the year

end. Meanwhile, capital investment increased with the improved semiconductor industry outlook and the real estate market maintained solid consumer market growth, despite government plans to strengthen regulations on real estate market.

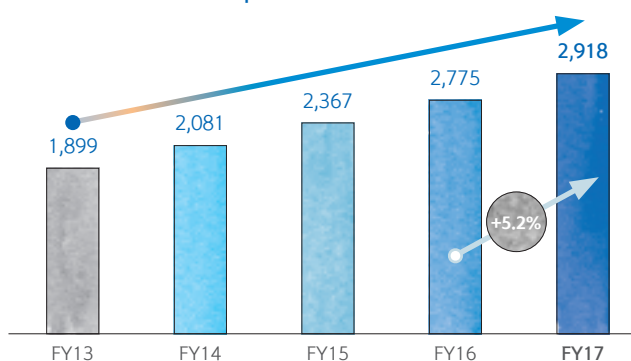
SFG Overview

In 2017, Shinhan Financial Group posted KRW 2,917.7 billion of consolidated net income attributable to equity shareholders, representing an increase of 5.2% over the KRW 2,774.8 billion posted for the previous year. The Group has now posted net income growth for fourth consecutive years based on the solid profitability of all Group subsidiaries.

Interest income has enhanced the Group's core profitability base because its interest income increased every quarter while its net interest income (NIM) improved steadily due to the increase in profit-oriented assets and the improved funding structure. Non-interest income also contributed to the growth of the Group's operating income (interest income + non-interest income) as the trust business posted improved performance. General and

Shinhan Financial Group Net Income

(Unit: KRW billion)



administrative expenses increased slightly over the annual average as the Group made efforts to reduce its operational costs from a long-term perspective, including the inducement of early retirement program. The Group maintained credit costs at a stable level as its asset soundness continued to improve through systematic risk management, steadily contributing to the growth of its operating income.

Furthermore, the Group's global business division posted net income of KRW 206.9 billion in 2017, a 28.4% increase over the previous year, as its profitability improved greatly in emerging Asian markets based on its global matrix organization, thus proving that its efforts to boost profitability in core Asian markets over a long period have begun to bear fruit.

Income

Group Income

The Group posted consolidated net income of KRW 2,917.9 billion (attributable controlling interest) in 2017, the second highest figure in its history after the KRW 3.1 trillion recorded in 2011. Shinhan Financial Group has maintained stable profitability through preemptive risk management while implementing a consistent growth strategy under its excellent governance structure. In particular, its global income rose by 28.4% due to efforts made under the 2020 SMART Project, significantly contributing to the increase in income deriving from greatly improved profitability.

Group Income

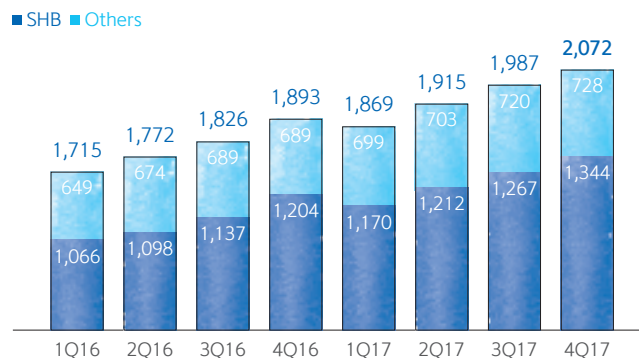
(Unit: KRW billion)

	FY17	FY16	YoY(%)
Operating Income(a=b+c)	9,184.2	8,782.4	4.6
Interest Income(b)	7,843.0	7,205.4	8.8
Non-interest Income(c)	1,341.2	1,577.0	-15.0
G&A Expenses(d)	4,811.2	4,508.6	6.7
Pre-provision Operating Income(e=a-d)	4,373.0	4,273.8	2.3
Non-operating Income(f)	-32.4	61.8	n.a.
Pre-Provision Income(g=e+f)	4,340.5	4,335.6	0.1
Provision for Credit Losses(h)	544.3	1,165.1	-53.3
Earnings before Income Tax(i=g-h)	3,796.2	3,170.5	19.7
Income Tax	847.9	345.6	145.4
Consolidated Net Income ¹⁾	2,917.9	2,774.8	5.2

1) Net income in controlling interest

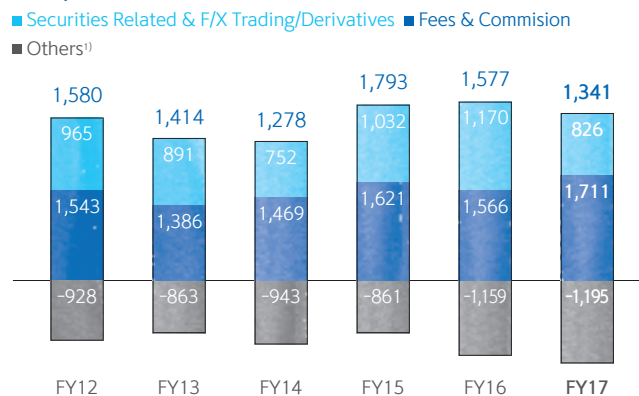
Group Interest Income

(Unit: KRW billion)



Group Non-interest Income

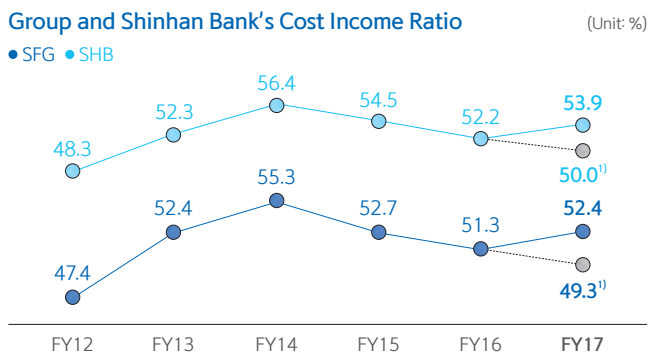
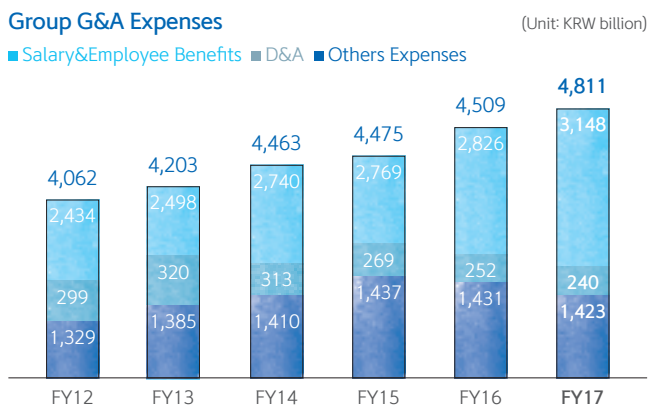
(Unit: KRW billion)



1) Including insurance fees on deposits, contribution expenses etc.

Interest income increased by 8.8% to KRW 7,843.0 billion over the previous year – primarily because the net interest income (NII) increased in line with the steady increase in the net interest margin (NIM) along with the profitability-oriented growth of quality assets. On the other hand, non-interest income decreased by 15.0% to KRW 1,341.2 billion over the previous year. However, fee income, the Group's core non-interest income source, steadily increased by 9.3% to KRW 1,711.0 billion over the same period of the previous year thanks to the increase of trust fee income.

MANAGEMENT'S DISCUSSION AND ANALYSIS

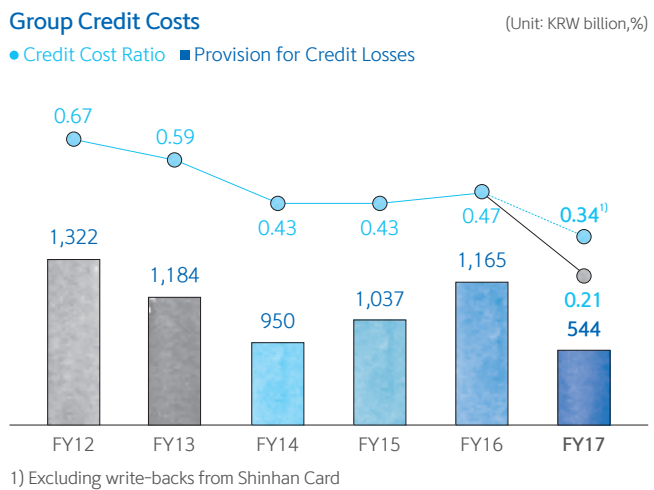


The Group's general & administrative (G&A) expenses increased by 6.7% to KRW 4,811.2 billion over the previous year. This was largely attributable to the increased costs of the early retirement program (ERP) undertaken in the fourth quarter. When this figure is excluded, however, G&A expenses were controlled at an adequate level as the expenses for ads/promotions, other services and supplies have steadily decreased. As a result of the Group's continued efforts since late 2012 to reduce costs strategically at the group level in order to improve its high cost structure, the growth of its G&A expenses recently started to

stabilize. Based on this improvement of the cost structure in 2017, the Group's cost efficiency and profitability are expected to improve significantly. In addition, the Group's cost income ratio shows a steady decrease at 49.3% when early retirement program expenses are excluded as a result of the Group's effective use of G&A expenses, while profitability remains stable.

The Group's credit costs decreased by 53.3% to KRW 544.3 billion compared to the previous year, and credit cost ratio posted the historically lowest level at 21bp. Due to the preemptive risk management, low interest rate environment and Shinhan Card's write-backs, Shinhan's all subsidiaries credit costs have steadily declined.

As such, Shinhan Financial Group recorded sustainable growth performance because of (1) the increase in interest income in line with the solid growth of stable loans and the stable improvement in its margin, (2) the Group's efforts to cut costs on a long-term basis, and (3) the stable credit cost ratio achieved through consistent preemptive risk management.



Subsidiaries Income

The Group's non-banking subsidiaries such as Shinhan Card, Shinhan Investment and Shinhan Life also posted solid results. The Group maintained a stable income flow by minimizing fluctuations in its income through mutual complimentary earnings generated among its banking and non-banking companies.

Group Subsidiary Income

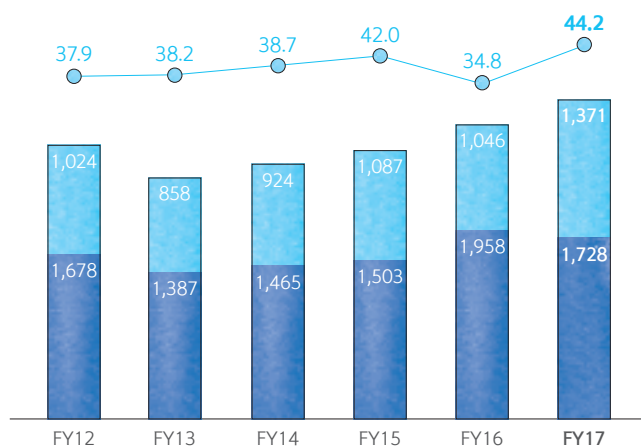
	(Unit: KRW billion)		
	FY17	FY16	YoY(%)
Bank(a)	1,728.3	1,957.6	-11.7
Shinhan Bank	1,711.0	1,940.3	-11.8
Jeju Bank	17.3	17.3	-0.1
Non-Bank(b)	1,371.0	1,045.7	31.1
Shinhan Card	913.8	715.9	27.6
Shinhan Investment Crop.	211.9	115.4	83.6
Shinhan Life Insurance	120.6	150.6	-19.9
Shinhan BNPP AM	12.8	9.3	37.8
Shinhan Capital	87.6	33.9	158.8
Shinhan Savings Bank	16.8	12.5	34.3
Shinhan Data System	1.4	1.2	18.4
Shinhan ALTAS	6.5	7.6	-15.1
Shinhan Credit Information	0.3	-1.2	n.a
Shinhan Alternative Investment	-0.8	0.5	n.a
Total(a+b)	3,099.3	3,003.3	3.2
Consolidate Net Income ¹⁾	2,917.9	2,774.8	5.2

1) Net income in controlling interest

Net Income Contribution by Non-bank Subsidiaries

(Unit: KRW billion,%)

● NI contribution(%) ■ Non-Bank ■ Bank



1) After reflecting ownership by SFG

Shinhan Bank

In 2017 Shinhan Bank's net income decreased by 11.8% to KRW 1,711.0 billion compared to the previous year while the bank's core earnings from interest income increased by 10.8% with the stable assets growth and NIM management.

Shinhan Bank Income

(Unit: KRW billion)

	FY17	FY16	YoY(%)
Operating Income(a=b+c)	5,782.8	5,537.3	4.4
Interest Income(b)	4,992.1	4,504.1	10.8
Non-interest Income(c)	790.7	1,033.1	-23.5
G&A Expenses(d)	3,118.1	2,889.9	7.9
Pre-provision Operating Income(e=a-d)	2,664.7	2,647.4	0.7
Non-Operating Income(f)	-46.6	69.7	n.a
Pre-Provision Income(g=e+f)	2,618.1	2,717.1	-3.6
Provision for Credit Losses(h)	460.3	688.4	-33.1
Earnings before Income Tax(i=g-h)	2,157.7	2,028.7	6.4
Income Tax	446.5	88.1	406.8
Net Income ¹⁾	1,711.0	1,940.3	-11.8

1) Net income in controlling interest

Interest income increased by 10.8% to KRW 4,992.1 billion over the previous year, with stable NIM and policies for ensuring steady asset growth, while non-interest income decreased by 23.5% to KRW 790.7 billion from the previous year. Non-interest income declined with the impairment loss on available for sales (AFS) securities in the fourth quarter. However, fee income the essential earning component of non-interest income increased by 12.0% to KRW 991.1 billion compared to the previous year due to the increase of trust fee income.

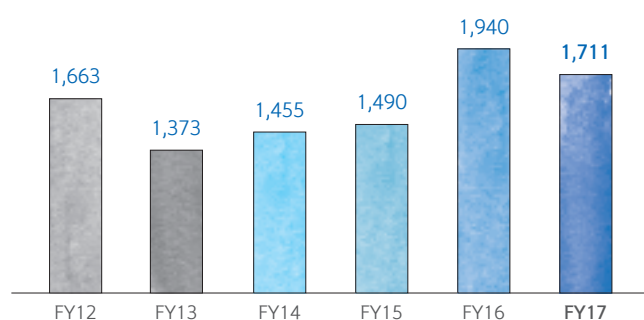
Shinhan Bank's general & administrative (G&A) expenses increased by 7.9% to KRW 3,118.1 billion over the previous year. However, the Group has secured the foundation for sustainable growth by improving its workforce structure and enhancing its service channels on a long-term basis, through the large-scale implementation of the early retirement program. The Group is also promoting continuous strategic group-wide efforts to reduce expenses.

Credit costs decreased by 33.1% to KRW 460.3 billion from the previous year, while credit costs decreased significantly, posting the lowest level in the history thanks to a consistent credit policy and systematic risk management as well as continued management of exposure to vulnerable industries such as shipbuilding and shipping industries.

MANAGEMENT'S DISCUSSION AND ANALYSIS

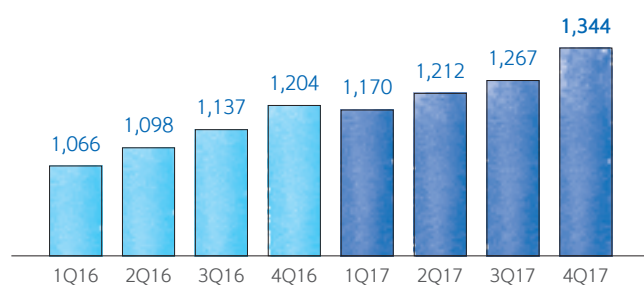
Shinhan Bank Net Income

(Unit: KRW billion)



Shinhan Bank Interest Income

(Unit: KRW billion)



Shinhan Card

Shinhan Card posted net income of KRW 913.8 billion in 2017, representing an increase of 27.6% over the previous year. It has maintained a stable stream of income with steady growth of sales and efforts to reduce funding and marketing expenses in the midst of harsh business conditions, including lower interest rates on loan products, and the transaction fee cut for small and medium-sized merchant members. As a result of efforts to maintain the credit cost at a stable level through preemptive risk management, Shinhan Card posted a credit cost ratio of 1.50%, the lowest in its history.

Shinhan Card Income

(Unit: KRW billion)

	FY17	FY16	YoY(%)
Operating Revenue(a)	4,916.8	4,674.1	5.2
Card Business	3,911.6	3,907.5	0.1
Installment Finance	102.5	97.3	5.3
Lease	68.7	53.8	27.7
Others	834.0	615.4	35.5
(Derivatives & FX)	299.6	101.9	193.9
Interest Expenses(b)	379.9	394.6	-3.7
G&A Expenses(c)	796.9	751.2	6.1
Commissions & Other Expenses(d)	2,578.1	2,240.0	15.1
(Derivatives & FX)	266.1	73.2	263.4
Pre-Provision Income(e=a-b-c-d)	1,161.9	1,288.3	-9.8
Provision for Credit Losses(f)	13.8	377.4	-96.4
Earnings before Income Tax(g=e-f)	1,148.2	910.9	26.0
Income Tax	249.4	203.5	22.6
Net Income ¹⁾	913.8	715.9	27.6

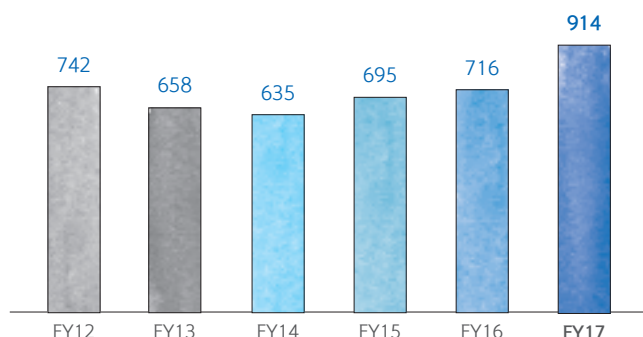
1) Net income in controlling interest

Operating income increased by 5.2% to KRW 4,916.8 billion over the previous year. Although the merchant fee rates were lowered and the increase of preferentially treated small and medium-sized merchant members was regulated, credit card operating income posted in the previous year was maintained with the increased transaction volumes, while lease income also grew with the increase of long-term rental cars and overseas subsidiaries.

Interest expenses decreased by 3.7% to KRW 379.9 billion from the previous year as payable interest decreased due to the low interest rate environment despite the increase in funding size. General & administrative (G&A) expenses increased by 6.1% to KRW 796.7 billion over the previous year, which is attributable to the card company's temporary increase of early retirement expenses in the fourth quarter. G&A expenses are controlled at

Shinhan Card Net Income

(Unit: KRW billion)



an adequate level when such expenses are excluded. It appears the company will be able to control its G&A expenses effectively due to continued efforts to enhance service efficiency, while the relevant expenses are expected to decrease in the future.

The company posted credit costs of KRW 13.8 billion, representing a 96.4% decrease from the previous year, with the temporary return of large allowances as the model for evaluating loan loss allowances modified in the first quarter. When the temporary return of loan loss allowances is excluded, the loan loss ratio is 150bp, the lowest in the company's history, showing a continuous downward stabilization trend.

Shinhan Investment Corp

Shinhan Investment Corp. posted net income of KRW 211.9 billion in 2017, an increase of 83.6% over the previous year, thanks to gains from the proprietary trading and the sales of financial products such as beneficiary certificates along with the global financial market recovery.

Looking at it by categories, fees & commission income increased by 7.4% to KRW 429.5 billion over the previous year; the gains from proprietary trading increased by 31.2% over the previous year around equity investments; and fees related to financial products increased along with active sales of beneficiary certificates and global investment products.

The company posted general and administrative expenses of KRW 456.3 billion, a 10.0% increase over the previous year. General and administrative expenses grew in accordance with regular payroll and incentive expense increases along with the improved performance of Shinhan Investment.

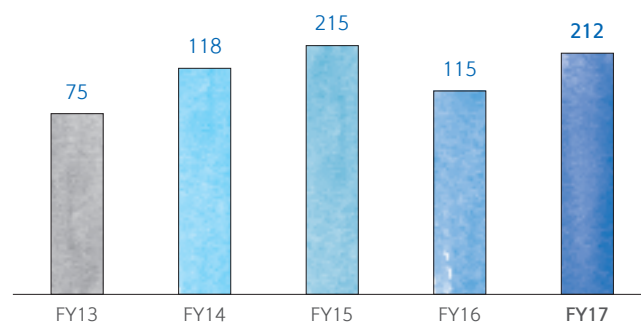
Shinhan Investment Corp. Income

(Unit: KRW billion)

	FY17	FY16	YoY(%)
Operating Revenue	795.0	668.1	19.0
Fee & Commission	429.5	399.7	7.4
Proprietary Trading	239.3	182.4	31.2
Others	126.3	85.9	47.0
Operating Expense	542.2	524.2	3.4
G&A Expenses	456.3	414.6	10.0
Commission Expenses	81.9	104.1	-21.4
Provision for Credit Losses	4.1	5.5	-26.1
Operating Income	252.8	143.8	75.8
Net Income	211.9	115.4	83.6
Net Capital Ratio	799%	1,032%	-233%p
ROE	6.7%	4.2%	2.5%p
ROA	0.8%	0.4%	0.4%p

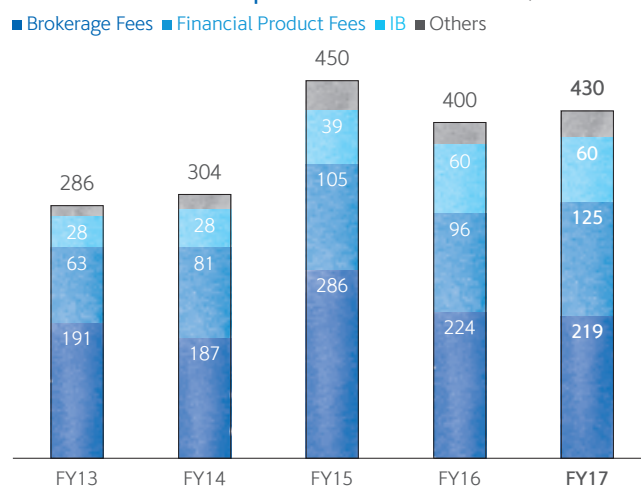
Shinhan Investment Corp. Net Income

(Unit: KRW billion)



Shinhan Investment Corp. Fees & Commission

(Unit: KRW billion)



MANAGEMENT'S DISCUSSION AND ANALYSIS

Shinhan Life Insurance

Shinhan Life Insurance's net income in 2017 decreased to KRW 120.6 billion, a drop of 19.9% from the previous year. However, net income before taxes increased by 5.6% over the previous year, showing solid growth, largely because the company secured stable earnings from its insurance business based on a sales focused on high-margin protection-type insurance, although asset management gains decreased due to consistently low interest rates.

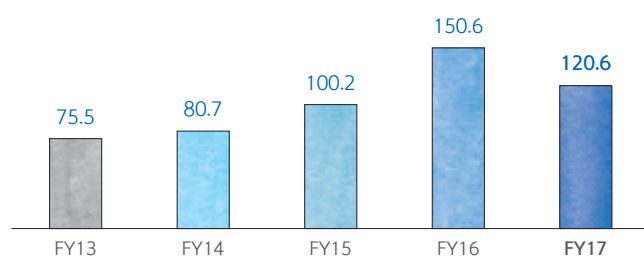
Shinhan Life Insurance Income

(Unit: KRW billion)

	FY17	FY16	YoY(%)
Insurance Operating Net Results	1,409.0	1,622.1	-13.1
Premiums Written	4,551.5	4,559.4	-0.2
Claims Paid(Δ)	2,213.3	2,007.8	10.2
Reinsurance Operating Results	-2.7	-1.6	-
Operating Expenses(Δ)	926.5	927.8	-0.1
Net Investment Gains Net Results	826.4	808.2	2.3
Others Net Results	73.9	48.2	53.3
Total Operating Net Results	2,309.2	2,478.5	-6.8
Provision of Policy Reserve(Δ)	2,147.1	2,325.0	-7.7
Net Income Before Taxes	162.1	153.5	5.6
Net Income	120.6	150.6	-19.9

Shinhan Life Insurance Net Income

(Unit: KRW billion)



Asset Growth

Group Asset Growth

The Group's total consolidated assets at the end of 2017 amounted to KRW 426.3 trillion, showing an increase of 7.7% over the previous year, while its total assets including trust assets increased to KRW 536.9 trillion, an increase of 9.5% over the previous year. The Group's assets increased steadily thanks to the balanced growth across its banking and non-banking divisions.

Group Asset Growth

(Unit: KRW billion)

	2017.12	2016.12	YTD(%)
Bank (a)	381,349.7	345,421.3	10.4
Shinhan Bank	375,786.7	340,236.4	10.4
Jeju Bank	5,562.9	5,184.8	7.3
Non-Bank (b)	153,584.2	142,646.8	7.7
Shinhan Card	26,367.6	24,419.9	8.0
Shinhan Investment Corp.	46,721.0	43,329.1	7.8
Shinhan Life Insurance	29,719.4	27,499.8	8.1
Shinhan BNPP AM	41,134.5	39,439.5	4.3
Shinhan Capital	5,315.4	4,506.8	17.9
Shinhan Savings Bank	1,287.2	970.1	32.7
Shinhan Data System	39.8	34.4	15.7
Shinhan AITAS	58.2	53.9	7.9
Shinhan Credit Information	22.7	23.1	-1.5
Shinhan Alternative Investment	86.9	114.9	-24.3
Others	2,861.1	2,255.3	26.9
Total ¹⁾	536,850.2	490,115.1	9.5
Consolidate Total Assets	426,305.8	395,680.3	7.7

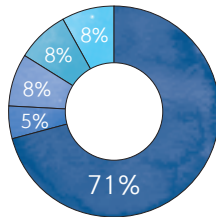
1) Trust A/C of Shinhan Bank, Shinhan Investment Corp. and AUM (including discretionary assets) of Shinhan BNPP AM are included.

The total assets of the banking division including trust assets in 2017 increased by 10.4% to KRW 381.3 trillion over the previous period, while the assets of its non-banking units increased by

7.7% to KRW 153.6 trillion over the previous year. In the case of the banking division, assets were increased with the increase in loans to retail and corporate customers. Meanwhile, the non-banking division posted balanced asset growth due to an increase in card loans by Shinhan Card, an increase in equity-secured and IB-related loans by Shinhan Investment Corp, and an increase in the investment assets of Shinhan Life Insurance.

Asset Breakdown by Subsidiary

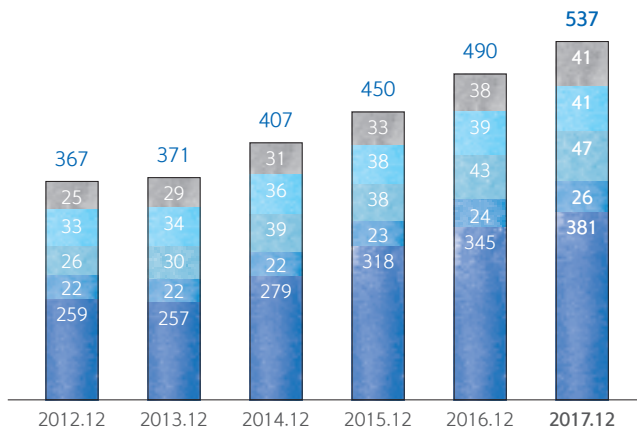
- Bank (Shinhan Bank + Jeju Bank)
- Shinhan Card
- Shinhan Investment Corp.
- Shinhan BNPP AM
- Others



Shinhan Financial Group Asset Growth Trend

(Unit: KRW trillion)

- Bank (Shinhan Bank + Jeju Bank)
- Shinhan Card
- Shinhan Investment Corp.
- Shinhan BNPP AM
- Others



Subsidiary Asset Growth

Shinhan Bank

Loans

Shinhan Bank's loans at the end of 2017 increased by 5.9% to KRW 195.5 trillion over the previous year. The bank's assets have increased steadily each year based on a consistent asset growth strategy. Loans increased in a balanced manner between the retail and corporate sectors, both of which achieved

solid asset growth in 2017 as well. The bank's retail loans increased by 5.6% to KRW 98.9 trillion over the previous year, while retail personal loans increased due to the low interest rate environment and the active domestic real estate market, including an increase in jeonse loans (i.e. lump-sum deposit loans). Mortgage loans posted solid growth as the demand for housing loans increased, although the bank securitized approximately KRW 3.6 trillion.

The bank's corporate loans increased by 6.3% to KRW 96.6 trillion over the previous year; and its total corporate loans grew with small and medium-sized companies as the center, while loans to large corporations decreased from the previous year. Corporate loans steadily increased in terms of non-audited SMEs and SOHO customers in recent years, showing a similar growth pattern in 2017 as well.

Shinhan Bank Loans

(Unit: KRW billion)

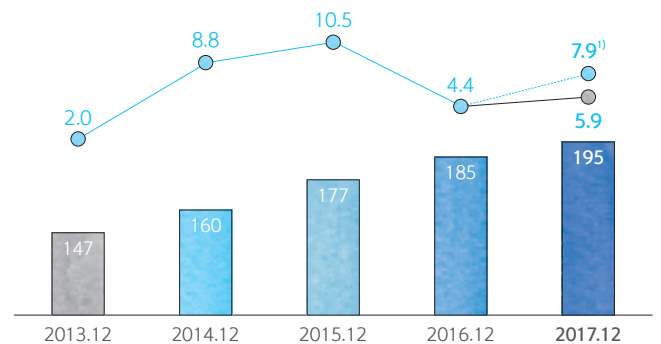
	2017.12	2016.12	YTD(%)
Loan in KRW	195,497	184,599	5.9
Retail	98,877	93,628	5.6
Mortgage	52,808	52,392	0.8
Others ¹⁾	46,069	41,236	11.7
Corporate	96,620	90,931	6.3
SME	78,556	71,757	9.5
SOHO	38,610	35,539	8.6
Large Corpate etc.	18,064	19,173	-5.8
Loan in FX	7,658	7,919	-3.3

1) Including unsecured personal loans, secured loans, Jeonse loans etc.

Shinhan Bank Loan Growth

(Unit: KRW trillion, %)

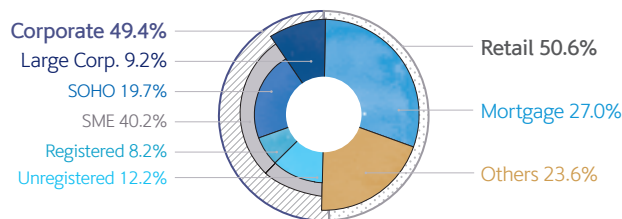
- Growth Rate(YTD)
- Total Loans



1) Including loans securitized

MANAGEMENT'S DISCUSSION AND ANALYSIS

Shinhan Bank Loan Composition



Deposits

Shinhan Bank's deposits at the end of 2017 amounted to KRW 197.4 trillion, showing an increase of 5.0% over the previous year. Deposits have increased steadily, especially low-cost deposits, thanks to efforts to induce salary accounts and credit card payment accounts while ample market liquidity continued with low interest rates.

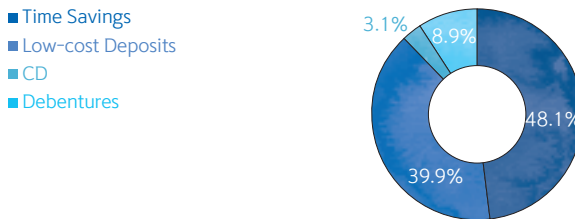
The bank has aggressively induced the opening of salary accounts among retail and corporate customers and payment accounts from credit card users, expanding the foundation for the growth of low-cost deposits. As a result, the bank's low-cost deposits increased at a high rate each year from 2013 to 2017, representing 39.9% of its total funding in 2017.

Shinhan Bank Deposits

(Unit: KRW billion)

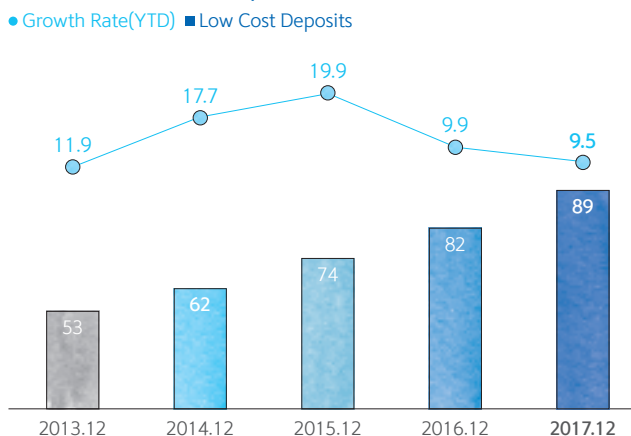
	2017.12	2016.12	YTD(%)
Total Deposits in KRW	197,355	187,932	5.0
Low Cost Deposits	89,462	81,681	9.5
Demand	26,936	25,149	7.1
Savings	62,525	56,232	10.6
Time Savings	107,894	106,251	1.5
Time Deposits	99,491	97,793	1.7
Accumulative etc.	8,403	8,458	-0.6
Certificate of Deposits	6,973	5,828	19.7
Debentures in KRW	20,057	16,605	20.8

Shinhan Bank Funding Composition



Shinhan Bank Low-cost Deposits

(Unit: KRW trillion, %)



Shinhan Card

Number of Members

As of the end of 2017, the number of Shinhan Card's active cardholders had increased by 1.6% to 12.3 million over the previous year. The number of credit cardholders is apparently recovering due to the mitigated regulation of online credit card issuance, while the credit card payment market has grown steadily. As of the end of 2017, the number of Shinhan Card affiliated merchants had increased by 3.8% to 2.7 million stores over the previous year.

Effective Cardholders & Merchants of Shinhan Card

(Unit: Thousand)

	2017.12	2016.12	YTD(%)
Effective Cardholders	12,295	12,097	1.6
Merchants	2,724	2,626	3.8

Assets

Shinhan Card's operating assets at the end of 2017 amounted to KRW 24.6 trillion increased by 7.4% from the previous year. Credit purchase assets increased by 7.0% over the previous year thanks to the growth of the card payment market, including on-line and mobile payment.

Shinhan Card Operating Assets

(Unit: KRW billion)

	2017.12	2016.12	YTD(%)
Earning Assets	24,553	22,859	7.4
Credit Purchase	12,620	11,795	7.0
Cash Advances	1,921	1,953	-1.7
Card Loan	5,944	5,618	5.8
(Re-aged Loan)	250	241	3.4
Installment Finance	2,270	2,165	4.8
Lease etc.	1,798	1,328	35.4

Funding

Shinhan Card's total funding at the end of 2017 amounted to KRW 15.8 trillion, showing an increase of 10.7% over the previous year. The funding portfolio has also been diversified into debentures, ABS, CP, and others. In 2017, the company increased funding with debentures by 9.0% over the previous year based on abundant market liquidity and a stable bond market.

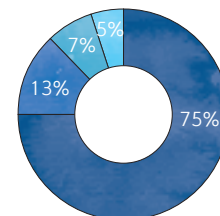
Shinhan Card Total Funding

(Unit: KRW billion)

	2017.12	2016.12	YTD(%)
Total Funding	15,840	14,310	10.7
Debentures	11,814	10,842	9.0
ABS	2,121	1,934	9.7
CP	1,130	935	20.9
Others	775	599	29.4

Shinhan Card Funding Portfolio

- Debenture
- ABS
- CP
- Others



Shinhan Investment Corp.

The total assets of Shinhan Investment Corp. at end of 2017 amounted to KRW 28.6 trillion, an increase of 12.1% over the previous year. Its total assets increased as loans increased by 45.1% due to the increase in equity-secured loans and IB-related loans, although cash and deposits decreased by 14.3% from the previous year.

Condensed Balance Sheets of Shinhan Investment Corp.

(Unit: KRW billion)

	2017.12	2016.12	YTD(%)
Total Assets	28,649	25,549	12.1
Cash and Deposit	3,306	3,858	-14.3
Securities	18,511	17,091	8.3
(Trading Securities)	16,195	15,024	7.8
Derivatives	655	349	87.7
Loans	3,702	2,552	45.1
(Broker's Loans)	2,080	1,566	32.8
Tangible Fixed Assets	122	119	2.4
Other Assets	2,354	1,580	49.0

In 2017, brokerage transaction volume amounted to KRW 249 trillion, an increase of 1.6% over the previous year. Market trading increased as investment sentiment recovered along with the rise of domestic and global markets. Accordingly, the company's trading volume exhibited a stable growth trend.

Shinhan Investment Corp. Trading Volume

(Unit: KRW trillion)

	FY17	FY16	YoY(%)
Stocks	249	245	1.6
Futures	508	449	13.1
Options	15	17	-11.8

MANAGEMENT'S DISCUSSION AND ANALYSIS

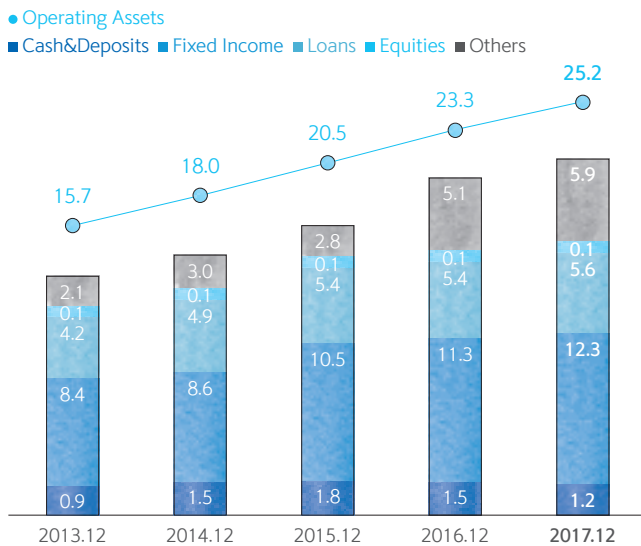
Shinhan Life Insurance

The operating assets of Shinhan Life Insurance amounted to KRW 25.2 trillion, an increase of 7.9% over the previous year, as of the end of 2017. In order to generate stable income under sustained low interest rate trends, the company increased its holdings of long-term bonds, so that fixed income assets increased by 9.4% from the previous year. Loan assets increased by 4.4% year on year.

Shinhan Life Insurance Operating Assets (Unit: KRW billion)

	2017.12	2016.12	YTD(%)
Operating Assets	25,156.9	23,316.3	7.9
Cash & Deposits	1,170.6	1,457.8	-19.7
Fixed Income	12,344.2	11,281.7	9.4
Loans	5,643.3	5,404.7	4.4
Equities	66.0	72.7	-9.3
Others	5,932.9	5,099.4	16.3

Shinhan Life Insurance Operating Assets Growth (Unit: KRW trillion)

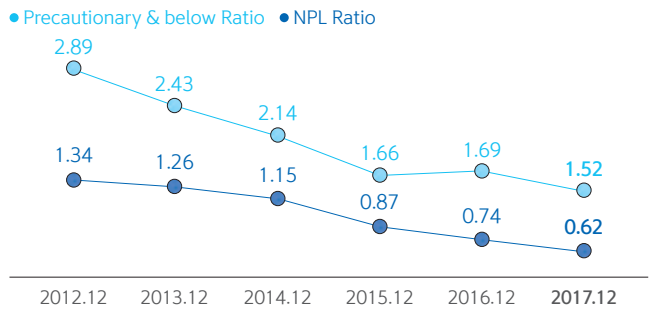


Asset Quality

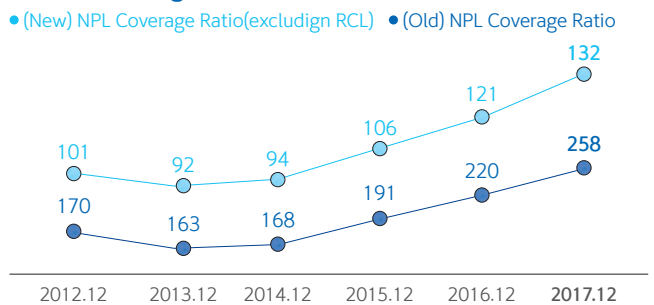
Group Asset Quality

As of the end of 2017, Shinhan Financial Group's NPL (non-performing loans) ratio decreased by 0.12%p from the previous year to 0.62%, the lowest since the Group's inception. The Group aggressively reduced risky assets through preemptive risk management together with a strategy of growing in quality assets. Meanwhile, the Group's substandard and below loans at the end of 2017 decreased by 11.5% to KRW 1.6 trillion compared to the previous year. The NPL coverage ratio reached 258% (including reserve for credit losses), effectively providing sufficient coverage for any potential losses in the future.

SFG NPL Ratio (Unit: %)



SFG NPL Coverage Ratio (Unit: %)



SFG Asset Quality

	(Unit: KRW billion)		
	2017.12	2016.12	YTD(%)
Total Loan ¹⁾	263,976	249,237	5.9
Normal	259,957	245,026	6.1
Precautionary	2,384	2,363	0.9
Substandard	551	798	-30.9
Doubtful	518	423	22.3
Estimated Loss	567	626	-9.6
Substandard & Below	1,635	1,848	-11.5
NPL Ratio	0.62%	0.74%	-0.12%p
Loan Loss Allowance ²⁾	4,226	4,066	3.9
Reserve for Credit Losses ³⁾	2,059	1,830	12.5
(New) NPL Coverage Ratio ⁴⁾	132%	121%	11%p
(Old) NPL Coverage Ratio	258%	220%	38%p

- 1) Sum of Shinhan Bank, Jeju Bank, Shinhan Card, Shinhan Investment Corp., Shinhan Life Insurance, Shinhan Capital and Shinhan Savings Bank
- 2) Sum of IFRS standard LLA and reserves for credit losses
- 3) Excluding reserve for contingent acceptances & guarantees and unused credit lines
- 4) Excluding reserve for credit losses in accordance with the revision of relevant regulation (Dec. 2016)

Subsidiary Asset Quality

Shinhan Bank

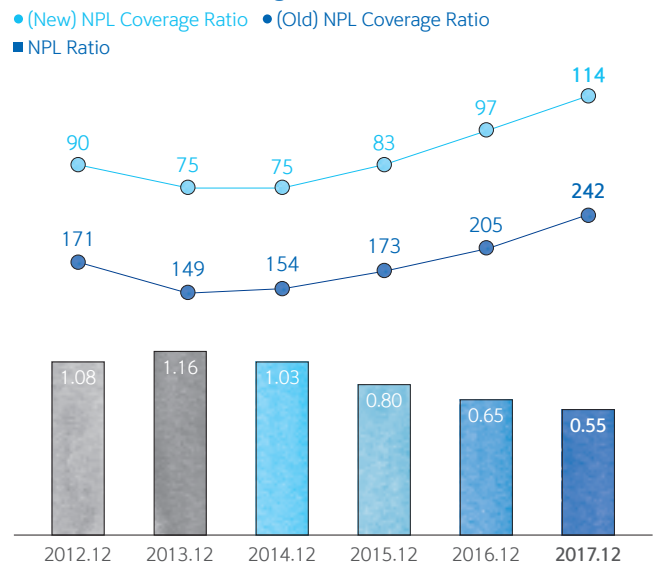
As of the end of 2017, Shinhan Bank's NPL ratio decreased by 0.10%p to 0.55% from the previous year. The bank has maintained its NPL ratio and other asset quality indicators at a highly stable level with growth in quality assets, while the low interest rate trend continues in the market. The bank's substandard and below loans at the end of 2017 amounted to KRW 1.2 trillion, a decrease of 12.0% from the previous year, while the delinquency ratio was maintained at a low level of 0.23%.

Shinhan Bank Asset Quality

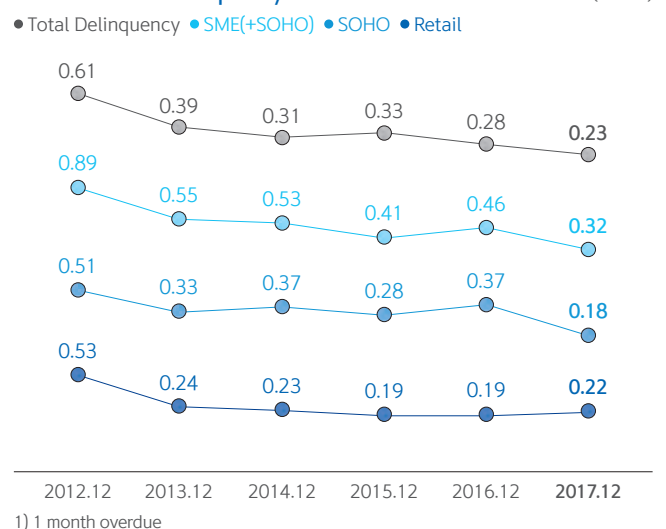
	(Unit: KRW billion)		
	2017.12	2016.12	YTD(%)
Total Loans	219,230	209,419	4.7
Normal	216,941	206,894	4.9
Precautionary	1,084	1,155	-6.1
Substandard	462	688	-32.9
Doubtful	363	263	38.2
Estimated Loss	381	420	-9.3
Substandard & Below	1,206	1,371	-12.0
NPL Ratio	0.55%	0.65%	-0.10%p
Loan Loss Allowance ¹⁾	2,914	2,804	3.9
Reserve for Credit Losses ²⁾	1,539	1,480	4.0
(New) NPL Coverage Ratio ³⁾	114%	97%	17%p
(Old) NPL Coverage Ratio	242%	205%	37%p

- 1) Sum of IFRS standard LLA and reserves for credit losses
- 2) Excluding reserve for contingent acceptance & guarantees and unused credit lines
- 3) Excluding reserve for credit losses in accordance with the revision of relevant regulation (Dec. 2016)

Shinhan Bank NPL Coverage Ratio & NPL Ratio



Shinhan Bank Delinquency Ratio



Shinhan Card

As of the end of 2017, Shinhan Card's NPL ratio decreased by 0.12%p to 1.04% from the previous year. Despite the recent increase in card loans, substandard and below loans decreased by 0.3% from the previous year due to preemptive risk management, while the delinquency ratio was maintained at 1.27%, the lowest in the company's history.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Shinhan Card Asset Quality

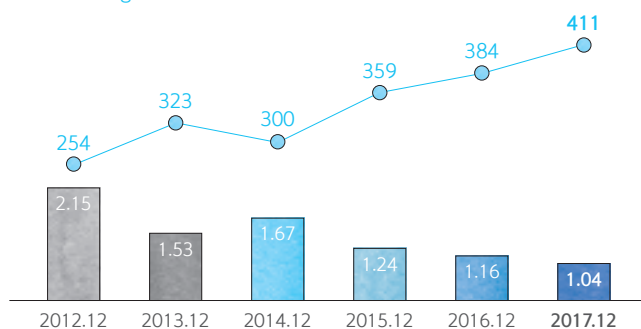
(Unit: KRW billion)

	2017.12	2016.12	YTD(%)
Total Loans	25,250	22,765	10.9
Normal	24,067	21,686	11.0
Precautionary	919	815	12.8
Substandard	-	-	-
Doubtful	122	90	36.1
Estimated Loss	141	175	-19.0
Substandard & Below	264	265	-0.3
NPL Ratio	1.04%	1.16%	-0.12%p
Loan Loss Allowance ¹⁾	1,083	1,015	6.8
Reserve for Credit Losses	431	275	56.8
NPL Coverage Ratio	411%	384%	27%p

Shinhan Card NPL Ratio & NPL Coverage Ratio

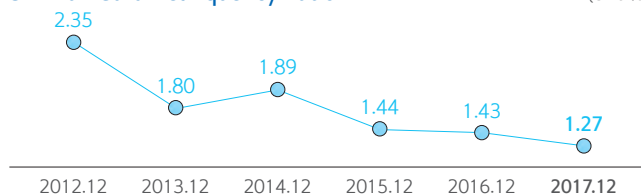
(Unit: %)

● NPL Coverage Ratio ■ NPL Ratio



Shinhan Card Delinquency Ratio

(Unit: %)



1) 1 month overdue from total credit

Capital Adequacy

Group Capital Adequacy

The Group's BIS ratio was 14.8% at the end of 2017. Its CET1 (Common Equity Tier 1) ratio improved by 0.2%p from 2016 to reach a stable 12.9% in 2017. While continued asset growth throughout the year also escalated the size of risk weighted assets, the increased capital which was derived from strong earnings growth helped improve the Group's CET1 ratio over the previous year. Currently, Shinhan Financial Group fully satisfied all capital adequacy requirement set forth under Korean laws and regulations.

The Group decided to pay a dividend of KRW 1,450 per share for the 2017 fiscal year. Its dividend payout ratio is approximately 23.6%, while the dividend yield is approximately 2.9%. Since paying a dividend payout ratio of 11.5% in 2011, Shinhan Financial Group has gradually increased its dividend payout ratio as part of its shareholder return policy.

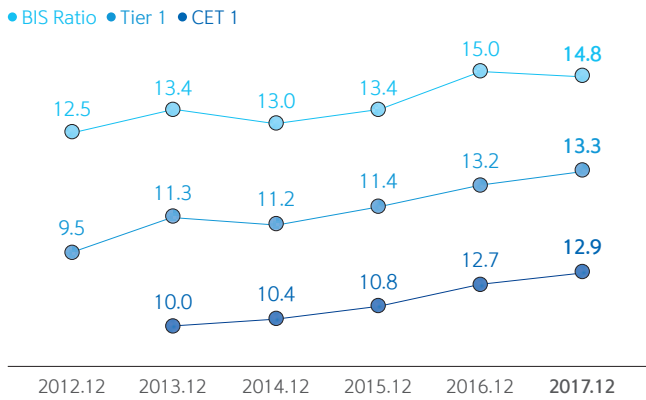
SFG BIS Ratio

(Unit: KRW billion)

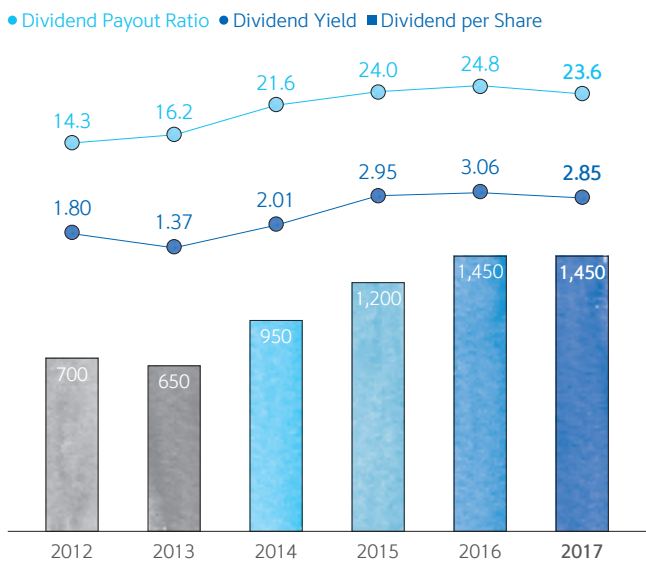
	2017.12	2016.12	YTD(%)
Risk-Weighted Assets	207,769	198,643	4.6
Capital	30,713	29,787	3.1
CET 1	26,757	25,325	5.7
Tier 1	27,673	26,210	5.6
BIS Ratio	14.8%	15.0%	-0.2%p
CET 1	12.9%	12.7%	0.2%p
Tier 1	13.3%	13.2%	0.1%p

1) Based on Basel3

SFG BIS Ratio Trend



SFG Dividend



Subsidiary Capital Adequacy

Shinhan Bank

Shinhan Bank maintained its CET 1 and Tier 1 ratio at a stable level of 12.8% and 13.2%, respectively, at the end of 2017. Despite the rapid growth of its assets in recent years, the bank maintains a solid capital surplus as it has generated stable net income.

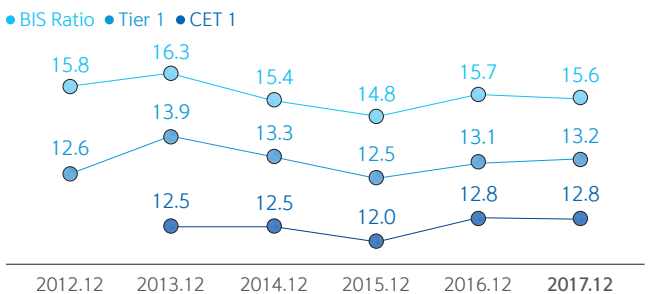
Shinhan Bank BIS Ratio

(Unit: KRW billion)

	2017.12	2016.12	YTD(%)
Risk-Weighted Assets	162,875	155,027	5.1
Capital	25,391	24,339	4.3
CET 1	20,891	19,913	4.9
Tier 1	21,561	20,385	5.8
BIS Ratio	15.6%	15.7%	-0.1%p
CET 1	12.8%	12.8%	-
Tier 1	13.2%	13.1%	+0.1%p

1) Based on Basel3

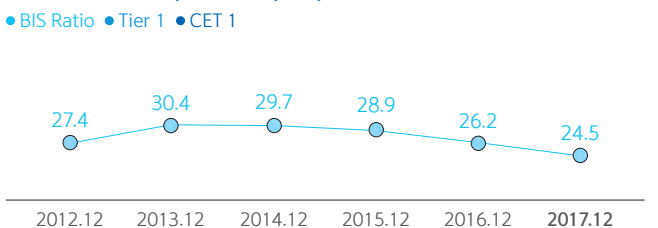
Shinhan Bank BIS Ratio Trend



Shinhan Card

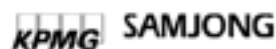
As of the end of 2017, Shinhan Card maintained a stable capital adequacy ratio of 24.5% compared to the regulatory minimum capital ratio of 8%. It also maintained a stable net income, although it decreased slightly from the previous year as its strategies focused on achieving the steady growth of healthy or viable assets while expanding its global services. It has maintained a risk-adjusted capital ratio of 20% or higher since 2007 thanks to efforts to decrease credit costs through preemptive risk management.

Shinhan Card Capital Adequacy Ratio



INDEPENDENT AUDITOR'S REPORT

Based on a report originally issued in Korean



KPMG Samjong Accounting Corp.

Gangnam Finance Center 27th Fl., 152 Teheran-ro, Gangnam-gu,
Seoul 06236, Republic of Korea Tel 82 2 2112 0100 / Fax 82 2 2112 0101
www.kr.kpmg.com

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

We have audited the accompanying consolidated financial statements of Shinhan Financial Group Co., Ltd. and its subsidiaries (collectively the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, the consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other matters

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

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 7, 2018

This report is effective as of March 7, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Consolidated Statements of Financial Position

As December 31, 2017 and 2016

<i>(In millions of won)</i>	Note	2017	2016
Assets			
Cash and due from banks	4,8,20	₩ 22,668,598	19,181,165
Trading assets	4,9,20	28,464,296	26,695,953
Financial assets designated at fair value through profit or loss	4,10,20	3,579,057	3,416,102
Derivative assets	4,11	3,400,178	3,002,859
Loans	4,12,20	275,565,766	259,010,575
Available-for-sale financial assets	4,13,20	42,116,937	37,662,691
Held-to-maturity financial assets	4,13,20	24,990,680	19,805,084
Property and equipment	14,20	3,021,772	3,145,613
Intangible assets	15	4,271,969	4,226,512
Investments in associates	16	631,294	353,600
Current tax receivable		25,015	12,587
Deferred tax assets	42	592,283	641,061
Investment property	17	418,303	353,175
Other assets	4,18,20	16,551,958	18,168,408
Assets held for sale		7,550	4,939
Total assets	₩	426,305,656	395,680,324
Liabilities			
Deposits	4,21	₩ 249,419,224	235,137,958
Trading liabilities	4,22	1,848,490	1,976,760
Financial liabilities designated at fair value through profit or loss	4,23	8,297,609	9,233,642
Derivative liabilities	4,11	3,487,661	3,528,244
Borrowings	4,24	27,586,610	25,294,241
Debt securities issued	4,25	51,340,821	44,326,785
Liabilities for defined benefit obligations	26	7,144	130,879
Provisions	27	428,958	728,888
Current tax payable		348,830	272,728
Deferred tax liabilities	42	9,712	10,638
Liabilities under insurance contracts	28	24,515,288	22,377,434
Other liabilities	4,29	25,312,773	20,917,147
Total liabilities		392,603,120	363,935,344
Equity			
Capital stock	30	2,645,053	2,645,053
Hybrid bonds		423,921	498,316
Capital surplus		9,887,335	9,887,335
Capital adjustments		(398,035)	(458,461)
Accumulated other comprehensive loss		(529,734)	(102,583)
Retained earnings		20,790,599	18,640,038
Total equity attributable to equity holders of Shinhan Financial Group Co., Ltd.		32,819,139	31,109,698
Non-controlling interests		883,397	635,282
Total equity		33,702,536	31,744,980
Total liabilities and equity	₩	426,305,656	395,680,324

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(In millions of won)

	Notes	2017	2016
Interest income	₩	11,798,654	11,236,302
Interest expense		(3,955,701)	(4,030,936)
Net interest income	32	<u>7,842,953</u>	<u>7,205,366</u>
Fees and commission income		4,044,955	3,803,596
Fees and commission expense		(2,334,001)	(2,238,057)
Net fees and commission income	33	<u>1,710,954</u>	<u>1,565,539</u>
Insurance income		4,599,808	4,586,098
Insurance expenses		(5,059,847)	(5,004,602)
Net insurance loss	28	<u>(460,039)</u>	<u>(418,504)</u>
Dividend income	34	257,306	281,623
Net trading income	35	963,223	369,510
Net foreign currency transaction gain		364,006	461,671
Net loss on financial instruments designated at fair value through profit or loss	36	(1,059,826)	(501,955)
Net gain on disposal of available-for-sale financial assets	13	499,187	647,541
Impairment losses on financial assets	37	(1,014,899)	(1,195,663)
General and administrative expenses	38	(4,811,198)	(4,508,575)
Other operating expenses, net	40	(462,992)	(797,911)
Operating income		3,828,675	3,108,642
Equity method income	16	20,393	9,995
Other non-operating income (loss), net	41	(52,811)	51,835
Profit before income taxes		<u>3,796,257</u>	<u>3,170,472</u>
Income tax expense	42	848,133	345,553
Profit for the year		<u>2,948,124</u>	<u>2,824,919</u>

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income (Continued)

For the years ended December 31, 2017 and 2016

(In millions of won, except earnings per share)

	Notes	2017	2016
Other comprehensive income (loss) for the year, net of income tax			
Items that are or may be reclassified to profit or loss:			
Foreign currency translation adjustments for foreign operations	₩	(194,172)	12,103
Net change in unrealized fair value of available-for-sale financial assets		(323,127)	(433,657)
Equity in other comprehensive income (loss) of associates		(22,813)	2,691
Net change in unrealized fair value of cash flow hedges		15,904	(1,262)
Other comprehensive loss of separate account		(9,278)	(4,330)
		<u>(533,486)</u>	<u>(424,455)</u>
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liability		103,525	15,307
Equity in other comprehensive income (loss) of associates		847	(2)
		<u>104,372</u>	<u>15,305</u>
Total other comprehensive loss, net of income tax	30	<u>(429,114)</u>	<u>(409,150)</u>
Total comprehensive income for the year	₩	<u>2,519,010</u>	<u>2,415,769</u>
Profit for the year attributable to:			
Equity holders of Shinhan Financial Group Co., Ltd.	30,43 ₩	2,917,735	2,774,778
Non-controlling interest		30,389	50,141
	₩	<u>2,948,124</u>	<u>2,824,919</u>
Total comprehensive income attributable to:			
Equity holders of Shinhan Financial Group Co., Ltd.	₩	2,490,170	2,367,062
Non-controlling interest		28,840	48,707
	₩	<u>2,519,010</u>	<u>2,415,769</u>
Earnings per share:			
Basic and diluted earnings per share in won	30,43 ₩	<u>6,116</u>	<u>5,736</u>

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

For the year ended December 31, 2016

(In millions of won)

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.								
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at January 1, 2016	₩ 2,645,053	736,898	9,887,335	(423,536)	304,771	17,689,134	30,839,655	973,401	31,813,056
Total comprehensive income for the year	-	-	-	-	-	2,774,778	2,774,778	50,141	2,824,919
Profit for the year	-	-	-	-	-	-	-	-	-
Other comprehensive income (loss), net of income tax:	-	-	-	-	12,012	-	12,012	91	12,103
Foreign currency translation adjustments	-	-	-	-	-	-	-	-	-
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	(432,530)	-	(432,530)	(1,127)	(433,657)
Equity in other comprehensive income of associates	-	-	-	-	2,689	-	2,689	-	2,689
Net change in unrealized fair value of cash flow hedges	-	-	-	-	(1,262)	-	(1,262)	-	(1,262)
Other comprehensive income of separate account	-	-	-	-	(4,330)	-	(4,330)	-	(4,330)
Remeasurements of defined benefit plans	-	-	-	-	15,705	-	15,705	(398)	15,307
Total other comprehensive income (loss)	-	-	-	-	(407,716)	-	(407,716)	(1,434)	(409,150)
Total comprehensive income	-	-	-	-	(407,716)	2,774,778	2,367,062	48,707	2,415,769
Other changes in equity	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	(630,978)	(630,978)	-	(630,978)
Dividends to hybrid bonds	-	-	-	-	-	(36,091)	(36,091)	-	(36,091)
Redemption of hybrid bonds	-	(238,582)	-	(1,418)	-	-	(240,000)	-	(240,000)
Redemption of preferred stock	-	-	-	-	-	(1,125,906)	(1,125,906)	-	(1,125,906)
Change in other capital adjustments	-	-	-	(33,507)	362	(30,899)	(64,044)	-	(64,044)
Redemption of subsidiary's hybrid bond and other change in non-controlling interests	-	-	-	-	-	-	-	(386,826)	(386,826)
	-	(238,582)	-	(34,925)	362	(1,823,874)	(2,097,019)	(386,826)	(2,483,845)
Balance at December 31, 2016	₩ 2,645,053	498,316	9,887,335	(458,461)	(102,583)	18,640,038	31,109,698	635,282	31,744,980

See accompanying notes to the consolidated financial statements

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity (Continued)

For the year ended December 31, 2017

(In millions of won)

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.						Non-controlling interests	Total	
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings			Sub-total
Balance at January 1, 2017	₩ 2,645,053	498,316	9,887,335	(458,461)	(102,583)	18,640,038	31,109,698	635,282	31,744,980
Total comprehensive income for the period									
Profit for the year	-	-	-	-	-	2,917,735	2,917,735	30,389	2,948,124
Other comprehensive income (loss), net of income tax:									
Foreign currency translation adjustments	-	-	-	-	(193,474)	-	(193,474)	(698)	(194,172)
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	(322,056)	-	(322,056)	(1,071)	(323,127)
Equity in other comprehensive loss of associates	-	-	-	-	(21,552)	(414)	(21,966)	-	(21,966)
Net change in unrealized fair value of cash flow hedges	-	-	-	-	15,904	-	15,904	-	15,904
Other comprehensive income of separate account	-	-	-	-	(9,278)	-	(9,278)	-	(9,278)
Remeasurements of defined benefit plans	-	-	-	-	103,305	-	103,305	220	103,525
Total other comprehensive loss	-	-	-	-	(427,151)	(414)	(427,565)	(1,549)	(429,114)
Total comprehensive income (loss)	-	-	-	-	(427,151)	2,917,321	2,490,170	28,840	2,519,010
Other changes in equity									
Dividends	-	-	-	-	-	(687,589)	(687,589)	-	(687,589)
Dividends to hybrid bonds	-	-	-	-	-	(17,678)	(17,678)	-	(17,678)
Issuance of hybrid bonds	-	224,466	-	-	-	-	224,466	-	224,466
Redemption of hybrid bond	-	(298,861)	-	(1,139)	-	-	(300,000)	-	(300,000)
Change in other capital adjustments	-	-	-	61,565	-	(61,493)	72	-	72
Change in other non-controlling interests	-	-	-	-	-	-	-	219,275	219,275
	-	(74,395)	-	60,426	-	(766,760)	(780,729)	219,275	(561,454)
Balance at December 31, 2017	₩ 2,645,053	423,921	9,887,335	(398,035)	(529,734)	20,790,599	32,819,139	883,397	33,702,536

See accompanying notes to the consolidated financial statements.

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

<i>(In millions of won)</i>	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities			
Profit before income taxes	₩	3,796,257	3,170,472
Adjustments for:			
Interest income	32	(11,798,654)	(11,236,302)
Interest expense	32	3,955,701	4,030,936
Dividend income	34	(257,306)	(281,623)
Net fees and commission expense		169,640	166,216
Net insurance loss		2,571,094	2,779,710
Net trading loss (gain)	35	(334,133)	48,363
Net foreign currency translation gain		(87,384)	(248,844)
Net loss on financial instruments designated at fair value through profit or loss	36	231,772	147,813
Net gain on disposal of available-for-sale financial assets	13	(499,187)	(647,541)
Provision for credit losses	37	816,600	1,107,633
Impairment losses on other financial assets	37	198,299	88,030
Employee costs		232,709	203,639
Depreciation and amortization	38	253,344	259,941
Other operating expense		602,027	70,236
Equity method income, net	16	(20,393)	(9,995)
Other non-operating expense (income), net		(29,080)	598
		<u>(3,994,951)</u>	<u>(3,521,190)</u>
Changes in assets and liabilities:			
Due from banks		(3,347,818)	3,937,005
Trading assets and liabilities		(1,706,990)	(4,343,206)
Financial instruments designated at fair value through profit or loss		(1,300,760)	(2,439)
Derivative instruments		(488,706)	(340,831)
Loans		(19,232,732)	(11,351,121)
Other assets		(250,806)	(4,627,748)
Deposits		15,632,957	16,771,470
Liabilities for defined benefit obligations		(178,054)	(261,550)
Provisions		(69,584)	(77,514)
Other liabilities		4,845,053	(2,333,634)
		<u>(6,097,440)</u>	<u>(2,629,568)</u>
Income taxes paid		(664,286)	(561,604)
Interest received		11,425,960	11,109,313
Interest paid		(3,710,093)	(4,080,122)
Dividends received		265,887	309,876
Net cash provided by operating activities		<u>1,021,334</u>	<u>3,797,177</u>

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2017 and 2016

(In millions of won)

	Notes	2017	2016
Cash flows from investing activities			
Proceeds from disposal of available-for-sale financial assets	₩	29,638,281	29,242,921
Acquisition of available-for-sale financial assets		(34,703,066)	(32,844,558)
Proceeds from disposal of held-to-maturity financial assets		1,712,326	1,839,275
Acquisition of held-to-maturity financial assets		(7,033,310)	(5,277,451)
Proceeds from disposal of property and equipment	14,41	11,459	5,793
Acquisition of property and equipment	14	(155,186)	(252,084)
Proceeds from disposal of intangible assets	15,41	9,286	8,268
Acquisition of intangible assets	15	(111,257)	(88,876)
Proceeds from disposal of investments in associates		163,649	67,082
Acquisition of investments in associates		(380,213)	(145,119)
Proceeds from disposal of investment property	17,41	4,869	22,900
Acquisition of investment property	17	(2,125)	(176,204)
Proceeds from disposal of assets held for sale		10,466	2,213
Proceeds from settlement of hedging derivative financial instruments for available-for-sale financial assets		85,616	27,265
Payment for settlement of hedging derivative financial instruments for available-for-sale financial assets		(27,629)	(69,175)
Business combination, net of cash acquired (used)	49	83,631	(4,280)
Other, net		(10,435)	48,156
Net cash used in investing activities		<u>(10,703,638)</u>	<u>(7,593,874)</u>
Cash flows from financing activities			
Redemption of hybrid bonds		(300,000)	(240,000)
Issuance of hybrid bonds		224,466	-
Net increase in borrowings		3,047,844	3,389,832
Proceeds from debt securities issued		20,006,957	15,916,866
Repayments of debt securities issued		(12,222,815)	(11,988,965)
Dividends paid		(706,565)	(669,103)
Proceeds from settlement of hedging derivative financial instruments for debt securities issued		65,220	15,414
Payment for settlement of hedging derivative financial instruments for debt securities issued		(6,509)	(1,486)
Redemption of preferred stock		-	(1,125,906)
Increase (decrease) in non-controlling interests		215,357	(451,208)
Other, net		8,498	(824)
Net cash provided by financing activities		<u>10,332,453</u>	<u>4,844,620</u>
Effect of exchange rate fluctuations on cash and cash equivalents held		<u>(46,035)</u>	<u>(22,638)</u>
Increase in cash and cash equivalents		<u>604,114</u>	<u>1,025,285</u>
Cash and cash equivalents at beginning of year	45	<u>5,632,536</u>	<u>4,607,251</u>
Cash and cash equivalents at end of year	45 ₩	<u>6,236,650</u>	<u>5,632,536</u>

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

1. Reporting entity

Shinhan Financial Group Co., Ltd., the controlling company, and its subsidiaries included in consolidation (collectively the “Group”) are summarized as follows:

(a) Controlling company

Shinhan Financial Group Co., Ltd. (the “Shinhan Financial Group”) was incorporated on September 1, 2001. Shinhan Financial Group’s shares has been listed on the Korea Exchange since September 10, 2001 and Shinhan Financial Group’s American Depository Shares were listed on the New York Stock Exchange since September 16, 2003.

(b) Ownership of Shinhan Financial Group and its consolidated subsidiaries as of December 31, 2017 and 2016 are as follows:

Investor	Investee(*1)	Location	Date of financial information	Ownership (%)	
				2017	2016
Shinhan Financial Group Co., Ltd.	Shinhan Bank	Korea	December 31	100.0	100.0
"	Shinhan Card Co., Ltd.	"	"	100.0	100.0
"	Shinhan Investment Corp.	"	"	100.0	100.0
"	Shinhan Life Insurance Co., Ltd.	"	"	100.0	100.0
"	Shinhan Capital Co., Ltd.	"	"	100.0	100.0
"	Jeju Bank	"	"	68.9	68.9
"	Shinhan Credit Information Co., Ltd.	"	"	100.0	100.0
"	Shinhan Alternative Investment Management Inc(*3)	"	"	100.0	100.0
"	Shinhan BNP Paribas Asset Management Co., Ltd.	"	"	65.0	65.0
"	SHC Management Co., Ltd.	"	"	100.0	100.0
"	Shinhan Data System	"	"	100.0	100.0
"	Shinhan Savings Bank	"	"	100.0	100.0
"	Shinhan AITAS Co., Ltd.	"	"	99.8	99.8
"	Shinhan REITs Management Co., Ltd. (*4)	"	"	100.0	-
Shinhan Bank	Shinhan Asia Limited	Hong Kong	"	99.9	99.9
"	Shinhan Bank America	USA	"	100.0	100.0
"	Shinhan Bank Europe GmbH	Germany	"	100.0	100.0
"	Shinhan Khmer Bank PLC(*2)	Cambodia	"	97.5	90.0
"	Shinhan Bank Kazakhstan Limited	Kazakhstan	"	100.0	100.0
"	Shinhan Bank Canada	Canada	"	100.0	100.0
"	Shinhan Bank (China) Limited	China	"	100.0	100.0
"	Shinhan Bank Japan	Japan	"	100.0	100.0
"	Shinhan Bank Vietnam Ltd.	Vietnam	"	100.0	100.0
"	Banco Shinhan de Mexico	Mexico	"	99.9	99.9
"	PT Bank Shinhan Indonesia(*2)	Indonesia	"	99.0	98.98
Shinhan Card Co., Ltd.	LLP MFO Shinhan Finance	Kazakhstan	"	100.0	100.0
"	PT. Shinhan Indo Finance	Indonesia	"	50.0	50.0
"	Shinhan Microfinance Co., Ltd.	Myanmar	"	100.0	100.0
Shinhan Investment Corp.	Shinhan Investment Corp. USA Inc.	USA	"	100.0	100.0
"	Shinhan Investment Corp. Asia Ltd.	Hong Kong	"	100.0	100.0

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

1. Reporting entity (continued)

Investor	Investee(*1)	Location	Date of financial information	Ownership (%)	
				2017	2016
Shinhan Investment Corp.	Shinhan Securities Vietnam Co., Ltd.	Vietnam	December 31	100.0	100.0
"	PT. Shinhan Sekuritas Indonesia	Indonesia	"	99.0	99.0
Shinhan BNP Paribas Asset Management Co., Ltd.	Shinhan BNP Paribas Asset Management (Hong Kong) Limited	Hong Kong	"	100.0	100.0

(*1) Subsidiaries such as trust, beneficiary certificate, corporate restructuring fund and private equity fund which are not actually operating their own business are excluded.

(*2) As a result of unequal capital increase, the equity interest in Shinhan Khmer Bank PLC and the equity interest in PT Bank Shinhan Indonesia was changed.

(*3) In 2017, Shinhan Private Equity Inc. changed its name to Shinhan Alternative Investment Management Inc.

(*4) In 2017, the Group invested in the newly established company, which became in a subsidiary of the Group.

(c) Consolidated structured entities

Consolidated structured entities are as follows:

Category	Consolidated structured entities	Description
Trust	18 trusts managed by Shinhan Bank including development trust	A trust is consolidated when the Group as a trustee is exposed to variable returns, for example, if principle or interest amounts of the entrusted properties falls below guaranteed amount, the Group should compensate it; and the Group has the ability to affect those returns.
Asset-Backed Securitization	MPC Yulchon Green I and 89 others	An entity for asset backed securitization is consolidated when the Group has the ability to dispose assets or change the conditions of the assets, is exposed to variable returns and has the ability to affect the variable returns providing credit enhancement and purchases of subordinated securities.
Structured Financing	SHPE Holdings One Co., Ltd. and 2 others	An entity established for structured financing relating to real estate, shipping, or mergers and acquisitions is consolidated, when the Group has granted credit to the entity, has sole decision-making authority of these entities due to the entities default, and is exposed to, or has rights to related variable returns.
Investment Fund	KoFC Shinhan Frontier Champ 2010-4 PEF and 73 others	An investment fund is consolidated, when the Group manages or invests assets of the investment funds on behalf of other investors, or has the ability to dismiss the manager of the investment funds, and is exposed to, or has rights to, the variable returns.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

1. Reporting entity (continued)

(c) Consolidated structured entities (continued)

As of December 31, 2017, the Group provides credit enhancement for the consolidated structured entities providing ABCP purchase commitment amounting to ₩1,900,646 million for the purpose of credit enhancement of the structure entities.

2. Basis of preparation

(a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 7, 2018, which will be submitted for approval to the shareholders’ meeting on March 22, 2018.

(b) Basis of measurement

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

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value
- financial liabilities designated as hedged items in a fair value hedge accounting of which changes in fair value attributable to the hedged risk are recognized in profit or loss
- liabilities for defined benefit plans that 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

The financial statements of the parent and each subsidiary are prepared in functional currency of the respective operation. These consolidated financial statements are presented in Korean won, which is the Parent Company’s functional currency and the currency of the primary economic environment in which the Group operates.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are evaluated on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

2. **Basis of preparation (continued)**

(d) Use of estimates and judgments (continued)

In preparing these consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended December 31, 2016, except for the changes below.

During 2017, the credit card segment of the Group had accumulated sufficient experience to properly calculate probability of default, loss given default and credit conversion factors by considering the characteristics of borrowers, or its homogeneous borrowing groups, with credit evaluation system and risk evaluation system based on BASEL II; and based on this newly accumulated experience, the calculation methodology of loan losses has been changed from roll rate analysis model to internal model approach. As a result of changes in accounting estimates described above, allowances for loan losses and provision for unused credit lines decreased by ₩129,377 million and ₩316,692 million, respectively, as of December 31, 2017. The effects of the changes in accounting estimates were recognized prospectively in 2017.

(e) Changes in accounting policies

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2017.

1) Amendments to K-IFRS 1007, 'Statement of Cash Flows'

The Group applied amendments to K-IFRS 1007, 'Statement of Cash Flows', which are effective for annual periods beginning on or after January 1, 2017. The amendments to K-IFRS 1007 require changes in liability arising from the financing activities of the Group to be disclosed as follows; fluctuations in financing cash flows, changes in the acquisition or loss of control on subsidiaries or other business, the effect of exchange rate changes, changes in fair value and other changes. The amendments does not have a significant impact on the Group's consolidated financial statements (Note 45).

2) Amendments to K-IFRS 1012, 'Income Taxes'

The Group applied amendments to K-IFRS 1012, 'Income Taxes', which are effective for annual periods beginning on or after January 1, 2017. Amendments to K-IFRS 1012 clarify that temporary differences exist when there is a difference between the carrying amount and tax based amount of the debt instruments which are measured at fair value, regardless of the expected recovery method (sale or retention). In assessing future taxable income, the Group shall include assets to be recovered in excess of its carrying amount and exclude the tax deductions resulting from those deductible temporary differences. The amendments does not have a significant impact on the Group's consolidated financial statements.

3) Amendments to K-IFRS 1112, 'Disclosure of Interests in Other Entities'

The Group applied amendments to K-IFRS 1112, 'Disclosure of Interests in Other Entities', which are effective for annual periods beginning on or after January 1, 2017. The amendments to K-IFRS 1112 require disclosure of interests in other entities should also be applied to interests that are classified as held for sale or distribution. The amendments does not have a significant impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the changes in accounting policies described in 2-(e).

(a) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Group's reportable segments consist of banking, credit card, securities, life insurance, and others.

(b) Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for the same transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

ii) Structured entity

The Group establishes or invests in various structured entities. A structured entity is an entity designed so that its activities are not governed by way of voting rights. When assessing control of a structured entity, the Group considers factors such as the purpose and the design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee. The Group does not recognize any non-controlling interests in the consolidated statements of financial position since the Group's interests in these entities are recognized as liabilities of the Group.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

iii) Intra-group transactions

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

iv) Non-controlling interests

Non-controlling interests in a subsidiary are accounted for separately from the parent's ownership interests in a subsidiary. Each component of net profit or loss and other comprehensive income is attributed to the owners of the parent and non-controlling interest holders, even when the allocation reduces the non-controlling interest balance below zero.

(e) Business combinations

i) Business combinations

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Each identifiable asset and liability is measured at its acquisition-date fair value except for below:

- Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No.1012 *Income Taxes*
- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No.1019 *Employee Benefits*
- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset
- Reacquired rights are measured on the basis of the remaining contractual terms of the related contract
- Liabilities or equity instruments related to share-based payment transactions are measured in accordance with the method in K-IFRS No.1102 *Share-based Payment*
- Assets held for sale are measured at fair value less costs to sell in accordance with K-IFRS No.1105 *Non-current Assets Held for Sale*

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

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that are included in consideration transferred in the business combination shall be measured in accordance with the method described above rather than at fair value.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed in the periods in which the costs are incurred and the services are received. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No.1032 *Financial Instruments: Presentation* and K-IFRS No.1039 *Financial Instruments: Recognition and Measurement*.

ii) *Goodwill*

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, bargain purchase gain is recognized immediately in profit or loss.

When the Group additionally acquires non-controlling interest, the Group does not recognize goodwill since the transaction is regarded as equity transaction.

(d) **Investments in associates and joint ventures**

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The investment in an associate and a joint venture is initially recognized at cost, and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate and the joint venture after the date of acquisition. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group losses are recognized as expense if intra-group losses indicate an impairment that requires recognition in the consolidated financial statements.

If an associate or a joint venture uses accounting policies different from those of the Group for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in applying the equity method.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has to make payments on behalf of the investee for further losses.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and demand deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(f) Non-derivative financial assets

The Group 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 Group recognizes financial assets in the consolidated statement of financial position when the Group 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.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a recognition or measurement inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives that would be required to be separated from the host contract.

ii) Held-to-maturity financial assets

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group 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.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

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.

v) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

vi) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to 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.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

(g) Derivative financial instruments including hedge accounting

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

i) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designated derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

- *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 Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria 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.
- *Hedge of net investment* – Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the accumulated other comprehensive income is transferred to profit or loss as part of the profit or loss on disposal in accordance with K-IFRS No.1021, ‘The Effects of Changes in Foreign Exchange Rates’.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria has been met: (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

iii) 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.

iv) Unobservable valuation differences at initial recognition

Any difference between the fair value of over the counter derivatives at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognized in profit or loss but is recognized on a straight-line basis over the life of the instrument or immediately when the fair value becomes observable.

(h) Impairment 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.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- significant financial difficulty of the issuer or obligor
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization
- the disappearance of an active market for that financial asset because of financial difficulties
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

i) Loans and receivables

The Group 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 Group 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. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

If the interest rate of a loan or receivable is a floating rate, the discount rate used to evaluate impairment loss is the current effective interest rate defined in the loan agreement. The present value of estimated future cash flows of secured financial assets is calculated by including cash flows from collateral after deducting costs to acquire and sell the collateral.

In assessing collective impairment, the Group rates and classifies financial assets, based on credit risk assessment or credit rating assessment process that takes into account asset type, industry, regional location, collateral type, delinquency and other relative factors.

Future cash flow of financial assets applicable to collective impairment assessment is estimated by using statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the impairment losses are likely to be greater or less than suggested by historical modeling. In adjusting the future cash flow by historical modeling, the result has to be in line with changes and trends of observable data. Methodologies and assumptions used to estimate future cash flow are evaluated on a regular basis in order to reduce any discrepancy between impairment loss estimation and actual loss.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss of the year.

ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

iii) Held-to-maturity financial assets

An impairment loss in respect of held-to-maturity financial assets measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate and is recognized in profit or loss. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(i) 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.

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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 Group 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.

Property and equipment are depreciated on a straight-line basis over the estimated useful lives, which most closely reflect the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance lease are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative years are as follows:

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40 years
Other properties	Straight-line	4~5 years

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.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

(j) Intangible assets

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

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

Descriptions	Useful lives
Software, capitalized development cost	5 years
Other intangible assets	5 years or contract periods

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.

i) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

ii) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(k) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

The estimated useful lives for the current and comparative years are as follows:

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40 years

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

(l) Leased assets

i) Classification of a lease

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

ii) Lessee

Under a finance lease, the lessee recognizes the leased asset and a liability for future lease payments. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Under an operating lease, the lessee recognizes the lease payments as expense over the lease term and does not recognize the leased asset in its statement of financial position.

iii) Lessor

Under a finance lease, the lessor recognizes a finance lease receivable. Over the lease term the lessor accrues interest income on the net investment. The receipts under the lease are allocated between reducing the net investment and recognizing finance income, so as to produce a constant rate of return on the net investment.

Under an operating lease, the lessor recognizes the lease payments as income over the lease term and the leased asset in its statement of financial position.

(m) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 *Impairment of Assets*.

An asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

(n) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, deferred tax assets and assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or 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.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

(o) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

The criteria for designation of financial liabilities at FVTPL upon initial recognition are the same as those of financial assets at FVTPL.

ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(p) Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined.

Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation (see iii) below), or in a qualifying cash flow hedge, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

iii) Net investment in a foreign operation

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, then foreign currency difference arising on the item which in substance is considered to form part of the net investment in the foreign operation, are recognized in the other comprehensive income and shall be reclassified to profit or loss on disposal of the investment.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

(q) Equity

i) Capital stock

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Group's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Group's shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

ii) Hybrid bonds

The Group classifies issued financial instruments, or their component parts, as a financial liability or an equity instrument depending on the substance of the contractual arrangement of such financial instruments. Hybrid bonds where the Group has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation are classified as equity instruments and presented in equity.

iii) Capital adjustments

Changes in ownership interests in a subsidiary that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as equity transactions in capital adjustments.

(r) Employee benefits

i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

iii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

iv) Retirement benefits: defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

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 Group 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 Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Group recognizes service cost and net interest on the net defined benefit liability (asset) in profit or loss and remeasurement of the net defined benefit liability (asset) in other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

v) *Termination benefits*

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(s) **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.

(t) **Provisions**

A provision is recognized if, as a result of a past event, the Group 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.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

(u) Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer (the Group) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- The amount determined in accordance with K-IFRS No.1037 *Provisions, Contingent Liabilities and Contingent Assets* and
- The initial amount recognized, less, when appropriate, cumulative amortization recognized in accordance with K-IFRS No.1018. *Revenue*

(v) Insurance contracts

Insurance contracts are defined as “a contract under which one party (the insurer) accepts significant insurance risk from another party by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder”. A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Such a contract that does not contain significant insurance risk is classified as an investment contract and is within the scope of K-IFRS No.1039, *Financial Instruments, Recognition and Measurement* to the extent that it gives rise to a financial asset or financial liability, except if the investment contract contains a Discretionary Participation Features (“DPF”). If the contract has a DPF, the contract is subject to K-IFRS No.1104, *Insurance Contracts*.

i) Reserves for insurance contracts

The Group accounts for insurance contracts based on the Insurance Business Law and other related Insurance Supervisory Regulation. These insurance contracts are calculated based on insurance terms, premium and policy reserves approved by the Financial Supervisory Commission, as follows:

- *Premium reserve* - Premium reserve is a liability to prepare for the future claims on the valid contracts. Premium reserve is calculated by deducting discounted net premium from the discounted claims expected to be paid in the future period.
- *Unearned premium reserve* - Unearned premium reserve represents the portion of premiums written which is applicable to the unexpired portion of policies in force.
- *Guarantee reserve* - At the end of reporting period, the Group is required to make reserve on the outstanding insurance contracts to guarantee a certain level of benefit payments for the amount equal to the average amount of net losses of the worst 30% of cases forecasted by scenarios or the standard reserve amount, as defined by Financial Supervisory Service, by insurance type and the lowest insured amount, whichever is greater.
- *Reserve for outstanding claims* - Reserve for outstanding claims is an estimate of loss for insured events that have occurred prior to the date of the statement of financial position but for which a fixed value cannot be determined, which includes the following:

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

- Estimated amount: The expenses to be incurred in the course of settlement of the insured event, such as lawsuit or arbitration (if partial amount is settled, the remainder is recognized)
 - Reserve for ineffective contracts: Reserve for ineffective contracts due to default in premium payment (Partial amount of surrender value)
 - Unpaid claims: The amount of claims, surrender value and dividend to be paid is determined but not paid yet
 - IBNR (Incurred But Not Reported): Estimated amount using a statistical method considering the company's experience rate
- *Reserve for participating policyholder's dividend* - In accordance with regulations and policy terms, reserves for participating policyholder's dividend are provided for dividend to be paid to the policyholders and comprise the current reserve for policyholder's dividend and the future reserve for policyholder's dividend. The current reserve for policyholder's dividend is the fixed payable dividend amount declared but not paid at the end of the reporting period and the future reserve for policyholder's dividend is the calculated policyholder's dividend amount factoring in estimated policy termination rates for the valid insurance policy as at the end of the reporting period.

ii) Policyholders' equity adjustment

At year end, unrealized holding gains and losses on available-for-sale securities are allocated to policyholders' equity adjustment by the ratio of the average policy reserve of the participating and non-participating contracts or the ratio of the investment source at the new acquisition year based on the date of acquisition.

iii) Liability adequacy test (the "LAT")

Liability adequacy tests are performed by the Group in order to ensure the adequacy of the contract liabilities, net of related deferred acquisition costs and deferred policyholders' participation liability or asset.

iv) Reinsurance contracts

According to K-IFRS No. 1104, "Insurance Contracts", the Group does not offset:

- 1) reinsurance assets against the related insurance liabilities; or
- 2) income or expense from reinsurance contracts against the expense or income from the related insurance contracts.

If reinsurance assets are determined to be impaired, impairment loss is recognized in the profit and loss for the current period.

v) Deferred acquisition costs (the "DAC")

Policy acquisition costs, which include commissions, certain direct and incremental underwriting and agency expenses associated with acquiring insurance policies, are deferred and amortized using the straight-line method over the contract year, up to seven years. Actual acquisition costs incurred in excess of estimated acquisition costs are expensed.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

(w) Financial income and expense

i) Interest

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 Group 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.

Once an impairment loss has been recognized on a loan, although the accrual of interest in accordance with the contractual terms of the instrument is discontinued, interest income is recognized at the rate of interest that was used to discount estimated future cash flows for the purpose of measuring the impairment loss.

ii) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

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

iii) Insurance Income

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

iv) Dividends

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

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

(x) Customer loyalty program

For customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale is allocated between award credits (“points”) and other components of the fee and commission income. The Group provides awards, in the form of price discounts and by offering a variety of gifts. The fair value allocated to the points is estimated by reference to the fair value of the monetary and/or non-monetary benefits for which they could be redeemed. The fair value of the benefits is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and recognized as unearned revenue. Unearned revenue is recognized only when the points are redeemed and the Group has fulfilled its obligations to provide the benefits. The amount of revenue recognized in those circumstances is based on the number of points that have been redeemed in exchange for benefits, relative to the total number of points that are expected to be redeemed.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from customer loyalty programmes are lower than the unavoidable cost of meeting its obligations under the programmes.

(y) Income tax

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

i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

(y) Income tax (continued)

The Group 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 Controlling 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.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either: the same taxable entity; or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(z) Accounting for trust accounts

The Group accounts for trust accounts separately from its group accounts under the Financial Investment Services and Capital Markets Act and thus the trust accounts are not included in the consolidated financial statements except Guaranteed Fixed Rate Money Trusts controlled by the Group, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards. Funds transferred between Group account and trust accounts are recognized as borrowings from trust accounts in other liabilities with fees for managing the accounts recognized as non-interest income by the Group.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

(aa) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group 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.

(ab) New standards and interpretations not yet adopted

The following new standards and amendments to existing standards have been published and are mandatory for the Group to adopt for annual periods beginning on or after January 1, 2018, and the Group has not early adopted them.

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

K-IFRS No. 1109, 'Financial instruments' which was published on September 25, 2015, is effective for periods beginning on or after January 1, 2018, with early adoption permitted. K-IFRS No. 1109 will replace the current K-IFRS No. 1039, 'Financial instruments: recognition and measurement'. The Group plans to adopt K-IFRS No. 1109 for the year beginning on January 1, 2018 and will recognize the accumulated effect resulting from initial application of K-IFRS No. 1109 on the date of initial application, which is January 1, 2018.

K-IFRS No.1109 will generally be applied retrospectively; however the Group plans to take advantage of the exemption allowing it not to restate the comparative information for prior periods with respect to classification and measurement (including impairment) changes. For hedge accounting, the new standard will be applied prospectively except for certain cases such as accounting for the time value of options.

Main characteristics of K-IFRS No. 1109 are followings: 1) classification and measurement of financial instruments based on characteristics of contractual cash flows and business model for financial instrument management, 2) impairment model based on expected credit losses, and 3) expanded scope of hedged items and hedging instruments which qualify for hedge accounting and changes in assessment method for effect of hedging relationships.

For the application of K-IFRS No.1109, the Group implemented changes in its accounting processes and internal controls related to financial instruments. The Group assessed the potential financial impact of the initial adoption of K-IFRS 1109 based on the circumstances and available information as of December 31, 2017 as follows:

1) Classification and measurement of financial assets

The Group classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets as shown in the below table when the new standard K-IFRS No. 1109 is adopted. Furthermore, if a hybrid contract contains a host that is an asset within the scope of this standard, an embedded derivative shall not be separated from the host and the hybrid contract is accounted as a financial asset.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

Business model objectives	Contractual cash flow characteristics	
	Principal and interest	Others
Collection of the contractual cash flows	Measured at amortised cost(*1)(“AC”)	
Collection of the contractual cash flows and to sale of assets	Measured at fair value through other comprehensive income(*1)(“FVOCI”)	Fair value through profit or loss(*2)
sale of assets and others	Measured at fair value through profit or loss(“FVPL”)	

(*1) The Group may irrevocably designate a financial asset as measured at fair value through profit or loss to eliminate or significantly reduce accounting mismatch.

(*2) The Group may make an irrevocable election for equity instruments that are not held for trading as measured at fair value through other comprehensive income.

As there are additional requirements for a financial asset to be classified as measured at amortized costs or at fair value through other comprehensive income under K-IFRS No. 1109 compared to the existing K-IFRS No. 1039, the adoption of K-IFRS No. 1109 would potentially increase the proportion of financial assets that are measured at fair value through profit or loss, increasing volatility in the Group’s profit or loss.

The expected impacts on the classification and measurement of financial assets as of December 31, 2017 based on the information from the revised accounting system are as follows:

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
(In millions of won)

3. Significant accounting policies (continued)

Classification by			Amount by	
K-IFRS 1039		K-IFRS 1109	K-IFRS 1039 (*1)	K-IFRS 1109 (*1)
Due from banks	Loans and receivables	FVPL	₩ 902,124	833,942
		AC	19,988,001	19,988,001
Loans	Loans and receivables	FVPL	748,875	778,595
		AC	277,127,495	277,127,495
Other financial assets	Loans and receivables	AC	12,090,983	12,090,983
Trading assets (debt securities)	Fair value through profit or loss	FVPL	23,451,755	23,451,755
Trading assets (equity securities)	Fair value through profit or loss	FVPL	4,823,244	4,823,244
Trading assets (gold deposits)	Fair value through profit or loss	FVPL	189,297	189,297
Fair value through profit or loss (debt securities)	Fair value through profit or loss	FVPL	2,000,343	2,000,343
		Designated at FVPL	110,467	110,467
Fair value through profit or loss (equity securities)	Fair value through profit or loss	FVPL	952,180	952,180
		Designated at FVPL	282,176	282,176
Fair value through profit or loss (hybrid financial assets)	Fair value through profit or loss	FVPL	233,892	233,892
Available-for-sale (debt securities)	Available-for-sale	FVPL	528,745	533,452
		FVOCI	36,657,807	36,657,807
Available-for-sale (equity securities)	Available-for-sale	FVPL	4,284,083	4,295,030
		FVOCI	646,301	646,301
Held-to-maturity (debt securities)	Held-to-maturity	FVPL	565,813	529,906
		AC	24,424,867	24,424,867
Total			₩ 410,008,448	409,949,733

(*1) Allowance for credit losses was excluded in the carrying amount.

(*2) Based on K-IFRS No. 1104, the Group applies the overlay approach method for financial assets related to insurance contract (Due from banks in the amount of ₩902,124 millions, Available-for-sale (equity security) in the amount of ₩1,972,577 millions, Available-for-sale (debt security) in the amount of ₩400,978 millions, Held-to-maturity in the amount of ₩565,813 millions).

Upon adoption of K-IFRS No. 1109, the Group expects to make reclassification adjustments between profit or loss and other comprehensive income on the date of initial application an amount which is equal to the difference between i) the amount reported in profit or loss for the designated financial assets applying K-IFRS No. 1109; and ii) the amount that would have been reported in profit or loss for the designated financial assets if the insurer had applied K-IFRS No. 1039.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

Based on management's evaluation to date, upon adoption of K-IFRS No. 1109 as of January 1, 2018, financial assets amounting to ₩2,142,444 million among the loans and receivables and held-to-maturity securities, ₩4,828,482 million among the available-for-sale securities are expected to be classified as assets measured at fair value through profit or loss. The portion of assets measured at fair value through profit or loss increases to 9.52% under K-IFRS No. 1109 as of January 1, 2018 from 7.82% under K-IFRS No. 1039 as of December 31, 2017; and the volatility of profit or loss is expected to increase due to the changes in the fair value of financial assets.

2) Classification and measurement of financial liabilities

In accordance with the new standard K-IFRS No. 1109, the amount of change in the fair value of the financial liability designated as measured at fair value through profit or loss that is attributable to changes in the credit risk of that liability will be presented in other comprehensive income, not profit or loss. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, when the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch, the related change in the fair value can be presented in profit or loss.

As some portion of the changes in fair value of the financial liability that is designated at fair value through profit or loss, which was recognized as profit or loss under K-IFRS No. 1039, will be presented as other comprehensive income, the profit or loss related to fair value of financial liability may decrease.

The Group designated liabilities amounting to ₩8,297,609 million from the total financial liabilities of ₩362,185,727 million as measured at fair value through profit or loss as of December 31, 2017. On the date of initial application of K-IFRS No. 1109, the loss recorded in opening retained earnings amounting to ₩100,685 million for these financial liabilities will be changed by ₩2,141 million related to the change in fair value as a result of change in credit risk of the financial liabilities.

3) Impairment: Financial assets and contract assets

Under the current standard K-IFRS No. 1039, impairment is recognized based on incurred loss model only when there is an objective evidence of impairment. However, under the new standard K-IFRS No. 1109, impairment is recognized based on expected credit loss impairment model for the debt instruments, lease receivable, contract assets, loan commitments, and financial guarantee contracts measured at amortised cost or financial assets that are measured at fair value through other comprehensive income.

Unlike the current standard K-IFRS No. 1039 which is based on incurred loss model, credit losses may be recognized earlier under K-IFRS No. 1109. As shown below, this standard requires to measure the amount for loss allowance in 3 stages based on the 12-month expected credit losses or lifetime expected credit losses depending on the degree of increase in credit risk of the financial assets since initial recognition.

	Stages	Loss allowance
Stage 1	Credit risk has not increased significantly since initial recognition(*1)	12-month expected credit losses: the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
Stage 2	Credit risk has increased significantly since initial recognition	Lifetime expected credit losses: the expected credit losses that result from all possible default events over the expected life of a financial instrument.
Stage 3	Credit-impaired	

(*1) The Group may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the credit risk is low at the reporting date.

According to K-IFRS No.1109, the Group will only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for financial assets impaired at its initial recognition.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
(In millions of won)

3. Significant accounting policies (continued)

Under K-IFRS No.1109, the Group will apply the simplified approach for which the Group will consider a debt security to have low credit risk when its credit risk rating is equivalent to the definition of ‘investment-grade’.

Based on management’s evaluation to date using the information from the revised accounting system as of December 31, 2017, the expected impacts on the allowance for loan losses are as follows:

	Classification Under		Amount Under	
	K-IFRS 1039	K-IFRS 1109	K-IFRS 1039	K-IFRS 1109
Allowance for loan losses				
Loans and receivables				
Due from banks	AC		₩ 14,054	15,062
Loans	AC		2,307,276	2,878,611
Other financial assets	FVPL		3,328	-
Available-for-sale assets	AC		49,679	51,649
Debt securities	FVOCI		-	18,736
Held-to-maturity assets				
Debt securities	AC		-	8,560
			₩ 2,374,337	2,972,618
Contingent liabilities				
Financial guarantee contract	Financial guarantee contract		₩ 36,506	37,288
Allowances for unused loan commitments and other credit risk	Allowances for unused loan commitments and other credit risk		168,006	222,499
			₩ 204,512	259,787

4) Hedge accounting

New standard K-IFRS 1109 retains the mechanics of hedge accounting (fair value hedge, cash flow hedge, and hedge of a net investment in a foreign operation) of current standard K-IFRS No. 1039. However, this standard mitigated K-IFRS No. 1039 by amending the complex and rule-based requirements related to hedge accounting under K-IFRS No. 1039 to principle-based requirements to align hedge accounting more closely with risk management. Furthermore, this standard expanded the eligible hedged items and the hedging instruments and eased the requirement for the hedge accounting by removing quantitative threshold (80~125%) and changing hedge effectiveness test method.

When applying hedge accounting under K-IFRS No. 1109, the hedge accounting can be applied to certain transactions that do not meet the requirements for hedge accounting under K-IFRS No. 1039 and volatility of the profit or loss can be decreased.

The Group will adopt K-IFRS No. 1109 hedge accounting requirements and plans to apply hedge accounting for the risk management activities if the hedge accounting requirements can be met.

As December 31, 2017, no hedge accounting is applied under K-IFRS No. 1109 for risk management activities for which no hedge accounting has been applied under the existing K-IFRS No. 1039.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

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

K-IFRS No.1115, published on November 6, 2015, is a new accounting standard about revenue recognition, is effective for annual reporting periods beginning on or after January 1, 2018, with earlier application permitted.

It replaces existing revenue recognition standards, including K-IFRS No.1018, 'Revenue', K-IFRS No.1011, 'Construction Contracts', K-IFRS No.2031, 'Revenue-Barter Transactions Involving Advertising Services', K-IFRS No.2113, 'Customer Loyalty Programmes', K-IFRS No.2115, 'Agreements for the Construction of Real Estate' and K-IFRS No.2118, 'Transfers of Assets from Customers'.

The Group adopts K-IFRS No.1115 from January 1, 2018 using the cumulative effect method and the effect of initially applying this standard is recognised at the date of initial application (i.e. January 1, 2018). As a result, the Group will not apply the requirements of K-IFRS 15 to the comparative period presented.

The existing standards suggest revenue recognition guidance by type of transactions such as sale of goods, rendering of services, interest revenue, royalty revenue, dividends revenue and construction contracts. However, according to K-IFRS No.1115, all types of contracts recognize revenue through five-step revenue recognition model (① 'Identifying the contract' → ② 'Identifying performance obligations' → ③ 'Determining the transaction price' → ④ 'Allocating the transaction price to performance obligations' → ⑤ 'Recognizing the revenue by satisfying performance obligations').

Since the second half of 2017, the Group has formed a separate Task Force Team to prepare for the adoption of K-IFRS No. 1115 and set up the relating accounting policies and processes. However, as a result of the analysis of financial impact based on the current situation and available information as of December 31, 2017, the Group does not expect the application of K-IFRS No.1115 will have a material impact on the consolidated financial statements.

iii) Amendments to K-IFRS No. 1102 Classification and Measurement of Share-based Payment Transactions

The amendments clarified that measuring cash-settled share-based payment should reflect the vesting conditions and non-vesting conditions like measuring equity-settled share-based payment; and the case where share-based payment transactions with a net settlement feature for withholding tax obligations should be classified as equity-settled share-based payments. This amendments are effective for annual reporting period beginning on or after January 1, 2018 and the Group does not expect the amendments have significant impact on its consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

3. Significant accounting policies (continued)

iv) *K-IFRS No. 1116 'Lease'*

K-IFRS No. 1116, '*Leases*' which was published on May 25, 2017, is effective for periods beginning on or after January 1, 2019, with early adoption permitted. K-IFRS No. 1116 will replace the current K-IFRS No. 1017, '*Leases*', K-IFRS Interpretations No. 2104, '*Determining whether an Arrangement Contains a Lease*'. Companies applying the K-IFRS 1115 '*Revenue from Contracts with Customers*' can adopt K-IFRS No.1116 early.

The Group classifies whether the contract itself is a lease or the contract involves a lease at the point of lease commencement date and distinguishes whether the contract itself is a lease or the contract involves a lease based on K-IFRS No. 1116. However, the Group may choose as its accounting policy not to reassess all the contracts before the date of initial application, as a practical expedient.

K-IFRS No. 1116 '*Lease*' presents that a lessee may elect not to separate non-lease components from lease components, and instead, account for each lease component and any associated non-lease components as a single lease component, as a practical expedient. The lessee is required to recognize the right-of-use assets and lease liabilities representing the right to occupy the underlying assets and the duty to make lease payments, respectively. However, as the cases of short-term lease and the low value assets the exemption is applicable. The accounting for lessor has not significantly changed from the current K-IFRS No. 1017. The Group is in the process of evaluating whether there will be a significant impact on the Group's consolidated financial statements due to the adoption of K-IFRS No. 1116.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

4. Financial risk management

(a) Overview

As a financial services provider, the Group is 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 controlling company's board of directors, sets the basic group wide risk management policies and strategies. The controlling company's Chief Risk Officer reports to the Group Risk Management Committee, and the Group Risk Management Council, whose members consist of the controlling company's Chief Risk Officer and the risk management team heads of each of subsidiaries, coordinates the risk management policies and strategies at the group level as well as at the subsidiary level among each of subsidiaries. Each of subsidiaries also has a separate Risk Management Committee, Risk Management Working Committee and Risk Management Team, whose tasks are to implement the group wide risk management policies and strategies at the subsidiary level as well as to set risk management policies and strategies specific to such subsidiary in line with the Group wide guidelines. The Group also has the Group Risk Management Team, which supports the controlling company's Chief Risk Officer in his or her risk management and supervisory role.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

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 controlling 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 amend risk management regulations, and (v) decide on 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 controlling 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.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

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 its 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 two or more subsidiary level, the Group directly takes charge of the situation so that the Group manages it on a concerted group wide basis.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

4. Financial risk management (continued)

(b) Credit risk

i) Credit risk management

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

• Credit Risk Management of Shinhan Bank

Major policies for Shinhan Bank's credit risk management, including Shinhan Bank's overall credit risk management plan and credit policy guidelines, are determined by the Risk Policy Committee of Shinhan Bank, the executive decision-making body for management of credit risk. The Risk Policy Committee is headed by the Chief Risk Officer, and also comprises of the Chief Credit Officer, the heads of each business unit and the head of the Risk Management Department. In order to separate the loan approval functions from credit policy decision-making, Shinhan Bank has a Credit Review Committee that performs credit review evaluations, which focus on improving the asset quality and profitability from the loans being made, and operates separately from the Risk Policy Committee.

Shinhan Bank complies with credit risk management procedures pursuant to internal guidelines and regulations and continually monitors and improves these guidelines and regulations. Its credit risk management procedures include:

- credit evaluation and approval;
- credit review and monitoring; and
- credit risk assessment and control

Each of Shinhan Bank's borrowers is assigned a credit rating, which is based on a comprehensive internal credit evaluation system that considers a variety of criteria. For retail borrowers, the credit rating takes into account the borrower's past dealings with Shinhan Bank and external credit rating information, among others. For corporate borrowers, the credit rating takes into account financial indicators as well as non-financial indicators such as industry risk, operational risk and management risk, among others. The credit rating, once assigned, serves as the fundamental instrument in Shinhan Bank's credit risk management, and is applied in a wide range of credit risk management processes, including credit approval, credit limit management, loan pricing and computation of allowance for loan losses. Shinhan Bank has separate credit evaluation systems for retail customers, SOHO customers and corporate customers, which are further segmented and refined to meet Basel III requirements.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

4. Financial risk management (continued)

Loans are generally approved after evaluations and approvals by the manager at the branch level as well as the committee of the applicable business unit at Shinhan Bank. The approval limit for retail loans is made based on Shinhan Bank's automated credit scoring system. In the case of large corporate loans, approval limits are also reviewed and approved by a Credit Officer at the headquarter level. Depending on the size and the importance of the loan, the approval process is further reviewed by the Credit Officer Committee or the Master Credit Officer Committee. If the loan is considered, further evaluation is made by the Credit Review Committee, which is Shinhan Bank's highest decision-making body in relation to credit approval.

Pursuant to the foregoing credit review and monitoring procedures and in order to promptly prevent deterioration of loan qualities, Shinhan Bank classifies potentially problematic borrowers into (i) borrowers that show early warning signals, (ii) borrowers that require close monitoring and (iii) normal borrowers, and treats them differentially accordingly.

In order to maintain portfolio-level credit risk at an appropriate level, Shinhan Bank manages its loans using value-at-risk ("VaR") limits for the entire bank as well as for each of its business units. In order to prevent concentration of risk in a particular borrower or borrower class, Shinhan Bank also manages credit risk by borrower, industry, country and other detailed categories.

• Credit Risk Management of Shinhan Card

Major policies for Shinhan Card's credit risk management are determined by Shinhan Card's Risk Management Council and Shinhan Card's Risk Management Committee is responsible for approving them. Shinhan Card's Risk Management Council is headed by the Chief Risk Officer, and also comprises of the heads of each business unit, supporting unit and relevant department at Shinhan Card. In order to separate credit policy decision-making from credit evaluation functions, Shinhan Card also has a Risk Management Committee, which evaluates applications for corporate loans exceeding a certain amount and other loans deemed important. Shinhan Card uses an automated credit scoring system to approve credit card applications or credit card authorizations. The credit scoring system is divided into two sub-systems: the application scoring system and the behavior scoring system. The behavior scoring system is based largely on the credit history, and the application scoring system is based largely on personal information of the applicant. For credit card applicants with whom the Shinhan Card has an existing relationship, Shinhan Card's credit scoring system considers internally gathered information such as repayment ability, total assets, the length of the existing relationship and the applicant's contribution to profitability. The credit scoring system also automatically conducts credit checks on all credit card applicants.

If a credit score awarded to an applicant is above a minimum threshold, the application is approved unless overridden based on other considerations such as delinquencies with other credit card companies.

Shinhan Card continually monitors all accountholders and accounts using a behavior scoring system. The behavior scoring system predicts a cardholder's payment pattern by evaluating the cardholder's credit history, card usage and amounts, payment status and other relevant data. The behavior score is recalculated each month and is used to manage the accounts and approval of additional loans and other products to the cardholder. Shinhan Card also uses the scoring system to monitor its overall risk exposure and to modify its credit risk management strategy.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
(In millions of won)

4. Financial risk management (continued)

ii) *Maximum exposure to credit risk*

The Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Due from banks and loans(*1)(*3):		
Banks	₩ 13,373,140	13,922,969
Retail	124,868,554	115,972,280
Government	14,442,747	11,776,346
Corporations	123,637,882	116,001,132
Card receivable	20,119,514	18,704,516
	<u>296,441,837</u>	<u>276,377,243</u>
Trading assets	23,829,943	22,638,409
Financial assets designated at FVTPL(*5)	2,344,701	2,228,186
AFS financial assets(*6)	37,186,552	32,822,071
HTM financial assets(*7)	24,990,680	19,805,084
Derivative assets	3,400,178	3,002,859
Other financial assets(*1)(*2)	12,041,304	13,975,889
Financial guarantee contracts	3,267,707	3,424,022
Loan commitments and other credit liabilities	75,518,079	76,055,306
	<u>₩ 479,020,981</u>	<u>450,329,069</u>

(*1) The maximum exposure amounts for due from banks, loans and other financial assets are measured as net of allowances.

(*2) The credit quality of other financial assets are not included in the details of the Group's main credit quality disclosures as other financial assets mainly comprise brokerage, securities and spot transaction related receivables, accrued interest receivables, secured key money deposits and domestic exchange settlement debit settled in a day.

(*3) Due from banks and loans were classified as similar credit risk group when calculating the BIS ratio under new Basel Capital Accord (Basel III).

(*4) As of December 31, 2017 and 2016, the maximum exposure to credit risk caused by unused credit commitments amounted to ₩63,745,952 million, ₩61,184,914 million, respectively.

(*5) FVTPL: fair value through profit or loss

(*6) AFS : available-for-sale

(*7) HTM : held-to-maturity

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
(In millions of won)

4. Financial risk management (continued)

iii) Due from banks and loans by past due or impairment

- Due from banks and loans as of December 31, 2017 and 2016 are as follows:

		2017					
		Banks	Retail	Government	Corporations	Card	Total
Neither past due nor impaired	₩	13,390,271	124,361,480	14,447,016	123,667,242	19,788,015	295,654,024
Past due but not impaired		-	581,977	-	194,132	543,303	1,319,412
Impaired		-	362,707	-	1,010,036	420,316	1,793,059
		13,390,271	125,306,164	14,447,016	124,871,410	20,751,634	298,766,495
Less : allowance		(17,131)	(437,610)	(4,269)	(1,233,528)	(632,120)	(2,324,658)
	₩	13,373,140	124,868,554	14,442,747	123,637,882	20,119,514	296,441,837

		2016					
		Banks	Retail	Government	Corporations	Card	Total
Neither past due nor impaired	₩	13,946,898	115,668,247	11,778,472	115,911,309	18,590,689	275,895,615
Past due but not impaired		-	392,002	270	264,354	397,417	1,054,043
Impaired		-	285,929	-	1,098,081	420,079	1,804,089
		13,946,898	116,346,178	11,778,742	117,273,744	19,408,185	278,753,747
Less : allowance		(23,929)	(373,898)	(2,396)	(1,272,612)	(703,669)	(2,376,504)
	₩	13,922,969	115,972,280	11,776,346	116,001,132	18,704,516	276,377,243

- Credit quality of due from banks and loans that are neither past due nor impaired as of December 31, 2017 and 2016 are as follows:

		2017					
		Banks	Retail	Government	Corporations	Card	Total
Grade 1(*1)	₩	13,382,414	116,304,917	14,447,016	86,831,895	16,314,189	247,280,431
Grade 2(*1)		7,857	8,056,563	-	36,835,347	3,473,826	48,373,593
		13,390,271	124,361,480	14,447,016	123,667,242	19,788,015	295,654,024
Less : allowance		(17,131)	(212,502)	(4,269)	(647,694)	(288,362)	(1,169,958)
	₩	13,373,140	124,148,978	14,442,747	123,019,548	19,499,653	294,484,066

Mitigation of credit risk due to collateral(*2)	₩	96,835	80,354,889	-	64,018,607	6,358	144,476,689
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		2016					
		Banks	Retail	Government	Corporations	Card	Total
Grade 1(*1)	₩	13,946,898	108,798,683	11,778,472	78,556,918	15,156,750	228,237,721
Grade 2(*1)		-	6,869,564	-	37,354,391	3,433,939	47,657,894
		13,946,898	115,668,247	11,778,472	115,911,309	18,590,689	275,895,615
Less : allowance		(23,929)	(205,135)	(2,395)	(740,349)	(374,708)	(1,346,516)
	₩	13,922,969	115,463,112	11,776,077	115,170,960	18,215,981	274,549,099
Mitigation of credit risk due to collateral(*2)	₩	35,581	76,943,059	-	59,271,190	6,200	136,256,030

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December 31, 2017 and 2016

4. Financial risk management (continued)

(*1) Credit quality of due from banks and loans was classified based on the internal credit rating as follows:

<u>Type of Borrower</u>	<u>Grade 1</u>	<u>Grade 2</u>
Banks and governments(*)	OECD sovereign credit rating of 6 or above (as applied to the nationality of the banks and governments)	OECD sovereign credit rating of below 6 (as applied to the nationality of the banks and governments)
Retail	Pool of retail loans with probability of default of less than 2.25%	Pool of retail loans with probability of default of 2.25% or more
Corporations	Internal credit rating of BBB+ or above	Internal credit rating of below BBB+ (Probability of default for loans with internal credit rating of BBB is 2.25%)
Credit cards	For individual card holders, score of 7 or higher in Shinhan Card's internal behavior scoring system For corporate cardholders, same as corporate loans	For individual card holders, score of below 7 in Shinhan Card's internal behavior scoring system For corporate cardholders, same as corporate loans

(*1) In the case of loans to banks and governments that are neither past due nor impaired, Shinhan Bank classified loans with a sovereign rating of 6 or above as Grade 1 and those with a sovereign rating of below 6 as Grade 2. Under the guidelines set forth by the Financial Supervisory Commission of Korea, all major commercial banks in Korea, including Shinhan Bank, follow the standardized approach under Basel III for purposes of computing Bank of International Settlement (BIS) ratios for risk classifications of loans to banks and governments. Under this standardized approach under Basel III, risk classification for loans to banks and governments are determined on the basis of sovereign credit ratings, and not internal credit ratings assigned by the lending bank that are specific to the individual banks and governments. More specifically, this approach involves classifying loans to banks and governments in a given jurisdiction as either Grade 1 or Grade 2 based on the sovereign credit ratings for the government of such jurisdiction as determined by the Organization for Economic Co-operation and Development ("OECD"). As for our subsidiaries other than Shinhan Bank, risk classification of loans to banks and governments is made based on their respective internal credit ratings as these subsidiaries are not subject to the aforesaid guidelines of the Financial Supervisory Commission relating to Basel III risk classification.

(*2) The Group holds collateral against due from banks and loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of quantification of the extent to which collateral mitigate credit risk are based on the fair value of collateral.

Notes to the Consolidated Financial Statements

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4. Financial risk management (continued)

- Aging analyses of due from banks and loans that are past due but not impaired as of December 31, 2017 and 2016 are as follows:

		2017					
		Banks	Retail	Government	Corporations	Card	Total
Less than 30 days	₩	-	458,968	-	131,624	446,658	1,037,250
31~60 days		-	65,152	-	33,749	58,283	157,184
61~90 days		-	42,427	-	16,972	37,972	97,371
More than 90 days		-	15,430	-	11,787	390	27,607
		-	581,977	-	194,132	543,303	1,319,412
Less : allowance (collective)		-	(56,774)	-	(8,898)	(81,990)	(147,662)
	₩	-	525,203	-	185,234	461,313	1,171,750
Mitigation of credit risk due to collateral(*)	₩	-	325,631	-	94,388	90	420,109

		2016					
		Banks	Retail	Government	Corporations	Card	Total
Less than 30 days	₩	-	297,889	270	190,133	321,913	810,205
31~60 days		-	49,582	-	50,881	53,379	153,842
61~90 days		-	31,072	-	20,305	21,899	73,276
More than 90 days		-	13,459	-	3,035	226	16,720
		-	392,002	270	264,354	397,417	1,054,043
Less : allowance (collective)		-	(35,627)	(1)	(12,377)	(66,413)	(114,418)
	₩	-	356,375	269	251,977	331,004	939,625
Mitigation of credit risk due to collateral(*)	₩	-	249,309	-	101,334	112	350,755

- Due from banks and loans that are impaired as of December 31, 2017 and 2016 are as follows:

		2017					
		Banks	Retail	Government	Corporations	Card	Total
Impaired	₩	-	362,707	-	1,010,036	420,316	1,793,059
Less : allowance		-	(168,334)	-	(576,936)	(261,768)	(1,007,038)
	₩	-	194,373	-	433,100	158,548	786,021
Mitigation of credit risk due to collateral(*)	₩	-	128,906	-	384,815	12	513,733

		2016					
		Banks	Retail	Government	Corporations	Card	Total
Impaired	₩	-	285,929	-	1,098,081	420,079	1,804,089
Less : allowance		-	(133,136)	-	(519,886)	(262,548)	(915,570)
	₩	-	152,793	-	578,195	157,531	888,519
Mitigation of credit risk due to collateral(*)	₩	-	101,730	-	437,891	3	539,624

(*) The Group holds collateral against due from banks and loans to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of quantification of the extent to which collateral mitigate credit risk are based on the fair value of collateral.

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4. Financial risk management (continued)

iv) Credit rating

- Credit ratings of debt securities as of December 31, 2017 and 2016 are as follows:

		2017				
		Financial assets designated at		Available-for- sale financial assets	Held-to-maturity financial assets	Total
		Trading assets	FVTPL			
AAA	₩	8,837,093	630,247	23,949,843	20,057,480	53,474,663
AA- to AA+		5,193,659	589,193	5,582,125	3,956,290	15,321,267
A- to A+		5,442,892	792,715	4,300,764	444,711	10,981,082
BBB- to BBB+		1,614,012	252,258	1,508,224	166,906	3,541,400
Lower than BBB-		275,200	-	435,651	177,840	888,691
Unrated		2,277,790	80,288	1,409,945	187,453	3,955,476
	₩	<u>23,640,646</u>	<u>2,344,701</u>	<u>37,186,552</u>	<u>24,990,680</u>	<u>88,162,579</u>

		2016				
		Financial assets designated at		Available-for- sale financial assets	Held-to-maturity financial assets	Total
		Trading assets	FVTPL			
AAA	₩	9,777,845	535,684	19,781,580	16,188,459	46,283,568
AA- to AA+		4,075,181	402,946	5,561,165	2,584,304	12,623,596
A- to A+		5,310,796	1,097,395	4,257,161	535,889	11,201,241
BBB- to BBB+		1,441,783	192,161	1,348,073	137,240	3,119,257
Lower than BBB-		144,612	-	469,615	148,894	763,121
Unrated		1,640,347	-	1,404,477	210,298	3,255,122
	₩	<u>22,390,564</u>	<u>2,228,186</u>	<u>32,822,071</u>	<u>19,805,084</u>	<u>77,245,905</u>

- The credit quality of securities (debt securities) according to the credit ratings by external rating agencies is as follows:

Internal credit ratings	KIS(*1)	KR(*2)	S&P	Fitch	Moody's
AAA	-	-	AAA	AAA	Aaa
AA- to AA+	AAA	AAA	AA- to AA+	AA- to AA+	Aa3 to Aa1
A- to A+	AA- to AA+	AA- to AA+	A- to A+	A- to A+	A3 to A1
BBB- to BBB+	BBB- to A	BBB- to A	BBB- to BBB+	BBB- to BBB+	Baa3 to Baa1
Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than BBB-	Lower than Baa3
Unrated	Unrated	Unrated	Unrated	Unrated	Unrated

(*1) KIS : Korea Investors Service

(*2) KR : Korea Ratings

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4. Financial risk management (continued)

- Credit status of debt securities as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Neither past due nor impaired	₩ 88,160,626	77,244,537
Impaired	1,953	1,368
	<u>₩ 88,162,579</u>	<u>77,245,905</u>

- Credit quality of derivative assets as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Grade 1(*1)(*2)	₩ 3,290,638	2,944,814
Grade 2(*1)(*2)	109,540	58,045
	<u>₩ 3,400,178</u>	<u>3,002,859</u>

(*1) Credit qualities of derivative assets were classified based on the internal credit ratings of counterparties.

(*2) Grade 1: Internal credit rating of BBB+ or above, Grade 2: Internal credit rating of below BBB+

v) Assets acquired through foreclosures amounting to ₩658 million are classified as assets held for sale (non-business purpose property) as of December 31, 2016.

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4. Financial risk management (continued)

vi) Concentration by geographic location

An analysis of concentration by geographic location for financial instrument, net of allowance, as of December 31, 2017 and 2016 are as follows:

		2017						
		Korea	USA	Japan	Vietnam	China	Other	Total
Due from banks and loans:								
Banks	₩	6,315,655	1,186,576	268,533	583,094	3,420,223	1,599,059	13,373,140
Retail		119,993,323	346,746	2,695,890	745,725	615,079	471,791	124,868,554
Government		12,887,534	130,553	388,142	35,786	664,030	336,702	14,442,747
Corporations		110,025,699	2,371,400	2,169,445	1,613,022	2,530,507	4,927,809	123,637,882
Card		20,002,457	7,434	2,208	76,608	16,806	14,001	20,119,514
		<u>269,224,668</u>	<u>4,042,709</u>	<u>5,524,218</u>	<u>3,054,235</u>	<u>7,246,645</u>	<u>7,349,362</u>	<u>296,441,837</u>
Trading assets		23,294,062	235,474	985	5,074	60,037	234,311	23,829,943
Financial assets designated at FVTPL(*1)		2,262,222	82,479	-	-	-	-	2,344,701
AFS financial assets(*2)		34,323,438	1,242,570	163,652	474,134	510,678	472,080	37,186,552
HTM financial assets(*3)		22,458,896	1,466,037	34,487	237,641	37,096	756,523	24,990,680
	₩	<u>351,563,286</u>	<u>7,069,269</u>	<u>5,723,342</u>	<u>3,771,084</u>	<u>7,854,456</u>	<u>8,812,276</u>	<u>384,793,713</u>
		2016						
		Korea	USA	Japan	Vietnam	China	Other	Total
Due from banks and loans:								
Banks	₩	5,681,266	1,675,781	328,700	465,998	3,982,074	1,789,150	13,922,969
Retail		112,391,835	337,751	2,270,133	294,777	277,447	400,337	115,972,280
Government		9,799,087	321,516	717,922	109,943	696,051	131,827	11,776,346
Corporations		103,409,204	2,254,649	2,083,445	1,630,829	2,272,447	4,350,558	116,001,132
Card		18,660,696	7,116	2,114	13,213	10,684	10,693	18,704,516
		<u>249,942,088</u>	<u>4,596,813</u>	<u>5,402,314</u>	<u>2,514,760</u>	<u>7,238,703</u>	<u>6,682,565</u>	<u>276,377,243</u>
Trading assets		22,220,290	130,576	1,072	5,417	32,490	248,564	22,638,409
Financial assets designated at FVTPL(*1)		2,144,830	-	-	-	60,201	23,155	2,228,186
AFS financial assets(*2)		29,739,647	1,363,047	112,381	484,002	588,334	534,660	32,822,071
HTM financial assets(*3)		17,871,709	1,410,721	56,196	155,916	166,560	143,982	19,805,084
	₩	<u>321,918,564</u>	<u>7,501,157</u>	<u>5,571,963</u>	<u>3,160,095</u>	<u>8,086,288</u>	<u>7,632,926</u>	<u>353,870,993</u>

(*1) FVTPL : fair value through profit or loss

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

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4. Financial risk management (continued)

vii) Concentration by industry sector

An analysis of concentration by industry sector of due from banks and loans, net of allowance, as of December 31, 2017 and 2016 are as follows:

	2017						
	Finance and insurance	Manu- facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans:							
Banks	₩ 11,094,855	1,592	-	56,744	2,219,949	-	13,373,140
Retail	-	-	-	-	-	124,868,554	124,868,554
Government	13,381,461	1,314	-	-	1,059,972	-	14,442,747
Corporations	5,474,353	40,364,768	16,563,849	23,005,675	38,229,237	-	123,637,882
Card	41,825	295,290	140,117	37,801	445,982	19,158,499	20,119,514
	<u>29,992,494</u>	<u>40,662,964</u>	<u>16,703,966</u>	<u>23,100,220</u>	<u>41,955,140</u>	<u>144,027,053</u>	<u>296,441,837</u>
Trading assets	17,183,669	1,139,609	1,206,133	176,273	4,124,259	-	23,829,943
Financial assets designated at FVTPL(*1)	1,201,464	202,906	36,112	45,178	859,041	-	2,344,701
AFS financial assets(*2)	23,384,608	1,409,017	227,289	632,410	11,533,228	-	37,186,552
HTM financial assets(*3)	5,975,448	48,981	-	785,859	18,180,392	-	24,990,680
	<u>₩ 77,737,683</u>	<u>43,463,477</u>	<u>18,173,500</u>	<u>24,739,940</u>	<u>76,652,060</u>	<u>144,027,053</u>	<u>384,793,713</u>
	2016						
	Finance and insurance	Manu- facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans:							
Banks	₩ 10,875,077	68	-	110,443	2,937,381	-	13,922,969
Retail	-	-	-	-	-	115,972,280	115,972,280
Government	10,906,097	3,991	-	3,315	862,943	-	11,776,346
Corporations	5,094,455	40,544,250	15,560,280	20,460,662	34,341,485	-	116,001,132
Card	38,574	194,630	131,956	37,495	371,497	17,930,364	18,704,516
	<u>26,914,203</u>	<u>40,742,939</u>	<u>15,692,236</u>	<u>20,611,915</u>	<u>38,513,306</u>	<u>133,902,644</u>	<u>276,377,243</u>
Trading assets	14,783,780	1,262,042	1,079,631	307,115	5,205,841	-	22,638,409
Financial assets designated at FVTPL(*1)	1,450,512	144,019	26,385	20,000	587,270	-	2,228,186
AFS financial assets(*2)	22,615,359	1,009,045	129,261	613,265	8,455,141	-	32,822,071
HTM financial assets(*3)	5,261,874	44,915	-	786,345	13,711,950	-	19,805,084
	<u>₩ 71,025,728</u>	<u>43,202,960</u>	<u>16,927,513</u>	<u>22,338,640</u>	<u>66,473,508</u>	<u>133,902,644</u>	<u>353,870,993</u>

(*1) FVTPL : fair value through profit or loss

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

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4. Financial risk management (continued)

(c) Market risk

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

Interest rate risk from non- trading positions is the risk of loss resulting from interest rate fluctuations that adversely affect the financial condition and results of operations of the Group and affects the earnings and the economic value of net assets of the Group.

Foreign exchange risk arises from the Group's assets and liabilities which are denominated in currencies other than Korean won.

The Group's market risks arise primarily from Shinhan Bank, and to a lesser extent, Shinhan Investment, which incurs market risk relating to its trading activities.

Shinhan Bank's Risk Policy Committee acts as the executive decision making body in relation to market risks setting the risk management policies and risk limits and controlling market risks arising from trading and non-trading activities. In addition, Shinhan Bank's Risk Management Department comprehensively manages market risks on an independent basis from Shinhan Bank's operating departments, and functions as the middle office of Shinhan Bank.

Shinhan Investment's Risk Management Working Committee is the executive decision-making body for managing market risks related to Shinhan Investment, and determines, among other things, Shinhan Investment's overall market risk management policies and strategies, and assesses and approves trading activities and limits. In addition, Shinhan Investment's Risk Management Department manages various market risk limits and monitors operating conditions on an independent basis from Shinhan Investment's operating departments.

i) Market risk management from trading positions

Trading activities are to realize short-term trading profits in debt and stock markets and foreign exchange markets based on short-term forecast of changes in market situation and profits from arbitrage transactions in derivatives such as swap, forward, futures and option transactions. The Group manages market risk related to its trading positions using VaR, market value-based tool.

Shinhan Bank currently ten-day 99.9% confidence level-based VaR for purposes of calculating its "economic" capital used for internal management purposes, which is a concept used in determining the amount of Shinhan Bank's requisite capital in light of the market risk. Shinhan Bank manages VaR measurements and limits on a daily basis based on an automatic interfacing of its trading positions into its market risk measurement system. In addition, Shinhan Bank establishes pre-set loss, sensitivity, investment and stress limits for its trading departments and desks and monitors such limits daily.

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4. Financial risk management (continued)

Shinhan Investment currently uses the ten-day 99.9% confidence level-based historical VaR for purposes of calculating its “economic” capital used for internal management purposes. When computing the VaR, Shinhan Investment does not assume any particular probability distribution and calculates it through a simulation of the “full valuation” method based on changes of market variables such as stock prices, interest rates, and foreign exchange rates in the past one year. In addition, Shinhan Investment applies this VaR as a risk limit for the entire company as well as individual departments and products, and the adequacy of such VaR is reviewed by way of daily back-testing.

Value-at-risk is a commonly used market risk management technique. However, VaR models have the following shortcomings:

- VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a reliable indicator of future events, particularly those that are extreme in nature;
- VaR may underestimate the probability of extreme market movements;
- Shinhan Bank’s VaR models assume that a holding period of generally one to ten days is sufficient prior to liquidating the underlying positions, but such assumption regarding the length of the holding period may prove to be inadequate;
- The 99.9% confidence level does not take into account or provide indication of any losses that might occur beyond this confidence level; and
- VaR does not capture all complex effects of various risk factors on the value of positions and portfolios and could underestimate potential losses

In order to streamline such differences and use a consistent VaR among operating subsidiaries, the Group has adopted starting in 2013 a unified group-wide market risk measurement methodology, which uses the ten-day 99.9% confidence level for calculating the VaR.

An analysis of the Group’s requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2017 and 2016 based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, was as follows:

		2017			
		Average	Maximum	Minimum	December 31
Interest rate	₩	431,065	463,340	414,689	415,139
Stock price		186,652	225,553	157,730	199,041
Foreign exchange		113,208	121,041	105,823	121,041
Option volatility		10,405	12,599	7,809	12,599
	₩	741,330	822,533	686,051	747,820
		2016			
		Average	Maximum	Minimum	December 31
Interest rate	₩	376,486	422,592	348,686	422,592
Stock price		159,555	191,957	134,595	134,595
Foreign exchange		132,802	139,694	124,046	132,225
Option volatility		6,078	9,214	2,707	9,215
	₩	674,921	763,457	610,034	698,627

Shinhan Life Insurance was excluded when the Group estimated the market risk, because insurance company was not included in the Group’s subsidiaries for the consolidated BIS capital ratio.

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4. Financial risk management (continued)

An analysis of market risk for trading positions of the major subsidiaries as of and for the years ended December 31, 2017 and 2016 are as follows:

i-1) Shinhan Bank

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Bank as of and for the years ended December 31, 2017 and 2016 are as follows:

		2017			
		<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>December 31</u>
Interest rate	₩	38,370	50,206	22,226	25,071
Stock price		4,051	5,622	3,040	4,675
Foreign exchange(*)		43,827	46,108	41,562	41,947
Option volatility		70	124	43	66
Commodity		22	46	-	14
Portfolio diversification					(26,367)
	₩	<u>49,943</u>	<u>56,103</u>	<u>42,031</u>	<u>45,406</u>

		2016			
		<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>December 31</u>
Interest rate	₩	33,246	48,851	18,764	44,447
Stock price		5,161	5,787	4,815	5,484
Foreign exchange(*)		56,089	61,389	53,678	60,088
Option volatility		149	256	101	221
Commodity		13	35	-	21
Portfolio diversification					(49,278)
	₩	<u>55,981</u>	<u>61,648</u>	<u>53,086</u>	<u>60,983</u>

(*) Both trading and non-trading accounts are included since Shinhan Bank manages foreign exchange risk on a total position basis.

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4. Financial risk management (continued)

i-2) Shinhan Card

The analyses of Shinhan Card's requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2017 and 2016, based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, are as follows:

		2017			
		Average	Maximum	Minimum	December 31
Interest rate	₩	1,809	2,550	1,050	1,800

		2016			
		Average	Maximum	Minimum	December 31
Interest rate	₩	875	1,700	550	1,700

Shinhan Card fully hedges all the cash flows from foreign currency liabilities by swap transactions and is narrowly exposed to foreign exchange risk relating to foreign currency equity securities held for non-trading purposes.

i-3) Shinhan Investment

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Investment as of and for the years ended December 31, 2017 and 2016 are as follows:

		2017			
		Average	Maximum	Minimum	December 31
Interest rate	₩	9,939	18,090	7,329	11,232
Stock price		12,015	22,496	7,068	10,830
Foreign exchange		7,140	12,604	2,760	5,506
Option volatility		3,404	4,536	2,710	3,216
Portfolio diversification					(9,583)
	₩	22,221	34,564	12,980	21,201

		2016			
		Average	Maximum	Minimum	December 31
Interest rate	₩	9,040	18,149	5,380	15,491
Stock price		13,339	24,276	6,413	7,403
Foreign exchange		6,849	19,976	1,017	7,001
Option volatility		6,564	18,680	1,477	7,799
Portfolio diversification					(14,569)
	₩	24,393	34,546	16,679	23,125

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4. Financial risk management (continued)

i-4) Shinhan Life Insurance

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Life Insurance as of and for the years ended December 31, 2017 and 2016 are as follows:

		2017			
		Average	Maximum	Minimum	December 31
Interest rate	₩	3,838	16,598	85	3,848
Stock price		1,195	3,368	-	3,178
Foreign exchange		1,213	3,569	3	1,924
Option volatility		5,083	7,423	2,777	3,809
	₩	<u>11,329</u>	<u>30,958</u>	<u>2,865</u>	<u>12,759</u>
		2016			
		Average	Maximum	Minimum	December 31
Interest rate	₩	483	1,114	213	800
Stock price		231	1,585	-	130
Foreign exchange		1,278	2,238	54	1,221
Option volatility		1,115	3,044	71	3,044
	₩	<u>3,107</u>	<u>7,981</u>	<u>338</u>	<u>5,195</u>

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December 31, 2017 and 2016

4. Financial risk management (continued)

ii) Interest rate risk management from non-trading positions

Principal market risk from non-trading activities of the Group is interest rate risk, which affects the Group's earnings and the economic value of the Group's net assets:

- *Earnings*: interest rate fluctuations have an effect on the Group's net interest income by affecting its interest-sensitive operating income and expenses and EaR (Earnings at Risk) is a commonly used risk management technique.
- *Economic value of net assets*: interest rate fluctuations influence the Group's net worth by affecting the present value of cash flows from the assets, liabilities and other transactions of the Group and VaR is a commonly used risk management technique.

Interest rate VaR represents the maximum anticipated loss in a net present value calculation, whereas interest rate EaR represents the maximum anticipated loss in a net earnings calculation for the immediately following one-year period, in each case, as a result of negative movements in interest rates.

Accordingly, the Group measures and manages interest rate risk for non-trading activities by taking into account effects of interest rate changes on both its income and net asset value.

The principal objectives of Shinhan Bank's interest rate risk management are to generate stable net interest income and to protect Shinhan Bank's net asset value against interest rate fluctuations. Through its asset and liability management system, Shinhan Bank measures and manages its interest rate risk based on various analytical measures such as interest rate gap, duration gap and net present value and net interest income simulations, and monitors on a monthly basis its interest rate VaR limits, interest rate earnings at risk ("EaR") limits and interest rate gap ratio limits. Shinhan Bank measures its interest rate VaR and interest rate EaR based on a simulated estimation of the maximum decrease in net asset value and net interest income in a one-year period based on various scenario analyses of historical interest rates.

Shinhan Card and Shinhan Life Insurance also monitors and manages its interest rate risk limits for all its interest-bearing assets and liabilities (including off-balance sheet items) in terms of impact on its earnings and net asset value from changes in interest rates. The interest rate VaR analysis used by Shinhan Card and Shinhan Life Insurance principally focuses on the maximum impact on its net asset value from adverse movement in interest rates.

Notes to the Consolidated Financial Statements

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4. Financial risk management (continued)

Non-trading positions for interest rate VaR and EaR as of December 31, 2017 and 2016 are as follows:

ii-1) Shinhan Bank

	<u>2017</u>	<u>2016</u>
VaR(*1)	₩ 293,355	231,133
EaR(*2)	131,135	58,091

ii-2) Shinhan Card

	<u>2017</u>	<u>2016</u>
VaR(*1)	₩ 147,932	89,348
EaR(*2)	32,081	11,905

ii-3) Shinhan Investment

	<u>2017</u>	<u>2016</u>
VaR(*1)	₩ 44,505	27,822
EaR(*2)	108,866	104,423

ii-4) Shinhan Life Insurance

	<u>2017</u>	<u>2016</u>
VaR(*1)	₩ 319,689	287,912
EaR(*2)	70,434	58,062

(*1) The interest rate VaR represents the maximum anticipated loss in a net asset value in one year under confidence level of 99.9% and is measured by the internal model with one year look-back period.

(*2) The interest rate EaR was calculated by the Financial Supervisory Service regulations based on the “middle of time band of interest rate changes” and standard interest rate shocks by 200 basis points for each time bucket as recommended under the Basel Accord.

Notes to the Consolidated Financial Statements

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4. Financial risk management (continued)

iii) Foreign exchange risk

Foreign exchange risk arises because of the Group's net foreign currency open position, which is the difference between its foreign currency assets and liabilities, including derivatives.

The Group manages foreign exchange risk on an overall position basis, including its overseas branches, by covering all of its foreign exchange spot and forward positions in both trading and non-trading accounts.

The Risk Policy Committee oversees Shinhan Bank's foreign exchange exposure for both trading and non-trading activities by establishing limits for the net foreign currency open position, loss limits and VaR limits.

The management of Shinhan Bank's foreign exchange position is centralized at the FX & Derivatives Department. Dealers in the FX & Derivatives Department manage Shinhan Bank's overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps.

Foreign currency denominated assets and liabilities as of December 31, 2017 and 2016 are as follows:

	2017					
	USD	JPY	EUR	CNY	Other	Total
Assets:						
Cash and due from banks	₩ 3,589,642	983,260	324,246	1,940,542	1,652,631	8,490,321
Trading assets	1,911,537	6,314	181,023	-	233,924	2,332,798
Financial assets designated at FVTPL(*1)	884,946	-	-	-	197	885,143
Derivative assets	74,083	4	766	203	1,455	76,511
Loans	14,967,502	5,741,854	1,196,346	2,774,264	5,059,707	29,739,673
AFS financial assets(*2)	2,725,039	113,239	52,583	395,150	666,486	3,952,497
HTM financial assets(*3)	1,513,025	137,100	-	37,096	1,000,064	2,687,285
Other financial assets	1,646,688	288,243	154,853	458,166	289,715	2,837,665
	₩ 27,312,462	7,270,014	1,909,817	5,605,421	8,904,179	51,001,893
Liabilities:						
Deposits	₩ 12,367,273	6,307,142	759,380	4,289,224	4,930,479	28,653,498
Trading liabilities	2,602	-	-	-	434,586	437,188
Financial liabilities designated at FVTPL(*1)	983,382	-	-	-	-	983,382
Derivative liabilities	105,141	195	631	4,734	713	111,414
Borrowings	5,385,706	294,000	231,539	407,678	68,988	6,387,911
Debt securities issued	4,913,896	249,616	31,981	196,380	1,018,628	6,410,501
Other financial liabilities	2,612,191	208,516	208,665	472,207	278,181	3,779,760
	₩ 26,370,191	7,059,469	1,232,196	5,370,223	6,731,575	46,763,654
Net assets	₩ 942,271	210,545	677,621	235,198	2,172,604	4,238,239
Off-balance derivative exposure	130,976	6,094	(586,904)	80,183	(623,648)	(993,299)
Net position	₩ 1,073,247	216,639	90,717	315,381	1,548,956	3,244,940

(*1) FVTPL : fair value through profit or loss

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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4. Financial risk management (continued)

		2016					
		USD	JPY	EUR	CNY	Other	Total
Assets:							
Cash and due from banks	₩	2,880,095	1,160,173	255,718	2,705,235	1,174,199	8,175,420
Trading assets		666,578	1,072	49,476	182	364,033	1,081,341
Financial assets designated at FVTPL(*1)		802,596	-	-	-	29	802,625
Derivative assets		212,583	515	47	4,088	400	217,633
Loans		15,640,280	5,524,003	1,270,320	2,566,910	4,101,549	29,103,062
AFS financial assets(*2)		2,713,442	68,920	4,178	427,871	669,899	3,884,310
HTM financial assets(*3)		1,403,860	187,039	-	166,560	306,729	2,064,188
Other financial assets		1,756,890	396,927	117,139	376,208	164,631	2,811,795
	₩	<u>26,076,324</u>	<u>7,338,649</u>	<u>1,696,878</u>	<u>6,247,054</u>	<u>6,781,469</u>	<u>48,140,374</u>
Liabilities:							
Deposits	₩	11,019,450	6,002,935	619,086	4,427,939	4,023,859	26,093,269
Trading liabilities		1,155	-	-	-	485,995	487,150
Financial liabilities designated at FVTPL(*1)		669,064	2,631	-	-	-	671,695
Derivative liabilities		110,863	3,171	100	2,061	295	116,490
Borrowings		5,196,005	527,120	318,600	812,980	228,969	7,083,674
Debt securities issued		6,207,756	103,681	152,112	207,912	34,438	6,705,899
Other financial liabilities		2,020,655	493,288	181,810	558,932	209,265	3,463,950
	₩	<u>25,224,948</u>	<u>7,132,826</u>	<u>1,271,708</u>	<u>6,009,824</u>	<u>4,982,821</u>	<u>44,622,127</u>
Net assets	₩	851,376	205,823	425,170	237,230	1,798,648	3,518,247
Off-balance derivative exposure		359,812	(44,696)	(351,267)	64,432	(775,111)	(746,830)
Net position	₩	<u>1,211,188</u>	<u>161,127</u>	<u>73,903</u>	<u>301,662</u>	<u>1,023,537</u>	<u>2,771,417</u>

(*1) AFS : available-for-sale

(*2) HTM : held-to-maturity

(*3) FVTPL : fair value through profit or loss

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

4. Financial risk management (continued)

(d) Liquidity risk

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

Each subsidiary seeks to minimize liquidity risk through early detection of risk factors related to the sourcing and managing of funding that may cause volatility in liquidity and by ensuring that it maintains an appropriate level of liquidity through systematic management. At the group level, the Group manages liquidity risk by conducting monthly stress tests that compare liquidity requirements under normal situations against those under three types of stress situations, namely, the group-specific internal crisis, crisis in the external market and a combination of internal and external crisis. In addition, in order to preemptively and comprehensively manage liquidity risk, the Group measure and monitor liquidity risk management using various indices, including the “limit management index”, “early warning index” and “monitoring index”.

Shinhan Bank applies the following basic principles for liquidity risk management:

- raise funding in sufficient amounts, at the optimal time at reasonable costs;
- maintain risk at appropriate levels and preemptively manage them through a prescribed risk limit system and an early warning signal detection system;
- secure stable sources of revenue and minimize actual losses by implementing an effective asset-liability management system based on diversified sources of funding with varying maturities;
- monitor and manage daily and intra-daily liquidity positions and risk exposures for timely payment and settlement of financial obligations due under both normal and crisis situations;
- conduct periodic contingency analysis in anticipation of any potential liquidity crisis and establish and implement emergency plans in case of a crisis actually happening; and
- consider liquidity-related costs, benefits of and risks in determining the pricing of the Group’s products and services, employee performance evaluations and approval of launching of new products and services.

As for any potential liquidity shortage at or near the end of each month, Shinhan Card maintains liquidity at a level sufficient to withstand credit shortage for three months. In addition, Shinhan Card manages liquidity risk by defining and managing various indicators of liquidity risk, such as the actual liquidity gap ratio (in relation to the different maturities for assets as compared to liabilities), the liquidity buffer ratio, the maturity repayment ratio, the ratio of actual funding compared to budgeted funding and the ratio of asset-backed securities to total borrowings, at different risk levels of “caution”, “unstable” and “at risk”, and the Group also has contingency plans in place in case of any emergency or crisis.

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4. Financial risk management (continued)

Contractual maturities for financial instruments including cash flows of principal and interest and off balance as of December 31, 2017 and 2016 are as follows:

	2017						
	Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	Total
Non-derivative financial instruments:							
Assets:							
Cash and due from banks	₩ 19,576,010	868,907	945,027	1,290,451	8,320	49,767	22,738,482
Trading assets(*2)	27,327,076	627,936	247,905	54,631	183,577	31,862	28,472,987
Financial assets designated at fair value through profit or loss	2,819,112	35,001	91,487	20,097	364,898	248,609	3,579,204
Loans	29,831,671	34,176,546	43,120,328	63,496,597	76,247,244	59,983,675	306,856,061
Available-for-sale financial assets(*2)	37,273,740	352,098	20,013	2,472,184	408,106	1,598,529	42,124,670
Held-to-maturity financial assets	153,833	178,514	309,115	1,672,095	15,018,937	14,954,247	32,286,741
Other financial assets	10,457,000	13,915	22,999	401,431	1,151,508	104,097	12,150,950
	₩ <u>127,438,442</u>	<u>36,252,917</u>	<u>44,756,874</u>	<u>69,407,486</u>	<u>93,382,590</u>	<u>76,970,786</u>	<u>448,209,095</u>
Liabilities:							
Deposits(*3)	₩ 130,916,019	21,725,284	31,482,983	52,440,287	16,137,734	1,940,194	254,642,501
Trading liabilities	1,848,490	-	-	-	-	-	1,848,490
Financial liabilities designated at fair value through profit or loss	303,065	324,807	548,868	916,388	5,106,209	1,098,518	8,297,855
Borrowings	15,286,424	2,543,847	1,655,662	2,823,721	3,658,670	1,844,417	27,812,741
Debt securities issued	2,261,028	3,717,185	3,651,503	10,565,098	30,391,156	4,224,471	54,810,441
Other financial liabilities	19,387,718	42,948	137,810	335,104	363,245	59,188	20,326,013
	₩ <u>170,002,744</u>	<u>28,354,071</u>	<u>37,476,826</u>	<u>67,080,598</u>	<u>55,657,014</u>	<u>9,166,788</u>	<u>367,738,041</u>
Off balance(*4):							
Finance guarantee contracts	₩ 3,267,707	-	-	-	-	-	3,267,707
Loan commitments and other	76,929,515	-	-	-	-	-	76,929,515
	₩ <u>80,197,222</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,197,222</u>
Derivatives(*5):							
Cash inflows	₩ 3,735,274	790,313	829,659	1,411,010	2,684,189	143,032	9,593,477
Cash outflows	(3,324,459)	(498,396)	(727,887)	(1,321,939)	(2,594,372)	(60,717)	(8,527,770)
	₩ <u>410,815</u>	<u>291,917</u>	<u>101,772</u>	<u>89,071</u>	<u>89,817</u>	<u>82,315</u>	<u>1,065,707</u>

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4. Financial risk management (continued)

	2016						
	Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	Total
Non-derivative financial instruments:							
Assets:							
Cash and due from banks	₩ 15,619,847	1,282,950	1,065,296	1,219,959	37,590	38,481	19,264,123
Trading assets(*2)	26,496,604	30,052	42,351	70,706	36,226	20,014	26,695,953
Financial assets designated at fair value through profit or loss	2,481,122	1,029	21,342	-	606,257	306,534	3,416,284
Loans	30,017,816	32,259,593	40,491,876	57,580,253	72,248,194	53,783,87	286,381,603
Available-for-sale financial assets(*2)	31,847,430	1,286,987	-	1,515,705	68,025	2,956,893	37,675,040
Held-to-maturity financial assets	185,988	260,512	180,403	1,513,782	10,755,027	12,824,191	25,719,903
Other financial assets	12,434,933	15,915	17,036	359,283	1,159,021	92,494	14,078,682
	₩ 119,083,740	35,137,038	41,818,304	62,259,688	84,910,340	70,022,478	413,231,588
Liabilities:							
Deposits(*3)	₩ 121,707,981	22,583,391	29,620,700	49,624,644	14,144,690	3,032,191	240,713,597
Trading liabilities	1,976,760	-	-	-	-	-	1,976,760
Financial liabilities designated at fair value through profit or loss	429,578	452,306	475,221	1,380,011	5,412,373	1,084,419	9,233,908
Borrowings	13,697,990	1,914,573	1,293,030	2,715,323	4,191,730	1,692,283	25,504,929
Debt securities issued	1,394,163	2,435,353	4,597,809	7,371,729	26,138,646	5,492,930	47,430,630
Other financial liabilities	15,926,502	42,045	307,056	126,355	367,888	59,365	16,829,211
	₩ 155,132,974	27,427,668	36,293,816	61,218,062	50,255,327	11,361,188	341,689,035
Off balance(*4):							
Finance guarantee contracts	₩ 3,424,022	-	-	-	-	-	3,424,022
Loan commitments and other	76,173,506	-	-	-	-	-	76,173,506
	₩ 79,597,528	-	-	-	-	-	79,597,528
Derivatives(*5):							
Cash inflows	₩ 2,952,185	514,990	819,654	1,979,609	1,361,541	117,374	7,745,353
Cash outflows	(3,161,870)	(513,356)	(798,321)	(1,884,914)	(1,128,730)	(26,054)	(7,513,245)
	₩ (209,685)	1,634	21,333	94,695	232,811	91,320	232,108

(*1) These amounts include cash flows of principal and interest on financial assets and financial liabilities.

(*2) Available-for-sale financial assets and trading assets which are not restricted for sale and measured at market prices were included in the 'Less than 1 month' category; and the other available-for-sale financial assets and trading assets are classified by the earliest maturities available for sale.

(*3) Demand deposits amounting to ₩102,928,642 million and ₩93,639,192 million as of December 31, 2017 and 2016 are included in the 'Less than 1 month' category, respectively.

(*4) Financial guarantees such as financial guarantee contracts and loan commitments and others provided by the Group are classified based on the earliest date at which the Group should fulfill the obligation under the guarantee when the counterparty requests payment.

(*5) Derivatives held for trading are presented as less than one month because contractual maturities are not essential for an understanding of the timing of the cash flows. Derivatives entered into for the purpose of hedging are presented by maturity.

(*6) As of December 31 2017 and 2016, unused credit commitments which are the Group should fulfill the obligation immediately when the credit card members request payments amounted to ₩63,745,952 million, ₩61,184,194 million, respectively.

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4. Financial risk management (continued)

(e) Measurement of fair value

The fair values of financial instruments being traded in an active market are determined by the published market prices of each period end. The published market prices of financial instruments being held by the Group are based on the trading agencies' notifications. If the market for a financial instrument is not active, such as OTC (Over The Counter market) derivatives, fair value is determined either by using a valuation technique or independent third-party valuation service.

The Group uses various valuation techniques and is setting rational assumptions based on the present market situations. Such valuation techniques may include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

The Group classifies and discloses fair value of financial instruments into the following three-level hierarchy:

- Level 1: Financial instruments measured at quoted prices from active markets are classified as fair value level 1.
- Level 2: Financial instruments measured using valuation techniques where all significant inputs are observable market data are classified as level 2.
- Level 3: Financial instruments measured using valuation techniques where one or more significant inputs are not based on observable market data are classified as level 3.

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4. Financial risk management (continued)

i) Financial instruments measured at fair value

- The fair value hierarchy of financial assets presented at their fair values in the statements of financial position as of December 31, 2017 and 2016 are as follows:

	2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Trading assets:				
Debt securities	₩ 5,897,898	17,479,033	263,715	23,640,646
Equity securities	1,350,888	2,872,437	411,028	4,634,353
Gold deposits	189,297	-	-	189,297
Financial assets designated at fair value through profit or loss:				
Debt securities and others	569,259	1,509,023	266,419	2,344,701
Equity securities	3,475	948,705	282,176	1,234,356
Derivative assets:				
Trading	31,858	2,955,377	293,540	3,280,775
Hedging	-	117,603	1,800	119,403
Available-for-sale financial assets:				
Debt securities	10,493,483	26,286,175	406,894	37,186,552
Equity securities	427,227	613,616	3,889,542	4,930,385
	₩ <u>18,963,385</u>	<u>52,781,969</u>	<u>5,815,114</u>	<u>77,560,468</u>
Financial liabilities:				
Trading liabilities:				
Securities sold	₩ 1,413,904	-	-	1,413,904
Gold deposits	434,586	-	-	434,586
Financial liabilities designated at fair value through profit or loss:				
Deposits	36,973	-	-	36,973
Securities sold	-	986,882	7,273,754	8,260,636
Derivatives-combined securities				
Derivative liabilities:				
Trading	20,738	2,706,249	77,847	2,804,834
Hedging	-	257,665	425,162	682,827
	₩ <u>1,906,201</u>	<u>3,950,796</u>	<u>7,776,763</u>	<u>13,633,760</u>

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4. Financial risk management (continued)

	2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Trading assets:				
Debt securities	₩ 8,633,933	13,721,703	34,928	22,390,564
Equity securities	1,375,463	2,634,532	47,549	4,057,544
Gold deposits	247,845	-	-	247,845
Financial assets designated at fair value through profit or loss:				
Debt securities and others	393,749	1,541,608	292,829	2,228,186
Equity securities	3,868	862,838	321,210	1,187,916
Derivative assets:				
Trading	17,316	2,704,643	104,683	2,826,642
Hedging	-	168,551	7,666	176,217
Available-for-sale financial assets:				
Debt securities	8,127,404	24,365,862	328,805	32,822,071
Equity securities	897,536	388,448	3,554,636	4,840,620
	₩ <u>19,697,114</u>	<u>46,388,185</u>	<u>4,692,306</u>	<u>70,777,605</u>
Financial liabilities:				
Trading liabilities:				
Securities sold	₩ 1,490,765	-	-	1,490,765
Gold deposits	485,995	-	-	485,995
Financial liabilities designated at fair value through profit or loss:				
Deposits	-	4,277	2,005	6,282
Securities sold	10,134	-	-	10,134
Derivatives-combined securities	-	1,644,904	7,572,322	9,217,226
Derivative liabilities:				
Trading	14,130	2,715,327	345,357	3,074,814
Hedging	-	194,302	259,128	453,430
	₩ <u>2,001,024</u>	<u>4,558,810</u>	<u>8,178,812</u>	<u>14,738,646</u>

- There was no transfer between level 1 and level 2 for the years ended December 31, 2017 and 2016.

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4. Financial risk management (continued)

- Changes in carrying values of financial instruments classified as Level 3 for the years ended December 31, 2017 and 2016 are as follows:

	2017				
	Trading assets	Financial assets designated at FVTPL(*3)	Available-for- sale financial assets	Derivative assets and liabilities, net	Financial liabilities designated at FVTPL(*3)
Beginning balance	₩ 82,477	614,039	3,883,441	(492,136)	(7,574,327)
Recognized in total comprehensive income for the year:					
Recognized in profit (loss) for the year(*1)	41,127	(9,202)	(200,701)	634,438	(913,760)
Recognized in other comprehensive income (loss) for the year	-	-	(3,149)	-	-
	41,127	(9,202)	(203,850)	634,438	(913,760)
Purchase	589,144	210,856	1,150,904	29,333	-
Issue	-	-	-	4,541	(8,710,656)
Settlement	(139,562)	(267,098)	(565,146)	(383,873)	9,924,989
Transfer in(*2)	101,557	-	31,087	28	-
Transfer out(*2)	-	-	-	-	-
Ending balance	₩ 674,743	548,595	4,296,436	(207,669)	(7,273,754)
	2016				
	Trading assets	Financial assets designated at FVTPL(*3)	Available-for- sale financial assets	Derivative assets and liabilities, net	Financial liabilities designated at FVTPL(*3)
Beginning balance	₩ 201,603	451,124	2,979,058	(703,841)	(6,444,621)
Recognized in total comprehensive income for the year:					
Recognized in profit (loss) for the year(*1)	5,026	6,020	28,645	141,080	(508,916)
Recognized in other comprehensive income (loss) for the year	-	-	(81,812)	-	-
	5,026	6,020	(53,167)	141,080	(508,916)
Purchase	76,810	337,012	1,308,840	10,226	-
Issue	-	-	-	-	(5,402,714)
Settlement	(200,962)	(180,117)	(359,694)	40,710	4,781,924
Transfer in(*2)	-	-	20,382	19,689	-
Transfer out(*2)	-	-	(11,978)	-	-
Ending balance	₩ 82,477	614,039	3,883,441	(492,136)	(7,574,327)

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4. Financial risk management (continued)

(*1) Recognized profit or loss of the changes in carrying value of financial instruments classified as Level 3 for the years ended December 31, 2017 and 2016, are included in the accounts of the statements of comprehensive income, of which the amounts and the related accounts are as follows:

	2017		2016	
	Amounts recognized in profit or loss	Recognized profit or loss from the financial instruments held as of December 31	Amounts recognized in profit or loss	Recognized profit or loss from the financial instruments held as of December 31
Trading income	₩ 843,657	121,643	332,400	37,466
Gain (loss) on financial instruments designated at FVTPL	(922,962)	(129,654)	(502,896)	(169,424)
Gain (loss) on disposal of available-for-sale financial assets	17,193	977	25,546	354
Impairment losses on financial assets	(180,206)	(180,206)	(6,685)	(5,964)
Other operating income (expenses)	(205,780)	(216,135)	(176,510)	(176,359)
	₩ (448,098)	(403,375)	(328,145)	(313,927)

(*2) Changes in levels for the financial instruments occurred due to the change in the availability of observable market data. The Group reviews the levels of financial instruments as of the end of the reporting period considering the related events and circumstances in the reporting period.

Notes to the Consolidated Financial Statements

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4. Financial risk management (continued)

- Valuation techniques and inputs used in measuring the fair value of financial instruments classified as level 2 as of December 31, 2017 are as follows:

Type of financial instrument	Valuation technique	Carrying value	Significant inputs
Assets			
Trading assets:			
Debt securities	DCF(*1)	₩ 17,479,033	Discount rate
Equity securities	NAV(*2)	2,872,437	Discount rate, Price of underlying assets
		<u>20,351,470</u>	
Financial assets designated at fair value through profit or loss:			
Debt securities	DCF(*1)	1,509,023	Discount rate
Equity securities	NAV(*2)	948,705	Discount rate, Price of underlying assets
		<u>2,457,728</u>	
Derivative assets:			
Trading		2,955,377	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
Hedging	Option model, DCF(*1)	117,603	
		<u>3,072,980</u>	
Available-for-sale financial assets:			
Debt securities	DCF(*1)	26,286,175	Discount rate, growth rate, price of underlying assets
Equity securities	NAV(*2)	613,616	
		<u>26,899,791</u>	
		<u>₩ 52,781,969</u>	
Liabilities			
Financial liabilities designated at fair value through profit or loss:			
Others	DCF(*1)	₩ 986,882	Discount rate
Derivative liabilities:			
Trading		2,706,249	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
Hedging	Option model, DCF(*1)	257,665	
		<u>2,963,914</u>	
		<u>₩ 3,950,796</u>	

(*1) DCF : Discounted cash flow

(*2) NAV : Net asset value

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4. Financial risk management (continued)

- Valuation techniques and significant inputs, but not observable, used in measuring the fair value of financial instruments classified as level 3 as of December 31, 2017 are as follows:

Type of financial instrument	Valuation technique	Carrying value (*2)	Significant unobservable inputs	Range
Financial assets				
Financial assets designated at fair value through profit or loss:				
Debt securities	DCF Option model(*1)	₩ 263,715	The volatility of the underlying asset Correlations	3.16%~7.51%
Equity securities	NAV	411,028		
		<u>674,743</u>		
Debt securities and other securities	DCF	548,595	The volatility of the underlying asset Correlations	0.66%~44.4% 0.00%~89.54%
Derivative assets:				
Equity and foreign exchange related	Option model(*1)	203,028	The volatility of the underlying asset Correlations	1.32%~44.40% 0.00%~81.99%
Interest rates related	Option model(*1)	35,795	The volatility of the underlying asset Regression coefficient Correlations	0.42%~62.19% 0.00%~90.9%
Credit and commodity related	Option model(*1)	56,517	The volatility of the underlying asset Correlations	35.8%~35.92% 0.00%~92.91%
		<u>295,340</u>		
Available-for-sale financial assets:				
Debt securities	DCF	406,894	Discount rate	1.98%~20.51%
Equity securities	NAV	3,889,542	Discount rate, growth rate	0.00%~3.00%
		<u>4,296,436</u>		
		<u>₩ 5,815,114</u>		

(*1) Option model that the Group uses in derivative valuation includes Black-Scholes model, Hull-White model, Monte Carlo simulation, etc.

(*2) Valuation techniques and inputs are not disclosed when the carrying amount is a reasonable approximation of fair value.

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4. Financial risk management (continued)

Type of financial instrument	Valuation technique	Carrying value (*2)	Significant unobservable inputs	Range
Financial liabilities				
Financial liabilities designated at fair value through profit or loss:				
Equity related	Option model(*1)	₩ 7,273,754	The volatility of the underlying asset Correlations	0.00%~95.69% 21.14%~100.0%
Derivative liabilities:				
Equity and foreign exchange related	Option model(*1)	23,482	The volatility of the underlying asset Correlations	1.32%~44.40% 0.00%~81.92%
Interest rates related	Option model(*1)	451,034	The volatility of the underlying asset Regression coefficient Correlations	0.50%~0.85% 1.65%~2.77% 31.53%~90.99%
Credit and commodity related	Option model(*1)	28,493	The volatility of the underlying asset Correlations	9.65%~35.92% 21.14%~100%
		<u>503,009</u>		
		<u>₩ 7,776,763</u>		

(*1) Option model that the Group uses in derivative valuation includes Black-Scholes model, Hull-White model, Monte Carlo simulation, etc.

(*2) Valuation techniques and inputs are not disclosed when the carrying amount is a reasonable approximation of fair value.

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4. Financial risk management (continued)

- Sensitivity analysis for fair value measurements in Level 3

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

For level 3 fair value measurement, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effects on profit or loss, or other comprehensive income as of December 31, 2017 and 2016.

	2017	
	Favorable changes	Unfavorable changes
Financial assets:		
Effects on profit or loss for the period(*1):		
Trading assets	₩ 2,792	(2,742)
Financial assets designated at fair value through profit or loss	1,843	(1,941)
Derivative assets	29,059	(28,077)
	<u>33,694</u>	<u>(32,760)</u>
Effects on other comprehensive income for the period:		
Available-for-sale financial assets(*2)	39,460	(25,505)
	<u>₩ 73,154</u>	<u>(58,265)</u>
Financial liabilities:		
Effects on profit or loss for the period(*1):		
Financial liabilities designated at fair value through profit or loss	₩ 72,063	(56,754)
Derivative liabilities	32,770	(33,343)
	<u>₩ 104,833</u>	<u>(90,097)</u>
2016		
	Favorable changes	Unfavorable changes
Financial assets:		
Effects on profit or loss for the period(*1):		
Financial assets designated at fair value through profit or loss	₩ 2,737	(3,260)
Derivative assets	38,746	(17,927)
	<u>41,483</u>	<u>(21,187)</u>
Effects on other comprehensive income for the period:		
Available-for-sale financial assets(*2)	59,782	(34,830)
	<u>₩ 101,265</u>	<u>(56,017)</u>
Financial liabilities:		
Effects on profit or loss for the period(*1):		
Financial liabilities designated at fair value through profit or loss	₩ 80,057	(108,955)
Derivative liabilities	80,589	(49,740)
	<u>₩ 160,646</u>	<u>(158,695)</u>

(*1) Fair value changes are calculated by increasing or decreasing the volatility of the underlying asset (-10~10%) or correlations (-10~10%).

(*2) Fair value changes are calculated by increasing or decreasing discount rate (-1~1%) or growth rate (0~1%).

Notes to the Consolidated Financial Statements

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4. Financial risk management (continued)

ii) *Financial instruments measured at amortized cost*

- The method of measuring the fair value of financial instruments measured at amortized cost is 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 most of deposits are floating interest rate deposits or next day deposits of a short-term instrument. For this reason, the carrying value approximates fair value.
Loans	The fair value of the loans is measured by discounting the expected cash flow at the market interest rate and credit risk.
Held-to-maturity financial assets	The fair value of held-to-maturity financial assets is based on the published price quotations in an active market. In case there is no observable market price, it is measured by discounting the contractual cash flows at the market interest rate that takes into account the residual risk.
Deposits and borrowings	The carrying amount and the fair value for demand deposits, cash management account deposits, call money as short-term instrument are identical. The fair value of others is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.
Debt securities issued	Where available, the fair value of deposits and borrowings is based on the published price quotations in an active market. In case there is no data for an active market price, it is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.

- The carrying value and the fair value of financial instruments measured at amortized cost as of December 31, 2017 and 2016 are as follows:

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Loans	₩ 275,565,766	275,988,557	259,010,575	260,900,186
Held-to-maturity financial assets	24,990,680	25,390,335	19,805,084	20,732,399
Other financial assets	12,041,304	12,038,310	13,975,889	13,994,180
	<u>₩ 312,597,750</u>	<u>313,417,202</u>	<u>292,791,548</u>	<u>295,626,765</u>
Liabilities:				
Deposits	₩ 249,419,224	249,333,154	235,137,958	235,175,777
Borrowings	27,586,610	27,596,841	25,294,241	25,340,042
Debt securities issued	51,340,821	51,277,693	44,326,785	44,651,811
Other financial liabilities	20,205,312	20,179,542	16,848,941	16,813,146
	<u>₩ 348,551,967</u>	<u>348,387,230</u>	<u>321,607,925</u>	<u>321,980,776</u>

Notes to the Consolidated Financial Statements

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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 value as of December 31, 2017 and 2016 are as follows:

	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Loans	₩ 3,065	845,567	275,139,925	275,988,557
Held-to-maturity financial assets	7,851,134	17,539,201	-	25,390,335
Other financial assets	79,889	6,832,567	5,125,854	12,038,310
	<u>₩ 7,934,088</u>	<u>25,217,335</u>	<u>280,265,779</u>	<u>313,417,202</u>
Liabilities:				
Deposits	₩ 2,922,841	105,939,876	140,470,437	249,333,154
Borrowings	5,958,846	566,718	21,071,277	27,596,841
Debt securities issued in won	-	33,622,407	17,655,286	51,277,693
Other financial liabilities	84,665	5,642,143	14,452,734	20,179,542
	<u>₩ 8,966,352</u>	<u>145,771,144</u>	<u>193,649,734</u>	<u>348,387,230</u>

	2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Loans	₩ 11,236	2,019,178	258,869,771	260,900,185
Held-to-maturity financial assets	7,658,696	13,073,704	-	20,732,400
Other financial assets	32,952	9,882,610	4,078,618	13,994,180
	<u>₩ 7,702,884</u>	<u>24,975,492</u>	<u>262,948,389</u>	<u>295,626,765</u>
Liabilities:				
Deposits	₩ 2,584,682	95,123,504	137,467,592	235,175,778
Borrowings	6,116,774	812,184	18,411,084	25,340,042
Debt securities issued in won	-	28,927,528	15,724,283	44,651,811
Other financial liabilities	37,061	4,741,882	12,034,202	16,813,145
	<u>₩ 8,738,517</u>	<u>129,605,098</u>	<u>183,637,161</u>	<u>321,980,776</u>

Notes to the Consolidated Financial Statements

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4. Financial risk management (continued)

- For financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed, information on valuation technique and inputs used in measuring fair value of financial instruments classified as level 2 or level 3 at December 31, 2017 and 2016 are as follows:

	2017		
	Fair value(*2)	Valuation technique	Inputs
Financial instruments classified as level 2 :			
Assets			
Loans	₩ 845,567	DCF(*1)	Discount rate, credit spread, prepayment rate
Held-to-maturity financial assets	17,539,201	DCF(*1)	
Other financial assets	6,832,567	DCF(*1)	
	<u>₩ 25,217,335</u>		Discount rate
Liabilities			
Deposits	₩ 105,939,876	DCF(*1)	Discount rate
Borrowings	566,718	DCF(*1)	Discount rate
Debt securities issued	33,622,407	DCF(*1)	Discount rate
Other financial liabilities	5,642,143	DCF(*1)	Discount rate
	<u>₩ 145,771,144</u>		
Financial instruments classified as level 3 :			
Assets			
Loans	₩ 275,139,925	DCF(*1)	Discount rate, credit spread, prepayment rate
Other financial assets	5,125,854	DCF(*1)	
	<u>₩ 280,265,779</u>		Discount rate
Liabilities			
Deposits	₩ 140,470,437	DCF(*1)	Discount rate
Borrowings	21,071,277	DCF(*1)	Discount rate
Debt securities issued	17,655,286	DCF(*1)	Discount rate, regression coefficient, correlation coefficient
Other financial liabilities	14,452,734	DCF(*1)	Discount rate
	<u>₩ 193,649,734</u>		

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4. Financial risk management (continued)

	2016		
	Fair value(*2)	Valuation technique	Inputs
Financial instruments classified as level 2 :			
Assets			
Loans	₩ 2,019,178	DCF(*1)	Discount rate, credit spread, prepayment rate
Held-to-maturity financial assets	13,073,704	DCF(*1)	Discount rate
Other financial assets	9,882,609	DCF(*1)	Discount rate
	₩ <u>24,975,491</u>		
Liabilities			
Deposits	₩ 95,123,504	DCF(*1)	Discount rate
Borrowings	812,184	DCF(*1)	Discount rate
Debt securities issued	27,838,862	DCF(*1)	Discount rate
Other financial liabilities	4,741,881	DCF(*1)	Discount rate
	₩ <u>128,516,431</u>		
Financial instruments classified as level 3 :			
Assets			
Loans	₩ 258,869,771	DCF(*1)	Discount rate, credit spread, prepayment rate
Other financial assets	4,078,168	DCF(*1)	Discount rate
	₩ <u>262,947,939</u>		
Liabilities			
Deposits	₩ 137,467,592	DCF(*1)	Discount rate
Borrowings	18,351,084	DCF(*1)	Discount rate
Debt securities issued	15,724,283	DCF(*1)	Discount rate, regression coefficient, correlation coefficient
Other financial liabilities	12,033,429	DCF(*1)	Discount rate
	₩ <u>183,576,388</u>		

(*1) DCF : discounted cash flow

(*2) Valuation techniques and inputs are not disclosed when the carrying amount is a reasonable approximation of fair value

iii) Changes in the difference between the fair value at initial recognition (the transaction price) and the value using models with unobservable inputs for the years ended December 31, 2017 and 2016

	2017	2016
Beginning balance	₩ (89,695)	(102,016)
Deferral on new transactions	(108,832)	(70,948)
Recognized in profit for the year	66,063	83,269
Ending balance	₩ <u>(132,464)</u>	<u>(89,695)</u>

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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 cost are measured in accordance with the Group's valuation methodologies, which are described in Note 4.(e) Measurement of fair value.

The carrying amounts of each category of financial assets and financial liabilities as of December 31, 2017 and 2016 are as follows:

	2017						
	Trading assets	FVTPL assets	AFS	HTM	Loans and receivable	Derivatives held for hedging	Total
Assets:							
Cash and due from banks	₩ -	-	-	-	22,668,598	-	22,668,598
Trading assets	28,464,296	-	-	-	-	-	28,464,296
Financial assets designated at FVTPL	-	3,579,057	-	-	-	-	3,579,057
Derivatives	3,280,775	-	-	-	-	119,403	3,400,178
Loans	-	-	-	-	275,565,766	-	275,565,766
AFS financial assets	-	-	42,116,937	-	-	-	42,116,937
HTM financial assets	-	-	-	24,990,680	-	-	24,990,680
Other	-	-	-	-	12,041,304	-	12,041,304
	₩ 31,745,071	3,579,057	42,116,937	24,990,680	310,275,668	119,403	412,826,816
2016							
	Trading liabilities	FVTPL liabilities	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total		
Liabilities:							
Deposits	₩ -	-	249,419,224	-	-	-	249,419,224
Trading liabilities	1,848,490	-	-	-	-	-	1,848,490
Financial liabilities designated at FVTPL	-	8,297,609	-	-	-	-	8,297,609
Derivatives	2,804,834	-	-	682,827	-	-	3,487,661
Borrowings	-	-	27,586,610	-	-	-	27,586,610
Debt securities issued	-	-	51,340,821	-	-	-	51,340,821
Other	-	-	20,205,312	-	-	-	20,205,312
	₩ 4,653,324	8,297,609	348,551,967	682,827	-	-	362,185,727

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4. Financial risk management (continued)

		2016						
		Trading assets	FVTPL assets	AFS	HTM	Loans and receivable	Derivatives held for hedging	Total
Assets:								
	₩	-	-	-	-	19,181,165	-	19,181,165
		26,695,953	-	-	-	-	-	26,695,953
			3,416,102	-	-	-	-	3,416,102
		2,826,642	-	-	-	-	176,217	3,002,859
		-	-	-	-	259,010,575	-	259,010,575
		-	-	37,662,691	-	-	-	37,662,691
		-	-	-	19,805,084	-	-	19,805,084
		-	-	-	-	13,975,889	-	13,975,889
	₩	<u>29,522,595</u>	<u>3,416,102</u>	<u>37,662,691</u>	<u>19,805,084</u>	<u>292,167,629</u>	<u>176,217</u>	<u>382,750,318</u>

		2016				
		Trading liabilities	FVTPL liabilities	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities:						
	₩	-	-	235,137,958	-	235,137,958
		1,976,760	-	-	-	1,976,760
		-	9,233,642	-	-	9,233,642
		3,074,814	-	-	453,430	3,528,244
		-	-	25,294,241	-	25,294,241
		-	-	44,326,785	-	44,326,785
		-	-	16,848,941	-	16,848,941
	₩	<u>5,051,574</u>	<u>9,233,642</u>	<u>321,607,925</u>	<u>453,430</u>	<u>336,346,571</u>

Notes to the Consolidated Financial Statements

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4. Financial risk management (continued)

(g) Transfer of financial instruments

i) Transfers that do not qualify for derecognition

- Bonds sold under repurchase agreements as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Transferred asset:		
Financial assets at fair value through profit or loss	₩ 7,688,025	7,011,684
Available-for-sale financial assets	1,240,063	1,104,923
Held-to-maturity financial assets	615,352	489,204
Loans	51,900	200
	<u>₩ 9,595,340</u>	<u>8,606,011</u>
Associated liabilities:		
Bonds sold under repurchase agreements	₩ 9,057,138	8,082,626

- Securities loaned as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>	<u>Borrowers</u>
Government bonds	₩ 530,607	414,745	Korea Securities Finance Corp., Korea Securities Depository and others
Financial institutions bonds	319,581	260,014	Korea Securities Finance Corp., Korea Securities Depository
Equity securities	-	10,333	JP MORGAN SECURITIES
	<u>₩ 850,188</u>	<u>685,092</u>	

ii) Financial instruments qualified for derecognition and continued involvement

There was no financial instruments which qualify for derecognition and in which the Group has continuing involvements as of December 31, 2017, and 2016.

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(h) Offsetting financial assets and financial liabilities

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2017 and 2016 are as follows:

	2017					Net amount
	Gross amounts of recognized financial assets/ liabilities	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position	Cash collateral received	
Assets:						
Derivatives(*1)	₩ 3,219,982	-	3,219,982			1,650,337
Other financial instruments(*1)	5,911,577	1,535,614	4,375,963		318,813	549,383
Bonds purchased under repurchase agreements(*2)	12,861,514	-	12,861,514		-	216,781
Securities loaned(*2)	850,188	-	850,188		633,407	2,919,699
Domestic exchange settlement debit(*3)	33,367,006	30,367,425	2,999,581		79,882	14,416
Receivables from disposal of securities(*4)	15,568	1,152	14,416		-	-
Insurance receivables	6,807	-	6,807		3,376	3,431
	₩ 56,232,642	₩ 31,904,191	₩ 24,328,451	₩ 18,655,591	₩ 318,813	₩ 5,354,047
Liabilities:						
Derivatives(*1)	₩ 12,625,941	-	12,625,941			9,907,535
Other financial instruments(*1)	5,195,260	1,535,614	3,659,646		6,378,052	-
Bonds purchased under repurchase agreements(*2)	9,057,138	-	9,057,138		9,057,138	-
Securities borrowed(*2)	1,450,877	-	1,450,877		1,450,877	-
Domestic exchange settlement pending(*3)	32,202,236	30,367,425	1,834,811		1,763,331	71,480
Payable from purchase of securities(*4)	1,519	1,152	367		326	41
Insurance payables	3,376	-	3,376		3,376	-
	₩ 60,536,347	₩ 31,904,191	₩ 28,632,156	₩ 18,653,100	-	₩ 9,979,056

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	2016				Net amount
	Gross amounts of recognized financial assets/liabilities	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position	
			Financial instruments	Cash collateral received	
Assets:					
Derivatives(*1)	₩ 2,980,805	-	2,980,805	-	1,922,783
Other financial instruments(*1)	4,904,754	616,774	4,287,980	296,155	513,956
Bonds purchased under repurchase agreements(*2)	12,005,767	-	12,005,767	-	346,144
Securities loaned(*2)	685,091	-	685,091	-	6,076,159
Domestic exchange settlement debit(*3)	30,589,675	24,486,360	6,103,315	27,156	1,396
Receivables from disposal of securities(*4)	1,891	495	1,396	-	1,619
Insurance receivables	4,069	-	4,069	2,450	8,862,057
	₩ 51,172,052	25,103,629	26,068,423	296,155	
Liabilities:					
Derivatives(*1)	₩ 4,438,363	-	4,438,363	-	2,661,326
Other financial instruments(*1)	4,365,592	616,774	3,748,818	467,195	-
Bonds purchased under repurchase agreements(*2)	8,082,626	-	8,082,626	-	-
Securities borrowed(*2)	1,490,765	-	1,490,765	-	-
Domestic exchange settlement pending(*3)	25,448,312	24,486,360	961,952	957,406	4,546
Payable from purchase of securities(*4)	500	495	5	5	-
Insurance payables	2,450	-	2,450	2,450	-
	₩ 43,828,608	25,103,629	18,724,979	15,591,912	2,665,872

(*1) The Group has certain derivative transactions subject to the ISDA (International Derivatives Swaps and Dealers Association) agreement. According to the ISDA agreement, when credit events (e.g. default) of counterparties occur, all derivative agreements are terminated and set off.

(*2) Resale and repurchase agreement, securities borrowing and lending agreement are also similar to ISDA agreement with respect to enforceable netting agreements.

(*3) The Group has legally enforceable right to set off and settles financial assets and liabilities on a net basis under normal business terms. Therefore, domestic exchanges settlement receivables (payables) are recorded on a net basis in the consolidated statements of financial position.

(*4) Receivables and payables related to settlement of purchase and disposition of enlisted securities are offset and the net amount is presented in the consolidated statement of financial position because the Group currently has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
(In millions of won)

4. Financial risk management (continued)

(i) Capital risk management

The controlling company, banks or other financial institutions conducting banking business as prescribed in the Financial Holding Company Act, is required to maintain a minimum consolidated equity capital ratio of 8.0%.

“Consolidated equity capital ratio” is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with the Financial Services Commission requirements that have been formulated based on Bank of International Settlement standards. “Equity capital”, as applicable to bank holding companies, is defined as the sum of Common Equity Tier 1 capital (including common stock, share premium resulting from the issue of instruments classified as common equity Tier 1, retained earnings, etc.), Additional Tier 1 capital (with the minimum set of criteria for an instrument issued by the Group to meet, i.e. ‘perpetual’) and Tier 2 capital (to provide loss absorption on a gone-concern basis) less any deductible items (including goodwill, income tax assets, etc.), each as defined under the Regulation on the Supervision of Financial Holding Companies. “Risk-weighted assets” is defined as the sum of credit risk-weighted assets and market risk-weighted assets.

The capital adequacy ratio of the Group as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Capital :		
Tier I common equity capital	₩ 26,756,509	25,325,054
Additional tier 1 capital	916,383	885,366
Tier I capital	27,672,892	26,210,420
Tier II capital	3,040,572	3,576,095
Total capital (A)	₩ 30,713,464	29,786,515
Total risk-weighted assets (B)	₩ 207,768,636	198,642,643
Capital adequacy ratio (A/B)	14.78%	15.00%
Tier I capital adequacy ratio	13.32%	13.19%
Common equity capital adequacy ratio	12.88%	12.75%

As of December 31, 2017 and 2016, the Group met the regulatory capital ratio above 8%.

Shinhan Life Insurance measures and manages RBC (risk based capital) ratio according to the Regulation on Supervision of Insurance Business to maintain required capital for the solvency margin.

As of December 31, 2017 and 2016, the Group’s BIS capital ratio and Shinhan Life Insurance’s RBC ratio exceed the regulatory minimum ratios.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

5. Significant estimate and judgment

The preparation of consolidated financial statements requires the application of certain critical accounting and assumptions relative to the future. Management's estimate of the outcome may differ from an actual outcome if managements' estimate and assumption based on its best judgment at the reporting date are different from an actual environment. The change in an accounting estimate is recognized prospectively in profit or loss in the year of the change, if the change affects that year only, or the year of the change and future years, if the change affects both.

(a) Goodwill

The Group assesses annually whether any objective evidence of impairment on goodwill exists in accordance with the accounting policy as described in note 3. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is measured based on estimates.

(b) Income taxes

The Group is subject to tax law from various countries. Within the normal business process, there are various types of transaction and different accounting method that may add uncertainties to the decision of the final income taxes. Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for taxable temporary differences and a deferred tax asset is recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized and the taxable profit will be created in appropriate periods. However, actual income tax in the future may not be identical to the recognized deferred tax assets and liabilities, and this difference can affect current and deferred tax at the year when the final tax effect is finalized.

(c) Fair value of financial instruments

The fair values of financial instruments which are not actively traded in the market are determined by using valuation techniques. The Group determines valuation method and assumptions based on significant market conditions at the end of each reporting year. Diverse valuation techniques are used to determine the fair value of financial instruments, from general market accepted valuation model internally developed valuation model that incorporates various types of assumptions and variables.

(d) Allowances for loan losses, guarantees and unused loan commitments

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes provision for guarantees and unused loan commitments. The accuracy of provisions of credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for allowances on individual loans and collectively assessing allowances for groups of loans, guarantees and unused loan commitments.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

5. Significant estimate and judgment (continued)

(e) Defined benefit obligation

The present value of defined benefit obligation that is measured by actuarial valuation method uses various assumptions which can change according to various elements. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting year on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in other comprehensive income or loss. Other significant assumptions related to defined benefit obligation are based on current market situation.

(f) Impairment of available-for-sale equity investments

When there is a significant or prolonged decline in the fair value of an investment in an equity instrument below its original cost, there is objective evidence that available-for-sale equity investments are impaired. Accordingly, the Group generally considers the decline in the fair value of more than 30% below the original cost as “significant decline” and the status when the market price for marketable equity is less than the acquisition costs of instruments for six consecutive months as a “prolonged decline”.

(g) Hedging relationship

The hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items during the period. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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6. Investment in subsidiaries

(a) Summarized financial information of the subsidiaries

i) Condensed financial position for the controlling company and the Group's major subsidiaries as of December 31, 2017 and 2016 are as follows:

	2017			2016		
	Total assets	Total liabilities	Total equity	Total assets	Total liabilities	Total equity
Shinhan Financial Group (Separate) ₩	27,639,783	7,447,705	20,192,078	27,195,607	6,977,746	20,217,861
Shinhan Bank	324,312,890	301,660,027	22,652,863	302,854,623	281,387,650	21,466,973
Shinhan Card Co., Ltd.	26,367,562	20,092,443	6,275,119	24,419,886	18,537,340	5,882,546
Shinhan Investment Corp.	28,644,288	25,391,599	3,252,689	25,554,489	22,478,057	3,076,432
Shinhan Life Insurance Co., Ltd.	29,719,359	27,987,427	1,731,932	27,499,836	25,814,288	1,685,548
Shinhan Capital Co., Ltd.	5,315,366	4,603,786	711,580	4,506,750	3,862,388	644,362
Jeju Bank	5,562,924	5,158,123	404,801	5,184,831	4,849,180	335,651
Shinhan Credit Information Co., Ltd.	22,726	8,144	14,582	23,077	8,897	14,180
Shinhan Alternative Investment Management Inc.	86,902	76,250	10,652	114,853	103,358	11,495
Shinhan BNP Paribas AMC	174,839	18,286	156,553	161,161	13,354	147,807
SHC Management Co., Ltd.	9,438	190	9,248	8,474	262	8,212
Shinhan Data System	39,799	24,446	15,353	34,403	21,565	12,838
Shinhan Savings Bank	1,287,170	1,139,533	147,637	970,146	839,328	130,818
Shinhan Aitas Co., Ltd.	58,158	6,209	51,949	53,886	8,434	45,452
Shinhan REITs Management	29,319	71	29,248	-	-	-

(*1) Condensed financial information of the subsidiaries is based on the consolidated financial information, if applicable.

(*2) Subsidiaries such as trust, beneficiary certificate, corporate restructuring fund and private equity fund which are not actually operating their own business are excluded.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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6. Investment in subsidiaries (continued)

ii) Condensed comprehensive income statement for the controlling company and the Group's major subsidiaries for the years ended December 31, 2017 and 2016 were as follows:

	2017			2016		
	Operating revenue	Net income	Total comprehensive income	Operating revenue	Net income	Total comprehensive income
Shinhan Financial Group (separate) ₩	1,008,868	754,727	755,018	1,739,924	1,470,250	1,469,850
Shinhan Bank	21,240,193	1,711,233	1,495,500	16,672,337	1,940,621	1,717,969
Shinhan Card Co., Ltd.	5,186,592	898,723	787,956	4,672,819	707,344	558,438
Shinhan Investment Corp.	5,558,862	211,919	195,910	4,549,941	115,440	120,238
Shinhan Life Insurance Co., Ltd.	5,997,997	120,642	46,062	5,693,702	150,556	109,754
Shinhan Capital Co., Ltd.	351,772	87,647	88,128	302,710	33,868	34,059
Jeju Bank	208,661	25,143	22,053	190,191	25,160	19,969
Shinhan Credit Information Co., Ltd.	32,836	340	377	24,975	(1,174)	(1,047)
Shinhan Alternative Investment Management Inc.	29,410	(844)	(842)	2,404	512	844
Shinhan BNP Paribas AMC	77,474	19,705	20,073	69,834	14,302	14,363
SHC Management Co., Ltd.	177	1,036	1,036	115	416	416
Shinhan Data System	79,063	1,404	2,482	79,004	1,186	2,617
Shinhan Savings Bank	78,516	16,800	16,757	64,229	12,505	11,170
Shinhan Aitas Co., Ltd.	40,781	6,481	6,481	37,061	7,631	7,631
Shinhan REITs Management	70	(752)	(752)	-	-	-

(*1) Condensed financial information of the subsidiaries is based on the consolidated financial information, if applicable.

(*2) Subsidiaries such as trust, beneficiary certificate, corporate restructuring fund and private equity fund which are not actually operating their own business are excluded.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

6. Investment in subsidiaries (continued)

(b) Change in subsidiaries

i) Change in material consolidated subsidiaries during the years ended December 31, 2017 and 2016 were as follows:

	<u>Company</u>	<u>Description</u>
Included(2017)	Shinhan REITs Management	Newly invested subsidiary
Included(2016)	Shinhan Microfinance Co., Ltd.	Newly established subsidiary
"	PT Shinhan Sekuritas Indonesia	Acquisition
Excluded(2016)	PT Centratama Nasional Bank	Business combination under common control
"	HKC&T Co., Ltd.	Liquidation

Subsidiaries such as trust, beneficiary certificate, corporate restructuring fund and private equity fund which are not actually operating their own business are excluded.

7. Operating segments

(a) Segment information

The general descriptions for operating segments are as follows:

<u>Segment</u>	<u>Description</u>
Banking	The banking segment offers commercial banking services such as lending to and receiving deposits from corporations and individuals and also includes securities investing and trading and derivatives trading primarily through domestic and overseas bank branches and subsidiaries.
Credit card	The credit card segment primarily consists of the credit card business of Shinhan Card, including its installment finance and automobile leasing businesses.
Securities	Securities segment comprise securities trading, underwriting and brokerage services.
Life insurance	Life insurance segment consists of life insurance services provided by Shinhan Life Insurance.
Others	Leasing, assets management and other businesses

Notes to the Consolidated Financial Statements

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7. Operating segments (continued)

(b) The following tables provide information of income and expense for each operating segment for the years ended December 31, 2017 and 2016.

	2017						
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income	₩ 5,107,888	1,501,054	433,047	727,917	69,231	3,816	7,842,953
Net fees and commission income	816,795	359,408	297,718	53,271	180,510	3,252	1,710,954
Impairment losses on financial assets	(676,057)	(291,694)	(15,752)	(13,162)	(36,830)	18,596	(1,014,899)
General and administrative expenses	(3,149,436)	(831,927)	(444,935)	(222,650)	(234,649)	72,399	(4,811,198)
Other income (expense), net	(11,556)	567,234	(17,229)	(385,226)	53,815	(106,173)	100,865
Operating income	2,087,634	1,304,075	252,849	160,150	32,077	(8,110)	3,828,675
Equity method income (loss)	1,306	-	12,081	(910)	8,796	(880)	20,393
Income tax expense	418,409	285,853	63,472	41,441	32,805	6,153	848,133
Profit (loss) for the period	₩ 1,622,344	1,012,755	211,919	120,642	9,600	(29,136)	2,948,124
Controlling interest	₩ 1,622,103	1,027,823	211,907	120,642	9,600	(74,340)	2,917,735
Non-controlling interests	241	(15,068)	12	-	-	45,204	30,389

	2016						
	Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income	₩ 4,605,046	1,484,697	390,761	704,489	13,028	7,345	7,205,366
Net fees and commission income	717,097	408,601	248,845	19,068	169,081	2,847	1,565,539
Impairment losses on financial assets	(746,126)	(347,179)	(8,035)	(9,559)	(85,009)	245	(1,195,663)
General and administrative expenses	(2,907,314)	(802,037)	(406,017)	(227,639)	(215,759)	50,191	(4,508,575)
Other income (expense), net	190,909	296,829	(82,480)	(326,251)	43,783	(80,815)	41,975
Operating income	1,859,612	1,040,911	143,074	160,108	(74,876)	(20,187)	3,108,642
Equity method income	8,615	-	(273)	(1,188)	4,277	(1,436)	9,995
Income tax expense	64,214	235,140	30,066	2,951	14,190	(1,008)	345,553
Profit (loss) for the period	₩ 1,866,811	806,313	115,440	150,556	(79,150)	(35,051)	2,824,919
Controlling interest	₩ 1,866,446	814,836	115,438	150,556	(79,151)	(93,347)	2,774,778
Non-controlling interests	365	(8,523)	2	-	1	58,296	50,141

Notes to the Consolidated Financial Statements

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7. Operating segments (continued)

(c) The following tables provide information of net interest income of each operating segment for the years ended December 31, 2017 and 2016.

		2017						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income from:								
External customers	₩	5,113,584	1,517,399	427,888	727,975	56,107	-	7,842,953
Internal transactions		(5,696)	(16,345)	5,159	(58)	13,124	3,816	-
	₩	<u>5,107,888</u>	<u>1,501,054</u>	<u>433,047</u>	<u>727,917</u>	<u>69,231</u>	<u>3,816</u>	<u>7,842,953</u>
		2016						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income from:								
External customers	₩	4,610,536	1,507,748	392,973	704,188	(10,079)	-	7,205,366
Internal transactions		(5,490)	(23,051)	(2,212)	301	23,107	7,345	-
	₩	<u>4,605,046</u>	<u>1,484,697</u>	<u>390,761</u>	<u>704,489</u>	<u>13,028</u>	<u>7,345</u>	<u>7,205,366</u>

(d) The following tables provide information of net fees and commission income of each operating segment for the years ended December 31, 2017 and 2016.

		2017						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net fees and commission income from:								
External customers	₩	844,349	384,356	306,407	60,555	115,287	-	1,710,954
Internal transactions		(27,554)	(24,948)	(8,689)	(7,284)	65,223	3,252	-
	₩	<u>816,795</u>	<u>359,408</u>	<u>297,718</u>	<u>53,271</u>	<u>180,510</u>	<u>3,252</u>	<u>1,710,954</u>
		2016						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net fees and commission income from:								
External customers	₩	744,464	427,592	255,999	26,769	110,715	-	1,565,539
Internal transactions		(27,367)	(18,991)	(7,154)	(7,701)	58,366	2,847	-
	₩	<u>717,097</u>	<u>408,601</u>	<u>248,845</u>	<u>19,068</u>	<u>169,081</u>	<u>2,847</u>	<u>1,565,539</u>

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7. Operating segments (continued)

(e) Financial information of geographical area

The following table provides information of income from external consumers by geographical area for the years ended December 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Domestic	₩ 3,503,429	2,876,073
Overseas	325,246	232,569
	<u>₩ 3,828,675</u>	<u>3,108,642</u>

The following table provides information of non-current assets by geographical area as of December 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Domestic	₩ 7,513,736	7,568,195
Overseas	198,308	157,105
	<u>₩ 7,712,044</u>	<u>7,725,300</u>

Non-current assets comprise property and equipment, intangible assets and investment properties.

Notes to the Consolidated Financial Statements

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8. Cash and due from banks

(a) Cash and due from banks as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	₩ 1,792,527	1,814,497
Deposits in won:		
Reserve deposits	8,689,515	2,857,672
Time deposits	1,361,612	1,916,936
Certificate of deposits	-	19,897
Other	3,023,087	4,867,510
	<u>13,074,214</u>	<u>9,662,015</u>
Deposits in foreign currency:		
Deposits	4,064,408	3,789,527
Time deposits	3,053,464	3,286,152
Other	698,039	644,684
	<u>7,815,911</u>	<u>7,720,363</u>
Allowance for credit losses	(14,054)	(15,710)
	<u>₩ 22,668,598</u>	<u>19,181,165</u>

(b) Restricted due from banks as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Deposits denominated in won:		
Reserve deposits	₩ 8,689,515	2,857,672
Other(*)	3,628,419	4,868,867
	<u>12,317,934</u>	<u>7,726,539</u>
Deposits denominated in foreign currency	1,117,597	1,379,514
	<u>₩ 13,435,531</u>	<u>9,106,053</u>

(*) Pursuant to the Regulation on Financial Investment Business, the Group is required to deposit certain portions of customers' deposits with the Korean Securities Finance Corporation ("KSFC") or banks to ensure repayment of customer deposits and the deposits may not be pledged as collateral.

Notes to the Consolidated Financial Statements

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9. Trading assets

Trading assets as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Debt securities:		
Governments	₩ 3,254,587	4,337,224
Financial institutions	8,014,128	7,461,375
Corporations	5,097,200	4,342,496
Commercial Papers	3,625,436	4,350,252
CMA(*)	3,157,475	1,793,312
Others	491,820	105,905
	<u>23,640,646</u>	<u>22,390,564</u>
Equity securities:		
Stocks	738,666	703,467
Beneficiary certificates	3,728,027	3,233,937
Others	167,660	120,140
	<u>4,634,353</u>	<u>4,057,544</u>
Other:		
Gold deposits	189,297	247,845
	<u>₩ 28,464,296</u>	<u>26,695,953</u>

(*) CMA: Cash management account deposits

0. Financial asset designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>	<u>Reason for designation</u>
Debt securities	₩ 2,110,809	1,908,342	Evaluation and management on a fair value basis, accounting mismatch
Equity securities(*)	1,234,356	1,187,916	Evaluation and management on a fair value basis, accounting mismatch
Others	233,892	319,844	Combined instrument
	<u>₩ 3,579,057</u>	<u>3,416,102</u>	

(*) Restricted reserve for claims of customers' deposits (trusts) as of December 31, 2017 and 2016 are ₩958,236 million and ₩862,837 million, respectively.

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11. Derivatives

(a) The notional amounts of derivatives as of December 31, 2017 and 2016 are as follows:

	2017	2016
Foreign currency related:		
Over the counter:		
Currency forwards	₩ 100,806,648	92,309,997
Currency swaps	30,269,510	27,460,485
Currency options	1,178,047	1,210,658
	<u>132,254,205</u>	<u>120,981,140</u>
Exchange traded:		
Currency futures	1,179,986	739,186
	<u>133,434,191</u>	<u>121,720,326</u>
Interest rates related:		
Over the counter:		
Interest rate swaps	30,269,249	37,545,356
Interest rate options	310,000	1,014,000
	<u>30,579,249</u>	<u>38,559,356</u>
Exchange traded:		
Interest rate futures	1,545,905	2,099,017
Interest rate swaps(*)	53,625,962	44,300,555
	<u>55,171,867</u>	<u>46,399,572</u>
	<u>85,751,116</u>	<u>84,958,928</u>
Credit related:		
Over the counter:		
Credit swaps	2,443,609	1,244,502
Equity related:		
Over the counter:		
Equity swaps and forwards	4,223,096	12,187,176
Equity options	1,230,635	1,228,114
	<u>5,453,731</u>	<u>13,415,290</u>
Exchange traded:		
Equity futures	526,913	492,562
Equity options	3,238,049	2,213,162
	<u>3,764,962</u>	<u>2,705,724</u>
	<u>9,218,693</u>	<u>16,121,014</u>
Commodity related:		
Over the counter:		
Commodity swaps and forwards	931,644	892,003
Commodity options	4,880	11,876
	<u>936,524</u>	<u>903,879</u>
Exchange traded:		
Commodity futures	122,394	114,927
	<u>1,058,918</u>	<u>1,018,806</u>

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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11. Derivatives (continued)

(a) The notional amounts of derivatives as of December 31, 2017 and 2016 are as follows (continued) :

	<u>2017</u>	<u>2016</u>
Hedge:		
Currency forwards	₩ 1,227,354	2,036,187
Currency swaps	3,866,015	2,765,653
Interest rate swaps	8,088,422	7,631,505
	<u>13,181,791</u>	<u>12,433,345</u>
	₩ <u>245,088,318</u>	<u>237,496,921</u>

(*) The notional amount of derivatives which is settled in the 'Central Counter Party (CCP)' system.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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11. Derivatives (continued)

(b) Fair values of derivative instruments as of December 31, 2017 and 2016 are as follows:

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Foreign currency related:				
Over the counter:				
Currency forwards	₩ 1,895,225	1,636,715	1,722,096	1,623,325
Currency swaps	854,892	865,551	698,220	766,252
Currency options	12,023	12,070	12,347	9,422
	<u>2,762,140</u>	<u>2,514,336</u>	<u>2,432,663</u>	<u>2,398,999</u>
Exchange traded:				
Currency futures	415	553	-	4
	<u>2,762,555</u>	<u>2,514,889</u>	<u>2,432,663</u>	<u>2,399,003</u>
Interest rates related:				
Over the counter:				
Interest rate swaps	204,449	208,901	290,074	340,409
Interest rate options	-	1,893	7,807	8,367
	<u>204,449</u>	<u>210,794</u>	<u>297,881</u>	<u>348,776</u>
Exchange traded:				
Interest rate futures	1,771	544	1,439	212
	<u>206,220</u>	<u>211,338</u>	<u>299,320</u>	<u>348,988</u>
Credit related:				
Over the counter:				
Credit swaps	63,359	10,617	13,365	6,095
Equity related:				
Over the counter:				
Equity swap and forwards	112,282	13,502	25,378	250,879
Equity options	91,040	12,177	38,156	6,212
	<u>203,322</u>	<u>25,679</u>	<u>63,534</u>	<u>257,091</u>
Exchange traded:				
Equity futures	72	805	683	57
Equity options	23,562	18,521	13,084	12,215
	<u>23,634</u>	<u>19,326</u>	<u>13,767</u>	<u>12,272</u>
	<u>226,956</u>	<u>45,005</u>	<u>77,301</u>	<u>269,363</u>
Commodity related:				
Over the counter:				
Commodity swaps and forwards	15,576	22,593	1,778	49,702
Commodity options	72	77	105	22
	<u>15,648</u>	<u>22,670</u>	<u>1,883</u>	<u>49,724</u>
Exchange traded:				
Commodity futures	6,037	315	2,110	1,641
	<u>21,685</u>	<u>22,985</u>	<u>3,993</u>	<u>51,365</u>

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December 31, 2017 and 2016
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11. Derivatives (continued)

(b) Fair values of derivative instruments as of December 31, 2017 and 2016 are as follows (continued) :

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Hedge:				
Currency forwards	₩ 50,492	1,567	5,646	81,829
Currency swaps	59,399	161,896	155,386	36,077
Interest rate swaps	9,512	519,364	15,185	335,524
	<u>119,403</u>	<u>682,827</u>	<u>176,217</u>	<u>453,430</u>
	₩ <u>3,400,178</u>	<u>3,487,661</u>	<u>3,002,859</u>	<u>3,528,244</u>

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December 31, 2017 and 2016
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11. Derivatives (continued)

(c) Gain or loss on valuation of derivatives for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Foreign currency related		
Over the counter:		
Currency forwards	₩ 85,498	(80,907)
Currency swaps	91,410	7,193
Currency options	5,422	9,704
	<u>182,330</u>	<u>(64,010)</u>
Exchange traded:		
Currency futures	(137)	(33)
	<u>182,193</u>	<u>(64,043)</u>
Interest rates related		
Over the counter:		
Interest rate swaps	(17,805)	(68,490)
Interest rate options	413	1,116
	<u>(17,392)</u>	<u>(67,374)</u>
Exchange traded:		
Interest rate futures	6,950	3,849
	<u>(10,442)</u>	<u>(63,525)</u>
Credit related		
Over the counter:		
Credit swaps	46,593	10,761
Equity related		
Over the counter:		
Equity swap and forwards	73,490	111,723
Equity options	36,662	11,639
	<u>110,152</u>	<u>123,362</u>
Exchange traded:		
Equity futures	(733)	626
Equity options	22,315	3,420
	<u>21,582</u>	<u>4,046</u>
	<u>131,734</u>	<u>127,408</u>
Commodity related		
Over the counter:		
Commodity swaps and forwards	13,435	(8,988)
Commodity options	(10)	(44)
	<u>13,425</u>	<u>(9,032)</u>
Exchange traded:		
Commodity futures	5,722	98
	<u>19,147</u>	<u>(8,934)</u>
Hedge		
Currency forwards	48,050	(80,958)
Currency swaps	(143,737)	19,366
Interest rate swaps	(191,233)	(239,596)
	<u>(286,920)</u>	<u>(301,188)</u>
	<u>₩ 82,305</u>	<u>(299,521)</u>

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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11. Derivatives (continued)

(d) Gain or loss on fair value hedges for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Hedged item	₩ (87,292)	332,197
Hedging instruments	66,620	(340,041)
	<u>₩ (20,672)</u>	<u>(7,844)</u>

In order to hedge changes in the fair value of investments in debt securities, structured deposits, etc. from interest rate changes, the Group designates interest swap contracts as hedging items. Additionally, the Group holds forward exchange contracts and currency swaps to hedge changes in the fair value of foreign currency deposits and investments in foreign currency debt securities from exchange rate changes.

(e) Hedge of net investment in foreign operations

Hedge accounting is applied for a portion of net investments in foreign operations. Foreign currency translation adjustments for foreign operation by each hedging instrument for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Borrowings in foreign currency	₩ 82,565	(23,441)
Debt securities issued in foreign currency	8,162	(35,727)
Currency forwards	6,626	4,775
	<u>₩ 97,353</u>	<u>(54,393)</u>

12. Loans

(a) Loans as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Household loans	₩ 111,590,777	104,184,270
Corporate loans	139,989,642	130,485,094
Public and other	2,297,631	2,153,888
Loans to banks	2,969,784	4,729,836
Card receivables	20,640,857	19,450,421
	<u>277,488,691</u>	<u>261,003,509</u>
Discount	(44,936)	(27,533)
Deferred loan origination costs and fees	432,615	395,394
	<u>277,876,370</u>	<u>261,371,370</u>
Allowance for credit losses	(2,310,604)	(2,360,795)
	<u>₩ 275,565,766</u>	<u>259,010,575</u>

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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12. Loans (continued)

(b) Changes in the allowance for credit losses for the years ended December 31, 2017 and 2016 are as follows:

	2017						
	Loans					Other (*2)	Total
	Household	Corporate	Credit Card	Other	Subtotal		
Beginning balance	₩ 306,345	1,335,391	703,866	15,193	2,360,795	66,896	2,427,691
Provision for (reversal of) allowance	146,757	402,528	251,870	(227)	800,928	15,672	816,600
Write-offs	(136,976)	(300,183)	(536,219)	(565)	(973,943)	(20,063)	(994,006)
Effect of discounting(*1)	(269)	(21,390)	(1,657)	-	(23,316)	-	(23,316)
Allowance related to loans sold	(2,042)	(58,719)	(1,928)	(402)	(63,091)	16	(63,075)
Recoveries	43,756	82,378	184,873	35	311,042	1,591	312,633
Others(*3)	455	(105,697)	3,431	-	(101,811)	(379)	(102,190)
Ending balance	₩ 358,026	1,334,308	604,236	14,034	2,310,604	63,733	2,374,337

	2016						
	Loans					Other (*2)	Total
	Household	Corporate	Credit Card	Other	Subtotal		
Beginning balance	₩ 266,764	1,358,489	675,239	17,924	2,318,416	79,839	2,398,255
Provision for (reversal of) allowance	135,416	656,449	313,037	(2,121)	1,102,781	4,851	1,107,632
Write-offs	(126,776)	(730,027)	(433,470)	(558)	(1,290,831)	(16,204)	(1,307,035)
Effect of discounting(*1)	(238)	(28,372)	(8,428)	-	(37,038)	-	(37,038)
Allowance related to loans sold	(2,731)	(42,472)	(32,970)	(95)	(78,268)	-	(78,268)
Recoveries	34,705	126,102	188,703	43	349,553	2,227	351,780
Others(*3)	(795)	(4,778)	1,755	-	(3,818)	(3,817)	(7,635)
Ending balance	₩ 306,345	1,335,391	703,866	15,193	2,360,795	66,896	2,427,691

(*1) Interest income from impaired financial assets

(*2) Included allowance for due from banks and other assets

(*3) Other changes were due to debt restructuring, debt-equity swap, and foreign exchange rate, etc.

(c) Changes in deferred loan origination costs and fees for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Beginning balance	₩ 395,394	357,617
Loan originations	178,890	192,116
Amortization	(141,669)	(154,339)
Ending balance	₩ 432,615	395,394

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13. Available-for-sale financial assets and held-to-maturity financial assets

(a) Available-for-sale financial assets and held-to-maturity financial assets as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Available-for-sale financial assets:		
Debt securities:		
Government bonds	₩ 7,570,104	5,308,247
Financial institution bonds	17,649,694	17,224,603
Corporate bonds and others	11,966,754	10,289,221
	<u>37,186,552</u>	<u>32,822,071</u>
Equity securities(*1):		
Stocks	1,026,666	1,663,951
Equity investments	749,818	625,632
Beneficiary certificates	3,126,851	2,470,555
Others	27,050	80,482
	<u>4,930,385</u>	<u>4,840,620</u>
	<u>42,116,937</u>	<u>37,662,691</u>
Held-to-maturity financial assets:		
Debt securities:		
Government bonds	15,164,133	11,514,671
Financial institutions bonds	2,708,148	2,092,476
Corporate bonds	7,118,399	6,197,937
	<u>24,990,680</u>	<u>19,805,084</u>
	<u>₩ 67,107,617</u>	<u>57,467,775</u>

(*1) Equity securities with no quoted market prices in active markets and for which the fair value cannot be measured reliably are recorded at cost were ₩126,220 million and ₩131,143 million as of December 31, 2017 and 2016, respectively.

(b) Gain or loss on sale of available-for-sale financial assets for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Gain on disposal of available-for-sale financial assets	₩ 529,411	707,134
Loss on disposal of available-for-sale financial assets	(30,224)	(59,593)
	<u>₩ 499,187</u>	<u>647,541</u>

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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14. Property and equipment, net

(a) Property and equipment as of December 31, 2017 and 2016 are as follows:

	2017		
	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩ 1,819,912	-	1,819,912
Buildings	1,158,661	(275,240)	883,421
Other	1,958,787	(1,640,348)	318,439
	₩ 4,937,360	(1,915,588)	3,021,772
	2016		
	Acquisition cost	Accumulated depreciation	Carrying amount
Land	₩ 1,885,233	-	1,885,233
Buildings	1,164,668	(223,625)	941,043
Other	1,976,152	(1,656,815)	319,337
	₩ 5,026,053	(1,880,440)	3,145,613

(b) Changes in property and equipment for the years ended December 31, 2017 and 2016 are as follows:

	2017			
	Land	Buildings	Other	Total
Beginning balance	₩ 1,885,233	941,043	319,337	3,145,613
Acquisitions(*1)	1,460	24,354	129,435	155,249
Disposals(*1)	(5,487)	(357)	(3,163)	(9,007)
Depreciation	-	(44,285)	(129,256)	(173,541)
Impairment losses	-	-	(16)	(16)
Amounts transferred from (to) investment property	(59,263)	(32,519)	-	(91,782)
Amounts transferred from assets held for sale	(1,815)	(3,521)	-	(5,336)
Effects of foreign currency movements	(216)	(1,294)	2,102	592
Ending balance	₩ 1,819,912	883,421	318,439	3,021,772

(*1) ₩14,285 million of buildings increased by transfers from construction-in-progress.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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14. Property and equipment, net (continued)

		2016			
		Land	Buildings	Other	Total
Beginning balance	₩	1,795,960	926,249	333,206	3,055,415
Acquisitions(*1)		84,616	67,423	123,418	275,457
Disposals(*1)		(1,107)	(921)	(4,070)	(6,098)
Depreciation		-	(34,785)	(142,620)	(177,405)
Impairment losses		(946)	(1,258)	-	(2,204)
Amounts transferred from (to) investment property		6,125	(17,023)	-	(10,898)
Amounts transferred from intangible assets		3	76	-	79
Amounts transferred from assets held for sale		410	1	-	411
Effects of foreign currency movements		172	1,281	9,403	10,856
Ending balance	₩	<u>1,885,233</u>	<u>941,043</u>	<u>319,337</u>	<u>3,145,613</u>

(*1) ₩15,405 million of buildings increased by transfers from construction-in-progress.

(c) Insured assets as of December 31, 2017 are as follows:

Type of insurance	Assets insured	Amount covered	Insurance company
Comprehensive insurance for financial institution	Cash and cash equivalent (Including ATM)	₩ 22,700	Samsung Fire and 7 other entities
Package insurance	General asset risk	1,473,918	Samsung Fire and 5 other entities
Fire insurance	Furniture and fixtures	19,285	Samsung Fire and 3 other entities
Directors' and officers' insurance	Directors' and officers' liabilities	213,470	MERITZ Fire and 8 other entities
Employee accident insurance	Employees	17,700	MERITZ Fire and 2 other entities
Pilferage insurance	Cash and securities	77,785	Samsung Fire and 8 other entities
Others	Securities, Fidelity guarantee and liability insurance and others	26,355	DB INSURANCE and 7 other entities
		₩ <u>1,851,213</u>	

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15. Intangible assets, net

(a) Intangible assets as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Goodwill	₩ 3,915,163	3,873,060
Software	83,829	94,261
Development cost	75,322	56,563
Other	197,655	202,628
	<u>₩ 4,271,969</u>	<u>4,226,512</u>

(b) Changes in intangible assets for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>				
	<u>Goodwill</u>	<u>Software</u>	<u>Develop- ment cost</u>	<u>Other</u>	<u>Total</u>
Beginning balance	₩ 3,873,060	94,261	56,563	202,628	4,226,512
Acquisitions	-	27,354	40,378	56,982	124,714
Business combination	42,103	-	-	-	42,103
Disposals	-	(21)	-	(12,901)	(12,922)
Impairment(*1)	-	-	(206)	26	(180)
Amortization(*2)	-	(38,095)	(21,413)	(48,941)	(108,449)
Effects of foreign currency movements	-	330	-	(139)	191
Ending balance	<u>₩ 3,915,163</u>	<u>83,829</u>	<u>75,322</u>	<u>197,655</u>	<u>4,271,969</u>

(*1) The Group recognized impairment losses from golf and condo memberships with indefinite useful lives for the difference between recoverable amounts and carrying amounts.

(*2) The Group recognized amortization of intangible asset in general and administrative expenses and net other operating expense.

	<u>2016</u>				
	<u>Goodwill</u>	<u>Software</u>	<u>Develop- ment cost</u>	<u>Other</u>	<u>Total</u>
Beginning balance	₩ 3,871,482	93,914	66,843	234,100	4,266,339
Acquisitions	-	37,682	21,001	29,882	88,565
Business combination	4,427	-	-	-	4,427
Disposals	-	(37)	-	(10,725)	(10,762)
Impairment(*1)	(2,849)	-	-	(261)	(3,110)
Amortization(*2)	-	(37,636)	(31,281)	(50,422)	(119,339)
Effects of foreign currency movements	-	338	-	133	471
Other	-	-	-	(79)	(79)
Ending balance	<u>₩ 3,873,060</u>	<u>94,261</u>	<u>56,563</u>	<u>202,628</u>	<u>4,226,512</u>

(*1) The Group recognized impairment losses from golf and condo memberships with indefinite useful lives for the difference between recoverable amounts and carrying amounts.

(*2) The Group recognized amortization of intangible asset in general and administrative expenses and net other operating expense.

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15. Intangible assets, net (continued)

(c) Goodwill

i) Goodwill allocated in the Group's CGUs as of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Banking	₩ 823,962	781,859
Credit card	2,773,231	2,773,231
Securities	5,645	5,645
Life insurance	275,371	275,371
Others	36,954	36,954
	<u>₩ 3,915,163</u>	<u>3,873,060</u>

ii) Changes in goodwill for the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Beginning balance	₩ 3,873,060	3,871,482
Acquisitions through business combinations(*1)	42,103	4,427
Impairment loss(*2)	-	(2,849)
Ending balance	<u>₩ 3,915,163</u>	<u>3,873,060</u>

(*1) The Group recognized the goodwill at the Shinhan Bank Vietnam Ltd. in 2017. (note 49)

(*2) The Group recognized full impairment on the goodwill allocated to PT. Shinhan Indo Finance in prior year.

iii) Goodwill impairment test

The recoverable amounts of each CGU were evaluated based on their respective value in use.

- Explanation on evaluation method

The income approach was applied when evaluating the recoverable amounts based on value in use, considering the characteristics of each unit or group of CGU.

- Projection period

When evaluating the value in use, 5.5 years of cash flow estimates – July 1, 2017 through December 31, 2022 – was used in projection and the value thereafter was reflected as terminal value. In case of Shinhan Life Insurance, only the 30 years of future cash flows were applied since the present value of the future cash flows thereafter is not significant.

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15. Intangible assets, net (continued)

- Discount rates and terminal growth rates

The required rates of return expected by shareholders were applied to the discount rates by calculating the cost of capital which comprises a risk-free interest rate, a market risk premium and systemic risk (beta factor). Expected terminal growth rate is on the basis of inflation rates.

Discount rates and terminal growth rates applied to each CGU are as follows:

	<u>Discount rates</u>	<u>Terminal growth rate</u>
Banking	6.6%~13.5%	0.7%~3.4%
Credit card	7.6%	1.7%
Securities	11.3%, 12.9%	3.4%
Life insurance	8.5%	-
Others	9.4%, 12.0%	1.7%

iv) *Key assumptions*

Key assumptions used in the discounted cash flow calculations of CGUs (other than Shinhan Life Insurance) are as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022 and thereafter</u>
CPI growth	1.9%	1.7%	1.5%	1.6%	1.7%	1.7%
Real retail sales growth	2.5%	2.1%	1.9%	2.0%	2.2%	2.2%
Real GDP growth	2.9%	2.3%	1.9%	2.6%	2.8%	2.8%

Key assumptions used in the discounted cash flow calculations of Shinhan Life Insurance are as follows:

	<u>Key assumptions</u>
Rate of return on investment	3.15%
Risk-based capital ratio	204.70%

The values for the CPI growth rate, real retail sales growth rate, real GDP growth rate, rate of return on investment and risk-based capital ratio are based on a combination of internal and external analysis.

v) *Total recoverable amount and total carrying value of CGUs to which goodwill has been allocated, are as follows:*

	<u>Amount</u>
Total recoverable amount	₩ 42,196,357
Total carrying value(*)	37,160,566
	₩ 5,035,791

(*) The goodwill recognized at the acquisition of the retail business of ANZ Vietnam is excluded from the table as the measurement of the fair value of assets acquired and liabilities assumed are not completed (see Note 49).

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16. Investments in associates

(a) Investments in associates as of December 31, 2017 and 2016 are as follows:

Investees	Country	Reporting date	Ownership (%)	
			2017	2016
BNP Paribas Cardif Life Insurance(*1),(*3)	Korea	September 30	14.99	14.99
Aju Capital Co., Ltd.(*8)	“	-	-	12.85
Daewontos Co., Ltd.(*4),(*9)	“	December 31	36.33	36.33
Neoplux Technology Valuation Investment Fund(*1)	“	September 30	33.33	33.33
JAEYOUNG SOLUTEC CO., LTD.(*1),(*4),(*5)	“	“	9.61	10.45
Partners 4th Growth Investment Fund(*1)	“	“	25.00	25.00
JAEYANG INDUSTRY(*4),(*9)	“	March 31	25.90	25.90
Chungyoung INC(*4),(*9)	“	June 30	18.94	18.94
DAEKWANG SEMICONDUCTOR CO., LTD.(*4),(*9)	“	“	20.94	20.94
Dream High Fund III(*7)	“	December 31	54.55	54.55
Asia Pacific No.39 Ship Investment Co., Ltd.	“	“	50.00	50.00
KCLAVIS Meister Fund No.17	“	“	26.09	26.09
SG No.9 Corporate Recovery Private Equity Fund	“	“	26.49	26.49
Plutus-SG Private Equity Fund	“	“	26.67	26.67
SG ARGES Private Equity Fund No.1	“	“	24.06	24.06
OST Progress- 2 Fund	“	“	27.62	27.62
Eum Private Equity Fund No.3	“	“	20.76	20.76
Richmond Private Yong in Retail Facility Real Estate Fund No.1	“	“	41.80	-
KTB Confidence Private Placement	“	“	30.29	-
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	“	“	23.89	-
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	“	“	20.16	-
Pine Asia Unsecured Individual Rehabilitation Bond Fund 18	“	“	22.86	-
Platform Partners brick save Private Investment trust(*7)	“	“	98.77	-
Synergy-Shinhan Mezzanine New Technology Investment Fund	“	“	47.62	-
The Asia Pacific Capital Fund II L.P.	Cayman Islands	“	25.18	25.18
Shinhan Praxis K-Growth Global Private Equity Fund(*6)	Korea	“	18.87	18.87
Credian Healthcare Private Equity Fund II	“	“	34.07	34.07
Kiwoom Milestone Professional Private Real Estate Trust 19	“	“	50.00	50.00
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	“	“	21.28	21.28
Brain Professional Private Trust No.4	“	“	27.49	27.49
Hanhwa US Equity Strategy Private Real Estate Fund No.1	“	“	44.84	44.84
Brain KS Qualified Privately Placed Fund No.6	“	“	50.00	50.00
M360 CRE Income Fund(*7)	U.S.A	“	57.87	42.83

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December 31, 2017 and 2016

16. Investments in associates

Investees	Country	Reporting date	Ownership (%)	
			2017	2016
Shinhan Global Healthcare Fund 1(*6)	Korea	December 31	4.41	-
JB Power TL Investment Type Private Placement Special Asset Fund 7	“	“	33.33	-
IBK AONE convertible 1	“	“	47.25	-
Rico synergy collabo Multi-Mezzanine 3(*7)	“	“	50.00	-
KB NA Hickory Private Speical Asset Fund	“	“	37.50	-
GB Professional Private Investment Trust 6(*7)	“	“	94.51	-
Koramco Europe Core Private Placement Real Estate Fund No.2-2	“	“	48.49	-
SHBNPP Private Korea Equity Long-Short Professional Feeder(*10)	“	“	9.85	15.88
SHBNPP Private Multi Strategy Professional Feeder No.1(*8)	”	-	-	29.55
Shinhan-Stonebridge Petro PEF(*6)	“	December 31	1.82	1.82
BNP Paribas Cardif General Insurance(*1),(*2)	“	September 30	10.00	10.00
Axis Global Growth New Technology Investment Association	“	December 31	31.85	-
Polaris No7 Start up and Venture Private Equity Fund	“	“	28.57	-
Hermes Private Investment Equity Fund	“	“	29.17	-

(*1) Financial statements as of September 30, 2017 were used for the equity method since the financial statements as of December 31, 2017 were not available. Significant trades and events occurred within the period were properly reflected.

(*2) The Group applies the equity method accounting as the Group has significant influence on the financial and operating policies of the investee through the ability to elect investees' board members and representation in decision making bodies of the investee.

(*3) The Group has a significant influence on the investees through important business transactions.

(*4) The shares of the investees were acquired by debt-equity swap. The Group reclassified available-for-sale financial assets to investments in associates as the reorganization procedures were completed and now the Group can normally exercise its voting rights to the investees.

(*5) Although the ownership interests in JAEYOUNG SOLUTEC CO., LTD. were less than 15%, the Group used the equity method as the investee should consult with the Group when the investee decides major management decision such as dividend, business planning or business transfer.

(*6) As a managing partner, the Group has a significant influence over the investees.

(*7) As a limited partner, the Group does not have an ability to participate in policy-making processes to obtain economic benefit from the investees that would allow the Group to control the entity.

(*8) The associates were disposed or reclassified.

(*9) The latest financial statements were used for the equity method since the financial statements as of December 31, 2017 were not available. Significant trades and events occurred within the period were properly reflected.

(*10) Although the ownership interests in SHBNPP Private Korea Equity Long-Short Professional Feeder were less than 20%, the Group has significant influence on the entity as the investment manager.

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December 31, 2017 and 2016
(In millions of won)

16. Investments in associates (continued)

(b) Changes in investments in associates for the years ended December 31, 2017 and 2016 were as follows:

Investees	2017					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
BNP Paribas Cardif Life Insurance ₩	60,213	(255)	3,682	(11,024)	-	52,616
Aju Capital Co., Ltd.	40,836	(42,022)	438	748	-	-
Daewontos Co., Ltd.(*2)	-	-	-	-	-	-
Neoplux Technology Valuation Investment Fund	7,526	3,890	1,564	490	-	13,470
JAEYOUNG SOLUTEC CO., LTD.(*1)	5,736	-	(2,009)	122	-	3,849
Partners 4th Growth Investment Fund	4,555	9,220	(385)	-	-	13,390
JAEYANG INDUSTRY(*2)	-	-	-	-	-	-
Chungyoung INC(*2)	-	-	-	-	-	-
DAEKWANG SEMICONDUCTOR CO., LTD.	4,776	-	(952)	-	-	3,824
Dream High Fund III	3,144	-	(109)	(830)	-	2,205
Asia Pacific No.39 Ship Investment Co., Ltd.	5,176	(802)	300	8	-	4,682
KCLAVIS Meister Fund No.17	2,989	-	50	-	-	3,039
SG No.9 Corporate Recovery Private Equity Fund	3,982	(192)	173	-	-	3,963
Plutus-SG Private Equity Fund	4,299	(132)	84	-	-	4,251
SG ARGES Private Equity Fund No.1	8,976	(2,754)	200	-	-	6,422
OST Progress- 2 Fund	1,460	3,500	(65)	-	-	4,895
Eum Private Equity Fund No.3	5,933	(1,362)	354	-	-	4,925
Richmond Private Yong in Retail Facility Real Estate Fund No.1	-	7,223	878	-	-	8,101
KTB Confidence Private Placement	-	4,927	377	1,099	-	6,403
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	-	6,504	457	(204)	-	6,757
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	-	8,012	628	(253)	-	8,387
Pine Asia Unsecured Individual Rehabilitation Bond Fund 18	-	5,867	145	-	-	6,012
Platform Partners brick save Private Investment trust	-	7,877	192	-	-	8,069
Synergy-Shinhan Mezzanine New Technology Investment Fund	-	5,000	(1)	-	-	4,999
The Asia Pacific Capital Fund II L.P.	11,579	454	(901)	(3,825)	-	7,307
Shinhan Praxis K-Growth Global Private Equity Fund	13,533	6,415	(1,590)	596	-	18,954
Credian Healthcare Private Equity Fund II	4,087	-	7	(281)	-	3,813
Kiwoom Milestone Professional Private Real Estate Trust 19	10,761	(222)	(131)	-	-	10,408

Notes to the Consolidated Financial Statements

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16. Investments in associates (continued)

Investees	2017					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	₩ 21,237	(841)	641	(577)	-	20,460
Brain Professional Private Trust No.4	5,316	-	529	2	-	5,847
Hanhwa US Equity Strategy Private Real Estate Fund No.1	25,764	(1,859)	1,591	(17)	-	25,479
Brain KS Qualified Privately Placed Fund No.6	4,896	-	(78)	(13)	-	4,805
M360 CRE Income Fund	23,167	132,768	9,270	(11,300)	-	153,905
Shinhan Global Healthcare Fund 1	-	3,440	(33)	-	-	3,407
JB Power TL Investment Type Private Placement Special Asset Fund 7	-	18,268	422	-	-	18,690
IBK AONE convertible 1	-	5,000	122	-	-	5,122
Rico synergy collabo Multi-Mezzanine 3	-	5,001	25	-	-	5,026
KB NA Hickory Private Speical Asset Fund	-	33,362	729	-	-	34,091
GB PROFESSIONAL PRIVATE INVESTMENT TRUST 6	-	8,600	-	-	-	8,600
Koramco Europe Core Private Real Estate Trust No.2-2	-	21,408	(648)	-	-	20,760
SHBNPP Private Korea Equity Long-Short Professional Feeder	14,180	(9,972)	653	-	-	4,861
SHBNPP Private Multi Strategy Professional Feeder No.1	5,014	(5,049)	35	-	-	-
Shinhan-Stonebridge Petro PEF	18,487	-	714	-	-	19,201
BNP Paribas Cardif General Insurance	2,584	2,750	(910)	5	-	4,429
Axis Global Growth New Technology Investment Association	-	5,000	(47)	-	-	4,953
Polaris No.7 Entrepreneur Private Equity Fund	-	4,400	(41)	-	-	4,359
Hermes Private Investment Equity Fund	-	17,500	(3)	-	-	17,497
Others	33,394	21,820	4,036	(45)	(144)	59,061
	₩ 353,600	282,744	20,393	(25,299)	(144)	631,294

(*1) The market value of the investment is ₩6,826 million as of December 31, 2017 based on the quoted market price.

(*2) The Group has stopped recognizing its equity method income or loss due to the investees' cumulative loss.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
(In millions of won)

16. Investments in associates (continued)

Investees	2016					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
BNP Paribas Cardif Life Insurance ₩	57,280	-	(2,495)	5,428	-	60,213
Aju Capital Co., Ltd.(*1)	34,444	(2,588)	9,038	(58)	-	40,836
UAMCO., Ltd.	125,822	(128,827)	2,882	123	-	-
Daewontos Co., Ltd.(*3)	-	-	-	-	-	-
Neoplux Technology Valuation Investment Fund	1,993	4,768	765	-	-	7,526
JAEOUNG SOLUTEC CO., LTD.(*2)	6,238	-	(504)	2	-	5,736
Partners 4th Growth Investment Fund	1,800	3,080	(325)	-	-	4,555
JAERYANG INDUSTRY(*3)	-	-	-	-	-	-
Chungyoung INC	-	-	-	-	-	-
DAEKWANG SEMICONDUCTOR CO., LTD.	-	4,776	-	-	-	4,776
SHC-IMM New Growth Fund	3,175	(1,189)	309	-	-	2,295
Dream High Fund III	1,556	-	171	1,417	-	3,144
SHC-EN Fund	4,312	(4,942)	630	-	-	-
Albatross Growth Fund	3,341	(727)	347	(1,389)	-	1,572
Asia Pacific No.39 Ship Investment Co., Ltd.	5,085	(837)	342	586	-	5,176
SG No.9 Corporate Recovery Private Equity Fund	-	3,886	96	-	-	3,982
Plutus-SG Private Equity Fund	-	4,338	(39)	-	-	4,299
SG ARGES Private Equity Fund No.1	-	8,955	21	-	-	8,976
Eum Private Equity Fund No.3	-	5,982	(49)	-	-	5,933
The Asia Pacific Capital Fund II L.P.	33,715	(4,419)	(7,506)	(2,872)	(7,339)	11,579
BNH-CJ Bio Healthcare Fund	9,095	(12,892)	3,797	-	-	-
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	28,010	(28,631)	1,085	-	-	464
Shinhan Praxis K-Growth Global Private Equity Fund	8,614	4,624	(205)	500	-	13,533
Credian Healthcare Private Equity Fund II	-	4,148	(61)	-	-	4,087
Kiwoom Milestone Professional Private Real Estate Trust 19	-	10,944	(183)	-	-	10,761
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	-	19,144	461	1,632	-	21,237
Brain Professional Private Trust No.4	-	5,000	316	-	-	5,316
Hanhwa US Equity Strategy Private Real Estate Fund No.1	-	25,000	747	17	-	25,764
Brain KS Qualified Privately Placed Fund No.6	-	5,001	(13)	(92)	-	4,896
M360 CRE Income Fund	-	22,992	-	175	-	23,167
SHBNPP Private Korea Equity Long-Short Professional Feeder	28,076	(13,467)	(429)	-	-	14,180

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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16. Investments in associates (continued)

Investees	2016					
	Beginning Balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
SHBNPP Private Multi Strategy Professional Feeder No.1	₩ -	5,000	14	-	-	5,014
Shinhan-Stonebridge Petro PEF	17,841	(2)	648	-	-	18,487
Others	22,609	17,008	135	(3,656)	-	36,096
	₩ 393,006	(43,875)	9,995	1,813	(7,339)	353,600

(*1) The market value of the investment is ₩51,543 million as of December 31, 2016 based on the quoted market price.

(*2) The market value of the investment is ₩10,466 million as of December 31, 2016 based on the quoted market price.

(*3) The Group has stopped recognizing its equity method income or loss due to the investees' cumulative loss.

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December 31, 2017 and 2016
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16. Investments in associates (continued)

(c) Condensed statement of financial position information of associates as of December 31, 2017 and 2016 are as follows:

Investees	2017	
	Asset	Liability
BNP Paribas Cardif Life Insurance	₩ 4,133,674	3,781,688
Daewontos Co., Ltd.	400	2,492
Neoplux Technology Valuation Investment Fund	40,692	283
JAEYOUNG SOLUTEC CO., LTD.	157,009	137,916
Partners 4th Growth Investment Fund	53,944	383
JAEYANG INDUSTRY	2,146	4,717
Chungyoung INC	3,292	8,392
DAEKWANG SEMICONDUCTOR CO., LTD.	29,069	10,806
Dream High Fund III	4,076	34
Asia Pacific No.39 Ship Investment Co., Ltd.	9,389	27
KCLAVIS Meister Fund No.17	11,694	42
SG No.9 Corporate Recovery Private Equity Fund	15,035	76
Plutus-SG Private Equity Fund	16,009	69
SG ARGES Private Equity Fund No.1	26,758	69
OST Progress- 2 Fund	17,829	107
Eum Private Equity Fund No.3	23,725	5
Richmond Private Yong in Retail Facility Real Estate Fund No.1	48,006	28,624
KTB Confidence Private Placement	42,230	21,090
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	28,286	1
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	41,599	1
Pine Asia Unsecured Individual Rehabilitation Bond Fund 18	26,316	14
Platform Partners brick save Private Investment trust	8,441	271
Synergy-Shinhan Mezzanine New Technology Investment Fund	10,500	3
The Asia Pacific Capital Fund II L.P.	29,103	88
Shinhan Praxis K-Growth Global Private Equity Fund	100,805	353
Credian Healthcare Private Equity Fund II	11,236	47
Kiwoom Milestone Professional Private Real Estate Trust 19	57,405	36,589
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	97,203	1,066
Brain Professional Private Trust No.4	21,369	105
Hanhwa US Equity Strategy Private Real Estate Fund No.1	56,898	78
Brain KS Qualified Privately Placed Fund No.6	9,639	28
M360 CRE Income Fund	265,945	-
Shinhan Global Healthcare Fund 1	77,166	-
JB Power TL Investment Type Private Placement Special Asset Fund 7	56,125	53
IBK AONE convertible 1	10,840	-
Rico synergy collabo Multi-Mezzanine 3	10,054	3

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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16. Investments in associates (continued)

Investees	2017	
	Asset	Liability
KB NA Hickory Private Speical Asset Fund	₩ 90,978	67
GB Professional Private Investment Trust 6	9,101	1
Koramco Europe Core Private Placement Real Estate Fund No.2-2	44,886	2,074
SHBNPP Private Korea Equity Long-Short Professional Feeder	54,029	4,733
Shinhan-Stonebridge Petro PEF	1,056,401	2,740
BNP Paribas Cardif General Insurance	59,699	15,405
Axis Global Growth New Technology Investment Association	15,553	-
Polaris No7 Start up and Venture Private Equity Fund	15,280	22
Hermes Private Investment Equity Fund	60,000	10
	₩ 6,959,834	4,060,572

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16. Investments in associates (continued)

Investees		2016	
		Asset	Liability
BNP Paribas Cardif Life Insurance	₩	4,182,208	3,779,257
Aju Capital Co., Ltd.		6,543,737	5,744,415
Daewontos Co., Ltd.		399	2,492
Neoplux Technology Valuation Investment Fund		22,577	-
JAEYOUNG SOLUTEC CO., LTD.		155,368	120,184
Partners 4th Growth Investment Fund		18,478	257
JAEYANG INDUSTRY		2,146	4,717
Chungyoung INC		2,341	6,753
DAEKWANG SEMICONDUCTOR CO., LTD.		35,204	12,392
SHC-IMM New Growth Fund		3,675	117
Dream High Fund III		5,765	-
Albatross Growth Fund		5,237	915
Asia Pacific No.39 Ship Investment Co., Ltd.		10,379	28
SG No.9 Corporate Recovery Private Equity Fund		15,069	38
Plutus-SG Private Equity Fund		16,188	68
SG ARGES Private Equity Fund No.1		37,392	91
Eum Private Equity Fund No.3		28,584	4
The Asia Pacific Capital Fund II L.P.		46,043	65
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2 nd		928	1
Shinhan Praxis K-Growth Global Private Equity Fund		72,075	350
Credian Healthcare Private Equity Fund II		12,040	47
Kiwoom Milestone Professional Private Real Estate Trust 19		57,692	36,169
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3		99,794	3
Brain Professional Private Trust No.4		19,384	46
Hanhwa US Equity Strategy Private Real Estate Fund No.1		59,781	2,327
Brain KS Qualified Privately Placed Fund No.6		9,794	1
M360 CRE Income Fund		60,261	6,167
SHBNPP Private Korea Equity Long-Short Professional Feeder		105,775	16,519
SHBNPP Private Multi Strategy Professional Feeder No.1		20,325	3,340
Shinhan-Stonebridge Petro PEF		1,015,299	804
	₩	<u>12,663,938</u>	<u>9,737,567</u>

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December 31, 2017 and 2016
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16. Investments in associates (continued)

Condensed statement of comprehensive income information for years ended December 31, 2017 and 2016 were as follows:

Investees	2017			
	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
BNP Paribas Cardif Life Insurance	₩ 78,010	24,230	(73,495)	(49,265)
Daewontos Co., Ltd.	-	-	-	-
Neoplux Technology Valuation Investment Fund	5,895	4,691	1,471	6,162
JAEYOUNG SOLUTEC CO., LTD.	142,228	(22,756)	2,764	(19,992)
Partners 4th Growth Investment Fund	137	(1,540)	-	(1,540)
JAEYANG INDUSTRY	-	-	-	-
Chungyoung INC	5,568	(693)	-	(693)
DAEKWANG SEMICONDUCTOR CO., LTD.	13,929	(4,549)	-	(4,549)
Dream High Fund III	27	(200)	(1,522)	(1,722)
Asia Pacific No.39 Ship Investment Co., Ltd.	666	616	32	648
KCLAVIS Meister Fund No.17	425	194	-	194
SG No.9 Corporate Recovery Private Equity Fund	(157)	652	-	652
Plutus-SG Private Equity Fund	317	316	-	316
SG ARGES Private Equity Fund No.1	(351)	832	-	832
OST Progress- 2 Fund	(234)	(234)	-	(234)
Eum Private Equity Fund No.3	1,614	1,649	-	1,649
Richmond Private Yong in Retail Facility Real Estate Fund No.1	2,265	2,100	-	2,100
KTB Confidence Private Placement	1,604	1,242	3,629	4,871
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	1,914	1,913	(856)	1,057
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	3,117	3,116	(1,257)	1,859
Pine Asia Unsecured Individual Rehabilitation Bond Fund 18	648	634	-	634
Platform Partners brick save Private Investment trust	207	194	-	194
Synergy-Shinhan Mezzanine New Technology Investment Fund	-	(3)	-	(3)
The Asia Pacific Capital Fund II L.P.	-	(3,582)	(10,269)	(13,851)
Shinhan Praxis K-Growth Global Private Equity Fund	7,273	(8,428)	3,156	(5,272)
Credian Healthcare Private Equity Fund II	211	19	(823)	(804)
Kiwoom Milestone Professional Private Real Estate Trust 19	2,742	(262)	-	(262)
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	5,851	3,012	(2,713)	299
Brain Professional Private Trust No.4	2,942	1,925	-	1,925
Hanhwa US Equity Strategy Private Real Estate Fund No.1	11,562	3,549	(37)	3,512
Brain KS Qualified Privately Placed Fund No.6	3	(110)	(72)	(182)
M360 CRE Income Fund	7	14,179	-	14,179
Shinhan Global Healthcare Fund 1	3	(757)	-	(757)
JB Power TL Investment Type Private Placement Special Asset Fund 7	7,115	1,267	-	1,267
IBK AONE convertible 1	279	258	-	258
Rico synergy collabo Multi-Mezzanine 3	371	50	-	50

Notes to the Consolidated Financial Statements

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16. Investments in associates (continued)

Investees	2017			
	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
KB NA Hickory Private Speical Asset Fund	₩ 11,092	1,945	-	1,945
GB PROFESSIONAL PRIVATE INVESTMENT TRUST 6	1	-	-	-
Koramco Europe Core Private Placement Real Estate Fund No.2-2	2,503	(1,337)	-	(1,337)
SHBNPP Private Korea Equity Long-Short Professional Feeder	28,956	9,356	-	9,356
Shinhan-Stonebridge Petro PEF	39,170	39,170	-	39,170
BNP Paribas Cardif General Insurance	10,093	(9,294)	94	(9,200)
Axis Global Growth New Technology Investment Association	(147)	(147)	-	(147)
Polaris No7 Start up and Venture Private Equity Fund	(142)	(142)	-	(142)
Hermes Private Investment Equity Fund	(10)	(10)	-	(10)
	₩ 387,704	63,065	(79,898)	(16,833)

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16. Investments in associates (continued)

Investees	2016			
	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
BNP Paribas Cardif Life Insurance	₩ 144,583	(16,706)	36,189	19,483
Aju Capital Co., Ltd.	757,345	70,598	(458)	70,140
Daewontos Co., Ltd.	517	(624)	-	(624)
Neoplux Technology Valuation Investment Fund	3,441	2,295	-	2,295
JAEYOUNG SOLUTEC CO., LTD.	137,920	(7,095)	(614)	(7,709)
Partners 4th Growth Investment Fund	113	(1,300)	-	(1,300)
JAEYANG INDUSTRY	212	(69)	-	(69)
Chungyoung INC	-	-	-	-
DAEKWANG SEMICONDUCTOR CO., LTD.	-	-	-	-
SHC-IMM New Growth Fund	855	479	-	479
Dream High Fund III	535	313	2,597	2,910
Albatross Growth Fund	1,024	957	(3,821)	(2,864)
Asia Pacific No.39 Ship Investment Co., Ltd.	730	681	1,172	1,853
SG No.9 Corporate Recovery Private Equity Fund	-	428	-	428
Plutus-SG Private Equity Fund	5	(148)	-	(148)
SG ARGES Private Equity Fund No.1	-	87	-	87
Eum Private Equity Fund No.3	85	(235)	-	(235)
The Asia Pacific Capital Fund II L.P.	-	(29,768)	(13,407)	(43,175)
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	2,170	2,170	-	2,170
Shinhan Praxis K-Growth Global Private Equity Fund	513	(1,084)	2,656	1,572
Credian Healthcare Private Equity Fund II	190	(180)	-	(180)
Kiwoom Milestone Professional Private Real Estate Trust 19	924	(367)	-	(367)
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	10,321	2,210	7,669	9,879
Brain Professional Private Trust No.4	2,158	1,148	-	1,148
Hanhwa US Equity Strategy Private Real Estate Fund No.1	5,199	1,667	37	1,704
Brain KS Qualified Privately Placed Fund No.6	1	(26)	(182)	(208)
M360 CRE Income Fund	-	-	-	-
SHBNPP Private Korea Equity Long-Short Professional Feeder	25,736	(396)	-	(396)
SHBNPP Private Multi Strategy Professional Feeder No.1	4,510	70	-	70
Shinhan-Stonebridge Petro PEF	38,898	35,559	-	35,559
	₩ 1,137,985	60,664	31,838	92,502

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16. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of December 31, 2017 and 2016 are as follow:

Investees	2017					
	Net assets (a)	Ownership (%)(b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
BNP Paribas Cardif Life Insurance ₩	351,986	14.99	52,763	(147)	-	52,616
Daewontos Co., Ltd (*1)	(2,092)	36.33	(760)	-	760	-
Neoplux Technology Valuation Investment Fund	40,409	33.33	13,470	-	-	13,470
JAEYOUNG SOLUTEC CO., LTD (*2)	17,484	9.61	1,680	-	2,169	3,849
Partners 4th Growth Investment Fund	53,561	25.00	13,390	-	-	13,390
JAEYANG INDUSTRY (*3)	(2,571)	25.90	(666)	-	666	-
Chungyoung INC (*3)	(5,100)	18.94	(966)	-	966	-
DAEKWANG SEMICONDUCTOR CO., LTD.	18,263	20.94	3,824	-	-	3,824
Dream High Fund III	4,042	54.55	2,205	-	-	2,205
Asia Pacific No.39 Ship Investment Co., Ltd.	9,362	50.00	4,682	-	-	4,682
KCLAVIS Meister Fund No.17	11,652	26.09	3,039	-	-	3,039
SG No.9 Corporate Recovery Private Equity Fund	14,959	26.49	3,963	-	-	3,963
Plutus-SG Private Equity Fund	15,940	26.67	4,251	-	-	4,251
SG ARGES Private Equity Fund No.1	26,689	24.06	6,422	-	-	6,422
OST Progress- 2 Fund	17,722	27.62	4,895	-	-	4,895
Eum Private Equity Fund No.3	23,720	20.76	4,925	-	-	4,925
Richmond Private Yong in Retail Facility Real Estate Fund No.1	19,382	41.80	8,101	-	-	8,101
KTB Confidence Private Placement	21,140	30.29	6,403	-	-	6,403
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	28,285	23.89	6,757	-	-	6,757
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	41,598	20.16	8,387	-	-	8,387
Pine Asia Unsecured Individual Rehabilitation Bond Fund 18	26,302	22.86	6,012	-	-	6,012
Platform Partners brick save Private Investment trust	8,170	98.77	8,069	-	-	8,069
Synergy-Shinhan Mezzanine New Technology Investment Fund	10,497	47.62	4,999	-	-	4,999
The Asia Pacific Capital Fund II L.P.	29,015	25.18	7,307	-	-	7,307
Shinhan Praxis K-Growth Global Private Equity Fund	100,452	18.87	18,954	-	-	18,954
Credian Healthcare Private Equity Fund II	11,189	34.07	3,813	-	-	3,813
Kiwoom Milestone Professional Private Real Estate Trust 19	20,816	50.00	10,408	-	-	10,408
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	96,137	21.28	20,460	-	-	20,460
Brain Professional Private Trust No.4	21,264	27.49	5,847	-	-	5,847

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16. Investments in associates (continued)

Investees	2017					
	Net assets (a)	Ownership (%)(b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
Hanhwa US Equity Strategy Private Real Estate Fund No.1	₩ 56,820	44.84	25,479	-	-	25,479
Brain KS Qualified Privately Placed Fund No.6	9,611	50.00	4,805	-	-	4,805
M360 CRE Income Fund	265,945	57.87	153,905	-	-	153,905
Shinhan Global Healthcare Fund 1	77,166	4.41	3,407	-	-	3,407
JB Power TL Investment Type Private Placement Special Asset Fund 7	56,072	33.33	18,690	-	-	18,690
IBK AONE convertible 1	10,840	47.25	5,122	-	-	5,122
Rico synergy collabo Multi-Mezzanine 3	10,051	50.00	5,026	-	-	5,026
KB NA Hickory Private Speical Asset Fund	90,911	37.50	34,091	-	-	34,091
GB Professional Private Investment Trust 6	9,100	94.51	8,600	-	-	8,600
Koramco Europe Core Private Placement Real Estate Fund No.2-2	42,812	48.49	20,760	-	-	20,760
SHBNPP Private Korea Equity Long- Short Professional Feeder	49,296	9.85	4,861	-	-	4,861
Shinhan-Stonebridge Petro PEF	1,053,661	1.82	19,201	-	-	19,201
BNP Paribas Cardif General Insurance	44,294	10.00	4,429	-	-	4,429
Axis Global Growth New Technology Investment Association	15,553	31.85	4,953	-	-	4,953
Polaris No7 Start up and Venture Private Equity Fund	15,258	28.57	4,359	-	-	4,359
Hermes Private Investment Equity Fund	59,990	29.17	17,497	-	-	17,497
Others	218,647	-	58,362	-	669	59,061
	₩ 3,116,300		626,181	(147)	5,260	631,294

(*1) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero.

(*2) Net assets do not include non-controlling interests and other adjustments represent the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.

(*3) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero and the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.

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16. Investments in associates (continued)

Investees	2016						Carrying Value
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other		
BNP Paribas Cardif Life Insurance	₩ 402,951	14.99	60,443	(230)	-	60,213	
Aju Capital Co., Ltd. (*1)	749,882	12.85	96,365	-	(55,529)	40,836	
Daewontos Co., Ltd. (*2)	(2,093)	36.33	(760)	-	760	-	
Neoplux Technology Valuation Investment Fund	22,577	33.33	7,526	-	-	7,526	
JAEYOUNG SOLUTECH CO., LTD. (*3)	34,147	10.45	3,567	-	2,169	5,736	
Partners 4th Growth Investment Fund	18,221	25.00	4,555	-	-	4,555	
JAEYANG INDUSTRY (*5)	(2,571)	25.90	(666)	-	666	-	
Chungyoung INC (*4)	(4,412)	18.94	(836)	-	836	-	
DAEKWANG SEMICONDUCTOR CO., LTD.	22,812	20.94	4,776	-	-	4,776	
SHC-IMM New Growth Fund	3,559	64.52	2,295	-	-	2,295	
Dream High Fund III	5,765	54.55	3,144	-	-	3,144	
Albatross Growth Fund	4,322	36.36	1,572	-	-	1,572	
Asia Pacific No.39 Ship Investment Co., Ltd.	10,351	50.00	5,176	-	-	5,176	
SG No.9 Corporate Recovery Private Equity Fund	15,031	26.49	3,982	-	-	3,982	
Plutus-SG Private Equity Fund	16,120	26.67	4,299	-	-	4,299	
SG ARGES Private Equity Fund No.1	37,301	24.06	8,976	-	-	8,976	
Eum Private Equity Fund No.3	28,580	20.76	5,933	-	-	5,933	
The Asia Pacific Capital Fund II L.P.	45,978	25.18	11,579	-	-	11,579	
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	927	50.00	464	-	-	464	
Shinhan Praxis K-Growth Global Private Equity Fund	71,725	18.87	13,533	-	-	13,533	
Credian Healthcare Private Equity Fund II	11,993	34.07	4,087	-	-	4,087	
Kiwoom Milestone Professional Private Real Estate Trust 19	21,523	50.00	10,761	-	-	10,761	
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	99,791	21.28	21,237	-	-	21,237	
Brain Professional Private Trust No.4	19,338	27.49	5,316	-	-	5,316	
Hanhwa US Equity Strategy Private Real Estate Fund No.1	57,454	44.84	25,764	-	-	25,764	
Brain KS Qualified Privately Placed Fund No.6	9,793	50.00	4,896	-	-	4,896	
M360 CRE Income Fund	54,094	42.83	23,167	-	-	23,167	

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16. Investments in associates (continued)

Investees	2016					
	Net assets (a)	Ownership (%)(b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying value
SHBNPP Private Korea Equity Long- Short Professional Feeder	₩ 89,256	15.88	14,180	-	-	14,180
SHBNPP Private Multi Strategy Professional Feeder No.1	16,985	29.55	5,014	-	-	5,014
Shinhan-Stonebridge Petro PEF	1,014,495	1.82	18,487	-	-	18,487
Others	158,356	-	35,507	-	589	36,096
	₩ 3,034,251		404,339	(230)	(50,509)	353,600

- (*1) Net assets do not include non-controlling interests and other adjustments represent the cumulative impairment.
(*2) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero.
(*3) Net assets do not include non-controlling interests; and other adjustments represent the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date and the cumulative impairment.
(*4) Other adjustments represent the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.
(*5) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero and the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.

(e) The unrecognized equity method losses for the year ended December 31, 2017 and the cumulative unrecognized equity method losses as of December 31, 2017 are as follows:

Investees	2017	
	Unrecognized equity method losses	Cumulative unrecognized equity method losses
Daewontos Co., Ltd.	₩ -	(760)
JAERYANG INDUSTRY	-	(18)
Chungyoung INC	(130)	(130)
	₩ (130)	(908)

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17. Investment properties, net

(a) Investment properties as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Acquisition cost	₩ 508,784	438,004
Accumulated depreciation	(90,481)	(84,829)
Book value	<u>₩ 418,303</u>	<u>353,175</u>

(b) Changes in investment properties for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	₩ 353,175	208,717
Acquisitions	2,125	175,835
Disposals	(6,277)	(20,479)
Depreciation	(16,095)	(19,588)
Amounts transferred from (to) property and equipment	91,782	10,898
Amounts transferred to assets held for sale(*)	(6,306)	(2,200)
Foreign currency adjustment	(101)	(8)
Ending balance	<u>₩ 418,303</u>	<u>353,175</u>

(*) Comprise land and buildings, etc.

(c) Income and expenses on investment property for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Rental income	₩ 33,023	27,852
Direct operating expenses for investment properties that generated rental income	10,998	9,384

(d) The fair value of investment property as of December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Land and buildings(*)	₩ 1,027,830	1,127,262

(*) Fair value of investment properties is estimated based on the recent market transactions and certain significant unobservable inputs. Accordingly, fair value of investment properties is classified as level 3.

Notes to the Consolidated Financial Statements

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18. Other assets, net

Other assets as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Accounts receivable	₩ 6,295,129	5,333,459
Domestic exchange settlement debit	2,973,751	6,123,196
Guarantee deposits	1,158,693	1,167,045
Present value discount	(50,170)	(37,863)
Accrued income	1,624,992	1,342,009
Prepaid expense	163,727	115,583
Suspense payments	63,486	57,691
Sundry assets	53,034	58,347
Separate account assets	3,040,534	2,737,869
Advance payments	219,861	280,301
Unamortized deferred acquisition cost	888,262	975,365
Other	170,338	66,592
Allowances for impairment	(49,679)	(51,186)
	<u>₩ 16,551,958</u>	<u>18,168,408</u>

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19. Leases

(a) Finance lease receivables of the Group as lessor as of December 31, 2017 and 2016 are as follows:

		2017		
		Gross investment	Unearned finance income	Present value of minimum lease payment
Not later than 1 year	₩	688,358	76,677	611,681
1 ~ 5 years		1,176,334	86,280	1,090,054
Later than 5 years		16,226	585	15,641
	₩	<u>1,880,918</u>	<u>163,542</u>	<u>1,717,376</u>

		2016		
		Gross investment	Unearned finance income	Present value of minimum lease payment
Not later than 1 year	₩	760,468	73,129	687,339
1 ~ 5 years		1,182,066	72,813	1,109,253
Later than 5 years		20,172	16	20,156
	₩	<u>1,962,706</u>	<u>145,958</u>	<u>1,816,748</u>

(b) The scheduled maturities of minimum lease payments for operating leases of the Group as lessor as of December 31, 2017 and 2016 are as follows:

		Minimum lease payment	
		2017	2016
Not later than 1 year	₩	37,455	14,992
1 ~ 5 years		70,764	11,062
Over 5 years		12	-
	₩	<u>108,231</u>	<u>26,054</u>

(c) Future minimum lease payments under non-cancellable operating lease of the Group as lessee as of December 31, 2017 and 2016 are as follows:

		Minimum lease payment	
		2017	2016
Not later than 1 year	₩	247,815	178,272
1 ~ 5 years		328,482	160,988
Later than 5 years		32,740	3,720
	₩	<u>609,037</u>	<u>342,980</u>

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20. Pledged assets

(a) Assets pledged as collateral as of December 31, 2017 and 2016 are as follows:

	2017	2016
Loans	₩ 99,158	76,432
Securities		
Trading assets	12,660,710	10,761,284
Financial assets designated at fair value through profit or loss	587,380	580,837
Available-for-sale financial assets	1,968,870	2,290,029
Held-to-maturity financial assets	10,508,112	8,011,985
	<u>25,725,072</u>	<u>21,644,135</u>
Deposits	1,501,661	701,366
Real estate	157,485	61,711
	<u>₩ 27,483,376</u>	<u>22,483,644</u>

The carrying amounts of asset pledged that the pledgees have the right to sell or repledge regardless of the Group's default as of December 31, 2017 and 2016 are ₩9,688,816 million and ₩8,877,166 million, respectively.

(b) The fair value of collateral held that the Group has the right to sell or repledge regardless of pledger's default as of December 31, 2017 and 2016 are as follows:

		2017	
		Collateral held	
		Assets pledged as collateral	Assets received as collateral
Securities	₩	8,779,621	3,749,516
		2016	
		Collateral held	
		Assets pledged as collateral	Assets received as collateral
Securities	₩	7,667,417	3,749,791
Others		200	-

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21. Deposits

Deposits as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Demand deposits	₩ 102,928,642	93,632,192
Time deposits	129,483,260	126,325,628
Negotiable certificates of deposits	7,583,365	6,478,626
Note discount deposits	3,423,459	4,581,276
CMA(*)	4,197,146	2,473,048
Others	1,803,352	1,647,188
	<u>₩ 249,419,224</u>	<u>235,137,958</u>

(*) CMA: Cash management account deposits

22. Trading liabilities

Trading liabilities as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Securities sold:		
Equity	₩ 495,019	581,625
Debt	871,884	815,383
Others	47,001	93,757
	<u>1,413,904</u>	<u>1,490,765</u>
Gold deposits	434,586	485,995
	<u>₩ 1,848,490</u>	<u>1,976,760</u>

23. Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>	<u>Reason for designation</u>
Deposits	₩ -	6,282	Combined instrument
Equity-linked securities sold	5,865,990	7,024,194	Combined instrument
Derivatives-combined securities sold	2,394,646	2,193,032	Combined instrument
Securities sold	36,973	10,134	Evaluation and management on a fair value basis
	<u>₩ 8,297,609</u>	<u>9,233,642</u>	

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24. Borrowings

(a) Borrowings as of December 31, 2017 and 2016 are as follows:

	2017	
	Interest rate (%)	Amount
Borrowings in won:		
Borrowings from Bank of Korea	0.50~0.75	₩ 2,913,045
Others	0.00~5.00	9,585,511
		<u>12,498,556</u>
Borrowings in foreign currency:		
Overdraft due to banks	0.00	128,634
Borrowings from banks	0.10~12.50	3,737,366
Others	0.00~7.90	1,295,572
		<u>5,161,572</u>
Call money	0.00~6.20	856,813
Bills sold	0.65~3.26	13,605
Bonds sold under repurchase agreements	0.00~6.00	9,056,232
Bond issuance costs		(168)
		<u>₩ 27,586,610</u>
	2016	
	Interest rate (%)	Amount
Borrowings in won:		
Borrowings from Bank of Korea	0.50~0.75	₩ 2,669,027
Others	0.00~5.00	7,582,778
		<u>10,251,805</u>
Borrowings in foreign currency:		
Overdraft due to banks	0.00	152,589
Borrowings from banks	0.24~3.95	3,717,391
Others	1.02~1.86	1,947,650
		<u>5,817,630</u>
Call money	0.10~10.00	1,130,476
Bills sold	0.65~1.52	12,427
Bonds sold under repurchase agreements	0.30~6.29	8,082,626
Bond issuance costs		(723)
		<u>₩ 25,294,241</u>

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25. Debt securities issued

Debt securities issued as of December 31, 2017 and 2016 are as follows:

		2017	
		<u>Interest rate (%)</u>	<u>Amount</u>
Debt securities issued in won:			
Debt securities issued	0.00~8.00	₩	41,781,486
Subordinated debt securities issued	2.20~4.60		3,500,401
Loss on fair value hedges			(274,047)
Bond issuance cost			(45,969)
			<u>44,961,871</u>
Debt securities issued in foreign currencies:			
Debt securities issued	0.00~4.20		4,989,904
Subordinated debt securities issued	3.75~3.88		1,446,390
Loss on fair value hedges			(25,794)
Bond issuance cost			(31,550)
			<u>6,378,950</u>
		₩	<u>51,340,821</u>
		2016	
		<u>Interest rate (%)</u>	<u>Amount</u>
Debt securities issued in won:			
Debt securities issued	0.00~8.00	₩	33,838,495
Subordinated debt securities issued	2.20~4.69		3,991,056
Loss on fair value hedges			(147,208)
Bond issuance cost			(38,178)
			<u>37,644,165</u>
Debt securities issued in foreign currencies:			
Debt securities issued	0.03~4.38		5,526,809
Subordinated debt securities issued	3.88		1,189,067
Loss on fair value hedges			(9,977)
Bond issuance cost			(23,279)
			<u>6,682,620</u>
		₩	<u>44,326,785</u>

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26. Employee benefits

(a) Defined benefit plan assets and liabilities

Defined benefit plan assets and liabilities as of December 31, 2017 and 2016 are as follows:

		<u>2017</u>	<u>2016</u>
Present value of defined benefit obligations	₩	1,695,191	1,689,980
Fair value of plan assets		(1,688,047)	(1,559,101)
Recognized liabilities for defined benefit obligations	₩	<u>7,144</u>	<u>130,879</u>

(b) Changes in the present value of defined benefit obligation and plan assets for the years ended December 31, 2017 and 2016 were as follows:

		<u>2017</u>		
		<u>Defined benefit obligation</u>	<u>Plan assets</u>	<u>Net defined benefit liability</u>
Beginning balance	₩	1,689,980	(1,559,101)	130,879
Included in profit or loss:				
Current service cost		172,152	-	172,152
Past service cost		2,810	-	2,810
Interest expense (income)		54,485	(52,136)	2,349
		<u>229,447</u>	<u>(52,136)</u>	<u>177,311</u>
Included in other comprehensive income:				
Remeasurement loss (gain):				
- Actuarial gains (losses) arising from :				
Demographic assumptions		4,471	-	4,471
Financial assumptions		(96,957)	-	(96,957)
Experience adjustment		(56,709)	-	(56,709)
- Return on plan assets excluding interest income		-	27,460	27,460
		<u>(149,195)</u>	<u>27,460</u>	<u>(121,735)</u>
Other:				
Benefits paid by the plan		(74,841)	69,857	(4,984)
Contributions paid into the plan		-	(174,127)	(174,127)
Effect of movements in exchange rates		(200)	-	(200)
		<u>(75,041)</u>	<u>(104,270)</u>	<u>(179,311)</u>
Ending balance	₩	<u>1,695,191</u>	<u>(1,688,047)</u>	<u>7,144</u>

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

Notes to the Consolidated Financial Statements

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26. Employee benefits (continued)

	2016		
	Defined benefit obligation	Plan assets	Net defined benefit liability
Beginning balance	₩ 1,567,898	(1,341,768)	226,130
Included in profit or loss:			
Current service cost	179,811	-	179,811
Past service cost	-	-	-
Interest expense (income)	50,892	(44,773)	6,119
	<u>230,703</u>	<u>(44,773)</u>	<u>185,930</u>
Included in other comprehensive income:			
Remeasurement loss (gain):			
- Actuarial gains (losses) arising from :			
Demographic assumptions	2,344	-	2,344
Financial assumptions	(297)	-	(297)
Experience adjustment	(41,538)	-	(41,538)
- Return on plan assets excluding interest income	-	19,448	19,448
	<u>(39,491)</u>	<u>19,448</u>	<u>(20,043)</u>
Other:			
Benefits paid by the plan	(69,439)	62,405	(7,034)
Contributions paid into the plan	-	(254,413)	(254,413)
Change in subsidiaries	250	-	250
Effect of movements in exchange rates	59	-	59
	<u>(69,130)</u>	<u>(192,008)</u>	<u>(261,138)</u>
Ending balance	₩ <u>1,689,980</u>	<u>(1,559,101)</u>	<u>130,879</u>

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

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26. Employee benefits (continued)

(c) The composition of plan assets as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Plan assets comprise:		
Equity securities	₩ 231,620	126,348
Debt securities	43,990	32,838
Due from banks	1,380,656	1,363,942
Other	31,781	35,973
	<u>₩ 1,688,047</u>	<u>1,559,101</u>

(d) Actuarial assumptions as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>	<u>Description</u>
Discount rate	2.44%~4.07%	2.78%~3.40%	AA0 corporate bond yields
Future salary increase rate	0.99%~5.61%	2.50%~5.38%	Average for 5 years
	+ Upgrade rate	+ Upgrade rate	
Weighted average maturity	7.25 years ~ 9.33 years	7.25 years ~ 13.16 years	

(e) Sensitivity analysis

As of December 31, 2017, reasonably possible changes in one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	<u>Defined benefit obligation</u>	
	<u>Increase</u>	<u>Decrease</u>
Discount rate (1%p movement)	₩ (147,071)	164,735
Future salary increase rate (1%p movement)	164,977	(149,641)

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27. Provisions

(a) Provisions as of December 31, 2017 and 2016 are as follows:

	2017	2016
Asset retirement obligations	₩ 45,495	50,738
Expected loss related to litigation	32,650	34,471
Unused credit commitments	168,006	450,997
Bonus card points program	26,434	25,425
Financial guarantee contracts issued	80,861	79,238
Others	75,512	88,019
	<u>₩ 428,958</u>	<u>728,888</u>

(b) Changes in provisions for the years ended December 31, 2017 and 2016 were as follows:

	2017						
	Asset retirement	Litigation	Unused credit	Card point (*2)	Guarantee	Other	Total
Beginning balance	₩ 50,738	34,471	450,997	25,425	79,238	88,019	728,888
Provision(reversal)	(4,562)	704	(279,508)	51,294	2,548	11,797	(217,727)
Provision used	(2,695)	(1,908)	-	(50,285)	(132)	(22,637)	(77,657)
Foreign exchange translation	-	(617)	(3,483)	-	(4,458)	(52)	(8,610)
Others(*1)	2,014	-	-	-	3,665	(1,615)	4,064
Ending balance	<u>₩ 45,495</u>	<u>32,650</u>	<u>168,006</u>	<u>26,434</u>	<u>80,861</u>	<u>75,512</u>	<u>428,958</u>

	2016						
	Asset retirement	Litigation	Unused credit	Card point (*2)	Guarantee	Other	Total
Beginning balance	₩ 48,434	25,945	434,941	27,649	81,374	80,445	698,788
Provision	2,714	11,387	15,419	51,745	3,887	25,174	110,326
Provision used	(2,647)	(3,226)	-	(54,300)	-	(17,649)	(77,822)
Foreign exchange translation	-	365	637	-	993	60	2,055
Others(*1)	2,237	-	-	331	(7,016)	(11)	(4,459)
Ending balance	<u>₩ 50,738</u>	<u>34,471</u>	<u>450,997</u>	<u>25,425</u>	<u>79,238</u>	<u>88,019</u>	<u>728,888</u>

(*1) Others include the effects of decrease in discount and changes in discount rate.

(*2) Provisions for card point were classified as fees and commission expense.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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27. Provisions (continued)

(c) Asset retirement obligation liabilities represent the estimated cost to restore the existing leased properties which is discounted to the present value using the appropriate discount rate at the end of the reporting period. Disbursements of such costs are expected to incur at the end of lease contract. Such costs are reasonably estimated using the average lease year and the average restoration expenses. The average lease year is calculated based on the past ten-year historical data of the expired leases. The average restoration expense is calculated based on the actual costs incurred for the past three years using the three-year average inflation rate.

(d) Allowance for guarantees and acceptances as of December 31, 2017 and 2016 are as follows:

		<u>2017</u>	<u>2016</u>
Guarantees and acceptances outstanding	₩	7,611,211	9,324,734
Contingent guarantees and acceptances		3,259,613	2,997,553
ABS and ABCP purchase commitments		2,035,543	2,060,089
Endorsed bill		85,456	32,187
	₩	<u>12,991,823</u>	<u>14,414,563</u>
Allowance for loss on guarantees and acceptances	₩	80,861	79,238
Ratio	%	0.62	0.55

28. Liability under insurance contracts

(a) Insurance risk

Insurance risk, arising out of underwriting of insurance contract and benefit payment, means a risk in which the amount from an unexpected loss is larger than the premium amount. Insurance risk management aims to minimize risk, of benefit to be paid in excess of what was initially assumed at the time of pricing due to occurrence of an unusual occasion or change of economic environment.

The insurance products that the Group provides are life insurance products and can be categorized as individual insurance and group insurance with regard to the insured person. In group insurance contracts the insured person is an employee or member of an entity and the policy holder is either the entity or a representative of the entity. The group insurances comprise savings insurances and protection type insurances. The protection type insurance means an insurance in which the aggregate of the insurance proceeds payable upon survival under the base age condition, cases where a male at the full age of 40 purchases an insurance policy, shall not exceed insurance premiums already paid. The savings insurance means an insurance, other than a protection type insurance product, in which the aggregate of insurance proceeds payable upon survival may exceed insurance premiums already paid. Individual insurances comprise death insurances (in which the insurance event is death), pure endowment insurances (in which the insurance event is survival) and endowment insurances (in which the insurance event is both survival and death).

(b) Insurance risk management

Insurance risk management comprises acceptance and administration of insurance contracts, calculation and adjustment of premium rate, review and payment of claims, reinsurance and closing accounts. Each insurance component is managed by a department operating for the risk component.

The Risk Management Team and other related departments conduct preemptive risk management when they develop or revise an insurance product. Insurance risk is continuously improved through regularly reviewing experience rate analysis, insurance risk measurement, underwriting and claims inspection process after product selling.

Notes to the Consolidated Financial Statements

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28. Liability under insurance contracts (continued)

i) Underwriting

The Group reviews and improves the medical underwriting guideline based on the changes of medical environment. The Group reassesses and reinforces underwriting standards through profit and loss analysis over insurance contracts. Consultants are updated with the latest underwriting standards. The Group distributes underwriting manual for consultants to prevent mis-selling. Risk Management Supporting enhances the accuracy of the risk assessment over a subscribed insurance contract. It provides various risk information that are consistent and underwriting that is reasonable.

ii) Risk management through reinsurance

The Group cedes an insurance contract to reinsurer if risks of the contract need to be transferred or diversified to ensure claims payment ability and to maintain financial sustainability of the Group. To achieve the objectives of reinsurance activity, the Group runs reinsurance business efficiently by profit-loss analysis, cedes insurance contracts to reliable reinsurer and observes relevant regulations through the internal control system.

iii) Developing insurance product

When an insurance product is developed or revised, the Group prices insurance premium based on the analysis of expected and actual insurance risk difference and sensitivity to the risk factors. The Group also reviews the appropriateness of the premium and the profitability of the products through the historical loss experience analysis. The Group reviews compliance of risk management policy and appropriateness of expected profit-loss based on experience rate as a part of post selling risk management for a high risk product. Policy and underwriting standard of the product would be revised in line with the result of the review to improve insurance risk.

iv) Assessment of claims requests and payment

A standard process for accepting requests and claims payment is enacted to regulate the assessment process of claims requests. The Group pays reasonable benefit using insurance risk management system score, assessment process by types of claims and historical insurance loss experience analysis. The Group monitors deficiency of insurance policy through claim assessment process, and based on that, modifies insurance policies and contracts. The claims payment process is continuously improved reflecting the result of insurance event inspection process monitoring, internal audit and customer complaints etc.

(c) Insurance liabilities as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Policy reserve	₩ 24,515,364	22,366,865
Policyholder's equity adjustment	(76)	10,569
	<u>₩ 24,515,288</u>	<u>22,377,434</u>

(d) Policy reserve as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Interest rate linked	₩ 16,464,193	15,177,891
Fixed interest rate	8,051,171	7,188,974
	<u>₩ 24,515,364</u>	<u>22,366,865</u>

Notes to the Consolidated Financial Statements

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(e) The details of policy reserves as of December 31, 2017 and 2016 are as follows:

	2017							
	Individual insurance			Group insurance				
	Pure endowment	Death	Endowment	Subtotal	Pure protection	Savings	Subtotal	Total
₩ Premium reserve	5,343,670	10,628,661	7,323,183	23,295,514	32,538	57	32,595	23,328,109
Guarantee reserve	11,678	50,615	151	62,444	-	-	-	62,444
Unearned premium reserve	3	364	-	367	652	-	652	1,019
Reserve for outstanding claims	98,596	784,535	176,566	1,059,697	26,068	-	26,068	1,085,765
Interest rate difference guarantee reserve	2,280	159	12	2,451	-	-	-	2,451
Mortality gains reserve	7,736	5,195	200	13,131	5	-	5	13,136
Interest gains reserve	18,463	268	20	18,751	-	-	-	18,751
Long term duration dividend reserve	59	10	1	70	-	-	-	70
Reserve for policyholder's profit dividend	2,374	-	-	2,374	-	-	-	2,374
Reserve for losses on dividend insurance contract	1,245	-	-	1,245	-	-	-	1,245
₩	5,486,104	11,469,807	7,500,133	24,456,044	59,263	57	59,320	24,515,364

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	2016							
	Individual insurance			Group insurance				
	Pure endowment	Death	Endowment	Subtotal	Pure protection	Savings	Subtotal	Total
₩	4,848,027	9,451,671	6,958,191	21,257,889	37,777	297	38,074	21,295,963
Premium reserve	11,265	44,288	156	55,709	-	-	-	55,709
Guarantee reserve	3	376	-	379	465	-	465	844
Unearned premium reserve	79,017	714,129	155,735	948,881	29,788	-	29,788	978,669
Reserve for outstanding claims	1,882	163	13	2,058	-	-	-	2,058
Interest rate difference guarantee reserve	6,212	5,275	222	11,709	4	-	4	11,713
Mortality gains reserve	17,356	268	21	17,645	-	-	-	17,645
Interest gains reserve	56	10	2	68	-	-	-	68
Long term duration dividend reserve	2,862	-	-	2,862	-	-	-	2,862
Reserve for policyholder's profit dividend	1,334	-	-	1,334	-	-	-	1,334
Reserve for losses on dividend insurance contract	₩ 4,968,014	10,216,180	7,114,340	22,298,534	68,034	297	68,331	22,366,865

Notes to the Consolidated Financial Statements

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28. Liability under insurance contracts (continued)

(f) Reinsurance credit risk as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	
	Reinsurance assets	Reinsurance account receivable
AA- to AA+	₩ 1,893	3,420
A- to A+	₩ 1,217	3,387
	<u>₩ 3,110</u>	<u>6,807</u>
	<u>2016</u>	
	Reinsurance assets	Reinsurance account receivable
AA- to AA+	₩ 930	2,377
A- to A+	820	1,692
	<u>₩ 1,750</u>	<u>4,069</u>

(g) Income or expenses on insurance for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Insurance income:		
Premium income	₩ 4,550,277	4,558,453
Reinsurance income	10,532	6,840
Separate account income	38,999	20,805
	<u>4,599,808</u>	<u>4,586,098</u>
Insurance expenses:		
Claims paid	(2,213,285)	(2,007,831)
Reinsurance premium expenses	(13,220)	(8,405)
Provision for policy reserves	(2,147,139)	(2,325,010)
Separate account expenses	(38,999)	(20,805)
Discount charge	(632)	(548)
Acquisition costs	(543,752)	(559,213)
Collection expenses	(15,716)	(15,367)
Deferred acquisition costs	336,851	373,490
Amortization of deferred acquisition costs	(423,955)	(440,913)
	<u>(5,059,847)</u>	<u>(5,004,602)</u>
Net loss on insurance	<u>₩ (460,039)</u>	<u>(418,504)</u>

Notes to the Consolidated Financial Statements

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28. Liability under insurance contracts (continued)

(h) Maturity of premium reserve as of December 31, 2017 and 2016 are as follows:

		2017						Total
		Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	
Fixed interest rate	₩	62,611	256,126	646,634	550,935	1,227,656	4,629,667	7,373,629
Interest rate linked		32,364	660,966	1,549,321	384,276	1,359,071	11,968,482	15,954,480
Ending balance	₩	94,975	917,092	2,195,955	935,211	2,586,727	16,598,149	23,328,109

		2016						Total
		Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	
Fixed interest rate	₩	25,096	175,097	549,783	598,030	1,186,510	4,026,275	6,560,791
Interest rate linked		38,828	220,839	1,711,187	469,287	1,227,833	11,067,198	14,735,172
Ending balance	₩	63,924	395,936	2,260,970	1,067,317	2,414,343	15,093,473	21,295,963

(i) Liability adequacy test, LAT

Liability adequacy tests were performed on the premium reserve, unearned premium reserve and guarantee reserve for the contracts held at December 31, 2017 and 2016. The premium reserve considered the amount net level premium reserve less, where appropriate, deferred acquisition cost in accordance with the article 6-3 of Regulation on Supervision of Insurance Business Act.

The assumptions of the current estimation used to assessment and their basis for calculation was as follows:

	Assumptions		Measurement basis
	2017	2016	
Discount rate	2.16% ~ 4.94%	2.04% ~ 5.08%	Scenario that adds liquidity premium to risk-free rate scenario is based on the rate scenario suggested by FSS
Mortality rate	6.24% ~ 257.25%	8% ~ 445%	Rate of premium paid on risk premium based on experience-based rate by classes of sales channel, product and transition period of last 5 years
Operating expense rate	Acquisition cost - The first time : 90% ~ 1034.9% - From the second time : 0% ~ 212.9% Maintenance expense (each case): 843 won ~ 3,768 won Collection expenses (on gross premium): 0.03% ~ 1.05%	Acquisition cost - The first time : 90% ~ 975.7% - From the second time : 0% ~ 282.5% Maintenance expense (each case): 214 won ~ 3,026 won Collection expenses (on gross premium): 0.03% ~ 1.03%	Operating expense rate on gross premium or expense per contract based on experience-based rate of last 1 year
Surrender ratio	0.95% ~ 34.08%	1.00% ~ 64.83%	Surrender ratio by classes of sales channel, product and transition period of last 5 years

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28. Liability under insurance contracts (continued)

The result of liability adequacy test as of December 31, 2017 and 2016 are as follows:

		2017		
		Provisions for test	LAT base	Premium loss (surplus)(*)
Participating:				
Fixed interest	₩	582,842	1,351,510	768,668
Variable interest		811,078	854,073	42,995
		<u>1,393,920</u>	<u>2,205,583</u>	<u>811,663</u>
Non- Participating:				
Fixed interest		5,374,209	2,083,833	(3,290,376)
Variable interest		13,374,917	9,819,816	(3,555,101)
		<u>18,749,126</u>	<u>11,903,649</u>	<u>(6,845,477)</u>
	₩	<u>20,143,046</u>	<u>14,109,232</u>	<u>(6,033,814)</u>
		2016		
		Provisions for test	LAT base	Premium loss (surplus)
Participating:				
Fixed interest	₩	571,759	1,375,004	803,245
Variable interest		751,848	697,361	(54,487)
		<u>1,323,607</u>	<u>2,072,365</u>	<u>748,758</u>
Non- Participating:				
Fixed interest		4,767,752	3,010,507	(1,757,245)
Variable interest		12,157,477	8,530,948	(3,626,529)
		<u>16,925,229</u>	<u>11,541,455</u>	<u>(5,383,774)</u>
	₩	<u>18,248,836</u>	<u>13,613,820</u>	<u>(4,635,016)</u>

(*) To the extent the premiums are deficient to cover expected future losses at the entity level, an additional reserve is recorded for the premium deficiency. As of December 31, 2017 and 2016 no additional reserve was required.

Sensitivity analysis as of December 31, 2017 and 2016 are as follows:

	LAT fluctuation	
	2017	2016
Discount rate increased by 0.5%	₩ (1,492,528)	(1,643,171)
Discount rate decreased by 0.5%	1,635,133	1,874,896
Operating expense increased by 10%	138,689	176,568
Mortality rate increased by 10%	700,324	723,132
Mortality rate increased by 5%	318,270	354,587
Surrender ratio increased by 10%	326,184	365,768

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29. Other liabilities

Other liabilities as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Accounts payable	₩ 8,524,295	7,258,267
Accrued expenses	3,022,127	2,835,472
Dividend payable	8,345	9,553
Advance receipts	120,724	180,626
Unearned income	402,541	373,895
Withholding value-added tax and other taxes	343,938	338,771
Securities deposit received	911,304	713,417
Foreign exchange remittances pending	223,465	226,927
Domestic exchange remittances pending	1,808,652	980,663
Borrowing from trust account	4,057,649	3,447,078
Due to agencies	607,743	498,943
Deposits for subscription	79,154	46,983
Separate account liabilities	3,213,389	2,999,109
Sundry liabilities	1,930,410	969,010
Other	76,966	55,896
Present value discount account	(17,929)	(17,463)
	<u>₩ 25,312,773</u>	<u>20,917,147</u>

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30. Equity

(a) Equity as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
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	423,921	498,316
Capital surplus:		
Share premium	9,494,769	9,494,769
Others	392,566	392,566
	<u>9,887,335</u>	<u>9,887,335</u>
Capital adjustments	(398,035)	(458,461)
Accumulated other comprehensive income, net of tax:		
Valuation gain on available-for-sale financial assets	72,126	394,183
Equity in other comprehensive income of associates	(294)	21,258
Foreign currency translation adjustments for foreign operations	(345,199)	(151,726)
Net gain(loss) from cash flow hedges	2,440	(13,464)
Other comprehensive income(loss) of separate account	(4,812)	4,466
Actuarial losses	(253,995)	(357,300)
	<u>(529,734)</u>	<u>(102,583)</u>
Retained earnings(*1)	20,790,599	18,640,038
Non-controlling interest(*2)	883,397	635,282
	<u>₩ 33,702,536</u>	<u>31,744,980</u>

(*1) Restriction on appropriation of retained earnings is as follows:

- 1) Legal reserve of ₩1,992,716 million and ₩1,845,691 million as of December 31, 2017 and 2016, respectively.
- 2) Regulatory reserve for loan loss of ₩5,953 million and ₩9,144 million as of December 31, 2017 and 2016, respectively.
- 3) Retained earnings restricted for dividend at subsidiaries level pursuant to law and regulations amounts to ₩5,658,334 million as of December 31, 2017

(*2) The hybrid bonds of ₩718,775 million and ₩469,393 million issued by Shinhan Bank and Jeju Bank were attributed to non-controlling interests as of December 31, 2017 and 2016, respectively. Dividends to those hybrid bonds of ₩30,442 million and ₩45,691 million were attributed to non-controlling interests as of December 31, 2017 and 2016, respectively.

Notes to the Consolidated Financial Statements

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30. Equity (continued)

(b) Capital stock

i) Capital stock of the Group as of December 31, 2017 and 2016 are as follows:

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

(c) Hybrid bond

Hybrid bond classified as other equity as of December 31, 2017 and 2016 are as follows:

Issue date	Maturity date	Interest rate (%)	2017	2016
May 22, 2012	May 22, 2042	5.34	₩ -	298,861
June 25, 2015	June 25, 2045	4.38	199,455	199,455
September 15, 2017	-	3.77	134,683	-
September 15, 2017	-	4.25	89,783	-
			₩ 423,921	498,316

The hybrid bonds above can be repaid early after 5 or 10 years from the date of issuance, and the Group has an unconditional right to extend the maturity under the same condition. In addition, if no dividend is to be paid for common shares, the agreed interest is also not paid. On May 22, 2017, the Group exercised the early redemption right and redeemed all the hybrid bonds issued on May 22, 2012.

(d) Capital adjustments

Changes in capital adjustments for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Beginning balance	₩ (458,461)	(423,536)
Transaction on redemption of hybrid bonds	(1,139)	(1,418)
Other transactions with owners	61,565	(33,507)
Ending balance	₩ (398,035)	(458,461)

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(e) Accumulated other comprehensive income

i) Changes in accumulated other comprehensive income for the years ended December 31, 2017 and 2016 are as follows:

	2017						Total
	Items that are or may be reclassified to profit or loss			Items that will never be reclassified to profit or loss			
	Unrealized gain (loss) on available-for-sale financial assets	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other comprehensive income of separate account	Remeasurements of the defined benefit plans	
Beginning balance	₩ 394,182	21,258	(151,725)	(13,464)	4,466	(357,300)	(102,583)
Change due to fair value	(60,397)	(24,886)	-	-	(12,529)	-	(97,812)
Reclassification:							
Change due to impairment or disposal	(346,126)	-	-	-	-	-	(346,126)
Effect of hedge accounting	-	-	-	250,875	-	-	250,875
Hedging	1,241	-	97,353	(229,747)	-	-	(131,153)
Effects from exchange rate fluctuations	(28,553)	-	(276,285)	-	-	-	(304,838)
Remeasurements of the defined benefit plans	-	(414)	-	-	-	121,735	121,735
Transfer to other account	-	-	-	-	-	-	(414)
Deferred income taxes	110,708	3,748	(15,240)	(5,224)	3,251	(18,210)	79,033
Non-controlling interests	1,071	-	698	-	-	(220)	1,549
Ending balance	₩ 72,126	(294)	(345,199)	2,440	(4,812)	(253,995)	(529,734)

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2016

	Items that are or may be reclassified to profit or loss					Items that will never be reclassified to profit or loss	
	Unrealized gain (loss) on available-for-sale financial assets	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other comprehensive income of separate account	Remeasurements of the defined benefit plans	Total
₩ Beginning balance	826,712	18,569	(163,737)	(12,202)	8,795	(373,366)	304,771
Change due to fair value	(123,415)	1,813	-	-	(5,712)	-	(127,314)
Reclassification:							
Change due to impairment or disposal	(445,040)	-	-	-	-	-	(445,040)
Effect of hedge accounting	-	-	-	(44,348)	-	-	(44,348)
Hedging	2,289	-	(54,393)	42,683	-	-	(9,421)
Effects from exchange rate fluctuations	(1,395)	-	52,936	-	-	-	51,541
Remeasurements of the defined benefit plans	-	-	-	-	-	-	-
Deferred income taxes	133,904	876	13,560	403	1,383	20,513	20,513
Non-controlling Interests	1,127	-	(91)	-	-	398	1,434
Ending balance	₩ 394,182	21,258	(151,725)	(13,464)	4,466	(357,300)	(102,583)

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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30. Equity (continued)

(f) Appropriation of retained earnings

Statements of appropriation of retained earnings for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Unappropriated retained earnings:		
Balance at beginning of year	₩ 4,896,292	5,422,880
Redemption of preferred stock	-	(1,125,906)
Dividend to hybrid bonds	(17,678)	(36,091)
Net income	<u>754,727</u>	<u>1,470,250</u>
	5,633,341	5,731,133
Reversal of regulatory reserve for loan losses	-	3,191
	<u>5,633,341</u>	<u>5,734,324</u>
Appropriation of retained earnings:		
Legal reserve	75,473	147,025
Dividends		
Dividends on common stocks paid	687,589	687,589
Regulatory reserve for loan losses	1,619	-
Voluntary reserve (loss compensation reserve)	-	2,000
Loss on redemption of hybrid bonds	<u>1,139</u>	<u>1,418</u>
	<u>765,820</u>	<u>838,032</u>
Unappropriated retained earnings to be carried over to subsequent year	₩ <u>4,867,521</u>	<u>4,896,292</u>
Date of appropriation:	March 22, 2018	March 23, 2017

These statements of appropriation of retained earnings were based on the separate financial statements of Shinhan Finance Group.

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(In millions of won, except per share data)

30. Equity (continued)

(g) Regulatory reserve for loan loss

In accordance with Regulations for the Supervision of Financial Institutions, the Group reserves the difference between allowance for credit losses by K-IFRS and by Regulations for the Supervision of Financial Institutions at the account of regulatory reserve for loan losses.

i) Changes in regulatory reserve for loan losses including non-controlling interests for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	₩ 2,252,771	2,192,635
Planned regulatory reserve for (reversal of) loan losses	632,247	60,136
Ending balance	₩ <u>2,885,018</u>	<u>2,252,771</u>

ii) Profit attributable to equity holders of Shinhan Financial Group and earnings per share after factoring in regulatory reserve for loan losses for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Profit attributable to equity holders of Shinhan Financial Group	₩ 2,917,735	2,774,778
Provision for regulatory reserve for loan losses	(631,578)	(58,537)
Profit attributable to equity holders of Shinhan Financial Group adjusted for regulatory reserve	₩ <u>2,286,157</u>	<u>2,716,241</u>
Basic and diluted earnings per share adjusted for regulatory reserve in won(*)	4,784	5,612

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

31. Dividends

(a) Details of dividends recognized as distributions to common stockholders for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
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	1,450	1,450
Dividends(*)	₩ <u>687,589</u>	<u>687,589</u>
Dividend rate per share	% 29.0	29.0

(*) The amounts are proposed or declared dividends before the financial statements were authorized for issue but not recognized as a distribution to owners during the year.

(b) Dividend for hybrid bond was calculated as follows for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Amount of hybrid bond	₩ 425,000	500,000
Interest rate	% 3.77~4.38	4.38~5.80
Dividend(*)	₩ <u>17,678</u>	<u>36,091</u>

(*) The dividends to hybrid bonds that were early redeemed during the period are included.

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32. Net interest income

Net interest income for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Interest income:		
Cash and due from banks	₩ 167,793	185,534
Trading assets	489,836	454,274
Financial assets designated at fair value through profit or loss	57,899	43,398
Available-for-sale financial assets	671,912	632,829
Held-to-maturity financial assets	651,107	561,823
Loans	9,673,635	9,230,303
Others	86,472	128,141
	<u>11,798,654</u>	<u>11,236,302</u>
Interest expense:		
Deposits	(2,482,415)	(2,586,742)
Borrowings	(352,069)	(300,759)
Debt securities issued	(1,085,366)	(1,085,830)
Others	(35,851)	(57,605)
	<u>(3,955,701)</u>	<u>(4,030,936)</u>
Net interest income	₩ <u>7,842,953</u>	<u>7,205,366</u>

33. Net fees and commission income

Net fees and commission income for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Fees and commission income:		
Credit placement fees	₩ 59,133	74,352
Commission received as electronic charge receipt	142,755	137,213
Brokerage fees	373,108	333,722
Commission received as agency	129,460	131,026
Investment banking fees	66,191	66,150
Commission received in foreign exchange activities	197,705	182,975
Asset management fees	190,802	115,574
Credit card fees	2,369,745	2,343,255
Others	516,056	419,329
	<u>4,044,955</u>	<u>3,803,596</u>
Fees and commission expense:		
Credit-related fee	(35,665)	(32,401)
Credit card fees	(1,988,826)	(1,899,339)
Others	(309,510)	(306,317)
	<u>(2,334,001)</u>	<u>(2,238,057)</u>
Net fees and commission income	₩ <u>1,710,954</u>	<u>1,565,539</u>

Notes to the Consolidated Financial Statements

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34. Dividend income

Dividend income for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Trading assets	₩ 57,615	50,805
Available-for-sale financial assets	199,691	230,818
	<u>₩ 257,306</u>	<u>281,623</u>

35. Net trading income (loss)

Net trading income (loss) for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Trading assets:		
Debt securities		
Loss on valuation	₩ (90,442)	(47,017)
Loss on sale	(93,528)	(1,933)
	<u>(183,970)</u>	<u>(48,950)</u>
Equity securities		
Gain on valuation	187,442	161,234
Gain on sale	128,118	70,603
	<u>315,560</u>	<u>231,837</u>
Other		
Gain on valuation	5,782	18,336
Trading liabilities:		
Securities sold		
Loss on valuation	(138,134)	(121,262)
Gain (loss) on disposition	(20,610)	5,174
	<u>(158,744)</u>	<u>(116,088)</u>
Other		
Gain (loss) on valuation	260	(61,321)
Gain on disposition	2,440	2,589
	<u>2,700</u>	<u>(58,732)</u>
Derivatives:		
Gain on valuation	369,225	1,667
Gain on transaction	612,670	341,440
	<u>981,895</u>	<u>343,107</u>
	<u>₩ 963,223</u>	<u>369,510</u>

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36. Net gain (loss) on financial instruments designated at fair value through profit or loss

Net gain (loss) on financial instruments designated at fair value through profit or loss for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Financial assets designated at fair value through profit or loss:		
Other securities		
Gain on valuation	₩ 13,020	11,798
Debt securities		
Gain (loss) on valuation	(65,475)	20,498
Gain on sale and redemption	11,673	16,625
	<u>(53,802)</u>	<u>37,123</u>
Equity securities		
Dividend income	51	185
Loss on valuation	(78,633)	(5,664)
Gain on sale	5,622	5,747
	<u>(72,960)</u>	<u>268</u>
Financial liabilities designated at fair value through profit or loss:		
Other securities		
Loss on valuation	-	(97)
Loss on disposal and redemption	(43)	(109)
	<u>(43)</u>	<u>(206)</u>
Borrowings		
Loss on valuation	(100,685)	(174,348)
Loss on disposal and redemption	(845,356)	(376,590)
	<u>(946,041)</u>	<u>(550,938)</u>
	<u>₩ (1,059,826)</u>	<u>(501,955)</u>

37. Net impairment loss on financial assets

Net impairment loss on financial assets for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Impairment losses on:		
Loans	₩ (800,928)	(1,102,781)
Available-for-sale financial assets	(202,360)	(96,381)
Other financial assets	(15,672)	(4,851)
	<u>(1,018,960)</u>	<u>(1,204,013)</u>
Reversal of impairment losses on:		
Available-for-sale financial assets	4,061	8,350
	<u>₩ (1,014,899)</u>	<u>(1,195,663)</u>

Notes to the Consolidated Financial Statements

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38. General and administrative expenses

General and administrative expenses for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Employee benefits:		
Salaries	₩ 2,668,224	2,515,492
Severance benefits:		
Defined contribution	21,040	22,007
Defined benefit	173,080	181,703
Termination benefits	285,158	106,833
	<u>3,147,502</u>	<u>2,826,035</u>
Rent	336,124	340,504
Entertainment	29,039	31,409
Depreciation	173,541	177,405
Amortization	66,860	74,222
Taxes and dues	165,689	164,177
Advertising	271,819	292,552
Research	14,093	14,070
Others	606,531	588,201
	<u>₩ 4,811,198</u>	<u>4,508,575</u>

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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39. Share-based payments

(a) Stock options granted as of December 31, 2017 are as follows:

	4th grant(*1)	5th grant(*1)	6th grant(*1)	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
Options expiry dates	August 30, 2018	August 21, 2019	August 19, 2020	May 17, 2021 /September 17, 2021
Changes in number of shares granted:				
Balance at January 1, 2017	102,389	108,356	58,764	45,628
Exercised	(99,889)	(105,856)	-	-
Balance at December 31, 2017	2,500	2,500	58,764	45,628
Fair value per share in won	₩21,394	₩10,571	₩3,154	₩5,401 (Expiration of contractual exercis period : May 17, 2021)
				₩5,536 (Expiration of contractual exercis period : Sep 17, 2021)

(*1) The equity instruments granted are fully vested as of December 31, 2017. The weighted average exercise price in won for 109,392 stock options outstanding at December 31, 2017 is ₩51,297.

(*2) As of December 31, 2017, the exercise of the remaining for 9,466 stock options (7th grant) was temporarily suspended.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

(In millions of won, except per share data)

39. Share-based payments (continued)

(b) Performance shares granted as of December 31, 2017 are as follows:

Type	Expired	Not expired
	Cash-settled share-based payment	
Performance conditions	Increase rate of the stock price and achievement of target ROE	
Operating period(*)	4 or 5 years	
Estimated number of shares vested at December 31, 2017	273,541	1,165,525
Fair value per share in won	₩45,926, ₩47,376, ₩40,889, ₩45,766 and ₩49,405	₩49,400

(*) 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.

The amount of cash payment for the Group's cash-settled share-based payment arrangements with performance conditions is determined at the fourth anniversary date from the grant date based on the share price which is an arithmetic mean of weighted average share prices of the past two-months, past one-month and past one-week. Share price to be paid in the future is evaluated using the share price as of the end of the reporting period. For share-based payment transactions among the Group, Shinhan Financial Group receiving the services shall measure the services received as a cash-settled and the subsidiaries measure as an equity-settled share-based payment transaction, respectively.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

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39. Share-based payments (continued)

(c) Share-based compensation costs for the years ended December 31, 2017 and 2016 are as follows:

		2017		
		Employees of		
		The controlling company	The subsidiaries	Total
Stock options granted:				
4th	₩	67	413	480
5th		48	757	805
6th		26	159	185
7th		83	120	203
Performance shares		1,782	15,717	17,499
	₩	<u>2,006</u>	<u>17,166</u>	<u>19,172</u>
		2016		
		Employees of		
		The controlling company	The subsidiaries	Total
Stock options granted:				
4th	₩	51	533	584
5th		36	582	618
6th		-	-	-
7th		-	-	-
Performance shares		2,890	23,845	26,735
	₩	<u>2,977</u>	<u>24,960</u>	<u>27,937</u>

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December 31, 2017 and 2016
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39. Share-based payments (continued)

(d) Accrued expenses and the intrinsic value as of December 31, 2017 and 2016 are as follows:

	2017		
	Employees of		Total
	The controlling company	The subsidiaries	
Stock options granted:			
4th	₩ -	54	54
5th	-	26	26
6th	26	159	185
7th	83	120	203
Performance shares	8,286	62,769	71,055
	₩ 8,395	63,128	71,523

The intrinsic value of share-based payments is ₩71,151 million as of December 31, 2017. For calculating, the quoted market price ₩49,400 per share was used for stock options and the fair value was considered as intrinsic value for performance shares, respectively.

	2016		
	Employees of		Total
	The controlling company	The subsidiaries	
Stock options granted:			
4th	₩ 155	1,611	1,766
5th	41	655	696
6th	-	-	-
7th	-	-	-
Performance shares	7,433	57,638	65,071
	₩ 7,629	59,904	67,533

The intrinsic value of share-based payments is ₩67,533 million as of December 31, 2016. For calculating, the quoted market price ₩45,250 per share was used for stock options and the fair value was considered as intrinsic value for performance shares, respectively.

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December 31, 2017 and 2016
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40. Net other operating expense

Other operating income and other operating expense for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Other operating income		
Gain on sale of assets:		
Loans	₩ 50,707	69,002
Others:		
Gain on hedged items	634,695	392,913
Reversal of allowance for acceptances and guarantee	-	4,046
Gain on trust account	14	3,379
Gain on other allowance	306,730	30,419
Others	82,375	47,556
	<u>1,023,814</u>	<u>478,313</u>
	<u>1,074,521</u>	<u>547,315</u>
Other operating expense		
Loss on sale of assets:		
Loans	(8,394)	(11,021)
Others:		
Loss on hedged items	(629,754)	(451,728)
Contribution	(252,419)	(252,178)
Loss on allowance for acceptances and guarantee	(2,548)	(7,933)
Loss on other allowance	(31,931)	(84,048)
Depreciation of operating lease assets	(12,943)	(8,315)
Others	(599,524)	(530,003)
	<u>(1,529,119)</u>	<u>(1,334,205)</u>
	<u>(1,537,513)</u>	<u>(1,345,226)</u>
Net other operating expenses	₩ <u>(462,992)</u>	<u>(797,911)</u>

Notes to the Consolidated Financial Statements

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41. Net other non-operating income

Other non-operating income and other non-operating expense for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Other non-operating income		
Gain on sale of assets:		
Property and equipment	₩ 5,278	3,343
Investment property	219	2,668
Gain on disposition of assets held for sale	22,748	-
Lease assets	605	272
Others	125	95
	<u>28,975</u>	<u>6,378</u>
Gain on sale of Investments in associates	8,891	5,218
Others:		
Rental income on investment property	33,023	27,852
Reversal of impairment losses on intangible asset	91	301
Gain from assets contributed	1,067	53
Others	67,535	104,563
	<u>101,716</u>	<u>132,769</u>
	<u>139,582</u>	<u>144,365</u>
Other non-operating expense		
Loss on sale of assets:		
Property and equipment	(2,642)	(2,811)
Investment property	(1,627)	(248)
Lease assets	(1,282)	(2,429)
Others	(149)	(118)
	<u>(5,700)</u>	<u>(5,606)</u>
Loss on sale of investments in associates	(1,332)	(3,315)
Impairment loss on investments in associates	(144)	(7,339)
	<u>(1,476)</u>	<u>(10,654)</u>
Others:		
Donations	(140,243)	(19,367)
Depreciation of investment properties	(16,095)	(19,588)
Impaired loss on property and equipment	(16)	(2,204)
Impaired loss on intangible assets	(271)	(3,411)
Write-off of intangible assets	(1,210)	(966)
Collecting of written-off expenses	(7,162)	(4,379)
Others	(20,220)	(26,355)
	<u>(185,217)</u>	<u>(76,270)</u>
	<u>(192,393)</u>	<u>(92,530)</u>
Net other non-operating income (loss)	₩ <u>(52,811)</u>	<u>51,835</u>

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42. Income tax expense

(a) Income tax expense for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Current income tax expense	₩ 749,648	718,757
Adjustment for prior periods	(23,265)	(36,372)
Temporary differences	46,198	(480,280)
Income tax recognized in other comprehensive income	75,552	143,448
Income tax expenses	₩ <u>848,133</u>	<u>345,553</u>

(b) Income tax expense calculated by multiplying net income before tax with the tax rate for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Profit before income taxes	₩ 3,796,257	3,170,472
Income taxes at statutory tax rates	917,476	765,395
Adjustments:		
Non-taxable income	(10,614)	(30,839)
Non-deductible expense	12,772	18,786
Tax credit	(195)	(401)
Recognition of deferred tax assets related to expired unused tax losses (see note 42 (c)(*2))	-	(357,307)
Changes in deferred tax due to change in tax rate	(72,985)	-
Other	24,944	(13,709)
Refund due to adjustments of prior year tax returns	(23,265)	(36,372)
Income tax expense	₩ <u>848,133</u>	<u>345,553</u>
Effective tax rate	%	22.34
		10.90

The statutory tax rate in Korea was amended in 2017 and will be effective from 2018 as listed below.

<u>Taxable income</u>	<u>Tax Rate</u>	
	<u>2017</u>	<u>Thereafter</u>
₩200 million or below	11.0%	11.0%
Below ₩20 billion	22.0%	22.0%
Below ₩300 billion	24.2%	24.2%
₩300 million or above(*)	24.2%	27.5%

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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42. Income tax expense (continued)

(c) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2017 and 2016 are as follows:

	2017			
	Beginning balance	Profit or loss	Other comprehensive income	Ending Balance(*1)
Unearned income	₩ (139,234)	(62,835)	-	(202,069)
Account receivable	(11,493)	(7,774)	-	(19,267)
Trading assets	(33,424)	44,841	-	11,417
Available-for-sale	86,897	71,198	110,405	274,500
Investment in associates	20,112	1,062	3,748	24,922
Valuation and depreciation of property and equipment	(146,860)	(16,452)	-	(163,312)
Derivative asset (liability)	125,233	(197,253)	(5,224)	(77,244)
Deposits	18,162	9,742	-	27,904
Accrued expenses	108,700	62,610	-	171,310
Defined benefit obligation	378,400	50,410	(20,544)	408,266
Plan assets	(313,708)	(100,624)	2,396	(411,936)
Other provisions	221,749	(46,132)	-	175,617
Allowance for acceptances and guarantees	19,530	3,608	-	23,138
Allowance related to asset revaluation	(46,977)	(5,909)	-	(52,886)
Allowance for expensing depreciation	(521)	(8)	-	(529)
Deemed dividend	1,378	3,939	-	5,317
Accrued contributions	8,764	3,140	-	11,904
Financial instruments designated at fair value through profit of loss	(58,885)	52,397	-	(6,488)
Allowances	94,554	(70,201)	-	24,353
Fictitious dividend	4,833	157	-	4,990
Liability under insurance contracts	13,104	5,001	-	18,105
Deficit carried over	-	1,505	-	1,505
Other	(77,198)	49,675	(15,230)	(42,753)
	<u>273,116</u>	<u>(141,903)</u>	<u>75,551</u>	<u>206,764</u>
Expired unused tax losses:				
Extinguishment of deposit and insurance liabilities	357,307	18,500	-	375,807
	<u>₩ 630,423</u>	<u>(123,403)</u>	<u>75,551</u>	<u>582,571</u>

(*1) Deferred tax assets from overseas subsidiaries were decreased by ₩1,654 million due to foreign exchange rate movements.

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42. Income tax expense (continued)

(c) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2017 and 2016 are as follows, continued :

	2016			
	Beginning balance	Profit or loss	Other comprehensive income/Other	Ending Balance(*1)
Unearned income	₩ (138,541)	(693)	-	(139,234)
Account receivable	(13,203)	1,710	-	(11,493)
Trading assets	(59,232)	25,808	-	(33,424)
Available-for-sale	90,904	(137,598)	133,591	86,897
Investment in associates	3,021	16,215	876	20,112
Valuation and depreciation of property and equipment	(154,151)	7,291	-	(146,860)
Derivative asset (liability)	190,834	(66,004)	403	125,233
Deposits	15,412	2,750	-	18,162
Accrued expenses	95,278	13,422	-	108,700
Defined benefit obligation	350,047	34,510	(6,157)	378,400
Plan assets	(308,455)	(6,426)	1,173	(313,708)
Other provisions	203,360	18,389	-	221,749
Allowance for acceptances and guarantees	20,074	(544)	-	19,530
Allowance related to asset revaluation	(46,988)	11	-	(46,977)
Allowance for expensing depreciation	(578)	57	-	(521)
Deemed dividend	1,582	(204)	-	1,378
Accrued contributions	11,261	(2,497)	-	8,764
Financial instruments designated at fair value through profit of loss	(159,839)	100,954	-	(58,885)
Allowances	75,515	19,039	-	94,554
Fictitious dividend	5,101	(268)	-	4,833
Liability under insurance contracts	10,238	2,866	-	13,104
Other	(43,851)	(46,909)	13,562	(77,198)
	<u>147,789</u>	<u>(18,121)</u>	<u>143,448</u>	<u>273,116</u>
Expired unused tax losses:				
Extinguishment of deposit and insurance liabilities(*2)	-	357,307	-	357,307
	<u>₩ 147,789</u>	<u>339,186</u>	<u>143,448</u>	<u>630,423</u>

(*1) Deferred tax assets from overseas subsidiaries were decreased by ₩1,954 million due to foreign exchange rate movements.

(*2) The Group did not previously recognized the deferred tax asset relating to the expired unused tax losses as the utilization of the expired unused tax losses had been assessed remote. In 2016, based on the new tax interpretation issued by Korea National Tax Service which allows utilization of expired unused tax losses against extinguishment of deposit and insurance liabilities and the relating recent tax refund, the Group recognized the deferred tax asset after factoring in future taxable profits and the expected future extinguishment of deposit and insurance liabilities.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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42. Income tax expense (continued)

(d) Deferred tax assets and liabilities that were directly charged or credited to equity for the years ended December 31, 2017 and 2016 are as follows:

	January 1, 2017		Changes		December 31, 2017	
	OCI(*2)	Tax effect	OCI(*2)	Tax effect	OCI(*2)	Tax effect
Valuation gain (loss) on available-for-sale financial assets	₩ 524,335	(130,153)	(432,461)	110,405	91,874	(19,748)
Foreign currency translation adjustments for foreign operations	(141,815)	(9,910)	(178,244)	(15,230)	(320,059)	(25,140)
Gain (loss) on cash flow hedge	(17,763)	4,299	21,128	(5,224)	3,365	(925)
Equity in other comprehensive income of associates	22,559	(1,301)	(25,300)	3,748	(2,741)	2,447
The accumulated other comprehensive income in separate account(*1)	5,891	(1,425)	(12,529)	3,251	(6,638)	1,826
Remeasurements of the defined benefit liability	(471,141)	113,841	121,451	(18,146)	(349,690)	95,695
Income tax charged or credited directly to equity	₩ (77,934)	(24,649)	(505,955)	78,804	(583,889)	54,155
	January 1, 2016		Changes		December 31, 2016	
	OCI(*2)	Tax effect	OCI(*2)	Tax effect	OCI(*2)	Tax effect
Valuation gain (loss) on available-for-sale financial assets	₩ 1,090,456	(263,744)	(566,121)	133,591	524,335	(130,153)
Foreign currency translation adjustments for foreign operations	(140,265)	(23,472)	(1,550)	13,562	(141,815)	(9,910)
Gain (loss) on cash flow hedge	(16,098)	3,896	(1,665)	403	(17,763)	4,299
Equity in other comprehensive income of associates	20,746	(2,177)	1,813	876	22,559	(1,301)
The accumulated other comprehensive income in separate account(*1)	11,603	(2,808)	(5,712)	1,383	5,891	(1,425)
Remeasurements of the defined benefit liability	(492,191)	118,825	21,050	(4,984)	(471,141)	113,841
Income tax charged or credited directly to equity	₩ 474,251	(169,480)	(552,185)	144,831	(77,934)	(24,649)

(*1) Deferred tax effects, which are originated from the accumulated other comprehensive income in separate account, were included in the other assets of separate account's financial statement.

(*2) OCI : Other Comprehensive Income

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42. Income tax expense (continued)

(e) The amount of deductible temporary differences, unused tax losses, and unused tax credits that are not recognized as deferred tax assets as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Tax loss carry forward(*)	₩ 99,449	99,449

(*) At the end of reporting date, the expected extinctive date of tax loss carry forward and tax credits carry forward that are not recognized as deferred tax assets are as follows:

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

(f) The amount of temporary difference regarding investment in subsidiaries that are not recognized as deferred tax liabilities as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Investment in associates	₩ (280,957)	(283,161)

(g) The Group set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets and liabilities presented on a gross basis prior to any offsetting as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Deferred tax assets	₩ 659,594	701,482
Deferred tax liabilities	(77,023)	(71,059)

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

(In millions of won, except per share data)

43. Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Profit attributable to equity holders of Shinhan Financial Group	₩ 2,917,735	2,774,778
Less:		
Dividends on preferred stock(*)	-	18,836
Dividends to hybrid bond	17,678	36,091
	<u>17,678</u>	<u>54,927</u>
Net profit available for common stock	₩ 2,900,057	2,719,851
Weighted average number of common shares outstanding	474,199,587	474,199,587
Basic and diluted earnings per share in won	₩ <u>6,116</u>	<u>5,736</u>

(*) The amount of 2016 is the additionally paid amount based on the contractual dividend rate for the period from the beginning of the period to the day before the redemption date according to the redemption conditions of the redeemable preferred stocks.

44. Commitments and contingencies

(a) Guarantees, acceptances and credit commitments as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Guarantees:		
Guarantee outstanding	₩ 7,611,211	9,324,734
Contingent guarantees	3,259,613	2,997,553
	<u>10,870,824</u>	<u>12,322,287</u>
Commitments to extend credit:		
Loan commitments in won	54,827,918	54,077,528
Loan commitments in foreign currency	18,992,984	20,464,242
ABS and ABCP commitments(*)	2,035,543	2,060,089
Others	3,021,513	1,362,433
	<u>78,877,958</u>	<u>77,964,292</u>
Endorsed bills:		
Secured endorsed bills	85,456	32,187
Unsecured endorsed bills	7,810,788	8,822,654
	<u>7,896,244</u>	<u>8,854,841</u>
Loans sold under repurchase agreement	2,099	2,099
	₩ <u>97,647,125</u>	<u>99,143,519</u>

(*) The Group consolidates a structured entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to most significantly affect those returns through its power over the structured entity based on the terms in the agreement relating to the establishment of the structured entity. The structured entities are established to buy assets from originators and issue asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The Group is involved in the securitization vehicles by purchasing or committing to purchase the asset-backed securities issued and/or providing other forms of credit enhancement. As the non-controlling interests in the structured entities are presented as liabilities in the consolidated statement of financial position of the Group, the Group does not recognize non-controlling interests for the consolidated structured entities.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
(In millions of won)

44. Commitments and contingencies (continued)

(b) Legal contingencies

The Group's pending lawsuits as a defendant for the years ended December 31, 2017 are as follows:

Case	Number of claim	Descriptions	Claim amount
Demands on stock return	1	The Medison stock sales contract made between the plaintiff and PEF has been discharged or cancelled. The plaintiff is demanding the return of Medison stocks based on the invalidity of the stock sales contract and the invalidity of option contracts and revised option contracts stated within the stock sales contract.	₩ 7,500
Lehman Brothers Special Financing Inc(LBSF)	1	A plaintiff, Lehman Brothers has claimed that the CDO investment that had been returned to the Group after bankruptcy should be returned to the Lehman Brothers. Because it was contrary to US bankruptcy law. While in internal discussion for arbitral proceeding and settlement with Lemman Brothers, defendants including the Group have won the first trial and have currently denied to pay claim amount. Further action will be considered depending on the effects of the arbitration and the possibility of winning the second trial.	12,857
Payment Guarantee	1	The plaintiff filed claims against the Group for guarantee deposit of receivable-backed ABL of KT ENS. The case are currently pending in its second appeal.	12,866
Others	172	Compensation for a loss claim, etc.	91,145
	175		₩ 124,368

As of December 31, 2017, the Group recorded ₩32,650 million as provisions and ₩1,120 million as liabilities under insurance contracts with respect to these lawsuits. In respect of a claim for Lehman Brothers Special Financing Inc (LBSF) above the Group recognised a provision of ₩5,352 million and in respect of others the Group recognised a provision of ₩27,298. Additional losses might be incurred from these legal actions, but the result of such the lawsuits cannot be predicted. The management believes that the result of the lawsuits would not have significant impact on the financial position.

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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45. Statement of cash flows

(a) Cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Cash and due from banks	₩ 22,682,652	19,196,875
Adjustments:		
Due from financial institutions with a maturity over three months from date of acquisition	(3,010,471)	(4,458,286)
Restricted due from banks	(13,435,531)	(9,106,053)
	<u>₩ 6,236,650</u>	<u>5,632,536</u>

(b) Significant non-cash activities for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Debt-equity swap	₩ 32,530	32,229
Transfers from construction-in-progress to property and equipment	14,285	15,405
Transfers between property and equipment and investment property	91,782	10,898
Transfers between assets held for sale to property and equipment	5,336	411
Transfers between investment property and assets held for sale	6,306	2,200

(c) Changes in assets and liabilities arising from financing activities for the year ended December 31, 2017 are as follows:

	<u>2017</u>				
	<u>Assets</u>	<u>Liabilities</u>			
	<u>Derivative assets</u>	<u>Derivative liabilities</u>	<u>Borrowings</u>	<u>Debentures</u>	<u>Total</u>
Balance at January 1, 2017	₩ 153,343	12,276	25,294,241	44,326,785	69,633,302
Changes from cash flows	48,500	10,211	3,047,844	7,784,142	10,842,197
Changes from non-cash flows					-
Amortization of discount on borrowings and debentures	-	-	1,480	16,126	17,606
Changes in foreign currency exchange rate	-	-	(22,850)	(635,836)	(658,686)
Others	(197,875)	128,819	(734,105)	(150,396)	(755,682)
Balance at December 31, 2017	<u>₩ 3,968</u>	<u>151,306</u>	<u>27,586,610</u>	<u>51,340,821</u>	<u>79,078,737</u>

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
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46. Related parties

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(a) Significant balances with the related parties as of December 31, 2017 and 2016 are as follows:

<u>Related party</u>	<u>Account</u>	<u>2017</u>	<u>2016</u>
Investments in associates:			
Aju Capital Co., Ltd.	Trading assets	₩ -	49,990
"	Loans	-	210,000
"	Credit card loans	-	1,922
"	Allowances	-	(627)
"	Deposits	-	692
"	Provisions	-	73
Pohang TechnoPark2PFV	Deposits	-	14,658
BNP Paribas Cardif Life Insurance	Credit card loans	191	127
"	Other assets	9,868	112
"	Allowances	(4)	(1)
"	Accrued expenses	-	29
"	Deposits	446	353
"	Provisions	2	1
JAEYOUNG SOLUTEC CO., LTD.	Loans	14,847	14,356
"	Allowances	(124)	(70)
"	Credit card loans	33	42
"	Deposits	2,659	7,638
"	Provisions	4	7
Partners 4th Growth Investment Fund	Deposits	2,076	2,160
BNP Paribas Cardif General Insurance	Credit card loans	29	44
"	Allowances	(1)	(1)
"	Deposits	221	13
Shinhan Praxis K-Growth Global Private Equity Fund	Other assets	174	175
Dream High Fund III	Deposits	3	1
Midas Dong-A Snowball Venture Fund	Deposits	220	427
IBKS-Shinhan Creative Economy New Technology Fund	Accounts receivable	-	12
"	Deposits	78	1,751
EQP Global Energy Infrastructure Private Equity Fund	Deposits	-	1
Albatross Growth Fund	Accounts receivable	-	326
Credian Healthcare Private Equity Fund II	Deposits	26	7
Midas Dong-A Snowball Venture Fund 2	Deposits	239	242
IBKS-Shinhan Creative Economy New Technology Fund II	Accounts receivable	-	8
"	Deposits	76	179
PSA 1st Fintech Private Equity Fund	Deposits	-	525
Eum Private Equity Fund No.3	Deposits	65	80
Semantic	Credit card loans	-	1
"	Allowances	-	(1)
Branbuil CO., LTD.	Loans	-	15
"	Credit card loans	-	3
"	Allowances	-	(1)
"	Deposits	55	28

Notes to the Consolidated Financial Statements

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46. Related parties (continued)

<u>Related party</u>	<u>Account</u>	<u>2017</u>	<u>2016</u>
SHBNPP Private Korea Equity Long-Short Professional Feeder	Other assets	₩ 97	175
SHBNPP Private Multi Strategy Professional Feeder No.1	Other assets	-	43
Shinhan Global Healthcare Fund 1	Unearned revenue	409	-
KTB Newlake Global Healthcare PEF	Deposits	465	-
"	Provisions	13	-
Shinhan Fintech New Technology Fund No.1	Unearned revenue	123	-
Taihan Industrial System Co., Ltd.	Deposits	100	-
Incorporated association Finance Saving Information Center	Deposits	4	-
Key management personnel and their immediate relatives:	Loans	3,247	1,877
	Assets	₩ 28,357	278,527
	Liabilities	7,284	28,865

Notes to the Consolidated Financial Statements

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46. Related parties (continued)

(b) Transactions with the related parties for the years ended December 31, 2017 and 2016 are as follows:

Related party	Account	2017	2016
Investments in associates			
Aju Capital co., Ltd	Interest income	₩ -	7,332
"	Fees and commission income	-	257
"	Interest expense	-	(2)
"	Fees and commission expense	-	(302)
"	Other operating expenses	-	(18)
"	Provision for credit losses	-	(149)
Pohang TechnoPark2PFV	Interest expense	-	(15)
BNP Paribas Cardif Life Insurance	Fees and commission income	4,631	4,265
"	Provision for credit losses	(3)	(1)
"	General and administrative expenses	(10)	(9)
BNP Paribas Cardif General Insurance	Fees and commission income	4	4
"	Provision for credit losses	-	(1)
"	Reversal of credit losses	1	-
Shinhan K2 Secondary Fund	Fees and commission income	-	665
Midas Dong-A Snowball Venture Fund	Fees and commission income	38	28
"	Interest expense	(3)	(4)
SHC-EN Fund	Fees and commission income	-	149
SP New Technology Business investment Fund I	Fees and commission income	41	30
IBKS-Shinhan Creative Economy New Technology Fund	Fees and commission income	37	50
"	Interest expense	(2)	(1)
SM New Technology Business Investment Fund I	Fees and commission income	55	-
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	Fees and commission income	-	55
JAEYOUNG SOLUTECH CO., LTD.	Interest income	654	671
"	Fees and commission income	1	1
"	Other operating income	3	7
"	Reversal of credit losses	1	89
"	Interest expense	(4)	(21)
"	Provision for credit losses	(55)	-
The Asia Pacific Capital Fund II L.P.	Fees and commission income	85	175
Shinhan Praxis K-Growth Global Private Equity Fund	Fees and commission income	689	691
Partners 4th Growth Investment Fund	Interest expense	(16)	(2)
Albatross Growth Fund	Interest expense	-	(6)

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46. Related parties (continued)

<u>Related party</u>	<u>Account</u>	<u>2017</u>	<u>2016</u>
Shinhan-Albatross Growth Fund	Fees and commission income	₩ 152	-
"	Interest expense	(21)	-
PSA 1st Fintech Private Equity Fund	Interest expense	-	(5)
IBKS-Shinhan Creative Economy New Technology Fund II	Fees and commission income	25	22
Midas Dong-A Snowball Venture Fund 2	Interest expense	-	(1)
SHBNPP Private Korea Equity Long-Short Professional Feeder	Fees and commission income	892	785
SHBNPP Private Multi Strategy Professional Feeder No.1	Fees and commission income	-	160
Semantic	Interest income	-	15
"	Provision for credit losses	-	(1)
Branbuil CO., LTD.	Fees and commission income	2	1
"	Provision for credit losses	-	(1)
Treenkid	Interest income	-	3
STI New development Co, LTD	Fees and commission income	30	-
Shinhan Fintech New Technology Fund No.1	Fees and commission income	30	-
KTB New lake medical Global Investment	Interest income	10	-
"	Other operating income	(13)	-
Shinhan Global health care Investment No.1 Co,LTD	Fees and commission income	282	-
Taihan Industrial System Co., Ltd.	Fees and commission income	2	-
Key management personnel and their immediate relatives			
	Interest income	101	68
		₩ <u>7,639</u>	<u>14,984</u>

The above outstanding balances and transactions have arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

(c) Key management personnel compensation

Key management personnel compensation for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Short-term employee benefits	₩ 17,112	16,428
Severance benefits	979	418
Share-based payment transactions	6,787	9,162
	₩ <u>24,878</u>	<u>26,008</u>

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46. Related parties (continued)

(d) The guarantees provided between the related parties as of December 31, 2017 and 2016 were as follows:

Guarantor	Guaranteed Parties	Amount of guarantees		Account
		2017	2016	
Shinhan Bank	Aju Capital Co., Ltd.	₩ -	50,000	Unused credit line
	New lake alliance	700	-	Unused credit line
	BNP Paribas Cardif Life Insurance	10,000	10,000	Unused credit line
	Neoplux Technology Valuation Investment Fund	6,000	12,000	Security underwriting commitment
	JAEYOUNG SOLUTECH CO., LTD.	109	600	Unused credit
	"	429	483	Import letter of credit
		₩ 17,238	73,083	

(e) Details of collaterals provided by the related parties as of December 31, 2017 and 2016 were as follows:

Provided to	Provided by	Pledged assets	2017	2016
Shinhan Bank	Aju Capital Co., Ltd.	Beneficiary certificate	₩ -	160,000
	BNP Paribas Cardif Life Insurance	Government bonds	11,666	13,699
	Treenkid	Properties	-	200
	JAEYOUNG SOLUTECH CO., LTD.	Properties	20,814	20,814
	"	Guarantee insurance policy	7,037	7,037
		₩ 39,517	201,750	

47. Information of trust business

(a) Significant balances with trust business as of December 31, 2017 and 2016 are as follows:

	2017	2016
Borrowings from trust account	₩ 4,057,649	3,447,078
Accrued fees on trust accounts	28,795	30,485
Accrued interest expense	824	782

(b) Transactions with trust business for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Trust management fees	₩ 166,588	98,712
Fees on early withdrawal	3,415	87
Interest on borrowings from trust account	37,884	35,894

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48. Interests in unconsolidated structured entities

(a) The nature and extent of interests in unconsolidated structured entities

The Group is involved in assets-backed securitization, structured financing, beneficiary certificates and other structured entities and characteristics of these structured entities are as follows:

	<u>Description</u>
Assets-backed securitization	Securitization vehicles are established to buy assets from originators and issue asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The Group is involved in the securitization vehicles by purchasing (or committing to purchase) the asset-backed securities issued and/or providing other forms of credit enhancement. The Group does not consolidate a securitization vehicle if (i) the Group is unable to make or approve decisions as to the modification of the terms and conditions of the securities issued by such vehicle or disposal of such vehicles' assets, (ii) (even if the Group is so able) if the Group does not have the exclusive or primary power to do so, or (iii) if the Group does not have exposure, or right, to a significant amount of variable returns from such entity due to the purchase (or commitment to purchase) of asset-backed securities so issued or subordinated obligations or by providing other forms of credit support.
Structured financing	Structured entities for project financing are established to raise funds and invest in a specific project such as M&A (mergers and acquisitions), BTL (build-transfer-lease), shipping finance, etc. The Group is involved in the structured entities by originating loans, investing in equity, or providing credit enhancement.
Investment fund	Investment fund means an investment trust, a PEF (private equity fund) or a partnership which invests in a group of assets such as stocks or bonds by issuing a type of beneficiary certificates to raise funds from the general public, and distributes its income and capital gains to their investors. The Group manages assets by investing in shares of investment fund or playing a role of an operator or a GP (general partner) of investment fund, on behalf of other investors.

The size of unconsolidated structured entities as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Total assets:		
Asset-backed securitization	₩ 175,953,075	108,649,039
Structured financing	84,719,599	66,759,795
Investment fund	69,736,443	33,891,120
	<u>₩ 330,409,117</u>	<u>209,299,954</u>

Notes to the Consolidated Financial Statements

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48. Interests in unconsolidated structured entities (continued)

(b) Nature of risks

i) *The carrying amounts of the assets and liabilities relating to its interests in unconsolidated structured entities as of December 31, 2017 and 2016 are as follows:*

		2017			
		Assets-backed securitization	Structured financing	Investment fund	Total
Assets:					
Loans	₩	329,776	6,189,042	91,078	6,609,896
Trading assets		3,201,400	958	351,290	3,553,648
Derivative assets		14,218	-	-	14,218
Available-for-sale financial assets		2,200,974	400,283	3,525,538	6,126,795
Held-to-maturity financial assets		3,259,451	-	-	3,259,451
Other assets		729	2,576	1,150	4,455
	₩	<u>9,006,548</u>	<u>6,592,859</u>	<u>3,969,056</u>	<u>19,568,463</u>
Liabilities:					
Derivative liabilities	₩	4,448	-	-	4,448
Other		557	1,050	9	1,616
	₩	<u>5,005</u>	<u>1,050</u>	<u>9</u>	<u>6,064</u>
		2016			
		Assets-backed securitization	Structured financing	Investment fund	Total
Assets:					
Loans	₩	380,961	5,791,745	106,234	6,278,940
Trading assets		2,082,684	30,266	31,791	2,144,741
Derivative assets		19,144	-	-	19,144
Available-for-sale financial assets		2,648,304	559,990	2,711,666	5,919,960
Held-to-maturity financial assets		2,612,564	-	-	2,612,564
Other assets		13,253	21,705	170	35,128
	₩	<u>7,756,910</u>	<u>6,403,706</u>	<u>2,849,861</u>	<u>17,010,477</u>
Liabilities:					
Derivative liabilities	₩	137	-	-	137
Borrowings		-	1,318	-	1,318
Other		1,006	264	-	1,270
	₩	<u>1,143</u>	<u>1,582</u>	<u>-</u>	<u>2,725</u>

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
(In millions of won)

48. Interests in unconsolidated structured entities (continued)

ii) *Exposure to risk relating to its interests in unconsolidated structured entities as of December 31, 2017 and 2016 are as follows:*

2017				
	Assets-backed securitization	Structured financing	Investment fund	Total
Assets held	₩ 9,006,548	6,592,859	3,969,056	19,568,463
ABS and ABCP commitments	1,391,035	57,300	452,311	1,900,646
Loan commitments	529,566	719,650	31,987	1,281,203
Guarantees	74,300	15,200	-	89,500
Others	4,200	45,634	-	49,834
	₩ <u>11,005,649</u>	<u>7,430,643</u>	<u>4,453,354</u>	<u>22,889,646</u>
2016				
	Assets-backed securitization	Structured financing	Investment fund	Total
Assets held	₩ 7,756,910	6,403,706	2,849,861	17,010,477
ABS and ABCP commitments	1,108,282	30,000	-	1,138,282
Loan commitments	977,383	328,236	47,246	1,352,865
Guarantees	83,000	28,060	-	111,060
Others	61,400	-	-	61,400
	₩ <u>9,986,975</u>	<u>6,790,002</u>	<u>2,897,107</u>	<u>19,674,084</u>

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016
(In millions of won)

49. Business Combination

(a) General information

On December 17, 2017, the Group acquired the retail business of ANZ Vietnam to increase business competitiveness and to achieve synergy effect in the banking business in Vietnam. Goodwill of ₩42,103 million arising from the acquisition is due to the synergy generated by the combination of the Group's business with the acquired retail business and the customer base.

(b) Fair value of assets and liabilities

Fair value of assets acquired and liabilities assumed by acquisition of ANZ as of acquisition date is as follows:

	<u>Amount(*)</u>
Asset:	
Cash and due from banks	₩ 8,151
Property and equipment	538
Receivable	301,766
Other assets	<u>9,269</u>
	319,724
Liabilities:	
Accounts payable	(436,285)
Other liabilities	<u>(1,022)</u>
	(437,307)
The fair value of the identifiable assets acquired and liabilities assumed	<u>₩ (117,583)</u>

(*) The accounting treatments for this business combination has not been completed by the end of the reporting period. The goodwill amount may be changed due to fair value assessments of identifiable assets liabilities for allocation of acquisition consideration.

(c) Goodwill

Goodwill arising from the acquisitions has been recognized as follows:

	<u>Amount</u>
Consideration received (cash)	₩ 75,480
Fair value of identifiable net assets	<u>(117,583)</u>
Goodwill	<u>₩ 42,103</u>

(d) Acquisition-related costs

The Group incurred acquisition-related costs of ₩5,830 million on legal fees and due diligence costs. These costs were included in the administrative expenses.

GLOBAL NETWORK

(December 31, 2017)

Shinhan Bank

Country	Name	Telephone	Address
Japan	SHINHAN BANK JAPAN	81-3-6403-0505	5th Floor, The Mita Bellju Building, 108-0014 5-36-7 Shiba, Minato-ku, Tokyo, Japan
China	SHINHAN BANK CHINA	86-10-8529-0088	12th Floor, Zhongyu Plaza No.6, Workers' Stadium Road N.,Chaoyang District, Beijing 100027, China
Vietnam	SHINHAN BANK VIETNAM	84-8-3829-1581	Ground Floor, Mezzanine, 2nd & 3rd floor, Empress Tower, 138 – 142 Hai Ba Trung, Dakao Ward, District 1, Ho Chi Minh City, Vietnam
USA	SHINHAN BANK AMERICA	1-646-843-7300	330 5th Avenue 4th Floor New York, NY 10001, USA
Indonesia	PT BANK SHINHAN INDONESIA	62-21-2975-1500	International Financial Centre Tower 2, Ground Floor, Mezzanine, 30th and 31st Floor, Jl. Jenderal Sudirman Kav.22-23 South Jakarta, Indonesia
Germany	SHINHAN BANK EUROPE GmbH	49-69-975-7130	Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany
Canada	SHINHAN BANK CANADA	1-416-250-3500	5140 Yonge Street Suite 2300 Toronto, Ontario, M2N6L7, Canada
Hong Kong	SHINHAN ASIA LIMITED	852-3717-0700	Units 7704, 77th Floor International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong
Cambodia	SHINHAN BANK CAMBODIA PLC	855-23-971-100	No. 79 Kampuchea Krom, Sangkat Mororom, Khan 7 Makara, Phnom Penh, Cambodia
Kazakhstan	SHINHAN BANK KAZAKHSTAN	7-727-356-9620	38 Dostyk Ave. Almaty, 050010, Republic of Kazakhstan
Hong Kong	HONG KONG BRANCH	852-2867-0100	Unit 7703, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong
America	NEW YORK BRANCH	1-212-371-8000	600 3rd Avenue, 17th Floor, New York, NY10016, USA
England	LONDON BRANCH	44-207-600-0606	6th Floor, 77 Gracechurch Street, London, EC3V 0AS, UK
Singapore	SINGAPORE BRANCH	65-6536-1144	1 George Street, #15-03, Singapore 049145, Singapore
India	MUMBAI BRANCH	91-22-6199-2000	5th Floor, Wockhardt Towers, C2, G Block, Bandra Kurla Complex, Bandra, Mumbai, India
India	NEW DELHI BRANCH	91-11-4500-4800	3rd Floor, D-6, Part II South Extension, New Delhi, India
India	KANCHEEPURAM BRANCH	91-44-2714-3500	Survey No:69/4A1 B No.101A, Bangalore Highway Road, Thandalam Village, Kancheepuram, Tamilnadu, India
India	PUNE BRANCH	91-20-3086-4800	Ground Floor, Red Building, Plot No.2, Galaxy Society, Boat Club Road, Pune, Maharashtra, India
India	AHMEDABAD BRANCH	91-79-7117-0400	FF2&FF3, 1st Floor, Shapath V Building, Opp. Karnavati Club, S.G.Highway, Ahmedabad, Gujarat, India
India	RANGA REDDY BRANCH	91-40-6635-2000	SLN Terminus, 1st Floor, Survey No 133, Gachibowli, Serilingampally, Mandal, Ranga Reddy District, Telangana State, India
Myanmar	YANGON BRANCH	95-1-9345-170	No.192, 10th Floor, Myanmar Centre Tower 1, Kabaraye Pagoda Road, Bahan Township, Yangon, Myanmar
Australia	SYDNEY BRANCH	61-2-9224-7901	Level 25, 52 Martin Place, Sydney, NSW 2000, Australia
Philippines	MANILA BRANCH	63-2-405-6300	21st Floor, RCBC Savings Bank Corporate Center(RSBCC), 26th & 25th Street, Bonifacio South, Bonifacio Global City, Taguig City, Manila, Philippines
UAE	DUBAI BRANCH	971-4-551-2820	S1204, Emirates Financial Tower, DIFC, P.O. Box 507001, Dubai, UAE
Mexico	SHINHAN BANK MEXICO REPRESENTATIVE OFFICE	52-55-5525-7787	Av. Paseo de la Reforma 250, Reforma Capital Torre B Cuauhtemoc, Juarez, 06600, Mexico D.F., Mexico
Uzbekistan	SHINHAN BANK UZBEKISTAN REPRESENTATIVE OFFICE	998-71-150-1184	3rd Floor, Newworld building, Oybek st. 22 Tashkent, 100015, Uzbekistan

Shinhan Card

Country	Name	Telephone	Address
Indonesia	PT SHINHAN INDO FINANCE	62-21-857+9095	Wisma Indomobil 1, 10th Floor, Jl. Letjen M.T. Haryono Kav. 8, Jakarta 13330, Indonesia
Kazakhstan	LLP MFO SHINHAN FINANCE	7-727-352-85-62	Office 2/3, 2nd Floor, 48 Auezov street, Almaty, Republic of Kazakhstan
Myanmar	SHINHAN MICROFINANCE	094-5296-7837	Room 206, 3 RC Building, Thiri Mingalar Street, East Ywama Township, Yangon, Myanmar

Shinhan Investment Corp.

Country	Name	Telephone	Address
Indonesia	SHINHAN SEKURITAS INDONESIA	62-21-8086-9900	Jalan Jendral Sudirman Kav. 22-23, RT.10/RW.1, Karet, Setia Budi, Kota Jakarta Selatan, DKI Jakarta 12920, Indonesia
Hong Kong	SHINHAN INVESTMENT ASIA	852-3713-5301	Units 7705A, Level 77 International Commerce Center(ICC), 1 Austin Road West, Kowloon, Hong Kong
Vietnam	SHINHAN INVESTMENT VIETNAM	84-28-6299-8000	22nd Floor, Centec Tower, 72-74 Nguyen Thi Minh Khai, Phuong 6, District 3, Ho Chi Minh City, Vietnam
USA	SHINHAN INVESTMENT AMERICA	1-212-397-4000	1325 Avenue of the Americas #702 New York. N. Y. 10019, USA
China	SHINHAN INVESTMENT SHANGHAI REPRESENTATIVE OFFICE	86-21-6194-6624	1st Floor, Huaneng Unite Mansion, 958, Lujiazui Ring Road, Pudong New Area, Shanghai 200120, China
Vietnam	SHINHAN INVESTMENT HO CHI MINH CITY REPRESENTATIVE OFFICE	84-28-6287-8034	22nd Floor, Centec Tower, 72-74 Nguyen Thi Minh Khai, Phuong 6, District 3, Ho Chi Minh City, Vietnam

Shinhan Life Insurance

Country	Name	Telephone	Address
Vietnam	SHINHAN LIFE HANOI REPRESENTATIVE OFFICE	84-4-3766-2000	Room 305, UDIC Comolex Building, C Tower, Hoang Dao Thuy Street, Trung Hoan Ward, Cau Giay District, Hanoi, Vietnam

Shinhan BNPP AM

Country	Name	Telephone	Address
Hong Kong	SHINHAN BNP PARIBAS ASSET MGT HK LIMITED	001-852-2525-9110	29th Floor, Three Exchange Square, 9 Connaught Place, Central, Hong Kong



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