



**SHINHAN INVESTMENT CORP.
AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Shareholder
Shinhan Investment Corp.:

We have audited the accompanying consolidated financial statements of Shinhan Investment Corp. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, 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 of December 31, 2016 and 2015 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other Matter

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

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
February 16, 2017

This report is effective as of February 16, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of December 31, 2016 and 2015

<i>In millions of won</i>	<u>Note</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Assets			
Cash and due from banks	4,24,25,30	₩ 2,994,883	2,761,678
Financial assets at fair value through profit or loss	5,24,25,30	16,522,433	15,595,367
Available-for-sale financial assets	6,24,25,30	1,652,637	1,646,109
Investments in associates	7	136,090	69,406
Loans	8,24,25,30	2,552,035	2,533,701
Property and equipment	9,30	118,575	118,897
Intangible assets	10	55,815	45,711
Investment property	11	204,561	137,835
Deferred tax assets	28	98	-
Current tax assets	28	-	4
Other assets	12,24,25	1,317,362	1,428,705
Total assets	₩	<u>25,554,489</u>	<u>24,337,413</u>
Liabilities			
Deposits	13,24,25	₩ 1,652,868	1,197,250
Financial liabilities at fair value through profit or loss	14,24,25	11,378,801	11,558,904
Borrowings	15,24,25	8,342,066	7,605,329
Provisions	16	21,337	4,863
Deferred tax liabilities	28	9,161	46,879
Current tax liabilities	28	17,139	12,247
Other liabilities	17,24,25	1,056,685	1,386,105
Total liabilities		<u>22,478,057</u>	<u>21,811,577</u>
Equity			
Capital stock	35	1,546,998	1,296,998
Capital surplus	35	248,806	15
Capital adjustments	35	(180)	341
Accumulated other comprehensive income	35	104,273	99,475
Retained earnings	35	1,176,345	1,129,007
Non-controlling interests	35	190	-
Total equity		<u>3,076,432</u>	<u>2,525,836</u>
Total liabilities and equity	₩	<u>25,554,489</u>	<u>24,337,413</u>

See accompanying notes to the consolidated financial statements.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2016 and 2015

<i>In millions of won</i>	Note	December 31, 2016	December 31, 2015
Operating revenue:			
Commission income	18	₩ 361,264	394,241
Gain on financial instruments at fair value through profit or loss	24	3,309,500	3,550,843
Gain on available-for-sale financial assets	24	8,887	32,224
Interest income	19	515,902	601,965
Gain on valuation and sale of loans	24	4,582	829
Gain on foreign currency transactions	20	304,547	122,958
Others	22,24	45,259	31,102
		<u>4,549,941</u>	<u>4,734,162</u>
Operating expense:			
Commission expense	18	103,791	118,780
Loss on financial instruments at fair value through profit or loss	24	3,493,157	3,563,296
Loss on available-for-sale financial assets	24	15,697	6,431
Interest expense	19	131,702	163,369
Loss on valuation and sale of loans	24	7,780	2,731
Loss on foreign currency transactions	20	218,029	125,677
General and administrative expenses	21	414,645	488,500
Others	22,24	21,302	4,630
		<u>4,406,103</u>	<u>4,473,414</u>
Operating income		143,838	260,748
Non-operating income	23	23,686	29,262
Non-operating expense	23	(22,018)	(11,888)
Profit before income taxes		<u>145,506</u>	<u>278,122</u>
Income tax expense	28	30,066	62,668
Profit for the year		<u>₩ 115,440</u>	<u>215,454</u>

See accompanying notes to the consolidated financial statements.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income, Continued
For the years ended December 31, 2016 and 2015

<i>In millions of won</i>	<u>Note</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Other comprehensive income (loss) for the year, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Net change in unrealized fair value of available-for-sale financial assets	24	₩ 3,057	2,464
Gain(Loss) on valuation of investments in associates		(30)	4,485
Foreign currency translation adjustments for foreign operations		3,051	5,901
Effect of income tax expense		(1,280)	(2,962)
Total other comprehensive income, net of tax	35	<u>4,798</u>	<u>9,888</u>
Total comprehensive income for the year		<u>₩ 120,238</u>	<u>225,342</u>
Profit for the year attributable to:			
Equity holders of Shinhan Investment Corp.		₩ 115,438	215,454
Non-controlling interest		2	-
		<u>₩ 115,440</u>	<u>215,454</u>
Total comprehensive income attributable to:			
Equity holders of Shinhan Investment Corp.		₩ 120,236	225,342
Non-controlling interest		2	-
		<u>₩ 120,238</u>	<u>225,342</u>

See accompanying notes to the consolidated financial statements.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the years ended December 31, 2016 and 2015

In millions of won

		Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
Balance at January 1, 2015	₩	1,296,998	15	(62)	89,587	943,553	2,330,091
Profit for the year		-	-	-	-	215,454	215,454
Other comprehensive income, net of income tax							
Net change in unrealized fair value of available-for-sale financial assets		-	-	-	1,868	-	1,868
Share of the other comprehensive income of associates		-	-	-	3,400	-	3,400
Foreign currency translation differences		-	-	-	4,620	-	4,620
Transactions recognized directly in equity							
Dividends		-	-	-	-	(30,000)	(30,000)
Change in share-based payment		-	-	403	-	-	403
Balance at December 31, 2015	₩	<u>1,296,998</u>	<u>15</u>	<u>341</u>	<u>99,475</u>	<u>1,129,007</u>	<u>2,525,836</u>

		Common stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Non- controlling interests	Total
Balance at January 1, 2016	₩	1,296,998	15	341	99,475	1,129,007	-	2,525,836
Profit for the year		-	-	-	-	115,438	2	115,440
Other comprehensive income (loss), net of income tax								
Net change in unrealized fair value of available-for-sale financial assets		-	-	-	2,317	-	-	2,317
Share of the other comprehensive loss of associates		-	-	-	(22)	-	-	(22)
Foreign currency translation differences		-	-	-	2,503	-	-	2,503
Transactions recognized directly in equity								
Dividends		-	-	-	-	(68,100)	-	(68,100)
Change in share-based payment		-	-	(521)	-	-	-	(521)
Issuance of common stock		250,000	248,791	-	-	-	-	498,791
Change in other non- controlling interests		-	-	-	-	-	188	188
Balance at December 31, 2016	₩	<u>1,546,998</u>	<u>248,806</u>	<u>(180)</u>	<u>104,273</u>	<u>1,176,345</u>	<u>190</u>	<u>3,076,432</u>

See accompanying notes to the consolidated financial statements.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015

In millions of won

	Note	December 31, 2016	December 31, 2015
Cash flows from operating activities			
Profit before income taxes	₩	145,506	278,122
Adjustment for:			
Interest income		(515,902)	(601,965)
Interest expense		131,702	163,369
Dividend income		(42,003)	(27,459)
Net gain(loss) on valuation of financial assets at fair value through profit or loss		(195,292)	801,308
Net gain(loss) on valuation of financial liabilities at fair value through profit or loss		295,625	(798,597)
Net gain(loss) on sales of available-for-sale financial assets		4,277	(26,961)
Impairment loss on available-for-sale financial assets		2,533	1,168
Provisions for loan loss		3,197	2,647
Net gain on sales of loans		-	(745)
Net gain on foreign exchanges		10,755	13,655
Depreciation		10,326	10,454
Amortization of intangible assets		4,987	4,755
Employee related expenses		3,329	3,357
Non-cash other operating expenses, net		18,717	424
Non-cash non-operating expenses, net		11,220	(277)
		<u>(256,529)</u>	<u>(454,867)</u>
Changes in assets and liabilities:			
Due from banks		(169,276)	(223,582)
Financial assets at fair value through profit or loss		(731,773)	1,350,539
Loans		(16,705)	(1,056,587)
Collective fund for default loss		10,565	(2,198)
Other assets		100,184	(102,506)
Deposits		443,257	88,461
Financial liabilities at fair value through profit or loss		(475,727)	712,861
Provisions		(97)	(253)
Other liabilities		(327,320)	146,240
		<u>(1,166,892)</u>	<u>912,975</u>
Income taxes paid		(64,661)	(14,859)
Interests received		525,579	619,343
Interests paid		(207,774)	(172,750)
Dividends received		40,086	27,112
Net cash provided by (used in) operating activities		<u>(984,685)</u>	<u>1,195,076</u>

See accompanying notes to the consolidated financial statements.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued
For the years ended December 31, 2016 and 2015

In millions of won

	<i>Note</i>	December 31, 2016	December 31, 2015
Cash flows from investing activities			
Proceeds from disposal of available-for-sale financial assets	₩	4,012,327	5,687,830
Acquisition of available-for-sale financial assets		(4,035,683)	(5,082,901)
Proceeds from disposal of investments in associates		36,754	10,385
Acquisition of investments in associates		(112,984)	(10,217)
Proceeds from disposal of property and equipment		1,060	-
Acquisition of property and equipment		(9,440)	(7,406)
Proceeds from disposal of intangible assets		1,161	1,400
Acquisition of intangible assets		(12,291)	(6,652)
Proceeds from disposal of investment property		4,481	48,217
Acquisition of investment property		(74,532)	-
Acquisition of business, net of cash acquired		(4,280)	(1,240)
Net cash provided by (used in) investing activities		(193,427)	639,416
Cash flows from financing activities			
Proceeds from borrowings		1,451,594	549,229
Repayment of borrowings		(653,078)	(2,525,527)
Dividends paid		(68,100)	(30,000)
Issuance of common stock		498,791	-
Net cash provided by (used in) financing activities		1,229,207	(2,006,298)
Effect of exchange rate fluctuations on cash and cash equivalents held		1,561	4,614
Increase(decrease) in cash and cash equivalents		52,656	(167,192)
Cash and cash equivalents at the beginning of year		526,308	693,500
Cash and cash equivalents at the end of year	4,38	₩ 578,964	526,308

See accompanying notes to the consolidated financial statements.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

1. Reporting entity

General information of Shinhan Investment Corp. (the "Company") and its subsidiaries included in consolidation (collectively the "Group") are summarized as follows:

(a) Controlling company

The Company was established on April 2, 1973 under the name of HyoSeong Securities Co., Ltd. to engage in proprietary trading, underwriting and brokerage services. The Company changed its name from Good Morning Shinhan Securities Co., Ltd. to Shinhan Investment Corp. on August 24, 2009. The Company is wholly owned by Shinhan Financial Group Co., Ltd. and operates through 92 branches, 17 sales offices, and 2 overseas offices as of December 31, 2016.

Since December 28, 2005, the Company has been in the trust business pursuant to the Korea Trust Business Law. Assets under trust management amounted to ₩17,774,623 million as of December 31, 2016 and the related fee income amounted to ₩16,776 million for the year ended December 31, 2016.

(b) Scope of consolidation

(i) Subsidiaries

Ownership of the Company's major consolidated subsidiaries except special purpose entities as of December 31, 2016 are as follows:

Investor	Investee	Country	Closing date	Ownership (%)
Shinhan Investment Corp.	Shinhan Investment America Inc.	USA	December 31	100.0
"	Shinhan Investment Asia Ltd.	Hong Kong	December 31	100.0
"	Shinhan Securities Vietnam Co., LTD	Vietnam	December 31	100.0
"	PT. Shinhan Sekuritas Indonesia	Indonesia	December 31	99.0

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

1. Reporting entity, Continued

(b) Scope of consolidation, Continued

(ii) Special purpose entities

As of December 31, 2016, consolidated special purpose entities are summarized as follows:

Parent company	SPE	Location	Reference
Shinhan Investment Corp.	Samsung Millennium Stock C503	Rep. of Korea	Collective investment business
"	Santaclause 98 Short-term Bond Fund 1	"	"
"	G1 Santaclause 98 Short-term Bond Fund 1	"	"
"	Samsunglife New Short Fund B301	"	"
"	Samsunglife New Short Fund A423	"	"
"	Samsung Jinpum Short Fund C501	"	"
"	Samsung Jinpum Short Fund C503	"	"
"	Santaclause Long-term Bond Fund 4	"	"
"	Santaclause Long-term Bond Fund 5	"	"
"	Santaclause New Long-term Bond Fund 1	"	"
"	Neo Short-term Bond #22	"	"
"	Hanbaguni E-2	"	"
"	Kyobo Tomorrow SGIC-1	"	"
"	KDB Private SH-1	"	"
"	Specific Money Trust	"	Trust
"	Mainstream the 1st Co., Ltd	"	Securitization SPC
"	Mainstream the 2st L.L.C	"	"
"	Mainstream the 4st L.L.C	"	"
"	VALUE PLUS the 35th L.L.C	"	"
"	VALUE PLUS the 37th L.L.C	"	"
"	VALUE PLUS the 38th Co., Ltd.	"	"
"	VALUE PLUS the 40th Co., Ltd.	"	"
"	SICeres Co.,Ltd.	"	Other financial business
"	Irisnine Co.,Ltd.	"	"
"	SS Junior 1th Inc.	"	Securitization SPC
"	Angelest the 8st Co., Ltd	"	"
"	Angelest the 11st L.L.C	"	"
"	Nomura-Rifa Private Real Estate Investment Trust 4	"	Real estate investment trust
"	JB Sangam Private Real Estate Investment Trust No.1	"	"
"	TongYang SpecialSituations Private 1(Bond Balanced)	"	Trust
"	Lime Pluto FI Fund	"	"
"	Multi Asset Offshore Aircraft QI Investment Fund No.1	"	"
"	Brain Professional Private Trust No.9	"	"
"	AION Metis Fund	"	"
"	Fides May Man Multi-Strategy Fund	"	"
"	KTB Global Multi Asset Allocation Fund	"	"

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

1. Reporting entity, Continued

(c) Changes in subsidiaries

The list of subsidiaries that were newly acquired or excluded from consolidation during the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2016	
Company	Reason	Invest company
Newly acquired subsidiaries		
PT. Shinhan Sekuritas Indonesia	99% equity	Shinhan Investment Corp.
Mainstream the 2st L.L.C	Credit offering	Shinhan Investment Corp.
Mainstream the 4st L.L.C	Credit offering	Shinhan Investment Corp.
VALUE PLUS the 39th L.L.C	Credit offering	Shinhan Investment Corp.
VALUE PLUS the 40th Co., Ltd	Credit offering	Shinhan Investment Corp.
SICeres Co.,Ltd.	Exposure to variable returns	Shinhan Investment Corp.
SS Junior 1th Inc.	Exposure to variable returns	Shinhan Investment Corp.
Irisnine Co.,Ltd.	Exposure to variable returns	Shinhan Investment Corp.
Angelest the 8st Co., Ltd	Credit offering	Shinhan Investment Corp.
Angelest the 11st L.L.C	Credit offering	Shinhan Investment Corp.
Nomura-Rifa Private Real Estate Investment Trust 4	100% equity	SICeres Co.,Ltd., Irisnine Co.,Ltd.
TongYang SpecialSituations Private 1(Bond Balanced)	99.9% equity	Shinhan Investment Corp.
Lime Pluto FI Fund	100% equity	Shinhan Investment Corp.
Multi Asset Offshore Aircraft QI Investment Fund No.1	99.66% equity	Shinhan Investment Corp.
Mirae Asset Technological Growth Focus Equity Feeder Investment Trust	67.43% equity	Shinhan Investment Corp.
Mirae Asset Technological Growth Focus Equity Feeder Investment Trust	67.77% equity	Mirae Asset Technological Growth Focus Equity Feeder Investment Trust
Brain Professional Private Trust No.9	83.33% equity	Shinhan Investment Corp.
AION Metis Fund	98.06% equity	Shinhan Investment Corp.
Fides May Man Multi-Strategy Fund	98.04% equity	Shinhan Investment Corp.
KTB Global Multi Asset Allocation Fund	98.04% equity	Shinhan Investment Corp.
Excluded subsidiaries		
Mirae Asset Technological Growth Focus Equity Feeder Investment Trust	Liquidation	Shinhan Investment Corp.
Mirae Asset Technological Growth Focus Equity Feeder Investment Trust	Liquidation	Mirae Asset Technological Growth Focus Equity Feeder Investment Trust
Shinhan Maritime Private Equity Fund I	Liquidation	Shinhan Investment Corp.
Korea Investment Asia Focus Long-short Security Feeder Investment Trust (Equity-Derivative)	Liquidation	Shinhan Investment Corp.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

1. Reporting entity, Continued

(c) Changes in subsidiaries, Continued

Company	December 31, 2016	
	Reason	Invest company
Korea Investment Asia Focus Long-short Security Master Investment Trust (Equity-Derivative)	Liquidation	Korea Investment Asia Focus Long-short Security Master Investment Trust (Equity-Derivative)
SS TRITON A S.A.	Liquidation	Shinhan Maritime Private Equity Fund I
SS TRITON B S.A.	Liquidation	Shinhan Maritime Private Equity Fund I
VALUE PLUS the 21st Co., Ltd.	Expiration of financial supplement commitment transactions	Shinhan Investment Corp.
VALUE PLUS the 22nd Co., Ltd.	Expiration of financial supplement commitment transactions	Shinhan Investment Corp.
VALUE PLUS the 25th Co., Ltd.	Expiration of financial supplement commitment transactions	Shinhan Investment Corp.
VALUE PLUS the 28th Co., Ltd.	Expiration of financial supplement commitment transactions	Shinhan Investment Corp.
VALUE PLUS the 29th Co., Ltd.	Expiration of financial supplement commitment transactions	Shinhan Investment Corp.
VALUE PLUS the 32nd Co., Ltd.	Expiration of financial supplement commitment transactions	Shinhan Investment Corp.
VALUE PLUS the 39nd L.L.C	Expiration of financial supplement commitment transactions	Shinhan Investment Corp.
Angelest the 1st L.L.C	Expiration of financial supplement commitment transactions	Shinhan Investment Corp.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

1. Reporting entity, Continued

(c) Changes in subsidiaries, Continued

Company	December 31, 2015	
	Reason	Invest company
Newly acquired subsidiaries		
Shinhan Securities Vietnam Co., LTD	100% equity	Shinhan Investment Corp.
VALUE PLUS the 29th Co., Ltd.	Credit offering	Shinhan Investment Corp.
VALUE PLUS the 32nd Co., Ltd.	Credit offering	Shinhan Investment Corp.
Angelest the 1st L.L.C	Credit offering	Shinhan Investment Corp.
Mainstream the 1st Co., Ltd	Credit offering	Shinhan Investment Corp.
VALUE PLUS the 35th L.L.C	Credit offering	Shinhan Investment Corp.
VALUE PLUS the 37th L.L.C	Credit offering	Shinhan Investment Corp.
VALUE PLUS the 38th Co., Ltd.	Credit offering	Shinhan Investment Corp.
Korea Investment Asia Focus Long-short Security Feeder Investment Trust (Equity-Derivative)	76.34% equity	Shinhan Investment Corp.
Korea Investment Asia Focus Long-short Security Master Investment Trust (Equity-Derivative)	76.34% equity	Korea Investment Asia Focus Long-short Security Feeder Investment Trust (Equity-Derivative)
JB Sangam Private Real Estate Investment Trust No.1	99.78% equity	Shinhan Investment Corp.
Excluded subsidiaries		
SHIC PLUS the 1st Co., Ltd.	Expiration of financial supplement commitment transactions	Shinhan Investment Corp.
VALUE PLUS the 16th Co., Ltd.	Expiration of financial supplement commitment transactions	Shinhan Investment Corp.
VALUE PLUS the 17th Co., Ltd.	Expiration of financial supplement commitment transactions	Shinhan Investment Corp.
VALUE PLUS the 23rd Co., Ltd.	Expiration of financial supplement commitment transactions	Shinhan Investment Corp.
MARS the 1st L.L.C	Liquidation	Shinhan Investment Corp.
KDB Retail Investment Trust No.1	Liquidation	MARS the 1st L.L.C
Kyoboaxa Power High dividend index Feeder Security Trust (Equity)	Liquidation	Shinhan Investment Corp.
Kyoboaxa Power High dividend index Master Security Trust (Equity)	Liquidation	Kyoboaxa Power High dividend index Feeder Security Trust (Equity)
Eugene Smart Robust Securities Investments Trust the 2th (Equity balanced-Derivative)	Liquidation	Shinhan Investment Corp.
SystemTrading PEF the 22th (Equity balanced-Derivative)	Liquidation	Shinhan Investment Corp.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

1. Reporting entity, Continued

(d) Summary of financial information of the Company and its subsidiaries

(i) Condensed financial positions of the Company and its subsidiaries as of December 31, 2016 and 2015 are as follows:

Entity	December 31, 2016			December 31, 2015		
	Total assets	Total liabilities	Total equity	Total assets	Total liabilities	Total equity
Shinhan Investment Corp.	₩ 25,270,019	22,191,289	3,078,730	23,744,166	21,222,524	2,521,642
Shinhan Investment America Inc.	2,189	178	2,011	2,591	168	2,423
Shinhan Investment Asia Ltd.	5,265	175	5,090	4,771	315	4,456
Shinhan Securities Vietnam Co., LTD	7,170	156	7,014	7,790	4,687	3,103
PT. Shinhan Sekuritas Indonesia	19,815	350	19,465	-	-	-
Beneficiary certificate	785	1,416	(631)	1,674	2,317	(643)
Specific Money Trust	80,123	-	80,123	355,649	-	355,649
Mainstream the 1st Co., Ltd	34,938	34,739	199	35,075	34,823	252
Mainstream the 2st L.L.C	1,616	1,623	(7)	-	-	-
Mainstream the 4st L.L.C	16,962	16,630	332	-	-	-
VALUE PLUS the 21th Co., Ltd.	-	-	-	3,599	3,471	128
VALUE PLUS the 22th Co., Ltd.	-	-	-	20,666	20,715	(49)
VALUE PLUS the 25th Co., Ltd.	-	-	-	50,450	50,071	379
VALUE PLUS the 28th Co., Ltd.	-	-	-	139,347	140,000	(653)
VALUE PLUS the 29th Co., Ltd.	-	-	-	15,370	15,323	47
VALUE PLUS the 32nd Co., Ltd.	-	-	-	27,482	27,308	174
VALUE PLUS the 35nd L.L.C	61,628	65,110	(3,482)	65,131	65,077	54
VALUE PLUS the 37nd L.L.C	19,917	19,860	57	20,701	22,022	(1,321)
VALUE PLUS the 38nd L.L.C	40,188	40,074	114	40,140	40,086	54
VALUE PLUS the 40th Co., Ltd.	23,791	23,758	33	-	-	-

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

1. Reporting entity, Continued

(d) Summary of financial information of the Company and its subsidiaries, Continued

(i) Condensed financial positions of the Company and its subsidiaries as of December 31, 2016 and 2015, Continued

Entity	December 31, 2016			December 31, 2015		
	Total assets	Total liabilities	Total equity	Total assets	Total liabilities	Total equity
Shinhan Maritime PEF I(*)	₩ -	-	-	219,948	133,610	86,338
SiCeres Co.,Ltd.	11,708	11,752	(44)	-	-	-
SS Junior 1th Inc.	130,168	130,504	(336)	-	-	-
Irisnine Co.,Ltd.	11,708	11,752	(44)	-	-	-
Angelest the 1st L.L.C	-	-	-	11,082	11,021	61
Angelest the 8st Co., Ltd	25,436	25,405	31	-	-	-
Angelest the 11st L.L.C	8,794	8,792	2	-	-	-
Nomura-Rifa Private Real Estate Investment Trust 4	74,276	53,687	20,589	-	-	-
JB Sangam Private Real Estate Investment Trust No.1	2,232	5	2,227	2,261	5	2,256
TongYang SpecialSituations Private 1(Bond Balanced)	5,085	2	5,083	-	-	-
Lime Pluto FI Fund	5,033	-	5,033	-	-	-
Multi Asset Offshore Aircraft QI Investment Fund No.1	30,971	1,162	29,809	-	-	-
Brain Professional Private Trust No.9	6,122	6	6,116	-	-	-
AION Metis Fund	5,100	-	5,100	-	-	-
Fides May Man Multi-Strategy Fund	10,377	125	10,252	-	-	-
Korea Investment Asia Focus Long-short Security Feeder Investment Trust (Equity-Derivative)(*)	-	-	-	14,367	1	14,366
KTB Global Multi Asset Allocation Fund	5,105	23	5,082	-	-	-

(*) Consolidated financial statements

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

1. Reporting entity, Continued

(d) Summary of financial information of the Company and its subsidiaries, Continued

(ii) Condensed comprehensive income statements of the Company and its subsidiaries for the years ended December 31, 2016 and 2015 are as follows:

Entity	December 31, 2016			December 31, 2015		
	Operating revenues	Net Income (loss)	Total comprehensive income	Operating revenues	Net Income (loss)	Total comprehensive income
Shinhan Investment Corp.	₩ 4,521,362	123,304	126,918	4,721,671	217,087	219,410
Shinhan Investment America Inc.	1,088	(463)	(411)	1,240	(328)	(328)
Shinhan Investment Asia Ltd.	2,176	477	634	3,760	1,894	1,894
Shinhan Securities Vietnam Co., LTD	261	(880)	(781)	13	(241)	(241)
PT. Shinhan Sekuritas Indonesia	321	237	717	-	-	-
Beneficiary certificate	45	20	20	73	51	51
Specific Money Trust	-	(530)	(530)	274	274	274
Mainstream the 1st Co., Ltd	2,098	(52)	(52)	1,504	252	252
Mainstream the 2st L.L.C	1,196	(7)	(7)	-	-	-
Mainstream the 4st L.L.C	608	331	331	-	-	-
VALUE PLUS the 21th Co., Ltd.	-	-	-	467	(61)	(61)
VALUE PLUS the 22th Co., Ltd.	-	-	-	899	(130)	(130)
VALUE PLUS the 25th Co., Ltd.	-	-	-	2,079	274	274
VALUE PLUS the 28th Co., Ltd.	-	-	-	745	(215)	(215)
VALUE PLUS the 29th Co., Ltd.	-	-	-	1,797	47	47
VALUE PLUS the 32nd Co., Ltd.	-	-	-	1,291	174	174
VALUE PLUS the 35nd L.L.C	2,344	(14)	(3,535)	1,171	54	54
VALUE PLUS the 37nd L.L.C .	2,809	(933)	1,378	41	(1,321)	(1,321)
VALUE PLUS the 38nd L.L.C	1,843	61	61	392	54	54
VALUE PLUS the 40th Co., Ltd.	1,003	33	33	-	-	-

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

1. Reporting entity, Continued

(d) Summary of financial information of the Company and its subsidiaries, Continued

(iii) Condensed comprehensive income statements of the Company and its subsidiaries for the years ended December 31, 2016 and 2015:, Continued

Entity	December 31, 2016			December 31, 2015		
	Operating revenues	Net Income (loss)	Total comprehensive income	Operating revenues	Net Income (loss)	Total comprehensive income
Shinhan Maritime PEF I(*)	₩ -	-	-	11,682	(156)	(156)
SiCeres Co.,Ltd.	295	(44)	(44)	-	-	-
SS Junior 1th Inc.	46	(336)	(336)	-	-	-
Irisnine Co.,Ltd.	295	(44)	(44)	-	-	-
Angelest the 1st L.L.C	-	-	-	571	62	62
Angelest the 8st Co., Ltd	613	31	31	-	-	-
Angelest the 11st L.L.C	7	2	2	-	-	-
Nomura-Rifa Private Real Estate Investment Trust 4	837	(1,064)	(1,064)	-	-	-
JB Sangam Private Real Estate Investment Trust No.1	-	(29)	(29)	1	(20)	(20)
TongYang SpecialSituations Private 1(Bond Balanced)	137	79	79	-	-	-
Lime Pluto FI Fund	33	33	33	-	-	-
Multi Asset Offshore Aircraft QI Investment Fund No.1	1,198	36	36	-	-	-
AION Metis Fund	1	1	1	-	-	-
Brain Professional Private Trust No.9	122	116	116	-	-	-
Fides May Man Multi-Strategy Fund	320	52	52	-	-	-
Korea Investment Asia Focus Long-short Security Feeder Investment Trust (Equity-Derivative)(*)	-	-	-	(679)	(753)	(753)
KTB Global Multi Asset Allocation Fund	5	(18)	(18)	-	-	-

(*) Consolidated financial statements

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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 Audits of Corporations in the Republic of Korea.

(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

(c) Functional and presentation currency

These consolidated financial statements are presented in Korean won which is the Company's functional currency and the currency of the primary economic environment in which the Group operates. The subsidiaries whose functional currencies are different from the Company's are as follows :

Subsidiaries	Functional Currency
Shinhan Investment America Inc.	USD
Shinhan Investment Asia Ltd.	HKD
Shinhan Securities Vietnam Co., LTD	VND
PT. Shinhan Sekuritas Indonesia	IDR

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

2. Basis of preparation, Continued

(d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

(i) Income taxes

Within the normal business process, there are various types of transactions and different accounting methods that may add uncertainties to the determination of final income taxes. The Group has recognized current and deferred tax that reflect tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. However, actual income taxes in the future may not be identical to the recognized deferred tax assets and liabilities, and this difference can affect current and deferred tax at the period when the final tax effect is confirmed.

(ii) 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 methods and assumptions based on significant market conditions at the end of each reporting period. Diverse valuation techniques are used to determine the fair value of financial instruments, from general market accepted valuation models to internally developed valuation models that incorporate various types of assumptions and variables.

(iii) Allowances for loan loss

The Group determines and recognizes allowances for losses on loans through impairment testing. The accuracy of provisions for 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.

(iv) Provisions

The Group recognizes a provision considering risks and uncertainty under the given circumstance of the event. At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the amount needs to be updated.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

2. Basis of preparation, Continued

(d) Use of estimates and judgements, Continued

(v) Impairment on available-for-sale equity instruments

When there is a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost, there is objective evidence that the available-for-sale equity investment is impaired. Accordingly, the Group considers the decline in the fair value of more than 30% below cost as "significant decline" and a decline for six consecutive months as a "prolonged decline".

(e) Approval of the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors on February 2, 2017 and will be submitted for approval to the shareholder's meeting to be held on March 20, 2017.

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.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of the other entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control is lost.

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for identical 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.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies, Continued

(iii) Transactions eliminated on consolidations

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 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.

(v) Changes in the parent company's ownership interest in a subsidiary.

Changes in the parent company's ownership interest in a subsidiary that do not result in a loss of control are accounted as equity transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognized in profit or loss. The difference between the consideration and the adjustments made to non-controlling interest is recognized directly in equity attributable to the owners of the parent company.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies, Continued

(b) Associates and jointly controlled entities (collectively "associates")

Associates are those entities in which the Group has significant influence, but not control, over the 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.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement, and require unanimous consent for strategic financial and operating decisions.

The investment in associates and joint ventures is accounted using the equity method and is initially recognized at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control is lost.

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.

(c) Business combinations

(i) Business combinations

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

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

- Leases and insurance contracts are required to be classified on the basis of the contractual terms and other factors
- Only those contingent liabilities assumed in a business combination that are a present obligation and can be measured reliably are recognized
- Deferred tax assets or liabilities are recognized and measured in accordance with K-IFRS No.1012 Income Taxes
- Employee benefit arrangements are recognized and measured in accordance with K-IFRS No.1019 Employee Benefits
- Indemnification assets are recognized and measured on the same basis as the indemnified liability or asset
- Reacquired rights are measured 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

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies, Continued

(c) Business combinations, Continued

(i) Business combinations, Continued

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. 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) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined, while those measured at historical cost are retranslated at the exchange rate at the date of transaction.

Foreign currency differences arising on retranslation of monetary items are recognized in profit or loss. On the other hand, foreign currency difference arising on retranslation of non-monetary items is recognized in other comprehensive profit or loss / profit and loss, if profit and loss arising on the asset is recognized in other comprehensive profit or loss / profit and loss.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies, Continued

(d) Foreign currency, 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, including goodwill and fair value adjustments arising on acquisition, are translated to won at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to won at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

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. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. 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 in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognized in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

(e) Cash and cash equivalents

Cash and cash equivalents comprise balances with cash in hand, deposits held at call with banks and other short-term highly liquid investments with insignificant risk of changes in their fair value. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies, Continued

(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 (the "Financial assets at FVTPL")

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

(ii) Held-to-maturity investments

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

(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, except for loans and receivables for which the effect of discounting is immaterial.

(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, with 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.

When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Group's right to receive payment is established.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies, Continued

(f) Non-derivative financial assets, Continued

(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 of 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 consolidated 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 presented in the consolidated statements of financial position when, and only when, the Group currently has a legal enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(g) Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are either recognized in profit or loss or, when the derivatives are designated in a hedging relationship and the hedge is determined to be an effective hedge, other comprehensive income.

(i) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have 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.

(ii) Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

The Group does not hold any derivatives designated as hedging derivatives as of December 31, 2016 and 2015.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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3. Significant accounting policies, Continued

(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.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

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.

(i) Loans

The Group first assesses whether objective evidence of impairment exists individually for loans 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 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).

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies, Continued

(h) Impairment of financial assets, Continued

(i) Loans, Continued

If the interest rate of loans is a floating rate, the discount rate used to evaluate impairment is the current effective interest rate defined in the 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, regardless of probability of realization of such collateral.

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

Future cash flows of financial assets applicable to collective impairment assessment are estimated by using statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of losses 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 flows by historical modeling, the result has to be in line with changes and trends of observable data (e.g., impairment losses of collective assets and unemployment rates, asset prices, commodity prices, payment status and other variables representing the size of impairment losses). Methodologies and assumptions used to estimate future cash flow are reviewed on a regular basis in order to reduce discrepancy between estimated impairment losses and actual loss.

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

(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 shall be 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 shall not be 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 was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies, Continued

(i) Property and equipment

Property and equipment initially are 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.

Subsequent to initial recognition, an item of property and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Property and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property and equipment is depreciated over its separate useful life.

The estimated useful lives of the Group's assets are as follows:

Descriptions	Useful lives
Buildings	40~60 years
Vehicles	4 years
Furniture and fixtures	4 years
Other property and equipment	15 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. The change is accounted for as a change in an accounting estimate.

(j) Intangible assets

Intangible assets are measured initially at cost and after initial recognition are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets 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 memberships and Settlement system right of use are expected to be available for use, these intangible assets are determined as having indefinite useful lives and not amortized.

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3. Significant accounting policies, Continued

(j) Intangible assets, Continued

Descriptions	Useful lives
Computer software	4 years
Others	5 years
Memberships	Indefinite useful lives
Settlement system right of use	Indefinite useful lives

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

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

(k) Investment 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 and depreciation methods of the Group's assets in the current period and prior period are as follows.

Description	Useful life	Depreciation method
Buildings	40~60 years	Straight-line method

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3. Significant accounting policies, Continued

(l) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than arising from employee benefits, deferred tax assets are reviewed at each reporting date 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 each 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 reflects 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 its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

(m) 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 (the "Financial liabilities at FVTPL")

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.

(ii) Financial liabilities measured at amortized cost

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

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
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3. Significant accounting policies, Continued

(n) Equity capital

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 shares that do not provide for redemption or at the option of the issuer and when distributions to holders of a preference shares are at the discretion of the issuer, is classified as equity. Dividends are recognized when approved by a general meeting of 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.

(o) 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.

(iii) Retirement benefits: defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that is due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
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3. Significant accounting policies, Continued

(o) Employee benefits, Continued

(iv) 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.

(p) Share-based payment transactions

The Group has granted shares or share options to its employees and other parties. For equity-settled share-based payment transactions, the Group measures the goods or services received, and the corresponding increase in equity as a capital adjustment at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot reliably estimate the fair value of the goods or services received, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Group measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest.

For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with changes in fair value recognized in profit or loss for the period.

(q) Provisions

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

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

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

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.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
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3. Significant accounting policies, Continued

(r) Financial income and financial 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 period) 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.

(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.

Other fees and commission income, including underwriting commissions, management fees on wrap accounts and asset management are recognized as the related services are performed.

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

(iii) Dividends

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

(s) Income taxes

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

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

Shinhan Financial Group Co., Ltd., the parent company, files its national income tax return with the Korean tax authorities under the consolidated corporate tax system, which allows it to make national income tax payments based on the consolidated profits or losses of the Shinhan Financial Group Co., Ltd. and its wholly owned domestic subsidiaries including the Company. Deferred taxes are measured based on the future tax benefits expected to be realized in consideration of the expected 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.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
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3. Significant accounting policies, Continued

(s) Income taxes, Continued

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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.

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

The 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 there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

(t) Leases

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

(i) Finance leases

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

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3. Significant accounting policies, Continued

(t) Leases, Continued

(i) Finance leases, Continued

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

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

(ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

(u) 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 has five reportable segments which consist of retail, wholesale, investment bank (IB), trading, and others, as described in note 27.

(v) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2016, and the Group has not early adopted them.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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3. Significant accounting policies, Continued

(v) New standards and interpretations not yet adopted, Continued

- (i) Amendments to K-IFRS No. 1007, 'Cash flow statement'

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017. The amendments are not expected to have a significant impact on the Group's financial statements.

- (ii) Amendments to K-IFRS No. 1012, 'Income taxes'

The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017. The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

- (iii) 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 1109 will replace the current K-IFRS No. 1039, Financial instruments: recognition and measurement. The Group plans to adopt K-IFRS 1109 for the year beginning on January 1, 2018.

In principle, changes in accounting policies resulting from the adoption of K-IFRS 1109 will be applied retrospectively. However, there are exemption allowing the Group not to restate comparative information with respect to classification, measurement and impairment of financial instruments. 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 1109 are followings: classification and measurement of financial instruments based on characteristics of contractual cash flows and business model for financial instrument management, impairment model based on expected credit losses, changes in qualification requirement of hedged items, enlargement of hedging instruments and changes in hedge effectiveness tests.

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 1109 compared to the existing guidance in K-IFRS 1039, the adoption of K-IFRS 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 fair value change attributable to changes in the credit risk of the liability which was recognized in profit or loss under the existing standard, K-IFRS 1039, will be presented in other comprehensive income under K-IFRS 1109.

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3. Significant accounting policies, Continued

(v) New standards and interpretations not yet adopted, Continued

Under K-IFRS 1109, credit losses are likely to be recognized earlier than using the incurred loss model under the existing guidance in K-IFRS 1039 as loss allowances will be measured on either of the 12-month or lifetime expected credit losses based on the extent of credit risks as shown in the below table.

The following table presents the measures for the credit losses according to K-IFRS 1109.

Category	Description
Credit risk has not increased significantly since the initial recognition	12-month expected credit loss : Expected credit loss from possible default of financial products for 12 months after reporting date
Credit risk has increased significantly since the initial recognition.	Lifetime expected credit loss : Expected credit loss from possible default of financial products for the expected life of the financial products
Credit-impaired financial assets	

When applying hedge accounting under K-IFRS 1109, the hedge accounting can be applied to certain transactions that do not meet the requirements for hedge accounting under K-IFRS 1039 and volatility of the profit or loss can be decreased.

For smooth implementation of K-IFRS 1109, financial impact analysis, accounting policy development, accounting system development and the system test are necessary. Starting from November 2015, the Group has performed financial impact analysis and established accounting policies, and is developing accounting systems as of December 31, 2016. The Group plans to test the system in 2017.

The actual impact of adopting K-IFRS 1109 on the financial statements in 2018 is being assessed and can be subject to change because it will be dependent on the financial instruments that the Group will hold and economic conditions at the time as well as accounting policy election and judgements that it will be make in the future. The Group plans to analyse financial impact once the system development process is completed.

(iv) K-IFRS No. 1115, 'Revenue from Contracts with Customers'

K-IFRS No. 1115, published in January 2016, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including K-IFRS No. 1018, Revenue, K-IFRS No. 1011, Construction Contracts and K-IFRS No. 2113, Customer Loyalty Programmes. K-IFRS No. 1115 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company is assessing the potential impact on its consolidated financial statements resulting from the application of K-IFRS No. 1115.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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3. Significant accounting policies, Continued

(v) New standards and interpretations not yet adopted, Continued

(v) K-IFRS No. 1102, 'Share-based payment Transactions'

The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments. The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled. The amendments are effective for annual periods beginning on or after 1 January 2018. The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

4. Cash and due from banks

(a) Details of cash and due from banks as of December 31, 2016 and 2015 are summarized as follows:

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Cash and cash equivalents	Cash on hand	₩ 100	91
	Current deposits	74,311	74,304
	Demand deposits	75,699	29,599
	Time deposits	3,831	3,108
	Others	80,000	111,300
	Foreign currency deposits	<u>345,023</u>	<u>307,906</u>
		<u>578,964</u>	<u>526,308</u>
Due from banks in won	Time deposits	1,074,000	1,116,000
	Reserve for claims of customers' deposits	251,500	65,600
	Guarantee deposits for stock borrowing for KSFC	9	358
	Restricted time deposits	723,366	801,549
	Gold deposits	2,100	900
	Deposits for checking accounts	64	64
	Others	<u>3,105</u>	<u>-</u>
	<u>2,054,144</u>	<u>1,984,471</u>	
Due from banks in foreign currency	Reserve for claims of customers' deposits	174,451	146,668
	Others	<u>187,324</u>	<u>104,231</u>
		<u>361,775</u>	<u>250,899</u>
	<u>₩ 2,994,883</u>	<u>2,761,678</u>	

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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(In millions of won)

4. Cash and due from banks, Continued

(b) Restricted due from banks as of December 31, 2016 and 2015 are as follows:

	Placed at	December 31, 2016	December 31, 2015	Restriction
Time deposits	Busan Bank	₩ 366	549	Collateral for the sales of beneficiary certificates
	Shinhan Bank, etc.	67,000	67,000	Collateral for a bank overdraft facility
	Busan Bank, etc.	500,000	709,000	Collateral for lending/borrowing securities
	Shinhan Bank	5,000	5,000	Collateral for the small amount of payment
	Woori Bank, etc.	151,000	20,000	Collateral for the issue of ELS (Equity Linked Securities)
Reserve for claims on customers' deposits	Korean Securities Finance Corporation	425,951	212,268	(*1)
Reserve for claims on customers' deposits (trust)	Korean Securities Finance Corporation	862,837	784,596	(*1),(*2)
Gold deposits	Korean Securities Finance Corporation	2,100	900	Deposits for gold transactions
Guarantee deposits for stock borrowing for KSFC	Korean Securities Finance Corporation	9	358	Guarantee deposits for stock borrowing for KSFC
Other deposits in won	Shinhan Bank, etc.	64	64	Deposit for checking accounts
	KEB Hana Bank, etc.	3,105	-	Deposit for trading derivatives
Other deposits in foreign currency	MAREX Financial Limited, etc.	57,854	60,130	Collateral for trading foreign futures
	Korea Exchange	18,149	11,340	Collateral for trading foreign futures
	Hong Kong Exchange and Clearing Limited	111,279	32,721	Collateral for trading securities
	Citi Bank	42	40	Collateral for settling foreign bonds
		₩ 2,204,756	1,903,966	

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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4. Cash and due from banks, Continued

(b) Restricted due from banks as of December 31, 2016 and 2015 are as follows:, Continued

(*1) 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.

(*2) Reserve for claims on customers' deposits (trust) is recognized in financial assets at fair value through profit or loss.

5. Financial assets at fair value through profit or loss

(a) Details of financial assets at fair value through profit or loss as of December 31, 2016 and 2015 are summarized as follows:

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Trading financial assets	₩	13,076,194	12,207,388
Financial assets designated at fair value through profit or loss		3,094,892	3,119,659
Derivative assets		351,347	268,320
	₩	<u>16,522,433</u>	<u>15,595,367</u>

(b) Details of trading financial assets as of December 31, 2016 and 2015 are summarized as follows:

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Trading financial assets in won			
Government bonds	₩	2,618,558	2,095,059
Local bonds		63,349	51,569
Financial bonds		4,582,101	4,768,889
Corporate bonds		2,684,166	2,681,448
Corporate commercial papers		1,245,874	1,194,701
Stocks		643,386	779,306
Collective investment securities		540,796	204,946
		<u>12,378,230</u>	<u>11,775,918</u>
Trading financial assets in foreign currency			
Bonds		623,822	413,580
Stocks		7,955	8,120
Other equity securities		66,187	9,770
		<u>697,964</u>	<u>431,470</u>
	₩	<u>13,076,194</u>	<u>12,207,388</u>

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5. Financial assets at fair value through profit or loss, Continued

(c) Details of financial assets designed at fair value through profit or loss as of December 31, 2016 and 2015 are summarized as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Hybrid instruments		
Derivatives-combined securities	₩ 312,815	442,459
Management and performance evaluation on a fair value basis		
Reserve for claims of customers' deposit (trust)	862,837	784,596
Bonds	1,885,373	1,846,553
Corporate commercial papers	29,998	40,006
Stocks	2,517	6,045
Collective investment securities	1,352	-
	<u>2,782,077</u>	<u>2,677,200</u>
	₩ <u>3,094,892</u>	<u>3,119,659</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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(In millions of won)

5. Financial assets at fair value through profit or loss, Continued

(d) Details of derivative assets as of December 31, 2016 and 2015 are summarized as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Derivatives in won		
Over the counter:		
Interest rate	₩ 42,176	93,559
Equity	41,373	52,501
Credit	13,365	14,568
Commodity	1,101	10,597
	<u>98,015</u>	<u>171,225</u>
Exchange traded:		
Equity	9,996	2,163
	<u>108,011</u>	<u>173,388</u>
Derivatives in foreign currency		
Over the counter:		
Interest rate	13,314	721
Currency	222,314	91,164
Equity	342	226
Commodity	46	108
	<u>236,016</u>	<u>92,219</u>
Exchange traded:		
Interest rate	1,439	192
Equity	3,771	2,150
Commodity	2,110	371
	<u>7,320</u>	<u>2,713</u>
	<u>243,336</u>	<u>94,932</u>
	<u>₩ 351,347</u>	<u>268,320</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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(In millions of won)

6. Available-for-sale financial assets

Details of available-for-sale financial assets as of December 31, 2016 and 2015 are summarized as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Debt securities		
Government bonds	₩ 283,014	89,278
Financial bonds	486,177	783,593
Corporate bonds	439,331	467,509
Bonds with warrants	7,036	2,959
Corporate commercial paper	576	1,344
Debt securities issued in foreign currency	30,795	-
	<u>1,246,929</u>	<u>1,344,683</u>
Equity securities		
Stocks(*)	165,923	145,293
Investments in partnerships	78,632	70,391
Collective investment securities	90,650	36,522
Securities in foreign currency	68,663	36,815
	<u>403,868</u>	<u>289,021</u>
Collective fund for default loss	1,840	12,405
	<u>₩ 1,652,637</u>	<u>1,646,109</u>

(*) Equity securities with no quoted market prices in active markets and for which the fair value cannot be measured reliably are recorded at cost amounting to ₩6,055 million and ₩2,251 million as of December 31, 2016 and 2015, respectively.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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(In millions of won)

7. Investments in associates

(a) Details of investments in associates as of December 31, 2016 and 2015 are as follows:

	Location	Ownership	December 31, 2016		December 31, 2015
			Acquisition cost	Book value	Book value
The Asia Pacific Capital Fund II L.P	Cayman islands	21.85%	₩ 30,798	10,046	29,254
KoFC Shinhan Frontier Champ 2010-4 PEF(*)	Rep. of Korea	8.50%	5,129	3,882	4,588
BNH-CJ Bio Healthcare Fund	Rep. of Korea	-	-	-	9,096
Korea investment gong-pyeong office real estate investment trust 2nd	Rep. of Korea	35.71%	233	332	20,008
Shinhan Praxis K-Growth Global Private Equity Fund (*)	Rep. of Korea	14.15%	10,052	10,149	6,460
Credian Healthcare Private Equity Fund II	Rep. of Korea	20.74%	2,525	2,487	-
Kiwoom Milestone Professional Private Real Estate Trust 19	Rep. of Korea	50.00%	11,000	10,761	-
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	Rep. of Korea	21.28%	20,000	21,237	-
Brain Professional Private Trust No.4	Rep. of Korea	27.49%	5,000	5,316	-
Brain KS Qualified Privately Placed Fund No.6	Rep. of Korea	30.00%	3,000	2,938	-
Hanhwa US Equity Strategy Private Real Estate Fund No.1	Rep. of Korea	44.84%	25,000	25,764	-
GB Private Fund for Professional Investor #3	Rep. of Korea	66.67%	20,000	20,011	-
M360 CRE Income Fund	Rep. of Korea	42.83%	22,992	23,167	-
			₩ 155,729	136,090	69,406

(*) As a general partner, the Group has significant influence over the investee.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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(In millions of won)

7. Investments in associates, Continued

(b) Changes in investments in associates for the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2016					
	Beginning balance	Acquisition (Disposal)	Equity method income (loss)	Other comprehensive income (loss)	Impairment loss	Ending balance
The Asia Pacific Capital Fund II L.P	₩ 29,254	(3,845)	(6,503)	(2,491)	(6,369)	10,046
KoFC Shinhan Frontier Champ 2010-4 PEF	4,588	(1,529)	507	316	-	3,882
BNH-CJ Bio Healthcare Fund	9,096	(12,892)	3,796	-	-	-
Korea investment gong-pyeong office real estate investment trust 2nd	20,008	(20,451)	775	-	-	332
Shinhan Praxis K-Growth Global Private Equity Fund	6,460	3,467	(153)	375	-	10,149
Credian Healthcare Private Equity Fund II	-	2,525	(38)	-	-	2,487
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
Brain KS Qualified Privately Placed Fund No.6	-	3,000	(8)	(54)	-	2,938
Hanhwa US Equity Strategy Private Real Estate Fund No.1	-	25,000	747	17	-	25,764
GB Private Fund for Professional Investor #3	-	20,000	11	-	-	20,011
M360 CRE Income Fund	-	22,992	-	175	-	23,167
	₩ <u>69,406</u>	<u>73,355</u>	<u>(272)</u>	<u>(30)</u>	<u>(6,369)</u>	<u>136,090</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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7. Investments in associates, Continued

(b) Changes in investments in associates for the years ended December 31, 2016 and 2015 are as follows:
Continued

	December 31, 2015				
	Beginning balance	Acquisition (Disposal)	Equity method income (loss)	Other comprehensive income (loss)	Ending balance
The Asia Pacific Capital Fund II L.P	₩ 30,488	(496)	(5,376)	4,638	29,254
KoFC Shinhan Frontier Champ 2010-4 PEF	4,727	(222)	(131)	214	4,588
BNH-CJ Bio Healthcare Fund	5,073	(826)	4,849	-	9,096
Korea investment gong-pyeong office real estate investment trust 2nd	20,000	(1,353)	1,361	-	20,008
Arkone Asia Access Offshore Feeder Fund Limited	5,014	(5,566)	919	(367)	-
Byeollae Development REIT Co., Ltd.	-	19	(19)	-	-
Shinhan Praxis K-Growth Global Private Equity Fund	-	6,584	(124)	-	6,460
	₩ <u>65,302</u>	<u>(1,860)</u>	<u>1,479</u>	<u>4,485</u>	<u>69,406</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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For the years ended December 31, 2016 and 2015

(In millions of won)

7. Investments in associates, Continued

(c) Condensed financial information of major associate as of and for the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2016				December 31, 2015			
	Assets	Liabilities	Operating revenue	Net income (loss)	Assets	Liabilities	Operating revenue	Net income (loss)
The Asia Pacific Capital Fund II L.P.	₩ 46,043	65	-	(29,768)	134,025	138	-	(24,604)
KoFC Shinhan Frontier Champ 2010-4 PEF	45,694	4	7,325	5,964	54,084	83	(1,031)	(1,541)
BNH-CJ Bio Healthcare Fund	-	-	-	-	34,104	-	18,531	18,313
Korea investment gong-pyeong office real estate investment trust 2nd	928	1	2,170	2,170	56,022	1	3,885	3,800
Shinhan Praxis K-Growth Global Private Equity Fund	72,075	350	513	(1,084)	46,000	347	-	(880)
Credian Healthcare Private Equity Fund II	12,040	47	190	(180)	-	-	-	-
Kiwoom Milestone Professional Private Real Estate Trust 19	57,692	36,169	924	(367)	-	-	-	-
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	99,794	3	10,321	2,210	-	-	-	-
Brain Professional Private Trust No.4	19,384	46	2,158	1,148	-	-	-	-
Brain KS Qualified Privately Placed Fund No.6	9,794	1	1	(26)	-	-	-	-
Hanhwa US Equity Strategy Private Real Estate Fund No.1	59,781	2,327	5,199	1,667	-	-	-	-
GB Private Fund for Professional Investor #3	30,018	-	18	17	-	-	-	-
M360 CRE Income Fund	60,261	6,167	-	-	-	-	-	-
	₩ 513,504	45,180	28,819	(18,249)	324,235	569	21,385	(4,912)

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

8. Loans

(a) Details of loans as of December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Broker's loans	₩ 1,566,452	1,259,222
Loans purchased	984,118	779,469
Loans for housing	11,726	13,458
Call loan	4,075	2,849
Advances for customers	2,065	2,124
Bonds purchased under repurchase agreements	200	270,100
Other loans	596	217,680
	<u>2,569,232</u>	<u>2,544,902</u>
Allowance for credit loss	(11,252)	(8,180)
Present value discount	(1,223)	(1,481)
Deferred loan origination costs	(4,722)	(1,540)
	<u>₩ 2,552,035</u>	<u>2,533,701</u>

(b) Changes in the allowance for credit loss for the years ended December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Beginning balance	₩ 8,180	19,390
Provision for allowance	3,197	2,647
Write-offs	(125)	(13,857)
Ending balance	<u>₩ 11,252</u>	<u>8,180</u>

(c) Changes in deferred loan-originating fees for the years ended December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Beginning balance	₩ 1,540	2,050
Loan-originating fees incurred	7,829	1,613
Amortization	(4,647)	(2,123)
Ending balance	<u>₩ 4,722</u>	<u>1,540</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

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9. Property and equipment

(a) Details of property and equipment as of December 31, 2016 and 2015 are as follows:

		December 31, 2016		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	56,649	-	56,649
Buildings		56,694	(15,547)	41,147
Others		103,142	(82,363)	20,779
	₩	<u>216,485</u>	<u>(97,910)</u>	<u>118,575</u>
		December 31, 2015		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	56,345	-	56,345
Buildings		56,558	(13,273)	43,285
Others		98,160	(78,893)	19,267
	₩	<u>211,063</u>	<u>(92,166)</u>	<u>118,897</u>

(b) Changes in property and equipment for the years ended December 31, 2016 and 2015 are as follows:

		December 31, 2016			
		Land	Buildings	Others	Total
Beginning balance	₩	56,345	43,285	19,267	118,897
Acquisition(*)		-	-	9,599	9,599
Business combination		-	-	19	19
Disposal		(320)	(429)	(34)	(783)
Depreciation		-	(2,254)	(8,072)	(10,326)
Transferred from investment property		621	469	-	1,090
Amount transferred from membership		3	76	-	79
	₩	<u>56,649</u>	<u>41,147</u>	<u>20,779</u>	<u>118,575</u>

(*) Acquisition includes ₩ 159 million of provision for restoration liabilities about assets newly acquired.

		December 31, 2015			
		Land	Buildings	Others	Total
Beginning balance	₩	58,429	46,777	20,400	125,606
Acquisition(*)		155	483	7,231	7,869
Business combination		-	-	1	1
Disposal		-	-	(114)	(114)
Depreciation		-	(2,203)	(8,251)	(10,454)
Transferred from investment property		(2,239)	(1,772)	-	(4,011)
	₩	<u>56,345</u>	<u>43,285</u>	<u>19,267</u>	<u>118,897</u>

(*) Acquisition includes ₩ 463 million of provision for restoration liabilities about assets newly acquired.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

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10. Intangible assets

Changes in intangible assets for the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2016						
	Finite useful lives		Infinite useful lives			Total	
	Software	Others	Membership	Settlement system right of use	Goodwill		
Beginning balance	₩	9,965	103	14,729	19,696	1,218	45,711
Acquisition		10,595	-	1,695	-	-	12,290
Business combination		7	-	-	-	4,428	4,435
Disposals		-	-	(1,847)	-	-	(1,847)
Amortization		(4,968)	(19)	-	-	-	(4,987)
Transfers (*)		-	-	7	-	-	7
Impairment loss		-	-	206	-	-	206
Ending balance	₩	15,599	84	14,790	19,696	5,646	55,815

(*)Membership increased by transfers from prepaid expenses amounting to ₩ 86 million, decreased by transfers to property and equipment amounting to ₩ 79 million.

	December 31, 2015						
	Finite useful lives		Infinite useful lives			Total	
	Software	Others	Membership	Settlement system right of use	Goodwill		
Beginning balance	₩	9,081	18	15,185	19,696	-	43,980
Acquisition		5,607	101	944	-	-	6,652
Business combination		-	16	-	-	1,218	1,234
Disposals		-	-	(1,400)	-	-	(1,400)
Amortization		(4,723)	(32)	-	-	-	(4,755)
Ending balance	₩	9,965	103	14,729	19,696	1,218	45,711

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

11. Investment property

(a) Details of investment property as of December 31, 2016 and 2015 are as follows:

		December 31, 2016		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	84,091	-	84,091
Buildings		142,288	(21,818)	120,470
	₩	<u>226,379</u>	<u>(21,818)</u>	<u>204,561</u>
		December 31, 2015		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	73,825	-	73,825
Buildings		83,044	(19,034)	64,010
	₩	<u>156,869</u>	<u>(19,034)</u>	<u>137,835</u>

(b) Changes in investment property for the years ended December 31, 2016 and 2015 are as follows:

		December 31, 2016		
		Land	Buildings	Total
Beginning balance	₩	73,825	64,010	137,835
Acquisition		12,275	62,257	74,532
Disposal		(1,388)	(1,862)	(3,250)
Depreciation		-	(3,466)	(3,466)
Transferred to property and equipment		(621)	(469)	(1,090)
Ending balance	₩	<u>84,091</u>	<u>120,470</u>	<u>204,561</u>
		December 31, 2015		
		Land	Buildings	Total
Beginning balance	₩	104,024	77,372	181,396
Business combination		-	39	39
Disposal		(32,438)	(11,694)	(44,132)
Depreciation		-	(3,479)	(3,479)
Transferred from property and equipment		2,239	1,772	4,011
Ending balance	₩	<u>73,825</u>	<u>64,010</u>	<u>137,835</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

11. Investment property, Continued

(c) Details of income and expense related to investment property for the years ended December 31, 2016 and 2015 are as follows:

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Rental income	₩	13,443	16,192
Direct operating expenses for investment property that generated rental income		3,466	3,479

(d) The fair value of investment property as of December 31, 2016 and 2015 are as follows:

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Fair value	₩	227,383	152,995

The transaction with an independent third party and unobservable significant variables within the market are considered in evaluating the fair value of investment property. Therefore, the fair value is classified as level 3.

12. Other assets

(a) Details of other assets as of December 31, 2016 and 2015 are as follows:

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Leasehold rights	₩	26,333	25,877
Receivables		1,016,518	1,136,407
Accrued income		89,444	105,270
Prepaid expenses		7,975	9,232
Deposits for guarantees		46,145	44,578
Advance payments		90,482	73,843
Prepaid income tax		660	646
Receivables from inter-bank fund transfer		47,042	37,878
Others		6,039	6,806
		<u>1,330,638</u>	<u>1,440,537</u>
Allowance for credit loss		(7,484)	(5,425)
Present value discount		(5,792)	(6,407)
	₩	<u>1,317,362</u>	<u>1,428,705</u>

(b) Changes in allowance for credit loss for other assets for the years ended December 31, 2016 and 2015 are as follows:

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Beginning balance	₩	5,425	6,614
Provisions for allowance		2,305	(462)
Write-offs		-	(727)
Recoveries		(246)	-
Ending balance	₩	<u>7,484</u>	<u>5,425</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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(In millions of won)

13. Deposits

Details of deposits as of December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Customers' deposits		
Customers' deposits for brokerage	₩ 917,533	687,076
Customers' deposits for exchange-traded derivatives trading	430,241	293,460
Customers' deposits for savings	5,331	5,526
Customers' deposits for other securities	93	76
Customers' deposits for foreign securities	292,262	202,837
	<u>1,645,460</u>	<u>1,188,975</u>
Guarantee deposits		
Deposits for margin loans	₩ 7,408	8,275
	<u>₩ 1,652,868</u>	<u>1,197,250</u>

14. Financial liabilities at fair value through profit or loss

(a) Details of financial liabilities at fair value through profit or loss as of December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Trading financial liabilities	₩ 1,490,765	1,671,624
Financial liabilities designated at fair value through profit or loss	9,229,349	8,904,798
Derivative liabilities	658,687	982,482
	<u>₩ 11,378,801</u>	<u>11,558,904</u>

(b) Details of trading liabilities as of December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Securities sold		
Stocks	₩ 581,625	631,514
Bonds	815,383	967,384
Others	93,757	72,726
	<u>₩ 1,490,765</u>	<u>1,671,624</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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14. Financial liabilities at fair value through profit or loss, Continued

(c) Details of financial liabilities designated at fair value through profit or loss as of December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Hybrid instruments		
Equity linked securities sold	₩ 6,986,856	6,688,062
Others derivatives-combined securities sold	2,232,359	2,130,204
	<u>9,219,215</u>	<u>8,818,266</u>
Management and performance evaluation on a fair value basis		
State or local bonds	10,134	81,139
Securities sold	-	5,393
	<u>10,134</u>	<u>86,532</u>
	₩ <u>9,229,349</u>	<u>8,904,798</u>

(d) Details of derivative liabilities as of December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Derivatives in won		
Over the counter:		
Interest rate	₩ 103,431	109,079
Equity	252,496	591,343
Credit	6,095	20,466
Commodity	36,520	144,982
	<u>398,542</u>	<u>865,870</u>
Exchange traded:		
Equity	8,582	1,416
	<u>407,124</u>	<u>867,286</u>
Derivatives in foreign currency		
Over the counter:		
Interest rate	3,260	2,425
Currency	242,050	104,420
Equity	493	326
Commodity	211	338
	<u>246,014</u>	<u>107,509</u>
Exchange traded:		
Interest rate	213	27
Currency	4	-
Equity	3,690	7,447
Commodity	1,642	213
	<u>5,549</u>	<u>7,687</u>
	<u>251,563</u>	<u>115,196</u>
	₩ <u>658,687</u>	<u>982,482</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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15. Borrowings

(a) Details of borrowings as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Borrowings	₩	8,112,247	7,355,690
Debt securities issued		229,819	249,639
	₩	<u>8,342,066</u>	<u>7,605,329</u>

(b) Details of borrowings as of December 31, 2016 and 2015 are as follows:

	December 31, 2016		December 31, 2015	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Call money (won)	1.28~1.44	₩ 322,000	1.53~1.62	₩ 375,300
Notes payable	1.70~3.26	232,800	1.90~3.28	355,500
Bank overdrafts(*1)	-	70,000	-	70,000
Bonds sold under repurchase agreements (won)	1.00~3.00	7,017,250	1.00~3.00	5,874,355
Bonds sold under repurchase agreements (foreign currency)	0.30~1.00	271,098	0.30~1.00	234,470
Borrowings from KSFC	1.35~2.02	145,531	1.69~2.19	15,900
Borrowings from affiliated Company(*2)	-	-	4.11	100,000
	-	-	3.84	100,000
Borrowings in foreign currency	-	-	Libor 3 month+3.90%	141,785
Others(*3)	3.20~5.00	53,568	-	88,380
		₩ <u>8,112,247</u>		₩ <u>7,355,690</u>

(*1) Time deposits 17,000 million won is provided as security.

(*2) Borrowings from affiliated company was redeemed early in 2016.

(*3) investment property 52,000 million won is provided as security.

(c) Details of debt securities issued as of December 31, 2016 and 2015 are as follows:

	December 31, 2016		December 31, 2015	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Asset Backed Short-Term Bond	1.42	₩ 30,000	1.65	₩ 50,000
Corporate bond	2.30	200,000	2.30	200,000
Discount on corporate bond	-	(181)	-	(361)
		₩ <u>229,819</u>		₩ <u>249,639</u>

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16. Provisions

Changes in provisions for the years ended December 31, 2016 and 2015 are as follows:

		December 31, 2016			
		Provisions for restoration liabilities(*)	Allowance for litigation	Others	Total
Beginning balance	₩	3,802	97	964	4,863
Increases		159	-	-	159
Provisions		106	16,798	-	16,904
Reversal		(133)	-	(359)	(492)
Used		-	(97)	-	(97)
Ending balance	₩	<u>3,934</u>	<u>16,798</u>	<u>605</u>	<u>21,337</u>

		December 31, 2015			
		Provisions for restoration liabilities(*)	Allowance for litigation	Others	Total
Beginning balance	₩	3,547	105	115	3,767
Increases		463	-	-	463
Provisions		28	245	849	1,122
Reversal		(236)	-	-	(236)
Used		-	(253)	-	(253)
Ending balance	₩	<u>3,802</u>	<u>97</u>	<u>964</u>	<u>4,863</u>

(*) Provisions for restoration liabilities represent the estimated costs to restore the existing leased properties which are 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 the 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 three-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.

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17. Other liabilities

Details of other liabilities as of December 31, 2016 and 2015 are as follows:

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Accounts payable	₩	777,504	1,061,108
Accrued expenses		78,831	121,502
Unearned income		8,213	11,621
Deposits for rent		28,015	27,554
Domestic exchanges payable		45,867	37,958
Account for agency business		118	323
Advances from customers		175	-
Withholding income taxes		15,386	15,409
Others		103,193	111,697
		<u>1,057,302</u>	<u>1,387,172</u>
Present value discount		(617)	(1,067)
	₩	<u><u>1,056,685</u></u>	<u><u>1,386,105</u></u>

18. Net commission income

Net commission income for the years ended December 31, 2016 and 2015 are as follows:

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Commission income			
Brokerage commissions	₩	238,676	293,455
Brokerage commissions on indirect investment securities		19,550	16,735
Underwriting commissions		30,072	16,047
Consulting commissions		18,372	12,422
Commissions on entrusted investments		11,664	14,147
Trust fees and commissions received		16,776	14,392
Others		26,154	27,043
		<u>361,264</u>	<u>394,241</u>
Commission expense			
Trading commissions		25,177	26,364
Commission on securities borrowed		29,250	37,916
Commission on Shinhan Group brand		4,051	5,712
Partnership commission		6,310	5,812
Others		39,003	42,976
		<u>103,791</u>	<u>118,780</u>
Net commission income	₩	<u><u>257,473</u></u>	<u><u>275,461</u></u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements**For the years ended December 31, 2016 and 2015**

(In millions of won)

19. Net interest income

Net interest income for the years ended December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Interest income		
Interest on deposits	₩ 36,172	46,425
Interest on financial assets designated at fair value through profit or loss	43,398	48,264
Interest on trading financial assets	261,428	340,372
Interest on available-for-sale financial assets	35,320	44,739
Interest on loans	124,079	102,109
Others	15,505	20,056
	<u>515,902</u>	<u>601,965</u>
Interest expense		
Interest on customers' deposits	7,737	12,689
Interest on borrowings	21,367	17,917
Interest on bonds sold under repurchase agreements	86,218	115,436
Interest on call money	3,446	2,692
Interest on debentures	11,387	11,381
Others	1,547	3,254
	<u>131,702</u>	<u>163,369</u>
Net interest income	₩ <u>384,200</u>	<u>438,596</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

20. Net gain (loss) on foreign transactions

Net gain (loss) on foreign transactions for the years ended December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Gain on foreign transactions		
Gain on foreign currency transactions	₩ 282,978	108,471
Gain on foreign exchange	21,569	14,487
	<u>304,547</u>	<u>122,958</u>
Loss on foreign transactions		
Loss on foreign currency transactions	185,705	97,535
Loss on foreign exchange	32,324	28,142
	<u>218,029</u>	<u>125,677</u>
Net gain (loss) on foreign transactions	₩ <u>86,518</u>	<u>(2,719)</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

21. General and administrative expenses

General and administrative expenses for the years ended December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Personnel expenses		
Salary and other benefits for employees	₩ 258,235	295,144
Early retirement	597	7,606
Severance pay	17,664	15,986
	<u>276,496</u>	<u>318,736</u>
Depreciation	10,326	10,454
Amortization of intangible assets	4,987	4,755
Others		
Rental expense	19,151	18,227
Entertainment expense	5,948	6,799
Advertising expense	7,652	12,261
Computer system operation expense	12,822	11,577
Research and study expense	6,718	5,957
Communication expense	8,410	7,709
Maintenance and repairs expense	3,920	4,188
Tax and dues	32,665	61,745
Other commissions expense	8,629	8,932
Others	16,921	17,160
	<u>122,836</u>	<u>154,555</u>
	<u>₩ 414,645</u>	<u>488,500</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

22. Other operating revenues and expenses

Other operating revenues and expenses for the years ended December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Other operating revenues		
Dividends income	₩ 42,003	27,459
Reversal of provisions for loss for other assets	-	1,413
Reversal of provisions for restoration liabilities	133	236
Reversal of provisions for other obligation	359	-
Others	2,764	1,994
	<u>₩ 45,259</u>	<u>31,102</u>
Other operating expenses		
Provision for loss for other assets	₩ 2,305	951
Deposit insurance premium	1,561	992
Provisions for legal obligation	16,798	245
Provisions for restoration liabilities	106	28
Provisions for other obligation	-	849
Others	532	1,565
	<u>₩ 21,302</u>	<u>4,630</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

23. Non-operating incomes and expenses

Non-operating incomes and expenses for the years ended December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Non-operating incomes		
Gain on equity method valuation	₩ 6,614	7,129
Rental income	13,443	16,192
Gain on disposals of property and equipment	309	-
Gain on disposals of investment property	1,230	4,104
Recovery of impairment losses on intangible asset	299	-
Others	1,791	1,837
	<u>₩ 23,686</u>	<u>29,262</u>
Non-operating expenses		
Loss on equity method valuation	₩ 6,886	5,650
Impairment loss on investments in associates	6,369	-
Loss on disposals of investments in associates	2,875	1,692
Depreciation of investment property	3,466	3,479
Donations	783	508
Loss on disposals of investment property	-	18
Loss on disposals of property and equipment	32	114
Loss on disposals of intangible assets	46	-
Others	1,561	427
	<u>₩ 22,018</u>	<u>11,888</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

24. Financial instrument classification by category

(a) Detail of financial instruments' book value as of December 31, 2016 and 2015 are as follows:

		December 31, 2016							
		Trading assets	Financial asset designated at FVTPL	Available-for-sale financial assets	Loans and receivables	Trading liabilities	Financial liabilities designated at FVTPL	Financial liabilities measured at amortized cost	Total
Assets:									
Cash and due from banks	₩	-	-	-	2,994,883	-	-	-	2,994,883
Financial assets at FVTPL		13,427,541	3,094,892	-	-	-	-	-	16,522,433
Available-for-sale financial assets		-	-	1,652,637	-	-	-	-	1,652,637
Loans		-	-	-	2,552,035	-	-	-	2,552,035
Other financial assets		-	-	-	1,216,488	-	-	-	1,216,488
	₩	<u>13,427,541</u>	<u>3,094,892</u>	<u>1,652,637</u>	<u>6,763,406</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,938,476</u>
Liabilities:									
Deposits	₩	-	-	-	-	-	-	1,652,868	1,652,868
Financial liabilities at FVTPL		-	-	-	-	2,149,452	9,229,349	-	11,378,801
Borrowings		-	-	-	-	-	-	8,342,066	8,342,066
Other financial liabilities		-	-	-	-	-	-	929,719	929,719
	₩	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,149,452</u>	<u>9,229,349</u>	<u>10,924,653</u>	<u>22,303,454</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

24. Financial instrument classification by category, Continued

(a) Detail of financial instruments' book value as of December 31, 2016 and 2015.; Continued

		December 31, 2015							
		Trading assets	Financial asset designated at FVTPL	Available-for-sale financial assets	Loans and receivables	Trading liabilities	Financial liabilities designated at FVTPL	Financial liabilities measured at amortized cost	Total
Assets:									
Cash and due from banks	₩	-	-	-	2,761,678	-	-	-	2,761,678
Financial assets at FVTPL		12,475,708	3,119,659	-	-	-	-	-	15,595,367
Available-for-sale financial assets		-	-	1,646,109	-	-	-	-	1,646,109
Loans		-	-	-	2,533,701	-	-	-	2,533,701
Other financial assets		-	-	-	1,343,969	-	-	-	1,343,969
	₩	<u>12,475,708</u>	<u>3,119,659</u>	<u>1,646,109</u>	<u>6,639,348</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,880,824</u>
Liabilities:									
Deposits	₩	-	-	-	-	-	-	1,197,250	1,197,250
Financial liabilities at FVTPL		-	-	-	-	2,654,106	8,904,798	-	11,558,904
Borrowings		-	-	-	-	-	-	7,605,329	7,605,329
Other financial liabilities		-	-	-	-	-	-	1,247,378	1,247,378
	₩	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,654,106</u>	<u>8,904,798</u>	<u>10,049,957</u>	<u>21,608,861</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

24. Financial instrument classification by category, Continued

(b) Gains or losses of financial instruments for the years ended December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Trading assets		
Gain on valuation	₩ 207,987	73,530
Gain on sale	378,194	723,208
Loss on valuation	(68,591)	(60,473)
Loss on sale	(351,060)	(558,012)
	<u>₩ 166,530</u>	<u>178,253</u>
Derivatives		
Gain on valuation	₩ 467,941	140,534
Gain on sale	1,769,454	1,253,696
Loss on valuation	(423,811)	(968,206)
Loss on sale	(1,528,259)	(1,027,394)
	<u>₩ 285,325</u>	<u>(601,370)</u>
Financial assets designated at fair value through profit or loss		
Gain on valuation	₩ 41,004	58,259
Gain on sale	23,653	39,849
Loss on valuation	(29,238)	(44,952)
Loss on sale	(4,428)	(6,309)
	<u>₩ 30,991</u>	<u>46,847</u>
Available-for-sale financial instruments		
Gain on sale	₩ 8,887	32,224
Loss on sale	(13,164)	(5,263)
Impairment loss	(2,533)	(1,168)
Gain on valuation	2,317	1,868
	<u>₩ (4,493)</u>	<u>27,661</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

24. Financial instrument classification by category, Continued

(b) Gains or losses of financial instruments for the years ended December 31, 2016 and 2015:, Continued

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Loans and receivables		
Gain on sales of loans	₩ -	745
Reversal of provisions	4,582	84
Provisions for loan loss	(7,780)	(2,731)
Reversal of provisions for other assets	-	462
Provision for loss for other assets	(2,305)	-
	<u>₩ (5,503)</u>	<u>(1,440)</u>
Trading financial liabilities		
Gain on valuation	₩ 41,152	42,323
Gain on redemption	213,827	361,455
Loss on valuation	(162,414)	(22,202)
Loss on redemption	(208,114)	(446,190)
	<u>₩ (115,549)</u>	<u>(64,614)</u>
Financial liability designated at fair value through profit or loss		
Gain on valuation	₩ 143,822	819,332
Gain on redemption	22,466	38,657
Loss on valuation	(318,185)	(40,856)
Loss on redemption	(399,057)	(388,702)
	<u>₩ (550,954)</u>	<u>428,431</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

25. Financial risk management

(a) General information of risk management

The principal risks to which the Group is exposed are credit risk, market risk, interest risk, operational risk and liquidity 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 framework

The Group has established the Group Risk Management Committee, the Group Risk Management Council and the Group Risk Management Team at the holding company level and the Risk Management Committees and the Risk Management Team of the relevant subsidiary at the subsidiary level.

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 risk limits for the entire group and each of subsidiaries, (iii) approve appropriate investment limits or allowed loss limits, (iv) enact and amends risk management regulations, and (v) decide other risk management-related issues the Board of directors or the Group Risk Management Committee sees fit to discuss. The results of the Group Risk Management Committee meetings are reported to the Board of Directors of the controlling company. The Group Risk Management Committee makes decisions through affirmative votes by a majority of the committee members.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

25. Financial risk management, Continued

(a) General information of risk management, Continued

(ii) Risk management framework, Continued

Group Risk Management Council consists of the Group's chief risk officer, head of risk management team, and risk officers from each subsidiary. The Group Risk Management Council holds meetings for risk management executives from each subsidiary to discuss the Group's groupwide risk management guidelines and strategy in order to maintain consistency in the groupwide risk policies and strategies. Specifically, the Group Risk Management Council deliberates on the following: (i) changes in risk management policies and strategies for each subsidiary, (ii) matters warranting discussion of risk management at the Group level and cooperation among the subsidiaries, (iii) the effect of external factors on the groupwide risk, (iv) determination of the risk appetite for the Group as a whole and for each of the subsidiaries, (v) risk limits of the Group as a whole and for each of the subsidiaries, (vi) operation of risk measuring systems for the Group as a whole and for each of the subsidiaries, (vii) matters requiring joint deliberation in relation to group-wide risk management and (viii) matters related to providing funds to the subsidiaries. The Group Risk Management Council has a sub-council consisting of working-level risk management officers to discuss the above-related matters in advance.

(b) Credit risk

(i) Maximum exposure to credit risk

Credit risk is the risk of financial loss of the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from due from banks, the lending process related to loans, investment activities in debt securities and off balance sheet items including purchase agreements, etc. Credit risk management is critical to the Group's business activities; thus, the Group carefully manages the credit risk exposure.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(b) Credit risk, Continued

(i) Maximum exposure to credit risk, Continued

Details of the Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Due from banks and loans(*1)	₩	5,546,818	5,295,288
Banks		2,307,030	2,581,965
Retail		681,588	722,954
Mortgage lending		10,509	11,974
Other		671,079	710,980
Government		603	1,030
Corporate		2,557,597	1,989,339
Large company		1,054,783	929,401
Small business		1,473,018	1,059,938
Others		29,796	-
Trading financial assets			
Debt securities		11,817,870	11,205,246
Financial assets designated at fair value through profit or loss(*2)			
Debt securities		2,228,186	2,329,018
Available-for-sale financial assets(*3)			
Debt securities		1,246,929	1,344,683
Derivative assets		351,347	268,320
Other financial assets		1,216,488	1,343,969
		<u>22,407,638</u>	<u>21,786,524</u>
ABCP purchase agreement		160,500	202,000
	₩	<u>22,568,138</u>	<u>21,988,524</u>

(*1) Cash on hand is excluded from due from banks.

(*2) Reserve for claims of customers' deposits (trust) is excluded from financial assets designated at fair value through profit or loss. According to Financial Investment Business Regulation No. 4, some proportion of reserve for claims of customers' deposits should be operated in trust which is reserved in the Korea Securities Finance Corporation (financial business, rated AAA).

(*3) Collective fund for default loss is excluded from available-for-sale financial assets. Collective fund for default loss is mandatorily due to the members of Korea Exchange in accordance with Korea Exchange's Regulations.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(b) Credit risk, Continued

(ii) Due from banks and loans

Details of due from banks and loans as of December 31, 2016 and 2015 are as follows:

		December 31, 2016					
		Banks	Customers			Sub total	Total
			Retail	Government	Corporate		
Neither past due nor impaired	₩	2,307,030	681,297	603	2,566,290	3,248,190	5,555,220
Past due but not impaired		-	295	-	-	295	295
Impaired		-	186	-	2,369	2,555	2,555
		<u>2,307,030</u>	<u>681,778</u>	<u>603</u>	<u>2,568,659</u>	<u>3,251,040</u>	<u>5,558,070</u>
Less : allowance		-	(190)	-	(11,062)	(11,252)	(11,252)
	₩	<u>2,307,030</u>	<u>681,588</u>	<u>603</u>	<u>2,557,597</u>	<u>3,239,788</u>	<u>5,546,818</u>

		December 31, 2015					
		Banks	Customers			Sub total	Total
			Retail	Government	Corporate		
Neither past due nor impaired	₩	2,581,965	722,901	1,030	1,994,892	2,718,823	5,300,788
Past due but not impaired		-	56	-	-	56	56
Impaired		-	254	-	2,370	2,624	2,624
		<u>2,581,965</u>	<u>723,211</u>	<u>1,030</u>	<u>1,997,262</u>	<u>2,721,503</u>	<u>5,303,468</u>
Less : allowance		-	(257)	-	(7,923)	(8,180)	(8,180)
	₩	<u>2,581,965</u>	<u>722,954</u>	<u>1,030</u>	<u>1,989,339</u>	<u>2,713,323</u>	<u>5,295,288</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(b) Credit risk, Continued

(ii) Due from banks and loans, Continued

Details of due from banks and loans, net of allowance, that are neither past due nor impaired as of December 31, 2016 and 2015 are as follows:

		December 31, 2016					
		Banks	Customers			Sub total	Total
			Retail	Government	Corporate		
Grade 1	₩	2,307,030	681,297	603	998,093	1,679,993	3,987,023
Grade 2		-	-	-	1,568,197	1,568,197	1,568,197
Allowance		-	(4)	-	(8,693)	(8,697)	(8,697)
	₩	<u>2,307,030</u>	<u>681,293</u>	<u>603</u>	<u>2,557,597</u>	<u>3,239,493</u>	<u>5,546,523</u>
Fair value of collateral	₩	-	681,189	-	1,866,372	2,547,561	2,547,561

		December 31, 2015					
		Banks	Customers			Sub total	Total
			Retail	Government	Corporate		
Grade 1	₩	2,581,965	722,901	1,030	1,155,539	1,879,470	4,461,435
Grade 2		-	-	-	839,353	839,353	839,353
Allowance		-	(3)	-	(5,553)	(5,556)	(5,556)
	₩	<u>2,581,965</u>	<u>722,898</u>	<u>1,030</u>	<u>1,989,339</u>	<u>2,713,267</u>	<u>5,295,232</u>
Fair value of collateral	₩	120,000	722,731	-	1,687,898	2,410,629	2,530,629

Credit quality of due from banks and loans were classified based on the internal credit rating.

Details of due from banks and loans that were past due but not impaired as of December 31, 2016 and 2015 are as follows:

		December 31, 2016					
		Banks	Customers			Sub total	Total
			Retail	Government	Corporate		
Within 30 days	₩	-	295	-	-	295	295
More than 30 days		-	-	-	-	-	-
	₩	<u>-</u>	<u>295</u>	<u>-</u>	<u>-</u>	<u>295</u>	<u>295</u>
Allowance		-	-	-	-	-	-
Net of allowance		-	295	-	-	295	295
Fair value of collateral	₩	-	295	-	-	295	295

		December 31, 2015					
		Banks	Customers			Sub total	Total
			Retail	Government	Corporate		
Within 30 days	₩	-	56	-	-	56	56
More than 30 days		-	-	-	-	-	-
	₩	<u>-</u>	<u>56</u>	<u>-</u>	<u>-</u>	<u>56</u>	<u>56</u>
Allowance		-	-	-	-	-	-
Net of allowance		-	56	-	-	56	56
Fair value of collateral	₩	-	56	-	-	56	56

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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25. Financial risk management, Continued

(b) Credit risk, Continued

(ii) Due from banks and loans, Continued

Details of impaired due from banks and loans as of December 31, 2016 and 2015 are as follows:

		December 31, 2016				
		Banks	Customers			Total
			Retail	Government	Corporate	Sub total
Impaired amounts	₩	-	186	-	2,369	2,555
Allowance		-	(186)	-	(2,369)	(2,555)
	₩	-	-	-	-	-
Fair value of collateral	₩	-	-	-	-	-

		December 31, 2015				
		Banks	Customers			Total
			Retail	Government	Corporate	Sub total
Impaired amounts	₩	-	254	-	2,370	2,624
Allowance		-	(254)	-	(2,370)	(2,624)
	₩	-	-	-	-	-
Fair value of collateral	₩	-	-	-	-	-

(iii) Credit rating

Details of credit rating of trading financial assets, financial assets designated at fair value through profit or loss and available-for-sale financial assets as of December 31, 2016 and 2015 are as follows:

		December 31, 2016			
		Trading financial assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Total
AAA	₩	6,285,937	535,684	583,900	7,405,521
AA- to AA+		3,097,777	402,946	159,213	3,659,936
A- to A+		1,663,740	1,097,395	314,254	3,075,389
Lower than A-		749,609	192,161	143,110	1,084,880
Unrated		20,807	-	46,452	67,259
	₩	11,817,870	2,228,186	1,246,929	15,292,985
Neither past due nor impaired	₩	11,817,870	2,228,186	1,246,929	15,292,985
Impaired		-	-	-	-
	₩	11,817,870	2,228,186	1,246,929	15,292,985

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(b) Credit risk, Continued

(iii) Credit rating, Continued

December 31, 2015				
	Trading financial assets	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Total
AAA	₩ 5,790,174	287,196	492,174	6,569,544
AA- to AA+	2,979,576	533,666	116,230	3,629,472
A- to A+	2,157,404	1,269,074	627,009	4,053,487
Lower than A-	275,538	239,082	79,780	594,400
Unrated	2,554	-	29,490	32,044
	<u>₩ 11,205,246</u>	<u>2,329,018</u>	<u>1,344,683</u>	<u>14,878,947</u>
Neither past due nor impaired	₩ 11,205,246	2,329,018	1,344,683	14,878,947
Impaired	-	-	-	-
	<u>₩ 11,205,246</u>	<u>2,329,018</u>	<u>1,344,683</u>	<u>14,878,947</u>

(iv) Concentration by location

Details of concentration by location of due from banks and loans as of December 31, 2016 and 2015 are as follows:

December 31, 2016					
	Banks	Retail	Government	Corporate	Total
Korea	₩ 2,213,643	681,588	603	2,351,574	5,247,408
USA	738	-	-	9,214	9,952
UK	2,984	-	-	98,151	101,135
Other	89,665	-	-	98,658	188,323
	<u>₩ 2,307,030</u>	<u>681,588</u>	<u>603</u>	<u>2,557,597</u>	<u>5,546,818</u>

December 31, 2015					
	Banks	Retail	Government	Corporate	Total
Korea	₩ 2,332,972	722,954	1,030	1,686,822	4,743,778
USA	2,471	-	-	6,397	8,868
UK	23,804	-	-	39,582	63,386
Other	222,718	-	-	256,538	479,256
	<u>₩ 2,581,965</u>	<u>722,954</u>	<u>1,030</u>	<u>1,989,339</u>	<u>5,295,288</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(b) Credit risk, Continued

(v) Concentration by industry sector

Details of concentration by industry sector of due from banks and loans as of December 31, 2016 and 2015 are as follows:

		December 31, 2016				
		Banks	Retail	Government	Corporate	Total
Finance and insurance	₩	2,307,030	-	338	938,347	3,245,715
Manufacturing		-	-	-	84,214	84,214
Retail and wholesale		-	-	-	102,865	102,865
Real estate and service		-	-	-	227,898	227,898
Construction		-	-	-	59,918	59,918
Other		-	-	265	1,144,355	1,144,620
Retail customers		-	681,588	-	-	681,588
	₩	<u>2,307,030</u>	<u>681,588</u>	<u>603</u>	<u>2,557,597</u>	<u>5,546,818</u>

		December 31, 2015				
		Banks	Retail	Government	Corporate	Total
Finance and insurance	₩	2,581,965	-	555	620,044	3,202,564
Manufacturing		-	-	-	154,337	154,337
Retail and wholesale		-	-	-	79,076	79,076
Real estate and service		-	-	-	84,893	84,893
Construction		-	-	-	126,520	126,520
Other		-	-	475	924,469	924,944
Retail customers		-	722,954	-	-	722,954
	₩	<u>2,581,965</u>	<u>722,954</u>	<u>1,030</u>	<u>1,989,339</u>	<u>5,295,288</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

25. Financial risk management, Continued

(c) Market risk

(i) Trading position Value at Risk (VaR)

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

The Group assesses its market risks using a variety of criteria such as standard methods that measure market risk exposure, risk valuation criteria (VaR: Value at Risk) and others, and report it daily.

Overall authority for market risk is vested in The Risk Management Committee. The Risk Management Practical Committee which is composed of the Group's financial officer, agenda initiative executive, executives of major operation departments and the Risk Management Officer (Chief Risk Officer) set risk management policy and investment limits. The Risk Management Practical Committee monitors operation departments and reports regularly to The Risk Management Committee. Operation departments which possess and manage trading assets also perform risk management on their own process.

The Group uses risk valuation techniques to evaluate, assess and control market risk, including the following measurement methods:

Risk valuation is calculated by multiplying risk weight to value of assets. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level).

The Group utilizes one-day 99.9% confidence level based VaR assuming the probability that daily loss of the portfolio would not exceed reported VaR is 99.9%. The Group uses the ten-day 99.9% confidence level-based VaR for managing market risk. VaR computation is based on historical simulation. The Group calculates the ten-day 99.9% VaR by multiplying the one-day 99.9% VaR by the square root of ten and uses such VaR on a supplemental basis.

Limitation of market risk is set within total risk limitation and calculated by multiplying the Group's average VaR with a multiplier. The Group uses this risk to manage its capital structure.

The Risk Management Department manages risk limits given by the Risk Management Committee and Risk Management Practical Committee. Risk limits are comprised of transaction limits, stop loss, and instrument limits. If limits are exceeded, the operating unit manager reports that fact, reason, and solution to the Risk Management Department head. This procedure is stipulated well, therefore the risk can be treated effectively in an emergency situation.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(c) Market risk, Continued

(i) Trading position Value at Risk (VaR), Continued

An analysis of trading positions VaR as of and for the years ended December 31, 2016 and 2015 are as follows:

		December 31, 2016			At December
		Average	Maximum	Minimum	31, 2016
Interest rate	₩	9,040	18,149	5,380	15,491
Equities		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)
	₩	<u>24,393</u>	<u>34,546</u>	<u>16,679</u>	<u>23,125</u>
		December 31, 2015			At December
		Average	Maximum	Minimum	31, 2015
Interest rate	₩	6,879	16,542	2,707	7,274
Equities		19,397	64,650	10,213	19,047
Foreign exchange		5,680	10,881	2,845	7,489
Option volatility		2,634	5,207	175	4,396
Portfolio diversification		-	-	-	(8,460)
	₩	<u>22,876</u>	<u>65,184</u>	<u>11,878</u>	<u>29,746</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(c) Market risk, Continued

(ii) Non-trading position VaR

Interest rate risk is the risk that changes in market interest rates will affect the Group's earnings and the economic value of the Group's net assets.

Exposure to risks of changes in the Group's earnings and the economic value of the Group's net assets due to the fluctuations of interest rates in non-trading activities will form small portion of the total risks of the Group. The risk management committee will independently measure and monitor the risks every day.

Interest rate VaR (Value at Risk) represents the maximum potential loss of net present value (NPV) over a year due to the fluctuations of market interest rates.

The Group used net present value (NPV) and simulated historical interest rate scenarios in accordance with internal model approach where the Group was able to measure maximum potential loss at 99.9% confidence level. The Group excluded trading activities in calculating VaR, used a rate of return which were calculated from past data from last three years

Interest rate EaR (Earning at Risk) represents the maximum potential amount of changes in net income due to fluctuations of market interest rates over a year. The Group applied the maturity bucket's midpoints and standardised interest rate shock(200bp) recommended by Bank for International Settlements in calculating, including trading activities and off-balance-sheet positions.

Interest rate VaR and EaR of non-trading positions as of December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Interest rate VaR	₩	27,822	9,846
Interest rate EaR		104,423	85,881

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(c) Market risk, Continued

(iii) Foreign exchange risk

Foreign exchange risk is the risk of loss that occurs due to fluctuations in future cash flows or fair values as a result of fluctuations in foreign exchange rates. Foreign exchange risk is due to differences between foreign currency denominated assets and liabilities, and is also from forward positions. The Group sets a limit for net open positions by currency.

The Group does not have of foreign currency denominated assets and liabilities that are applied to hedge accounting.

Exposures to foreign exchange risk of foreign currency denominated assets and liabilities as of December 31, 2016 and 2015 are as follows:

	December 31, 2016				
	USD	JPY	EUR	Other	Total
Assets					
Cash and due from banks ₩	509,181	38,544	65,981	93,092	706,798
Loans					
Trading financial assets	1,161,920	1,072	49,227	104,963	1,317,182
Available-for-sale financial assets	99,458	-	-	-	99,458
Other financial assets	57,486	-	-	1,140	58,626
	<u>1,828,045</u>	<u>39,616</u>	<u>115,208</u>	<u>199,195</u>	<u>2,182,064</u>
Liabilities					
Deposits	367,418	9,965	12,272	30,057	419,712
Trading financial liabilities	670,225	2,631	-	-	672,856
Borrowings	271,098	-	-	-	271,098
Other financial liabilities	34,096	-	-	222	34,318
	<u>1,342,837</u>	<u>12,596</u>	<u>12,272</u>	<u>30,279</u>	<u>1,397,984</u>
Net assets	485,208	27,020	102,936	168,916	784,080
Off-balance sheet derivative exposure	(470,645)	(26,530)	(69,026)	(37,166)	(603,367)
Net position ₩	<u>14,563</u>	<u>490</u>	<u>33,910</u>	<u>131,750</u>	<u>180,713</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(c) Market risk, Continued

(iii) Foreign exchange risk, Continued

		December 31, 2015				
		USD	JPY	EUR	Other	Total
Assets						
Cash and due from banks	₩	391,553	85,609	17,494	64,149	558,805
Loans		217,044	-	-	-	217,044
Trading financial assets		679,980	1,054	52,440	30,198	763,672
Available-for-sale financial assets		36,815	-	-	-	36,815
Other financial assets		108,180	-	-	832	109,012
		<u>1,433,572</u>	<u>86,663</u>	<u>69,934</u>	<u>95,179</u>	<u>1,685,348</u>
Liabilities						
Deposits		204,028	9,098	9,257	23,991	246,374
Trading financial liabilities		371,376	4,530	1,142	-	377,048
Borrowings		376,255	-	-	-	376,255
Other financial liabilities		86,135	-	-	294	86,429
		<u>1,037,794</u>	<u>13,628</u>	<u>10,399</u>	<u>24,285</u>	<u>1,086,106</u>
Net assets		395,778	73,035	59,535	70,894	599,242
Off-balance sheet derivative exposure		(531,626)	(75,503)	(65,052)	(63,766)	(735,947)
Net position	₩	<u>(135,848)</u>	<u>(2,468)</u>	<u>(5,517)</u>	<u>7,128</u>	<u>(136,705)</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
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For the years ended December 31, 2016 and 2015

25. 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.

In addition to liquidity risk management under the normal market situations, the Group has contingency plans to effectively cope with a possible liquidity crisis. A liquidity crisis could arise if the Group is not able to effectively manage its liquidity needs with its normal sources of funds, an epidemic financial markets crisis occurs or an abrupt deterioration of the Group's credit occurs. The Group's contingency plans correspond to the following different stages of a liquidity crisis: "liquidity risk limits", "early warning indicators" and "monitoring indicators".

The Group applies the following basic principles for liquidity risk management:

- maintain an appropriate level of liquidity risk through liquidity risk management based on liquidity gap or debt-to-equity ratio at each maturity date:
- assess and monitor net cash flows by currency and by maturity and continuously evaluate available sources of funds and possibility of disposal of any liquid assets:
- diversify source and uses of funds by product and by maturity to prevent excessive concentration in certain periods or products; and prepare contingency plans to cope with a liquidity crisis.

The Group manages its liquidity risk within the limits set on won and foreign currency by using various analysis methods such as liquidity gap and various indices including risk limits, early warning index, and monitoring index.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(d) Liquidity risk, Continued

(i) Contractual maturities for financial instruments

Contractual maturities for financial instruments including cash flows of principal and interest and off balance as of December 31, 2016 and 2015 are as follows:

		December 31, 2016						
		Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	Total
Assets:								
Cash and due from bank	₩	1,775,964	155,101	65,673	1,004,791	15,482	105	3,017,116
Trading financial assets		12,876,844	30,052	42,351	70,706	36,226	20,015	13,076,194
Financial asset designated at FVTPL		2,441,122	1,029	21,342	-	506,503	125,079	3,095,075
Derivative assets		351,347	-	-	-	-	-	351,347
Available-for-sale financial assets		2,949	1,246,930	-	-	3,056	401,990	1,654,925
Loans		220,099	328,581	1,040,802	203,856	675,441	135,988	2,604,767
Other financial assets		1,153,789	7,295	6,304	29,905	26,698	5,772	1,229,763
		<u>18,822,114</u>	<u>1,768,988</u>	<u>1,176,472</u>	<u>1,309,258</u>	<u>1,263,406</u>	<u>688,949</u>	<u>25,029,187</u>
Liabilities:								
Deposits		1,653,299	-	-	-	-	-	1,653,299
Trading financial liabilities		1,490,765	-	-	-	-	-	1,490,765
Financial liabilities designated at FVTPL		431,533	452,306	473,304	1,380,011	5,407,776	1,084,419	9,229,349
Derivative liabilities		658,687	-	-	-	-	-	658,687
Borrowings		7,800,180	127,895	71,442	105,190	16,213	-	8,120,920
Debt securities issued		31,158	-	1,133	2,304	201,158	-	235,753
Other financial liabilities		911,345	8,116	5,720	13,332	8,235	711	947,459
		<u>12,976,967</u>	<u>588,317</u>	<u>551,599</u>	<u>1,500,837</u>	<u>5,633,382</u>	<u>1,085,130</u>	<u>22,336,232</u>
Net position	₩	<u>5,845,147</u>	<u>1,180,671</u>	<u>624,873</u>	<u>(191,579)</u>	<u>(4,369,976)</u>	<u>(396,181)</u>	<u>2,692,955</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(d) Liquidity risk, Continued

(i) Contractual maturities for financial instruments, Continued

		December 31, 2015						
		Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	Total
Assets:								
Cash and due from bank	₩	760,509	331,872	475,347	1,200,905	15,783	104	2,784,520
Trading financial assets		12,052,914	24,397	30,194	73,262	20,028	6,593	12,207,388
Financial asset designated at FVTPL		2,369,896	51,860	4,688	97,645	519,663	76,074	3,119,826
Derivative assets		268,320	-	-	-	-	-	268,320
Available-for-sale financial assets		247,580	1,090,756	10,036	-	288,122	12,404	1,648,898
Loans		344,745	408,336	776,374	704,955	282,967	90,131	2,607,508
Other financial assets		1,258,710	10,703	13,678	27,123	27,471	18,114	1,355,799
		<u>17,302,674</u>	<u>1,917,924</u>	<u>1,310,317</u>	<u>2,103,890</u>	<u>1,154,034</u>	<u>203,420</u>	<u>23,992,259</u>
Liabilities:								
Deposits		1,198,128	-	-	-	-	-	1,198,128
Trading financial liabilities		1,671,624	-	-	-	-	-	1,671,624
Financial liabilities designated at FVTPL		153,571	368,648	335,140	1,586,608	5,483,087	977,744	8,904,798
Derivative liabilities		982,482	-	-	-	-	-	982,482
Borrowings		6,676,517	156,786	69,866	148,759	308,402	62,882	7,423,212
Debt securities issued		51,151	-	1,149	2,298	205,771	-	260,369
Other financial liabilities		1,225,672	7,501	7,273	11,348	8,187	711	1,260,692
		<u>11,959,145</u>	<u>532,935</u>	<u>413,428</u>	<u>1,749,013</u>	<u>6,005,447</u>	<u>1,041,337</u>	<u>21,701,305</u>
Net position	₩	<u>5,343,529</u>	<u>1,384,989</u>	<u>896,889</u>	<u>354,877</u>	<u>(4,851,413)</u>	<u>(837,917)</u>	<u>2,290,954</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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(In millions of won)

25. Financial risk management, Continued

(d) Liquidity risk, Continued

(ii) Contractual maturities for off balance sheet items

Contractual maturities for off balance sheet items as of December 31, 2016 and 2015 are as follows:

		December 31, 2016						
		Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	Total
ABCP purchase agreement	₩	160,500	-	-	-	-	-	160,500
Loan commitment s and other credit liabilities		118,200	-	-	-	-	-	118,200
		December 31, 2015						
		Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	Total
ABCP purchase agreement	₩	202,000	-	-	-	-	-	202,000

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(e) Capital risk management

(i) Capital management

The objective of capital management is to maintain a competitive credit rating for maximizing Group value and support its going concern.

The Group manages capital risk by considering the risk concerning market status change and operating activities. The Group maintains required capital by restricting dividends, increasing capital stock and capital reduction.

(ii) Regulatory Capital Status

Financial Supervisory Service imposes limitations on the Group's net capital ratio (NCR) to maintain at over 150%, otherwise the following measures are taken:

- NCR between 50%~100%: recommending management improvement
- NCR between 0%~50%: demanding management improvement
- NCR less than 0%: ordering management improvement

Details of NCR as of December 31, 2016 are as follows:

	December 31, 2016
1. Net capital	₩ 1,775,461
Net assets	3,074,965
Adjustment(-)	1,307,529
Adjustment(+)	8,025
2. Total risk	512,747
Market risk	353,030
Credit risk	92,975
Operating risk	66,742
3. Surplus capital : (1 - 2)	1,262,714
4. Legal capital	192,300
5. Obligated capital for maintenance	₩ 134,610
6. Net capital ratio : (3 / 5) X 100(%)	938.05

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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25. Financial risk management, Continued

(f) Measurement of fair value

The fair value which the Group primarily uses for measurement of financial instruments are the published price quotations in an active market which are based on the market prices or the dealer price quotations of financial instruments traded in an active market where available, which are the best evidence of fair value.

If the market for a financial instrument is not active, fair value is established either by using a valuation technique or independent third-party valuation service. The Group uses diverse valuation techniques using certain assumptions which are based on the inputs observable in markets at the end of each reporting date.

Valuation techniques 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. For example, the fair value for an interest swap is the present value of estimated future cash flows, and the fair value for a foreign exchange forwards contract is measured using the published forward exchange rate at the end of each reporting date.

(i) 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 book value and the fair value for cash are identical and most deposits are floating interest rate deposits or deposits that are a short-term instrument. For this reason, the book value is used as a substitute figure for the fair value.
Loans	The book value is used as a substitute figure for the fair value as it could be regarded appropriate to fair value.
Deposits and borrowings	The book value and the fair value for demand deposits that are short-term instruments are identical. The fair value of borrowings is measured by discounting the contractual cash flows at the market interest rate that takes into account the residual risk.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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(In millions of won)

25. Financial risk management, Continued

(f) Measurement of fair value, Continued

(i) Financial instruments measured at amortized cost, Continued

The financial instruments measured at amortized cost as of December 31, 2016 and 2015 are as follows:

	December 31, 2016				
	Book value				
	Balance	Unamortized balance	Allowance	Total	Fair value
Assets					
Cash and due from banks:					
Cash and cash equivalents	₩ 578,964	-	-	578,964	578,964
Due from banks	2,415,919	-	-	2,415,919	2,415,919
	<u>2,994,883</u>	<u>-</u>	<u>-</u>	<u>2,994,883</u>	<u>2,994,883</u>
Loans:					
Retail	1,399,106	(1,223)	(190)	1,397,693	1,397,693
Corporate	1,170,126	(4,722)	(11,062)	1,154,342	1,154,342
	<u>2,569,232</u>	<u>(5,945)</u>	<u>(11,252)</u>	<u>2,552,035</u>	<u>2,552,035</u>
Other financial assets	1,229,764	(5,792)	(7,484)	1,216,488	1,217,339
	<u>₩ 6,793,879</u>	<u>(11,737)</u>	<u>(18,736)</u>	<u>6,763,406</u>	<u>6,764,257</u>
Liabilities					
Deposits	₩ 1,652,868	-	-	1,652,868	1,652,868
Borrowings:					
Call money	322,000	-	-	322,000	322,000
Bonds sold under repurchase agreements	7,288,348	-	-	7,288,348	7,288,348
Borrowings	501,899	-	-	501,899	501,899
Debt securities issued	230,000	(181)	-	229,819	231,788
	<u>8,342,247</u>	<u>(181)</u>	<u>-</u>	<u>8,342,066</u>	<u>8,344,035</u>
Other financial liabilities	930,335	(617)	-	929,718	929,809
	<u>₩ 10,925,450</u>	<u>(798)</u>	<u>-</u>	<u>10,924,652</u>	<u>10,926,712</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(f) Measurement of fair value, Continued

(i) Financial instruments measured at amortized cost, Continued

		December 31, 2015				
		Book value				
		Balance	Unamortized balance	Allowance	Total	Fair value
Assets						
Cash and due from banks:						
Cash and cash equivalents	₩	526,308	-	-	526,308	526,308
Due from banks		2,235,370	-	-	2,235,370	2,235,370
		<u>2,761,678</u>	<u>-</u>	<u>-</u>	<u>2,761,678</u>	<u>2,761,678</u>
Loans:						
Retail		1,171,547	(1,481)	(257)	1,169,809	1,169,809
Corporate		1,373,355	(1,540)	(7,923)	1,363,892	1,363,892
		<u>2,544,902</u>	<u>(3,021)</u>	<u>(8,180)</u>	<u>2,533,701</u>	<u>2,533,701</u>
Other financial assets		1,355,801	(6,407)	(5,425)	1,343,969	1,344,121
	₩	<u>6,662,381</u>	<u>(9,428)</u>	<u>(13,605)</u>	<u>6,639,348</u>	<u>6,639,500</u>
Liabilities						
Deposits	₩	1,197,250	-	-	1,197,250	1,197,250
Borrowings:						
Call money		375,300	-	-	375,300	375,300
Bonds sold under repurchase agreements		6,108,825	-	-	6,108,825	6,108,825
Borrowings		871,565	-	-	871,565	877,568
Debt securities issued		250,000	(361)	-	249,639	251,453
		<u>7,605,690</u>	<u>(361)</u>	<u>-</u>	<u>7,605,329</u>	<u>7,613,146</u>
Other financial liabilities		1,248,445	(1,067)	-	1,247,378	1,247,772
	₩	<u>10,051,385</u>	<u>(1,428)</u>	<u>-</u>	<u>10,049,957</u>	<u>10,058,168</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(f) Measurement of fair value, Continued

(i) Financial instruments measured at amortized cost, Continued

Details of financial instruments measured at amortized cost by the level in the fair value hierarchy into which the fair value measurement is categorized as of December 31, 2016 and 2015 are as follows:

		December 31, 2016			
		Level 1	Level 2	Level 3	Total
Assets					
Cash and due from banks	₩	2,994,883	-	-	2,994,883
Loans		4,075	-	2,547,960	2,552,035
Other financial assets		27,160	-	1,190,179	1,217,339
	₩	<u>3,026,118</u>	<u>-</u>	<u>3,738,139</u>	<u>6,764,257</u>
Liabilities					
Deposits	₩	1,652,868	-	-	1,652,868
Borrowings		5,894,774	-	2,449,261	8,344,035
Other financial liabilities		27,157	-	902,652	929,809
	₩	<u>7,574,799</u>	<u>-</u>	<u>3,351,913</u>	<u>10,926,712</u>

		December 31, 2015			
		Level 1	Level 2	Level 3	Total
Assets					
Cash and due from banks	₩	2,761,678	-	-	2,761,678
Loans		2,849	-	2,530,852	2,533,701
Other financial assets		18,946	-	1,325,175	1,344,121
	₩	<u>2,783,473</u>	<u>-</u>	<u>3,856,027</u>	<u>6,639,500</u>
Liabilities					
Deposits	₩	1,197,250	-	-	1,197,250
Borrowings		5,495,950	-	2,117,196	7,613,146
Other financial liabilities		18,941	-	1,228,831	1,247,772
	₩	<u>6,712,141</u>	<u>-</u>	<u>3,346,027</u>	<u>10,058,168</u>

(ii) Financial instruments measured at fair value

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.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(f) Measurement of fair value, Continued

(ii) Financial instruments measured at fair value, Continued

Details of financial instruments measured at the fair value by the level in the fair value hierarchy into which the fair value measurement is categorized as of December 31, 2016 and 2015 are as follows:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Trading financial assets:				
Debt securities	₩ 6,002,528	5,815,342	-	11,817,870
Equity securities	1,180,490	77,834	-	1,258,324
	<u>7,183,018</u>	<u>5,893,176</u>	<u>-</u>	<u>13,076,194</u>
Derivative assets:				
Trading purpose	17,316	273,176	60,855	351,347
Financial assets designated at fair value through profit or loss				
Reserve for claims of customers' deposit (trust)	-	862,837	-	862,837
Debt securities	393,749	1,521,622	-	1,915,371
Equity securities	3,869	-	-	3,869
Derivatives-combined securities	-	19,986	292,829	312,815
	<u>397,618</u>	<u>2,404,445</u>	<u>292,829</u>	<u>3,094,892</u>
Available-for-sale financial assets:				
Debt securities	453,980	792,949	-	1,246,929
Equity securities	3,717	123,190	276,961	403,868
Collective fund for default loss	-	1,840	-	1,840
	<u>457,697</u>	<u>917,979</u>	<u>276,961</u>	<u>1,652,637</u>
	<u>₩ 8,055,649</u>	<u>9,488,776</u>	<u>630,645</u>	<u>18,175,070</u>
Liabilities				
Trading financial liabilities:				
Securities sold	₩ 1,490,765	-	-	1,490,765
Derivative liabilities:				
Trading purpose	14,130	303,019	341,538	658,687
Financial liabilities designated at fair value through profit or loss:				
Derivatives-combined securities sold	-	1,644,904	7,574,311	9,219,215
Securities sold	10,134	-	-	10,134
	<u>10,134</u>	<u>1,644,904</u>	<u>7,574,311</u>	<u>9,229,349</u>
	<u>₩ 1,515,029</u>	<u>1,947,923</u>	<u>7,915,849</u>	<u>11,378,801</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(f) Measurement of fair value, Continued

(ii) Financial instruments measured at fair value, Continued

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Trading financial assets:				
Debt securities	₩ 4,345,142	6,860,104	-	11,205,246
Equity securities	992,158	9,984	-	1,002,142
	<u>5,337,300</u>	<u>6,870,088</u>	<u>-</u>	<u>12,207,388</u>
Derivative assets:				
Trading purpose	4,878	179,577	83,865	268,320
Financial assets designated at fair value through profit or loss				
Reserve for claims of customers' deposit (trust)	-	784,596	-	784,596
Debt securities	133,652	1,752,907	-	1,886,559
Equity securities	6,045	-	-	6,045
Derivatives-combined securities	-	115,841	326,618	442,459
	<u>139,697</u>	<u>2,653,344</u>	<u>326,618</u>	<u>3,119,659</u>
Available-for-sale financial assets:				
Debt securities	482,042	862,641	-	1,344,683
Equity securities	947	73,013	215,061	289,021
Collective fund for default loss	-	12,405	-	12,405
	<u>482,989</u>	<u>948,059</u>	<u>215,061</u>	<u>1,646,109</u>
	<u>₩ 5,964,864</u>	<u>10,651,068</u>	<u>625,544</u>	<u>17,241,476</u>
Liabilities				
Trading financial liabilities:				
Securities sold	₩ 1,671,624	-	-	1,671,624
Derivative liabilities:				
Trading purpose	9,103	225,868	747,511	982,482
Financial liabilities designated at fair value through profit or loss:				
Derivatives-combined securities sold	-	2,374,637	6,443,629	8,818,266
Securities sold	86,532	-	-	86,532
	<u>86,532</u>	<u>2,374,637</u>	<u>6,443,629</u>	<u>8,904,798</u>
	<u>₩ 1,767,259</u>	<u>2,600,505</u>	<u>7,191,140</u>	<u>11,558,904</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(f) Measurement of fair value, Continued

(ii) Financial instruments measured at fair value, Continued

Changes in level 3 of the fair value hierarchy for the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2016				
	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities designated at fair value through profit or loss	Derivative	Total
Beginning balance ₩	326,618	215,061	(6,443,629)	(663,646)	(6,565,596)
Total income					
Profit or loss(*1)	6,102	(439)	(508,926)	329,109	(174,154)
Other comprehensive income	-	(18,542)	-	-	(18,542)
Purchases and issuances	140,556	85,159	(5,402,714)	1,543	(5,175,456)
Sales and settlements	(180,447)	(24,660)	4,780,958	52,311	4,628,162
Transferred to level 3(*2)	-	20,382	-	-	20,382
Ending balance ₩	292,829	276,961	(7,574,311)	(280,683)	(7,285,204)

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(f) Measurement of fair value, Continued

(ii) Financial instruments measured at fair value, Continued

		December 31, 2015				
		Financial assets designated at fair value through profit or loss	Available-for- sale financial assets	Financial liabilities designated at fair value through profit or loss	Derivative	Total
Beginning balance	₩	416,782	187,953	(6,985,349)	(107,746)	(6,488,360)
Total income						
Profit or loss(*1)		(27,158)	1,327	469,293	(519,155)	(75,693)
Other comprehensive income		-	7,199	-	-	7,199
Purchases and issuances		329,258	43,948	(7,664,427)	8,875	(7,282,346)
Sales and settlements		(392,264)	(32,328)	7,736,854	(45,620)	7,266,642
Transferred from level 3(*2)		-	(12,434)	-	-	(12,434)
Transferred to level 3(*2)		-	19,396	-	-	19,396
Ending balance	₩	<u>326,618</u>	<u>215,061</u>	<u>(6,443,629)</u>	<u>(663,646)</u>	<u>(6,565,596)</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(f) Measurement of fair value, Continued

(ii) Financial instruments measured at fair value, 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, 2016 and 2015, are included in the accounts of the statements of comprehensive income, of which the amounts and the related accounts are as follows:

	December 31, 2016		December 31, 2015	
	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
Gain(loss) on trading financial instruments	₩ -	-	-	-
Gain(loss) on financial instruments designated at fair value through profit or loss	(502,824)	(169,682)	442,135	769,495
Gain(loss) on derivatives	329,109	34,368	(519,155)	(797,886)
Gain(loss) on available-for-sale financial assets	1,950	-	2,324	-
Impairment on financial assets	(2,389)	(2,389)	(997)	(997)
	₩ <u>(174,154)</u>	<u>(137,703)</u>	<u>(75,693)</u>	<u>(29,388)</u>

(*2) Transfer between levels occurred as availability of observable market data changed due to suspension of transaction.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(f) Measurement of fair value, Continued

(ii) Financial instruments measured at fair value, Continued

In evaluating fair value of OTC derivatives using unobservable market data, if calculated fair value differs from transaction price, the Group recognizes the transaction price as fair value of financial instruments. Difference between transaction cost and fair value is recognized deferred and amortized for the transaction period. If the evaluating factors become observable in markets, deferred amount is recognized to profit or loss immediately.

Day 1 profit or loss for the years ended December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Beginning balance	₩	(102,014)	(86,176)
New transactions		(70,949)	(69,811)
Amounts recognized in profit or loss during the period		83,267	53,973
Ending balance	₩	<u>(89,696)</u>	<u>(102,014)</u>

Information about valuation technique and inputs used at December 31, 2016 and 2015 in the fair value measurement of financial instruments classified as level 2 are as follows:

Type of financial instrument	Valuation technique	December 31, 2016	December 31, 2015	Inputs
Assets				
Trading assets	DCF(*)	₩ 5,893,176	6,870,088	Discount rate
Derivative assets	DCF(*)	273,176	179,577	Discount rate Price of underlying assets
Financial assets designated at fair value through profit or loss	DCF(*)	2,404,445	2,653,344	Discount rate Price of underlying assets
Available-for-sale financial assets	DCF(*)	917,979	948,059	Discount rate
		₩ <u>9,488,776</u>	<u>10,651,068</u>	
Liabilities				
Derivative liabilities	DCF(*)	₩ 303,019	225,868	Discount rate Price of underlying assets
Financial liabilities designated at fair value through profit or loss	DCF(*)	1,644,904	2,374,637	Discount rate Price of underlying assets
		₩ <u>1,947,923</u>	<u>2,600,505</u>	

(*) DCF: Discounted cash flow

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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For the years ended December 31, 2016 and 2015

(In millions of won)

25. Financial risk management, Continued

(f) Measurement of fair value, Continued

(ii) Financial instruments measured at fair value, Continued

Information about valuation technique and significant unobservable inputs used at December 31, 2016 and 2015 in the fair value measurement of financial instruments classified as level 3 are as follows:

Type of financial instrument	Valuation technique	December 31, 2016	December 31, 2015	Significant unobservable inputs	Range
Assets					
Derivative assets	Option model(*)	60,855	83,865	The volatility of the underlying asset correlations	
Financial assets designated at fair value through profit or loss	Option model(*)	292,829	326,618	The volatility of the underlying asset correlations	Discount rate : 3.94% ~ 15.90% Growth rate : 0% ~ 2% The volatility of the underlying asset : 0.0000 ~ 0.7912 Correlations : (-)0.0959~0.9937
Available-for-sale financial assets	DCF	276,961	215,061	Discount rate, growth rate	
		<u>₩ 630,645</u>	<u>625,544</u>		
Liabilities					
Derivative liabilities	Option model(*)	341,538	747,511	The volatility of the underlying asset correlations	
Financial liabilities designated at fair value through profit or loss	Option model(*)	₩ 7,574,311	6,443,629	The volatility of the underlying asset correlations	The volatility of the underlying asset : 0.0000 ~ 1.0660 Correlations : (-)0.3859~1.0000
		<u>₩ 7,915,849</u>	<u>7,191,140</u>		

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

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

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25. Financial risk management, Continued

(f) Measurement of fair value, Continued

(ii) Financial instruments measured at fair value, Continued

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 effect on profit or loss, or other comprehensive income:

	December 31, 2016	
	Favorable changes	Unfavorable changes
Financial assets at fair value through profit or loss(*1)		
Financial assets designated at FVTPL	₩ 2,737	(3,260)
Derivative assets	35,104	(13,883)
Available-for-sale financial assets(*2)	25,981	(12,446)
	₩ <u>63,822</u>	<u>(29,589)</u>
Financial liabilities at fair value through profit or loss(*1)		
Financial liabilities designated at FVTPL	₩ 80,056	(108,954)
Derivative liabilities	72,310	(40,235)
	₩ <u>152,366</u>	<u>(149,189)</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 (-1~1%).

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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(In millions of won)

25. Financial risk management, Continued

(g) Offsetting financial assets and financial liabilities

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2016 and 2015 are as follows:

	December 31, 2016					
	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		Net amount
			Financial instruments	Cash collateral received		
Assets						
Derivatives, etc.	₩ 338,958	-	338,958	(138,930)	(9,012)	191,016
Bonds purchased under repurchase agreements	7,667,617	-	7,667,617	(7,288,548)	-	379,069
Securities loaned	38,747	-	38,747	(38,747)	-	-
Domestic exchange settlement debit	27,160	-	27,160	(27,156)	-	4
Other financial instruments	708,771	(616,774)	91,997	-	-	91,997
	₩ <u>8,781,253</u>	<u>(616,774)</u>	<u>8,164,479</u>	<u>(7,493,381)</u>	<u>(9,012)</u>	<u>662,086</u>
Liabilities						
Derivatives, etc.	₩ 1,602,068	-	1,602,068	(147,943)	-	1,454,125
Bonds purchased under repurchase agreements	7,288,348	-	7,288,348	(7,288,348)	-	-
Securities borrowed	1,490,765	-	1,490,765	(1,490,765)	-	-
Domestic exchange settlement pending	27,157	-	27,157	(27,156)	-	1
Other financial instruments	711,619	(616,774)	94,845	-	-	94,845
	₩ <u>11,119,957</u>	<u>(616,774)</u>	<u>10,503,183</u>	<u>(8,954,212)</u>	<u>-</u>	<u>1,548,971</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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(In millions of won)

25. Financial risk management, Continued

(g) Offsetting financial assets and financial liabilities, Continued

	December 31, 2015					
	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		Net amount
				Financial instruments	Cash collateral received	
Assets						
Derivatives, etc.	₩ 1,941,372	-	1,941,372	(790,574)	(10,361)	1,140,437
Bonds purchased under repurchase agreements	6,785,009	-	6,785,009	(6,378,925)	-	406,084
Domestic exchange settlement debit	18,946	-	18,946	(18,939)	-	7
Other financial instruments	1,188,955	(1,128,745)	60,210	-	-	60,210
	₩ <u>9,934,282</u>	<u>(1,128,745)</u>	<u>8,805,537</u>	<u>(7,188,438)</u>	<u>(10,361)</u>	<u>1,606,738</u>
Liabilities						
Derivatives, etc.	₩ 1,211,717	-	1,211,717	(800,935)	-	410,782
Bonds purchased under repurchase agreements	6,108,825	-	6,108,825	(6,108,825)	-	-
Securities borrowed	1,758,156	-	1,758,156	(1,758,156)	-	-
Domestic exchange settlement pending	18,941	-	18,941	(18,939)	-	2
Other financial instruments	1,172,076	(1,128,745)	43,331	-	-	43,331
	₩ <u>10,269,715</u>	<u>(1,128,745)</u>	<u>9,140,970</u>	<u>(8,686,855)</u>	<u>-</u>	<u>454,115</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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26. Acquisitions of Subsidiary

(a) General information

On July 21, 2016, the Group obtained control of PT. Makinta Securities, located in Indonesia by acquiring 99% of shares in cash (₩22,987 million). As a result, the Group acquired wholly owned subsidiary, PT. Makinta Securities, changed the company name to PT. Shinhan Sekuritas Indonesia. The main reason for acquisition of management rights is to accelerate the diversification of business expansion in Indonesia's capital market together with other emerging markets in Asia.

(b) Identifiable assets acquired and liabilities assumed

Details of fair value of assets acquired and liabilities assumed of Nam An Securities Co. Ltd. as of acquisition date are as follows:

	July 21, 2016
Assets	
Cash and cash equivalents	₩ 18,815
Property and equipment	19
Intangible assets	7
Receivables from disposal of securities	330
Other assets	78
Deferred tax assets	96
	<u>19,345</u>
Liabilities	
Payable from purchase of securities	329
Defined benefit obligation	250
Other liabilities	19
	<u>598</u>
Total identifiable net asset	₩ <u>18,747</u>

(c) Goodwill

Goodwill was recognized as a result of the acquisition as follows:

	July 21, 2016
Total consideration transferred	₩ 22,987
Non-controlling interest	187
	<u>23,174</u>
Fair value of identifiable net assets	(18,747)
Goodwill	₩ <u>4,427</u>

None of the goodwill recognized is expected to be deductible for income tax purposes.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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(In millions of won)

26. Acquisitions of Subsidiary, Continued

(d) Acquisition related costs

The Group incurred acquisition-related costs of ₩1,320 million relating to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in commission expenses in the Group's consolidated statement of comprehensive income.

(e) Consolidated revenue and net loss of PT. Shinhan Sekuritas Indonesia for the year after the acquisition date are as follows:

		December 31, 2016
Operating revenue	₩	321
Loss for the year		237

(f) Consolidated revenue and net profit

If the acquisition had occurred on January 1, 2016 management estimates the consolidated revenue and consolidated profit for the year as follows:

		December 31, 2016
Operating income	₩	4,550,223
Profit for the year		110,915

(g) Remeasurement of fair value

Movements in goodwill after the date of acquisition are as follows:

		December 31, 2016
Beginning balance	₩	4,427
Impairment		-
Amortization		-
Ending balance	₩	4,427

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

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27. Operating Segments

(a) Segment information

The general descriptions of the Group's operating segments are as follows:

Description	Area of business
Retail group	Loan, deposits and its related activities for retail, institution and WM (Wealth Management) customers
Wholesale group	Large company, small business, overseas operations and work involved
IB group	Loan, deposits and its related activities for IB customers
S&T group	Investing to derivative, securities and work involved
Other	Management supporting, risk management and other supporting functions (including adjustments)

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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27. Operating Segments, Continued

(b) The following table provides information of operating income and net income for each operating segment for the years ended December 31, 2016 and 2015

	December 31, 2016					
	Retail	Wholesale	IB	S&T	Other	Total
External revenue (expenses)						
Net fees and commission income (loss)	₩ 236,895	47,388	75,720	(58,770)	(43,760)	257,473
Net gain (loss) on financial instruments(*)	-	7,379	784	47,486	(246,116)	(190,467)
Net interest income	72,952	1,219	14,058	233,065	62,906	384,200
General and administrative expenses	(256,103)	(36,012)	(39,266)	(49,219)	(34,045)	(414,645)
Others, net	15,912	4,127	(7,331)	(124,802)	221,039	108,945
Income tax expense (benefit)	14,393	4,980	9,085	9,869	(8,261)	30,066
Profit (loss) for the year						
Controlling interest	55,263	19,121	34,880	37,891	(31,717)	115,438
Non-controlling interest	-	-	-	-	2	2
Inter-segment profit (loss)	₩ 61,288	17,639	9,263	(110,054)	21,864	-

	December 31, 2015					
	Retail	Wholesale	IB	S&T	Other	Total
External revenue (expenses)						
Net fees and commission income (loss)	₩ 292,267	58,377	51,928	(82,376)	(44,735)	275,461
Net gain (loss) on financial instruments(*)	(12)	3,281	8,181	71,318	(69,428)	13,340
Net interest income	65,720	2,779	10,823	214,716	144,558	438,596
General and administrative expenses	(269,160)	(37,182)	(31,844)	(54,205)	(96,109)	(488,500)
Others, net	4,158	559	10,299	(84,302)	108,511	39,225
Income tax expense (benefit)	20,949	6,267	11,128	14,680	9,644	62,668
Profit (loss) for the year						
Controlling interest	72,024	21,547	38,259	50,471	33,153	215,454
Non-controlling interest	-	-	-	-	-	-
Inter-segment profit (loss)	₩ 70,298	33,859	2,545	(233,954)	127,252	-

(*) Gain on financial instruments at fair value through profit or loss & gain on available-for-sale financial assets

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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For the years ended December 31, 2016 and 2015

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27. Operating Segments, Continued

(c) The following table provides information of the main assets for each operating segment as of December 31, 2016 and 2015.

		December 31, 2016					
		Retail	Wholesale	IB	S&T	Other	Total
Cash and due from banks	₩	7,691	3,579	-	1,961,540	1,022,073	2,994,883
Financial assets at fair value through profit or loss		5,473	630,026	176,917	12,313,928	3,396,089	16,522,433
Available-for-sale financial assets		1,213	-	186,438	1,278,961	186,025	1,652,637
Investments in associates		-	-	16,850	119,240	-	136,090
Loans		1,566,449	-	552,844	-	432,742	2,552,035
Total	₩	<u>1,580,826</u>	<u>633,605</u>	<u>933,049</u>	<u>15,673,669</u>	<u>5,036,929</u>	<u>23,858,078</u>

		December 31, 2015					
		Retail	Wholesale	IB	S&T	Other	Total
Cash and due from banks	₩	311	296	-	15,155	2,745,916	2,761,678
Financial assets at fair value through profit or loss		1,558	220,079	51,360	12,064,452	3,257,918	15,595,367
Available-for-sale financial assets		-	-	64,465	1,388,382	193,262	1,646,109
Investments in associates		-	-	31,056	38,350	-	69,406
Loans		1,259,226	-	359,605	-	914,870	2,533,701
Total	₩	<u>1,261,095</u>	<u>220,375</u>	<u>506,486</u>	<u>13,506,339</u>	<u>7,111,966</u>	<u>22,606,261</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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For the years ended December 31, 2016 and 2015

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28. Income tax expense

- (a) The components of income tax expense of the Group for the years ended December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current income tax expense	₩ 69,105	66,791
Additional payment (refund) of income tax	(109)	(6,089)
Changes in deferred tax arising from temporary differences	(37,816)	5,057
Deferred income tax adjustment charged or credited directly to equity	(1,114)	(3,091)
Income tax expense	₩ <u>30,066</u>	<u>62,668</u>

- (b) The income tax expense calculated by applying statutory tax rates to the Group's taxable income differs from the actual tax expense in the consolidated statements of comprehensive income for the years ended December 31, 2016 and 2015 for the following reasons:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Income before income taxes	₩ 145,506	278,122
Tax rates	<u>24.20%</u>	<u>24.20%</u>
Income taxes at statutory tax rates	35,213	67,306
Adjustments :		
Non-taxable income	(697)	(267)
Non-deductible expense	1,185	1,379
Consolidated tax return adjustment	(5,365)	(5,219)
Income tax payments (refunds) related to prior year	(251)	210
Others	(19)	(741)
Income tax expense	₩ <u>30,066</u>	<u>62,668</u>
Effective tax rate (%)	<u>20.66%</u>	<u>22.53%</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

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28. Income tax expense, Continued

(c) Changes in deferred tax assets (liabilities) for the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2016			
	Beginning balance	Net income	Accumulated other comprehensive income (capital adjustments)	Ending balance
Stocks at fair value through profit or loss	₩ (3,720)	(31,611)	-	(35,331)
Bonds at fair value through profit or loss	(20,559)	7,404	-	(13,155)
Derivatives-combined securities	11,270	(11,816)	-	(546)
Derivatives-combined securities sold	(217,296)	106,676	-	(110,620)
Exchange traded derivatives	224	(2,358)	-	(2,134)
Over the counter derivatives	198,386	(79,265)	-	119,121
Other financial assets at fair value through profit or loss	1	(1)	-	-
Other financial liabilities at fair value through profit or loss	(4,748)	34,968	-	30,220
Available-for-sale financial assets	(23,969)	(1,132)	(740)	(25,841)
Investments in associates	9,174	(3,908)	(540)	4,726
Allowance for credit loss	194	-	-	194
Property and equipment and investment property	(32,572)	288	-	(32,284)
Intangible assets	(4,684)	(78)	-	(4,762)
Accrued income	(17,468)	3,135	-	(14,333)
Account payable and accrued expenses	10,233	(925)	166	9,474
Provisions	945	4,072	-	5,017
Day 1 profit or loss	46,188	6,094	-	52,282
Amortization of up-front fee	3,612	930	-	4,542
Net gain (loss) on foreign exchange translations	3,305	(415)	-	2,890
Others	(5,395)	6,872	-	1,477
	₩ <u>(46,879)</u>	<u>38,930</u>	<u>(1,114)</u>	<u>(9,063)</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements**For the years ended December 31, 2016 and 2015**

(In millions of won)

28. Income tax expense, Continued

(c) Changes in deferred tax assets (liabilities) for the years ended December 31, 2016 and 2015 are as follows:, Continued

	December 31, 2015			
	Beginning balance	Net income	Accumulated other comprehensive income (capital adjustments)	Ending balance
Stocks at fair value through profit or loss	₩ (7,848)	4,128	-	(3,720)
Bonds at fair value through profit or loss	(20,400)	(159)	-	(20,559)
Derivatives-combined securities	3,158	8,112	-	11,270
Derivatives-combined securities sold	(51,403)	(165,893)	-	(217,296)
Exchange traded derivatives	2,658	(2,434)	-	224
Over the counter derivatives	66,581	131,805	-	198,386
Other financial assets at fair value through profit or loss	115	(114)	-	1
Other financial liabilities at fair value through profit or loss	(7,531)	2,783	-	(4,748)
Available-for-sale financial assets	(14,465)	(8,908)	(596)	(23,969)
Investments in associates	12,062	(522)	(2,366)	9,174
Allowance for credit loss	(1,754)	1,948	-	194
Property and equipment and investment property	(32,829)	257	-	(32,572)
Intangible assets	(4,622)	(62)	-	(4,684)
Accrued income	(19,920)	2,452	-	(17,468)
Account payable and accrued expenses	5,362	5,000	(129)	10,233
Provisions	884	61	-	945
Day 1 profit or loss	32,418	13,770	-	46,188
Amortization of up-front fee	2,180	1,432	-	3,612
Net gain (loss) on foreign exchange translations	(1,215)	4,520	-	3,305
Others	(5,253)	(142)	-	(5,395)
	₩ <u>(41,822)</u>	<u>(1,966)</u>	<u>(3,091)</u>	<u>(46,879)</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

28. Income tax expense, Continued

(d) The deferred tax assets and liabilities that were directly charged or credited to equity for the years ended December 31, 2016 and 2015 are as follows:

		December 31, 2016				
		Current period	Deferred tax liability	Prior period	Deferred tax liability	Change in deferred tax
Gain on valuation of available-for-sale financial assets	₩	131,767	(31,887)	128,710	(31,147)	(740)
Foreign currency translation differences		1,109	614	(1,942)	1,162	(548)
Share of the other comprehensive loss of associates		3,523	(851)	3,552	(859)	8
	₩	<u>136,399</u>	<u>(32,124)</u>	<u>130,320</u>	<u>(30,844)</u>	<u>(1,280)</u>

		December 31, 2015				
		Current period	Deferred tax liability	Prior period	Deferred tax liability	Change in deferred tax
Gain on valuation of available-for-sale financial assets	₩	128,710	(31,147)	126,246	(30,551)	(596)
Foreign currency translation differences		(1,942)	1,162	(7,843)	2,443	(1,281)
Share of the other comprehensive loss of associates		3,552	(859)	(933)	226	(1,085)
	₩	<u>130,320</u>	<u>(30,844)</u>	<u>117,470</u>	<u>(27,882)</u>	<u>(2,962)</u>

(e) The income tax expense that were directly charged or credited to equity for the years ended December 31, 2016 and 2015 are as follows:

		December 31, 2016				
		Current period	Deferred tax liability	Prior period	Deferred tax liability	Change in deferred tax
Stock option (Capital adjustments)		(237)	57	450	(109)	166
	₩	<u>(237)</u>	<u>57</u>	<u>450</u>	<u>(109)</u>	<u>166</u>

		December 31, 2015				
		Current period	Deferred tax liability	Prior period	Deferred tax liability	Change in deferred tax
Stock option (Capital adjustments)		450	(109)	(82)	20	(129)
	₩	<u>450</u>	<u>(109)</u>	<u>(82)</u>	<u>20</u>	<u>(129)</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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For the years ended December 31, 2016 and 2015

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28. Income tax expense, Continued

(f) The deductible temporary differences which were not recognized as deferred tax assets (liabilities) as of December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Investments in subsidiaries	₩ (2,204)	(3,471)

(g) The current tax assets (liabilities) and deferred tax assets (liabilities) presented on a gross basis prior to any offsetting as of December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Deferred tax assets	₩ 151,467	229,429
Deferred tax liabilities	(160,530)	(276,308)
Current tax assets	5,312	5,202
Current tax liabilities	(22,451)	(17,445)

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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29. Derivatives

(a) Details of the notional amounts of derivatives as of December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Interest rates		
Over the counter:		
Interest rate options	₩ 264,000	-
Interest rate swaps	5,516,947	10,096,542
	<u>5,780,947</u>	<u>10,096,542</u>
Exchange traded:		
Interest rate futures	1,752,070	1,487,968
Interest rate swaps	22,158,800	14,971,300
	<u>23,910,870</u>	<u>16,459,268</u>
Foreign exchange		
Over the counter:		
Currency forwards	11,921,520	7,112,139
Currency swaps	80,425	270,063
Currency options	4,834	10,300
	<u>12,006,779</u>	<u>7,392,502</u>
Exchange traded:		
Currency futures	665,355	344,687
Equity		
Over the counter:		
Equity swap	12,180,668	3,685,858
Equity options	402,798	1,543,329
	<u>12,583,466</u>	<u>5,229,187</u>
Exchange traded:		
Equity futures	490,482	364,297
Equity options	2,213,274	6,811,381
	<u>2,703,756</u>	<u>7,175,678</u>
Credit		
Over the counter:		
Credit swap	571,295	355,007
TRS Swap	673,208	799,308
	<u>1,244,503</u>	<u>1,154,315</u>
Commodity		
Over the counter:		
Commodity forwards	15,012	52,371
Commodity swaps	683,925	835,608
Commodity options	11,337	27,533
	<u>710,274</u>	<u>915,512</u>
Exchange traded:		
Commodity futures	114,927	55,781
	<u>₩ 59,720,877</u>	<u>48,823,472</u>

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29. Derivatives, Continued

(b) Details of the gain (loss) on valuation of derivatives for the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
Interest rates		
Over the counter:		
Interest rate swaps	₩ (81,832)	(57,002)
Interest rate options	2,265	-
	<u>(79,567)</u>	<u>(57,002)</u>
Exchange traded:		
Interest rate futures	<u>1,226</u>	<u>164</u>
Foreign exchange		
Over the counter:		
Currency forwards	(21,360)	(15,808)
Currency swaps	1,283	(417)
Currency options	82	(138)
	<u>(19,995)</u>	<u>(16,363)</u>
Exchange traded:		
Currency futures	<u>(4)</u>	<u>-</u>
Equity		
Over the counter:		
Equity swap	111,633	(653,158)
Equity options	12,338	(842)
	<u>123,971</u>	<u>(654,000)</u>
Exchange traded:		
Equity futures	626	(872)
Equity options	3,420	(2,219)
	<u>4,046</u>	<u>(3,091)</u>
Credit		
Over the counter:		
Credit swap	4,133	766
TRS Swap	6,628	(17)
	<u>10,761</u>	<u>749</u>
Commodity		
Over the counter:		
Commodity forwards	(165)	(229)
Commodity swaps	3,434	(97,602)
Commodity options	(45)	(457)
	<u>3,224</u>	<u>(98,288)</u>
Exchange traded:		
Commodity futures	468	159
	<u>₩ 44,130</u>	<u>(827,672)</u>

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30. Pledged Assets

Assets pledged as collateral as of December 31, 2016 and 2015 are as follows:

		December 31, 2016							
		Pledged for							
		ELS/DLS	Borrowing	Derivative	Securities	RP	Lease	Other	Total
		sold			borrowed				
Due from banks	₩	151,000	67,000	-	500,000	-	-	95,366	813,366
Trading financial assets		163,799	-	1,080,412	2,727,599	6,783,451	-	6,024	10,761,285
Financial assets									
designated at fair value		228,374	-	-	349,630	2,833	-	-	580,837
through profit or loss									
Available-for-sale		-	-	-	94,461	881,133	-	-	975,594
financial assets									
Loans		-	-	-	-	200	-	-	200
Property		-	52,000	-	-	-	96,953	-	148,953
	₩	<u>543,173</u>	<u>119,000</u>	<u>1,080,412</u>	<u>3,671,690</u>	<u>7,667,617</u>	<u>96,953</u>	<u>101,390</u>	<u>13,280,235</u>

		December 31, 2015							
		Pledged for							
		ELS/DLS	Borrowing	Derivative	Securities	RP	Lease	Other	Total
		sold			borrowed				
Due from banks	₩	20,000	67,000	-	709,000	-	-	5,549	801,549
Trading financial assets		4,835	-	593,737	971,612	5,393,876	-	5,175	6,969,235
Financial assets									
designated at fair value		-	-	-	-	211,411	-	-	211,411
through profit or loss									
Available-for-sale		-	-	-	60,520	909,622	-	-	970,142
financial assets									
Loans		-	-	-	-	270,100	-	-	270,100
Property		-	-	-	-	-	100,191	-	100,191
	₩	<u>24,835</u>	<u>67,000</u>	<u>593,737</u>	<u>1,741,132</u>	<u>6,785,009</u>	<u>100,191</u>	<u>10,724</u>	<u>9,322,628</u>

The carrying amounts of asset pledged that the pledges have the right to repledge regardless of the Group's default as of December 31, 2016 and 2015 are ₩7,667,617 million and ₩6,785,009 million, respectively.

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31. Share-based payments

(a) Details of performance shares granted as of December 31, 2016 are as follows:

	Descriptions
Type	Equity-settled share-based payment
Service period	Within 4 years from the beginning of fiscal year inclusive of grant date (within 5 years if classified as for deferred payment)
Performance conditions	Up to year 2013: Increase rate of stock price (33.4%) and achievement of target ROE (66.6%) From 2014: Increase rate of stock price (20.0%) and achievement of target ROE (80.0%)
Number of shares estimated at December 31, 2016	158,717

(b) Number of shares granted and fair value at grant date as of December 31, 2016 are as follows

Grant date	Number of shares granted	Fair value(*1)	Number of shares estimated(*2)
February 6, 2012	22,100	₩ 47,000	250
April 1, 2012	2,800	44,650	-
April 12, 2012	2,800	42,450	-
August 1, 2012	6,700	35,500	527
January 1, 2013	29,000	40,050	10,698
January 14, 2013	3,100	39,250	2,298
June 7, 2013	3,100	38,950	1,837
June 27, 2013	7,300	37,050	4,841
January 1, 2014	27,400	47,300	27,296
February 6, 2014	10,500	43,800	9,463
August 27, 2014	3,300	51,900	1,147
January 1, 2015	45,400	44,500	45,276
March 30, 2015	3,200	41,200	2,280
January 1, 2016	57,400	39,000	49,807
March 26, 2016	3,800	41,100	2,683
October 27, 2016	1,900	43,850	314
	<u>229,800</u>		<u>158,717</u>

(*1) Used closing price of Shinhan Financial Group Co., Ltd. at grant period as fair value per share

(*2) The Group adjusted the increase rate of stock price (33.4% until 2013 and 20.0% from 2014) and achievement target ROE (66.6% until 2013 and 80.0% from 2014) to determine the number of shares estimated, based on initial number of shares granted, after the termination of service period.

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31. Share-based payments, Continued

(c) Stock compensations costs (benefits) calculated as of and for the years ended December 31, 2016 are as follows:

	December 31, 2016	
	Performance shares	
Compensation costs recorded for the period	₩	2,609
Accrued expenses (benefits) related to compensation cost		6,992

(d) Book value of liabilities and intrinsic value of liabilities regarding share-based payment as of December 31, 2016 are as follows:

	December 31, 2016		
		Accrued expenses	Intrinsic value
Performance shares	₩	6,992	6,992

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32. Commitments and contingencies

(a) As of December 31, 2016, the Group has faced with pending lawsuits are as follows:

December 31, 2016			
Lawsuits	Plaintiff	Details	Amount
Compensation for loss	Hyundai Securities Co.,Ltd	A claim for compensation on violation of operating instruction of special money trust	₩ 2,376
Payment Guarantee	KEB Hana Bank	A claim for guarantee deposit of receivable-backed ABL of KT ENS	12,866
Compensation for loss	An individual	A claim for compensation to the Group due to user's responsibility (churning)	125
Compensation for loss	An individual	A claim for compensation on HTS data processing information error	107
Compensation for loss	An individual	A claim for compensation on breach of contract	2,217
Protest on dividends	An individual	A claim for correction on dividends	5
Compensation for loss	An individual	A claim for compensation due to the violation of the obligation of explanation of ELS and voluntary sales or churning of stocks	179
Compensation for loss	An individual	A claim for compensation due to the violation of the obligation of explanation of ELS and voluntary sales or churning of stocks	6
Compensation for loss	An individual	A claim for compensation due to the violation of the obligation of explanation of ELS and voluntary sales or churning of stocks	29
			₩ 17,910

The Group recognized provisions of ₩ 16,798 million regarding the case the Group lost at the second trial. The Group believes that the rest of the cases will not have a significant impact on the consolidated financial statements, but it is probable that an additional outflow of economic benefits arises according to the outcome of cases.

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32. Commitments and contingencies, Continued

(b) Commercial paper purchase commitments

Company	Underlying asset	Amount	Date of agreements	Date of maturity
Credit offering				
S-Russel 3td Co.,Ltd.	Convertible loans	₩ 17,500	October 21, 2014	October 21, 2019
HSC First L.L.C	Beneficiary certificate	45,000	April 27, 2015	December 27, 2019
Angelest the 5st L.L.C	Preferred stock	6,700	September 24, 2015	October 2, 2017
Angelest the 6st L.L.C	Preferred stock	6,700	September 24, 2015	October 2, 2017
Angelest the 7st L.L.C	Preferred stock	6,600	September 24, 2015	October 2, 2017
VALUE PLUS the 50st Co., Ltd.	STJ Holdings stock and Put option agreement with Simmtech Co., Ltd based on STJ Holdings stock	9,300	July 20, 2016	July 20, 2018
VALUE PLUS the 49st Co., Ltd.	Cosmetics ICS issue holdings designated activity company loans	8,700	August 5, 2016	August, 5, 2020
		100,500		
Liquidity offering				
Multiplex Series the 3rd L.L.C	CJ CGV Leasehold Deposits	30,000	August 28, 2015	August 28, 2018
Commitments on purchase of beneficial certificates				
Global food partners 5th Co., Ltd.	Hyundai CJ Private Equity Fund 1st	30,000	October 31, 2016	October 31, 2019
		₩ 160,500		

(c) Obligation to conserve its loss by priority on PEF

As one of the co-general partner of KoFC Shinhan Frontier Champ 2010-4 Private Equity Fund, the Group is obliged to conserve its loss by priority, whose limit is 3% of the its investment to the PEF. Therefore, the amount of the investment collected as a result of liquidation of the PEF is subject to change. Any adjustments which may be caused by the possibility of the change are not booked, because the amount of the obligations cannot be measured reliably.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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32. Commitments and contingencies, Continued

(d) Onerous contract

As of December 31, 2016, the Group entered into a guarantee contract with Franklin Templeton Investment Trust Management Co., Ltd. to provide for contingent losses that may result from beneficiary certificates, including guaranteed bonds issued by financially distressed companies, such as the Daewoo Group. The Group's time deposit of ₩ 366 million was pledged as collateral to Franklin Templeton Investment Trust Management Co., Ltd. for the potential losses.

(e) Other underwriting commitment

	Company	Amount
ABSTB	Angelest the 10st L.L.C and others ₩	61,400
Equity securities	Samsung securities and others	56,800
	₩	<u>118,200</u>

(f) Financial institution commitment

	Financial Institution	Amount
Daylight overdrafts commitment	Shinhan Bank Co., Ltd. and others ₩	219,000
	TRLILAND METALS	USD 5,000,000
	Euroclear Bank	USD 5,000,000
	Korea securities depository	USD 13,000,000
Bank overdrafts commitment	Kyungnam Bank Co., Ltd and others	125,000
Discounting of bills note receivable discount commitment	Shinhan Bank Co., Ltd.	19,000
	Shinhan Financial Group Co., Ltd. and others	350,000
Institutional operating fund loans	Korean Securities Finance Corporation(self)	500,000
	Korean Securities Finance Corporation(trust)	within the range of trusts
Notes discounted	Korean Securities Finance Corporation(self)	150,000
	Korea Securities Finance Corporation(Subscription deposits)	within the range of subscription deposits
KSFC trading	Korea Securities Finance Corporation	500,000
Agreement on intraday fund transaction	Korea Securities Finance Corporation	200,000
Collateral financing loan	Korea Securities Finance Corporation	500,000
Commitment on loans	Shinhan Bank Co., Ltd.	USD 5,000,000

(g) Sanctions status

On January 18, 2017, the Company received institutional warnings and penalties of ₩ 682 million from the Financial Services Commission and Financial Supervisory Service for breach of trust transactions and linked transactions prohibited.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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(In millions of won)

33. The transaction as a transfer of financial instruments

(a) Transfers that do not qualify for derecognition

(i) Bonds sold under repurchase agreements as of December 31, 2016 and 2015 are as follows:

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Transferred assets			
Financial assets designated at fair value through profit or loss	₩	6,786,284	5,605,287
Available-for-sale financial assets		881,133	909,622
Loans		200	270,100
	₩	<u>7,667,617</u>	<u>6,785,009</u>
Associated liabilities			
Bonds sold under repurchase agreements	₩	<u>7,288,348</u>	<u>6,108,825</u>

(ii) Securities loaned as of December 31, 2016 and 2015 are as follows:

		<u>December 31, 2016</u>	<u>December 31, 2015</u>	
Commercial bonds	₩	38,747	-	Rental Company Korean Securities Finance Corporation

(b) Qualified for derecognition and continuing involvement in financial assets

There are no financial assets that meet the conditions of the derecognition and in which the Group has continuing involvement as of December 31, 2016 and 2015.

34. Securities withheld and securities borrowed

Details of the securities withheld and securities borrowed on behalf of the clients as of December 31, 2016 and 2015 are as follows:

		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Securities withheld			
Broker's securities	₩	56,719,798	47,889,703
Beneficiary's securities		49,774,941	23,248,204
Depositor's securities		53,329	39,166
Others		581	451
		<u>106,548,649</u>	<u>71,177,524</u>
Securities borrowed			
		536,790	773,085
	₩	<u>107,085,439</u>	<u>71,950,609</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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(In millions of won)

35. Equity

(a) Details of equity as of December 31, 2016 and 2015 are summarized as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Stockholder's equity		
Ordinary shares	₩ 1,527,882	1,277,882
Preference shares	19,116	19,116
	<u>1,546,998</u>	<u>1,296,998</u>
Capital surplus		
Additional Paid-in Capital	248,791	-
Gain from reduction of capital	15	15
	<u>248,806</u>	<u>15</u>
Capital adjustments		
Stock options	(180)	341
Accumulated other comprehensive income		
Valuation of available-for-sale financial assets	99,879	97,562
Change of investments in a associate	2,671	2,693
Accumulated foreign exchange differences	1,723	(780)
	<u>104,273</u>	<u>99,475</u>
Retained earnings		
Legal reserve	20,310	13,500
Voluntary reserve(*)	161,025	169,234
Unappropriated earnings	995,010	946,273
	<u>1,176,345</u>	<u>1,129,007</u>
Non-controlling interest		
Capital of non-controlling interest	168	-
Surplus profit brought forward from the previous term of non-controlling interest	20	-
Profit, attributable to non-controlling interests	2	-
	<u>190</u>	<u>-</u>
	<u>₩ 3,076,432</u>	<u>2,525,836</u>

(*) It consists of revaluation reserve and regulatory reserve for loan loss.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

35. Equity, Continued

(b) Stockholder's equity as of December 31, 2016 and 2015 are summarized as follows:

	December 31, 2016		December 31, 2015	
	Ordinary shares	Preference shares	Ordinary shares	Preference shares
Number of shares authorized	450,000,000	150,000,000	450,000,000	150,000,000
Par value per share (in won)	₩ 5,000	5,000	5,000	5,000
Number of issued shares outstanding	305,576,350	3,823,314	255,576,350	3,823,314
Stockholder's equity	₩ 1,527,882	19,116	1,277,882	19,116

(c) Change in accumulated other comprehensive income for the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2016			
	Valuation of available-for-sale financial assets	Change of investments in a associate	Accumulated foreign exchange differences	Total
Opening balance	₩ 97,562	2,693	(780)	99,475
Change in fair value of available-for-sale financial assets	1,019	-	-	1,019
Change in impairment	1,222	-	-	1,222
Change in disposal	(441)	-	-	(441)
Effect of change in equity of investee	-	(30)	-	(30)
Effect of exchange rate difference	1,257	-	3,051	4,308
Deferred tax effect	(740)	8	(548)	(1,280)
Ending balance	₩ 99,879	2,671	1,723	104,273

	December 31, 2015			
	Valuation of available-for-sale financial assets	Change of investments in a associate	Accumulated foreign exchange differences	Total
Opening balance	₩ 95,694	(707)	(5,400)	89,587
Change in fair value of available-for-sale financial assets	8,663	-	-	8,663
Change in impairment	(129)	-	-	(129)
Change in disposal	(7,062)	(367)	-	(7,429)
Effect of change in equity of investee	-	4,852	-	4,852
Effect of exchange rate difference	992	-	5,901	6,893
Deferred tax effect	(596)	(1,085)	(1,281)	(2,962)
Ending balance	₩ 97,562	2,693	(780)	99,475

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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For the years ended December 31, 2016 and 2015

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35. Equity, Continued

(d) Statements of appropriation of retained earnings.

Statements of appropriation of retained earnings for the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
Unappropriated retained earnings		
Balance at beginning of the year	₩ 876,260	725,428
Net income for the year	123,304	217,087
Revaluation surplus	(1,306)	206
	<u>998,258</u>	<u>942,721</u>
Appropriation of retained earnings		
Legal reserve	2,000	6,810
Regulatory reserve for loan loss	(846)	(8,449)
Dividends	20,000	68,100
Cash dividends on ordinary shares		
Current year : ₩ 64 (1.28%)	19,564	66,908
Prior year : ₩ 262 (5.24%)		
Cash dividends on preference shares		
Current year : ₩ 114 (2.28%)	436	1,192
Prior year : ₩ 312 (6.24%)		
	<u>21,154</u>	<u>66,461</u>
Unappropriated retained earnings carried over to subsequent period	₩ <u>977,104</u>	<u>876,260</u>

These statements of appropriation of retained earnings were based on the separate financial statements of the Company.

36. Dividends

Dividends declared for the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2016		December 31, 2015	
	Ordinary shares	Preference shares	Ordinary shares	Preference shares
Number of issued shares outstanding	305,576,350	3,823,314	255,576,350	3,823,314
Par value per share (in won) ₩	5,000	5,000	5,000	5,000
Dividends per share (in won)	64	114	262	312
Dividends	19,564	436	66,908	1,192
Dividend rate per share	<u>1.28%</u>	<u>2.28%</u>	<u>5.24%</u>	<u>6.24%</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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37. Leases

(a) Future minimum lease under operating investment property lease of the Group as lessor as of December 31, 2016 and 2015 are as follows:

		Minimum lease payment	
		December 31, 2016	December 31, 2015
Not later than 1 year	₩	7,395	4,750
1 ~ 5 years		5,198	2,443
	₩	<u>12,593</u>	<u>7,193</u>

(b) Future minimum lease payments under non-cancellable operating lease of the Group as lessee as of December 31, 2016 and 2015 are as follows:

		Minimum lease payment	
		December 31, 2016	December 31, 2015
Not later than 1 year	₩	6,610	4,425
1 ~ 5 years		3,503	2,495
	₩	<u>10,113</u>	<u>6,920</u>

38. Cash flows

Details of significant non-cash activities for the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
Investment property transferred from property and equipment	₩ 1,090	4,011
Valuation gain on available-for-sale financial assets	3,057	2,464
Tax effect on valuation gain on available-for-sale financial assets	(740)	(596)
Change of investments in associates	(30)	4,485
Tax effect on change of investments in associates	8	(1,085)
Foreign currency translation differences	3,051	5,901
Tax effect on foreign currency translation differences	<u>(548)</u>	<u>(1,281)</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

39. Related party transactions

(a) Significant account balances with related companies as of December 31, 2016 and 2015 are as follows:

Related party	Accounts	December 31, 2016	December 31, 2015
Assets:			
Shinhan Financial Group Co.Ltd	Other assets(*1)	₩ -	4
Shinhan Bank	Bank deposits	252,707	180,784
	Derivatives assets	3,597	9,690
	Accrued income	143	39
	Other assets(*1)	34,280	32,747
Jeju Bank	Bank deposits	215,302	105,414
	Accrued income	1,311	736
Shinhan Capital	Other assets(*1)	5	-
KoFC Shinhan Frontier	Accrued income	-	44
Green energy Private equity Special Assets	Accrued income	1	1
SHBNPP Relative Value Security Investment Trust No.1[Bond]	Accrued income	-	1
Shinhan Praxis K-Growth Global Private Equity Fund	Accrued income	175	174
SHBNPP YOUNGNAM LNG Combined Cycle Private Special Asset Investment Trust [infra business]	Accrued income	3	-
SHBNPP Corporate Professional Investment Type Private Security Investment Trust No.45[Bond]	Accrued income	9	-
SHBNPP MyongPhoom Fund Selection Security Trust[Equity Balanced-FoFs]	Accrued income	1	-
SHBNPP Global Professional Investment Type Private Real Estate Investment Trust No.4	Accrued income	3	-
SHBNPP Global Professional Investment Type Private Real Estate Investment Trust No.5	Accrued income	8	-
		₩ 507,545	329,634

(*1) Include deposits for guarantees and others.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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For the years ended December 31, 2016 and 2015

(In millions of won)

39. Related party transactions, Continued

(a) Significant account balances with related companies as of December 31, 2016 and 2015:, Continued

Related party	Accounts	December 31, 2016	December 31, 2015
Liabilities:			
Shinhan Financial Group Co., Ltd.	Borrowings(*2)	₩ -	200,000
	Accrued expenses	-	746
	Other liabilities(*3)	24,115	17,021
Shinhan Bank	Derivatives liabilities	53,462	5,177
	Borrowings(*2)	-	9,426
	Accrued expenses	12	67
	Other liabilities(*3)	19,536	18,463
Shinhan Card Co., Ltd.	Other liabilities(*3)	3,558	3,466
Shinhan Capital	Other liabilities(*3)	10,505	166
	Accrued expenses	17	-
	Derivatives liabilities	251	-
	Other liabilities(*3)	30,550	250
Shinhan Life Insurance Co., Ltd.	Borrowings(*2)	4,030	8,370
	Accrued expenses	468	269
	Other liabilities(*3)	2,350	-
Shinhan Aitas Co., Ltd	Borrowings(*2)	1,799	1,779
	Accrued expenses	2	3
Shinhan BNP Paribas Asset Management Co., Ltd.	Other liabilities(*2)	1,128	1,128
Shinhan Saving Bank	Derivatives liabilities	1,989	1,974
	Other liabilities(*3)	5,200	968
Shinhan Private Equity Inc.	Other liabilities(*3)	138	138
Korea investment gong-pyeong office real estate investment trust 2nd	Other liabilities(*3)	-	55
		₩ 159,110	269,466

(*2) Include bonds sold under repurchase agreements and others.

(*3) Include deposits for rent and others.

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In millions of won)

39. Related party transactions, Continued

(b) Significant transactions with related parties for the years ended December 31, 2016 and 2015 are as follows:

Related party	Accounts	December 31, 2016	December 31, 2015
Revenue:			
Shinhan Financial Group Co., Ltd.	Commission	₩ 260	390
Shinhan Bank	Interest	2,199	2,854
	Rent	627	659
	Derivatives	11,818	6,837
	Commission	670	294
Shinhan Card Co., Ltd.	Rent	13	18
	Commission	385	405
Shinhan Life Insurance Co., Ltd.	Rent	13	12
	Commission	22	46
Shinhan Capital	Commission	10	-
Jeju Bank	Interest	2,153	1,275
Shinhan BNP Paribas Asset Management Co., Ltd.	Rent	1,372	1,379
	Commission	111	2
Shinhan Saving Bank	Commission	-	5
	Derivatives	-	26
Kofc Shinhan Frontier	Commission	264	180
Green energy Private equity Special Assets	Commission	7	3
Corporate Governance PE 2th [Equity balanced] ,Ltd.	Commission	-	6
Shinhan BNPP Nice High dividend Feeder Fund [Equity]	Commission	5	12
Shinhan Private Equity Inc.	Rent	168	141
SHBNPP Relative Value Security Investment Trust No.1[Bond]	Commission	1	6
Shinhan Praxis K-Growth Global Private Equity Fund	Commission	691	391
SHBNPP YOUNGNAM LNG Combined Cycle Private Special Asset Investment Trust [infra business]	Commission	8	-
New Renewable Energy Professional Private Special Asset2 [Loan]	Commission	1	-
SHBNPP Corporate Professional Investment Type Private Security Investment Trust No.45[Bond]	Commission	48	-
SHBNPP MyongPhoom Fund Selection Security Trust[Equity Balanced-FoFs]	Commission	3	-
SHBNPP Global Professional Investment Type Private Real Estate Investment Trust No.4	Commission	7	-
SHBNPP Global Professional Investment Type Private Real Estate Investment Trust No.5	Commission	21	-
SHBNPP Global Professional Investment Type Private Real Estate Investment Trust No.6	Commission	2	-
New Renewable Energy Professional Private Special Asset2 [Loan]	Commission	1	-
The Asia Pacific Capital Fund II L.P.	Commission	175	-
Korea investment gong-pyeong office real estate investment trust 2nd	Commission	55	21
		<u>₩ 21,110</u>	<u>14,962</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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39. Related party transactions, Continued

(b) Significant transactions with related parties for the years ended December 31, 2016 and 2015; Continued

Related party	Accounts	December 31, 2016	December 31, 2015
Expense:			
Shinhan Financial Group Co., Ltd.	Interest	₩ 5,412	7,950
	Commission	3,809	5,425
Shinhan Bank	Interest	697	1,146
	Rent	4,641	4,269
	Derivatives	57,786	8,267
	Commission	5,372	4,602
Shinhan Card Co., Ltd.	Interest	13	18
	Commission	330	340
Shinhan Life Insurance	Interest	4	4
	Commission	127	161
Jeju Bank	Commission	17	19
Shinhan Data System	Interest	68	84
	Commission	5,695	4,354
Shinhan Private Equity Inc.	Interest	3	2
Shinhan Aitas Co., Ltd.	Interest	24	25
	Commission	10	6
Shinhan BNP Paribas Asset Management Co., Ltd.	Interest	16	22
	Commission	-	1
Shinhan Capital	Commission	23	-
	Derivatives	746	-
Shinhan Saving Bank	Commission	4	-
	Derivatives	15	-
		₩ 84,812	36,695

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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39. Related party transactions, Continued

(c) Key management personnel compensation for the years ended December 31, 2016 and 2015 are as follows:

		December 31, 2016	December 31, 2015
Salaries and wages	₩	6,665	9,144
Share-based payments		3,189	3,320
Severance benefits		278	198
	₩	<u>10,132</u>	<u>12,662</u>

(d) Details of collaterals to the related parties

Details of collaterals provided to Shinhan Bank Co., Ltd, Shinhan BNP Paribas AMC, Shinhan Life Insurance as of December 31, 2016 are as follows:

Related party	Assets pledged as collateral	December 31, 2016	Description
Shinhan Bank	Time deposits	₩ 17,000	Collateral for a bank
	Time deposits	5,000	Collateral for the small amount of payment
	Reserve for claims of customers' deposits (trust)	90,000	Collateral for the small amount of payment
	Other deposits denominated in won	11	Deposit for checking accounts
Shinhan BNP Paribas Asset Management Co., Ltd.	Land and buildings	91,974	Collateral for rental
	Land and buildings	1,354	Collateral for rental
	Land and buildings	166	Collateral for rental
Shinhan Private Equity Inc.	Land and buildings	273	Collateral for rental
Shinhan Life Insurance	Land and buildings	<u>205,778</u>	
		₩	

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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40. Regulatory reserve for loan loss

In accordance with Regulations for Investment 3-8, if the amount of allowance for credit losses by K-IFRS is less than that required by Regulations for Investment 3-8, the Group reserves the difference between the allowance for credit losses by K-IFRS and Regulations and discloses the reserve.

(a) Regulatory reserve for loan losses as of December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Regulatory reserve for loan loss		
Accumulated	₩ 4,534	14,050
To be scheduled	2,448	(9,516)
	<u>₩ 6,982</u>	<u>4,534</u>

(b) Provision for regulatory reserve for loan loss and income adjusted for regulatory reserve.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Income for the year	₩ 115,438	215,454
Provision for regulatory reserve for loan loss	(2,448)	9,516
	<u>₩ 112,990</u>	<u>224,970</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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41. Interests in unconsolidated structured entities

(a) The nature and extent of interests in unconsolidated structured entities

The natures, purposes and activities of the unconsolidated structured entities which the Group had interest in as of December 31, 2016 and 2015, and how these structured entities are financed are summarized as follows:

	Description
Assets-backed securitization	Securitization vehicles are established to buy the assets from the originators and issue the 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 the asset-backed securities issued, or providing credit enhancement.
Project 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 is a type of financial instrument where investment funds raise funds from the general public to invest in a group of assets such as stocks or bonds and distribute their income and capital gains to their investors. The Group is involved in investment fund by investing in various investment funds.

Details of unconsolidated structured entities as of December 31, 2016 and 2015 are as follows:

		December 31, 2016			
		Asset-backed securitization	Project financing	Investment fund	Total
Total Assets	₩	2,889,220	7,156,129	3,347,602	13,392,951

		December 31, 2015			
		Asset-backed securitization	Project financing	Investment fund	Total
Total Assets	₩	190,496	415,628	2,145,860	2,751,984

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Notes to the Consolidated Financial Statements

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41. Interests in unconsolidated structured entities, Continued

(b) Total assets of the unconsolidated structured entities, carrying value of assets and liabilities and maximum exposure to loss related to the Group's interests in unconsolidated structured entities as of December 31, 2016 and 2015 are as follows:

	December 31, 2016			
	Asset- backed securitization	Project financing	Investment fund	Total
Total assets of the unconsolidated structured entities				
Loans	₩ 127,151	275,152	29,572	431,875
Trading assets	31,351	300	1,671	33,322
Available-for-sale financial assets	53,479	5,213	260,310	319,002
Other assets	790	688	170	1,648
	<u>₩ 212,771</u>	<u>281,353</u>	<u>291,723</u>	<u>785,847</u>
Total liabilities of the unconsolidated structured entities				
Other liabilities	₩ 1,006	264	-	1,270
	<u>₩ 1,006</u>	<u>264</u>	<u>-</u>	<u>1,270</u>
Maximum exposure to loss				
Investments	₩ 212,771	281,353	291,723	785,847
Purchase commitments	60,000	-	-	60,000
Guarantee	83,000	17,500	-	100,500
Others	61,400	-	-	61,400
	<u>₩ 417,171</u>	<u>298,853</u>	<u>291,723</u>	<u>1,007,747</u>

SHINHAN INVESTMENT CORP. AND SUBSIDIARIES

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41. Interests in unconsolidated structured entities, Continued

(b) Total assets of the unconsolidated structured entities, carrying value of assets and liabilities and maximum exposure to loss related to the Group's interests in unconsolidated structured entities as of December 31, 2016 and 2015:, Continued

	December 31, 2015			
	Asset-backed securitization	Project financing	Investment fund	Total
Total assets of the unconsolidated structured entities				
Loans	₩ 26,851	87,058	32,888	146,797
Available-for-sale financial assets	-	5,457	175,815	181,272
Other assets	127	99	208	434
	₩ <u>26,978</u>	<u>92,614</u>	<u>208,911</u>	<u>328,503</u>
Total liabilities of the unconsolidated structured entities				
Other liabilities	₩ 134	214	322	670
Maximum exposure to loss				
Investments	₩ 26,978	92,614	208,911	328,503
Purchase commitments	30,000	90,000	-	120,000
Guarantee	65,000	17,000	-	82,000
	₩ <u>121,978</u>	<u>199,614</u>	<u>208,911</u>	<u>530,503</u>