

LEADING the WAY by SHINHAN WAY

Shinhan Financial Group
Annual Report

2016



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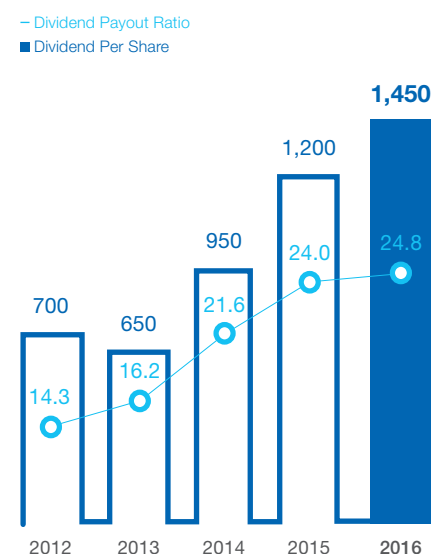
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Investor Information

Stock Information

Dividend (%, KRW)



Number of Shares Issued

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

Stock Performance

	2016	2015
Market Capitalization (Year End, KRW)	21.5 trillion	18.8 trillion
Share Price (KRW)	-	-
Year End	45,250	39,550
High	47,700	46,650
Low	36,100	39,000
Weighting in the KOSPI (Year End)	1.6%	1.5%
Average Daily Trading Volume	0.8 million shares	1.0 million shares
Dividend Per Share (KRW)	1,450	1,200
Total Dividend Paid (KRW)	688 billion	569 billion
Foreign Share Ownership	68.7%	67.1%

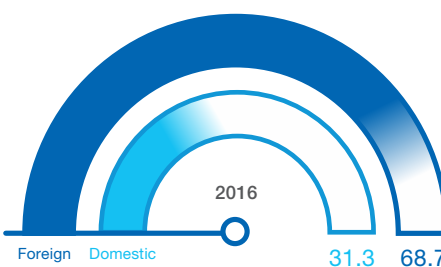
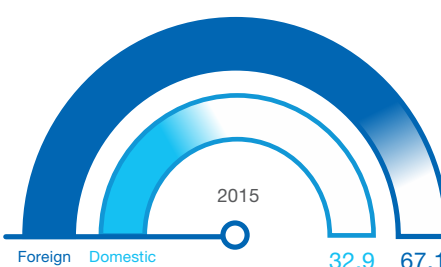
Shareholders Holding Ownership of More than 1%

Name of Shareholder	Number of Shares Owned	Ownership %
National Pension Service	45,269,850	9.55%
BNP Paribas SA	25,356,276	5.35%
BlackRock Fund Advisors**	24,320,723	5.13%
SFG Employee Stock Ownership Association	22,399,084	4.72%
Citibank, N.A. (ADR Dept.)	13,427,614	2.83%
The Government of Singapore	11,434,827	2.41%
Mizuho Bank	5,955,000	1.26%
Saudi Arabian Monetary Agency	5,945,250	1.25%
Abu Dhabi Investment Authority	5,240,748	1.11%
First State Investments ICVC-Stewart Inv.	4,933,492	1.04%
Lazard Funds Inc.	4,918,711	1.04%
Others	304,998,012	64.32%
Total	474,199,587	100.00%

* Based on the results of shareholder registry closing as of December 31, 2016

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

Share Ownership (%)



Financial Highlights

Financial Highlights

	2016	2015	Chg %
For the Year (KRW billion)			
Operating Income Before Provisioning	4,273.8	4,010.6	6.6%
Net Income	2,774.8	2,367.2	17.2%
As of Year End (KRW trillion)			
Total Assets	395.7	370.5	6.8%
Total Liabilities	363.9	338.7	7.4%
Total Equity	31.8	31.8	-0.2%

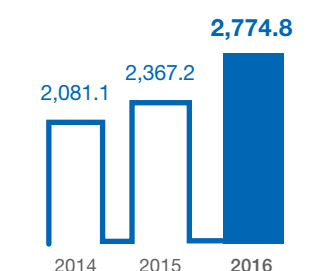
Key Financial Ratio

	2016	2015	Chg %
ROA	0.73%	0.69%	0.04%p
ROE	9.15%	8.05%	1.10%p
Group Net Interest Margin	1.98%	2.00%	-0.02%p
Cost to Income Ratio	51.34%	52.74%	-1.40%p
NPL(Substandard and below loans) Ratio	0.74%	0.87%	-0.13%p
NPL Coverage Ratio	219%	191%	28%p
Group BIS Ratio	15.0%	13.4%	1.6%p
Group Common Equity Tier1 Ratio	12.7%	10.8%	1.9%p
BPS (KRW)	64,544	61,146	5.6%
EPS (KRW)	5,742	4,789	19.9%

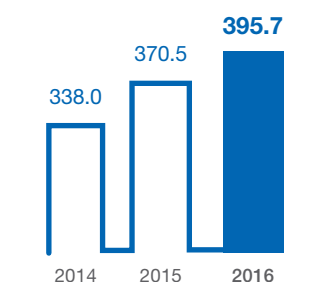
Credit Ratings

	S&P	Moody's	Fitch
Shinhan Bank			
Long Term	A+	Aa3	A
Short Term	A-1	P-1	F1
Shinhan Card			
Long Term	A-	-	A-
Short Term	A-2	-	F2

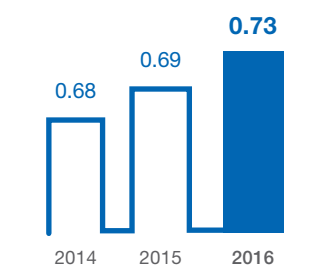
Net Income (KRW billion)



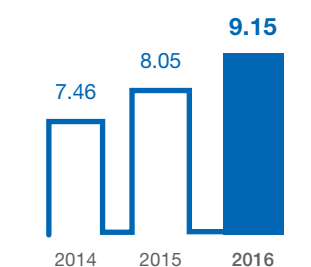
Total Assets (KRW trillion)



ROA (%)



ROE (%)



Recently, we set our mid-term goal as growing into “Asia Leading Financial Group” by the year 2020. Our new initiative, ‘2020 Project,’ is designed with that goal in mind and will help us close the gap between our present and future.

The first part of ‘2020 Project’ will involve a balanced growth strategy to maximize the Group’s value. For Shinhan Bank and Shinhan Card, which have ranked number one in the market, we will further fortify their competitive strength. On the other hand, for Shinhan Investment Corp., Shinhan Life Insurance, and other businesses whose market positions are relatively weak, we will support them to reach the top position in their respective fields.

Next, we will establish a solid foothold in the Asian financial belt for global expansion and enhance our competences in the capital market to improve returns on our customers’ assets, so that we can scale up our non-interest income base.

The plan will also include an upgrade of Shinhan’s digital capabilities to seek new opportunities in the fourth industrial revolution. Lastly, we will uphold and enrich the Shinhan Culture through the practice of our mission, ‘Compassionate Finance, Your Companion for the Future.’



**Do you think
the world is moving
too quickly?**

Innovations in science, technology and digitalization is altering the landscape of the financial industry.

Shinhan aims to provide convenient and creative services that cater to customer needs.

By harnessing digital technology, we will provide differentiated values and experiences to customers and go beyond the existing boundaries of finance to create a new market.

Shinhan will leverage Digital Transformation to provide a better future for our customers and the next generation.

Transactions through
Internet & Mobile Channels

59%

No. of Customers
Enrolled in Smartphone Banking

11.6 Persons
in million

No. of Customers
Enrolled in Shinhan App. Card

7.6 Persons
in million



**Are you looking for
more convenient
financial services?**

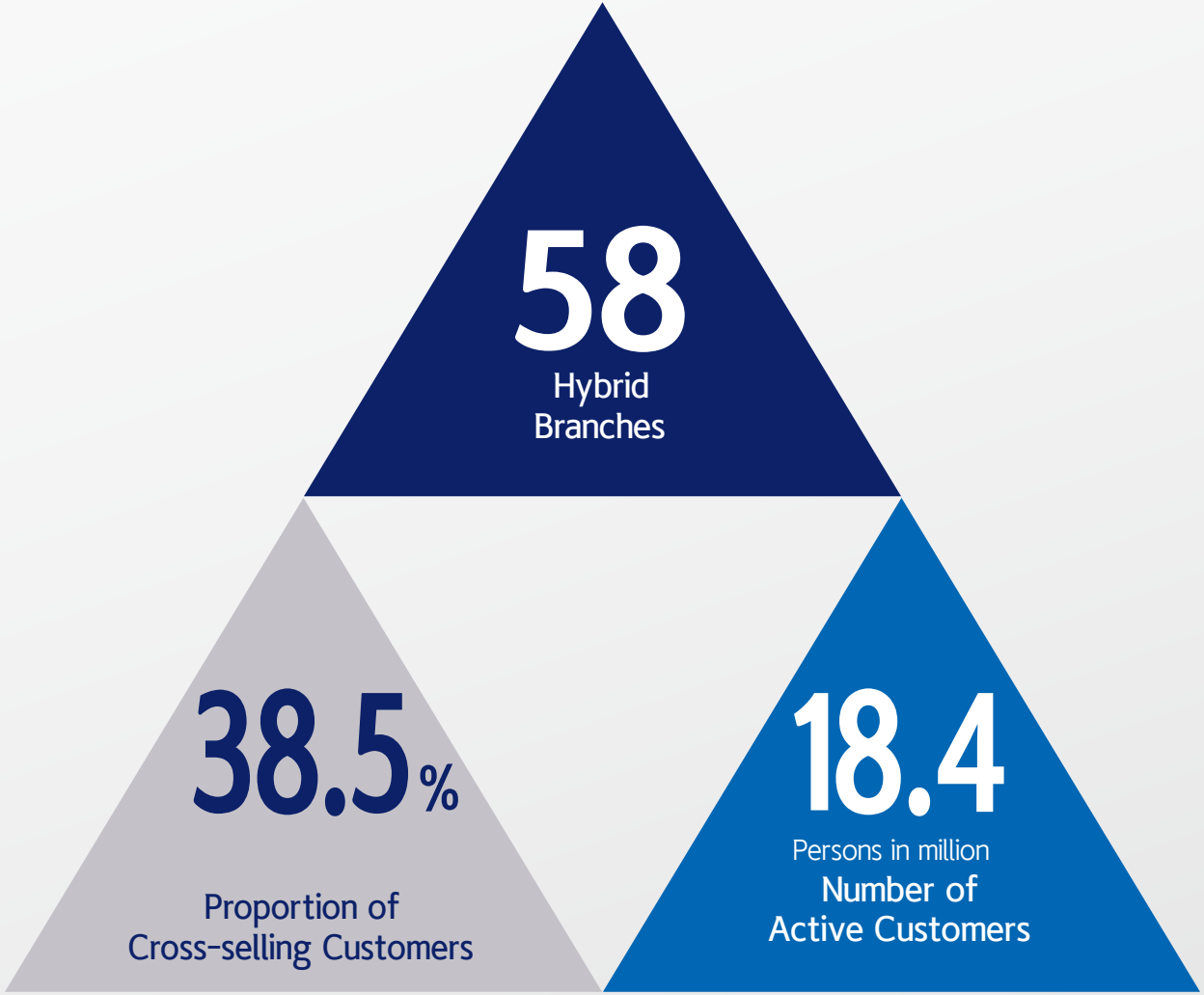


Providing convenient financial services starts with taking the customer's perspective.

Shinhan offers customers more advanced and personalized services through organic cooperation between subsidiaries.

We have been steadily building a one portal business model since the establishment of our holding company. Our consistent goal and dream has been to provide seamless services to customers by generating synergy between subsidiaries.

Shinhan strives to create One Shinhan value by taking the customer's perspective.





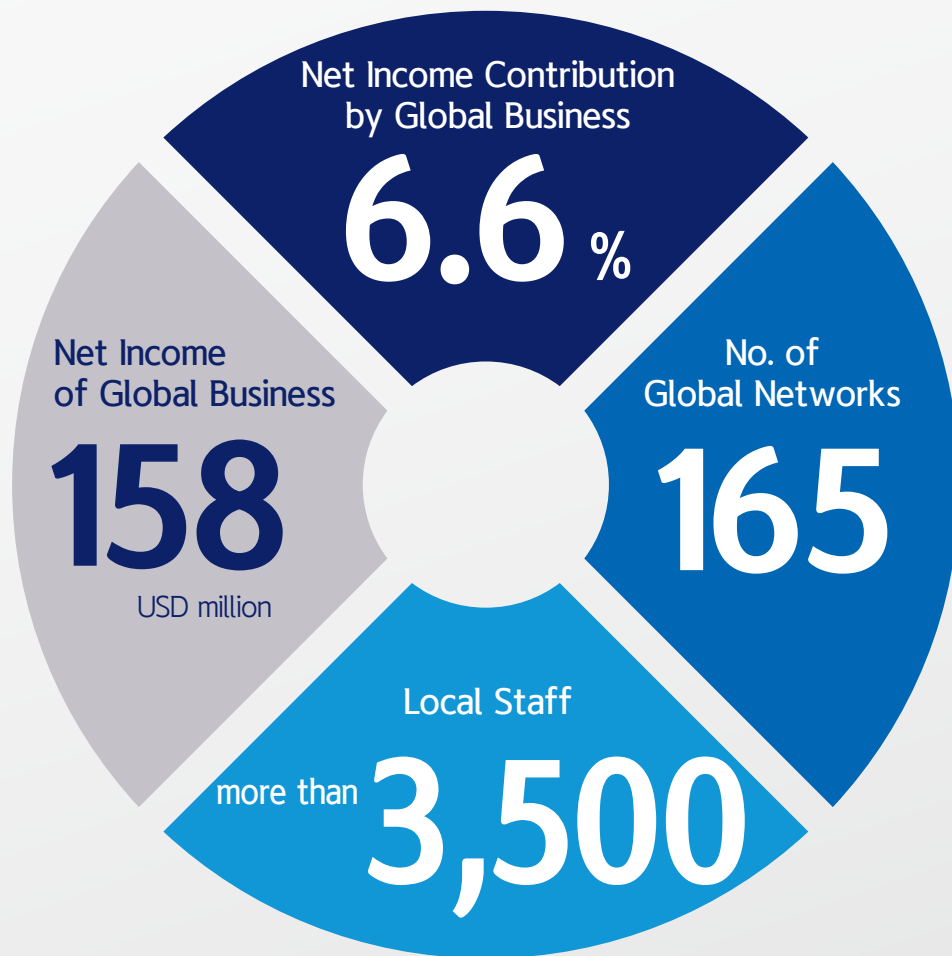
**Where will you be next
on the world stage?**

The boundaries of our lives keep expanding.

Shinhan is on its way to becoming a global financial group with 165 networks in 20 countries. It is pursuing glocalization, a strategy that combines global expansion with localization.

It is pursuing glocalization, a strategy that combines global expansion with localization. Detailed market analyses have helped us to develop products and services that are tailored to local clientele.

Shinhan is ready to explore the wider world with our customers through Glocalization.





**What does change mean
in an age of uncertainty?**

Both risk and opportunity are inherent in change.

In the process of overcoming diverse crises, Shinhan gained insight into understanding the inherent nature of change in today's age of uncertainty.

We will take preemptive action to deal with external shocks and strengthen our resiliency in risk management, to turn crisis into opportunity.

Shinhan will adopt Preemptive and Proactive Risk Management measures to serve customers as a steady and strong partner.

NPL Ratio

0.74%

NPL Coverage Ratio

219%

Credit Cost Ratio

0.47%

BIS Ratio

15.0%



**What is your idea
of a happy future?**

Shinhan pursues a harmonious life with customers and society.

Shinhan is committed to enhancing social value by faithfully executing the main role of finance to increase customer profits and provide quality financial services.

At the center of this belief, is our unswerving mission 'Compassionate Finance, Your Companion for the Future.'

We will help build a better tomorrow by growing with our customers and society, through open thinking, creative endeavors, and innovative service befitting a new era.



Key Performance Indicators



Net Income

2,775 KRW billion

Shinhan Financial Group has pushed forward its consistent long-term strategies for sustainable growth since its inception. SFG posted KRW 2.8 trillion of net income in 2016, registering over KRW 2 trillion net income for the three years in a row.

Total Assets

396 KRW trillion

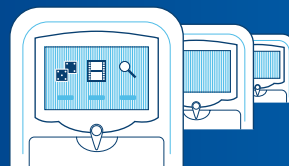
SFG's total assets have been on the steady rise, reflective of SFG's sustainable growth strategies and balanced growth in major subsidiaries



1.98 % **1.49** %
Group Shinhan Bank

Net Interest Margin

Although Group's net interest margin kept contracting mainly due to the BOK's consecutive base rate cuts, SFG maintained stable net interest income on the back of its persistent loan growth efforts accompanied by effective asset and liability management.



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

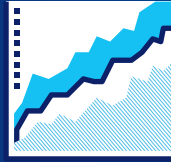
41 % **59** %
2011 2016

Digital Banking

Shinhan Financial Group has been proactively offering its convenient and safe financial services through its mobile platform in order to address their rising expectations and provide differentiated customer experiences.

Capital Adequacy

15.0 %



SFG's BIS ratio marked a competitive level of 15.0% as of the end of 2016 on the back of stable net income flows and sound asset quality

15.0 % / **13.3** % / **12.7** %
BIS Ratio / Tier1 Ratio / CET1 Ratio



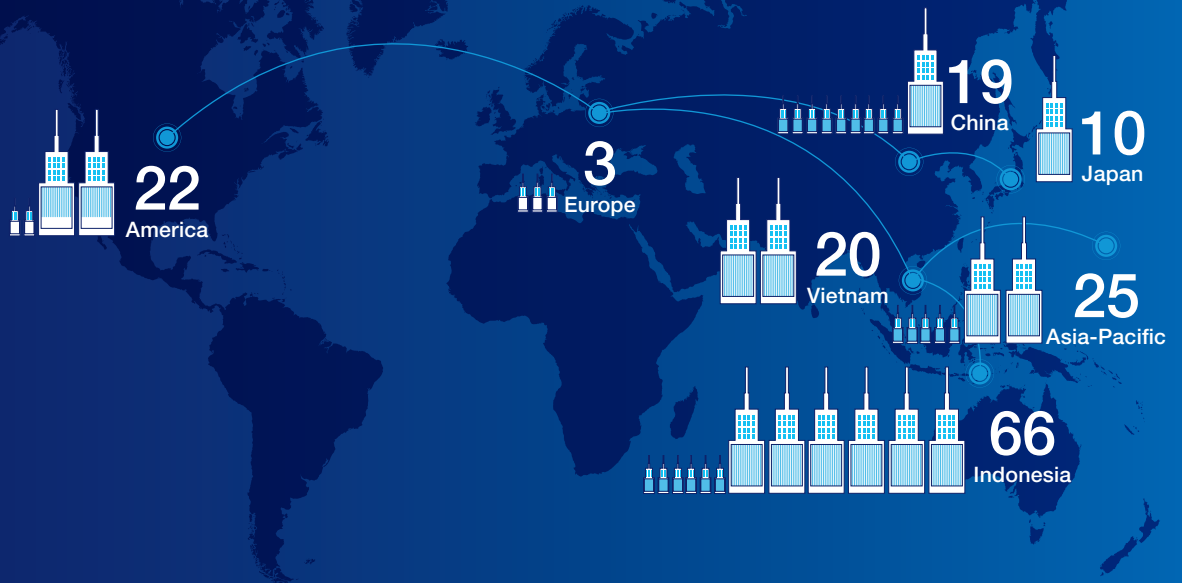
Dividend Payout Ratio

24.8 %

Dividend per share
KRW 1,450

Global Networks 2016

165 Networks in 20 Countries



Shinhan Financial Group History

2000~2007

- 05.24 Plan announced for comprehensive financial group by setting up a holding company
- 06.14 Creation of holding company study committee and working-level team
- 10.27 Transformation into holding company preparation committee and secretariat system

- 01.11 Shinhan Bank signs Jeju Bank management consulting contract
- 02.21 eShinhan established
- 09.01 Financial holding company established
- 09.10 Listed on KRX
- 12.12 Strategic alliance agreement signed with BNP Paribas Group

- 05.10 Incorporated Jeju Bank as a subsidiary
- 06.04 Shinhan Card established
- 07.08 Shinhan Credit Information established
- 08.01 Good Morning Shinhan Securities established



2000

- 06.13 President Kim Dae-jung visits North Korea
- 09.24 Financial Supervisory Commission announces plans for 2nd financial restructuring
- 10.09 Financial Holding Companies Act passes the National Assembly



2001

- 08.23 Repayment of IMF loans completed
- 09.11 9/11 terrorist attacks
- 12.02 Enron declares bankruptcy



2002

- 05.24 Government announces comprehensive measures for credit card problem
- 05.31 2002 FIFA World Cup Korea/Japan

- 01.23 Chosen as preferred bidder for Chohung Bank
- 09.05 Incorporated Chohung Bank as a subsidiary
- 09.16 Listed on NYSE
- 10.10 Shinhan Eun System renamed Shinhan Data System



2003

- 03.30 Outbreak of Iraq War
- 09.03 Introduction of bancassurance
- 11.16 LG Card liquidity crisis

- + Shinhan Financial Group Market Cap.
- + Shinhan Financial Group Asset (KRW trillion)
- + Shinhan Financial Group Net Income (KRW billion)

25 trillion

15 trillion

10 trillion

5 trillion



+ Shinhan Financial Group
+ Timeline

- 09.20 Shinhan Bank formed women's basketball team "S-Birds"
- 12.16 Shinhan Private Equity established

- 02.02 Group's net income passes KRW 1 trillion mark
- 07.03 Shinhan Bank issued CSR (Corporate Social Responsibility) Report
- 09.30 Launch of Shinhan Bank-Chohung Bank Integration Promotion Committee
- 12.13 Incorporated Shinhan Life Insurance as a subsidiary

- 01.04 Launch of Shinhan Scholarship Foundation
- 01.16 Introduction of Tops Club, Group-wide customer loyalty program
- 04.01 Launch of integrated Shinhan Bank and Shinhan Card
- 08.16 Chosen as preferred bidder for LG Card

2004

- 03.25 Korea Housing Finance Corporation launches mortgage loans
- 06.24 Launches New Basel Capital Accord (Basel II)
- 07.01 Implements 5-day work week

2005

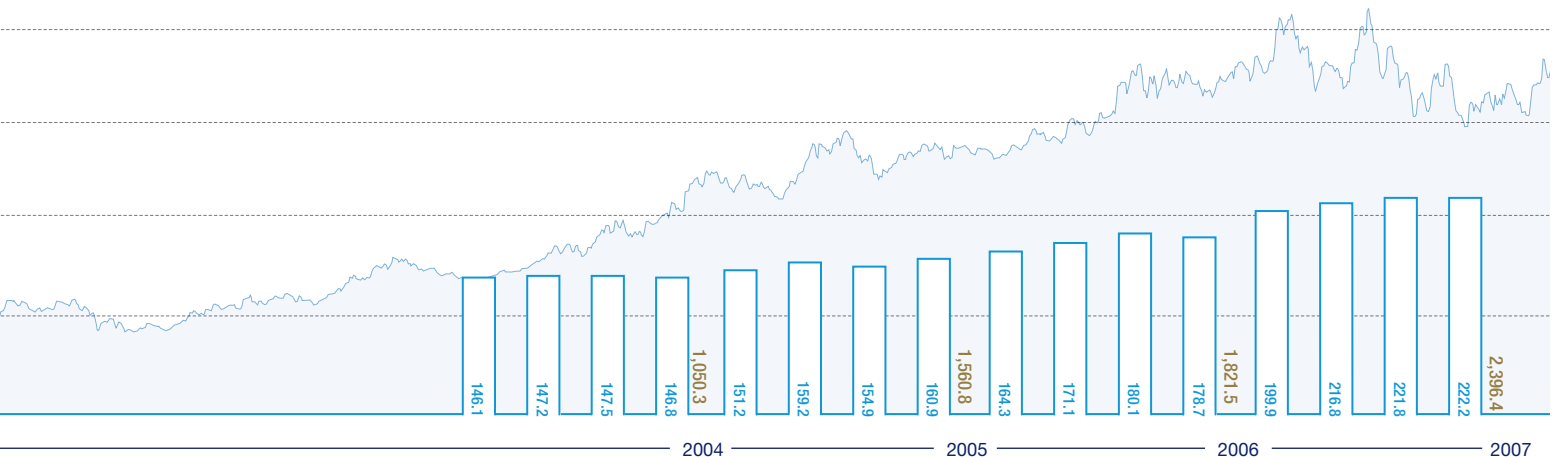
- 01.01 Implements comprehensive real estate holding tax
- 02.16 Kyoto Protocol takes effect
- 08.31 Government announces the 'August 31' comprehensive measures for real estate
- 12.01 Implements Employee Retirement Benefit Security Act

2006

- 03.23 Incorporated LG Card as a subsidiary
- 07.19 Incorporated Good Morning Shinhan Securities Asia Limited as an indirect subsidiary
- 08.30 Incorporated Shinhan Khmer Bank as an indirect subsidiary
- 10.01 Launch of integrated Shinhan Card

2007

- 04.02 Signs Korea-US free trade agreement (FTA)
- 04.27 New Century Financial declares bankruptcy (US subprime mortgage crisis)
- 12.07 Oil spill off the coast of Taaen
- 06.29 Makes preliminary announcement of legislation on Capital Market Integration Act
- 11.15 Government announces stabilization measures for the real estate market



Shinhan Financial Group History

2008~2016

- 02.04 Group's net income passes KRW 2 trillion mark
- 03.21 Incorporated Shinhan Bank Kazakhstan as an indirect subsidiary
- 04.30 Incorporated Shinhan Bank China as an indirect subsidiary
- 05.29 Incorporated Shinhan AITAS as an indirect subsidiary
- 09.23 Incorporated Shinhan Bank Canada as an indirect subsidiary

- 01.01 Launch of Shinhan BNP Paribas Asset Management
- 03.25 Paid-in capital increase of Shinhan Financial Group
- 08.24 Good Morning Shinhan Securities renamed Shinhan Investment Corp.
- 09.10 Shinhan Bank Japan established
- 10.13 Incorporated Shinhan Bank Vietnam as an indirect subsidiary

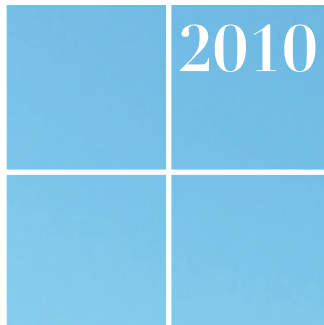
- 01.04 Incorporated Shinhan Data System as a subsidiary
- 01.08 Management Forum and Declaration of Shinhan WAY
- 06.14 Construction of SFG integrated security control center
- 10.01 Publication of Group CSR Report



- 03.03 Creates Financial Services Commission
- 09.15 Lehman Brothers declares bankruptcy
- 10.30 Signs Korea-US currency swap agreement



- 02.25 Financial Services Commission releases blueprint for the Bank Recapitalization Fund
- 06.23 Issues KRW 50,000 banknote

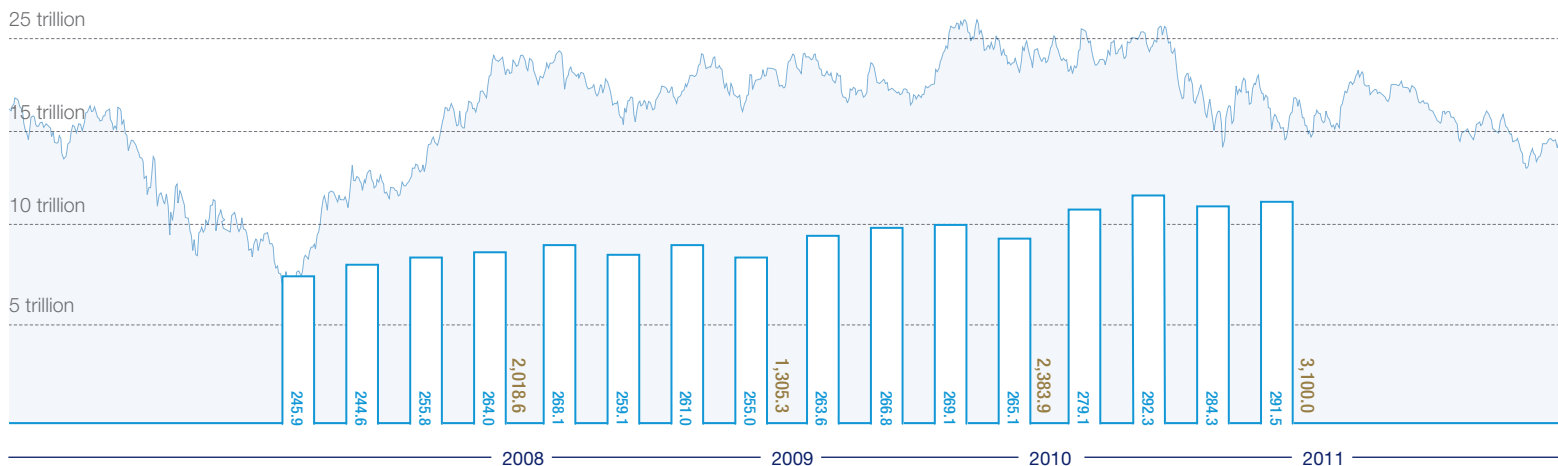


- 06.30 Plans announced to improve Group's operations
- 09.07 Proclaimed Compassionate Finance
- 11.28 Launch of integrated Shinhan Bank Vietnam
- 12.13 Launch of WM Business Division
- 12.28 Incorporated Shinhan Savings Bank as a subsidiary



- 02.17 Savings bank crisis
- 03.04 DDos attack on March 4
- 09.17 Occupy Wall Street protest
- 07.21 Dodd-Frank Act passed in the US
- 11.11 G20 Seoul Summit
- 12.17 Announces final draft of Basel III

- + Shinhan Financial Group Market Cap.
- + Shinhan Financial Group Asset (KRW trillion)
- + Shinhan Financial Group Net Income (KRW billion)



+ Shinhan Financial Group
+ Timeline

- 01.30 Launch of CIB Business Division
- 02.09 Group's net income passes KRW 3 trillion mark
- 11.30 Incorporated Shinhan AITAS as a subsidiary

- 01.11 Proclaimed Compassionate Finance as the Group mission
- 04.01 Launch of integrated Shinhan Savings Bank
- 07.03 Completion of the Group's integrated Data Center
- 09.12 Included in the Dow Jones Sustainability World Index

- 01.02 Evolution of Compassionate Finance, "Compassionate Finance, Your Companion for the Future" unveiled
- 04.01 Shinhan Bank launches retirement brand Shinhan Future Plan
- 08.13 Implementation of SFG information protection compliance standards system
- 11.21 Shinhan Card establishes LLP MFO Shinhan Finance

- 04.28 Launch of Shinhan Creative Finance Plaza
- 05.26 Launch of Shinhan Future's Lab
- 06.24 Shinhan Life Insurance opens Hanoi Office
- 11.12 Opening of first insurance hybrid branch
- 12.01 Shinhan Card launches PT Shinhan Indo Finance
- 12.02 Shinhan Bank launches mobile platform SunnyBank



2012

- 01.06 Eurozone crisis spreads
- 07.01 Opens 'mini capital' in Sejong City
- 07.04 Regulators reduce credit card fees for small businesses



2013

- 04.04 Abenomics goes into full force
- 12.18 US Federal Reserve begins tapering



2014

- 02.25 Household debts surpass KRW 1 quadrillion for the first time
- 11.17 Shanghai-Hong Kong Stock Connect launched

- 01.15 Financial Services Commission announces plans for internet primary banks
- 10.30 Launches bank account switching service

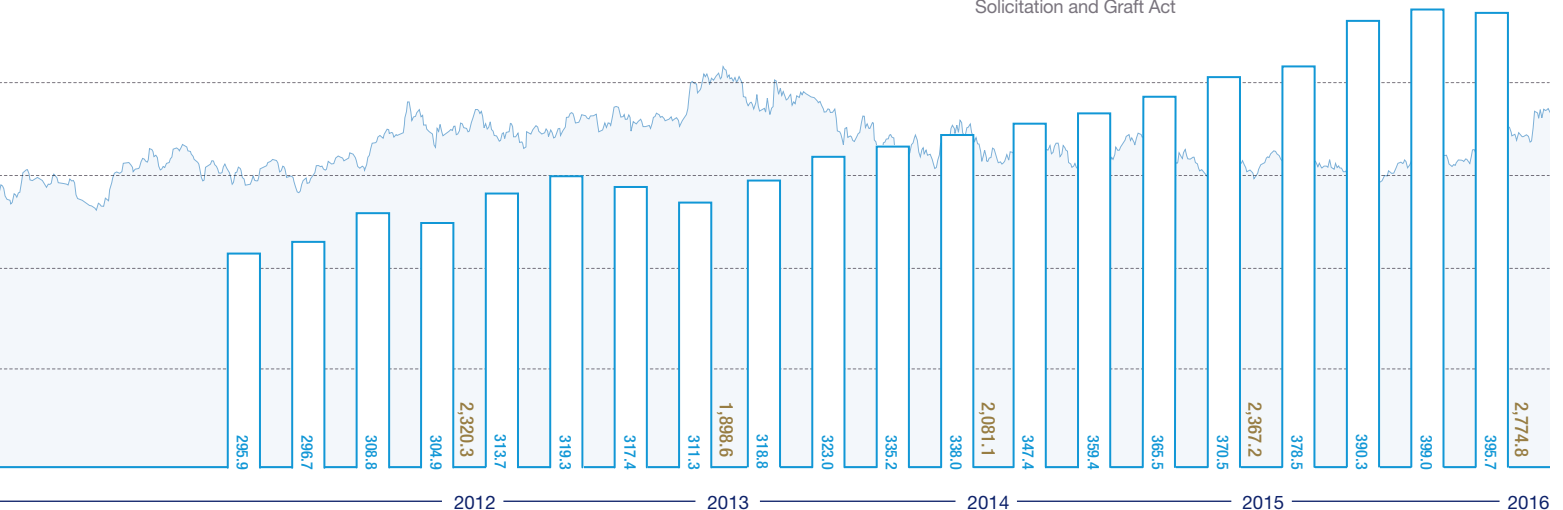


- 05.16 Launch of PT Bank Shinhan Indonesia
- 06.30 Launch of the Group's integrated reward service Shinhan FAN Club
- 07.21 Shinhan Investment Corp. incorporates PT Makinta Securities
- 09.06 Shinhan Card launches Shinhan Microfinance



2016

- 06.23 UK votes for Brexit
- 08.01 Implements Act on Corporate Governance of Financial Companies
- 09.28 Implements Improper Solicitation and Graft Act



Message from the CEO

Dear respected shareholders,

Last year saw heightened uncertainty in the global economy as risk factors were highlighted according to policy directions taken by the leading nations. The Korean economy saw its growth rate weakened by a slowdown in exports, stagnant domestic consumption and reduced corporate investment.

Volatility in the global economy on top of low growth and low interest rates made the business environment far from ideal for the financial industry. Yet despite such difficulties, Shinhan Financial Group was able to resist the trend and deliver strong results based on consistent asset growth and effective cost control.

2016 Performance

Our banking subsidiaries maintained stable net interest margins to record KRW 1.96 trillion in net income. This represented a 30.2% increase over the previous year and contributed significantly to the improvement of the Group's overall performance.

On the non-banking side, Shinhan Card and Shinhan Life Insurance posted favorable results despite the adverse environment, once again demonstrating the unique strengths of Shinhan Financial Group derived from its balanced lineup of banking and non-banking businesses. Consequently, the Group recorded net income of KRW 2.77 trillion, which was the second highest since its establishment, and solidified Shinhan's standing as Korea's leading financial group.

We believe the unwavering trust and support of our shareholders made it possible to achieve results that differentiated us from our competitors. Shinhan Financial Group has sought to return that trust by steadily raising dividend payouts for the past five years.

We also take this opportunity to thank our shareholders once more, and vow to make an even greater effort in the future to enhance shareholder value through flexible capital policies.





CEO Interview
Click



2020 Project

As uncertainty continues to cloud the domestic and global economy this year, there is a possibility that mounting household debt will become a major risk factor in the aftermath of interest rate hikes in the U.S. In addition, technological and regulatory changes will precipitate fundamental changes in the financial industry at a quicker pace. The launch of new internet banks, in particular, is likely to have an impact on the financial sector's competitive landscape.

For Shinhan to grow into Asia's leading financial group in this rapidly changing environment, we must challenge ourselves to transcend previous growth rates. To that end, we will maintain Shinhan's strengths of stability and optimal growth while expanding globally so that we can take the next big step toward becoming the foremost financial group in Asia. Our new initiative, '2020 Project,' is designed with that goal in mind and will help us close the gap between our present and future.



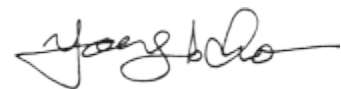
The first part of '2020 Project' will involve a balanced growth strategy to maximize the Group's value. This means fortifying the foundation of Shinhan Bank, Shinhan Card, and other businesses ranked number one in the market as well as supporting Shinhan Investment Corp., Shinhan Life Insurance, etc. as they strive to reach the top positions in their respective fields. Next, we will establish a solid foothold in the Asian financial belt by accelerating our glocalization strategy and promoting the joint advancement of affiliates in regions where the Group already has a presence. The plan will also include an upgrade of Shinhan's digital capabilities as a preemptive response to the disruptions brought on by the fourth industrial revolution. Lastly, we will uphold and enrich the Shinhan culture, and continue to improve sustainable management through the practice of our mission, 'Compassionate Finance, Your Companion for the Future.'

Valued shareholders,

We believe that the willingness to embrace challenges has been the driving force in making Shinhan what it is today. Although it is difficult to predict the direction and pace of change in present times, we vow to help realize our potential so that Shinhan can take flight and reach new heights as Asia's leading financial group.

Your steadfast loyalty has sustained us through the years, and we ask for your continued support and encouragement in the future.

Thank you.



Cho Yong-byoung

Chairman & CEO of Shinhan Financial Group

BOD and Management

Executive Director

Cho Yong-byoung

Date of Birth : June 30, 1957

Current Position : Chairman & CEO, Shinhan Financial Group

Education : B.A. in Law, Korea University

Main Work Experience :

2017~Current. Chairman & CEO, Shinhan Financial Group

2015~2017. President & CEO, Shinhan Bank

2013~2015. CEO, Shinhan BNP Paribas Asset Management

2011~2013. Deputy President, Shinhan Bank

Non-Executive Director

Wi Sung-ho

Date of Birth : June 12, 1958

Current Position : President & CEO, Shinhan Bank

Education : B.A. in Economics, Korea University

Main Work Experience :

2017~Current. President & CEO, Shinhan Bank

2013~2017. President & CEO, Shinhan Card

2011~2013. Deputy President and Head of Wealth Management Group,
Shinhan Bank and Shinhan Investment Corp.

2008~2011. Deputy President, Shinhan Financial Group

Outside Directors

Park Cheul

Date of Birth : April 27, 1946

Current Position : Chairman of the BOD, Shinhan Financial Group

Education : M.A. in Economics, New York University

Main Work Experience :

2006~2013. Chairman & CEO, Leading Investment & Securities Co., Ltd.

2004. Member of the Committee, National Economy Advisory Council

2003~2006. Outside Director, Korea Development Bank

2000~2003. Senior Deputy Governor, Bank of Korea

Park Ansoon

Date of Birth : January 24, 1945

Current Position : Chairman, Taisei Group Co., Ltd.

Education : B.A. in Philosophy, Waseda University

Main Work Experience :

2010~Current. Chairman, Taisei Group Co., Ltd.

2012~Current. Vice Chairman, the Korean Residents Union in Japan

Lee Manwoo

Date of Birth : November 22, 1954

Current Position : Professor, Korea University Business School

Education : Ph.D. in Business Administration, University of Georgia

Main Work Experience :

1988~Current. Professor, Korea University Business School

2007~2008. Chairman, Korean Accounting Association

2006~2007. Chairman, Korean Academic Society of Taxation

2001~2007. Committee Member of Securities Listing, Korea Exchange

Lee Sang-kyung

Date of Birth : September 20, 1945

Current Position : Representative Attorney, Law Firm Lee Sang Kyung

Education : B.A. in Law, Chung-Ang University

Main Work Experience :

2014~Current. Representative Attorney, Law Firm Lee Sang Kyung

2010~2013. Representative Attorney, Law Firm WONJON

2009~2010. Lawyer, Law Firm DW Partners

2005~2009. Lawyer, Law Firm LEEWOOD

2004~2005. Chief Judge, Constitutional Court of Korea

Lee Sung-ryang

Date of Birth : August 30, 1955

Current Position : Professor, School of Economics, Dongguk University

Education : Ph.D. in Economics, Columbia University

Main Work Experience :

2007~Current. Professor, School of Economics, Dongguk University

2015~Current. Director, Research Institute of Social Science, Dongguk University

2013~2015. Dean, School of Economics, Dongguk University

2002~2004. Head of Graduate Department of Public Administration,
Dongguk University

1997~2006. Professor, School of International Studies, Dongguk University

The Board of Directors of Shinhan Financial Group is currently composed of 12 directors:

1 executive director,

1 non-executive director and

10 outside directors.

The Chairman of the Board is Mr. Park Cheul, who was appointed by the BOD among the 10 outside directors on March 24, 2017.

Outside Directors (Continued)

Lee Jung-il

Date of Birth : August 28, 1952

Current Position : CEO, Hirakawa Shoji Co., Ltd.

Education : B.A. in Political Science & Economics, Meiji University

Main Work Experience :

2011-2013. Outside Director, Shinhan Financial Group

2006. Board Member, the Korean Residents' Union in Japan

1995. Vice Chairman, Korea Chamber of Commerce and Industry in Japan

1985. CEO, Hirakawa Shoji Co., Ltd.

Lee Heun-ya

Date of Birth : September 10, 1959

Current Position : Executive Director,
Korea Chamber of Commerce and Industry in Japan

Education : B.A. in Osaka University of Arts

Main Work Experience :

2014-Current. Executive Director, Korea Chamber of Commerce and
Industry in Japan

1983-2005. CEO, Marushin Co., Ltd.

Joo Jaeseong

Date of Birth : January 17, 1956

Current Position : Senior Advisor, Law Firm Kim&Chang

Education : M.A. in Business Administration,
University of Illinois Urbana Champaign

Main Work Experience :

2016-Current. Senior Advisor, Law Firm Kim&Chang

2013-2016. CEO, Woori Finance Research Institute

2011-2013. Senior Deputy Governor of Banking & Non-banking Sector,
Financial Supervisory Service

Yuki Hirakawa

Date of Birth : October 21, 1960

Current Position : CEO, Level River Co., Ltd.

Education : B.A. in Spanish, Osaka University

Main Work Experience :

2013-Current. CEO, Level River Co., Ltd.

1994-2012. CEO, Hirakawa Industry Development Co., Ltd.

Philippe Avril

Date of Birth : April 27, 1960

Current Position : CEO & Representative Director,
BNP Paribas Securities (Japan) Ltd.

Education : M.A. in Economics, Universite de Paris Dauphine

Main Work Experience :

2012-Current. Chief Country Officer BNP Paribas, Tokyo Branch

2011-Current. CEO & Representative Director
BNP Paribas Securities (Japan) Ltd.

Deputy Presidents

Yim Bo-hyuk

Date of Birth : March 11, 1961

Current Position : Deputy President, Shinhan Financial Group

Education : B.A. in Business Administration, Korea University

Main Work Experience :

2016-Current. Deputy President, Shinhan Financial Group

2014-2016. Executive Vice President, Shinhan Financial Group

2011-2014. Managing Director & Head of Risk Management Team,
Shinhan Financial Group

Woo Young-woong

Date of Birth : March 5, 1960

Current Position : Deputy President, Shinhan Financial Group

Education : M.A. in International Business, Waseda University

Main Work Experience :

2017-Current. Deputy President, Shinhan Financial Group

2016-2017. Executive Vice President, Shinhan Financial Group

Executive Vice President & Head of Corporate &
Investment Banking Group, Shinhan Bank

2015-2016. Head of Investment Banking Division, Shinhan Bank

Jin Okdong

Date of Birth : February 21, 1961

Current Position : Deputy President, Shinhan Financial Group

Education : M.A. in Business Administration, Chung-Ang University

Main Work Experience :

2017-Current. Deputy President, Shinhan Financial Group

2017. Deputy President, Shinhan Bank

2015-2017. President & CEO, Shinhan Bank Japan

Executive Vice President

Lee Chang-goo

Date of Birth : January 14, 1961

Current Position : Executive Vice President, Shinhan Financial Group

Education : B.A. in Accounting, Hanyang University

Main Work Experience :

2016-Current. Executive Vice President, Shinhan Financial Group

Executive Vice President & Head of Wealth Management Group,
Shinhan Bank

2014-2016. Head of Wealth Management Division, Shinhan Bank

2012-2014. General Manager of Seongsu-dong Branch, Shinhan Bank

Shinhan WAY

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



Mission

A Better World through the Power of Finance



Core Value



Clients



Mutual Respect



Change



Excellence



Ownership

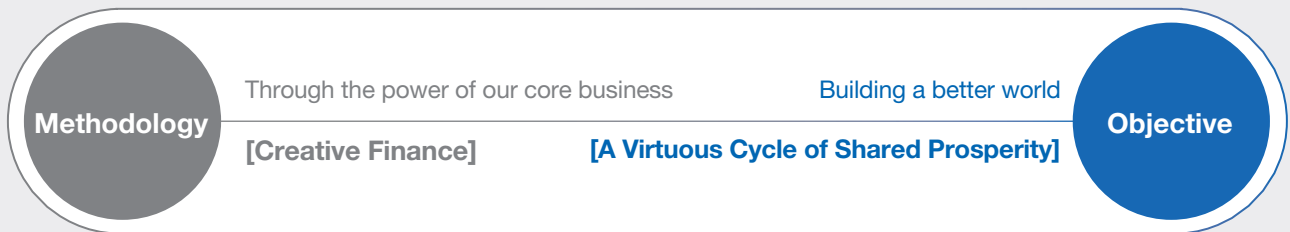
Vision

World Class Financial Group

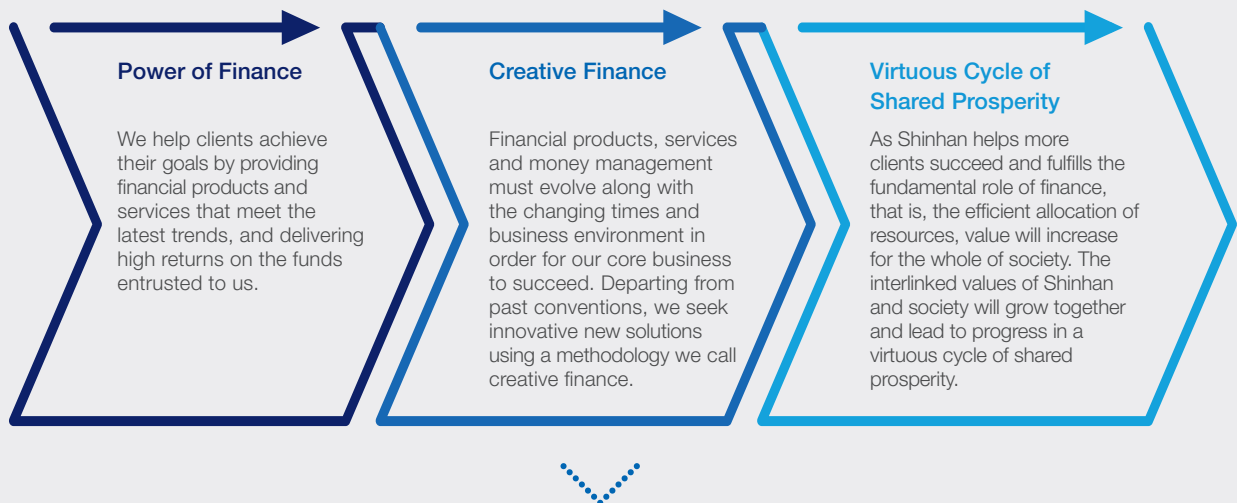
Group Mission

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

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



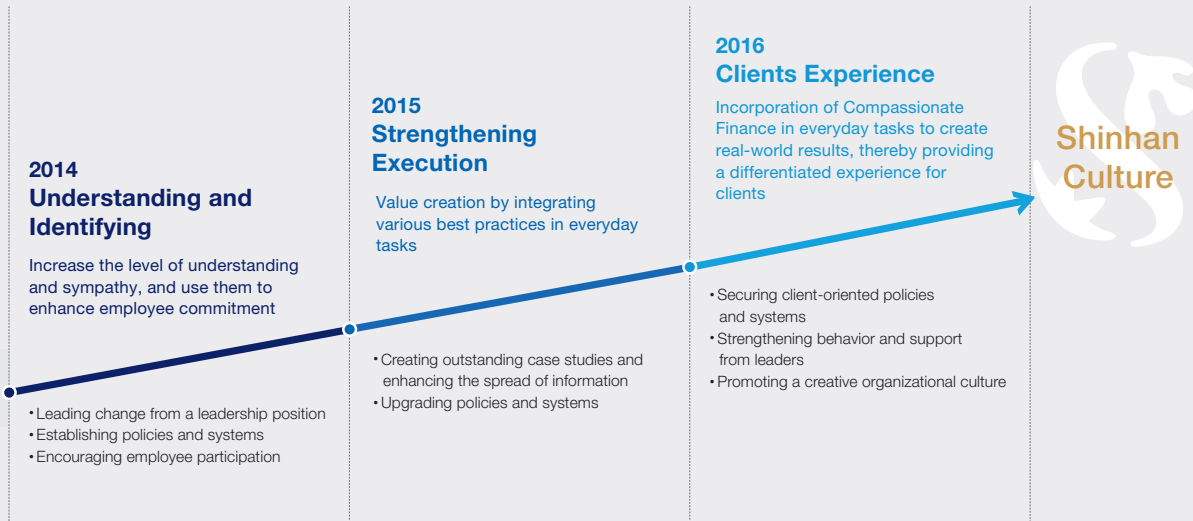
The Meaning of Compassionate Finance



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

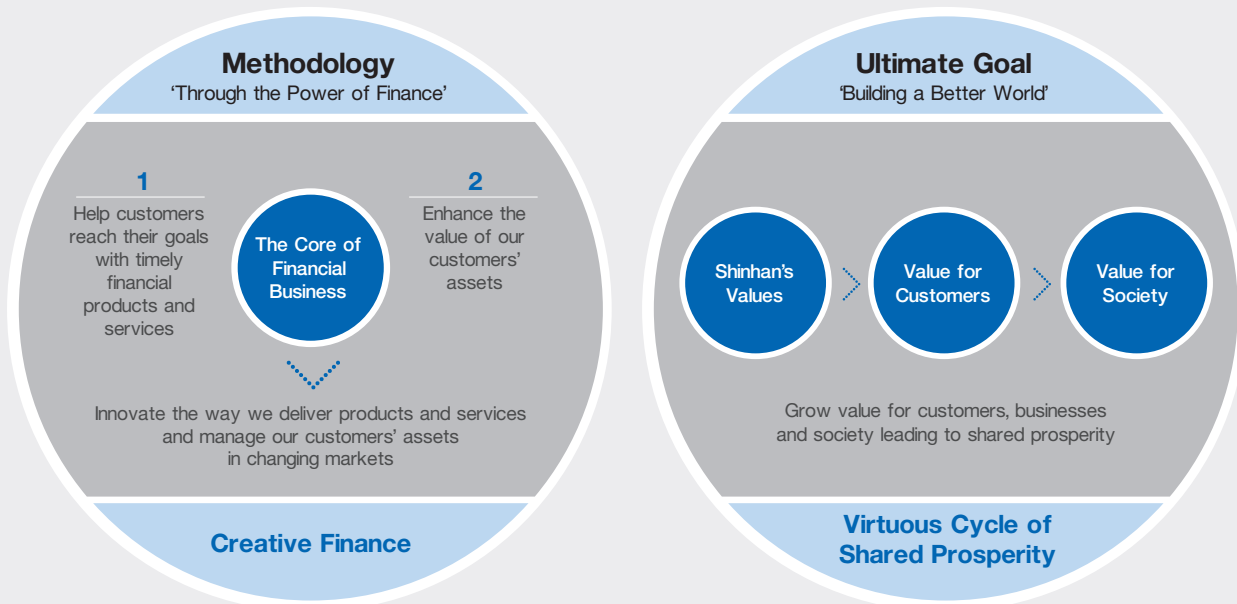
Group Mission

The Roadmap of 'Compassionate Finance'



Compassionate Finance, Your Companion for the Future

Promote a Virtuous Cycle of Shared Prosperity with Creative Financial Services



Group Mission

Compassionate Finance in Action

As a result of endeavors undertaken as part of a long-term roadmap, 'Compassionate Finance, Your Companion for the Future' has begun to show promising results. Shinhan Financial Group strives to be a trustworthy financial partner for clients through persistent pursuit of compassionate finance and development of differentiated products and services to build value for Shinhan and society as a whole.

Shinhan Bank

Start-up training for small entrepreneurs

Through business alliances with institutions that provide support for small businesses and start-ups, we provide training programs on start-ups for anyone who is considering starting a small business.



412 trainees

Loan to technology-driven start-ups

Loans are given to help potential SMEs with outstanding technology develop when they are just starting out.



KRW **363.2** billion

Shinhan Card

Redemption of arrears Using reward points

A process created to allow members who are overdue to make repayments using their credit card points.



Users
212,958

Providing customized Self-FDS (Fraud Detection Systems) to ensure safe card usage

In order to ensure safe and convenient card usage, our clients can preset conditions for credit card usage according to country, timeframe, transaction type, and amount.



cardholders
340,149

Supporting the sale of SME products through the Allthat shopping mall

Shinhan Card operates an online shopping mall known as the Allthat shopping mall to provide an opportunity for SMEs to showcase and sell high-quality products.



SMEs
Number of companies registered with the mall
167

Shinhan Investment Corp.

Introducing a system to evaluate client returns

A mutually beneficial business model for clients and Shinhan was established by linking returns for clients in retail banking and WM operations with key performance indicators.



Compassionate Finance Camp for teens

Launched in 2012, this program seeks to provide education related to financial concepts for middle and high school students.



students
1,273

Shinhan Life Insurance

Payment of uncollected insurance payments

A campaign that ensures uncollected insurance payments are paid to clients who did not receive their designated insurance payouts.



KRW 37.9 billion in cases
108,160

Follow-up service

A follow-up service for clients whose insurance agents have changed. Provided that the policyholders have given their consent, the new agent visits them in person to offer new services and answers questions related to insurance contracts.



policyholders
255,068

Shinhan Happy Silver finance class

This is a program that provides lectures for clients over the age of 60 on various areas such as retirement planning, asset management, and fraud prevention.

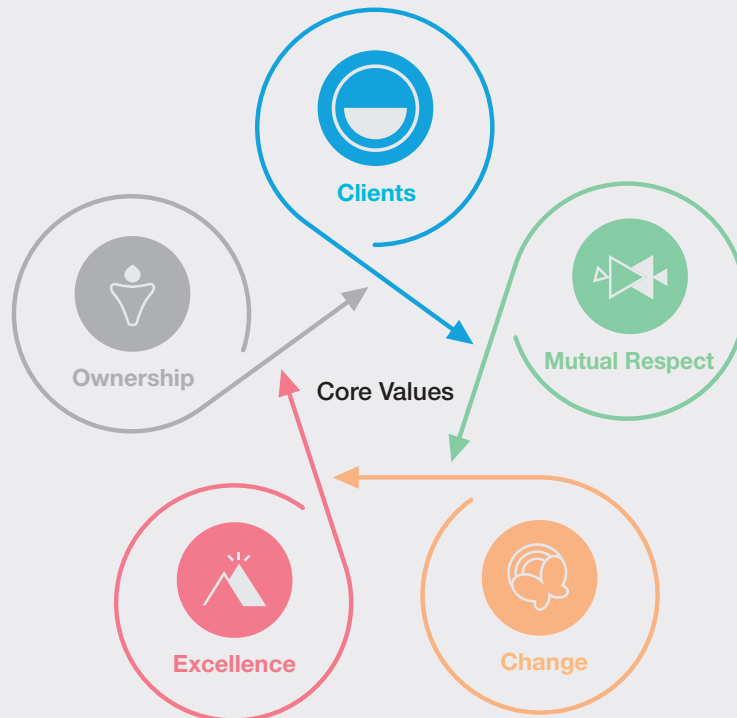


trainees
13,218

Core Value

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

Core Values



Meaning

Clients

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

Mutual Respect

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

Change

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

Excellence

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






Ownership

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

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

Code of Conduct

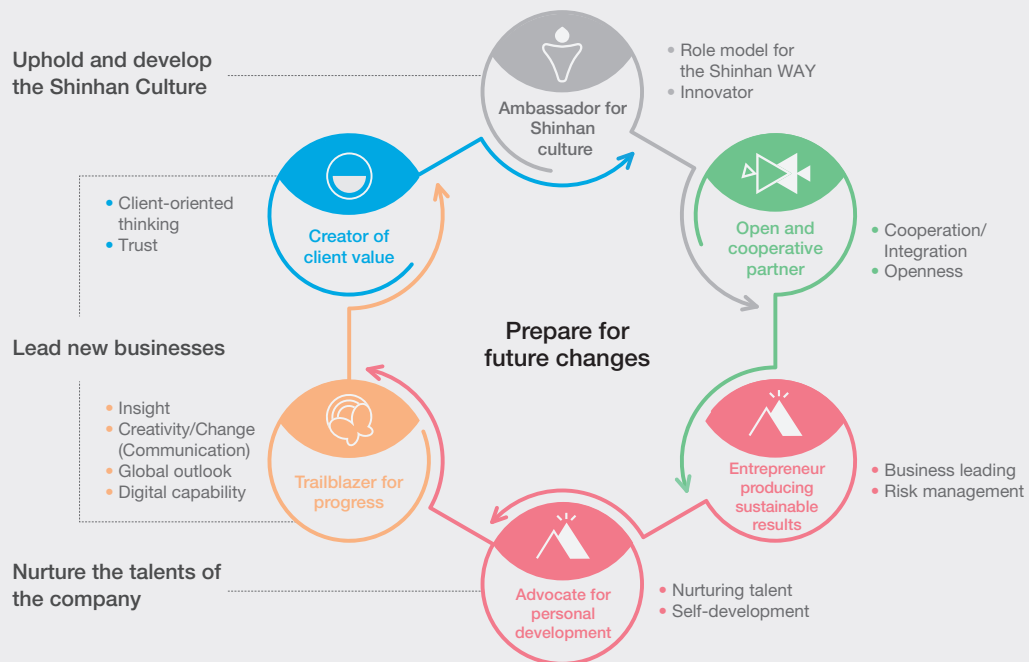
The code of conduct outlines the standards for Shinhan members' judgment and actions when applying the core values in carrying out their duties.

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

The Shinhan Leader

Due to the paradigm shift in the financial sector resulting from low growth and intensified competition in digital markets, Shinhan Financial Group has established new standards for management ascribed to the Shinhan Leader. Internal and external factors affecting the Group were taken into consideration to better reflect our mission and core values, including the values required by industry and stakeholder requirements. By reflecting Shinhan’s culture, future environment, and the opinions of our management and employees, we developed a role model for the Shinhan Leader, with six articles included in the code of conduct.

Role Model for the Shinhan WAY



Code of Conduct

Ambassador for Shinhan culture

Practice and promote the Shinhan WAY with conviction and sincerity, and uphold and develop the Group’s culture in step with changes in the business environment. Ownership is one of core values, aimed at embodying the Shinhan WAY so that employees unite under the idea of One Shinhan.

Creator of client value

Think from the client’s perspective when making judgments and decisions, and build a relationship of trust by observing high ethical standards. Products and services are provided based on an in-depth understanding of clients’ needs and their perspective.

Open and cooperative partner

Combine resources and capabilities for optimal group-wide performance and cultivate strategic partnerships through cooperation. Pursue strategic action from the group’s perspective and provide constructive feedback, ensuring the Group benefits from decisions.

Trailblazer for progress

Predict the future based on knowledge and insight, and make changes through honest communication and cooperation. Due to the paradigm shift from the digitalization, all members of management set new directions based on new insight.

Entrepreneur producing sustainable results







Discover new business opportunities from a comprehensive standpoint, and deliver sustainable results through preemptive risk management. Embrace an integrated view to discover business opportunities for the Group, thereby delivering sustainable performance.

Advocate for personal development

Make a long-term commitment to nurturing talented employees, create an open corporate culture, and continue to acquire new skills and knowledge. Identify the capabilities required by employees from a long-term perspective and set up plans for further development.

Code of Conduct for the Shinhan Leader

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

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

Group Vision and Strategy

Group Vision

Since the inception of the financial holding company in 2001, Shinhan Financial Group has strived to become a leading world-class financial group in Korea, consistently pursuing balanced growth between banking and non-banking subsidiaries. Its differentiated business models and new growth drivers have allowed the Group to stay ahead of its peers based on its core competencies and systems.

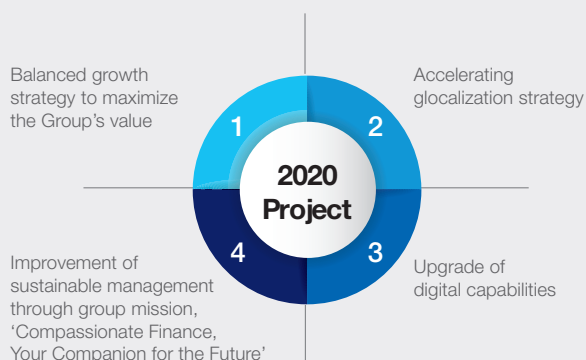
Especially, we have initiated mergers with Chohung Bank, LG Card, and Goodmorning Securities aimed at promoting conglomeration and consolidation. In spite of the 2008 global financial crisis, we have continued to move forward as a result of our efforts to improve the Group's business management systems.

In 2011, Shinhan Financial Group set 'Compassionate Finance, Your Companion for the Future' as its mission to achieve sustainable development, while also implementing matrix-type corporate structures (CIB, PWM) to pursue synergy creation among subsidiaries. Through these efforts, we will strive to become the leading world-class financial group in Korea.



2020 Project

Recently, Shinhan set a new mid-term goal as growing into 'Asia's leading financial group' by the year 2020. We must challenge ourselves to transcend previous growth rates to achieve this goal. We will maintain Shinhan's strengths of stability and optimal growth while expanding globally so that we can take the next big step toward becoming the foremost financial group in Asia.



2017 Business Plans

We will effectively execute strategies through creativity and enhance the speed of execution in response to internal and external factors. To achieve this, we plan to upgrade our key strategic priorities for achieving mid-term strategy goals in terms of speed and creativity.

Strategy 1. Digital Transformation

Based on digital technology, we aim to provide differentiated services to our customers. Using various new technologies, we not only offer new channels, services, and products, but also digitalize enterprise-wide business processes at the Group level. In addition, we will expand the digital ecosystem through convergence with Fintech start-ups and external platforms.

Strategy 2. Securing leadership in the market

We strive to achieve shared prosperity by improving both client and corporate value through new endeavors, such as upgrading our competencies in asset management and persistently developing leading products. In addition, we will pursue creative innovation in new businesses in the financial sector, including investment trusts, real estate management, and retirement planning, thereby bolstering client returns and securing the Group's future growth.

Strategy 3. Glocalization

In order to secure the Group's future growth, we plan to explore new market entry strategies, especially in the Asian market. We will also establish differentiated business models to achieve sustainable growth to each country we do business in, while developing client-oriented products and services that match local market preferences.

Strategy 4. Creating One Shinhan value

From the perspective of One Shinhan, we will actively respond to client needs by providing a comprehensive set of financial services and products, and enhance the Group's operational efficiency. We will integrate the Group's channels for our clients, and work to develop convergence products and services to strengthen our shared competencies.

Strategy 5. Proactive Risk Management

We will proactively respond to changes in the external environment to ensure sustainable growth. Differentiated risk management will be offered by analyzing potential risks. We will also focus on the safety and security of our systems and information through the promotion of digital financial services.

Strategy 6. Reinforcing strategic cost-savings

We plan to improve our cost structure and reallocate resources to ensure future growth. In addition to a productivity-oriented organizational structure, we will enhance the operational efficiency of channels, processes, and marketing strategies, while striving to improve our business portfolio through investments in fast-growing companies.

Strategy 7. Embodying the Group's mission

We will further upgrade our policies and operating system according to our mission of 'Compassionate Finance, Your Companion for the Future.' We aim to further invigorate the group's creative and proactive culture while nurturing a new generation of leaders base on the Shinhan WAY.

Corporate Governance

Shinhan Financial Group's Corporate Governance Grades by the Korean Corporate Governance Service

Category	2012	2013	2014	2015	2016
Corporate governance grade	A+	A+	A+	A+	A+

Principles of Corporate Governance

In order to promote long-term development of the Group, and to protect the value of stakeholders such as shareholders and consumers, Shinhan Financial Group strives to ensure transparency, integrity, and stability of its corporate governance. As a result, Shinhan Financial Group received an integrated assessment grade of A+ from the Best Corporate Governance Awards between 2012 and 2016, conducted by the Korea Corporate Governance Service, an affiliate organization of the Korea Exchange, while also being the first in Korea to receive the Grand Prize for an outstanding corporate governance structure for two consecutive years.

Transparency of Corporate Governance

In order to ensure transparent corporate governance, the company actively discloses all corporate governance-related work processes, standards, procedures and results, while also making public all activities by the Board of Directors and subcommittees, including the date of the meeting, agenda items, board meeting attendance lists and approval by outside directors, on the company's website. The company also focuses on enhancing shareholder value by practicing a concentrated voting policy to protect the rights of minority shareholders, and through a policy on exercising voting rights in writing to protect the voting rights of active shareholders.

Integrity of Corporate Governance

In promotion of a sound governance structure, the company promotes the independence and professionalism of its Board of Directors, and adheres strictly to external regulations such as the Korean Commercial Act and the Financial Holding Companies Act, as well as internal regulations such as articles of incorporation, corporate governance bylaws, and BOD regulations. The company also complies and responds to all BOD related matters specified by related laws and best practices on corporate governance of financial companies.

Stability of Corporate Governance

In order to ensure a stable governance structure through a system of checks and balances, the power to make decisions and execute plans has been delegated to the Board of Directors and the management, respectively. Subsequently, the management has to report back on the status of plan execution to the Board of Directors. Additionally, the ratio of outside directors is 83%, much higher than the legal requirement of 50%, ensuring that the Board of Directors can act as a safeguard.

Role of the Board of Directors

The Board of Directors is the highest decision-making body tasked with managing the Group's most important issues, including the CEO's appointment and dismissal, the establishment and approval of the company's business plans, and ensuring that management complies with the principles for responsible management through a system of checks and balances. The company endeavors to include different perspectives in the Group's decision-making processes by including outside directors with diverse backgrounds and professional insights, a CEO who is a professional financial manager with a good understanding of the Shinhan culture, and non-executive directors on the Board of Directors. When necessary, specialists inside and outside the company are hired to support the BOD's decisions.

Sub-committees of the BOD

Corporate Governance & CEO Recommendation Committee

This committee consists of the CEO and at least four but no more than six outside directors. It is responsible for appointing a CEO candidate who satisfies the qualification criteria, such as the code of ethics, Shinhan values, professional competencies, and organizational management, while also serving the public interest and implementing sound management practices. The committee is also responsible for matters related to recommending CEO candidates, including setting CEO qualification criteria, evaluating the CEO candidate pool, verifying the qualification of the final candidate, and recommending CEO candidates, and reporting on related matters to the Board of Directors.

Audit Committee Member Recommendation Committee

This committee is responsible for recommending and nominating candidates for the Audit Committee by taking into consideration their professional competencies, and handling other matters referred by the Chairperson only to the extent necessary to recommend and nominate candidates for the Audit Committee.

Outside Director Recommendation Committee

This committee is responsible for establishing, reviewing and revising principles for the appointment of outside directors, The committee is also developing a candidate pool, and verifying the qualification of candidates. Nominated candidates are recommended based on whether their professional competencies and independence match the characteristics of the Group's growth history and organizational culture, as well as developing and evaluating nominated candidates for outside director positions.

Audit Committee

This committee deliberates and approves all matters delegated by auditors and the Board of Directors. The committee also oversees the performance of duties by directors and management to ensure they took reasonable steps to make informed decisions. The committee consists of more than three but fewer than five members according to the articles of incorporation and the committee's regulations, with outside directors comprising two thirds of committee membership. The objectivity of internal audits is achieved and maintained by being conducted independently of the Board of Directors and management.

Risk Management Committee

This committee oversees and makes determinations on all issues relating to various risks arising from within the Group and its subsidiaries in a timely manner. The committee consists of more than two but fewer than five members with outside directors as the majority of the members. Additionally, at least one of the members will be a financial expert with financial or accounting experience in the areas of finance or commerce.

Board Steering Committee

This committee is responsible for ensuring the efficient operation of the board. The committee consists of less than five members including the CEO, with outside directors as the majority of the members.

CSR Committee

This committee is responsible for fulfilling the Group's various social responsibilities as a corporate citizen by actively responding to the demands of internal and external stakeholders, including clients, shareholders and local communities. The committee is responsible for setting directions for the Group's corporate social responsibilities and deciding on related matters.

Remuneration Committee

This committee is responsible for setting the basic principles needed to establish a sound performance reward system to ensure that compensation schemes are appropriately interrelated with the Group's financial condition and risk status. The committee consists of more than three but fewer than five members and is run independently of the management with outside directors as the majority of the members.

Sub-committees of the Board of Directors

<p>Corporate Governance & CEO Recommendation Committee</p> <hr/> <p>Chair : Lee Sang-kyung Executive Director : Cho Yong-byoung Outside Director : Lee Sang-kyung, Lee Sung-ryang, Lee Jung-il, Yuki Hirakawa, Philippe Avril</p>	<p>Audit Committee Member Recommendation Committee</p> <hr/> <p>All Outside Directors</p>	<p>Outside Director Recommendation Committee</p> <hr/> <p>Chair : Park Cheul Executive Director : Cho Yong-byoung Outside Director : Park Cheul, Park Ansoon, Lee Sang-kyung, Lee Heun-ya</p>	<p>Audit Committee</p> <hr/> <p>Chair : Lee Manwoo Outside Director : Lee Manwoo, Lee Sang-kyung, Lee Sung-ryang</p>
<p>Risk Management Committee</p> <hr/> <p>Chair : Joo Jaeseong Outside Director : Joo Jaeseong, Park Cheul, Lee Heun-ya, Philippe Avril</p>	<p>Board Steering Committee</p> <hr/> <p>Chair : Cho Yong-byoung Executive Director : Cho Yong-byoung Outside Director : Park Cheul, Lee Manwoo, Lee Heun-ya, Joo Jaeseong</p>	<p>CSR Committee</p> <hr/> <p>Chair : Joo Jaeseong Executive Director : Cho Yong-byoung Outside Director : Joo Jaeseong, Park Ansoon, Lee Manwoo, Yuki Hirakawa</p>	<p>Remuneration Committee</p> <hr/> <p>Chair : Lee Sung-ryang Outside Director : Lee Sung-ryang, Lee Sang-kyung, Philippe Avril</p>

Risk Management

Shinhan Financial Group has established and designated risk management as one of its underlying principles for all employees. Guided by this basic philosophy, we manage various risks that arise in each business area, while also taking an integrated approach to risk management at the group-level through a semi-matrix that effectively coordinates both Group-wide integrated management and subsidiary-level independent management of risks.

Risks Management Tools

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

Group-wide comprehensive risk monitoring system

Shinhan runs a comprehensive system for monitoring macroeconomic indicators, the Group's key risk indicators, and maintains an up-to-date risk position for timely identification of potential risks and key issues. Potential risks and key issues go through risk impact analysis to ensure the development of preemptive countermeasures at the Group level.

Group-wide Risk Expert Network (REN)

Shinhan has formed a Group-wide network consisting of risk experts who promote a corporate culture of risk management and train risk officers through Group-wide training courses and workshops. These experts share their experiences and capabilities in risk management by business area and risk type to upgrade the Group's overall risk management capabilities.

Group-wide corporate credit assessment system

Shinhan adopted a Group-wide corporate credit assessment system, allowing the Group and its subsidiaries to take an integrated approach when it comes to the credit rating of a single corporate borrower. By preemptively managing credit risks, we enhanced the quality of the Group's credit portfolio. As of the end of 2016, the Financial Supervisory Service approved the system for use in the Foundation Internal Rating Based Approach to further improve the Group's BIS ratio.

Risk Management Organization

The Group's risk management organization consists of the Group Risk Management Committee, the Group Risk Management Council, the Group Chief Risk Officer, the Group Risk Management Team, and relevant risk committees and risk teams at subsidiary level.

Group Risk Management Committee

The Group Risk Management Committee is the highest decision-making body for establishing basic policies and strategies to handle the Group's risk issues. The committee consists of outside directors from the Group's board, and focus on the following agenda items:

1. Establish basic risk management policies
2. Set reasonable risk limits for the Group and each subsidiary
3. Approve appropriate investment limits and/or maximum loss limits
4. Enact and amend risk management regulations
5. Decide on matters related to FSS approval of Group's internal ratings-based approach on credit assessment system
6. Decide on other matters deemed necessary by the BOD

Group Risk Management Council

As a meeting group for discussing risk policies and strategies at the Group level and subsidiary level, as well as approving actions plans to implement policies established by the Group Risk Management Committee, the Group Risk Management Council consists of the Group Chief Risk Officer (CRO), and the CROs of our major subsidiaries. The council is responsible for the following agenda items:

1. Determine the risk appetite for the Group and its subsidiaries
2. Establish and adjust risk limits for the Group and its subsidiaries
3. Decide on matters related to operating a risk assessment system
4. Coordinate Group-wide risk management practices
5. Manage risks related to funding subsidiaries
6. Review other risk-related issues requested by the BOD

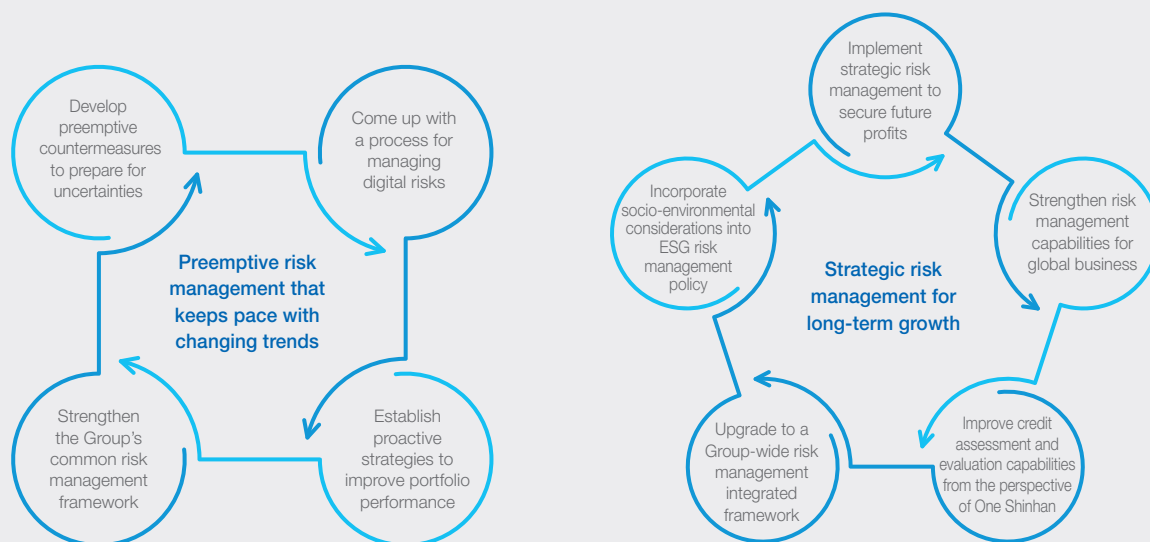
2016 Key Performance

In 2016, Shinhan conducted an in-depth analysis of group's portfolio, customers' asset, stress test for retail and corporate asset, and foreign liquidity. In addition, we developed appropriate countermeasures for the U.S. interest rate hike, China's hard landing, and a prolong period of low interest rates. Shinhan also identified potential risks related to increase market volatility stemming from a weak yuan and Brexit to ensure preemptive risk management. We improved BIS ratio by approval to use the Foundation Internal Rating Based Approach from the Financial Supervisory Service in the fourth quarter of 2016.

2017 Business Plans

For the year 2017, we made 'delivering sustainable results through preemptive risk management that keeps pace with changing trends' as our risk management goal in order to maintain sustainable growth and respond quickly to high levels of uncertainty in a rapidly changing environment. In order to achieve this, we will develop preemptive countermeasures and come up with a process for managing digital risks, as well as establish proactive strategies to improve portfolio performance. For the sustainable growth of the Group, we will implement strategic risk management policies that secure long-term profits. We will also strengthen our risk management capabilities for global business, thereby improving credit assessment capabilities from the perspective of One Shinhan.

2017 Shinhan Financial Group's Risk Management Plan



Shinhan Financial Group's Key Risk Indicators

(Unit: %)

	2013	2014	2015	2016
Credit Cost Ratio	0.59	0.43	0.43	0.47
NPL Ratio	1.26	1.15	0.87	0.74
Delinquency Ratio (Shinhan Bank)	0.39	0.31	0.33	0.28
Delinquency Ratio (Shinhan Card)	1.80	1.89	1.44	1.43

Sustainability Management

Under the Shinhan Financial Group's mission, 'Compassionate Finance, Your Companion for the Future,' Shinhan pursues sustainable management practices to create a virtuous cycle of shared prosperity that provides greater value for our customers, Shinhan, and all of society by building a better world through the power of finance.

Shinhan Financial Group has established nine socially responsible management strategies related to the economy, society, and the environment, and by implementing these strategies, we will achieve sustainable growth to further bolster our own competitive advantage and provide greater value to customers and society. Shinhan Financial Group was Korea's first financial holding company to establish a Corporate Social Responsibility (CSR) Committee as one of the BOD sub-committees and as the top decision-making body in matters related to the Group-wide CSR issues. The committee makes objective and reasonable decisions, and focuses on developing an effective implementation system.

Shinhan Financial Group has complied with global standards of sustainability management by joining global initiatives. Shinhan Bank and Shinhan BNP Paribas Asset Management are signatories to the Carbon Disclosure Project (CDP). In addition, Shinhan Bank, as a UN Global Compact member, abides by ten principles in the areas of human rights, labor, the environment, and anti-corruption, as well as acting as a member of the United Nations Environment Programme-Finance Initiative (UNEP-FI). Furthermore, Shinhan Bank has pledged to fully support the UN Commission on Human Rights' Universal Declaration of Human Rights and Guiding Principles on Business and Human Rights.

2016 Key Performances

Creating customer value through customer-oriented management and information protection

Shinhan Financial Group endeavors to improve customer value to ensure shared prosperity for the future, and has taken various actions to protect consumers' rights and interests. Shinhan Bank has established a consumer protection system that covers everything from product development and selling to follow-up measures through analyzing problems from the 'Customer Voice' on a weekly basis. In addition, Shinhan Bank earned recognition for excellence in consumer protection by receiving satisfactory grades from 'Evaluation of Financial Consumer Protection 2015' conducted by the Financial Supervisory Service in 2016. In order to safeguard customer protection, we not only comply with related laws, including the Credit Information Use and Protection Act and the Financial Holding Companies Act but also enhanced our security standards by acquiring Information Security Management Systems (ISMS) certification, conducting weekly security checks on institutions with access to personal information, and setting up a system for detecting intrusions and misuse, thereby strengthening the Group-wide security control system.

Enhancing credibility by strengthening ethical management

Shinhan Financial Group persistently strengthened ethical management by employees' training and analyzed relevant laws to respond promptly to any enactment and amendment of financial-related laws and regulations, including the Act on Corporate Governance of Financial Companies, the Regulation on Supervision of Financial Holding Companies, and the Improper Solicitation and Graft Act. Due to stricter regulations enacted to prevent disorder in the markets, including a prohibition on the use of important undisclosed information under the Financial Investment Services and Capital Markets Act revised in July 2015, we improved awareness through Group-wide online training courses on ethical management. Furthermore, we distributed a Group manual for proposed standard operating practices, and provided training programs for all employees to ensure compliance with the Improper Solicitation and Graft Act which came into force in July 2016.

Implementing risk management that considers social and environmental factors

Shinhan Financial Group has taken action on environmental, social, and governance (ESG) issues by reviewing social and environmental factors before providing funds for loans, investments, and large scale project financing. We restricts lending to business that may have an adverse effect on society and examines speculative transactions and the financial reputation of borrowers, major shareholders, and management during investment process.

Developing human resources and creating a great workplace culture

In order to strengthen the basis for sustainable management practices and provide a vision for its employees through long-term talent development, Shinhan operates a Group-wide talent development program that includes Shinhan Management School and Shinhan Global Business School. Shinhan Bank adopted a 'Smart Work' system to create an open corporate culture that allows creative thinking, including measures such as a Smart Work Center, telecommuting, and flexible working hours.

Contributing to the development of local communities through social contribution activities

Shinhan provides financial education programs focusing on the promotion of social contributions in the three key areas of welfare, culture, and the environment. Shinhan Bank signed an MOU with the Ministry of Education to offer career experience training programs at branches across the nation, and Shinhan Card provided financial education programs that offer hands-on training in the latest financial products, such as Fintech and Easy Payment Services. In addition, we helped improve the lives of the socially underprivileged and vulnerable groups, and enhanced the cultural welfare of citizens through the Shinhan Music Awards, projects to construct libraries, and a program for developing young musical talent outside of schools.

Increasing financial inclusion for the financially underserved people

Shinhan Bank conducts various activities to support low-income households and SMEs. In 2016, Shinhan Bank extended KRW 2.81 trillion 'New Hope Spore Loan', an industry-wide loan product designed for low-income customers. Shinhan Bank offered a variety of microfinance programs such as 'New Hope Savings', 'SHB Household Debt Healing Program', and mid-range interest rate loan products. Through these efforts, the Financial Supervisory Service designated Shinhan Bank the 'Best Bank in Micro-financing' for four consecutive years.

Pursuing shared development with suppliers and supporting their CSR activities

Shinhan has persistently pursued shared prosperity that includes complying with the basic principles of mutual growth through a fair evaluation process, and listening to suppliers' suggestions in its daily operations. Furthermore, we encourage our suppliers to reflect the Group's CSR practices in their management practices, ensuring social, environmental and ethical management.

Developing environment-friendly products and services

Shinhan develops a variety of financial products designed to encourage customers to promote environment-friendly lifestyles and businesses. Along with increased concerns about the depletion of fossil fuels and other environmental issues around the world, Shinhan Bank and Shinhan Investment Corp. provide support for the construction of power plants that use diverse new and renewable energy sources, including wind power, biomass, solar power, and fuel cells. Through these efforts, we contribute to reducing the use of fossil fuels and expanding green energy production facilities, thereby helping reduce environmental impacts at the national level.

Using resources efficiently and reducing environmental impacts

Besides producing a CSR Report, Shinhan Bank strives to ensure its internal management system related to environmental impacts by publishing an Environmental Report that discloses its emissions of environment pollutants and greenhouse gases. Meanwhile, we obtained ISO 14001 certification for our environmental management system in 2016, having acquired ISO 50001 certification for our energy management system in 2012. These systems will ensure environmental impacts to minimize through environmental friendly management practices, products and services.

Ethical Management

Shinhan Financial Group seeks to secure the customers' trust and grow into a leading global financial group that enjoys unwavering trust from its customers, shareholders, other stakeholders, and society. Shinhan Financial Group sets higher standards for ethical management every year in its endeavor to become Korea's leading ethical financial group.

At Shinhan Financial Group, the Group's compliance officers are responsible for ethical management practices. A compliance officer for the holding company was appointed in February 2010 to oversee the Group's internal controls and ethical management pursuant to the Act on Corporate Governance of Financial Companies.

Establishment and Enforcement of the Code of Ethics

In June 2011, we established a Group Code of Ethics to apply our ethical management philosophy by upgrading the 'SFG Employee Code of Ethics on Finance' adopted in July 2005. In order to reinforce the execution of ethical practice, we also adopted 'Employ Code of Conduct' in 2012. In addition, each subsidiary of Group put in place its own ethical standards to prevent bribery and corruption as well as protect personal information. These standards outline ethical virtues and values that employees should follow as corporate citizens and participants in the financial sector.

In June 2014, Shinhan Financial Group established its Declaration of Human Rights based on the basic principles of human rights and human respect. The details are in line with UN's commission on Human Rights' Universal Declaration of Human Rights and Guiding Principles for Corporations and Human Rights. In the second half of 2016, we raised employee awareness of compliance related to the Improper Solicitation and Graft Act, and established and distributed a Group manual on proposed standard practices to all subsidiaries to prevent bribery and corruption.

Programs for Ethical Management

In encouraging ethical management, Shinhan supports various programs in compliance with its management philosophy and each subsidiary's code of ethics. We continue to improve and upgrade programs to match higher social and ethical standards on an annual basis.

Shinhan Financial Group

Shinhan Financial Group established Group-wide guidelines and a manual on internal transactions to prevent illegal transactions among the Group and its subsidiaries. Based on this, all subsidiaries are inspected on the appropriateness of their internal transactions and are required to report the results. As such, we are constantly working to improve the transparency and fairness of our Group's management. In November 2012, we established a code of conduct for the Group's suppliers to ensure shared prosperity, and applied these to the suppliers of all subsidiaries. In 2013, we set up a

VOC Channel for suppliers on our website to collect complaints and suggestions. As such, we are making every effort to support the sustainable growth of suppliers and lay the foundation for contributing to local communities and the environment.

Shinhan Bank

In order to strengthen ethical awareness, Shinhan Bank's employees are asked to make a pledge to comply with the code of ethics annually. In 2016, we revised the content of the pledge to include details on complying with the Improper Solicitation and Graft Act, the prevention of money laundering, and the workplace etiquette & sexual harassment. Furthermore, Shinhan Bank conducted audits on employees involved in transactions of financial investment products to prevent unfair trade practices, such as improper use of undisclosed information by employees in accordance with the Financial Investment Services and Capital Markets Act. Shinhan Bank also conducted compliance self-check in the form of a quiz through our intranet platform on a monthly basis. Shinhan Bank adopted and operated a fair trade self-compliance program to prevent unfair trade practices and unfair competition in accordance with the Monopoly Regulation and Fair Trade Act, and provide training programs on fair transactions for all employees held twice a year.

Shinhan Card

Shinhan Card requires its employees to sign a compliance pledge upon joining the company. In order to eradicate illegal credit card solicitations Shinhan Card asked employees to pledge to implement appropriate sales practices. In 2016, Shinhan Card included the provisions of the Improper Solicitation and Graft Act in Shinhan Card's internal regulations and provided training program for all employees. Furthermore, Shinhan Card regularly checks to see whether employees comply with laws and regulations related to their daily duties, through compliance self-checks (annually) and the self-examinations in each department (monthly).

Shinhan Life Insurance

In order to prevent financial incidents and moral hazard, Shinhan Life Insurance has included internal control management outcomes in its performance indicators when evaluating management's performance since 2014. Starting from 2016, these were also reflected in the head office's performance indicators. In addition, Shinhan Life Insurance introduced internal control self-checks and monitoring based on separate checklists for each subsidiary to raise ethical awareness among employees, held at the head office' and branch offices on a monthly basis.

Leading a More Transparent Financial Culture

Shinhan works to prevent possible financial incidents in advance through its reporting system on financial irregularities, which allows customers to report breaches of law and/or irregularities by employees. We also have whistleblower reporting system, which allows employees to report violations of laws, internal regulations and the code of ethics. We provide online and offline training programs to raise employee awareness on various issues, such as a transparent promotion culture, proper stock transactions, healthy investment practices, and the prevention of bribery during holiday seasons. In particular, since 2012, we have been sending a notice to all Group employees preventing the sending or receiving of gifts between employees during major holidays.

Ethical Management Training

In order to strengthen the Group's ethical standards and legal compliance policies in all business activities, Shinhan conducts ethical and compliance training programs regularly for all employees. All employees are required to participate in rank-specific training, or take an online training session at least once a year. Since 2011, we have provided support to all employees with a Group-wide online training program on ethical management and legal compliance. This allows all Group companies to easily understand and execute Group's philosophies and basic values of ethical management. Furthermore, SFG produced webtoon videos that showed examples of the Group's code of ethics in a variety of situations, and distributed them to the Group's employees every month starting from 2016. In the second half of 2016, we provided a Group-wide online training program that also covered the Improper Solicitation and Graft Act, as well as group and on-site training programs.

Shinhan Bank

Shinhan Bank designated the second week of every month as a period for compliance training. During this period, Shinhan Bank sends out a compliance letter containing information on the latest financial incidents, financial laws, and the best ethical practices to all departments. This letter is distributed to employees by each department's compliance officer. In addition, newly joined employees, PB directors and employees are required to attend a Group-wide ethical training program.

Shinhan Card

Shinhan Card conducts annual online training programs for all employees to raise awareness and prevent financial incidents (a total of 3,663 employees completed the training in 2016). In addition, Shinhan Card provided a group training program on ethical management and legal compliance for branch office managers to raise ethical awareness in the front office (20 sessions in 2016), and invited external specialists to hold special lectures on various topics (a special lecture on the Improper Solicitation and Graft Act, and a seminar on Fintech laws in 2016).

Shinhan Investment Corp.

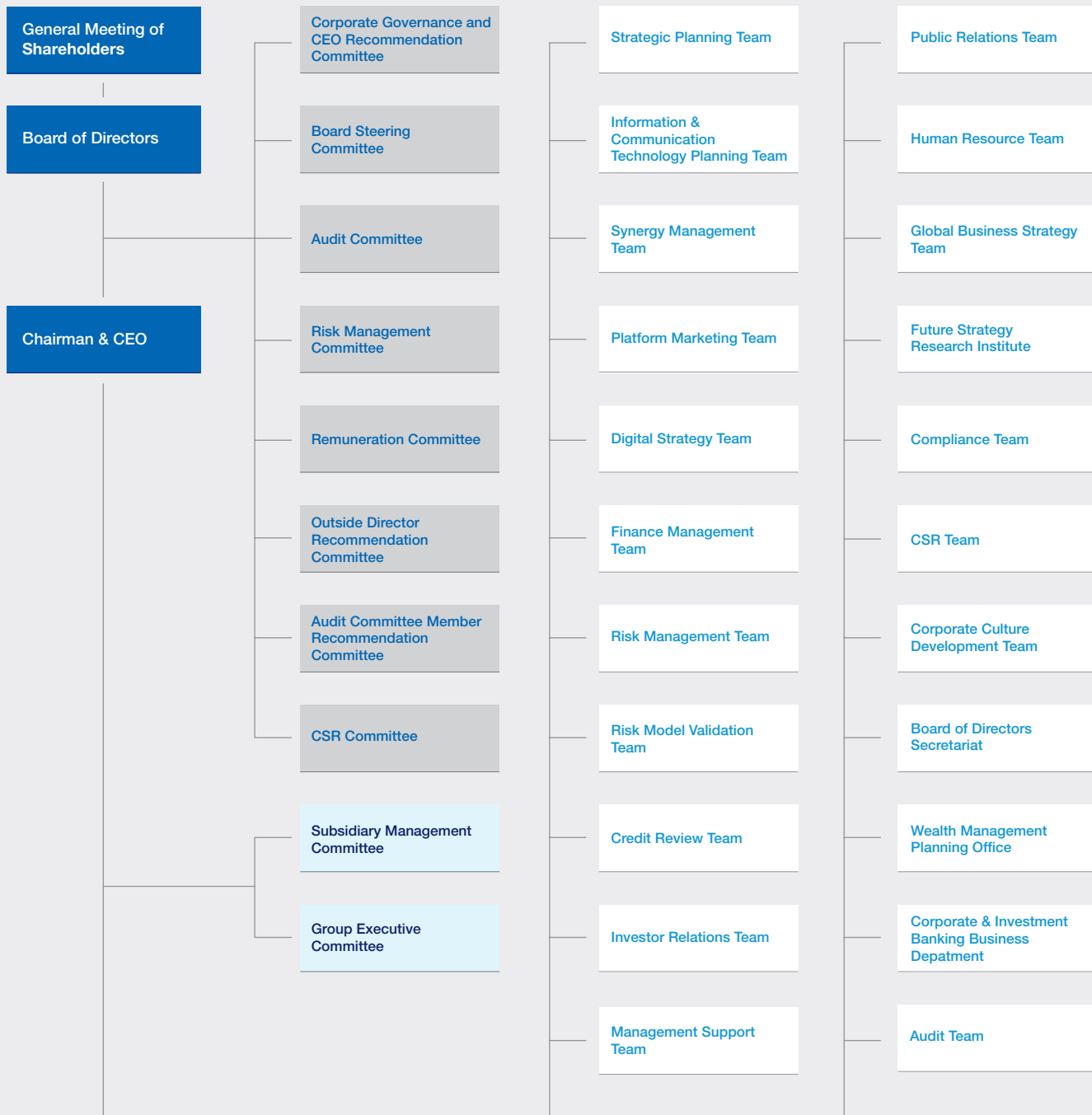
Shinhan Investment Corp. conducts an annual compliance and ethical awareness training program for all employees to raise awareness and prevent financial incidents. Shinhan Investment Corp. also educated branch offices on changes finance related laws and systems, important compliance monitoring tasks, and ways to prevent financial incidents and fraud. Every year, Shinhan Investment Corp. designate a compliance officer at each branch office and the headquarter department to promote self-training activities.

Shinhan Life Insurance

Shinhan Life Insurance included ethical and compliance awareness in its annual training program for employees and planners (58 sessions in 2016).

Going forward, Shinhan Financial Group will continue to practice high standards of ethical management and fulfill its responsibilities as a responsible corporate citizen.

Organization



Business Portfolio

SHINHAN FINANCIAL GROUP



1) Currently in liquidation proceedings.
 2) We and our subsidiaries currently own 36.7% in the aggregate.
 3) We and our subsidiaries currently own 32.6% in the aggregate.
 4) We and our subsidiaries currently own 34.6% in the aggregate.
 5) We and our subsidiaries currently own 1.8% in the aggregate.
 6) We and our subsidiaries currently own 93.3% in the aggregate.
 7) We and our subsidiaries currently own 18.9% in the aggregate.

Review of Operations

Shinhan Financial Group has established a well-balanced business portfolio through consistent growth strategies and successful M&As. We also have implemented preemptive risk management practices, reinforced advanced management systems, and launched CIB and PWM centers. Going forward, we will maximize synergies among subsidiaries under the 'One Shinhan' concept, and expand our business overseas and digital technologies, thereby grow into a leading global financial group.

056	Synergy
058	Digital Banking
060	Global Business
062	Retail Banking
064	Corporate Banking
066	Wealth Management
068	Investment Banking
070	Credit Card
072	Brokerage
074	Insurance
076	Asset Management

Synergy

Active Customers



Shinhan Financial Group strives to create One Shinhan value by taking the customer's perspective.

18.4

Persons in million

SFG serves 18.4 million,
more than one-third of the population

Shinhan Financial Group has built a balanced and efficient business portfolio with bank and non-bank businesses. Based on our diversified portfolio, Shinhan offers comprehensive financial solutions and creates greater synergies for customers.

SFG's synergy activities not only constitute of cross-selling on various financial products of subsidiaries, but also develop One Shinhan solutions that integrate the capabilities of all subsidiaries. Shinhan also strive to maximize customer value by offering hybrid products jointly created by the banking, credit card, brokerage and insurance subsidiaries.

In 2016 Shinhan Financial Group provided integrated financial solutions to our customers under 'One Shinhan' strategy. In addition, Shinhan launched 'Shinhan FAN Club', an integrated reward program by seven subsidiaries to enhance customer value. Shinhan Financial Group also successfully established hybrid branch model with Wealth Management and Corporate & Investment Banking business since 2012. Drawing on its extensive customer base and subsidiaries' superior sales competencies, Shinhan Financial Group has since its foundation pursued as its core synergy strategy the channeling of its group-wide competencies into maximizing customer value.

2016 Key Performances

In line with its synergy strategic direction of 'One Customer, One Shinhan', Shinhan has selected and pushed forward the following key tasks.

First, bolstering new market responses

In line with the implementation of account switching services, we developed a product package of savings, credit card, installment savings, and loans for preferred customers. We extended preferential fees and interest rates to the family members of preferred customers, and conducted Group-wide joint marketing to minimize customer defection and attract new customers. We also introduced ISA (Individual Savings Account) products, aimed at support the accumulation of customer's property. Furthermore, in order to strengthen the Group's retirement business competencies, we consolidated Group-wide synergies into developing and promoting retirement products, and worked to improve employee competencies in the retirement segment as well.

Second, establishing an integrated marketing platform

In June 2016, Shinhan Financial Group launched 'Shinhan FAN Club', integrated reward program, to respond proactively to the intensified competition among financial group and FinTech Business. 'Shinhan FAN Club' was created by seven subsidiaries (Shinhan Bank, Shinhan Card, Shinhan investment Corp., Shinhan Life Insurance, Shinhan Capital, Jeju Bank, and Shinhan Savings Bank), surpassed 5 million subscribers by the end of 2016.

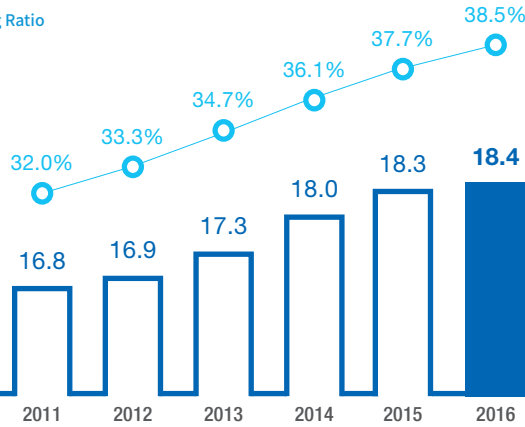
Lastly, upgrade of Group synergy model

Shinhan Financial Group has pursued cooperation within the Group, promoting hybrid branch model, strengthening collaboration with subsidiaries, and facilitating the use of big data. We expanded the areas of cooperation within the Group by recruiting new credit card users through Shinhan Life Insurance planner and launching My Car rental/lease program, new financial service with Shinhan Bank and Shinhan Card.

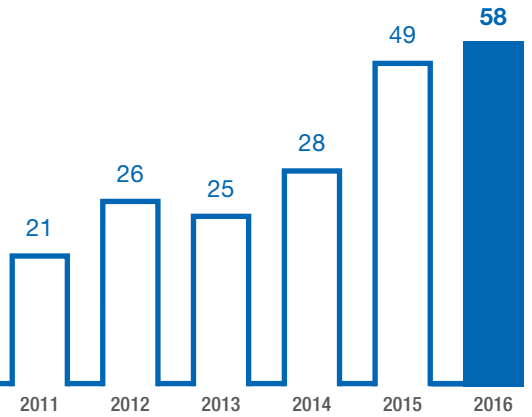
Number of Active Group Customers & Cross-selling Status

(Unit: Persons in million)

- + Active Customers
- + Cross-selling Ratio



Hybrid Branches



2017 Business Plans

In 2017, we will maintain 'One Customer, One Shinhan' as our strategic synergy direction to implement the Group's integrated marketing and unified One Shinhan solutions, as well as promoting creative synergies to strengthen our status as a market leader. To achieve this, we plan to establish the following three business strategies.

First, upgrade of the Group's integrated marketing

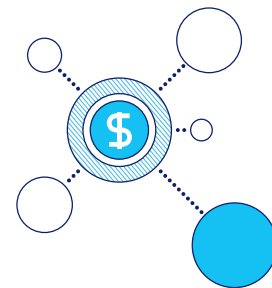
Shinhan Financial Group will enhance the 'Shinhan FAN Club' as its integrated marketing platform at the group level. We will further upgrade the benefits provided to Shinhan FAN Club users by increasing its use as a platform for joint marketing, developing a variety of specialized products and services, and expanding alliances from an integrated perspective. We plan to not only offer financial services with preferential fees and interest rates, but also promote a variety of non-financial content. We will continue to strengthen the accumulation of big data at the Group level to allow the sharing of customer information. Furthermore, we will also continue to promote cross-selling to customers who agree to receive related offers.

Second, strengthening One Shinhan strategy

Shinhan Financial Group plans to strengthen its synergy creation system through omni-channels within the Group and its subsidiaries. We will offer specialized products and services that systemize cross-selling marketing efforts through omni-channels that include both face-to-face channels and digital channels. As a result, our customers will be able to enjoy financial services in a convenient and consistent manner regardless of whether they use online or offline channels. We will create a virtuous cycle of integrated solution among the Group and its subsidiaries as well as partner companies.

Lastly, improvement of creative synergy competitiveness

Through collaboration with partner companies and the Group's creative ideas, Shinhan Financial Group will bolster its unique competitiveness to take preemptive action and respond to changes in the financial industry. We will take suggestions from employees and implement them by utilizing internal and external resources. We will also regularly look for ideas for synergy and collaboration derived from the suggestion platform of the Group and its subsidiaries. In addition, we will review all suggestions from an integrated perspective, provide support systems for collaboration at the holding company level, and create an environment where suggestions can be realized through implementation. Shinhan plans to pursue open innovation with external alliances. We will establish a system for supporting alliances and collaboration among the Group and its subsidiaries, as well as continuously promote such alliances to increase business opportunities and expand our customer base.



Digital Banking

Transactions through
Internet & Mobile Channels



Shinhan Financial Group will leverage Digital Transformation to provide a better future for our customers and the next generation.

59%

59% of our total transactions are conducted through indirect channels.

New digital technologies initiated by the Digital Revolution led to the collapse of boundaries between the financial and non-financial sectors. In particular, digital channels quickly emerged as one of the key factors determining the quality of financial services. The advent of various innovative technologies, including FinTech is expected to further accelerate the speed of change in the financial sector.

Shinhan Future's Lab, the industry's first collaboration program for FinTech companies launched in May 2015, maintains cooperation with a total of 40 FinTech companies including 17 new companies selected in February 2017. Furthermore, in December 2016, we began cooperation with local companies in Vietnam. This has set the foundation for global expansion.

2016 Key Performances

In 2016, Shinhan Financial Group continued to provide innovative and convenient services and products to customers. The Group boasted 11.6 million digital banking customers, while Shinhan Card recorded 7.6 million app. based credit card (Shinhan FAN Pay) users.

Sunny Bank, a mobile banking application launched in December 2015 that provides the industry's first non-face-to-face real name authentication, began full-scale operations in 2016. Sunny Bank has since processed 1.1 million foreign currency exchange transactions, as well as provided KRW 400 billion for Sunny Mycar Auto-Loans.

Shinhan Bank has developed two separate banking applications for mobile phone users: Sunny Bank and S Bank. The biggest difference between the two is that Sunny Bank offers simple and quick services in the areas of remittance, currency exchange, and basic loans while S Bank provides comprehensive services for the bank's existing customers.

In November 2016, we launched the industry's first robo-advisor service called M-Polio to popularize asset management. In addition, we provided the first comprehensive financial services to our customers on the mobile platform in the same month, allowing integrated login services to enable access to the Group's major services with a single login.

2017 Business Plans

In 2017, Shinhan Financial Group adopted the slogan, 'Digital Transformation' for digital strategy to ensure a preemptive and prompt response to the rapidly changing industry environment. Digital transformation is not limited to specific products and services, but refers to the digitalization of the Group's whole operation. We will implement digital strategies that prepare for the future of finance and put in place practices based on related core principles.

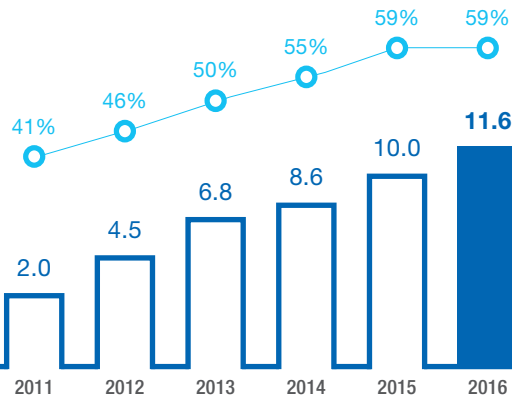
First, establishing a customer-oriented One Shinhan digital ecosystem

Shinhan Financial Group strives to provide integrated financial services to its customers in the digital ecosystem by connecting the services of each of its subsidiaries, including Shinhan Bank, Shinhan Card, and Shinhan Investment Corp., through a single platform. As a result, customers can enjoy all of the Group's services by visiting any of its subsidiaries' websites or using mobile apps. By sharing key services and content and combining the competencies of subsidiaries, we plan to expand our services to become even more convenient and useful.

Number of Customers Using Mobile Banking & Proportion of Transactions through Digital Channels

(Unit: Persons in million)

- + Number of Customers
- + Proportion of Transactions



Second, expanding digital banking through strategic partnerships

In order to provide services requested by customers, we have to offer services closely linked to customer's daily life, in addition to traditional financial services. We will continue our efforts to establish strategic partnerships with non-banking businesses, including ICT firms. Through convergence between the financial and non-financial sectors, we will strive to expand our exposure to customers.

Based on digital innovation, Shinhan Financial Group will secure its position as an integrated financial service provider and develop useful and convenient services that integrate technology with finance, thereby enhancing value for customers.

Third, strengthening the FinTech ecosystem

Shinhan Financial Group has established an ecosystem for FinTech companies to develop innovative and new financial services and acquire new digital technologies. Shinhan Future's Lab is a collaborative program developed to provide support for the commercialization of technologies and ideas. We will continue to develop the program so that we can expand cooperation with FinTech companies. Since its launch in 2015, Shinhan Future's Lab has worked with 23 FinTech companies, creating 12 joint business models based on a total of KRW 5.9 billion provided in investment. In 2017, we plan to welcome 17 new companies, and set up a Future's Lab in Vietnam to collaborate with local companies for shared prosperity.

Lastly, developing innovative products and services

Shinhan Financial Group strives to provide financial services that integrate core future technologies, including AI and blockchain. Since the advent of innovative technologies can change the financial industry suddenly, we focus on the digitalization of work processes and new technology R&D. In addition, we foster digital experts to improve our understanding of technologies and markets, as well as combine the Group's resources and competencies to strengthen our digital finance capabilities.

Shinhan Future's Lab

2015



2016



2017



Global Business

Global Networks



Shinhan Financial Group is ready to explore the wider world with our customers through Glocalization.

165

SFG has built up an extensive global network, comprised of 165 networks in 20 countries

Shinhan Financial Group has steadily pursued overseas expansion with a strategic focus on 'localization,' 'selection and concentration,' and 'securing hubs.' As of the end of 2016, our extensive global network was comprised of 165 networks in 20 countries. Based on accumulated experience and know-how from the past 30 years, we have begun expanding into the Asian region. In addition, we not only increased the number of countries where we do business, but also generated meaningful performance results in our global operations. As of the end of 2016, loans extended by global networks recorded a 78% increase compared to 2010. Contributions to the Group's net income from global operations have grown from 2% in 2010 to reach 6.6% in 2016.

2016 Key Performances

Shinhan Financial Group set 'securing the Group's growth through establishing a foundation for success in the Asian market' as its medium-term strategic goal for global business until 2018. To achieve this, we selected the following four key tasks.

First, diversifying entry strategies

In 2016, we pushed ahead with M&As for global expansion and expanded overseas coverage by utilizing non-face-to-face channels. This included the promotion of digital mobile banking Sunny Bank services in Vietnam, and the acquisition of a local brokerage company in Indonesia. Through these efforts, we continue to maintain our organic growth momentum, and expand Shinhan's global network across the world. This included the launch of a branch in Sydney, Australia in July, as well as setting up a branch in Yangon, Myanmar, and opening four branches in Vietnam in September.

Second, increasing profitability in global market

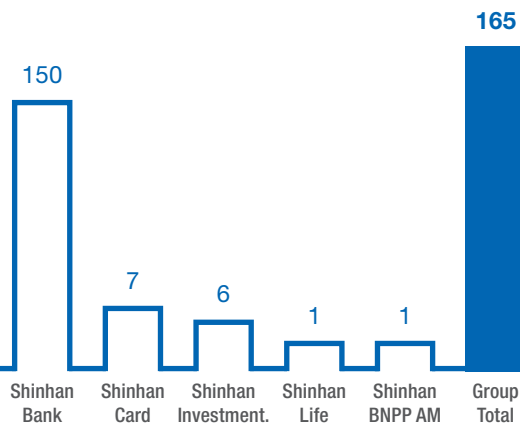
In 2016, we continued to make efforts to increase returns from our global operations. An FX trading desk was set up in the head office in India for the first time in the Group's global operations, and a new custody division was started by the local subsidiary in Vietnam. In addition, we continued to increase non-interest incomes by expanding the number of countries subject to CMS to 11.

Third, upgrading operational structure

Utilizing its outstanding non-banking businesses, Shinhan increased joint market entry with non-banking subsidiaries to strengthen efficient collaboration in promising local markets. In February 2016, we changed the name of a local securities firm in Vietnam from Nam An Securities to Shinhan Securities Vietnam, after acquiring full ownership of the company in the previous year. As a result, we can provide integrated financial solutions in Vietnam in the areas of banking, credit cards, and brokerage.

Diversification of business was also pursued in Indonesia. Shinhan Card acquired a stake in Swadharna Finance, a subsidiary of Indonesia's Indomobil, in August 2015 and then established Shinhan Indo Finance on December 2. Through cooperation with Indomobil, Shinhan Indo Finance expanded its business scope to installment payment plans and leasing for motorcycles and cars. Shinhan Investment acquired 99% of local securities firm Makinta Sekuritas, which was incorporated as Shinhan Sekuritas Indonesia in August 2016. Shinhan Bank acquired two local banks, BME (Bank Metro Express) and CNB (Centratama Nasional Bank) in 2015. BME's name was changed to BSI (Bank Shinhan Indonesia) in May 2016, and the merger of the two banks was completed in December.

Shinhan Financial Group's Global Networks



On the other hand, in Myanmar, Shinhan Bank received final approval from local financial authorities to open a branch in Yangon on September 20, 2016. Shinhan Card also established a local corporation with the launch of Shinhan Microfinance in September 2016. Shinhan Microfinance began offering small credit loans in November. The collective entry by the bank, card and brokerage subsidiaries into the promising markets of Southeast Asia is expected to result in vast synergies.

Furthermore, the year 2016 saw the launch of cooperative councils in each country participated by all banking and non-banking subsidiaries in that country. These councils continue to work together under such themes as optimizing resources and discovering new growth opportunities.

Lastly, improving localization strategy

In order to strengthen on-site business systems, we provided a vision and training programs to local employees. We also incorporated glocalization indicators in the bank's CEO evaluation indicators as a means of promoting local businesses, and introduced local RM (Relationship Manager) development programs.

2017 Business Plans

In 2017, Shinhan Financial Group will focus on achieving its mid-term strategic goal for global operations, 'securing the Group's growth through establishing a foundation for success in the Asian market,' and we will plan to upgrade its implementation initiatives set in the previous year.

First, diversifying entry strategies

Shinhan Financial Group will now concentrate on M&A and equity investment opportunities in global markets instead of organic growth. To supplement our relative weakness in network presence compared to local financial firms, we plan to operate digital channels to reach different parts of the global market. By diversifying our market entry strategies in regions with high growth potential, we will continue to expand our long-term growth base.

Second, increasing profitability in global market

We will continue to bolster collaboration within the Group and its subsidiaries in step with growing joint market entries overseas. We will also expand the proportion of non-interest income by growing non-banking operations and secure new income sources by developing new business models optimized for local market conditions.

Third, upgrading our operational structure

The bank's growing overseas network and increasing number of joint market entries with non-banking subsidiaries has given rise to the need for efficient collaboration in respective local markets. Accordingly, collaborative bodies were set up locally in 2016. We will seek ways to make the bodies even more effective in 2017. We will also strive to construct an efficient operational framework by extending support to local operations at the group level aiming to achieve the goal of One Shinhan.

Lastly, improving glocalization initiatives

Localization is essential for sustainable global expansion, and we will continue to pursue glocalization, by empowering local talent, increasing sales to local customers, and operating businesses to match local market conditions. While upgrading our products and services to meet the needs of local customers, we will continue to realign work processes to local needs and enhance our competitiveness in the respective markets.

Retail Banking

Low-cost Deposit



Shinhan Financial Group achieved superior performance in its retail operation including retail loans, deposits, and financial products.

9.9%

Shinhan Bank low-cost deposit amounted to KRW 81.7 trillion at the end of 2016, up 9.9% from the previous year.

Shinhan Bank's retail banking organization previously consisted of 3 groups as follows: the Retail Banking Group in charge of retail channels; the WM Group serving high net-worth customers; and the Institutions Group attending to the needs of hospitals, universities, government agencies and nonprofit organizations. However, the organizational reshuffling at the beginning of 2017, integrated the Retail Banking Group and the Institutions Group into a single unit, excluding the WM Group. In 2016, the bank streamlined its branch network to shut down or merge 37 branches and currently maintains 539 retail branches for enhanced productivity.

2016 Key Performances

Taking a look back at 2016, despite the challenging business environment marked by the base rate cut of Bank of Korea and an economic slump at domestic and global market, Shinhan Financial Group achieved superior performance in its retail operations.

First, increasing quality assets and enhancing asset integrity

Low-cost deposits increased by KRW 7.4 trillion from the previous year due to an increase in the number of active credit card holders, merchant settlement accounts, and a steady inflow of funds from public entities. In retail loan, we launched 'Sunny MyCar', the industry's first non-face-to-face digital vehicle financial product that introduced Shinhan Bank's loan products to customers through car dealers, with the total loan balance for MyCar exceeding KRW 1 trillion. In addition to stable loan growth, the delinquency ratio for retail and SOHO customers remained at 0.19% and 0.37%, respectively, to record the industry's lowest figures. As a result, the year 2016 witnessed significant external growth and improvements in asset quality.

Second, expanding customer base and diversifying income sources

In 2016, the number of active customers (customers with an average balance of more than KRW 300,000 or those who used lending services) grew to 9.5 million, up 270,000 from the previous year, nearing the symbolic 10 million customer milestone. Sales of non-interest income products grew including mutual funds, credit cards, and bancassurance, all contributing to the diversification of the revenue structure. The number of new credit cards issued totaled 306,000; the largest figure since the integrated Shinhan Card was launched, contributing greatly to the increase of fee income.

Third, the Best Bank in customer satisfaction and microfinance

In the pursuit of the Group's mission, "Building a better world through the power of finance," Shinhan made meaningful achievements in increasing customer assets and improving social value by maximizing the intrinsic value of finance. Throughout the year, Shinhan offered customized products for low-income customers such as the New Hope Seed Loan. Korea's Financial Supervisory Service in 2016 named us the Best Bank in Microfinance for the fourth year in a row.

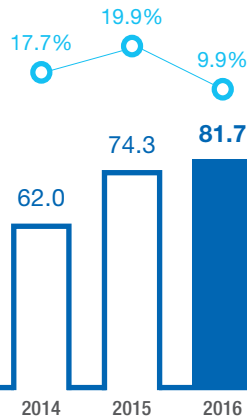
Lastly, responding to new market opportunities proactively

Shinhan Bank focused on securitization of mortgage loan to curb growth in household debt, as well as increased high margin installment loans such as auto loans, to reduce risk factors and increase profitability. Moreover, Shinhan Bank expanded account switching services to give more options to our customers, thereby allowing Shinhan Bank to attract approximately 400,000 new accounts. As for the newly introduced individual savings accounts (ISA), Shinhan achieved the industry's best performance in terms of new customer growth with 480,000 new signups.

Shinhan Bank Low-cost Deposit

(Unit: KRW trillion)

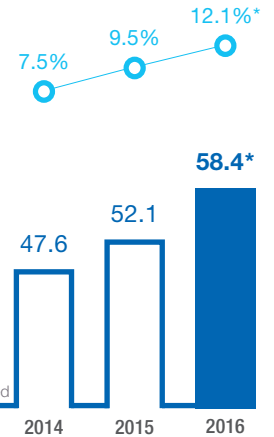
— Growth Rate
+ Low-cost Deposit



Shinhan Bank Mortgage Loan

(Unit: KRW trillion)

— Growth Rate
+ Mortgage Loan



* Including loans securitized

2017 Business Plans

Our goal for retail banking in 2017 is to better cope with adverse market conditions and become the leading retail banking group by drawing on the growth momentum. With the strategic objective of “providing a differentiated customer experience by strengthening our competitiveness in retail banking,” we have selected four strategic tasks, including enhancing customer value, optimizing revenues and profits, improving business efficiency, and operating an innovative program for customers.

First, enhancing customer value

In 2017, Shinhan Bank will establish a total solution system with differentiated products and services by analyzing big data to meet customer needs and divide the market into segments. To that end, we will improve marketing tools and resources to target customer segments such as office workers, women, and SOHO customers, while also providing a variety of customer experiences so that our customers can enjoy Shinhan’s customer-oriented products and services.

Second, optimizing revenues and profits

Shinhan Bank will generate continuous profits by improving asset structure and reinforcing our non-price competitiveness, with appropriate products and systems for specific risk factors. Through these efforts, we will focus on increasing the seven sources of fee income from retail banking, including credit card sales, loans from the National Housing Fund, mutual funds, bancassurance, trusts, foreign exchange products, and other fees, thereby enhancing product competitiveness and strengthening our customer management for profit maximization.

Third, improving business efficiency

Shinhan Bank will improve business efficiency by integrating and expanding business processes based on different platforms. First, we will establish a new value chain model to create new value across various platforms, such as securing market leadership in the auto finance market, launching a new jeonse deposit loan product through non-face-to-face digital channels, and attracting foreign customers to enter into new markets. We will also expand the current platform for institutional customers to ensure their renewal of deposits upon maturity, as well as increasing marketing strategies for retail customers of primary institutional customers and subsidiary agencies.

Lastly, operating an innovative program for customers

Through I-Frontier, an innovative program in retail banking, Shinhan Bank will create synergies through seamless collaboration under a matrix structure at the Group level, thereby building a great workplace that ensures our employees feel happy at work and remain motivated to improve their competencies and achieve better performance.

Based on these strategies, the retail banking business will overcome tough business challenges to achieve sustainable results with a customer-oriented focus, creativity and innovation.



Corporate Banking

Retirement Pension Market



We strive to differentiate ourselves by maintaining competitiveness in core corporate banking services, including loans, deposits and foreign exchange.

1st

Ranked first in the retirement pension market for seven consecutive years in terms of assets under management.

We strive to differentiate ourselves by maintaining our competitive advantage in core corporate banking services, including corporate loans, deposits and foreign exchange. We also pursue financial solutions integrated through technology, increase hybrid products that fuse investments and loans, and offer specialized IB services for SME customers. Furthermore, we will take the lead in corporate banking by providing financial solutions optimized to needs of our corporate customers.

2016 Key Performances

In the face of a difficult business environment with sustained low growth and heightened competition, we adopted 'Increased value through increased market share, solidifying the No. 1 brand image in corporate banking' as our strategic objective for 2016 and implemented four core tasks: 'improving the profitability of core businesses', 'reinforcing smart business practices', 'leading future business', and 'reinforcing competency in foreign exchange.' In the foreign exchange business, we made significant efforts toward identifying new growth opportunities by reinforcing our competencies and expertise in foreign exchange to generate bank-wide non-interest income.

First, improving the profitability of core businesses

As part of our efforts to maintain stable growth in high-quality assets, we focused on balanced growth in core markets comprising the mid-cap, blue chip audited, and blue chip non-audited markets for several years. We also strengthened our services by structuring them around the life cycles of our corporate customers. Meanwhile, we maintained our unrivaled market leadership in the retirement pension market for seven consecutive years.

Second, reinforcing smart business practice

In order to achieve sustainable growth, Shinhan Bank sought to improve the efficiency of corporate banking. We pursued community-based collaboration with regional branches to implement efficient marketing campaigns. In addition, we explored new business opportunities by expanding alliances with external entities to launch the new 'Shinhan Electronic Payment Guarantee for Public Procurement' as the industry's first platform for e-procurement through the Public Procurement Service. We also diversified our profit structure to boost core deposits and non-interest income from foreign exchange, trusts, pensions, and derivatives, as well as improving screening for interest rates related to loans and deposits to manage margin spread.

Third, leading future business

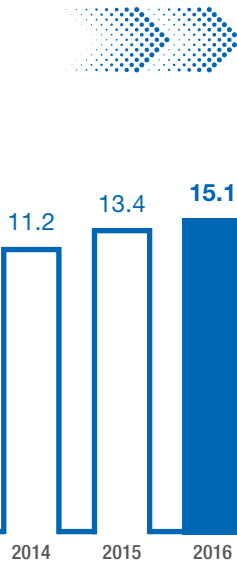
Shinhan Bank continued to pursue our competitive advantages in future growth markets. We enhanced our expertise in technology financing to secure sustainable growth in corporate finance for SMEs with prospective technologies and growth potential. In addition, we implemented the 'Smart factory boom-up guarantee program' to explore new markets and target future growth companies, while also establishing the 'Creative Finance Plaza' as an IB profit model for SMEs and MEs and striving to achieve appropriate deals in IB.

Lastly, reinforcing competency in foreign exchange

Shinhan Bank took advantage of the huge exchange rate volatility in 2016 to ensure our sales strategies targeted forward exchanges, spot exchanges and derivatives sales in a timely manner by launching a range of new foreign exchange products. In order to foster talented people and strengthen foreign exchange competencies, we established the CoP program for foreign exchange specialists and help these specialists obtain related certificates to certify around 2,300 new foreign exchange specialists each year. Lastly, we made consistent efforts to expand our customer base among foreign-invested companies, by offering financial services at an early stage when foreign companies are first entering the Korean market.

AUM of Retirement Pension

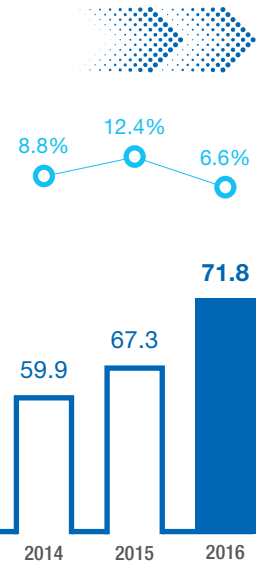
(Unit: KRW trillion)



Shinhan Bank's SME Loan

(Unit: KRW trillion)

— Growth Rate
+ SME Loan



2017 Business Plans

In response to increasing uncertainties in the business environment and the ever-intensifying competition in corporate banking, we have adopted as a strategic objective for 2017, 'Smart territory expansion, excellent corporate finance,' and identified the following as strategic tasks; 'expanding customer base', 'securing a stable profit structure', 'leading the corporate banking market', and 'creating new income sources for FX operations.'

First, expanding customer base

To ensure another successful year, we plan to focus on growing profitable assets in our core SME lending markets (mid-tier, audited, non-audited) with balanced growth. We will also expand our customer base on a sustainable basis by making full use of funding for guarantees and external policies and enhancing long-term customer relationship management. At the same time, we will continue to solidify our market position in the F/X and foreign investment markets by tapping into our global cross-selling network.

Second, securing a stable profit structure

We will further improve marketing efficiencies in order to achieve sustainable growth. We will seek out new business opportunities by expanding alliances with government agencies, including the Ministry of Trade, Industry and Energy, the Small and Medium Business Administration, and the Ministry of Science, ICT and Future Planning. By increasing non-interest income and core deposits, we will also continue to diversify our profit structure and thus enhance the stability of our profit base.

Third, leading the corporate banking market

We will continue to pursue our competitive advantages in future growth markets. To foster corporate banking specialists for future growth, we will further upgrade our human resource programs dedicated to enhancing corporate finance competencies. In addition, we will secure sustainable growth in corporate finance by establishing a global marketing system to introduce global transaction banking (G-TB) and support the global matrix structure.

Lastly, creating new income sources for FX operations

In order to explore new foreign exchange markets, we will be the first in the industry to introduce the global transaction banking (G-TB) service, which generates new sources of income for the bank's F/X operations, including B/A finance, R/P transactions, counter guarantees, supply chain finance, and Korea-Vietnam real time remittance services. In addition, we will establish a new platform for overseas remittance services through business cooperation with FinTech startups and small payment companies and develop digital services for F/X and international trade operations. Last but not least, we will not only upgrade existing products and services tailored to each respective country and market in order to attract more foreign-invested companies, but also promote Korea Desk services as a financial partner for foreign companies entering the Korean market through Shinhan Bank's overseas networks in 20 countries around the world.

In 2017, we will do our utmost to extend our lead in corporate banking to address changing trends through strategic objectives based on resolute implementation.

Wealth Management

PWM AUM Growth



Shinhan PWM offers maximum value for customers with a differentiated wealth management model of integrated solutions.

12%

Shinhan PWM AUM grew at a CAGR of 12% since 2012

Shinhan Financial Group successfully launched its PWM Centers, a hybrid branch model offering products and services from both Shinhan Bank and Shinhan Investment Corp. in 2012. There are currently 27 PWM centers across the nation. In order to retain leadership in the WM market through customer-oriented asset management practices, we proactively responded to market changes and bolstered our competitive advantage in asset management. We opened new PWM Lounges at retail branches to extend PWM services to more customers on the back of the government's deregulation on hybrid branch model, making it possible to provide systematic asset management services that ensure higher returns on investment.

2016 Key Performances

In 2016, we maintained our unrivaled leadership in the WM market by implementing customer-oriented asset management practices, delivering outstanding results across major indicators, and enhancing brand value through recognition both at home and abroad.

First, implementing customer-oriented asset management practices

We strived to ensure higher returns for our customers by embodying customer-oriented asset management practices. In the pursuit of the Group's mission, we established the principles of customer-oriented asset management practices and shared them with all employees. We put in place an industry-leading asset management system to manage customer investment returns more effectively and include it in the criteria when evaluating the performance of PWM Centers and PB team heads. In addition, the IPS (Investment Products and Services) Department provided the Group's 'house view' and delivered investment products in a timely manner in response to market changes.

Second, delivering outstanding results across major indicators

In 2016, the Group's PWM division realized asset growth of KRW 1.6 trillion and posted KRW 190.8 billion in profit (combining the pre-expense operating income of Shinhan Bank PWM and net operating income of Shinhan Investment PWM) based on differentiated competitiveness. In securing high-net-worth customers, we achieved the industry's best performance in terms of annualized average growth after first being launched in 2012 (Shinhan Bank ranked No.1 in the growth of high-net-worth customers with AUM of more than KRW 1 billion with Shinhan Investment Corp. also ranking top in growth of customers with AUM of more than KRW 100 million).

Lastly, enhancing brand value

In recognition of our outstanding asset management performance, domestic and international industry watchers praised us for accomplishments that include; Best PB by The Banker for three years in a row, Best WM by The Asset for five consecutive years, Best PB by The Asset for two consecutive years, Best WM in Korea by The Asian Banker, and Best PB by The Korea Economic Daily.

2017 Business Plans

In 2017, Shinhan PWM will redouble its efforts to deliver optimal asset management services. To that end, we have defined the mid-to long-term goal 'Only the Best WM, the Customers' Choice' and identified the following strategic tasks for 2017.

First, creating customer value through active asset management

We will introduce a management scheme that ensures higher investment returns for our customers, and overhaul the existing evaluation system that focuses on the performance results of branches to consider performance indicators related to customer investment returns. In addition, we will develop innovative products and further strengthen our customer services.

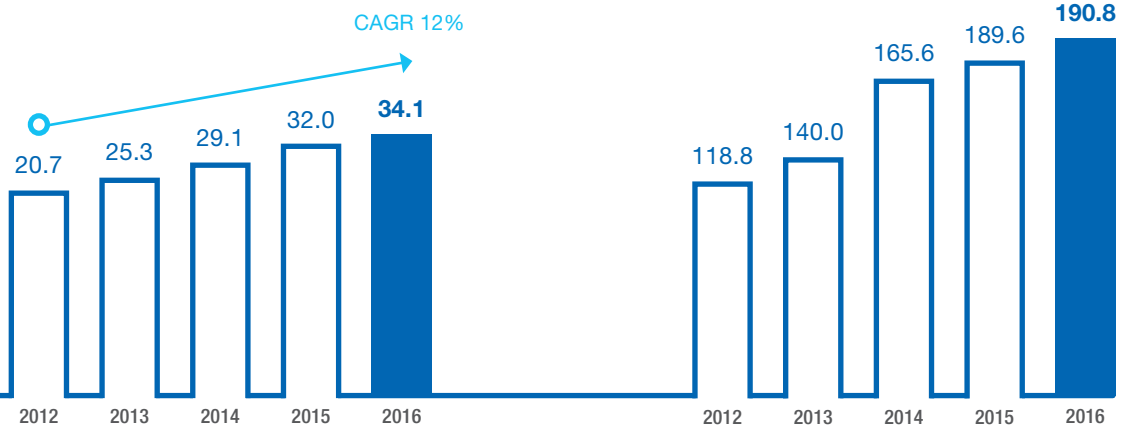
PWM AUM

(Unit: KRW trillion)



PWM Operating Income

(Unit: KRW billion)



Second, strengthening leadership in the WM market

We will continue to expand the number of PWM Lounges targeting customers with KRW 100 million or more in AUM, and seek to strengthen our role in the WM market by establishing a collaboration system for branches in the same community.

Third, developing a WM model focused on sustainable growth

We will establish an integrated asset management model offered by Shinhan Bank, Shinhan Investment Corp., and Shinhan Life Insurance. Through these efforts, we will provide the industry's best asset management services by upgrading overall business processes related to WM.

Fourth, fostering the industry's best asset management specialists

We will continue to foster WM specialists by introducing systematic WM training programs. We will also attract specialists with outstanding competencies at the group level to effectively manage our customers' assets.

Fifth, strengthening digital asset management platform

To keep up with the rapidly evolving market environment, we will develop mobile WM channels. After the introduction of Korea's first robo-advisor in 2016, the M-Folio mobile platform, we will integrate non-face-to-face digital channel platforms and upgrade our management systems.

Lastly, reinforcing competencies in the retirement business

We plan to provide customized retirement products and integrated solutions by leveraging the competencies of Group's subsidiaries. In addition, we will expand the range of consulting services offered covering taxation and real estate and financial services.

In 2017, WM will maintain unrivaled leadership by implementing customer-oriented asset management practices with outstanding performance.

2016 Awards & Recognition

	Organization	Prize	Remark
International	The Asian Banker	Best Wealth Management in Korea	First
	The Asset	Triple A Investment Awards 2015 – WM/PB	WM (five consecutive years), PB (two consecutive years)
	The Banker	Best Domestic Private Bank in Korea	Three consecutive years
Korea	Korea Standard Association	KS-PBI (Premium Brand Index) – PB category	Nine consecutive years
	Korea Management Association	THE PROUD Korea Luxury Index – PB category	Seven consecutive years
		No.1 in KSSI – PB category	First
	The Korea Economic Daily	Korea's Premium Brand Awards – PB category	First

Investment Banking

CIB Asset Growth



Shinhan Financial Group offers total financial solutions for corporate customers by CIB model.

7%

Shinhan CIB asset grew at a CAGR of 7% since 2013

Established in January 2012, Shinhan CIB, a matrix structure, has been successful in combining Shinhan Bank's CIB division and Shinhan Investment Corp.'s IB division to provide total financial solutions for corporate customers. In its initial stages, both companies' IB divisions set up customer-oriented capital market solutions through a hybrid branch model, while continuing to improve management systems by having executives serve dual roles in both CIB divisions and integrating the CIB organizations in both companies.

2016 Key Performances

In 2016, Shinhan CIB achieved stable growth despite uncertainties in global markets. Both companies recorded stable performance, with Shinhan Bank's CIB division operating income amounting to KRW 126.6 billion and Shinhan Investment Corp.'s IB Group operating income reaching KRW 86.6 billion. Our ranking went down a notch in the corporate bond and ABS categories of the DCM league table since we focused on more profitable deals, but our market share of IB syndication increased from 10.3% in 2015 to 17.0% in 2016. Meanwhile, after the launch of the CIB unit, we achieved significant results from strengthening ECM competitiveness to ensure Shinhan Investment Corp.'s IB division remains on top of the ECM league table.

In 2016, the CIB unit made continuous efforts to strengthen its market leadership in core business areas, while also combining the competencies of Group's subsidiaries to enter into global markets and lead in the SME and ME corporate lending markets while reinforcing fund business to secure long-term sustainable growth in CIB.

First, reinforcing competencies of fund business

Shinhan CIB created a variety of funds for creative asset management. Since Senior Loan Fund No. 1 (senior debt fund exclusively for M&As, KRW 565 billion) was first introduced in 2014, the Group has collaborated with Shinhan BNP Paribas Asset Management to launch Senior Loan Fund No. 2 (KRW 470 billion). Moreover, we also established a technology fund worth KRW 30 billion exclusively for startups in connection with the Growth Ladder Fund, as well as creating four SOC project funds amounting to KRW 528.4 billion.

Second, exploring global IB markets

The CIB unit continued to explore new global markets and reinforce its competitiveness. In order to diversify portfolio for global markets, we made alternative investments through strategic alliances worth USD 30 million in IFC FIG funds and investments of EUR 15 million in ARES (Europe's Private Debt Fund). Through collaboration with Shinhan BNP Paribas Asset Management, we achieved significant results in underwriting for foreign PF deals, including four PFs related to solar power generation amounting to KRW 184.1 billion. In addition, we explored new opportunities in Asian corporate banking markets by acquiring Markinta Securities in Indonesia. After the acquisition, we successfully closed an investment deal for a local resort through collaboration with Shinhan Investment Corp.

Lastly, taking the lead in SME and ME corporate lending markets

Shinhan CIB strengthened its cooperation with Shinhan Bank's IB division in order to take the lead in the SME and ME corporate lending markets. As a result, we posted figures of KRW 2.6 trillion from 131 cases of collaboration, recording an increase of KRW 1.1 trillion and 51 cases from the previous year. In order to improve accessibility for SME and ME corporate customers, we increased the number of Creative Finance Plazas as a platform for combining the competencies of Shinhan Bank and Shinhan Investment Corp. from 5 to 14, resulting in an increase of 34 deals from collaboration that grew by KRW 540 billion.

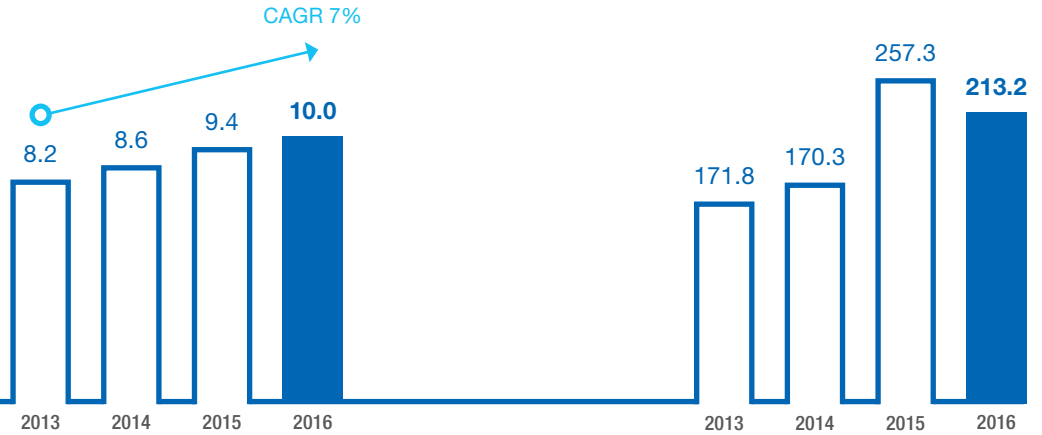
CIB Asset

(Units: KRW trillion)



CIB Operating Income

(Units: KRW billion)



2017 Business Plans

In 2017, Shinhan CIB will continue to explore diverse options for solidifying long-term growth and securing sustainable growth in spite of prolonged stagnation and intensified competition both at home and abroad.

First, strengthening capital market competitiveness

The CIB unit will strengthen merchant banking competencies and develop more alternative investment products to strengthen its capital market competitiveness. Meanwhile, we will enhance our competencies within DCM (Debt Capital Market) such as corporate bonds and IB syndication, as well as improve market leadership in IPO and ECM (Equity Capital Market).

Second, expanding global business platform

We will improve utilization of the global networks of Shinhan Bank and Shinhan Investment Corp. to expand our global business platform, such as providing sales strategies tailored to respective market needs in the U.S., Japan, Vietnam and Indonesia.

Third, promoting Creative Finance Plazas

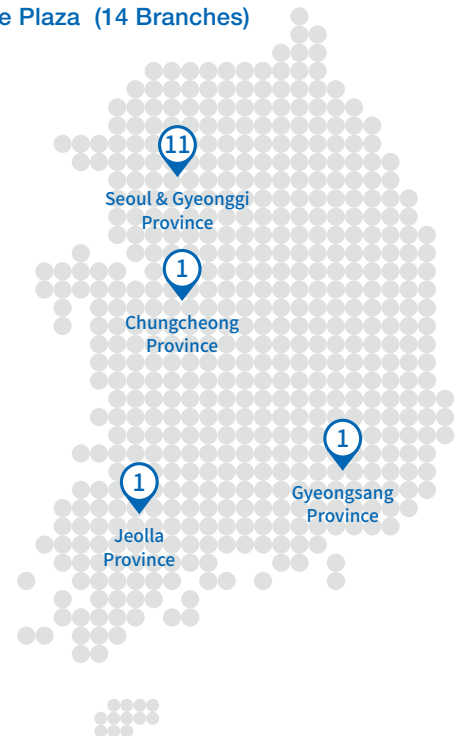
We will help SMEs and MEs enter into capital markets through Creative Finance Plazas, and thus implement strategies that produce better results through the One Shinhan system.

Lastly, entering into new markets

We will continuously explore niche markets to find new business opportunities by diversifying our existing marketing strategies through the real estate rental market and new SOC projects as well as the promotion of clean energy. Furthermore, we will enhance our competencies to meet the need for IB products by providing higher investment returns for our customers.

In 2017, Shinhan CIB will proactively respond to market changes and continue to evolve and embrace innovation.

Creative Finance Plaza (14 Branches)



Credit Card

Market Share



Shinhan Card achieved remarkable performance by proactively implementing effective sales strategies.

21.7%

No. 1 market share in Korea
(retail credit purchase volume)

The credit card industry experienced stagnant growth in existing businesses and faced future challenges related to additional fee reductions for small and medium-sized merchants and the introduction of the simple payment services. Against this backdrop, Shinhan Card proactively responded to an unfavorable business environment with an emergency management plan and made proactive investments in securing future engines for growth.

2016 Key Performances

In 2016, Shinhan Card strived to increase transaction volume by exploring new payment market in a sluggish market. As a result of these efforts, Shinhan Card strengthened its dominance in retail and corporate payment markets. In order to improve profits despite fee reductions for merchants, Shinhan Card made cost reduction efforts in all business processes and worked to reduce our cost structure, thereby increasing profitability from the previous year.

Shinhan Card also made significant progress in dominating the future of the payments industry. After introducing the industry's first mobile application card – Shinhan FAN Pay App in 2013, the number of active card members surpassed 7 million in 2016 to lead Korea's simple payments market. Furthermore, Shinhan Card ensured the FAN platform embedded with payment services and various life & financial services, as well as further strengthening services through close partnerships with leading companies in each sector.

In addition, the year 2016 proved very meaningful for Shinhan Card in terms of global business. In 2015, Shinhan Card became the first Korean credit card company to establish local subsidiaries in Kazakhstan and Indonesia. In 2016, Shinhan Card began targeting

fast-growing markets in Southeast Asia by setting up overseas offices in Myanmar in September and acquiring a license for credit card business in Indonesia in December. Moreover, Shinhan Card continued to train regional experts well-versed in the languages and cultures of the countries where it does business, as part of Shinhan Card's efforts to accelerate global operations.

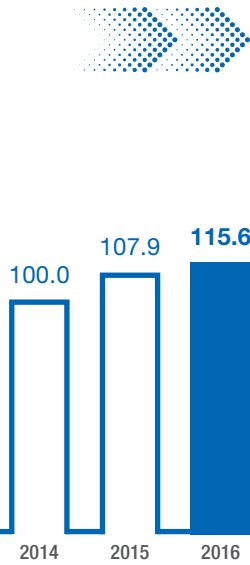
As a result of these outstanding performance figures, Shinhan Card ranked 7th place overall and 1st place among all Korean credit card companies in terms of brand competitiveness in the Top 100 Brands in Korea for 2016 (Brandstock). The number of Shinhan Card's Facebook followers surpassed 1 million in 2016 – a first in Korean financial industry. In addition, Shinhan Card made Group-wide efforts to ensure customer protection. These efforts received recognition in the form of an award from Korea's Financial Supervisory Service (FSS) in 2016 for being the Best Financial Company in Customer Protection.

2017 Business Plans

In 2017, the business environment is widely forecasted to undergo drastic changes: recent emergence of fin-tech including internet-only direct banks is leading to a market shakeup and risk factors are piling up both at domestic and global market. Therefore, it is essential for Shinhan Card to respond to such changes promptly and effectively. In this regard, Shinhan Card has outlined strategic tasks for 2017 under the basic theme of 'DT Drive' to maintain management practices instituted in 2015. Shinhan Card aims to go beyond the limits of the credit card business; dominate the future market; and implement strategies that strengthen the three 'DT' (Digital Transformation / Data Technology / Different Thinking&Try).

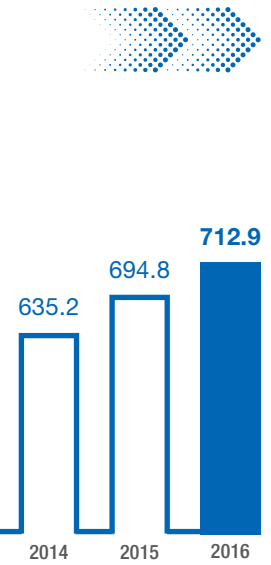
Transaction Volume

(Unit: KRW trillion)



Net Income

(Unit: KRW billion)



First, Shinhan Card will accelerate our Digital Transformation as part of our efforts to create new value by transforming the customer experience, our internal processes, and business models into the digital age. Also, based on the huge volume of payment and customer data and the advanced data analysis ability, we will further strengthen our professionalism in data technology to become a leading company in an age of digital data.

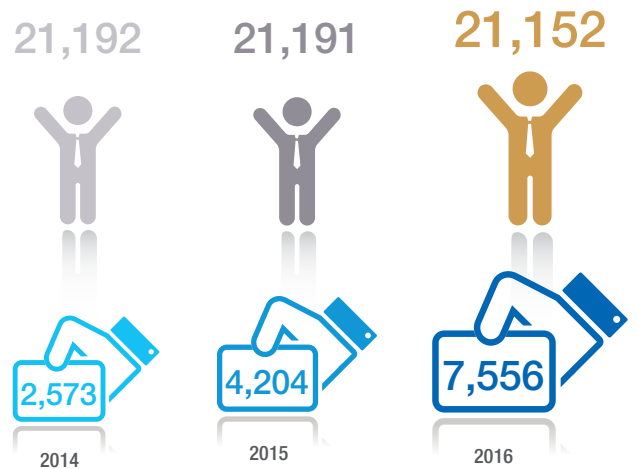
Shinhan Card also ensure all employees to practice 'Different Thinking& Try' in order to encourage creative ideas and behaviors that meet the demands of a new age with blurring boundaries between businesses. The following are the six strategic tasks we have identified for implementation in 2017; implementing Group-wide digital transformation; accelerating global business quantitatively and qualitatively; introducing Big Data Management 2.0; visualizing the performance of new businesses; solidifying concrete market leadership; and establishing a strong corporate culture based on the Shinhan WAY.

The year 2017 will require us to protect our existing businesses as new competition arises from the explosive growth of the simple payments market and the introduction of internet-only direct banks. In line with a range of new technologies at the start of the Fourth Industrial Revolution, this is a good time to take the lead in investing in a credit card business that is closely linked with future customer lifestyles. Shinhan Card will respond promptly to changing trends and shifting variables, while maintaining its leadership in the future card market. Through these endeavors, we will bolster our commitment to 'Compassionate Finance, Your Companion for the Future' and further solidify the trust-based relationships we have developed together with our customers and the markets.

Shinhan Card's Key Performance

(Unit: Persons in thousand)

- + Total Active Card Holders (credit card + debit card)
- + App. Card Holders



Brokerage

Research Ranking



Shinhan Investment Corp. provides optimal financial solutions based on industry-leading competencies in research, operations and outstanding risk management.

2nd

Research Ranking
by Maeil Business Newspaper

The year 2016 proved to be a difficult time for Shinhan Investment Corp., with stagnation throughout the securities industry caused by a decrease in transaction volumes and widespread uncertainties in the global market. Recapitalization took place in September to respond promptly to the recent trends of conglomeration. Meanwhile, we also laid the foundation for providing comprehensive financial investment services.

2016 Key Performances

In 2016, Shinhan Investment Corp. made 'Innovation for customers, challenging the top' our strategic goal. To achieve this, Shinhan Investment Corp. endeavored to acquire competencies to become a top-tier financial investment company, with strategies focusing on securing infrastructure and competencies and building a customer-oriented corporate culture. Due to a difficult business environment in the financial industry caused by widespread global uncertainties, net income in 2016 decreased by 46.4% to KRW 115.4 billion from the previous year, but Shinhan Investment Corp. gained a foothold for a medium-and long-term turnaround through a capital increase of about KRW 500 billion in September.

Retail Business

The retail business has been a stable profit base in the securities industry. As such, we strengthened our customer-oriented strategies by improving evaluation systems for earnings and offering follow-up services to our customers, as well as developing our employees' competencies to maximize customer value. Additionally, we made strenuous efforts toward establishing a foundation for sustained growth with innovative digital services based on mobile applications. Since 2012 our asset management business continued to generate profits,

with the balance of financial products increasing by KRW 12 trillion year on year to KRW 68 trillion at the end of 2016. Shinhan Investment Corp. also further strengthened our position as a comprehensive asset management company in the following ways: by offering cutting-edge products and services that match recent paradigm shifts, strengthening management skills to improve customer profits, and upgrading operation systems to provide follow-up services for products already sold.

Wholesale Business

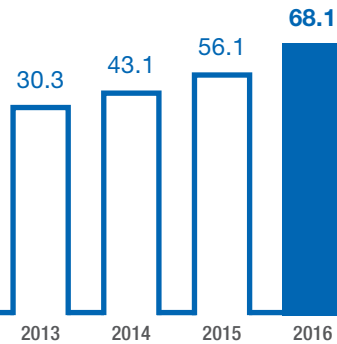
The wholesale business continued reinforcing its marketing competencies against a fierce competition, rising to higher rank in all segments. In particular, Shinhan Investment Corp. dominated the market in brokerage for overseas clients, with differentiated strategies that reinforce our marketing and research competencies. We also strived to attract new clients and retain our existing clients in brokerage and sales of financial products for domestic institutions and corporate clients.

IB Business

The IB business improved its competitiveness in all areas, including structured finance, project finance, DCM (Debt Capital Market), and ECM (Equity Capital Market). The CIB division has continued to upgrade its partnerships to ensure its status as an optimal IB solution that combines the strengths of Shinhan Bank and Shinhan Investment Corp. To achieve this, Shinhan Investment Corp. implemented strategies to build a new collaboration platform with SMEs. In order to expand the foundation for future growth engines, we also expanded our alternative investment operations and invigorated Shinhan Creative Finance Plaza's operations to enhance collaboration with Shinhan Bank.

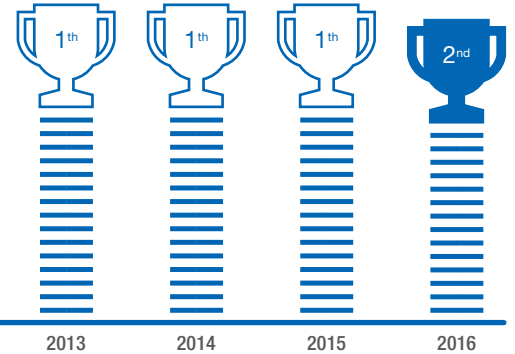
Financial Products Sales

(Unit: KRW trillion)



Research Ranking

(by Maeil Business Newspaper)



Sales & Trading Business

The Sales & Trading Business fulfilled the role of supplying products and managing assets in a timely manner based on in-depth analysis of market conditions. Sales & Trading Business greatly contributed to increasing Shinhan Investment Corp.'s profitability despite widespread uncertainties at domestic and global market by diversifying the investment asset composition and minimizing risk factors. In addition, we offered products customized to specific customer needs in our sales channels, including equity-linked securities (ELS)/derivatives-linked securities (DLS), repurchase agreements (RP) in foreign currency, and foreign government bonds.

2017 Business Plans

For 2017, Shinhan Investment Corp. has defined 'Growing into Asia's leading brokerage company' as our mid-term strategic goal. To that end, Shinhan Investment Corp. will implement a suit of 'Triple Solutions' as follows: innovating channels to maximize synergies, improving the investment competencies of specialists, and upgrading operation system.

First, we will lay the foundation for improving the Group's synergy by innovating our channels, including expanding hybrid branch such as PWM, embracing digital transformation, and adopting a glocalization strategy. The expansion of hybrid branch model will contribute to the Group's assets and create value from the perspective of One Shinhan by offering customer-oriented financial investment products and services. Along with this, we will accelerate our efforts to achieve digital transformation, thereby responding to the changing digital environment with an interactive customer participation platform and digital branches. We will strengthen our localization strategy through our overseas offices in Vietnam and Indonesia, while also increasing sales and marketing partnerships with other subsidiaries.

Second, we will train our specialists to improve its investment competencies. Shinhan Investment Corp. will enhance the competencies of our staff in the IB sector, improve their competencies in product development and asset management, as well as tap into new markets. In order to achieve these goals, we will promote creative IB products such as mezzanine financing, and create an effective CIB model that allows collaboration between RMs at Shinhan Investment Corp. and Shinhan Bank. Through these endeavors, we plan to increase the number of investment products developed globally, and improve the competitiveness of products related to private equity funds, fund rebalancing, and asset allocation wrap accounts. Lastly, we will build a stable foundation for future growth in new businesses including PBS (Prime Brokerage Service) and investment in new technologies.

Lastly, we will review and improve our systems. We will upgrade the infrastructure for evaluation system for OTC (Over The Counter) derivatives. Additionally, Shinhan Investment Corp. will adopt an innovative risk management system that responds to various external factors including system changes and digital banking. We will reassign Group-wide resources and reduce costs strategically by restructuring our workforce.

The three strategic tasks outlined above will provide a new way of operating and managing our organization. In 2017, we will strive to become a leading comprehensive financial investment company that achieves remarkable results.

Insurance

Ratio of Protection-type Insurance Policies



Shinhan Life Insurance offers cutting-edge products and financial services for customers.

67.2%

Shinhan Life Insurance focused on expanding protection-type product sales to pursue value-based management

Shinhan Life Insurance has achieved balanced growth by providing insurance products (life insurance, third party insurance), pension plans, and other services through diversified channels including financial consultants (FCs), customer-base marketing (CBM), agency marketing (AM), bancassurance, and internet channel. Our asset management division generates stable income by offering various loan products (loans to insurance policyholders, secured and unsecured loans) and investing in securities (equities, bonds, and derivatives). Shinhan Life Insurance also maintains business stability through strict risk management and persistent efficiency improvements.

2016 Key Performances

Shinhan Life Insurance defined 'Becoming the industry standard in maximizing the intrinsic value of insurance' as its vision in order to withstand changes brought on by the introduction of IFRS 17 in 2021 and the prolonged period of low growth. We also set '2018 Top-tier Shinhan' as the mid-term strategic goal to express our determination to grow into a company that practices 'Compassionate Finance, Your Companion for the Future' and earns the respect of our stakeholders by creating customer value.

In order to achieve our vision and mid-term goal, Shinhan Life Insurance made 'Expanding value-based management, Action 2016' as our strategic goal for 2016 and carried out three core tasks: establishing a corporate culture that improves retention rates and expands sales of protection-type insurance products, streamlining business processes for efficiency improvement, and building a foundation for growth by improving future competencies. As a result, we achieved a net income of KRW 150.6 billion, up 50.2% from the previous year, despite the difficult business environment.

First, ensuring profitable growth

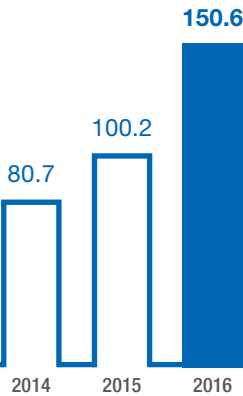
Shinhan Life Insurance focused on expanding protection-type product sales to pursue value-based management and ensure stable profitable growth. In order to respond to the challenges of an aging population and ultra-low interest rates, Shinhan Life Insurance developed whole life insurance products that provide pension payments in advance as a prepayment on a death benefit to customers in the form of annuities subject to customers' choice. In addition, Shinhan Life Insurance launched an investment-type universal insurance product that offers prepayment of living expenses and asset management to meet the diverse needs of customers. Shinhan Life Insurance worked to create a corporate culture embodying responsible management practices to establish a virtuous cycle of efficiency improvement, including improving retention rates and preventing incomplete sales. Through these endeavors, we ranked 1st place in the Korea Service Grand Prix for four consecutive years, and were chosen as the Best Life Insurance Company of the basis of consumer financial protection by the Financial Supervisory Service.

Second, streamlining business processes for efficiency improvement

In order to achieve sustainable growth that generates profits, we came up with Group-wide strategic tasks to respond to the adoption of IFRS 17. Shinhan Life Insurance improved our core competencies including revising the structure and function of products and services through profitability analysis and enhanced the productivity of FCs and our product range by streamlining business models for each channel. We also improved ALM (Asset & Liability Management) Systems, gradually reducing capital volatility in preparation for the IFRS17.

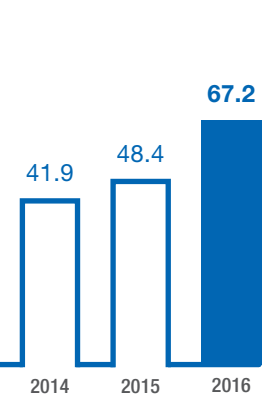
Net Income

(Unit: KRW billion)



Ratio of Protection-type Insurance Policies

(Unit: %)



Lastly, building a foundation for growth

Shinhan Life Insurance reinforced our competencies in insurance marketing strategies and customer services that utilize digital platforms to meet the needs of a rapidly changing digital environment. The industry's first introduction of biometric authentication in the form of mobile applications with fingerprint recognition allowed customers easy access to mobile device. We developed a variety of content to assist our FCs and offered mortgage loans via mobile apps, while also increasing the use of smartphones to support the activities of FCs and customer management. Furthermore, Shinhan Life Insurance set up hybrid branches with Shinhan Bank in three locations as part of a pilot project by the Group, ensuring long-term sustainable growth that offers differentiated financial services to our customers.

2017 Business Plans

Despite the prolonged stagnation and low interest rates environment, it is forecast that the year 2017 will witness volatility at domestic and global market, especially as a result of the major upcoming change in the accounting system used by the insurance industry. The profits and capital of insurance companies are expected to fluctuate after the implementation of IFRS 9 in 2018 and the introduction of IFRS 17 in 2021. It is essential for the company to diversify channels and improve competitiveness for the future as management practices are now focusing on value-based management. Competition is expected to intensify with the emergence of digital banking and non-face-to-face channels.

Shinhan Life Insurance strives to achieve its mid-term strategic goals by going beyond its past successes and practices in making 'Evolution of value-based management, Innovation 2017' as its strategic goal for 2017 and implementing the following three strategic tasks: introducing innovation in the field of digital platform based on flexibility and creativity, innovation in products and services to maximize customer value, and innovation in business process by reassigning resources efficiently.

First, Shinhan Life Insurance will digitalize our work processes and introduce innovation in digital services in insurance to provide services with flexibility and creativity.

Second, Shinhan Life Insurance will offer differentiated products and services to maximize customer value, upgrade our customer management system, diversify customer asset portfolios to increase customers' value, provide customer-oriented compound channels, and create a corporate culture based on 'Compassionate Insurance.'

Lastly, Shinhan Life Insurance will reallocate our resources efficiently by introducing innovation through exclusive channels, reducing strategic costs, strengthening core competencies that enhance the intrinsic value of insurance, and improving the profitability of assets.

In 2017, Shinhan Life Insurance will aim to become a trustworthy insurance company for customers that fulfills its social responsibilities as a corporate citizen, with enhancing customer value as its top priority.



Asset Management

Asset Management Ranking



Shinhan BNP Paribas Asset Management strives to develop diverse investment solutions and improve customer's value.

5th

Shinhan BNP Paribas AM is the fifth largest company among 165 asset management companies in Korea.

Shinhan BNP Paribas Asset Management is Shinhan Financial Group's asset management hub that pursues a management philosophy of 'becoming a long-term partner that places customers first by providing a variety of investment solutions with dependable expertise.' Based on this management philosophy, we provided a variety of domestic and global investment solutions in the areas of traditional investment products (equities, bonds, etc.), structured products (derivatives, ELFs, etc.), and alternative investments (real estate, mezzanine, infrastructure, etc.). As of December 2016, Shinhan BNP Paribas Asset Management has an AUM of KRW 43.3 trillion (based on Net Asset Value), the fifth largest among 165 asset management companies in Korea.

2016 Key Performances

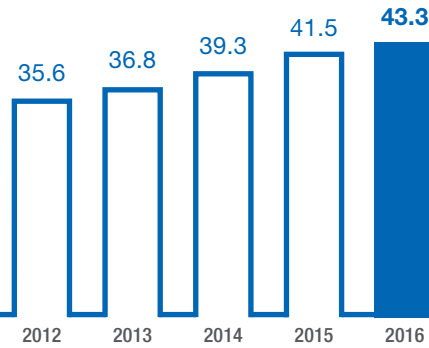
Recently, the biggest issue in Korea's asset management market has been the stagnant growth of retail investors due to an increase in institutional customers. On the other hand, the markets for private placement and discretionary investment services grew significantly in the institutional investor segment. As part of this trend, domestic stock markets remained stagnant amid a protracted low-interest rate and low-growth environment. It compelled domestic investors to look overseas for more appealing investment opportunities. Therefore, the interest in foreign assets led to an increase in foreign investment by institutional investors, while increasing volatility in domestic and global markets turned investor attention to safer assets and absolute return products. In particular, growing social concerns over an aging population increased market demand for medium-risk&return investment opportunities and more profitable retirement pension products with the base interest rate remaining at the 1% level.

Over the past year, Shinhan BNP Paribas Asset Management focused on providing investment solutions tailored to customer needs by responding to the rapidly changing capital market environment. Striving to create value through creative innovation, we improved our investment strategies and competencies to earn higher returns on funds as well as introduced new types of assets to provide investment solutions tailored to customer needs. Aiming to secure sustainable growth for our global business, we attracted foreign investments from global investors in alternative assets and increased alliances with asset management companies abroad. In addition, we continued to develop structured investment products through creative collaboration catering to medium-risk&return investment needs, enabling us to maintain our market leadership in the segment.

Based on these accomplishments, we received recognition and awards both at domestic and global market, 2016 Korea's Most Outstanding Asset Manager by The Asset in June of 2016 for seven consecutive years, Innovative Fund of the Year at the 2016 Korea Funds Awards by Money Today, and Best Equity Fund at the 2016 Fund Awards by E-Today.

Assets under Management

(Unit: KRW trillion, Net Asset Value)



2017 Business Plans

In 2017, it is forecast that market uncertainties will continue to grow due to the U.S. interest rate rise and China's stagnant growth bringing about high volatility in domestic stock markets and keeping interest rates low. In addition, we expect investors to demand various types of investment solutions in the hope of finding new products with absolute returns like 'deposit+ α ' due to restrictions on income from traditional investments. In response, Shinhan BNP Paribas Asset Management will continue to develop investment strategies tailored to these demands and reinforce its competencies as Shinhan Financial Group's asset management platform, thereby becoming the leading asset management company in Korea. To that end, we will carry out the following six initiatives in 2017:

First, we will maintain our top ranking for rate of return on equity funds and achieve external growth.

Second, we will maintain market leadership in bond investments in Korea.

Third, we will improve performance by achieving external growth and launching new products targeting global asset allocation.

Fourth, we will reinforce foreign investment competencies and increase deal sourcing related to alternative assets abroad.

Fifth, we will maintain market leadership in absolute return and medium-return funds.

Lastly, we will strengthen human resource management based on performance-based practices.

In 2017, Shinhan BNP Paribas Asset Management will strive to improve investor confidence and enhance trust in its products and services based on the practice of 'Compassionate Finance, Your Companion for the Future.'

2016 Awards and Recognitions



Financial Section

In 2016, Shinhan Financial Group recorded KRW 2,774.8 billion of consolidated net income. This marked a 17.2% increase over the previous year's KRW 2,367.2 billion, to surpass the KRW 2 trillion mark for three consecutive years. Shinhan Financial Group registered the highest net profit among all Korean financial groups for the ninth straight year, reflective of the Group's consistent growth strategies, sound corporate governance, and preemptive risk management practices.

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Management's Discussion and Analysis

I. 2016 Review

1.1. Global and Domestic Economy

In 2016, the global economy displayed signs of sluggish economic growth due to delayed economic recovery of major economies and the economic recession experienced by developing countries. In the U.S., employment and inflation indexes showed mixed signals, but the U.S. economy was able to maintain moderate growth, aided by a recovery in consumer spending. Due to expansionary monetary policies and the resulting depreciation of the Euro, Europe experienced a rise in exports. However, Europe's growth was limited by political risks such as Brexit and the refugee crisis. Japan continued their accommodative monetary policy and expansionary fiscal policy for a mild recovery. China, India, and the five ASEAN countries (Indonesia, Thailand, Malaysia, the Philippines, and Vietnam) put in solid performances.

After OPEC agreed to oil production cuts, international oil prices rose to \$50 per barrel, but prices fell back to the mid-\$40 per barrel level as the likelihood of a production cut waxed and waned through October. However, OPEC members agreed to a cut at the end of November, along with 11 non-OPEC countries including Russia taking part in the agreement, pushing oil prices back above \$50 per barrel.

The U.S.'s long-term market interest rates rose after July, driven by favorable economic indicators and expectations of the Federal Reserve raising key interest rates in 2016, which rose significantly with the surge of government bond issuance and inflation expected from the expansionary fiscal policy after the presidential election held in November. Despite monetary easing in Japan and Germany, both countries witnessed long-term market interest rates rise, but the rates were stabilized after mid-December.

The Korean economy showed a slowdown mainly in private consumption growth, with a decline in durable goods like automobiles due to reduced individual consumption tax benefits. This was balanced by a significant increase in energy consumption caused by heat waves and overseas consumption. However, the increase in private consumption was limited because of weakened consumer sentiment due to rising political uncertainties, as well as an increase in principal and interest payments for household loans resulting from an increase in market interest rates. Capital investment increased slightly due to an improvement in the semiconductor industry, and construction investment showed a huge increase in 2016, driven by an increase in demand for construction materials after the second half of 2015. Korea's consumer prices rose 1% after falling oil prices began to swing upwards, and producer prices also showed a gradual upward trend due to an increase in international crude oil prices.

Korea's long-term market interest rates stabilized after rising significantly in the second half of the year. The interest rates of 3-year government bonds increased significantly due to the effects of the U.S. government bond interest rates rising sharply from concerns about inflation after the U.S. presidential election. However, this stabilized somewhat after the Korean government put in place measures to stabilize the market.

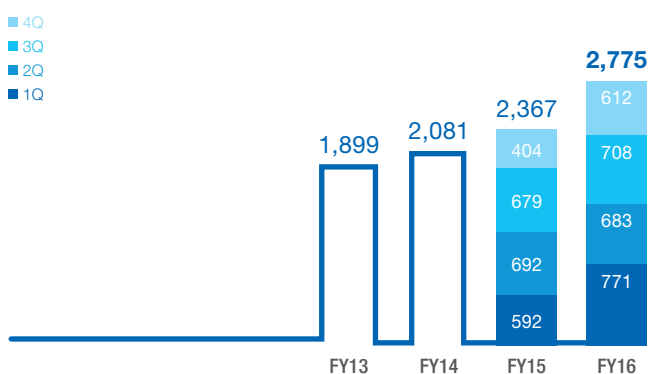
1.2. Shinhan Financial Group

In 2016, Shinhan Financial Group recorded KRW 2,774.8 billion of consolidated net income (attributable controlling interest). This marked a 17.2% increase over the previous year's KRW 2,367.2 billion, to surpass the KRW 2 trillion mark for three consecutive years.

Group's interest income showed a good growth mainly due to steady loan growth and stable net interest margin. On the other hand, the non interest income fell compared to the previous year with a sizable decrease of one-off gains.

Shinhan Financial Group Net Income

(Unit: KRW billion)



II. Income

2.1. Group Income

In 2016, the Group's consolidated net income (attributable to controlling interest) amounted to KRW 2,774.8 billion, the second highest on record after KRW 3.1 trillion in 2011. Also, the Group's strategies for consistent growth were implemented under outstanding corporate governance and resulted in stable profitability through proactive risk management. This allowed the Group to maintain the industry's highest level of net income for the ninth year in a row.

Group Income

(Unit: KRW billion)

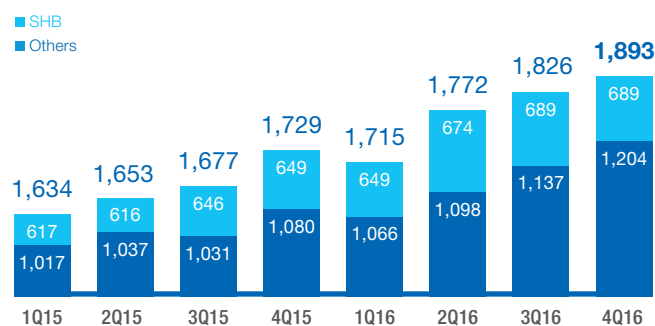
	FY16	FY15	YoY(%)
Operating Income(a=b+c)	8,782.4	8,485.7	3.5
Interest Income(b)	7,205.4	6,692.9	7.7
Non-interest Income(c)	1,577.0	1,792.7	-12.0
G&A Expenses(d)	4,508.6	4,475.1	0.7
Pre-provision Operating Income(e=a-d)	4,273.8	4,010.6	6.6
Non-operating Income(f)	61.8	167.4	-63.1
Pre-Provision Income(g=e+f)	4,335.6	4,178.0	3.8
Provision for Credit Losses(h)	1,165.1	1,037.4	12.3
Earnings before Income Tax(i=g-h)	3,170.5	3,140.6	1.0
Income Tax	345.6	694.6	-50.3
Consolidated Net Income ¹⁾	2,774.8	2,367.2	17.2

1) Net income in controlling interest

Specifically, the Group's interest income increased by 7.7% year-on-year to reach KRW 7,205.4 billion. This growth was driven by maintaining stable net interest income (NIM) along with consistent asset growth. The Group's non-interest income amounted to KRW 1,577.0 billion, down 12.0% from the previous year. This was mainly due to the decrease of one-off positive factors such as gains from sales of available for sales securities and non-performing loans.

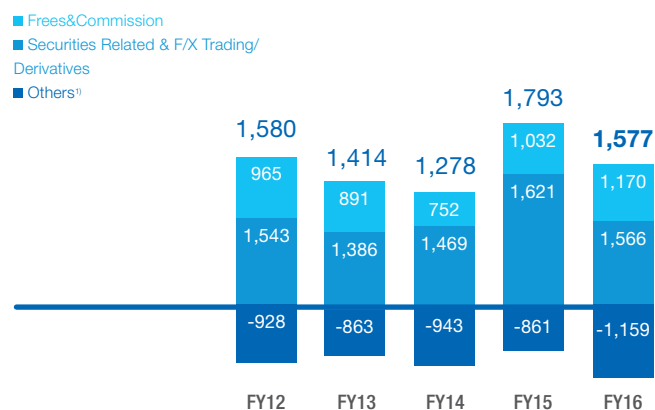
Group Interest Income

(Unit: KRW billion)



Group Non-interest Income

(Unit: KRW billion)



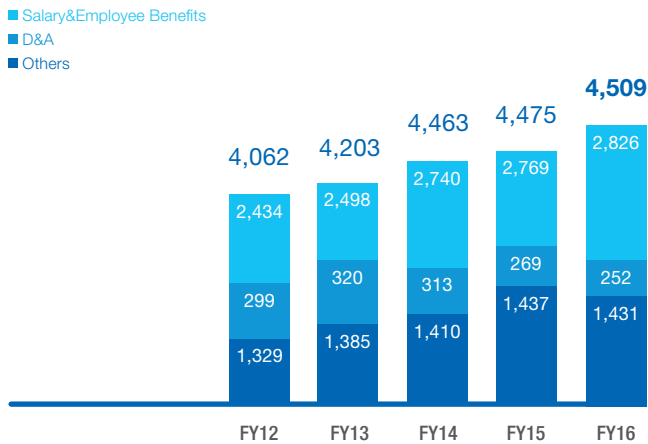
1) Including insurance fees on deposits, contribution expenses etc.

The Group's selling, general & administrative (SG&A) expenses edged up a mere 0.7% from the previous year to reach KRW 4,508.6 billion. This was the result of cost-saving efforts to bring about a reduction in cost structure since the end of 2012, enabling the Group to stabilize its SG&A expenses that had previously increased more than 3% annually until 2015. Through these efforts, SG&A expenses stabilized in 2015 and 2016 with slight increases of 0.3% and 0.7%, respectively. As a result of effectively managing SG&A expenses, the Group's cost income ratio decreased for the second year in a row to 51.3%.

Management's Discussion and Analysis

Group SG&A Expenses

(Unit: KRW billion)



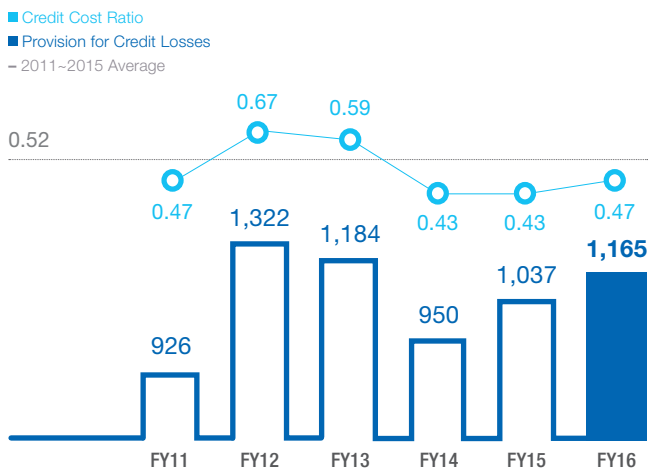
Income tax expense decreased by 50.3% from the previous year primarily as a result of the recognition of deferred tax assets, which amounted to W336 billion, based on loss carry-forward, partially offset by the increase in Shinhan Bank's taxable income. We had not previously recognized deferred tax assets relating to the expired unused tax losses as the utilization of the expired unused tax losses had been assessed remote. In 2016, however, based on the new tax interpretation issued by Korea National Tax Service which allows utilization of expired unused tax losses against extinguishment of deposit and insurance liabilities and the recent tax refund, Shinhan Bank recognized the deferred tax asset after factoring in future taxable profits and the expected future extinguishment of deposit and insurance liabilities.

2.2. Subsidiary Income

In addition to Shinhan Bank, Shinhan Financial Group's non-bank subsidiaries achieved impressive performance, including Shinhan Card, Shinhan Investment Corp., and Shinhan Life Insurance. Moreover, the Group's banking and non-banking subsidiaries jointly contributed to income growth to minimize volatility in profitability and maintain a stable source of profits.

Group Credit Costs

(Unit: %, KRW billion)



Group Subsidiary Income

(Unit: KRW billion)

	FY16	FY15	YoY(%)
Bank(a)	1,957.6	1,503.0	30.2
Shinhan Bank	1,940.3	1,489.7	30.2
Jeju Bank ²⁾	17.3	13.4	29.7
Non-Bank(b)	1,045.7	1,087.5	-3.8
Shinhan Card	715.9	694.8	3.0
Shinhan Investment Corp.	115.4	215.5	-46.4
Shinhan Life Insurance	150.6	100.2	50.2
Shinhan BNPP AM ²⁾	9.3	15.4	-39.5
Shinhan Capital	33.9	46.1	-26.5
Shinhan Savings Bank	12.5	8.0	56.0
Shinhan Data System	1.2	1.0	13.4
Shinhan AITAS ²⁾	7.6	6.4	19.0
Shinhan Credit Information	-1.2	0.7	n.a
Shinhan Private Equity	0.5	-0.6	n.a
Total(a+b)	3,003.3	2,590.5	15.9
Consolidate Net Income ¹⁾	2,774.8	2,367.2	17.2

1) Net income in controlling interest
2) After reflecting ownership by SFG

2.2.1. Shinhan Bank

In 2016, Shinhan Bank's net income was up 30.2% year on year to KRW 1,940.3 billion. Along with stable asset growth, the bank improved its interest income through stable NIM performance and maintained stable SG&A expenses. Also, credit costs remained steady due to proactive and consistent risk management.

Shinhan Bank Income

(Unit: KRW billion)

	FY16	FY15	YoY(%)
Operating Income(a=b+c)	5,537.3	5,110.8	8.3
Interest Income(b)	4,504.1	4,164.7	8.1
Non-interest Income(c)	1,033.1	946.1	9.2
G&A Expenses(d)	2,889.9	2,785.4	3.7
Pre-provision Operating Income(e=a-d)	2,647.4	2,325.4	13.8
Non-Operating Income(f)	69.7	141.3	-50.7
Pre-Provision Income(g=e+f)	2,717.1	2,446.7	10.2
Provision for Credit Losses(h)	688.4	591.6	16.4
Earnings before Income Tax(i=g-h)	2,028.7	1,875.1	8.2
Income Tax	88.1	385.1	-77.1
Consolidated Net Income ¹⁾	1,940.3	1,489.7	30.2

1) Net income in controlling interest

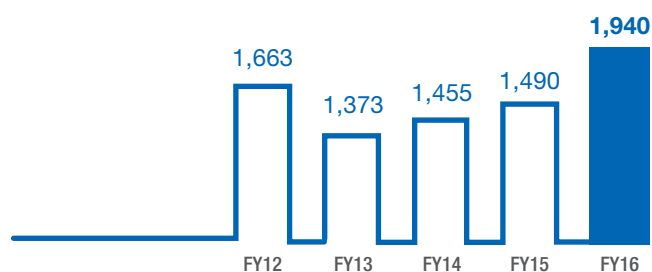
Shinhan Bank's interest income reached KRW 4,504.1 billion, up 8.1% from the previous year. This achievement was due to a consistent asset growth policy and stable NIM. Shinhan Bank's non-interest income increased by 9.2% year-on-year to reach KRW 1,033.1 billion. All fee & commission income and gains on sales of securities increased, resulting in a rise in overall non-interest income.

Shinhan Bank's SG&A expenses increased by 3.7% year-on-year to reach KRW 2,889.9 billion. The increase was mainly due to the increased ERP expenses. Excluding this factor, SG&A expense increased only 2.5%.

Credit costs increased by 16.4% year-on-year to reach KRW 688.4 billion. Due to an increase in one-off credit costs resulting from restructuring in the shipbuilding and shipping industries, credit costs rose slightly, but the credit cost ratio was maintained at a stable level of 33bp.

Shinhan Bank Net Income

(Unit: KRW billion)



2.2.2. Shinhan Card

In 2016, Shinhan Card's net income rose to KRW 715.9 billion, up 3.0% from the previous year. An increase in the transaction volume of credit sales led to an upturn in sales in the credit card business, while interest expenses decreased due to the low-interest rate environment. As a result of maintaining credit costs at an appropriate level through proactive risk management, Shinhan Card's net income increased compared to the previous year.

Shinhan Card Income

(Unit: KRW billion)

	FY16	FY15	YoY(%)
Operating Revenue(a)	4,674.1	4,742.2	-1.4
Card Business	3,907.5	3,841.2	1.7
Installment Finance	97.3	93.9	3.6
Lease	53.8	37.7	42.9
Others	615.4	769.4	-20.0
(Derivatives & FX)	101.9	173.0	-41.1
Interest Expenses(b)	394.6	446.4	-11.6
G&A Expenses(c)	751.2	763.3	-1.6
Commissions & Other Expenses(d)	2,240.0	2,321.5	-3.5
(Derivatives & FX)	73.2	143.8	-49.1
Pre-Provision Income(e=a-b-c-d)	1,288.3	1,211.0	6.4
Provision for Credit Losses(f)	377.4	322.9	13.4
Earnings before Income Tax(g=e-f)	910.9	878.1	3.7
Income Tax	203.5	183.3	11.0
Net Income ¹⁾	715.9	694.3	3.0

1) Net income in controlling interest

Management's Discussion and Analysis

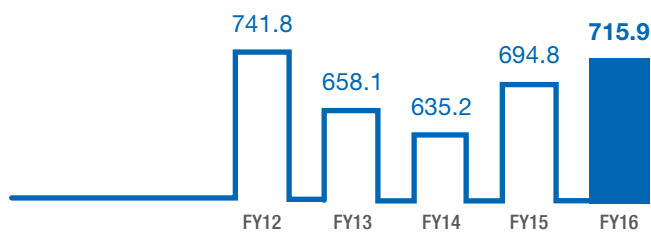
Specifically, Shinhan Card's operating revenue decreased to KRW 4,674.1 billion, down 1.4% from the previous year mainly due to a decrease in revenue from factoring operation and in income from derivative transactions. However, merchant fee income increased with a rapid growth in credit sales transaction volume.

Shinhan Card's interest expenses recorded KRW 394.6 billion, showing 11.6% decrease year on year, thanks to the prolonged low-interest rate environment. SG&A expenses declined to KRW 2,240 billion, down 3.5% from the previous year. It was mainly attributed to the decrease of early retirement program (ERP) expenses with the large scale ERP absent in 2016.

Shinhan Card's credit costs amounted to KRW 377.4 billion, up 13.4% from the previous year. Due to an increase in operating assets, credit costs increased slightly, but the credit cost ratio was maintained at a stable level of 166bp.

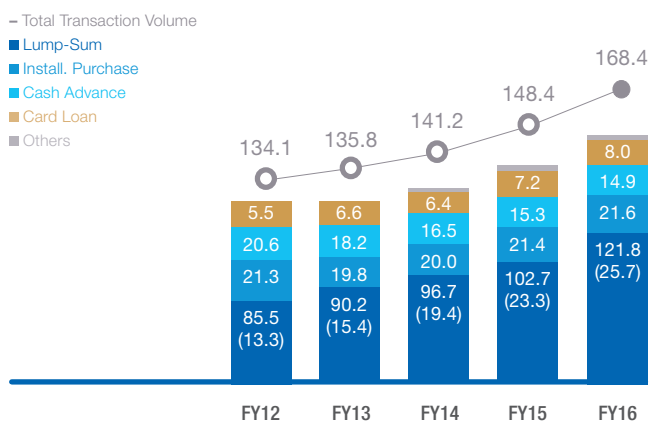
Shinhan Card Net Income

(Unit: KRW billion)



Shinhan Card Transaction Volume

(Unit: KRW trillion)



1) Figures in parenthesis represent debit card transaction volume

2.2.3. Shinhan Investment Corp.

In 2016, Shinhan Investment Corp.'s net income amounted to KRW 115.4 billion, down 46.4% from the previous year. As a result of widespread global uncertainties, expanded volatility in the financial market led to a decline in fee & commission and proprietary trading income.

Shinhan Investment Corp. Income

(Unit: KRW billion)

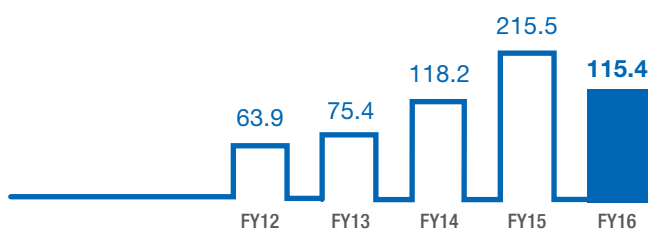
	FY16	FY15	YoY(%)
Operating Revenue	668.1	870.2	-23.2
Fee&Commission	399.7	450.2	-11.2
Proprietary Trading	95.9	324.7	-70.5
Others	172.4	95.3	80.9
Operating Expense	524.2	609.5	-14.0
G&A Expenses	414.6	488.5	-15.1
Commission Expenses	104.1	118.8	-12.4
Provision for Credit Losses	5.5	2.2	151.8
Operating Income	143.8	260.7	-44.8
Net Income	115.4	215.5	-46.4

Shinhan Investment Corp.'s fee & commission income fell by 11.2% year on year to reach KRW 399.7 billion. Brokerage fee income fell due to a decrease in transaction volume in Korea's stock markets, with income from financial products also declining. Proprietary trading income amounted to KRW 95.9 billion, down 70.5% from the previous year due to losses from derivatives and a decline in the valuation of securities.

Shinhan Investment Corp.'s SG&A expenses amounted to KRW 414.6 billion, down 15.1%. This can be attributed to a decrease in securities transaction taxes due to the transaction volume falling and a decrease in performance-related bonuses resulting from moderate performance by operating units.

Shinhan Investment Corp. Net Income

(Unit: KRW billion)



2.2.4. Shinhan Life Insurance

In 2016, Shinhan Life Insurance's net income recorded KRW 150.6 billion, up 50.3% from the previous year. Despite continued low interest rates throughout the year, insurance-related income increased at a steady pace mainly due to growth in sales of protection-type insurance products with favorable profitability.

Shinhan Life Insurance Income

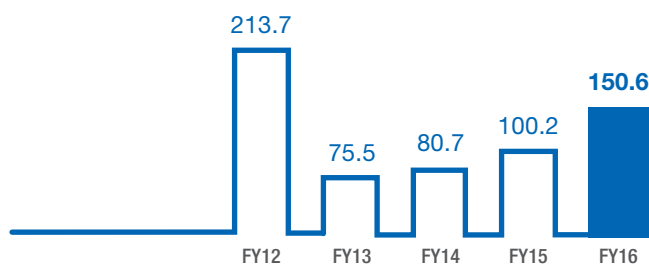
(Unit: KRW billion)

	FY16	FY15	YoY(%)
Net Insurance Operating Results	1,622.1	1,584.8	2.4
Premiums Written	4,559.4	4,422.4	3.1
Claims Paid(Δ)	2,007.8	1,946.7	3.1
Reinsurance Operating Results	-1.6	-1.1	-
Operating Expenses(Δ)	927.8	889.8	4.3
Net Investment Gains	808.2	771.7	4.7
Others	48.2	53.6	-10.0
Total Operating Net Results	2,478.5	2,410.1	2.8
Provision of Policy Reserves(Δ)	2,325.0	2,277.5	2.1
Net Income Before Taxes	153.5	132.6	15.8
Net Income	150.6	100.2	50.3

Shinhan Life Insurance's net insurance operating results increased by 2.4% year on year to reach KRW 1,622.1 billion. Even though claims paid (Δ) increased due to an expansion of policies with existing customers, net insurance operating results increased due to an upturn in the number of premiums written. Net investment gains reached KRW 808.2 billion, up 4.7% from the previous year. Despite the prolonged period of low-interest rates, interest and dividend income increased from the previous year due to asset growth. The provision of policy reserves rose by 2.1% year on year to reach KRW 2,325 billion due to a buildup in reserves as a result of an expansion in contracts with existing customers.

Shinhan Life Insurance Net Income

(Unit: KRW billion)



III. Asset Growth

3.1. Group Asset Growth

At the end of 2016, Shinhan Financial Group's total assets on a consolidated basis amounted to KRW 395.7 trillion, up 6.8% from the previous year, with total assets including trust accounts increasing by 8.8% to reach KRW 490.1 trillion. The Group's assets were emblematic of a balanced business portfolio between its banking and non-banking operations.

In 2016, the Group's banking business recorded a 8.6% increase year on year to reach KRW 345.4 trillion in total assets including operating assets, while assets in the non-banking sector increased by 10.6% to reach KRW 142.6 trillion. Steady loan growth of Shinhan Bank contributed to the asset growth of banking subsidiaries. As for non-banking subsidiaries, Shinhan Card's long-term card loans, Shinhan Investment Corp.'s operating assets in trusts, and Shinhan Life Insurance's operating assets all showed an increase.

Group Asset

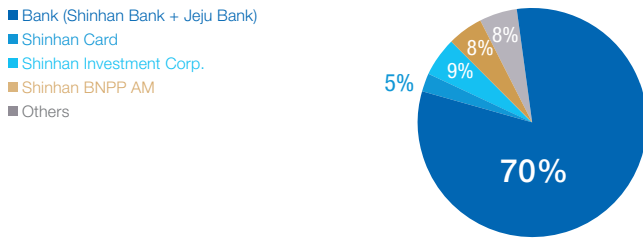
(Unit: KRW billion)

	2016.12	2015.12	YTD%
Bank	345,421.3	318,112.9	8.6
Shinhan Bank	340,236.4	313,648.3	8.5
Jeju Bank	5,184.8	4,464.6	16.1
Non-Bank	142,646.8	128,969.0	10.6
Shinhan Card	24,419.9	23,347.7	4.6
Shinhan Investment Corp.	43,329.1	37,792.3	14.7
Shinhan Life Insurance	27,499.8	24,544.6	12.0
Shinhan BNPP AM	39,439.5	37,973.3	3.9
Shinhan Capital	4,506.8	4,076.6	10.6
Shinhan Savings Bank	970.1	795.1	22.0
Shinhan Data System	34.4	26.7	29.0
Shinhan AITAS	53.9	42.8	25.9
Shinhan Credit Information	23.1	23.9	-3.4
Shinhan Private Equity	114.9	119.0	-3.5
Others	2,255.3	227.1	893.2
Total ¹⁾	490,115.1	450,438.5	8.8
Consolidate Total Assets	395,680.3	370,548.0	6.8

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

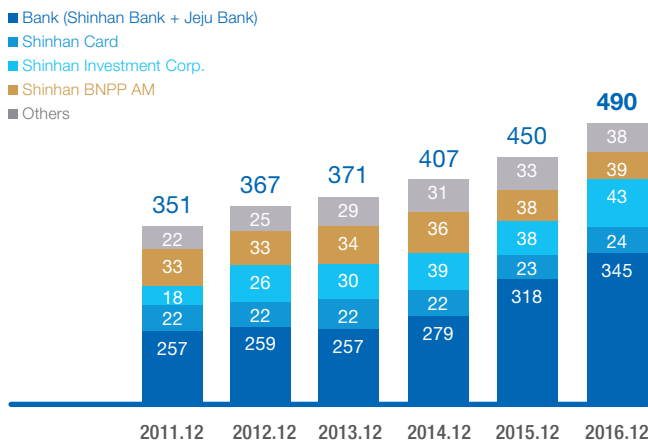
Management's Discussion and Analysis

Asset Breakdown by Subsidiary



Group Asset Growth

(Unit: KRW trillion)



3.2. Subsidiary Asset Growth

3.2.1. Shinhan Bank

3.2.1.1. Loans

At the end of 2016, Shinhan Bank's loans in KRW rose by 4.4% year on year to reach KRW 184.6 trillion. Shinhan Bank continued to record steady asset growth over three consecutive years through its consistent asset growth strategies. The bank showed balanced growth in both retail and corporate loans to achieve qualitative asset growth in 2016.

Retail loans amounted to KRW 93.6 trillion, up 6.3% from the previous year. Due to the effects of low-interest rates and Korea's invigorated real estate market, mortgage loans and unsecured personal loans increased. Even though securitization of mortgage loans reached levels of approximately KRW 6.0 trillion, favorable growth was recorded due to a high demand for loans.

Corporate loans went up 2.5% to reach KRW 90.9 trillion. Despite the decrease in loans for large corporates, the growth of SME loans led to an overall corporate loan growth. The year 2016 also witnessed similar patterns of continued growth in loans to non-audited SMEs and SOHO customers in recent years.

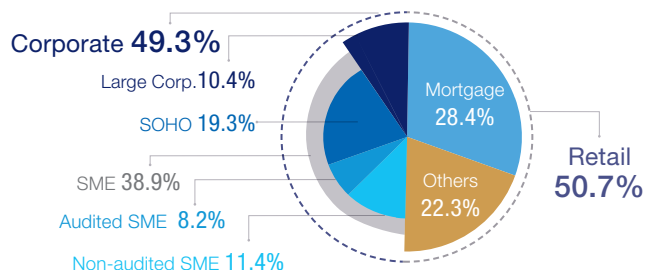
Shinhan Bank Loans

(Unit: KRW billion)

	2016.12	2015.12	YTD%
Loan in KRW	184,599	176,810	4.4
Retail	93,628	88,085	6.3
Mortgage	52,392	52,054	0.6
Others ¹⁾	41,236	36,031	14.4
Corporate	90,931	88,725	2.5
SME	71,757	67,336	6.6
SOHO	35,539	34,223	3.8
Large Corpate etc.	19,173	21,389	-10.4
Loan in FX	7,919	8,114	-2.4

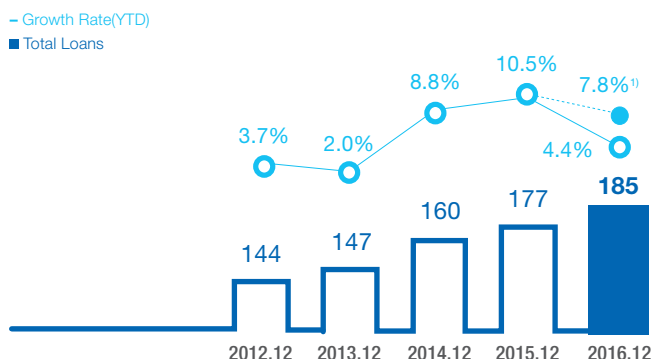
1) Including unsecured personal loans, secured loans, Jeonse loans etc.

Shinhan Bank Loan Composition



Shinhan Bank Loan Growth

(Unit: KRW trillion)



1) Including loans securitized

3.2.1.2. Deposits

At the end of 2016, Shinhan Bank's deposits amounted to KRW 187.9 trillion, up 4.0% from the previous year. Stable growth in deposits, especially low-cost deposits, is largely due to the abundant market liquidity resulting from the sustained low interest rate environment, along with the bank's efforts to attract new salary accounts and credit card settlement accounts.

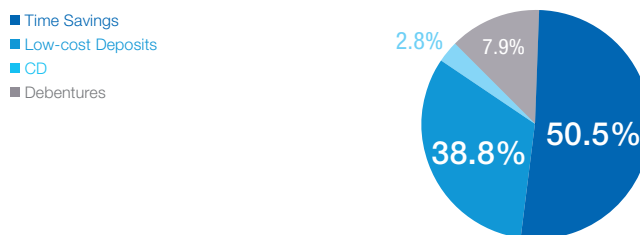
Shinhan Bank is engaged in aggressive campaigns to attract retail and corporate customers to open new salary accounts, as well as low-cost deposits through an increase in credit card settlement accounts. As a result, Shinhan Bank's low-cost deposits showed an annual growth rate in the double digits between 2013 and 2016, with low-cost deposits accounting for about 38.8% of total deposits in 2016.

Shinhan Bank Deposits

(Unit: KRW billion)

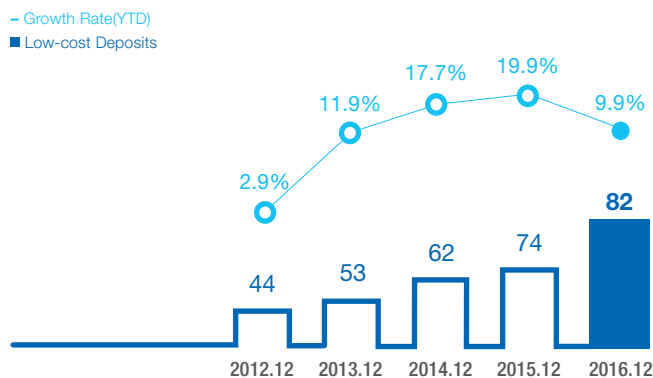
	2016.12	2015.12	YTD%
Total Deposits in KRW	187,932	180,766	4.0
Low Cost Deposits	81,681	74,325	9.9
Demand	25,149	21,858	15.1
Savings	56,232	52,467	7.7
Time Savings	106,251	106,441	-0.2
Time Deposits	97,793	97,940	-0.1
Accumulative etc.	8,458	8,501	-0.5
Certificate of Deposits	5,828	4,073	43.1
Debentures in KRW	16,605	15,989	3.9

Shinhan Bank Deposits Composition



Shinhan Bank Low-cost Deposits

(Unit: KRW trillion)



3.2.2. Shinhan Card

3.2.2.1. Number of Active Cardmembers

At the end of 2016, the number of Shinhan Card's active cardholders increased by 0.4% year on year to reach 12.1 million. This was emblematic of stagnant growth influenced by new regulations in the second half of 2013 mandating the automatic deactivation of long-term inactive credit cards, but showed a slight recovery in the growth rate for active cardholders due to the deregulation of marketing efforts targeting online credit card applications in 2016. The number of affiliated merchants rose to 2.6 million, up 4.5% from the previous year as of the end of 2016.

Effective Cardholders & Merchants of Shinhan Card

(Unit: Thousand)

	2016.12	2015.12	YTD%
Effective Cardholders	12,096.8	12,051.8	0.4
Merchants	2,625.8	2,513.4	4.5

Management's Discussion and Analysis

3.2.2.2. Operating Assets

As of the end of 2016, Shinhan Card's operating assets amounted to KRW 22.9 trillion, a 7.2% increase from the previous year. As a result of the expansion of card settlement through online systems and mobile applications, credit purchase increased by 3.9% year on year, and card loans rose 11.1% from the previous year. On the other hand, cash advances fell by 4.7% from the previous year due to the continuous shrink of the market.

Shinhan Card Operating Assets

(Unit: KRW billion)

	2016.12	2015.12	YTD%
Earning Assets	22,859	2,513	7.2
Credit Purchase	11,795	11,353	3.9
Cash Advances	1,953	2,051	-4.7
Card Loan	5,618	5,057	11.1
(Re-aged Loan)	24	234	3.3
Installment Finance	2,165	1,865	16.1
Lease etc.	1,328	998	33.0

3.2.2.3. Funding

At the end of 2016, Shinhan Card's total funding amounted to KRW 14.3 trillion, up 7.4% from the previous year. The company obtained funding from a variety of sources according to market conditions, including corporate debentures, asset-backed securitizations (ABS), and commercial paper (CP). In 2016, Shinhan Card increased funding from debentures due to ample market liquidity and a stable bond market, resulting in a 10.9% increase year on year in funding from debentures.

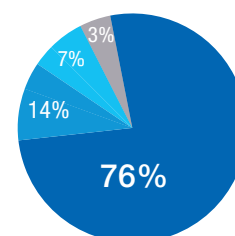
Shinhan Card Total Funding

(Unit: KRW billion)

	2016.12	2015.12	YTD%
Total	14,310	13,325	7.4
Debentures	10,842	9,780	10.9
ABS	1,934	1,992	-2.9
CP	935	770	21.4
Others	599	783	-23.5

Shinhan Card Funding Portfolio

■ Debenture
■ ABS
■ CP
■ Others



3.2.3. Shinhan Investment Corp.

At the end of 2016, Shinhan Investment Corp.'s total assets increased by 5.0% year on year to reach KRW 25.5 trillion. Due to increased investments in government bonds and foreign bonds, securities rose by 5.4% from the previous year while cash and deposits rose by 7.9% year on year, contributing to an increase in total assets.

Shinhan Investment Corp. Assets

(Unit: KRW billion)

	2016.12	2015.12	YTD%
Total Assets	25,549	24,337	5.0
Cash and Deposit	3,858	3,576	7.9
Securities	17,091	16,216	5.4
(Trading securities)	15,024	14,118	6.4
Derivatives	349	268	30.6
Loans	2,552	2,534	0.7
(Broker's loans)	1,566	1,259	24.4
Tangible fixed assets	119	119	-0.3
Others	1,580	1,625	-2.7

In 2016, brokerage transaction volume fell by 13.9% year on year to reach KRW 245 trillion. As a result of weakened investor sentiment from the expansion of uncertainty in both the domestic and global markets, overall transaction volume decreased in the domestic market leading to a decrease in Shinhan Investment Corp.'s transaction volume.

Shinhan Investment Corp. Assets

(Unit: KRW billion)

	FY16	FY15	YoY%
Stocks	245	284	-13.9
Futures	449	520	-13.7
Options	17	27	-37.3

3.2.4. Shinhan Life Insurance

At the end of 2016, Shinhan Life Insurance's operating assets amounted to KRW 23.3 trillion, up 13.5% from the previous year. In order to generate stable income under sustained low interest rate trends, the company increased its holdings of long-term foreign bonds, so that bond assets showed a 7.4% increase from the previous year. Loan assets increased by 0.6% year on year.

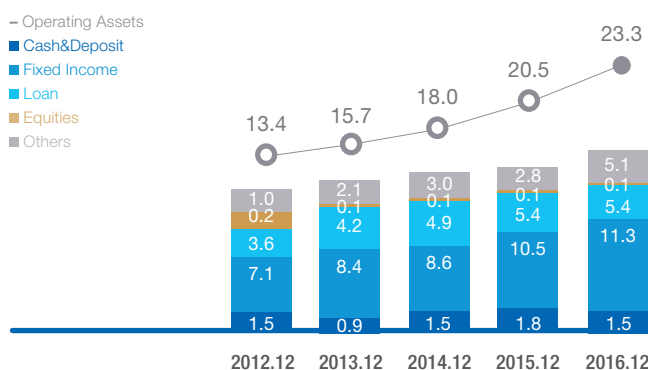
Shinhan Life Insurance Operating Assets

(Unit: KRW billion)

	2016.12	2015.12	YoY%
Operating Assets	23,316.3	20,545.0	13.5
Cash&Deposits	1,457.8	1,831.6	-20.4
Fixed Income	11,281.7	10,505.2	7.4
Loans	5,404.7	5,372.1	0.6
Equities	72.7	80.7	-9.9
Others	5,099.4	2,755.4	85.1

Shinhan Life Insurance Operating Asset Growth

(Unit: KRW trillion)



IV. Asset Quality

4.1. Group Asset Quality

At the end of 2016, Shinhan Financial Group's NPL ratio declined by 0.13%p to 0.74% compared to the previous year, recording the lowest NPL ratio since the group's foundation. Along with its asset growth strategies focusing on safe assets, the Group proactively reduced risky loans through consistent risk management. At the end of 2016, the Group's substandard and below loan ratio amounted to KRW 1.8 trillion, down 11.2% from the previous year. The NPL coverage ratio reached 219% (including reserve for credit losses) to effectively provide sufficient coverage for any potential losses in the future.

SFG Asset Quality

(Unit: KRW billion)

	2016.12	2015.12	YTD%
Total Loan ¹⁾	249,237	238,776	4.4
Normal	245,053	234,818	4.4
Precautionary	2,336	1,878	24.4
Substandard	795	955	-16.8
Doubtful	426	591	-27.9
Estimated Loss	626	533	17.5
Substandard&Below	1,848	2,080	-11.2
NPL Ratio	0.74%	0.87%	-0.13%p
Loan Loss Allowance ²⁾	4,050	3,969	2.0
NPL Coverage Ratio	219%	191%	28%p
Reserve for credit losses ³⁾	1,830	1,768	3.5

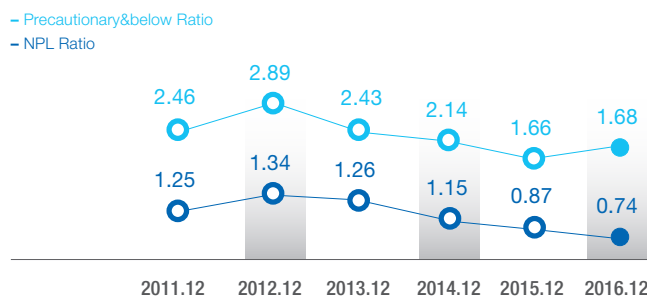
1) Sum of Shinhan Bank, Jeju Bank, Shinhan Card, Shinhan Investment Corp., Shinhan Life Insurance, Shinhan Capital and Shinhan Savings Bank

2) Loan Loss Allowance : Sum of IFRS standard LLA and reserves for credit losses

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

SFG Precautionary & below Ratio / NPL Ratio

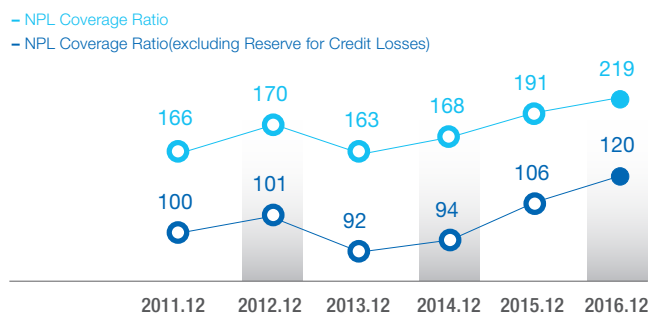
(Unit: %)



Management's Discussion and Analysis

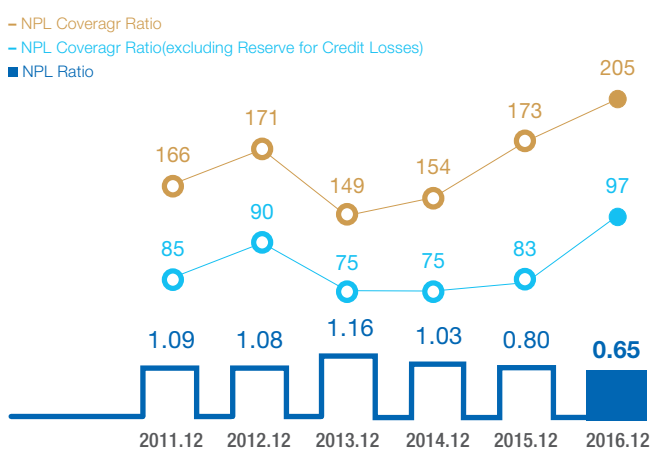
SFG NPL Coverage Ratio

(Unit: %)



Shinhan Bank NPL Coverage Ratio & NPL Ratio

(Unit: %)



4.2. Subsidiary Asset Quality

4.2.1. Shinhan Bank

At the end of 2016, Shinhan Bank posted an NPL ratio of 0.65%, down 0.15%p from the previous year. Asset quality indicators including NPL ratio remained at a very stable level, with growth of safe assets due to the prolonged period of low interest rates and increased mortgage and SME loans. At the end of 2016, Shinhan Bank's substandard and below loans fell to KRW 1.4 trillion, down 15.1% from the previous year, while the delinquency ratio was maintained at low levels at 0.28%.

Shinhan Bank Asset Quality

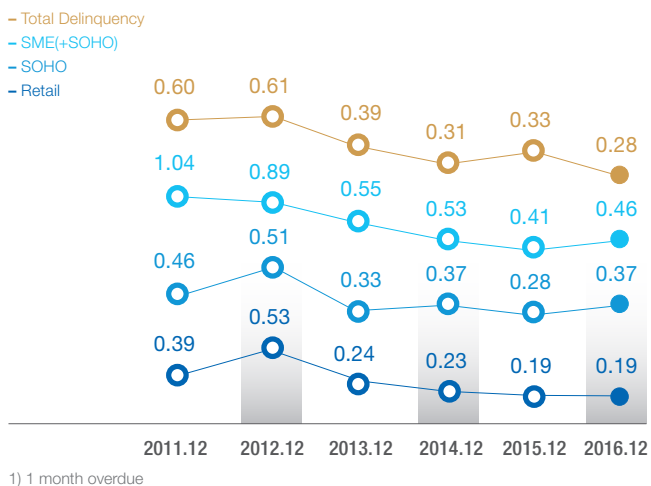
(Unit: KRW billion)

	2016.12	2015.12	YTD%
Total Loan	209,419	202,003	3.7
Normal	206,894	199,534	3.7
Precautionary	1,155	855	35.1
Substandard	688	850	-19.0
Doubtful	263	453	-42.0
Estimated Loss	420	312	34.4
Substandard&Below	1,371	1,615	-15.1
NPL Ratio	0.65%	0.808%	-0.15%p
Loan Loss Allowance ¹⁾	2,804	2,790	1.5
NPL Coverage Ratio	205%	173%	32%p
Reserve for credit losses ²⁾	1,480	1,442	2.7

1) Loan Loss Allowance : Sum of IFRS standard LLA and reserves for credit losses
2) Excluding reserve for contingent acceptances&guarantees and unused credit lines

Shinhan Bank Delinquency Ratio

(Unit: %)



1) 1 month overdue

4.2.2. Shinhan Card

At the end of 2016, Shinhan Card's NPL ratio fell by 0.08%p from the previous year to reach 1.16%. Despite the recent increase in card loan assets, not only did substandard and below loans decrease by 0.3% year on year through proactive risk management, but the delinquency ratio was kept at a stable level of 1.43%.

Shinhan Bank Asset Quality

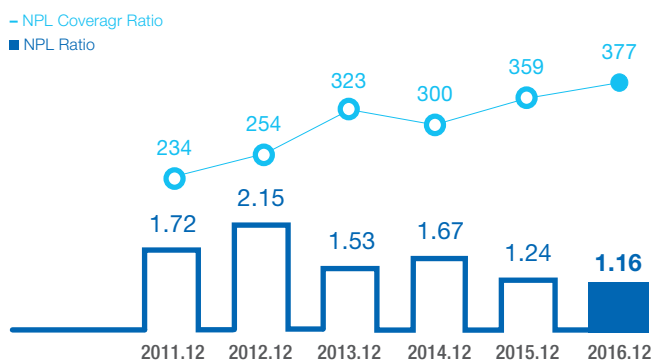
(Unit: KRW billion)

	2016.12	2015.12	YTD%
Total Loan	22,765	21,323	6.8
Normal	21,686	20,332	6.7
Precautionary	815	725	12.5
Substandard	-	-	-
Doubtful	90	79	13.7
Estimated Loss	175	186	-6.3
Substandard&Below	265	265	-0.3
NPL Ratio	1.16%	1.24%	-0.08%p
Loan Loss Allowance ¹⁾	998	953	4.7
NPL Coverage Ratio	377%	359%	18%p
Reserve for credit losses	275	262	4.9

1) Excluding reserve for unused credit lines

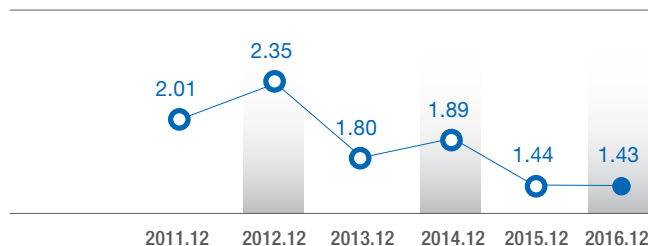
Shinhan Card NPL Ratio & NPL Coverage Ratio

(Unit: %)



Shinhan Card Delinquency Ratio

(Unit: %)



1) 1 month overdue from total credit

V. Capital Adequacy

5.1. Group Capital Adequacy

At the end of 2016, Shinhan Financial Group's BIS ratio rose by 1.6%p from the previous year to reach 15.0%. Improvement of the BIS ratio was mainly due to stable net income flow and the adoption of FIRB for calculating risk-weighted asset. In the fourth quarter of 2016, the Group received approval to use the Foundation Internal Rating-Based Approach (FIRB) for calculating risk-weighted assets in its credit card assets. In addition to FIRB adoption for credit card assets, the Group also recorded an improvement in its Common Equity Tier 1 (CET 1) ratio of about 1.6%p by having reserve for credit losses recognized as CET 1. The Group's payout ratio recorded 24.8% at 1,450 won for the 2016 fiscal year. The Group's payout ratio has increased gradually from 11.5% in 2011 to 24.8% in 2016 through consistent capital strategy.

SFG BIS Ratio

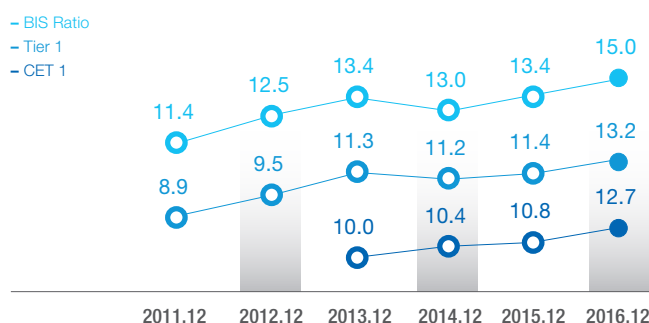
(Unit: KRW billion)

	2016.12	2015.12	YTD%
Risk-Weighted Assets	198,643	203,275	-2.3
Capital	29,787	27,216	9.4
CET 1	25,325	21,883	15.7
Tier 1	26,210	21,194	13.0
BIS Ratio	15.0%	13.4%	1.6%p
CET 1	12.7%	10.8%	1.9%p
Tier 1	13.2%	11.4%	1.8%p

Note) Based on Basel3

SFG BIS Ratio Trend

(Unit: %)

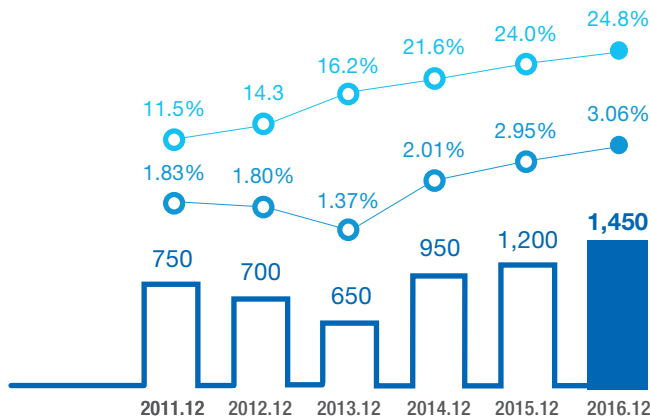


Management's Discussion and Analysis

SFG Dividend

(Unit: KRW)

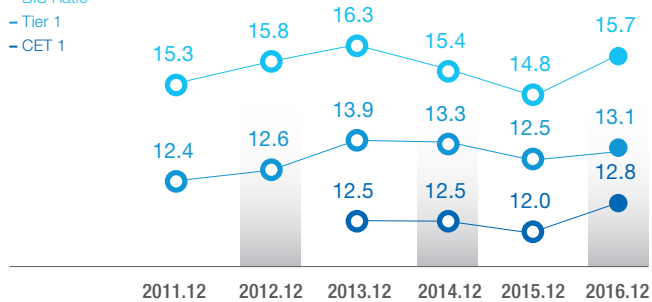
- Dividend Payout Ratio
- Dividend Yield
- Dividend per Share



Shinhan Bank BIS Ratio Trend

(Unit: %)

- BIS Ratio
- Tier 1
- CET 1



5.2. Subsidiary Capital Adequacy

5.2.1. Shinhan Bank

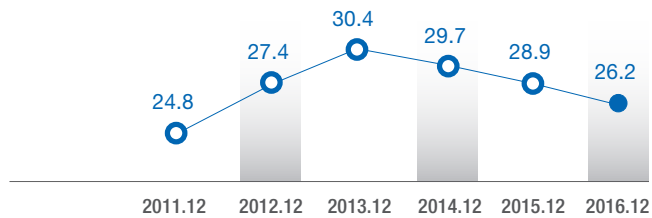
At the end of 2016, Shinhan bank recorded 15.7% for its BIS ratio, up 0.9%p from the year before. Despite the high asset growth rate, the bank generated stable net income to increase CET1 capital by 14.9% compared to the previous year. In the fourth quarter of 2016, Shinhan Bank also had its reserve for credit losses recognized as CET 1, so that the bank's CET 1 ratio increased by 0.9%p.

5.2.2. Shinhan Card

At the end of 2016, Shinhan Card's capital adequacy ratio stood at 26.2%, well above the minimum requirement of 8%. In addition to maintaining stable net income.

Shinhan Card Capital Adequacy Ratio

(Unit: %)



Shinhan Bank BIS Ratio

(Unit: KRW billion)

	2016.12	2015.12	YTD%
Risk-Weighted Assets	155,027	144,844	7.0
Capital	24,339	21,370	13.9
CET 1	19,913	17,324	14.9
Tier 1	20,386	18,130	12.4
BIS Ratio	15.7%	14.8%	0.9%p
CET 1	12.8%	12.0%	0.8%p
Tier 1	13.1%	12.5%	0.6%p

Note) Based on Basel3

Independent Auditors' Report

Based on a report originally issued in Korean



KPMG Samjong Accounting Corp.

10th Floor, Gangnam Finance Center, 152, Teheran-ro,
Gangnam-gu, 135-984 Seoul, Republic of Korea
Tel 82 2112 0100 / Fax 82 2112 0101
www.kr.kpmg.com

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

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

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

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 9, 2017

This report is effective as of March 9, 2016, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Consolidated Statements of Financial Position

As of December 31, 2016 and 2015

(In millions of won)

	Note	2016	2015
Assets			
Cash and due from banks	4,8,20	₩ 19,181,165	22,024,404
Trading assets	4,9,20	26,695,953	22,638,449
Financial assets designated at fair value through profit or loss	4,10,20	3,416,102	3,244,166
Derivative assets	4,11	3,002,859	1,994,714
Loans	4,12,20	259,010,575	246,441,361
Available-for-sale financial assets	4,13,20	37,662,691	33,966,071
Held-to-maturity financial assets	4,13,20	19,805,084	16,192,060
Property and equipment	14,20,50	3,145,613	3,055,415
Intangible assets	15,50	4,226,512	4,266,339
Investments in associates	16	353,600	393,006
Current tax receivable		12,587	9,740
Deferred tax assets	42	641,061	163,944
Investment property	17	353,175	208,717
Other assets	4,18,20	18,168,408	15,945,927
Assets held for sale		4,939	3,690
Total assets		₩ <u>395,680,324</u>	<u>370,548,003</u>
Liabilities			
Deposits	4,21	₩ 235,137,958	217,676,428
Trading liabilities	4,22	1,976,760	2,135,390
Financial liabilities designated at fair value through profit or loss	4,23	9,233,642	8,916,332
Derivative liabilities	4,11	3,528,244	2,599,288
Borrowings	4,24	25,294,241	21,733,865
Debt securities issued	4,25	44,326,785	41,221,284
Liabilities for defined benefit obligations	26	130,879	226,130
Provisions	27	728,888	698,788
Current tax payable		272,728	142,014
Deferred tax liabilities	42,50	10,638	16,154
Liabilities under insurance contracts	28	22,377,434	20,058,284
Other liabilities	4,29	20,917,147	23,310,990
Total liabilities		<u>363,935,344</u>	<u>338,734,947</u>
Equity			
	30		
Capital stock		2,645,053	2,645,053
Hybrid bonds		498,316	736,898
Capital surplus		9,887,335	9,887,335
Capital adjustments		(458,461)	(423,536)
Accumulated other comprehensive income (loss)		(102,583)	304,771
Retained earnings		18,640,038	17,689,134
Total equity attributable to equity holders of Shinhan Financial Group Co., Ltd.		31,109,698	30,839,655
Non-controlling interests	50	635,282	973,401
Total equity		<u>31,744,980</u>	<u>31,813,056</u>
Total liabilities and equity		₩ <u>395,680,324</u>	<u>370,548,003</u>

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

(In millions of won)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Interest income	₩	11,236,302	11,129,704
Interest expense		(4,030,936)	(4,436,771)
Net interest income	32	<u>7,205,366</u>	<u>6,692,933</u>
Fees and commission income		3,803,596	3,896,529
Fees and commission expense		(2,238,057)	(2,275,550)
Net fees and commission income	33	<u>1,565,539</u>	<u>1,620,979</u>
Insurance income		4,586,098	4,447,828
Insurance expenses		(5,004,602)	(4,879,989)
Net insurance loss	28	<u>(418,504)</u>	<u>(432,161)</u>
Dividend income	34	281,623	308,277
Net trading income (expenses)	35	369,510	(344,098)
Net foreign currency transaction gain		461,671	78,236
Net gain (loss) on financial instruments designated at fair value through profit or loss	36	(501,955)	459,765
Net gain on disposal of available-for-sale financial assets	13	647,541	772,474
Impairment losses on financial assets	37	(1,195,663)	(1,264,053)
General and administrative expenses	38	(4,508,575)	(4,475,068)
Other operating expenses, net	40	(797,911)	(444,143)
Operating income		3,108,642	2,973,141
Equity method income	16	9,995	20,971
Other non-operating income, net	41	51,835	146,465
Profit before income taxes		<u>3,170,472</u>	<u>3,140,577</u>
Income tax expense	42	345,553	694,619
Profit for the year	₩	<u>2,824,919</u>	<u>2,445,958</u>

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income (Continued)

For the years ended December 31, 2016 and 2015

(In millions of won, except earnings per share)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Other comprehensive income (loss) for the year, net of income tax			
Items that are or may be reclassified to profit or loss:			
Foreign currency translation adjustments for foreign operations	₩	12,103	(6,469)
Net change in unrealized fair value of available-for-sale financial assets		(433,657)	(265,990)
Equity in other comprehensive income of associates		2,691	11,854
Net change in unrealized fair value of cash flow hedges		(1,262)	2,932
Other comprehensive income (loss) of separate account		(4,330)	3,092
		<u>(424,455)</u>	<u>(254,581)</u>
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liability		15,307	(81,813)
Equity in other comprehensive loss of associates		(2)	(230)
		<u>15,305</u>	<u>(82,043)</u>
Total other comprehensive loss, net of income tax	30	<u>(409,150)</u>	<u>(336,624)</u>
Total comprehensive income for the year	₩	<u>2,415,769</u>	<u>2,109,334</u>
Profit for the year attributable to:			
Equity holders of Shinhan Financial Group Co., Ltd.	30,43 ₩	2,774,778	2,367,171
Non-controlling interest		50,141	78,787
		<u>₩ 2,824,919</u>	<u>2,445,958</u>
Total comprehensive income attributable to:			
Equity holders of Shinhan Financial Group Co., Ltd.	₩	2,367,062	2,034,048
Non-controlling interest		48,707	75,286
	₩	<u>2,415,769</u>	<u>2,109,334</u>
Earnings per share:			
Basic and diluted earnings per share in won	30,43 ₩	<u>5,736</u>	<u>4,789</u>

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

For the year ended December 31, 2015

(In millions of won)

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.								Non-controlling interests	Total
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Sub-total			
Balance at January 1, 2015	₩ 2,645,053	537,443	9,887,335	(393,405)	637,894	15,869,779	29,184,099	1,330,809	30,514,908	
Total comprehensive income for the year										
Profit for the year	-	-	-	-	-	2,367,171	2,367,171	78,787	2,445,958	
Other comprehensive income (loss), net of income tax:										
Foreign currency translation adjustments	-	-	-	-	(5,630)	-	(5,630)	(839)	(6,469)	
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	(265,910)	-	(265,910)	(80)	(265,990)	
Equity in other comprehensive income of associates	-	-	-	-	11,624	-	11,624	-	11,624	
Net change in unrealized fair value of cash flow hedges	-	-	-	-	2,932	-	2,932	-	2,932	
Other comprehensive income of separate account	-	-	-	-	3,092	-	3,092	-	3,092	
Remeasurements of defined benefit plans	-	-	-	-	(79,231)	-	(79,231)	(2,582)	(81,813)	
Total other comprehensive income (loss)	-	-	-	-	(333,123)	-	(333,123)	(3,501)	(336,624)	
Total comprehensive income	-	-	-	-	(333,123)	2,367,171	2,034,048	75,286	2,109,334	
Other changes in equity										
Dividends	-	-	-	-	-	(512,428)	(512,428)	-	(512,428)	
Dividends to hybrid bonds	-	-	-	-	-	(34,488)	(34,488)	-	(34,488)	
Issuance of hybrid bonds	-	199,455	-	-	-	-	199,455	-	199,455	
Change in other capital adjustments	-	-	-	(30,131)	-	(900)	(31,031)	-	(31,031)	
Redemption of subsidiary's hybrid bond and other change in non-controlling interests	-	-	-	-	-	-	-	(432,694)	(432,694)	
	-	199,455	-	(30,131)	-	(547,816)	(378,492)	(432,694)	(811,186)	
Balance at December 31, 2015	₩ 2,645,053	736,898	9,887,335	(423,536)	304,771	17,689,134	30,839,655	973,401	31,813,056	

(In millions of won)

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.								Non-controlling interests	Total
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Sub-total			
Balance at January 1, 2016	₩ 2,645,053	736,898	9,887,335	(423,536)	304,771	17,689,134	30,839,655	969,981	31,809,636	
Retrospective adjustment for a business combination (note 50)	-	-	-	-	-	-	-	3,420	3,420	
Balance at January 1, 2016 (adjusted)	2,645,053	736,898	9,887,335	(423,536)	304,771	17,689,134	30,839,655	973,401	31,813,056	
Total comprehensive income for the year										
Profit for the year	-	-	-	-	-	2,774,778	2,774,778	50,141	2,824,919	
Other comprehensive income (loss), net of income tax:										
Foreign currency translation adjustments	-	-	-	-	12,012	-	12,012	91	12,103	
Net change in unrealized fair value of available-for-sale financial assets	-	-	-	-	(432,530)	-	(432,530)	(1,127)	(433,657)	
Equity in other comprehensive income of associates	-	-	-	-	2,689	-	2,689	-	2,689	
Net change in unrealized fair value of cash flow hedges	-	-	-	-	(1,262)	-	(1,262)	-	(1,262)	
Other comprehensive income of separate account	-	-	-	-	(4,330)	-	(4,330)	-	(4,330)	
Remeasurements of defined benefit plans	-	-	-	-	15,705	-	15,705	(398)	15,307	
Total other comprehensive income (loss)	-	-	-	-	(407,716)	-	(407,716)	(1,434)	(409,150)	
Total comprehensive income	-	-	-	-	(407,716)	2,774,778	2,367,062	48,707	2,415,769	
Other changes in equity										
Dividends	-	-	-	-	-	(630,978)	(630,978)	-	(630,978)	
Dividends to hybrid bonds	-	-	-	-	-	(36,091)	(36,091)	-	(36,091)	
Redemption of hybrid bonds	-	(238,582)	-	(1,418)	-	-	(240,000)	-	(240,000)	
Redemption of preferred stock	-	-	-	-	-	(1,125,906)	(1,125,906)	-	(1,125,906)	
Change in other capital adjustments	-	-	-	(33,507)	362	(30,899)	(64,044)	-	(64,044)	
Redemption of subsidiary's hybrid bond and other change in non-controlling interests	-	-	-	-	-	-	-	(386,826)	(386,826)	
	-	(238,582)	-	(34,925)	362	(1,823,874)	(2,097,019)	(386,826)	(2,483,845)	
Balance at December 31, 2016	₩ 2,645,053	498,316	9,887,335	(458,461)	(102,583)	18,640,038	31,109,698	635,282	31,744,980	

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(In millions of won)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities			
Profit before income taxes		₩ 3,170,472	3,140,577
Adjustments for:			
Interest income	32	(11,236,302)	(11,129,704)
Interest expense	32	4,030,936	4,436,771
Dividend income	34	(281,623)	(308,277)
Net fees and commission expense		166,216	168,313
Net insurance loss		2,779,710	2,714,061
Net trading loss	35	48,363	751,811
Net foreign currency translation loss (gain)		(248,844)	163,417
Net loss (gain) on financial instruments designated at fair value through profit or loss	36	147,813	(748,959)
Net gain on disposal of available-for-sale financial assets	13	(647,541)	(772,474)
Provision for credit losses	37	1,107,633	1,021,711
Impairment losses on other financial assets	37	88,030	242,342
Employee costs		203,639	185,222
Depreciation and amortization	38	259,941	278,882
Other operating expense (income)		70,236	(623,639)
Equity method income, net	16	(9,995)	(20,971)
Other non-operating expense (income), net		598	(18,463)
		<u>(3,521,190)</u>	<u>(3,659,957)</u>
Changes in assets and liabilities:			
Due from banks		3,937,005	(1,926,814)
Trading assets and liabilities		(4,343,206)	1,583,631
Financial instruments designated at fair value through profit or loss		(2,439)	210,582
Derivative instruments		(340,831)	(382,276)
Loans		(11,351,121)	(24,731,045)
Other assets		(4,627,748)	(3,562,267)
Deposits		16,771,470	23,246,539
Liabilities for defined benefit obligations		(261,550)	(347,926)
Provisions		(77,514)	(71,272)
Other liabilities		<u>(2,333,634)</u>	<u>3,578,899</u>
		<u>(2,629,568)</u>	<u>(2,401,949)</u>
Income taxes paid		(561,604)	(640,393)
Interest received		11,109,313	10,921,869
Interest paid		(4,080,122)	(4,700,685)
Dividends received		<u>309,876</u>	<u>310,852</u>
Net cash provided by operating activities		<u>₩ 3,797,177</u>	<u>2,970,314</u>

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2016 and 2015

(In millions of won)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Cash flows from investing activities			
Proceeds from disposal of available-for-sale financial assets	₩	29,242,921	31,592,380
Acquisition of available-for-sale financial assets		(32,844,558)	(33,755,811)
Proceeds from disposal of held-to-maturity financial assets		1,839,275	2,414,031
Acquisition of held-to-maturity financial assets		(5,277,451)	(5,150,329)
Proceeds from disposal of property and equipment	14,41	5,793	8,760
Acquisition of property and equipment	14	(252,084)	(124,844)
Proceeds from disposal of intangible assets	15,41	8,268	5,463
Acquisition of intangible assets	15	(88,876)	(132,636)
Proceeds from disposal of investments in associates		67,082	35,396
Acquisition of investments in associates		(145,119)	(30,927)
Proceeds from disposal of investment property	17,41	22,900	16,171
Acquisition of investment property	17	(176,204)	(10,296)
Proceeds from disposal of assets held for sale		2,213	88,235
Proceeds from settlement of hedging derivative financial instruments for available-for-sale financial assets		27,265	5,000
Payment for settlement of hedging derivative financial instruments for available-for-sale financial assets		(69,175)	(63,847)
Business combination, net of cash used	45	(4,280)	(163,172)
Other, net		48,156	(22,173)
Net cash used in investing activities		<u>(7,593,874)</u>	<u>(5,288,599)</u>
Cash flows from financing activities			
Issuance of hybrid bonds		-	199,455
Redemption of hybrid bonds		(240,000)	-
Net increase (decrease) in borrowings		3,389,832	(1,557,883)
Proceeds from debt securities issued		15,916,866	16,512,720
Repayments of debt securities issued		(11,988,965)	(12,867,244)
Dividends paid		(669,103)	(546,160)
Proceeds from settlement of hedging derivative financial instruments for debt securities issued		15,414	23,270
Payment for settlement of hedging derivative financial instruments for debt securities issued		(1,486)	(17,342)
Redemption of preferred stock		(1,125,906)	-
Decrease in non-controlling interests		(451,208)	(426,808)
Other, net		(824)	(7,258)
Net cash provided by financing activities		<u>4,844,620</u>	<u>1,312,750</u>
Effect of exchange rate fluctuations on cash and cash equivalents held		(22,638)	8,375
Increase (decrease) in cash and cash equivalents		<u>1,025,285</u>	<u>(997,160)</u>
Cash and cash equivalents at beginning of period	45	<u>4,607,251</u>	<u>5,604,411</u>
Cash and cash equivalents at end of period	45 ₩	<u>5,632,536</u>	<u>4,607,251</u>

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

1. Reporting entity

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

(a) Controlling company

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

(b) Ownership of Shinhan Financial Group and its material consolidated subsidiaries as of December 31, 2016 and 2015 are as follows:

Investor	Investee(*1)	Location	Date of financial information	Ownership (%)	
				2016	2015
Shinhan Financial Group Co., Ltd.	Shinhan Bank Co., Ltd.	Korea	December 31	100.0	100.0
"	Shinhan Card Co., Ltd.	"	"	100.0	100.0
"	Shinhan Investment Corp.	"	"	100.0	100.0
"	Shinhan Life Insurance Co., Ltd.	"	"	100.0	100.0
"	Shinhan Capital Co., Ltd.	"	"	100.0	100.0
"	Jeju Bank	"	"	68.9	68.9
"	Shinhan Credit Information Co., Ltd.	"	"	100.0	100.0
"	Shinhan Private Equity Inc.	"	"	100.0	100.0
"	Shinhan BNP Paribas Asset Management Co., Ltd.	"	"	65.0	65.0
"	SHC Management Co., Ltd.	"	"	100.0	100.0
"	Shinhan Data System	"	"	100.0	100.0
"	Shinhan Savings Bank	"	"	100.0	100.0
"	Shinhan ALTAS Co., Ltd.	"	"	99.8	99.8
Shinhan Bank Co., Ltd.	Shinhan Asia Limited	Hong Kong	"	99.9	99.9
"	Shinhan Bank America	USA	"	100.0	100.0
"	Shinhan Bank Europe GmbH	Germany	"	100.0	100.0
"	Shinhan Khmer Bank PLC(*2)	Cambodia	"	90.0	90.0
"	Shinhan Bank Kazakhstan Limited	Kazakhstan	"	100.0	100.0
"	Shinhan Bank Canada	Canada	"	100.0	100.0
"	Shinhan Bank (China) Limited	China	"	100.0	100.0
"	Shinhan Bank Japan	Japan	"	100.0	100.0
"	Shinhan Bank Vietnam Ltd.	Vietnam	"	100.0	100.0
"	Banco Shinhan de Mexico	Mexico	"	100.0	100.0
"	PT Bank Shinhan Indonesia	Indonesia	"	98.98	97.76
"	PT Centratama Nasional Bank (note 51)	"	-	-	75.0
Shinhan Card Co., Ltd.	LLP MFO Shinhan Finance	Kazakhstan	December 31	100.0	100.0
"	PT. Shinhan Indo Finance	Indonesia	"	50.0	50.0
"	Shinhan Microfinance Co., Ltd.	Myanmar	"	100.0	-
Shinhan Investment Corp.	Shinhan Investment Corp. USA Inc.	USA	"	100.0	100.0
"	Shinhan Investment Corp. Asia Ltd.	Hong Kong	"	100.0	100.0
"	SHINHAN SECURITIES VIETNAM CO., LTD.	Vietnam	"	100.0	100.0

1. **Reporting entity (continued)**

Investor	Investee(*1)	Location	Date of financial information	Ownership (%)	
				2016	2015
Shinhan Investment Corp.	PT. Shinhan Sekuritas Indonesia (note 49)	Indonesia	December 31	99.0	-
Shinhan Private Equity Inc.	HKC&T Co., Ltd.	Korea	-	-	100.0
Shinhan BNP Paribas Asset Management Co., Ltd.	Shinhan BNP Paribas Asset Management (Hong Kong) Limited	Hong Kong	December 31	100.0	100.0

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

(*2) Shinhan Savings Bank's interest of 3.3% in Shinhan Khmer Bank is not included.

(c) Consolidated structured entities

Consolidated structured entities are as follows:

Category	Consolidated structured entities	Description
Trust	18 trusts managed by Shinhan Bank including development trust	A trust is consolidated when the Group as a trustee is exposed to variable returns, for example, if principle or interest amounts of the entrusted properties falls below guaranteed amount, the Group should compensate it; and the Group has the ability to affect those returns.
Asset-Backed Securitization	MPC Yulchon Green I and 57 others	An entity for asset backed securitization is consolidated when the Group has the ability to dispose assets or change the conditions of the assets, is exposed to variable returns and has the ability to affect the variable returns providing credit enhancement and purchases of subordinated securities.
Structured Financing	SHPE Holdings One Co., Ltd. and 3 others	An entity established for structured financing relating to real estate, shipping, or mergers and acquisitions is consolidated, when the Group has granted credit to the entity, has sole decision-making authority of these entities due to the entities default, and is exposed to, or has rights to related variable returns.
Investment Fund	KoFC Shinhan Frontier Champ 2010-4 PEF and 52 others	An investment fund is consolidated, when the Group manages or invests assets of the investment funds on behalf of other investors, or has the ability to dismiss the manager of the investment funds, and is exposed to, or has rights to, the variable returns.

The Group provides credit enhancement for the consolidated structured entities providing ABCP purchase commitment amounting to ₩1,138,282 million for the purpose of credit enhancement of the structure entities.

Notes to the Consolidated Financial Statements

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 Audit of Stock Companies in the Republic of Korea*.

The consolidated financial statements were authorized for issue by the Board of Directors on February 8, 2017, which will be submitted for approval to the shareholders' meeting.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

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) Operating segments

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

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

(b) Basis of consolidation

i) Subsidiaries

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

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

ii) Structured entity

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

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

3. Significant accounting policies (continued)

iii) Intra-group transactions

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

iv) Non-controlling interests

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

(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 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.

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

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

ii) Goodwill

The Group measures goodwill at the acquisition date as:

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

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

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

(d) Investments in associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity or when another entity is classified as a subsidiary by the Banking Act since the Group holds more than 15% of the voting power of another entity.

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

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

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

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

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

(e) Cash and cash equivalents

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

(f) Non-derivative financial assets

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

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

i) Financial assets at fair value through profit or loss

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

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

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

ii) Held-to-maturity financial assets

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

3. Significant accounting policies (continued)

iii) Loans and receivables

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

iv) Available-for-sale financial assets

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

v) De-recognition of financial assets

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

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

vi) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

Notes to the Consolidated Financial Statements

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3. Significant accounting policies (continued)

(g) Derivative financial instruments including hedge accounting

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

i) Hedge accounting

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

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

- *Fair value hedge* – Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.
- *Cash flow hedge* – When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.
- *Hedge of net investment* – Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the accumulated other comprehensive income is transferred to profit or loss as part of the profit or loss on disposal in accordance with K-IFRS No.1021, 'The Effects of Changes in Foreign Exchange Rates'.

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

ii) Separable embedded derivatives

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

iii) Other derivative financial instruments

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

iv) Unobservable valuation differences at initial recognition

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

(h) Impairment of financial assets

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

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

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

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

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

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

i) Loans and receivables

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

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

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

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

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

ii) Available-for-sale financial assets

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

iii) Held-to-maturity financial assets

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

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

3. Significant accounting policies (continued)

(i) Property and equipment

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

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

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

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

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

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

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

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

(j) Intangible assets

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

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

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

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

i) Research and development

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

ii) Subsequent expenditures

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

(k) Investment property

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

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

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40 years

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

3. Significant accounting policies (continued)

(l) Leased assets

i) Classification of a lease

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

ii) Lessee

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

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

iii) Lessor

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

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

(m) Assets held for sale

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

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

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

3. Significant accounting policies (continued)

(n) Impairment of non-financial assets

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

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

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

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

Notes to the Consolidated Financial Statements

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3. Significant accounting policies (continued)

(o) Non-derivative financial liabilities

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

i) Financial liabilities at fair value through profit or loss

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

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

ii) Other financial liabilities

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

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

(p) Foreign currency

i) Foreign currency transactions

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

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

3. Significant accounting policies (continued)

ii) Foreign operations

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

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

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

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

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

iii) Net investment in a foreign operation

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

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

3. Significant accounting policies (continued)

(q) Equity

i) Capital stock

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

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

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

ii) Hybrid bonds

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

iii) Capital adjustments

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

(r) Employee benefits

i) Short-term employee benefits

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

ii) Other long-term employee benefits

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

3. Significant accounting policies (continued)

iii) Retirement benefits: defined contribution plans

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

iv) Retirement benefits: defined benefit plans

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

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

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

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

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

3. Significant accounting policies (continued)

v) Termination benefits

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

(s) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

(t) Provisions

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

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

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

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

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

(u) Financial guarantee contract

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

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

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

(v) Insurance contracts

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

i) Reserves for insurance contracts

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

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

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

3. Significant accounting policies (continued)

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

ii) Policyholders' equity adjustment

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

iii) Liability adequacy test (the "LAT")

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

iv) Reinsurance contracts

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

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

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

v) Deferred acquisition costs (the "DAC")

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

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

(w) Financial income and expense

i) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter year) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

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

ii) Fees and commission

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

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

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

iii) Insurance Income

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

iv) Dividends

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

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

3. Significant accounting policies (continued)

(x) Customer loyalty program

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

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

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

(y) Income tax

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

i) Current tax

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

ii) Deferred tax

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

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

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

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

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

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

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

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

(z) Accounting for trust accounts

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

(aa) Earnings per share

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

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

(ab) New standards and interpretations not yet adopted

The following new standards and amendments to existing standards have been published and are mandatory for the Group to adopt for annual periods beginning on or after January 1, 2017 or 2018, and the Group has not early adopted them.

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

K-IFRS No. 1109, *Financial Instruments* which was published on September 25, 2015, is effective for periods beginning on or after January 1, 2018, with early adoption permitted. K-IFRS No. 1109 will replace the current K-IFRS No. 1039, *Financial Instruments: recognition and measurement*. The Group plans to adopt K-IFRS No. 1109 for the year starting on January 1, 2018.

In principle, the new K-IFRS No. 1109 should be applied retrospectively. However, there are clauses that exempt restating comparable 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 No. 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 No. 1109 compared to the existing guidance in K-IFRS No. 1039, the adoption of K-IFRS No. 1109 would potentially increase the proportion of financial assets that are measured at fair value through profit or loss, increasing volatility in the Group's profit or loss.

The 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 No. 1039, will be presented in other comprehensive income under k-IFRS No. 1109.

Under K-IFRS No. 1109, credit losses are likely to be recognized earlier than using the incurred loss model under the existing guidance in K-IFRS No. 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 measurement methods for credit losses according to K-IFRS No. 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	

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

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

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

For smooth implementation of K-IFRS No. 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 No. 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 judgments that it will be make in the future. The Group plans to analyze financial impact once the system development process is completed by no later than the end of 2017.

ii) 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, with early adoption permitted. The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

iii) 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 January 1, 2017, with early adoption permitted. The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

iv) 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 January 1, 2017, with early adoption permitted. The amendments are not expected to have a significant impact on the Group's consolidated financial statements.

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

v) *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 Group is in the process of evaluating the impact of the amendments on the Group's consolidated financial statements, if any.

Other published new standards, interpretations and amendments to existing standards mandatory for the Group for annual periods beginning after January 1, 2016 which have not been early adopted, are not expected to have a significant impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

4. Financial risk management

(a) Overview

As a financial services provider, the Group is exposed to various risks relating to lending, credit card, insurance, securities investment, trading and leasing businesses, its deposit taking and borrowing activities in addition to the operating environment.

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

i) Risk management principles

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

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

ii) Risk management organization

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

4. Financial risk management (continued)

In order to maintain the group wide risk at an appropriate level, the Group use a hierarchical risk limit system under which the Group Risk Management Committee assigns reasonable risk limits for the entire group and each subsidiary, and the Risk Management Committee and the Management Council of each subsidiary manage the subsidiary-specific risks by establishing and managing risk limits in more detail by type of risk and type of product for each department and division within such subsidiary.

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

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

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

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

iii) Risk management framework

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

- *Risk capital management* – Risk capital refers to capital necessary to compensate for losses in case of a potential risk being realized, and risk capital management refers to the process of asset management based on considerations of risk exposure and risk appetite among total assets so that the Group can maintain an appropriate level of risk capital. As part of the Group's risk capital management, the Group has adopted and maintains various risk planning processes and reflect such risk planning in the Group's business and financial planning. The Group also has adopted and maintains a risk limit management system to ensure that risks in the Group's business do not exceed prescribed limits.
- *Risk monitoring* – The Group proactively, preemptively and periodically review risks that may impact our overall operations, including through a multidimensional risk monitoring system. Currently, each of subsidiaries is required to report to the controlling company any factors that could have a material impact on the group-wide risk management, and the controlling company reports to the Group's chief risk officer and other members of the Group's senior management the results of risk monitoring on a weekly, monthly and on an ad hoc basis as needed. In addition, the Group perform preemptive risk management through a "risk dashboard system" under which the Group closely monitor any increase in asset size, risk levels and sensitivity to external factors with respect to the major asset portfolios of each of subsidiaries, and to the extent such monitoring yields any warning signals, the Group promptly analyze the causes and, if necessary, formulate and implement actions in response to these warning signals.
- *Risk review* – Prior to entering any new business, offering any new products or changing any major policies, the Group reviews relevant risk factors based on a prescribed risk management checklist and, in the case of changes for which assessment of risk factors is difficult, supports reasonable decision-making in order to avoid taking any unduly risky action. The risk management departments of all subsidiaries are required to review all new businesses, products and services prior to their launch and closely monitor the development of any related risks following their launch, and in the case of any action that involves more than one subsidiary, the relevant risk management departments are required to consult with the risk management team at the controlling company level prior to making any independent risk reviews.
- *Risk management* – The Group maintain a group wide risk management system to detect the signals of any risk crisis and, in the event of a crisis actually happening, to respond on a timely, efficient and flexible basis so as to ensure the Group's survival as a going concern. Each subsidiary maintains crisis planning for three levels of contingencies, namely, "alert", "imminent crisis" and "crisis", determination of which is made based on quantitative and qualitative monitoring and consequence analysis, and upon the happening of any such contingency, is required to respond according to a prescribed contingency plan. At the controlling company level, the Group maintains and installs crisis detection and response system which is applied consistently group wide, and upon the happening of any contingency at two or more subsidiary level, the Group directly takes charge of the situation so that the Group manages it on a concerted group wide basis.

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

(b) Credit risk

i) Credit risk management

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

- Credit Risk Management of Shinhan Bank

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

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

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

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

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(In millions of won)

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

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

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

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

• Credit Risk Management of Shinhan Card

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

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

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

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

ii) Maximum exposure to credit risk

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

	<u>2016</u>	<u>2015</u>
Due from banks and loans(*1)(*3):		
Banks	₩ 13,922,969	14,486,162
Retail	115,972,280	107,030,770
Government	11,776,346	16,701,241
Corporations	116,001,132	110,468,717
Card receivable	18,704,516	17,821,341
	<u>276,377,243</u>	<u>266,508,231</u>
Trading assets	22,638,409	19,595,405
Financial assets designated at FVTPL(*4)	2,228,186	2,329,018
AFS financial assets(*5)	32,822,071	29,037,640
HTM financial assets(*6)	19,805,084	16,192,060
Derivative assets	3,002,859	1,994,714
Other financial assets(*1)(*2)	13,975,889	11,878,420
Financial guarantee contracts	3,424,022	3,679,486
Loan commitments and other credit liabilities	76,055,306	76,965,151
	<u>₩ 450,329,069</u>	<u>428,180,125</u>

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

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

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

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

(*5) AFS : available-for-sale

(*6) HTM : held-to-maturity

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4. Financial risk management (continued)

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

- Due from banks and loans as of December 31, 2016 and 2015 are as follows:

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

2015						
	Banks	Retail	Government	Corporations	Card	Total
Neither past due nor impaired	₩ 14,511,673	106,691,153	16,704,356	110,388,809	17,677,433	265,973,424
Past due but not impaired	-	404,121	-	156,337	403,413	963,871
Impaired	-	264,754	-	1,221,700	415,731	1,902,185
	14,511,673	107,360,028	16,704,356	111,766,846	18,496,577	268,839,480
Less : allowance	(25,511)	(329,258)	(3,115)	(1,298,129)	(675,236)	(2,331,249)
	₩ 14,486,162	107,030,770	16,701,241	110,468,717	17,821,341	266,508,231

- Credit quality of due from banks and loans that are neither past due nor impaired as of December 31, 2016 and 2015 are as follows:

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

2015						
	Banks	Retail	Government	Corporations	Card	Total
Grade 1(*1)	₩ 14,511,673	100,677,960	16,704,356	72,501,523	15,133,363	219,528,875
Grade 2(*1)	-	6,013,193	-	37,887,286	2,544,070	46,444,549
	14,511,673	106,691,153	16,704,356	110,388,809	17,677,433	265,973,424
Less : allowance	(25,511)	(178,313)	(3,115)	(734,136)	(356,815)	(1,297,890)
	₩ 14,486,162	106,512,840	16,701,241	109,654,673	17,320,618	264,675,534
Mitigation of credit risk due to collateral(*2)	₩ 124,306	69,399,485	-	57,477,691	5,045	127,006,527

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

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

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

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

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

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4. Financial risk management (continued)

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

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

2015						
	Banks	Retail	Government	Corporations	Card	Total
Less than 30 days	₩ -	311,602	-	108,683	342,708	762,993
31~60 days	-	52,331	-	24,139	43,158	119,628
61~90 days	-	25,967	-	10,551	17,329	53,847
More than 90 days	-	14,221	-	12,964	218	27,403
	-	404,121	-	156,337	403,413	963,871
Less : allowance (collective)	-	(32,876)	-	(9,884)	(60,757)	(103,517)
	₩ -	371,245	-	146,453	342,656	860,354
Mitigation of credit risk due to collateral(*)	₩ -	258,827	-	54,985	8	313,820

- Due from banks and loans that are impaired as of December 31, 2016 and 2015 are as follows:

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

2015						
	Banks	Retail	Government	Corporations	Card	Total
Impaired	₩ -	264,754	-	1,221,700	415,731	1,902,185
Less : allowance	-	(118,069)	-	(554,109)	(257,664)	(929,842)
	₩ -	146,685	-	667,591	158,067	972,343
Mitigation of credit risk due to collateral(*)	₩ -	109,869	-	399,142	7	509,018

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

4. Financial risk management (continued)

iv) Credit rating

- Credit ratings of debt securities as of December 31, 2016 and 2015 are as follows:

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

2015						
		Trading assets	Financial assets designated at FVTPL(*)	Available-for-sale financial assets	Held-to-maturity financial assets	Total
AAA	₩	6,972,123	143,888	18,885,297	13,046,394	39,047,702
AA- to AA+		5,144,783	676,975	4,004,980	2,342,271	12,169,009
A- to A+		4,745,915	1,269,073	3,923,203	576,568	10,514,759
BBB- to BBB+		917,401	239,082	941,149	35,160	2,132,792
Lower than BBB-		83,410	-	419,080	68,672	571,162
Unrated		1,582,553	-	863,931	122,995	2,569,479
	₩	19,446,185	2,329,018	29,037,640	16,192,060	67,004,903

(*) FVTPL : fair value through profit or loss

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

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

(*1) KIS : Korea Investors Service

(*2) KR : Korea Ratings

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4. Financial risk management (continued)

- Credit status of debt securities as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Neither past due nor impaired	₩ 77,244,537	67,003,272
Impaired	1,368	1,631
	<u>₩ 77,245,905</u>	<u>67,004,903</u>

- Credit quality of derivative assets as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Grade 1(*1)(*2)	₩ 2,944,814	1,916,524
Grade 2(*1)(*2)	58,045	78,190
	<u>₩ 3,002,859</u>	<u>1,994,714</u>

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

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

v) Assets acquired through foreclosures amounting to ₩658 million and ₩705 million are classified as assets held for sale (non-business purpose property) as of December 31, 2016 and 2015, respectively.

4. Financial risk management (continued)

vi) Concentration by geographic location

An analysis of concentration by geographic location for financial instrument, net of allowance, as of December 31, 2016 and 2015 are as follows:

	2016						
	Korea	USA	Japan	Vietnam	China	Other	Total
Due from banks and loans:							
Banks	₩ 5,681,266	1,675,781	328,700	465,998	3,982,074	1,789,150	13,922,969
Retail	112,391,835	337,751	2,270,133	294,777	277,447	400,337	115,972,280
Government	9,799,087	321,516	717,922	109,943	696,051	131,827	11,776,346
Corporations	103,409,204	2,254,649	2,083,445	1,630,829	2,272,447	4,350,558	116,001,132
Card	18,660,696	7,116	2,114	13,213	10,684	10,693	18,704,516
	<u>249,942,088</u>	<u>4,596,813</u>	<u>5,402,314</u>	<u>2,514,760</u>	<u>7,238,703</u>	<u>6,682,565</u>	<u>276,377,243</u>
Trading assets	22,220,290	130,576	1,072	5,417	32,490	248,564	22,638,409
Financial assets designated at FVTPL(*1)	2,144,830	-	-	-	60,201	23,155	2,228,186
AFS financial assets(*2)	29,739,647	1,363,047	112,381	484,002	588,334	534,660	32,822,071
HTM financial assets(*3)	17,871,709	1,410,721	56,196	155,916	166,560	143,982	19,805,084
	<u>₩ 321,918,564</u>	<u>7,501,157</u>	<u>5,571,963</u>	<u>3,160,095</u>	<u>8,086,288</u>	<u>7,632,926</u>	<u>353,870,993</u>
	2015						
	Korea	USA	Japan	Vietnam	China	Other	Total
Due from banks and loans:							
Banks	₩ 6,735,520	1,541,760	348,956	340,933	3,929,087	1,589,906	14,486,162
Retail	104,878,555	292,437	1,313,156	117,797	98,679	330,146	107,030,770
Government	15,108,925	294,332	550,439	67,251	438,214	242,080	16,701,241
Corporations	99,243,181	1,548,932	1,724,085	1,399,971	2,438,980	4,113,568	110,468,717
Card	17,790,098	6,997	2,247	7,819	6,423	7,757	17,821,341
	<u>243,756,279</u>	<u>3,684,458</u>	<u>3,938,883</u>	<u>1,933,771</u>	<u>6,911,383</u>	<u>6,283,457</u>	<u>266,508,231</u>
Trading assets	19,337,295	8,413	1,054	-	87,110	161,533	19,595,405
Financial assets designated at FVTPL(*1)	2,247,189	-	-	-	36,396	45,433	2,329,018
AFS financial assets(*2)	27,586,155	619,084	89,433	418,865	46,545	277,558	29,037,640
HTM financial assets(*3)	15,789,289	148,073	26,770	73,226	148,258	6,444	16,192,060
	<u>₩ 308,716,207</u>	<u>4,460,028</u>	<u>4,056,140</u>	<u>2,425,862</u>	<u>7,229,692</u>	<u>6,774,425</u>	<u>333,662,354</u>

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

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

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4. Financial risk management (continued)

vii) Concentration by industry sector

An analysis of concentration by industry sector of due from banks and loans, net of allowance, as of December 31, 2016 and 2015 are as follows:

		2016						
		Finance and insurance	Manu- facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans:								
Banks	₩	10,875,077	68	-	110,443	2,937,381	-	13,922,969
Retail		-	-	-	-	-	115,972,280	115,972,280
Government		10,906,097	3,991	-	3,315	862,943	-	11,776,346
Corporations		5,094,455	40,544,250	15,560,280	20,460,662	34,341,485	-	116,001,132
Card		38,574	194,630	131,956	37,495	371,497	17,930,364	18,704,516
		<u>26,914,203</u>	<u>40,742,939</u>	<u>15,692,236</u>	<u>20,611,915</u>	<u>38,513,306</u>	<u>133,902,644</u>	<u>276,377,243</u>
Trading assets		14,783,780	1,262,042	1,079,631	307,115	5,205,841	-	22,638,409
Financial assets designated at FVTPL(*1)		1,450,512	144,019	26,385	20,000	587,270	-	2,228,186
AFS financial assets(*2)		22,615,359	1,009,045	129,261	613,265	8,455,141	-	32,822,071
HTM financial assets(*3)		5,261,874	44,915	-	786,345	13,711,950	-	19,805,084
	₩	<u>71,025,728</u>	<u>43,202,960</u>	<u>16,927,513</u>	<u>22,338,640</u>	<u>66,473,508</u>	<u>133,902,644</u>	<u>353,870,993</u>
		2015						
		Finance and insurance	Manu- facturing	Retail and wholesale	Real estate and service	Other	Retail customers	Total
Due from banks and loans:								
Banks	₩	11,865,178	-	-	67,609	2,553,375	-	14,486,162
Retail		-	-	-	-	-	107,030,770	107,030,770
Government		15,625,885	-	-	-	1,075,356	-	16,701,241
Corporations		4,235,517	38,918,439	14,744,780	19,716,006	32,853,975	-	110,468,717
Card		43,583	171,851	122,112	31,666	337,817	17,114,312	17,821,341
		<u>31,770,163</u>	<u>39,090,290</u>	<u>14,866,892</u>	<u>19,815,281</u>	<u>36,820,523</u>	<u>124,145,082</u>	<u>266,508,231</u>
Trading assets		13,066,258	722,383	661,426	457,132	4,688,206	-	19,595,405
Financial assets designated at FVTPL(*1)		1,823,687	109,677	67,973	-	327,681	-	2,329,018
AFS financial assets(*2)		20,656,569	999,752	161,597	413,683	6,806,039	-	29,037,640
HTM financial assets(*3)		4,630,157	66,283	-	614,439	10,881,181	-	16,192,060
	₩	<u>71,946,834</u>	<u>40,988,385</u>	<u>15,757,888</u>	<u>21,300,535</u>	<u>59,523,630</u>	<u>124,145,082</u>	<u>333,662,354</u>

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

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

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

(c) Market risk

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

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

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

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

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

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

i) Market risk management from trading positions

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

Shinhan Bank currently uses the ten-day 99% confidence level-based VaR for purposes of calculating the regulatory capital used in reporting to the Financial Supervisory Service and uses the more conservative ten-day 99.9% confidence level-based VaR for purposes of calculating its "economic" capital used for internal management purposes, which is a concept used in determining the amount of Shinhan Bank's requisite capital in light of the market risk. In addition, Shinhan Bank also uses the one-day 99% confidence level-based VaR on a supplemental basis for purposes of setting and managing risk limits specific to each desk or team in its operating units as well as for back-testing purposes. Shinhan Bank manages VaR measurements and limits on a daily basis based on an automatic interfacing of its trading positions into its market risk measurement system. In addition, Shinhan Bank establishes pre-set loss, sensitivity, investment and stress limits for its trading departments and desks and monitors such limits daily.

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4. Financial risk management (continued)

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

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

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

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

An analysis of the Group's requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2016 and 2015 based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, was as follows:

		2016			
		Average	Maximum	Minimum	December 31
Interest rate	₩	376,486	422,592	348,686	422,592
Stock price		159,555	191,957	134,595	134,595
Foreign exchange		132,802	139,694	124,046	132,225
Option volatility		6,078	9,214	2,707	9,215
	₩	<u>674,921</u>	<u>763,457</u>	<u>610,034</u>	<u>698,627</u>
		2015			
		Average	Maximum	Minimum	December 31
Interest rate	₩	305,563	328,357	281,223	328,357
Stock price		174,365	213,507	132,172	132,172
Foreign exchange		125,048	141,887	110,512	141,159
Option volatility		7,820	16,811	3,747	4,561
	₩	<u>612,796</u>	<u>700,562</u>	<u>527,654</u>	<u>606,249</u>

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

4. Financial risk management (continued)

An analysis of market risk for trading positions of the major subsidiaries as of and for the years ended December 31, 2016 and 2015 are as follows:

i-1) Shinhan Bank

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Bank as of and for the years ended December 31, 2016 and 2015 are as follows:

		2016			
		Average	Maximum	Minimum	December 31
Interest rate	₩	33,246	48,851	18,764	44,447
Stock price		5,161	5,787	4,815	5,484
Foreign exchange(*)		56,089	61,389	53,678	60,088
Option volatility		149	256	101	221
Commodity		13	35	-	21
Portfolio diversification		(38,677)	(54,670)	(24,272)	(49,278)
	₩	<u>55,981</u>	<u>61,648</u>	<u>53,086</u>	<u>60,983</u>

		2015			
		Average	Maximum	Minimum	December 31
Interest rate	₩	37,341	43,746	33,849	35,976
Stock price		8,258	9,049	6,995	7,056
Foreign exchange(*)		45,102	54,459	36,549	44,475
Option volatility		355	550	262	262
Commodity		5	21	-	3
Portfolio diversification		(35,789)	(45,895)	(25,953)	(30,699)
	₩	<u>55,272</u>	<u>61,930</u>	<u>51,702</u>	<u>57,073</u>

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

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4. Financial risk management (continued)

i-2) Shinhan Card

The analyses of Shinhan Card's requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2016 and 2015, based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, are as follows:

		2016			
		Average	Maximum	Minimum	December 31
Interest rate	₩	875	1,700	550	1,700
Foreign exchange		27,738	34,909	17,062	17,062
	₩	28,613	36,609	17,612	18,762
		2015			
		Average	Maximum	Minimum	December 31
Interest rate	₩	1,685	3,011	650	650
Foreign exchange		38,214	42,208	33,759	33,759
	₩	39,899	45,219	34,409	34,409

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

i-3) Shinhan Investment

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Investment as of and for the years ended December 31, 2016 and 2015 are as follows:

		2016			
		Average	Maximum	Minimum	December 31
Interest rate	₩	9,040	18,149	5,380	15,491
Stock price		13,339	24,276	6,413	7,403
Foreign exchange		6,849	19,976	1,017	7,001
Option volatility		6,564	18,680	1,477	7,799
Portfolio diversification		(11,399)	(46,535)	2,392	(14,569)
	₩	24,393	34,546	16,679	23,125
		2015			
		Average	Maximum	Minimum	December 31
Interest rate	₩	6,879	16,542	2,707	7,274
Stock price		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		(11,714)	(32,096)	(4,062)	(8,460)
	₩	22,876	65,184	11,878	29,746

4. Financial risk management (continued)

i-4) Shinhan Life Insurance

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Life Insurance as of and for years ended December 31, 2016 and 2015 are as follows:

		2016			
		Average	Maximum	Minimum	December 31
Interest rate	₩	483	1,114	213	800
Stock price		231	1,585	-	130
Foreign exchange		1,278	2,238	54	1,221
Option volatility		1,115	3,044	71	3,044
	₩	3,107	7,981	338	5,195
		2015			
		Average	Maximum	Minimum	December 31
Interest rate	₩	585	817	298	303
Stock price		275	1,190	-	-
Foreign exchange		1,308	2,337	511	1,780
Option volatility		541	1,868	108	138
	₩	2,709	6,212	917	2,221

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

ii) Interest rate risk management from non-trading positions

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

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

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

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

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

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

4. Financial risk management (continued)

Non-trading positions for interest rate VaR and EaR as of December 31, 2016 and 2015 are as follows:

ii-1) Shinhan Bank

		2016	2015
VaR	₩	231,133	202,029
EaR		58,091	185,254

ii-2) Shinhan Card

		2016	2015
VaR	₩	89,348	88,825
EaR		11,905	12,663

ii-3) Shinhan Investment

		2016	2015
VaR	₩	27,822	9,846
EaR		104,423	85,881

ii-4) Shinhan Life Insurance

		2016	2015
VaR	₩	287,912	206,432
EaR		58,062	5,947

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

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

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4. Financial risk management (continued)

iii) Foreign exchange risk

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

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

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

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

Foreign currency denominated assets and liabilities as of December 31, 2016 and 2015 are as follows:

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

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

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

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

	2015					
	USD	JPY	EUR	CNY	Other	Total
Assets:						
Cash and due from banks ₩	3,255,745	1,146,612	137,912	1,854,220	875,451	7,269,940
Trading assets	376,477	6,102	52,440	27,330	172,335	634,684
Financial assets designated at FVTPL(*1)	335,474	-	-	-	-	335,474
Derivative assets	77,075	8,110	2,596	3,989	330	92,100
Loans	15,053,386	4,460,483	1,150,044	2,881,059	3,012,725	26,557,697
AFS financial assets(*2)	1,961,730	65,075	16,979	5,441	594,535	2,643,760
HTM financial assets(*3)	124,651	143,529	-	148,258	83,892	500,330
Other financial assets	2,338,372	268,558	126,115	654,260	185,008	3,572,313
₩	<u>23,522,910</u>	<u>6,098,469</u>	<u>1,486,086</u>	<u>5,574,557</u>	<u>4,924,276</u>	<u>41,606,298</u>
Liabilities:						
Deposits ₩	8,526,888	5,300,848	451,613	3,544,013	2,554,630	20,377,992
Trading liabilities	317	-	-	-	453,605	453,922
Financial liabilities designated at FVTPL(*1)	368,633	4,530	1,142	-	-	374,305
Derivative liabilities	60,636	658	260	2,260	209	64,023
Borrowings	6,043,186	179,412	390,562	717,309	366,803	7,697,272
Debt securities issued	5,581,146	291,603	153,664	216,660	144,381	6,387,454
Other financial liabilities	2,465,314	211,698	337,612	827,811	314,892	4,157,327
₩	<u>23,046,120</u>	<u>5,988,749</u>	<u>1,334,853</u>	<u>5,308,053</u>	<u>3,834,520</u>	<u>39,512,295</u>
Net assets ₩	476,790	109,720	151,233	266,504	1,089,756	2,094,003
Off-balance derivative exposure	266,359	24,438	(121,245)	69,342	(408,120)	(169,226)
Net position ₩	<u>743,149</u>	<u>134,158</u>	<u>29,988</u>	<u>335,846</u>	<u>681,636</u>	<u>1,924,777</u>

(*1) AFS : available-for-sale

(*2) HTM : held-to-maturity

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

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4. Financial risk management (continued)

(d) Liquidity risk

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

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

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

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

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

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

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:

		2016						
		Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	Total
Non-derivative financial instruments:								
Assets:								
Cash and due from banks	₩	15,619,847	1,282,950	1,065,296	1,219,959	37,590	38,481	19,264,123
Trading assets(*2)		26,496,604	30,052	42,351	70,706	36,226	20,014	26,695,953
Financial assets designated at fair value through profit or loss		2,481,122	1,029	21,342	-	606,257	306,534	3,416,284
Loans		30,017,816	32,259,593	40,491,876	57,580,253	72,248,194	53,783,871	286,381,603
Available-for-sale financial assets(*2)		31,847,430	1,286,987	-	1,515,705	68,025	2,956,893	37,675,040
Held-to-maturity financial assets		185,988	260,512	180,403	1,513,782	10,755,027	12,824,191	25,719,903
Other financial assets		12,434,933	15,915	17,036	359,283	1,159,021	92,494	14,078,682
	₩	<u>119,083,740</u>	<u>35,137,038</u>	<u>41,818,304</u>	<u>62,259,688</u>	<u>84,910,340</u>	<u>70,022,478</u>	<u>413,231,588</u>
Liabilities:								
Deposits(*3)	₩	121,707,981	22,583,391	29,620,700	49,624,644	14,144,690	3,032,191	240,713,597
Trading liabilities		1,976,760	-	-	-	-	-	1,976,760
Financial liabilities designated at fair value through profit or loss		429,578	452,306	475,221	1,380,011	5,412,373	1,084,419	9,233,908
Borrowings		13,697,990	1,914,573	1,293,030	2,715,323	4,191,730	1,692,283	25,504,929
Debt securities issued		1,394,163	2,435,353	4,597,809	7,371,729	26,138,646	5,492,930	47,430,630
Other financial liabilities		15,926,502	42,045	307,056	126,355	367,888	59,365	16,829,211
	₩	<u>155,132,974</u>	<u>27,427,668</u>	<u>36,293,816</u>	<u>61,218,062</u>	<u>50,255,327</u>	<u>11,361,188</u>	<u>341,689,035</u>
Off balance(*4):								
Finance guarantee contracts	₩	3,424,022	-	-	-	-	-	3,424,022
Loan commitments and other		76,173,506	-	-	-	-	-	76,173,506
	₩	<u>79,597,528</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,597,528</u>
Derivatives(*5):								
Cash inflows	₩	2,952,185	514,990	819,654	1,979,609	1,361,541	117,374	7,745,353
Cash outflows		(3,161,870)	(513,356)	(798,321)	(1,884,914)	(1,128,730)	(26,054)	(7,513,245)
	₩	<u>(209,685)</u>	<u>1,634</u>	<u>21,333</u>	<u>94,695</u>	<u>232,811</u>	<u>91,320</u>	<u>232,108</u>

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4. Financial risk management (continued)

	2015						Total
	Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	
Non-derivative financial instruments:							
Assets:							
Cash and due from banks	₩ 16,843,128	1,641,876	1,530,110	2,050,819	29,843	23,073	22,118,849
Trading assets(*2)	22,501,571	24,397	30,194	73,262	20,028	6,593	22,656,045
Financial assets designated at fair value through profit or loss	2,369,896	51,860	4,688	97,645	619,170	101,074	3,244,333
Loans	29,674,971	30,614,739	37,138,646	55,209,656	66,445,746	54,084,550	273,168,308
Available-for-sale financial assets(*2)	29,415,328	1,091,745	12,623	1,173,011	398,156	1,904,249	33,995,112
Held-to-maturity financial assets	78,916	236,378	565,038	1,085,581	9,518,678	9,582,297	21,066,888
Other financial assets	8,057,613	24,202	21,106	290,955	3,502,493	90,587	11,986,956
	₩ 108,941,423	33,685,197	39,302,405	59,980,929	80,534,114	65,792,423	388,236,491
Liabilities:							
Deposits(*3)	₩ 108,029,850	21,996,113	26,252,328	51,392,270	13,511,745	3,415,583	224,597,889
Trading liabilities	2,135,390	-	-	-	-	-	2,135,390
Financial liabilities designated at fair value through profit or loss	151,597	368,648	335,632	1,586,608	5,496,762	977,743	8,916,990
Borrowings	10,799,071	2,321,249	1,410,898	2,392,047	4,425,261	682,720	22,031,246
Debt securities issued	805,212	2,582,626	3,036,650	8,292,380	25,620,414	4,096,669	44,433,951
Other financial liabilities	18,623,136	43,873	303,104	154,200	321,174	55,163	19,491,650
	₩ 140,544,256	27,303,509	31,338,612	63,817,505	49,375,356	9,227,878	321,607,116
Off balance(*4):							
Finance guarantee contracts	₩ 3,679,486	-	-	-	-	-	3,679,486
Loan commitments and other	76,965,151	-	-	-	-	-	76,965,151
	₩ 80,644,637	-	-	-	-	-	80,644,637
Derivatives(*5):							
Cash inflows	₩ 2,040,644	493,895	375,267	1,127,109	1,835,195	42,160	5,914,270
Cash outflows	(2,601,358)	(329,658)	(354,063)	(1,075,864)	(1,645,263)	(30,270)	(6,036,476)
	₩ (560,714)	164,237	21,204	51,245	189,932	11,890	(122,206)

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

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

(*3) Demand deposits amounting to ₩93,639,192 million and ₩83,639,042 million as of December 31, 2016 and 2015 are included in the 'Less than 1 month' category, respectively.

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

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

4. Financial risk management (continued)

(e) Measurement of fair value

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

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

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

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

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4. Financial risk management (continued)

i) *Financial instruments measured at fair value*

- The fair value hierarchy of financial assets presented at their fair values in the statements of financial position as of December 31, 2016 and 2015 are as follows:

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

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

	2015			
	Level 1	Level 2	Level 3	Total
Financial assets				
Trading assets:				
Debt securities	₩ 5,496,812	13,789,920	159,454	19,446,186
Equity securities	1,168,610	1,832,283	42,149	3,043,042
Gold deposits	149,221	-	-	149,221
Financial assets designated at fair value through profit or loss:				
Debt securities and others	133,652	1,868,749	326,618	2,329,019
Equity securities	6,045	784,596	124,506	915,147
Derivative assets:				
Trading	4,881	1,695,320	113,160	1,813,361
Hedging	-	153,455	27,898	181,353
Available-for-sale financial assets:				
Debt securities	9,265,153	19,582,353	190,134	29,037,640
Equity securities	1,545,321	594,186	2,788,924	4,928,431
	₩ <u>17,769,695</u>	<u>40,300,862</u>	<u>3,772,843</u>	<u>61,843,400</u>
Financial liabilities:				
Trading liabilities:				
Securities sold	₩ 1,681,785	-	-	1,681,785
Gold deposits	453,605	-	-	453,605
Financial liabilities designated at fair value through profit or loss:				
Deposits	-	10,542	2,967	13,509
Securities sold	86,532	-	-	86,532
Derivatives-combined securities	-	2,374,637	6,441,654	8,816,291
Derivative liabilities:				
Trading	9,122	1,653,121	752,927	2,415,170
Hedging	-	92,146	91,972	184,118
	₩ <u>2,231,044</u>	<u>4,130,446</u>	<u>7,289,520</u>	<u>13,651,010</u>

- There was no transfer between level 1 and level 2 for the years ended December 31, 2016 and 2015.

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4. Financial risk management (continued)

- Changes in carrying values of financial instruments classified as Level 3 for the years ended December 31, 2016 and 2015 are as follows:

2016					
	Trading assets	Financial assets designated at FVTPL(*3)	Available-for- sale financial assets	Derivative assets and liabilities, net	Financial liabilities designated at FVTPL(*3)
Beginning balance	₩ 201,603	451,124	2,979,058	(703,841)	(6,444,621)
Recognized in total comprehensive income for the year:					
Recognized in profit (loss) for the year(*1)	5,026	6,020	28,645	141,080	(508,916)
Recognized in other comprehensive income (loss) for the year	-	-	(81,812)	-	-
	5,026	6,020	(53,167)	141,080	(508,916)
Purchase	76,810	337,012	1,308,840	10,226	-
Issue	-	-	-	-	(5,402,714)
Settlement	(200,962)	(180,117)	(359,694)	40,710	4,781,924
Transfer in(*2)	-	-	20,382	19,689	-
Transfer out(*2)	-	-	(11,978)	-	-
Ending balance	₩ 82,477	614,039	3,883,441	(492,136)	(7,574,327)
2015					
	Trading assets	Financial assets designated at FVTPL(*3)	Available-for- sale financial assets	Derivative assets and liabilities, net	Financial liabilities designated at FVTPL(*3)
Beginning balance	₩ 165,790	559,465	2,583,513	(38,448)	(6,988,434)
Recognized in total comprehensive income for the year:					
Recognized in profit (loss) for the year(*1)	4,426	(70,335)	61,988	(594,773)	469,274
Recognized in other comprehensive income (loss) for the year	-	-	(32,170)	(163)	-
	4,426	(70,335)	29,818	(594,936)	469,274
Purchase	278,477	354,258	903,357	15,932	(179)
Issue	-	-	-	-	(7,662,427)
Settlement	(247,090)	(392,264)	(462,617)	(86,327)	7,737,145
Transfer in(*2)	-	-	23,511	-	-
Transfer out(*2)	-	-	(98,524)	(62)	-
Ending balance	₩ 201,603	451,124	2,979,058	(703,841)	(6,444,621)

4. Financial risk management (continued)

(*1) Recognized profit or loss of the changes in carrying value of financial instruments classified as Level 3 for the years ended December 31, 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:

	2016		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
Trading income	₩ 332,400	37,466	(517,524)	(797,960)
Gain (loss) on financial instruments designated at FVTPL	(502,896)	(169,424)	398,938	726,298
Gain (loss) on disposal of available- for-sale financial assets	25,546	354	148,084	-
Impairment losses on financial assets	(6,685)	(5,964)	(88,327)	(85,679)
Other operating income (expenses)	(176,510)	(176,359)	(70,591)	(70,385)
	₩ (328,145)	(313,927)	(129,420)	(227,726)

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

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

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4. Financial risk management (continued)

- Valuation techniques and inputs used in measuring the fair value of financial instruments classified as level 2 as of December 31, 2016 are as follows:

Type of financial instrument	Valuation technique	Carrying value	Significant inputs
Assets			
Trading assets:			
Debt securities	DCF(*1)	₩ 13,721,703	Discount rate
Equity securities	NAV(*2)	2,634,532	Price of underlying assets
		<u>16,356,235</u>	
Financial assets designated at fair value through profit or loss:			
Debt securities	DCF(*1)	1,541,608	Discount rate
Equity securities	NAV(*2)	862,838	Price of underlying assets
		<u>2,404,446</u>	
Derivative assets:			
Trading	Option model,	2,704,643	Discount rate, foreign exchange
Hedging	DCF(*1)	168,551	rate, volatility, stock price, commodity index, etc.
		<u>2,873,194</u>	
Available-for-sale financial assets:			
Debt securities	DCF(*1)	24,365,862	Discount rate , growth rate,
Equity securities	NAV(*2)	388,448	price of underlying assets
		<u>24,754,310</u>	
		<u>46,388,185</u>	
Liabilities			
Financial liabilities designated at fair value through profit or loss:			
Others	DCF(*1)	1,649,181	Discount rate
Derivative liabilities:			
Trading	Option model,	2,715,327	Discount rate, foreign exchange
Hedging	DCF(*1)	194,302	rate, volatility, stock price, commodity index, etc.
		<u>2,909,629</u>	
		<u>₩ 4,558,810</u>	

(*1) DCF : Discounted cash flow

(*2) NAV : Net asset value

4. Financial risk management (continued)

- Valuation techniques and significant inputs, but not observable, used in measuring the fair value of financial instruments classified as level 3 as of December 31, 2016 are as follows:

Type of financial instrument	Valuation technique	Carrying value (*4)	Significant unobservable inputs	Range
Financial assets				
Trading assets:				
Debt securities	DCF(*1) Option model(*2)	₩ 34,928	The volatility of the underlying asset Correlations	0.00%~36.30% 69.90%
Financial assets designated at fair value through profit or loss:				
Debt securities and other securities	DCF(*1)	614,039	The volatility of the underlying asset Correlations	3.92%~79.96% 6.58%~74.33%
Derivative assets:				
Equity and foreign exchange related	Option model(*2)	86,657	The volatility of the underlying asset Correlations	0.00%~39.24% (19.03%)~74.33%
Interest rates related	Option model(*2)	14,047	The volatility of the underlying asset Regression coefficient Correlations	0.42%~4.53% 0.02%~2.05% 52.78%~100%
Credit and commodity related	Option model(*2)	11,645	The volatility of the underlying asset Correlations	4.18%~72.00% (49.15%)~91.88%
		112,349		
Available-for-sale financial assets:				
Debt securities	DCF(*1)	328,805	Discount rate	0.64%~44.84%
Equity securities	NAV(*3)	3,554,636	Growth rate	0.00%~2.00%
		3,883,441		
		₩ 4,644,757		

(*1) DCF : discounted cash flow

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

(*3) NAV : net asset value

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

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4. Financial risk management (continued)

<u>Type of financial instrument</u>	<u>Valuation technique</u>	<u>Carrying value (*2)</u>	<u>Significant unobservable inputs</u>	<u>Range</u>
Financial liabilities				
Financial liabilities designated at fair value through profit or loss:				
Equity related	Option model(*1)	₩ 7,574,327	The volatility of the underlying asset Correlations	20.99%~28.63% 9.53%~58.13%
Derivative liabilities:				
Equity and foreign exchange related	Option model(*1)	262,350	The volatility of the underlying asset Correlations	6.59%~78.84% (14.40)%~75.17%
Interest rates related	Option model(*1)	298,512	The volatility of the underlying asset Regression coefficient Correlations	0.42%~28.57% 0.02%~3.02% 0.79%~100%
Credit and commodity related	Option model(*1)	43,623	The volatility of the underlying asset Correlations	6.76~41.58% (49.15)%~99.99%
		<u>604,485</u>		
		<u>₩ 8,178,812</u>		

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

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

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

- Sensitivity analysis for fair value measurements in Level 3

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

For level 3 fair value measurement, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effects on profit or loss, or other comprehensive income as of December 31, 2016 and 2015.

	2016	
	Favorable changes	Unfavorable changes
Financial assets:		
Effects on profit or loss for the period(*1):		
Financial assets designated at fair value through profit or loss	₩ 2,737	(3,260)
Derivative assets	38,746	(17,927)
	<u>41,483</u>	<u>(21,187)</u>
Effects on other comprehensive income for the period:		
Available-for-sale financial assets(*2)	59,782	(34,830)
	<u>₩ 101,265</u>	<u>(56,017)</u>
Financial liabilities:		
Effects on profit or loss for the period(*1):		
Financial liabilities designated at fair value through profit or loss	₩ 80,057	(108,955)
Derivative liabilities	80,589	(49,740)
	<u>₩ 160,646</u>	<u>(158,695)</u>
2015		
	Favorable changes	Unfavorable changes
Financial assets:		
Effects on profit or loss for the period(*1):		
Trading assets	₩ 64	(45)
Financial assets designated at fair value through profit or loss	2,837	(4,416)
Derivative assets	7,592	(11,254)
	<u>10,493</u>	<u>(15,715)</u>
Effects on other comprehensive income for the period:		
Available-for-sale financial assets(*2)	90,343	(30,856)
	<u>₩ 100,836</u>	<u>(46,571)</u>
Financial liabilities:		
Effects on profit or loss for the period(*1):		
Financial liabilities designated at fair value through profit or loss	₩ 64,089	(79,575)
Derivative liabilities	87,885	(62,248)
	<u>₩ 151,974</u>	<u>(141,823)</u>

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

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

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4. Financial risk management (continued)

ii) *Financial instruments measured at amortized cost*

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

Type	Measurement methods of fair value
Cash and due from banks	The carrying amount and the fair value for cash are identical and most of deposits are floating interest rate deposits or next day deposits of a short-term instrument. For this reason, the carrying value approximates fair value.
Loans	The fair value of the loans is measured by discounting the expected cash flow at the market interest rate and credit risk, etc.
Held-to-maturity financial assets	The fair value of held-to-maturity financial assets is determined by applying the lesser of two quoted bond prices provided by two bond pricing agencies as of the latest trading date
Deposits and borrowings	The carrying amount and the fair value for demand deposits, cash management account deposits, call money as short-term instrument are identical. The fair value of others is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.
Debt securities issued	The fair value of deposits and borrowings is based on the published price quotations in an active market. In case there is no data for an active market price, it is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.

- The carrying value and the fair value of financial instruments measured at amortized cost as of December 31, 2016 and 2015 are as follows:

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Loans	₩ 259,010,575	260,900,185	246,441,361	249,182,868
Held-to-maturity financial assets	19,805,084	20,732,400	16,192,060	17,489,238
Other financial assets	13,975,889	13,994,180	11,878,420	11,907,777
	<u>₩ 292,791,548</u>	<u>295,626,765</u>	<u>274,511,841</u>	<u>278,579,883</u>
Liabilities:				
Deposits	₩ 235,137,958	235,175,778	217,676,428	217,907,829
Borrowings	25,294,241	25,340,042	21,733,865	21,799,206
Debt securities issued	44,326,785	44,651,811	41,221,284	41,878,643
Other financial liabilities	16,848,941	16,813,145	19,535,670	19,508,155
	<u>₩ 321,607,925</u>	<u>321,980,776</u>	<u>300,167,247</u>	<u>301,093,833</u>

4. Financial risk management (continued)

- The fair value hierarchy of financial assets and liabilities which are not measured at their fair values in the statements of financial position as of December 31, 2016 and 2015 are as follows:

		2016			
		Level 1	Level 2	Level 3	Total
Assets:					
Loans	₩	11,236	2,019,178	258,869,771	260,900,185
Held-to-maturity financial assets		7,658,696	13,073,704	-	20,732,400
Other financial assets		32,952	9,882,610	4,078,618	13,994,180
	₩	<u>7,702,884</u>	<u>24,975,492</u>	<u>262,948,389</u>	<u>295,626,765</u>
Liabilities:					
Deposits	₩	2,584,682	95,123,504	137,467,592	235,175,778
Borrowings		6,116,774	812,184	18,411,084	25,340,042
Debt securities issued in won		-	28,927,528	15,724,283	44,651,811
Other financial liabilities		37,061	4,741,882	12,034,202	16,813,145
	₩	<u>8,738,517</u>	<u>129,605,098</u>	<u>183,637,161</u>	<u>321,980,776</u>
		2015			
		Level 1	Level 2	Level 3	Total
Assets:					
Loans	₩	27,038	1,577,960	247,577,870	249,182,868
Held-to-maturity financial assets		6,360,572	11,128,666	-	17,489,238
Other financial assets		25,165	7,669,816	4,212,796	11,907,777
	₩	<u>6,412,775</u>	<u>20,376,442</u>	<u>251,790,666</u>	<u>278,579,883</u>
Liabilities:					
Deposits	₩	2,102,888	85,012,736	130,792,205	217,907,829
Borrowings		5,499,951	273,026	16,026,229	21,799,206
Debt securities issued in won		-	27,375,939	14,502,704	41,878,643
Other financial liabilities		25,803	7,488,938	11,993,414	19,508,155
	₩	<u>7,628,642</u>	<u>120,150,639</u>	<u>173,314,552</u>	<u>301,093,833</u>

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4. Financial risk management (continued)

- For financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed, information on valuation technique and inputs used in measuring fair value of financial instruments classified as level 2 or level 3 at December 31, 2016 and 2015 are as follows:

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

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

		2015		
		Fair value(*2)	Valuation technique	Inputs
Financial instruments classified as level 2 :				
Assets				
Loans	₩	1,577,960	DCF(*1)	Discount rate, credit spread, prepayment rate
Held-to-maturity financial assets		11,128,666	DCF(*1)	Discount rate
Other financial assets		7,669,816	DCF(*1)	Discount rate
		<u>20,376,442</u>		
Liabilities				
Deposits		85,012,736	DCF(*1)	Discount rate
Borrowings		273,026	DCF(*1)	Discount rate
Debt securities issued		27,375,939	DCF(*1)	Discount rate
Other financial liabilities		7,488,938	DCF(*1)	Discount rate
	₩	<u>120,150,639</u>		
Financial instruments classified as level 3 :				
Assets				
Loans	₩	247,577,870	DCF(*1)	Discount rate, credit spread, prepayment rate
Other financial assets		4,212,796	DCF(*1)	Discount rate
		<u>251,790,666</u>		
Liabilities				
Deposits		130,792,205	DCF(*1)	Discount rate
Borrowings		16,026,229	DCF(*1)	Discount rate
Debt securities issued		14,502,704	DCF(*1)	Discount rate, regression coefficient, correlation coefficient
Other financial liabilities		11,993,414	DCF(*1)	Discount rate
	₩	<u>173,314,552</u>		

(*1) DCF : discounted cash flow

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

iii) Changes in the difference between the fair value at initial recognition (the transaction price) and the value using models with unobservable inputs for the years ended December 31, 2016 and 2015

	2016	2015
Beginning balance	₩ (102,016)	(86,178)
Deferral on new transactions	(70,948)	(69,818)
Recognized in profit for the year	83,269	53,980
Ending balance	₩ (89,695)	(102,016)

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4. Financial risk management (continued)

(f) Classification by categories of financial instruments

Financial assets and liabilities are measured at fair value or amortized cost. The financial instruments measured at fair value or amortized cost are measured in accordance with the Group's valuation methodologies, which are described in Note 4.(e) Measurement of fair value.

The carrying amounts of each category of financial assets and financial liabilities as of December 31, 2016 and 2015 are as follows:

	2016						Total
	Trading assets	FVTPL assets (*1)	AFS (*2)	HTM (*3)	Loans and receivable	Derivatives held for hedging	
Assets:							
Cash and due from banks	₩ -	-	-	-	19,181,165	-	19,181,165
Trading assets	26,695,953	-	-	-	-	-	26,695,953
Financial assets designated at FVTPL(*1)	-	3,416,102	-	-	-	-	3,416,102
Derivatives	2,826,642	-	-	-	-	176,217	3,002,859
Loans	-	-	-	-	259,010,575	-	259,010,575
AFS financial assets(*2)	-	-	37,662,691	-	-	-	37,662,691
HTM financial assets(*3)	-	-	-	19,805,084	-	-	19,805,084
Other	-	-	-	-	13,975,889	-	13,975,889
₩	<u>29,522,595</u>	<u>3,416,102</u>	<u>37,662,691</u>	<u>19,805,084</u>	<u>292,167,629</u>	<u>176,217</u>	<u>382,750,318</u>
2016							
	Trading liabilities	FVTPL liabilities(*1)	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total		
Liabilities:							
Deposits	₩ -	-	235,137,958	-	-	-	235,137,958
Trading liabilities	1,976,760	-	-	-	-	-	1,976,760
Financial liabilities designated at FVTPL(*1)	-	9,233,642	-	-	-	-	9,233,642
Derivatives	3,074,814	-	-	453,430	-	-	3,528,244
Borrowings	-	-	25,294,241	-	-	-	25,294,241
Debt securities issued	-	-	44,326,785	-	-	-	44,326,785
Other	-	-	16,848,941	-	-	-	16,848,941
₩	<u>5,051,574</u>	<u>9,233,642</u>	<u>321,607,925</u>	<u>453,430</u>	-	-	<u>336,346,571</u>

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

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

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

		2015						
		Trading assets	FVTPL assets (*1)	AFS (*2)	HTM (*3)	Loans and receivable	Derivatives held for hedging	Total
Assets:								
Cash and due from banks	₩	-	-	-	-	22,024,404	-	22,024,404
Trading assets		22,638,449	-	-	-	-	-	22,638,449
Financial assets designated at FVTPL(*1)		-	3,244,166	-	-	-	-	3,244,166
Derivatives		1,813,361	-	-	-	-	181,353	1,994,714
Loans		-	-	-	-	246,441,361	-	246,441,361
AFS financial assets(*2)		-	-	33,966,071	-	-	-	33,966,071
HTM financial assets(*3)		-	-	-	16,192,060	-	-	16,192,060
Other		-	-	-	-	11,878,420	-	11,878,420
	₩	<u>24,451,810</u>	<u>3,244,166</u>	<u>33,966,071</u>	<u>16,192,060</u>	<u>280,344,185</u>	<u>181,353</u>	<u>358,379,645</u>
		2015						
		Trading liabilities	FVTPL liabilities(*1)	Financial liabilities measured at amortized cost		Derivatives held for hedging	Total	
Liabilities:								
Deposits	₩	-	-	217,676,428		-	-	217,676,428
Trading liabilities		2,135,390	-	-		-	-	2,135,390
Financial liabilities designated at FVTPL(*1)		-	8,916,332	-		-	-	8,916,332
Derivatives		2,415,170	-	-		184,118	-	2,599,288
Borrowings		-	-	21,733,865		-	-	21,733,865
Debt securities issued		-	-	41,221,284		-	-	41,221,284
Other		-	-	19,535,670		-	-	19,535,670
	₩	<u>4,550,560</u>	<u>8,916,332</u>	<u>300,167,247</u>		<u>184,118</u>	<u>-</u>	<u>313,818,257</u>

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

(*2) AFS : available-for-sale

(*3) HTM : held-to-maturity

Notes to the Consolidated Financial Statements

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4. Financial risk management (continued)

(g) Transfer of financial instruments

i) Transfers that do not qualify for derecognition

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

		<u>2016</u>	<u>2015</u>
Transferred asset:			
Financial assets at fair value through profit or loss	₩	7,011,684	5,609,587
Available-for-sale financial assets		1,104,923	1,050,002
Held-to-maturity financial assets		489,204	497,786
Loans		200	270,100
Associated liabilities:			
Bonds sold under repurchase agreements	₩	8,082,626	6,621,251

- Securities loaned as of December 31, 2016 and 2015 are as follows:

		<u>2016</u>	<u>2015</u>	<u>Borrowers</u>
Government bonds	₩	414,745	36,786	Korea Securities Finance Corp., Mitsui Sumitomo and others
Financial institutions bonds		260,014	130,019	Korea Securities Finance Corp., Korea Securities Depository
Equity securities		10,333	-	JP MORGAN SECURITIES
	₩	<u>685,092</u>	<u>166,805</u>	

ii) Financial instruments qualified for derecognition and continued involvement

There was no financial instruments which qualify for derecognition and in which the Group has continuing involvements as of December 31, 2016, and 2015.

4. Financial risk management (continued)

(h) Offsetting financial assets and financial liabilities

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

		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:							
	₩	2,980,805	-	2,980,805	5,049,847	296,155	1,922,783
		4,904,754	616,774	4,287,980	11,491,811	-	513,956
		12,005,767	-	12,005,767	338,947	-	346,144
		685,091	-	685,091	27,156	-	6,076,159
		30,589,675	24,486,360	6,103,315	-	-	1,396
		1,891	495	1,396	-	-	1,619
		4,069	-	4,069	2,450	-	8,862,057
		<u>51,172,052</u>	<u>25,103,629</u>	<u>26,068,423</u>	<u>16,910,211</u>	<u>296,155</u>	<u>2,665,872</u>
Liabilities:							
		4,438,363	-	4,438,363	5,058,660	467,195	2,661,326
		4,365,592	616,774	3,748,818	8,082,626	-	-
		8,082,626	-	8,082,626	1,490,765	-	-
		1,490,765	-	1,490,765	957,406	-	4,546
		25,448,312	24,486,360	961,952	5	-	-
		500	495	5	-	-	-
		2,450	-	2,450	-	-	-
	₩	<u>43,828,608</u>	<u>25,103,629</u>	<u>18,724,979</u>	<u>15,591,912</u>	<u>467,195</u>	<u>2,665,872</u>
		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:							
	₩	1,903,714	-	1,903,714	6,977,154	10,361	2,285,289
		8,497,835	1,128,745	7,369,090	12,431,670	-	525,676
		12,957,346	-	12,957,346	159,807	-	6,998
		166,805	-	166,805	18,939	-	2,353,142
		27,408,941	25,036,860	2,372,081	-	-	1,594
		2,117	523	1,594	-	-	887
		2,379	-	2,379	1,492	-	5,173,586
		<u>50,939,137</u>	<u>26,166,128</u>	<u>24,773,009</u>	<u>19,589,062</u>	<u>10,361</u>	<u>1,000,226</u>
Liabilities:							
		2,715,265	-	2,715,265	7,009,512	-	1,000,226
		6,423,218	1,128,745	5,294,473	6,621,251	-	-
		6,621,251	-	6,621,251	1,768,317	-	-
		1,768,317	-	1,768,317	2,165,161	-	43,571
		27,245,592	25,036,860	2,208,732	47	-	5
		575	523	52	-	-	-
		1,492	-	1,492	-	-	-
	₩	<u>44,775,710</u>	<u>26,166,128</u>	<u>18,609,582</u>	<u>17,565,780</u>	<u>-</u>	<u>1,043,802</u>

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

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

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

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

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4. Financial risk management (continued)

(i) Capital risk management

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

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

The capital adequacy ratio of the Group as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Capital :		
Tier I common equity capital	₩ 25,325,054	21,882,817
Additional tier 1 capital	885,366	1,311,374
Tier I capital	<u>26,210,420</u>	<u>23,194,191</u>
Tier II capital	3,576,095	4,022,257
Total capital (A)	₩ <u>29,786,515</u>	<u>27,216,448</u>
Total risk-weighted assets (B)	₩ 198,642,643	203,274,542
Capital adequacy ratio (A/B)	15.00%	13.39%
Tier I capital adequacy ratio	13.19%	11.41%
Common equity capital adequacy ratio	12.75%	10.77%

As of December 31, 2016 and 2015, the Group met the regulatory capital ratio above 8%.

Shinhan Life Insurance measures and manages RBC (risk based capital) ratio according to the Regulation on Supervision of Insurance Business to maintain required capital for the solvency margin.

As of December 31, 2016 and 2015, the Group’s BIS capital ratio and Shinhan Life Insurance’s RBC ratio exceed the regulatory minimum ratios.

5. **Significant estimate and judgment**

The preparation of consolidated financial statements requires the application of certain critical accounting and assumptions relative to the future. Management's estimate of the outcome may differ from an actual outcome if managements' estimate and assumption based on its best judgment at the reporting date are different from an actual environment. The change in an accounting estimate is recognized prospectively in profit or loss in the year of the change, if the change affects that year only, or the year of the change and future years, if the change affects both.

(a) Goodwill

The Group assesses annually whether any objective evidence of impairment on goodwill exists in accordance with the accounting policy as described in note 3. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is measured based on estimates.

(b) Income taxes

The Group is subject to tax law from various countries. Within the normal business process, there are various types of transaction and different accounting method that may add uncertainties to the decision of the final income taxes. Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for taxable temporary differences and a deferred tax asset is recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized and the taxable profit will be created in appropriate periods. However, actual income tax in the future may not be identical to the recognized deferred tax assets and liabilities, and this difference can affect current and deferred tax at the year when the final tax effect is conformed.

(c) Fair value of financial instruments

The fair values of financial instruments which are not actively traded in the market are determined by using valuation techniques. The Group determines valuation method and assumptions based on significant market conditions at the end of each reporting year. Diverse valuation techniques are used to determine the fair value of financial instruments, from general market accepted valuation model internally developed valuation model that incorporates various types of assumptions and variables.

(d) Allowances for loan losses, guarantees and unused loan commitments

The Group determines and recognizes allowances for losses on loans through impairment testing and recognizes provision for guarantees and unused loan commitments. The accuracy of provisions of credit losses is determined by the methodology and assumptions used for estimating expected cash flows of the borrower for allowances on individual loans and collectively assessing allowances for groups of loans, guarantees and unused loan commitments.

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5. Significant estimate and judgment (continued)

(e) Defined benefit obligation

The present value of defined benefit obligation that is measured by actuarial valuation method uses various assumptions which can change according to various elements. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the end of the reporting year on high quality corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the post-employment benefit obligations. Actuarial gains and losses including experience adjustments and the effects of changes in actuarial assumptions are recognized in other comprehensive income or loss. Other significant assumptions related to defined benefit obligation are based on current market situation.

(f) Impairment of available-for-sale equity investments

When there is a significant or prolonged decline in the fair value of an investment in an equity instrument below its original cost, there is objective evidence that available-for-sale equity investments are impaired. Accordingly, the Group considers the decline in the fair value of more than 30% against the original cost as "significant decline" and the status when the market price for marketable equity is less than the carrying amounts of instruments for six consecutive months as a "prolonged decline".

(g) Hedging relationship

The hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

6. Investment in subsidiaries

(a) Summarized financial information of the subsidiaries

i) Condensed financial position for the controlling company and the Group's subsidiaries as of December 31, 2016 and 2015 are as follows:

	2016			2015		
	Total assets	Total liabilities	Total equity	Total assets	Total liabilities	Total equity
Shinhan Financial Group (Separate) ₩	27,195,607	6,977,746	20,217,861	27,675,487	6,894,501	20,780,986
Shinhan Bank	302,854,623	281,387,650	21,466,973	285,015,818	264,173,045	20,842,773
Shinhan Card Co., Ltd.	24,419,886	18,537,340	5,882,546	23,347,702	17,127,969	6,219,733
Shinhan Investment Corp.	25,554,489	22,478,057	3,076,432	24,337,413	21,811,577	2,525,836
Shinhan Life Insurance Co., Ltd.	27,499,836	25,814,288	1,685,548	24,544,625	22,963,260	1,581,365
Shinhan Capital Co., Ltd.	4,506,750	3,862,388	644,362	4,076,553	3,458,433	618,120
Jeju Bank	5,184,831	4,849,180	335,651	4,464,601	4,146,580	318,021
Shinhan Credit Information Co., Ltd.	23,077	8,897	14,180	23,889	8,632	15,257
Shinhan Private Equity	114,853	103,358	11,495	119,042	108,030	11,012
Shinhan BNP Paribas AMC	161,161	13,354	147,807	170,164	15,356	154,808
SHC Management Co., Ltd.	8,474	262	8,212	8,411	615	7,796
Shinhan Data System	34,403	21,565	12,838	26,669	16,404	10,265
Shinhan Savings Bank	970,146	839,328	130,818	795,144	675,435	119,709
Shinhan Aitas Co., Ltd.	53,886	8,434	45,452	42,794	4,965	37,829

(*1) Condensed financial information of the subsidiaries is based on the consolidated financial information, if applicable.

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

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6. Investment in subsidiaries (continued)

ii) Condensed comprehensive income statement for the controlling company and the Group's subsidiaries for years ended December 31, 2016 and 2015 were as follows:

	2016			2015		
	Operating income	Net income	Total comprehensive income	Operating income	Net income	Total comprehensive income
Shinhan Financial Group (separate)	₩ 1,739,924	1,470,250	1,469,850	1,201,949	893,041	893,328
Shinhan Bank	16,672,337	1,940,621	1,717,969	14,656,853	1,489,988	1,197,961
Shinhan Card Co., Ltd.	4,672,819	707,344	558,438	4,740,139	694,774	629,164
Shinhan Investment Corp.	4,549,941	115,440	120,238	4,734,162	215,454	225,342
Shinhan Life Insurance Co., Ltd.	5,693,702	150,556	109,754	5,460,671	100,221	115,083
Shinhan Capital Co., Ltd.	302,710	33,868	34,059	380,867	46,081	52,754
Jeju Bank	190,191	25,160	19,969	167,479	19,397	14,665
Shinhan Credit Information Co., Ltd.	24,975	(1,174)	(1,047)	27,279	723	610
Shinhan Private Equity	2,404	512	844	373,577	6,401	6,602
Shinhan BNP Paribas AMC	69,834	14,302	14,363	83,718	23,653	23,721
SHC Management Co., Ltd.	115	416	416	287	215	215
Shinhan Data System	79,004	1,186	2,617	73,096	1,046	872
Shinhan Savings Bank	64,229	12,505	11,170	60,927	8,017	5,198
Shinhan Aitas Co., Ltd.	37,061	7,631	7,631	32,949	6,415	6,415

(*1) Condensed financial information of the subsidiaries is based on the consolidated financial information, if applicable.

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

6. Investment in subsidiaries (continued)

(b) Change in subsidiaries

i) Change in material consolidated subsidiaries during the year ended December 31, 2016 are as follows:

	Company	Description
Included	Shinhan Microfinance Co., Ltd.	Newly established subsidiary
"	PT Shinhan Sekuritas Indonesia	Acquisition
Excluded	PT Centratama Nasional Bank	Business combination under common control (note 51)
"	HKC&T Co., Ltd.	Liquidation

ii) Change in material consolidated subsidiaries during the year ended December 31, 2015 are as follows:

	Company	Description
Included	Banco Shinhan de Mexico	Newly established subsidiary
"	PT Bank Shinhan Indonesia	Acquisition
"	PT Centratama Nasional Bank	Acquisition
"	PT. Shinhan Indo Finance	Acquisition
"	SHINHAN SECURITIES VIETNAM CO., LTD.	Acquisition

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

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7. Operating segments

(a) Segment information

The general descriptions by operating segments as of December 31, 2016 are as follows:

<u>Segment</u>	<u>Description</u>
Banking(*)	Banking and related business
Credit card(*)	Credit card business
Securities	Securities trading, underwriting and brokerage services
Life insurance	Life insurance and related business
Others	Leasing, assets management and other businesses

(*) The Group previously defined operating segments based on the legal entities of subsidiaries. As part of the Group's strategy for innovation in the operating system, there has been a continuous increase in the number of hybrid branches under the Group's channel integration strategy, which is named as One Portal. In addition to the inherent business of individual legal entities, there has been expanded business linking among entities in the Group, resulting in substantial changes in the internal and external business environment, such as the continuous development of combined products and services. In line with those changes, the internal reporting method to the chief operating decision maker was changed in 2016 to the business segment basis; and the Group redefined the reportable segments from the previous legal entity basis to the business basis and the previous year reportable segment information has been restated accordingly.

7. Operating segments (continued)

(b) The following tables provide information of income and expense for each operating segment for the years ended December 31, 2016 and 2015.

		2016						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income (loss)	₩	4,605,046	1,484,697	390,761	704,489	13,028	7,345	7,205,366
Net fees and commission income (loss)		717,097	408,601	248,845	19,068	169,081	2,847	1,565,539
Impairment losses on financial assets		(746,126)	(347,179)	(8,035)	(9,559)	(85,009)	245	(1,195,663)
General and administrative expenses		(2,907,314)	(802,037)	(406,017)	(227,639)	(215,759)	50,191	(4,508,575)
Other income (expense), net		190,909	296,829	(82,480)	(326,251)	43,783	(80,815)	41,975
Operating income		1,859,612	1,040,911	143,074	160,108	(74,876)	(20,187)	3,108,642
Equity method income (loss)		8,615	-	(273)	(1,188)	4,277	(1,436)	9,995
Income tax expense (benefit)		64,214	235,140	30,066	2,951	14,190	(1,008)	345,553
Profit (loss) for the period	₩	1,866,811	806,313	115,440	150,556	(79,150)	35,051	2,824,919
Controlling interest	₩	1,866,446	814,836	115,438	150,556	(79,151)	(93,347)	2,774,778
Non-controlling interests		365	(8,523)	2	-	1	58,296	50,141
		2015						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income (loss)	₩	4,246,146	1,350,968	444,271	675,760	(32,274)	8,062	6,692,933
Net fees and commission income (loss)		689,122	433,441	266,529	32,232	194,530	5,125	1,620,979
Impairment losses on financial assets		(800,893)	(305,876)	(3,353)	(31,383)	(124,534)	1,986	(1,264,053)
General and administrative expenses		(2,779,864)	(830,355)	(479,567)	(204,975)	(244,929)	64,622	(4,475,068)
Other income (expense), net		294,633	319,758	34,080	(340,012)	174,140	(84,249)	398,350
Operating income		1,649,144	967,936	261,960	131,622	(33,067)	(4,454)	2,973,141
Equity method income		13,399	-	1,478	(277)	5,601	770	20,971
Income tax expense (benefit)		363,928	209,916	62,668	32,356	28,519	(2,768)	694,619
Profit (loss) for the period	₩	1,426,006	778,153	215,454	100,221	(59,454)	(14,422)	2,445,958
Controlling interest	₩	1,425,672	778,153	215,454	100,221	(66,492)	(85,837)	2,367,171
Non-controlling interests		334	-	-	-	7,038	71,415	78,787

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7. Operating segments

(c) The following tables provide information of net interest income of each operating segment for the years ended December 31, 2016 and 2015.

		2016						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income from:								
External customers	₩	4,610,536	1,507,748	392,973	704,188	(10,079)	-	7,205,366
Internal transactions		(5,490)	(23,051)	(2,212)	301	23,107	7,345	-
	₩	<u>4,605,046</u>	<u>1,484,697</u>	<u>390,761</u>	<u>704,489</u>	<u>13,028</u>	<u>7,345</u>	<u>7,205,366</u>
		2015						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income from:								
External customers	₩	4,253,559	1,390,469	450,019	674,708	(75,822)	-	6,692,933
Internal transactions		(7,413)	(39,501)	(5,748)	1,052	43,548	8,062	-
	₩	<u>4,246,146</u>	<u>1,350,968</u>	<u>444,271</u>	<u>675,760</u>	<u>(32,274)</u>	<u>8,062</u>	<u>6,692,933</u>

(d) The following tables provide information of net fees and commission income of each operating segment for the years ended December 31, 2016 and 2015.

		2016						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net fees and commission income from:								
External customers	₩	744,464	427,592	255,999	26,769	110,715	-	1,565,539
Internal transactions		(27,367)	(18,991)	(7,154)	(7,701)	58,366	2,847	-
	₩	<u>717,097</u>	<u>408,601</u>	<u>248,845</u>	<u>19,068</u>	<u>169,081</u>	<u>2,847</u>	<u>1,565,539</u>
		2015						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net fees and commission income from:								
External customers	₩	730,799	460,314	274,833	40,638	114,395	-	1,620,979
Internal transactions		(41,677)	(26,873)	(8,304)	(8,406)	80,135	5,125	-
	₩	<u>689,122</u>	<u>433,441</u>	<u>266,529</u>	<u>32,232</u>	<u>194,530</u>	<u>5,125</u>	<u>1,620,979</u>

7. Operating segments (continued)

(e) Financial information of geographical area

The following table provides information of income from external consumers by geographical area for the years ended December 31, 2016 and 2015.

	2016	2015
Domestic	₩ 2,876,073	2,727,862
Overseas	232,569	245,279
	<u>₩ 3,108,642</u>	<u>2,973,141</u>

The following table provides information of non-current assets by geographical area as of December 31, 2016 and 2015.

	2016	2015
Domestic	₩ 7,568,195	7,397,788
Overseas	157,105	124,302
	<u>₩ 7,725,300</u>	<u>7,522,090</u>

Non-current assets comprise property and equipment, intangible assets and investment properties.

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8. Cash and due from banks

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

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	₩ 1,814,497	1,957,535
Deposits in won:		
Reserve deposits	2,857,672	7,876,559
Time deposits	1,916,936	2,354,186
Certificate of deposits	19,897	29,801
Other	4,867,510	2,981,241
	<u>9,662,015</u>	<u>13,241,787</u>
Deposits in foreign currency:		
Deposits	3,789,527	3,217,974
Time deposits	3,286,152	3,058,776
Other	644,684	561,165
	<u>7,720,363</u>	<u>6,837,915</u>
Allowance for credit losses	(15,710)	(12,833)
	<u>₩ 19,181,165</u>	<u>22,024,404</u>

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

	<u>2016</u>	<u>2015</u>
Deposits denominated in won:		
Reserve deposits	₩ 2,857,672	7,876,559
Other(*)	4,868,867	3,108,270
	<u>7,726,539</u>	<u>10,984,829</u>
Deposits denominated in foreign currency	1,379,514	1,854,514
	<u>₩ 9,106,053</u>	<u>12,839,343</u>

(*) Pursuant to the Regulation on Financial Investment Business, the Group is required to deposit certain portions of customers' deposits with the Korean Securities Finance Corporation ("KSFC") or banks to ensure repayment of customer deposits and the deposits may not be pledged as collateral.

9. Trading assets

Trading assets as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Debt securities:		
Governments	₩ 4,337,224	3,259,925
Financial institutions	7,461,375	6,776,284
Corporations	4,342,496	4,128,561
Commercial Papers	4,350,252	3,524,629
CMA(*)	1,793,312	1,572,270
Others	105,905	184,517
	<u>22,390,564</u>	<u>19,446,186</u>
Equity securities:		
Stocks	703,467	890,901
Beneficiary certificates	3,233,937	2,102,134
Others	120,140	50,007
	<u>4,057,544</u>	<u>3,043,042</u>
Other:		
Gold deposits	247,845	149,221
	<u>₩ 26,695,953</u>	<u>22,638,449</u>

(*) CMA: Cash management account deposits

10. Financial asset designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>	<u>Reason for designation</u>
Debt securities	₩ 1,908,342	1,879,521	Evaluation and management on a fair value basis, accounting mismatch
Equity securities(*)	1,187,916	915,147	Evaluation and management on a fair value basis, accounting mismatch
Others	319,844	449,498	Combined instrument
	<u>₩ 3,416,102</u>	<u>3,244,166</u>	

(*) Restricted reserve for claims of customers' deposits (trusts) as of December 31, 2016 and 2015 are ₩862,837 million and ₩784,596 million, respectively.

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11. Derivatives

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

	<u>2016</u>	<u>2015</u>
Foreign currency related:		
Over the counter:		
Currency forwards	₩ 92,309,997	55,057,195
Currency swaps	27,460,485	19,642,832
Currency options	1,210,658	2,430,336
	<u>120,981,140</u>	<u>77,080,363</u>
Exchange traded:		
Currency futures	739,186	440,791
	<u>121,720,326</u>	<u>77,521,154</u>
Interest rates related:		
Over the counter:		
Interest rate swaps	53,104,809	47,124,620
Interest rate options	1,014,000	1,231,201
	<u>54,118,809</u>	<u>48,355,821</u>
Exchange traded:		
Interest rate futures	2,099,017	2,088,507
Interest rate swaps(*)	27,658,703	29,544,300
	<u>29,757,720</u>	<u>31,632,807</u>
	<u>83,876,529</u>	<u>79,988,628</u>
Credit related:		
Over the counter:		
Credit swaps	1,244,502	1,154,315
Equity related:		
Over the counter:		
Equity swaps and forwards	12,187,176	3,707,762
Equity options	1,228,114	2,158,983
	<u>13,415,290</u>	<u>5,866,745</u>
Exchange traded:		
Equity futures	492,562	385,164
Equity options	2,213,162	6,811,381
	<u>2,705,724</u>	<u>7,196,545</u>
	<u>16,121,014</u>	<u>13,063,290</u>
Commodity related:		
Over the counter:		
Commodity swaps and forwards	892,003	1,146,599
Commodity options	11,876	27,533
	<u>903,879</u>	<u>1,174,132</u>
Exchange traded:		
Commodity futures	114,927	55,781
	<u>1,018,806</u>	<u>1,229,913</u>

11. Derivatives (continued)

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

	<u>2016</u>	<u>2015</u>
Hedge:		
Currency forwards	2,036,187	1,230,307
Currency swaps	2,765,653	2,464,599
Interest rate swaps	7,631,505	7,679,755
	<u>12,433,345</u>	<u>11,374,661</u>
	₩ <u>236,414,522</u>	<u>184,331,961</u>

(*) The notional amount of derivatives which is settled in the 'Central Counter Party (CCP)' system.

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11. Derivatives (continued)

(b) Fair values of derivative instruments as of December 31, 2016 and 2015 are as follows:

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Foreign currency related:				
Over the counter:				
Currency forwards	₩ 1,722,096	1,623,325	806,785	607,632
Currency swaps	698,220	766,252	395,474	534,958
Currency options	12,347	9,422	18,030	10,652
	<u>2,432,663</u>	<u>2,398,999</u>	<u>1,220,289</u>	<u>1,153,242</u>
Exchange traded:				
Currency futures	-	4	-	-
	<u>2,432,663</u>	<u>2,399,003</u>	<u>1,220,289</u>	<u>1,153,242</u>
Interest rates related:				
Over the counter:				
Interest rate swaps	290,074	340,409	474,447	471,488
Interest rate options	7,807	8,367	10,479	11,932
	<u>297,881</u>	<u>348,776</u>	<u>484,926</u>	<u>483,420</u>
Exchange traded:				
Interest rate futures	1,439	212	192	27
	<u>299,320</u>	<u>348,988</u>	<u>485,118</u>	<u>483,447</u>
Credit related:				
Over the counter:				
Credit swaps	13,365	6,095	14,568	20,466
Equity related:				
Over the counter:				
Equity swap and forwards	25,378	250,879	17,806	518,812
Equity options	38,156	6,212	60,184	75,643
	<u>63,534</u>	<u>257,091</u>	<u>77,990</u>	<u>594,455</u>
Exchange traded:				
Equity futures	683	57	18	905
Equity options	13,084	12,215	4,299	7,977
	<u>13,767</u>	<u>12,272</u>	<u>4,317</u>	<u>8,882</u>
	<u>77,301</u>	<u>269,363</u>	<u>82,307</u>	<u>603,337</u>
Commodity related:				
Over the counter:				
Commodity swaps and forwards	1,778	49,702	10,164	154,465
Commodity options	105	22	543	-
	<u>1,883</u>	<u>49,724</u>	<u>10,707</u>	<u>154,465</u>
Exchange traded:				
Commodity futures	2,110	1,641	372	213
	<u>3,993</u>	<u>51,365</u>	<u>11,079</u>	<u>154,678</u>

11. Derivatives (continued)

(b) Fair values of derivative instruments as of December 31, 2016 and 2015 are as follows (continued) :

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Hedge:				
Currency forwards	5,646	81,829	4,925	34,631
Currency swaps	155,386	36,077	123,706	23,094
Interest rate swaps	15,185	335,524	52,722	126,393
	<u>176,217</u>	<u>453,430</u>	<u>181,353</u>	<u>184,118</u>
	<u>₩ 3,002,859</u>	<u>3,528,244</u>	<u>1,994,714</u>	<u>2,599,288</u>

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11. Derivatives (continued)

(c) Gain or loss on valuation of derivatives for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Foreign currency related		
Over the counter:		
Currency forwards	₩ (80,907)	142,086
Currency swaps	7,193	(132,226)
Currency options	9,704	10,540
	<u>(64,010)</u>	<u>20,400</u>
Exchange traded:		
Currency futures	(33)	(272)
	<u>(64,043)</u>	<u>20,128</u>
Interest rates related		
Over the counter:		
Interest rate swaps	(68,490)	(65,444)
Interest rate options	1,116	(185)
	<u>(67,374)</u>	<u>(65,629)</u>
Exchange traded:		
Interest rate futures	3,849	144
	<u>(63,525)</u>	<u>(65,485)</u>
Credit related		
Over the counter:		
Credit swaps	10,761	748
Equity related		
Over the counter:		
Equity swap and forwards	111,723	(653,231)
Equity options	11,639	5,470
	<u>123,362</u>	<u>(647,761)</u>
Exchange traded:		
Equity futures	626	613
Equity options	3,420	(2,218)
	<u>4,046</u>	<u>(1,605)</u>
	<u>127,408</u>	<u>(649,366)</u>
Commodity related		
Over the counter:		
Commodity swaps and forwards	(8,988)	(106,976)
Commodity options	(44)	(457)
	<u>(9,032)</u>	<u>(107,433)</u>
Exchange traded:		
Commodity futures	98	(2,582)
	<u>(8,934)</u>	<u>(110,015)</u>
Hedge		
Currency forwards	(80,958)	(27,339)
Currency swaps	19,366	97,576
Interest rate swaps	(239,596)	(120,396)
	<u>(301,188)</u>	<u>(50,159)</u>
	<u>₩ (299,521)</u>	<u>(854,149)</u>

11. Derivatives (continued)

(d) Gain or loss on fair value hedges for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Hedged item	₩ 332,197	211,951
Hedging instruments	(340,041)	(206,925)
	<u>₩ (7,844)</u>	<u>5,026</u>

In order to hedge changes in the fair value of investments in debt securities, structured deposits, etc. from interest rate changes, the Group designates interest swap contracts as hedging items. Additionally, the Group holds forward exchange contracts and currency swaps to hedge changes in the fair value of foreign currency deposits and investments in foreign currency debt securities from exchange rate changes.

(e) Hedge of net investment in foreign operations

Hedge accounting is applied for a portion of net investments in foreign operations. Foreign currency translation adjustments for foreign operation by each hedging instrument for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Borrowings in foreign currency	₩ (23,441)	(17,492)
Debt securities issued in foreign currency	(35,727)	(14,005)
Currency forwards	4,775	(2,368)
	<u>₩ (54,393)</u>	<u>(33,865)</u>

12. Loans

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

	<u>2016</u>	<u>2015</u>
Household loans	₩ 104,184,270	96,017,634
Corporate loans	130,485,094	127,026,825
Public and other	2,153,888	2,194,277
Loans to banks	4,729,836	4,653,229
Card receivables	19,450,421	18,537,001
	<u>261,003,509</u>	<u>248,428,966</u>
Discount	(27,533)	(26,806)
Deferred loan origination costs and fees	395,394	357,617
	<u>261,371,370</u>	<u>248,759,777</u>
Allowance for credit losses	(2,360,795)	(2,318,416)
	<u>₩ 259,010,575</u>	<u>246,441,361</u>

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12. Loans (continued)

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

	2016						
	Loans					Other (*2)	Total
	Household	Corporate	Credit Card	Other	Subtotal		
Beginning balance	₩ 266,764	1,358,489	675,239	17,924	2,318,416	79,839	2,398,255
Provision for (reversal of) allowance	135,416	656,449	313,037	(2,121)	1,102,781	4,851	1,107,632
Write-offs	(126,776)	(730,027)	(433,470)	(558)	(1,290,831)	(16,204)	(1,307,035)
Effect of discounting(*1)	(238)	(28,372)	4,460	-	(24,150)	-	(24,150)
Allowance related to loans sold	(2,731)	(42,472)	(32,970)	(95)	(78,268)	-	(78,268)
Recoveries	34,705	126,102	175,815	43	336,665	2,227	338,892
Others(*3)	(795)	(4,778)	1,755	-	(3,818)	(3,817)	(7,635)
Ending balance	₩ 306,345	1,335,391	703,866	15,193	2,360,795	66,896	2,427,691

	2015						
	Loans					Other (*2)	Total
	Household	Corporate	Credit Card	Other	Subtotal		
Beginning balance	₩ 247,337	1,509,062	721,848	22,618	2,500,865	118,353	2,619,218
Provision for (reversal of) allowance	122,009	602,141	300,363	(2,802)	1,021,711	-	1,021,711
Write-offs	(122,796)	(701,970)	(488,660)	(66)	(1,313,492)	(18,850)	(1,332,342)
Effect of discounting(*1)	(253)	(30,499)	2,482	-	(28,270)	-	(28,270)
Allowance related to loans sold	(4,447)	(57,985)	(34,157)	(1,911)	(98,500)	-	(98,500)
Recoveries	26,527	88,944	171,253	85	286,809	4,013	290,822
Others(*3)	(1,613)	(51,204)	2,110	-	(50,707)	(23,677)	(74,384)
Ending balance	₩ 266,764	1,358,489	675,239	17,924	2,318,416	79,839	2,398,255

(*1) Interest income from impaired financial assets

(*2) Included allowance for due from banks and other assets

(*3) Other changes were due to debt restructuring, debt-equity swap, and foreign exchange rate, etc.

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

	2016	2015
Beginning balance	₩ 357,617	276,627
Loan originations	192,116	223,768
Amortization	(154,339)	(142,778)
Ending balance	₩ 395,394	357,617

13. Available-for-sale financial assets and held-to-maturity financial assets

(a) Available-for-sale financial assets and held-to-maturity financial assets as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Available-for-sale financial assets:		
Debt securities:		
Government bonds	₩ 5,308,247	4,281,803
Financial institution bonds	17,224,603	15,594,417
Corporate bonds and others	10,289,221	9,161,420
	<u>32,822,071</u>	<u>29,037,640</u>
Equity securities(*1):		
Stocks	1,663,951	2,113,724
Equity investments	625,632	623,465
Beneficiary certificates	2,470,555	2,118,743
Others	80,482	72,499
	<u>4,840,620</u>	<u>4,928,431</u>
	<u>37,662,691</u>	<u>33,966,071</u>
Held-to-maturity financial assets:		
Debt securities:		
Government bonds	11,514,671	9,528,795
Financial institutions bonds	2,092,476	1,263,688
Corporate bonds	6,197,937	5,399,577
	<u>19,805,084</u>	<u>16,192,060</u>
	<u>₩ 57,467,775</u>	<u>50,158,131</u>

(*1) Equity securities with no quoted market prices in active markets and for which the fair value cannot be measured reliably are recorded at cost were ₩131,143 million and ₩118,746 million as of December 31, 2016 and 2015, respectively.

(b) Gain or loss on sale of available-for-sale financial assets for the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Gain on disposal of available-for-sale financial assets	₩ 707,134	827,968
Loss on disposal of available-for-sale financial assets	(59,593)	(55,494)
	<u>₩ 647,541</u>	<u>772,474</u>

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14. Property and equipment, net

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

2016				
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩ 1,885,233	-	-	1,885,233
Buildings	1,164,668	(223,625)	-	941,043
Other	1,976,152	(1,656,815)	-	319,337
	<u>₩ 5,026,053</u>	<u>(1,880,440)</u>	<u>-</u>	<u>3,145,613</u>
2015				
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying amount
Land	₩ 1,795,960	-	-	1,795,960
Buildings	1,116,792	(190,543)	-	926,249
Other	1,924,400	(1,591,194)	-	333,206
	<u>₩ 4,837,152</u>	<u>(1,781,737)</u>	<u>-</u>	<u>3,055,415</u>

14. Property and equipment, net (continued)

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

	2016			
	Land	Buildings	Other	Total
Beginning balance	₩ 1,795,960	926,249	333,206	3,055,415
Acquisitions(*1)	84,616	67,423	123,418	275,457
Disposals(*1)	(1,107)	(921)	(4,070)	(6,098)
Depreciation	-	(34,785)	(142,620)	(177,405)
Impairment losses	(946)	(1,258)	-	(2,204)
Amounts transferred from (to) investment property	6,125	(17,023)	-	(10,898)
Amounts transferred from intangible assets	3	76	-	79
Amounts transferred from assets held for sale(*2)	410	1	-	411
Effects of foreign currency movements	172	1,281	9,403	10,856
Ending balance	₩ 1,885,233	941,043	319,337	3,145,613

(*1) ₩15,405 million of buildings increased by transfers from construction-in-progress.

(*2) Comprise land and buildings, etc.

	2015			
	Land	Buildings	Other	Total
Beginning balance	₩ 1,789,410	952,724	405,121	3,147,255
Acquisitions(*1)(*2)	20,621	28,214	138,453	187,288
Disposals(*1)	(934)	(1,016)	(6,077)	(8,027)
Depreciation	-	(35,910)	(158,018)	(193,928)
Amounts transferred from investment property	2,526	596	-	3,122
Effects of foreign currency movements	(15,663)	(18,359)	(46,273)	(80,295)
Ending balance	₩ 1,795,960	926,249	333,206	3,055,415

(*1) ₩3,255 million of buildings increased by transfers from construction-in-progress.

(*2) Including changes in amount resulted from retrospective adjustment of identifiable net assets recognized at the acquisition date of PT Centratama Nasional Bank.

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14. Property and equipment, net (continued)

(c) Insured assets as of December 31, 2016 are as follows:

<u>Type of insurance</u>	<u>Assets insured</u>	<u>Amount covered</u>	<u>Insurance company</u>
Comprehensive insurance for financial institution	Cash and cash equivalent (Including ATM)	₩ 62,773	Samsung Fire & Marine Insurance Co., Ltd. and 9 other entities
Package insurance	General asset risk	1,155,095	Samsung Fire & Marine Insurance Co., Ltd. and 6 other entities
Fire insurance	Furniture and fixtures	16,586	Samsung Fire & Marine Insurance Co., Ltd. and 4 other entities
Directors' and officers' insurance	Directors' and officers' liabilities	50,000	MERITZ Fire & Marine Insurance Co., Ltd. and 8 other entities
Employee accident insurance	Employees	17,800	Dongbu Fire & Marine Insurance Co., Ltd. and 1 other entities
Pilferage insurance	Cash and securities	60,000	Samsung Fire & Marine Insurance Co., Ltd. and 9 other entities
Others	Securities, Fidelity guarantee and liability insurance and others	23,336	Dongbu Fire & Marine Insurance Co., Ltd. and 7 other entities
		₩ <u>1,385,590</u>	

15. Intangible assets, net

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

	2016	2015
Goodwill	₩ 3,873,060	3,871,482
Software	94,261	93,914
Development cost	56,563	66,843
Other	202,628	234,100
	<u>₩ 4,226,512</u>	<u>4,266,339</u>

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

		2016				
		Goodwill	Software	Develop- ment cost	Other	Total
Beginning balance	₩	3,871,482	93,914	66,843	234,100	4,266,339
Acquisitions		-	37,682	21,001	29,882	88,565
Business combination		4,427	-	-	-	4,427
Disposals		-	(37)	-	(10,725)	(10,762)
Impairment(*1)		(2,849)	-	-	(261)	(3,110)
Amortization(*2)		-	(37,636)	(31,281)	(50,422)	(119,339)
Effects of foreign currency movements		-	338	-	133	471
Other		-	-	-	(79)	(79)
Ending balance	₩	<u>3,873,060</u>	<u>94,261</u>	<u>56,563</u>	<u>202,628</u>	<u>4,226,512</u>
		2015				
		Goodwill	Software	Develop- ment cost	Other	Total
Beginning balance	₩	3,824,646	70,708	61,665	195,824	4,152,843
Acquisitions		-	59,727	37,022	95,041	191,790
Business combination		49,243	127	1,517	1,328	52,235
Disposals		-	(1)	-	(8,640)	(8,641)
Impairment(*1)		-	-	-	(2,143)	(2,143)
Amortization(*2)		-	(34,851)	(32,773)	(46,990)	(114,614)
Effects of foreign currency movements		(2,407)	(1,796)	(588)	(340)	(5,131)
Ending balance	₩	<u>3,871,482</u>	<u>93,914</u>	<u>66,843</u>	<u>234,100</u>	<u>4,266,339</u>

(*1) The Group recognized impairment losses from golf and condo memberships with indefinite useful lives for the difference between recoverable amounts and carrying amounts.

(*2) The Group recognized amortization of intangible asset in general and administrative expenses and net other operating expense.

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15. Intangible assets, net (continued)

(c) Goodwill

i) Goodwill allocated in the Group's CGUs as of December 31, 2016 and 2015

	2016	2015
Banking(*)	₩ 781,859	869,701
Credit card(*)	2,773,231	2,688,238
Securities	5,645	1,218
Life insurance	275,371	275,371
Others	36,954	36,954
	<u>₩ 3,873,060</u>	<u>3,871,482</u>

(*) Due to the structural changes in reporting segments as discussed at note 7, the card business of the Shinhan Bank, which has been operated linking with the credit card business of Shinhan Card, is redefined as the part of the credit card business segment. In line with the reorganizing the reporting structure, the goodwill is reallocated and reviewed for the impairment based on the redefined cash generating units.

ii) Changes in goodwill for the years ended December 31, 2016 and 2015

	2016	2015
Beginning balance	₩ 3,871,482	3,824,646
Acquisitions through business combinations(*1)	4,427	59,106
Disposal	-	(2,407)
Impairment loss(*2)	(2,849)	-
Other(*3)	-	(9,863)
Ending balance	<u>₩ 3,873,060</u>	<u>3,871,482</u>

(*1) The Group recognized the goodwill at the acquisition of PT. Shinhan Sekuritas Indonesia in 2016. (note 49)

(*2) The Group recognized impairment on the whole goodwill amount which was recognized at the acquisition of PT. Shinhan Indo Finance in prior year.

(*3) Due to the retrospective adjustment of identifiable net assets recognized at the acquisition of PT Centratama Nasional Bank, the goodwill amount was changed. (note 50)

iii) Goodwill impairment test

The recoverable amounts of each CGU were evaluated based on their respective value in use.

- Explanation on evaluation method

The income approach was applied when evaluating the recoverable amounts based on value in use, considering the characteristics of each unit or group of CGU.

15. Intangible assets, net (continued)

- Projection period

When evaluating the value in use, 5.5 years of cash flow estimates – July 1, 2016 through December 31, 2021 – was used in projection and the value thereafter was reflected as terminal value. In case of Shinhan Life Insurance, only the 30 years of future cash flows were applied since the present value of the future cash flows thereafter is not significant.

- Discount rates and terminal growth rates

The required rates of return expected by shareholders were applied to the discount rates by calculating the cost of capital which comprises a risk-free interest rate, a market risk premium and systemic risk (beta factor). Expected terminal growth rate is on the basis of inflation rates.

Discount rates and terminal growth rates applied to each CGU are as follows:

	<u>Discount rates</u>	<u>Terminal growth rate</u>
Banking	6.8%~15.6%	1.5%~3.2%
Credit card	7.6%, 13.7%	1.8%, 3.2%
Securities	15.0%	3.2%
Life insurance	8.5%	-
Others	9.4%, 10.9%	1.8%

iv) *Key assumptions*

Key assumptions used in the discounted cash flow calculations of CGUs (other than Shinhan Life Insurance) are as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021 and thereafter</u>
CPI growth	1.0%	1.8%	2.2%	2.5%	2.7%	2.6%
Real retail sales growth	2.1%	3.1%	2.6%	1.6%	1.4%	1.5%
Real GDP growth	2.5%	3.1%	3.2%	3.0%	2.9%	2.7%

Key assumptions used in the discounted cash flow calculations of Shinhan Life Insurance are as follows:

	<u>Key assumptions</u>
Rate of return on investment	3.15%
Risk-based capital ratio	204.70%

The values for the CPI growth rate, real retail sales growth rate, real GDP growth rate, rate of return on investment and risk-based capital ratio are based on a combination of internal and external analysis.

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15. Intangible assets, net (continued)

v) *Total recoverable amount and total carrying value of CGUs to which goodwill has been allocated, are as follows:*

	<u>Amount</u>
Total recoverable amount	₩ 40,697,542
Total carrying value(*)	<u>35,493,781</u>
	₩ <u>5,203,761</u>

(*) The carrying value reflected the amount of impairment losses on the goodwill recognized for the acquisition of PT. Shinhan Indo Finance.

16. Investments in associates

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

Investees	Country	Reporting date	Ownership (%)	
			2016	2015
BNP Paribas Cardif Life Insurance(*1),(*3),(*13)	Korea	September 30	14.99	14.99
Aju Capital Co., Ltd.(*1),(*2),(*13)	"	"	12.85	12.85
UAMCO., Ltd.(*4),(*13)	"	-	-	17.50
Pohang TechnoPark 2PFV(*2)	"	December 31	14.90	14.90
Daewontos Co., Ltd.(*1),(*5)	"	September 30	36.33	36.33
Inhee Co., Ltd.(*1),(*5)	"	"	15.36	15.36
DAEGY Electrical Construction Co., LTD.(*1),(*5)	"	"	27.45	27.45
Kukdong Engineering & Construction Co., LTD.(*4)	"	-	-	14.30
YEONWOONG SYSTEM(*1),(*5)	"	September 30	21.77	21.77
DOODOO LOGITECH(*1),(*5)	"	"	27.96	27.96
Neoplux Technology Valuation Investment Fund(*1)	"	"	33.33	33.33
EQP Global Energy Infrastructure Private Equity Fund(*1)	"	"	22.64	22.64
JAHEYOUNG SOLUTECH CO., LTD.(*1),(*5),(*6)	"	"	10.45	11.90
Partners 4th Growth Investment Fund(*1)	"	"	25.00	25.00
PSA 1st Fintech Private Equity Fund(*1)	"	"	25.00	20.00
KTB Newlake Global Healthcare PEF(*1)	"	"	30.00	-
JAHEYANG INDUSTRY(*5),(*11)	"	March 31	25.90	-
Tigris-Aurum Fund I (*1)	"	September 30	27.27	-
Treenkid(*1),(*5)	"	"	23.72	-
Chungyoung INC(*1),(*5)	"	"	18.94	-
Semantic(*1),(*5)	"	"	19.25	-
DAEKWANG SEMICONDUCTOR CO., LTD.(*5),(*11)	"	June 30	20.94	-
Branbuil CO., LTD.(*5),(*11)	"	December 31	15.53	-
SHC-IMM New Growth Fund(*8)	"	"	64.52	64.52
QCP New Technology Fund 20th	"	"	47.17	47.17
STI-New Growth Engines Investment Partnership	"	"	50.00	50.00
Shinhan K2 Secondary Fund(*7)	"	"	10.75	10.75
TS2013-6 M&A Investment Fund	"	"	25.00	25.00
Dream High Fund III(*8)	"	"	54.55	54.55
OCEAN SUCCESS SHIPPING LIMITED(*9)	Hong Kong	-	-	24.00
SHC-EN Fund(*9)	Korea	-	-	43.48
SP New Technology Business investment Fund I	"	December 31	23.26	23.26
Albatross Growth Fund	"	"	36.36	36.36
Asia Pacific No.39 Ship Investment Co., Ltd.	"	"	50.00	50.00
Midas Dong-A Snowball Venture Fund(*8)	"	"	53.33	53.33
IBKS-Shinhan Creative Economy New Technology Fund(*7)	"	"	5.00	5.00
SH RENTAL SERVICE(*4)	"	-	-	20.00
SM New Technology Business Investment Fund I	"	December 31	36.36	36.36

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16. Investments in associates (continued)

Investees	Country	Reporting date	Ownership (%)	
			2016	2015
SHC-Aju 4th	Korea	December 31	21.98	21.98
KCLAVIS Meister Fund No.4	"	"	20.00	-
KCLAVIS Meister Fund No.5	"	"	23.26	-
KCLAVIS Meister Fund No.2	"	"	38.83	-
Midas Dong-A Snowball Venture Fund 2	"	"	25.00	-
EN-Tigris Fund 1	"	"	47.62	-
IBKS-Shinhan Creative Economy New Technology Fund II(*7)	"	"	4.55	-
KCLAVIS Meister Fund No.11(*12)	"	-	-	-
KCLAVIS Meister Fund No.10	"	December 31	21.28	-
KCLAVIS Meister Fund No.9	"	"	34.48	-
KCLAVIS Meister Fund No.14	"	"	33.33	-
KCLAVIS Meister Fund No.17	"	"	26.09	-
SG No.9 Corporate Recovery Private Equity Fund	"	"	26.49	-
Plutus-SG Private Equity Fund	"	"	26.67	-
SG ARGES Private Equity Fund No.1	"	"	24.06	-
OST Progress- 2 Fund	"	"	27.62	-
Eum Private Equity Fund No.3	"	"	20.76	-
APC Fund	Cayman Islands	"	25.18	25.18
BNH-CJ Bio Healthcare Fund(*9)	"	-	-	26.67
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	"	December 31	50.00	50.00
Shinhan Praxis K-Growth Global Private Equity Fund(*7)	"	"	18.87	18.87
Credian Healthcare Private Equity Fund II	"	"	34.07	-
Kiwoom Milestone Professional Private Real Estate Trust 19	"	"	50.00	-
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	"	"	21.28	-
Brain Professional Private Trust No.4	"	"	27.49	-
Hanhwa US Equity Strategy Private Real Estate Fund No.1	"	"	44.84	-
Brain KS Qualified Privately Placed Fund No.6	"	"	50.00	-
M360 CRE Income Fund	USA	"	42.83	-
BNP Paribas Cardif General Insurance(*1),(*2)	Korea	September 30	10.00	10.00
SHBNPP Private Korea Equity Long-Short Professional Feeder(*10)	"	December 31	15.88	29.24
SHBNPP Private Multi Strategy Professional Feeder No.1	"	"	29.55	-
Shinhan-Stonebridge Petro PEF(*7)	"	"	1.82	1.82

16. Investments in associates (continued)

- (*1) Financial statements as of September 30, 2016 were used for the equity method since the financial statements as of December 31, 2016 were not available. Significant trades and events occurred within the period were properly reflected.
- (*2) The Group applies the equity method accounting as the Group has significant influence on the financial and operating policies of the investee through the ability to elect investees' board members and representation in decision making bodies of the investee.
- (*3) The Group has a significant influence on the investees through important business transactions.
- (*4) UAMCO., Ltd. and SH RENTAL SERVICE were reclassified as available-for-sale financial assets from investments in associates due to loss of significant influence and Kukdong Engineering & Construction Co., LTD reduced its capital stock without any refund.
- (*5) The shares of the investees were acquired by debt-equity swap. The Group reclassified available-for-sale financial assets to investments in associates as the reorganization procedures were completed and now the Group can normally exercise its voting rights to the investees.
- (*6) Although the ownership interests in JAEYOUNG SOLUTEC CO., LTD. were less than 15%, the Group used the equity method as the Group has significant influence on the entity's financial and operating policy decisions.
- (*7) As a managing partner, the Group has a significant influence over the investees.
- (*8) As a limited partner, the Group does not have ability to participate in policy-making processes to obtain economic benefit from the investees that would allow the Group to control the entity.
- (*9) OCEAN SUCCESS SHIPPING LIMITED, SHC-EN Fund and BNH-CJ Bio Healthcare Fund were liquidated.
- (*10) Although the ownership interests in SHBNPP Private Korea Equity Long-Short Professional Feeder were less than 20%, the Group has significant influence on the entity as the investment manager.
- (*11) The latest financial statements were used for the equity method since the financial statements as of December 31, 2016 were not available. Significant trades and events occurred within the period were properly reflected.
- (*12) KCLAVIS Meister Fund No.11 was invested and divested in 2016.
- (*13) The material associates, BNP Paribas Cardif Life Insurance engages in life insurance business, Aju Capital Co., Ltd. provides installment loans and leasing services and UAMCO., Ltd. engages in the business of the establishment of asset-backed securitization vehicles and investments in equity or asset-backed securities.

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16. Investments in associates (continued)

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

Investees	2016					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
BNP Paribas Cardif Life Insurance ₩	57,280	-	(2,495)	5,428	-	60,213
Aju Capital Co., Ltd.(*1)	34,444	(2,588)	9,038	(58)	-	40,836
UAMCO., Ltd.	125,822	(128,827)	2,882	123	-	-
Pohang TechnoPark 2PFV	1,976	-	(1)	-	-	1,975
Daewontos Co., Ltd.(*3)	-	-	-	-	-	-
Inhee Co., Ltd.	254	-	(39)	-	-	215
DAEGY Electrical Construction Co., LTD.	149	-	(21)	-	-	128
Kukdong Engineering & Construction Co., LTD	-	3,478	-	(3,478)	-	-
YEONWOONG SYSTEM	106	-	(29)	-	-	77
DOODOO LOGITECH	384	-	(137)	-	-	247
Neoplux Technology Valuation Investment Fund	1,993	4,768	765	-	-	7,526
EQP Global Energy Infrastructure Private Equity Fund(*3)	-	105	(105)	-	-	-
JAERYOUNG SOLUTEC CO., LTD.(*2)	6,238	-	(504)	2	-	5,736
Partners 4th Growth Investment Fund	1,800	3,080	(325)	-	-	4,555
PSA 1st Fintech Private Equity Fund	2,000	500	(44)	-	-	2,456
KTB Newlake Global Healthcare PEF	-	1,383	(215)	-	-	1,168
JAERYANG INDUSTRY(*3)	-	-	-	-	-	-
Tigris-Aurum Fund I	-	1,500	(19)	-	-	1,481
Treenkid	-	92	(13)	-	-	79
Chungyoung INC	-	-	-	-	-	-
Semantic	-	249	-	-	-	249
DAEKWANG SEMICONDUCTOR CO., LTD.	-	4,776	-	-	-	4,776
Branbuil CO., LTD.	-	183	(183)	-	-	-
SHC-IMM New Growth Fund	3,175	(1,189)	309	-	-	2,295
QCP New Technology Fund 20th	2	-	-	-	-	2
STI-New Growth Engines Investment Partnership	2,763	(1,100)	643	(333)	-	1,973
Shinhan K2 Secondary Fund	2,576	(2,063)	863	(438)	-	938
TS2013-6 M&A Investment Fund	2,116	(213)	(29)	-	-	1,874
Dream High Fund III	1,556	-	171	1,417	-	3,144
OCEAN SUCCESS SHIPPING LIMITED	1,228	(1,592)	443	(79)	-	-
SHC-EN Fund	4,312	(4,942)	630	-	-	-
SP New Technology Business investment Fund I	1,974	-	(20)	-	-	1,954
Albatross Growth Fund	3,341	(727)	347	(1,389)	-	1,572
Asia Pacific No.39 Ship Investment Co., Ltd.	5,085	(837)	342	586	-	5,176

16. **Investments in associates (continued)**

Investees	2016					
	Beginning Balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
Midas Dong-A Snowball Venture Fund	₩ 1,202	-	56	-	-	1,258
IBKS-Shinhan Creative Economy New Technology Fund	148	74	37	-	-	259
SH RENTAL SERVICE	61	(62)	1	-	-	-
SM New Technology Business Investment Fund I	1,931	(50)	(35)	-	-	1,846
SHC-Aju 4th	2,000	(920)	322	683	-	2,085
KCLAVIS Meister Fund No.4	-	500	11	-	-	511
KCLAVIS Meister Fund No.5	-	500	(6)	-	-	494
KCLAVIS Meister Fund No.2	-	2,000	(16)	-	-	1,984
Midas Dong-A Snowball Venture Fund 2	-	1,825	(38)	-	-	1,787
EN-Tigris Fund 1	-	2,000	(29)	-	-	1,971
IBKS-Shinhan Creative Economy New Technology Fund II	-	90	-	-	-	90
KCLAVIS Meister Fund No.11	-	(16)	16	-	-	-
KCLAVIS Meister Fund No.10	-	1,000	(5)	-	-	995
KCLAVIS Meister Fund No.9	-	500	(32)	-	-	468
KCLAVIS Meister Fund No.14	-	500	(1)	-	-	499
KCLAVIS Meister Fund No.17	-	3,000	(11)	-	-	2,989
SG No.9 Corporate Recovery Private Equity Fund	-	3,886	96	-	-	3,982
Plutus-SG Private Equity Fund	-	4,338	(39)	-	-	4,299
SG ARGES Private Equity Fund No.1	-	8,955	21	-	-	8,976
OST Progress- 2 Fund	-	1,500	(40)	-	-	1,460
Eum Private Equity Fund No.3	-	5,982	(49)	-	-	5,933
APC Fund	33,715	(4,419)	(7,506)	(2,872)	(7,339)	11,579
BNH-CJ Bio Healthcare Fund	9,095	(12,892)	3,797	-	-	-
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	28,010	(28,631)	1,085	-	-	464
Shinhan Praxis K-Growth Global Private Equity Fund	8,614	4,624	(205)	500	-	13,533
Credian Healthcare Private Equity Fund II	-	4,148	(61)	-	-	4,087
Kiwoom Milestone Professional Private Real Estate Trust 19	-	10,944	(183)	-	-	10,761
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	-	19,144	461	1,632	-	21,237
Brain Professional Private Trust No.4	-	5,000	316	-	-	5,316
Hanhwa US Equity Strategy Private Real Estate Fund No.1	-	25,000	747	17	-	25,764
Brain KS Qualified Privately Placed Fund No.6	-	5,001	(13)	(92)	-	4,896
M360 CRE Income Fund	-	22,992	-	175	-	23,167
BNP Paribas Cardif General Insurance	1,739	2,045	(1,189)	(11)	-	2,584

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16. Investments in associates (continued)

Investees	2016					
	Beginning Balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
SHBNPP Private Korea Equity Long-Short Professional Feeder	₩ 28,076	(13,467)	(429)	-	-	14,180
SHBNPP Private Multi Strategy Professional Feeder No.1	-	5,000	14	-	-	5,014
Shinhan-Stonebridge Petro PEF	17,841	(2)	648	-	-	18,487
	₩ 393,006	(43,875)	9,995	1,813	(7,339)	353,600

(*1) The market value of the investment is ₩51,543 million as of December 31, 2016 based on the quoted market price.

(*2) The market value of the investment is ₩10,466 million as of December 31, 2016 based on the quoted market price.

(*3) The Group has stopped recognizing its equity method income or loss due to the investees' cumulative loss.

16. Investments in associates (continued)

Investees	2015					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
BNP Paribas Cardif Life Insurance ₩	56,776	-	(3,253)	3,757	-	57,280
Aju Capital Co., Ltd.(*1)	30,426	(1,849)	6,280	(413)	-	34,444
UAMCO., Ltd.	114,238	-	11,632	(48)	-	125,822
Pohang TechnoPark 2PFV	1,977	-	(1)	-	-	1,976
Daewontos Co., Ltd.(*3)	-	-	-	-	-	-
Inhee Co., Ltd.	531	-	(277)	-	-	254
DAEGY Electrical Construction.,LTD.	44	-	105	-	-	149
Kukdong Engineering & Construction CO., LTD.	7,158	-	(1,556)	3,422	(9,024)	-
YEONWOONG SYSTEM	-	-	106	-	-	106
DOODOO LOGITECH	-	-	384	-	-	384
Neoplux Technology Valuation Investment Fund	-	2,000	(7)	-	-	1,993
EQP Global Energy Infrastructure Private Equity Fund	-	174	(174)	-	-	-
JAEYOUNG SOLUTECH CO., LTD.(*2)	-	6,238	-	-	-	6,238
Partners 4th Growth Investment Fund	-	1,800	-	-	-	1,800
PSA 1st Fintech Private Equity Fund	-	2,000	-	-	-	2,000
BANK METRO EXPRESS	-	(207)	207	-	-	-
SHC-IMM New Growth Fund	8,948	(7,328)	1,555	-	-	3,175
QCP New Technology Fund 20th	270	(121)	(147)	-	-	2
Miraeasset 3rd Investment Fund	4,022	(4,468)	1,154	(708)	-	-
STI New Growth Engine Investment Fund	2,458	-	(28)	333	-	2,763
Shinhan K2 Secondary Fund	3,006	(1,954)	1,147	377	-	2,576
TS2013-6 M&A Investment Fund	1,581	(174)	(213)	922	-	2,116
KDB Daewoo Ruby PEF	7,704	(8,177)	473	-	-	-
Dream High Fund III	2,963	(2,283)	995	(119)	-	1,556
Haejin Shipping Co., Ltd.	1,035	-	107	86	-	1,228
SHC-EN Fund	3,992	-	320	-	-	4,312
SP New Technology Business investment Fund I	1,999	-	(25)	-	-	1,974
Albatross Growth Fund	1,200	-	(14)	2,155	-	3,341
Asia Pacific No.39 Ship Investment Co., Ltd.	-	5,355	332	(602)	-	5,085
Midas Dong-A Snowball Venture Fund	-	1,200	2	-	-	1,202
IBKS-Shinhan Creative Economy New Technology Fund	-	150	(2)	-	-	148
SH Rental Service	-	100	(39)	-	-	61
SM New Technology Business Investment Fund I	-	1,962	(31)	-	-	1,931

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16. Investments in associates (continued)

Investees	2015					
	Beginning Balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
AJU-SHC WIN-WIN COMPANY FUND 4	₩ -	2,000	-	-	-	2,000
APC Fund	35,139	(571)	(6,199)	5,346	-	33,715
BNH-CJ Bio Healthcare Fund	5,072	(826)	4,849	-	-	9,095
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	28,000	(1,895)	1,905	-	-	28,010
Arkone Asia Access Offshore Feeder Fund Limited	5,013	(5,566)	919	(366)	-	-
Shinhan Praxis K-Growth Global Private Equity Fund	-	8,780	(166)	-	-	8,614
BNP Paribas Cardif General Insurance	1,295	728	(277)	(7)	-	1,739
SHBNPP Private Korea Equity Long-Short Professional Feeder	-	27,984	92	-	-	28,076
Shinhan-Stonebridge Petro PEF	17,029	(4)	816	-	-	17,841
	₩ 341,876	25,048	20,971	14,135	(9,024)	393,006

(*1) The market value of the investment is ₩47,550 million as of December 31, 2015 based on the quoted market price.

(*2) The market value of the investment is ₩10,409 million as of December 31, 2015 based on the quoted market price.

(*3) The Group has stopped recognizing its equity method income or loss due to the investees' cumulative loss.

16. Investments in associates (continued)

(c) Condensed statement of financial position information of associates as of December 31, 2016 and 2015 are as follows:

Investees	2016		2015	
	Asset	Liability	Asset	Liability
BNP Paribas Cardif Life Insurance	₩ 4,182,208	3,779,257	4,128,588	3,745,119
Aju Capital Co., Ltd.	6,543,737	5,744,415	6,906,603	6,155,236
UAMCO., Ltd.	-	-	4,068,354	3,331,647
Pohang TechnoPark 2PFV	14,660	1,401	14,664	1,401
Daewontos Co., Ltd.	399	2,492	1,952	3,420
Inhee Co., Ltd.	10,713	9,310	11,237	9,582
DAEGY Electrical Construction Co., LTD.	659	191	1,051	508
Kukdong Engineering & Construction Co., LTD	-	-	278,497	233,376
YEONWOONG SYSTEM	497	146	1,040	554
DOODOO LOGITECH	891	6	1,418	44
Neoplux Technology Valuation Investment Fund	22,577	-	6,000	22
EQP Global Energy Infrastructure Private Equity Fund	1	1,376	2	467
JAEYOUNG SOLUTEC CO., LTD.	155,368	120,184	161,439	126,297
Partners 4th Growth Investment Fund	18,478	257	7,200	-
PSA 1st Fintech Private Equity Fund	9,825	-	10,000	-
KTB Newlake Global Healthcare PEF	3,805	478	-	-
JAEYANG INDUSTRY	2,146	4,717	-	-
Tigris-Aurum Fund I	5,431	-	-	-
Treenkid	1,193	859	-	-
Chungyoung INC	2,341	6,753	-	-
Semantic	3,098	1,804	-	-
DAEKWANG SEMICONDUCTOR CO., LTD.	35,204	12,392	-	-
Branbuil CO., LTD.	2,177	2,870	-	-
SHC-IMM New Growth Fund	3,675	117	5,156	235
QCP New Technology Fund 20th	5	-	5	-
STI-New Growth Engines Investment Partnership	3,945	-	5,646	120
Shinhan K2 Secondary Fund	8,894	172	24,332	366
TS2013-6 M&A Investment Fund	7,651	151	8,542	76
Dream High Fund III	5,765	-	2,854	-
OCEAN SUCCESS SHIPPING LIMITED	-	-	5,106	(6)
SHC-EN Fund	-	-	9,918	2
SP New Technology Business investment Fund I	8,418	20	8,505	21
Albatross Growth Fund	5,237	915	9,202	15
Asia Pacific No.39 Ship Investment Co., Ltd.	10,379	28	10,225	54
Midas Dong-A Snowball Venture Fund	2,379	19	2,255	-
IBKS-Shinhan Creative Economy New Technology Fund	5,201	13	2,963	-
SH RENTAL SERVICE	-	-	1,280	977
SM New Technology Business Investment Fund I	5,083	3	5,314	2
SHC-Aju 4th	9,508	18	9,102	-
KCLAVIS Meister Fund No.4	2,583	30	-	-
KCLAVIS Meister Fund No.5	2,150	26	-	-
KCLAVIS Meister Fund No.2	5,150	42	-	-
Midas Dong-A Snowball Venture Fund 2	7,199	50	-	-
EN-Tigris Fund 1	4,140	1	-	-

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16. Investments in associates (continued)

Investees	2016		2015	
	Asset	Liability	Asset	Liability
IBKS-Shinhan Creative Economy New Technology Fund II	₩ 1,979	8	-	-
KCLAVIS Meister Fund No.11	-	-	-	-
KCLAVIS Meister Fund No.10	4,714	37	-	-
KCLAVIS Meister Fund No.9	1,362	6	-	-
KCLAVIS Meister Fund No.14	1,507	9	-	-
KCLAVIS Meister Fund No.17	11,500	42	-	-
SG No.9 Corporate Recovery Private Equity Fund	15,069	38	-	-
Plutus-SG Private Equity Fund	16,188	68	-	-
SG ARGES Private Equity Fund No.1	37,392	91	-	-
OST Progress- 2 Fund	5,437	150	-	-
Eum Private Equity Fund No.3	28,584	4	-	-
APC Fund	46,043	65	134,025	138
BNH-CJ Bio Healthcare Fund	-	-	34,104	-
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	928	1	56,022	1
Shinhan Praxis K-Growth Global Private Equity Fund	72,075	350	46,000	347
Credian Healthcare Private Equity Fund II	12,040	47	-	-
Kiwoom Milestone Professional Private Real Estate Trust 19	57,692	36,169	-	-
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	99,794	3	-	-
Brain Professional Private Trust No.4	19,384	46	-	-
Hanhwa US Equity Strategy Private Real Estate Fund No.1	59,781	2,327	-	-
Brain KS Qualified Privately Placed Fund No.6	9,794	1	-	-
M360 CRE Income Fund	60,261	6,167	-	-
BNP Paribas Cardif General Insurance	40,581	14,742	31,213	13,817
SHBNPP Private Korea Equity Long-Short Professional Feeder	105,775	16,519	98,123	3,384
SHBNPP Private Multi Strategy Professional Feeder No.1	20,325	3,340	-	-
Shinhan-Stonebridge Petro PEF	1,015,299	804	979,838	807
	₩ 12,856,274	9,771,547	17,087,775	13,628,029

16. Investments in associates (continued)

Condensed statement of comprehensive income information for years ended December 31, 2016 and 2015 were as follows:

Investees	2016			
	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
BNP Paribas Cardif Life Insurance ₩	144,583	(16,706)	36,189	19,483
Aju Capital Co., Ltd.	757,345	70,598	(458)	70,140
Pohang TechnoPark 2PFV	-	(4)	-	(4)
Daewontos Co., Ltd.	517	(624)	-	(624)
Inhee Co., Ltd.	3,135	(253)	-	(253)
DAEGY Electrical Construction Co., LTD.	-	(76)	-	(76)
YEONWOONG SYSTEM	25	(135)	-	(135)
DOODOO LOGITECH	213	(609)	-	(609)
Neoplux Technology Valuation Investment Fund	3,441	2,295	-	2,295
EQP Global Energy Infrastructure Private Equity Fund	-	(1,842)	-	(1,842)
JAEYOUNG SOLUTEC CO., LTD.	137,920	(7,095)	(614)	(7,709)
Partners 4th Growth Investment Fund	113	(1,300)	-	(1,300)
PSA 1st Fintech Private Equity Fund	-	(175)	-	(175)
KTB Newlake Global Healthcare PEF	-	(716)	-	(716)
JAEYANG INDUSTRY	212	(69)	-	(69)
Tigris-Aurum Fund I	-	(69)	-	(69)
Treenkid	325	(54)	-	(54)
Chungyoung INC(*2)	-	-	-	-
Semantic	-	-	-	-
DAEKWANG SEMICONDUCTOR CO., LTD.	-	-	-	-
Branbuil CO., LTD.(*2)	-	-	-	-
SHC-IMM New Growth Fund	855	479	-	479
QCP New Technology Fund 20th	-	-	-	-
STI-New Growth Engines Investment Partnership	-	1,285	(667)	618
Shinhan K2 Secondary Fund	15,284	8,019	(4,072)	3,947
TS2013-6 M&A Investment Fund	237	(115)	-	(115)
Dream Hlgh Fund III	535	313	2,597	2,910
SP New Technology Business investment Fund I	-	(87)	-	(87)
Albatross Growth Fund	1,024	957	(3,821)	(2,864)
Asia Pacific No.39 Ship Investment Co., Ltd.	730	681	1,172	1,853
Midas Dong-A Snowball Venture Fund	183	105	-	105
IBKS-Shinhan Creative Economy New Technology Fund	798	746	-	746
SM New Technology Business Investment Fund I	24	(95)	-	(95)
SHC-Aju 4th	1,565	1,466	3,111	4,577
KCLAVIS Meister Fund No.4	85	53	-	53
KCLAVIS Meister Fund No.5	-	(26)	-	(26)
KCLAVIS Meister Fund No.2	-	(42)	-	(42)
Midas Dong-A Snowball Venture Fund 2	1	(151)	-	(151)
EN-Tigris Fund 1	-	(61)	-	(61)
IBKS-Shinhan Creative Economy New Technology Fund II	13	(9)	-	(9)

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16. Investments in associates (continued)

Investees	2016			
	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
KCLAVIS Meister Fund No.10	₩ 20	(23)	-	(23)
KCLAVIS Meister Fund No.9	34	(95)	-	(95)
KCLAVIS Meister Fund No.14	7	(2)	-	(2)
KCLAVIS Meister Fund No.17	-	(42)	-	(42)
SG No.9 Corporate Recovery Private Equity Fund	-	428	-	428
Plutus-SG Private Equity Fund	5	(148)	-	(148)
SG ARGES Private Equity Fund No.1	-	87	-	87
OST Progress- 2 Fund	34	(143)	-	(143)
Eum Private Equity Fund No.3	85	(235)	-	(235)
APC Fund	-	(29,768)	(13,407)	(43,175)
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	2,170	2,170	-	2,170
Shinhan Praxis K-Growth Global Private Equity Fund	513	(1,084)	2,656	1,572
Credian Healthcare Private Equity Fund II	190	(180)	-	(180)
Kiwoom Milestone Professional Private Real Estate Trust 19	924	(367)	-	(367)
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	10,321	2,210	7,669	9,879
Brain Professional Private Trust No.4	2,158	1,148	-	1,148
Hanhwa US Equity Strategy Private Real Estate Fund No.1	5,199	1,667	37	1,704
Brain KS Qualified Privately Placed Fund No.6	1	(26)	(182)	(208)
M360 CRE Income Fund	-	-	-	-
BNP Paribas Cardif General Insurance	7,913	(9,432)	(39)	(9,471)
SHBNPP Private Korea Equity Long-Short Professional Feeder	25,736	(396)	-	(396)
SHBNPP Private Multi Strategy Professional Feeder No.1	4,510	70	-	70
Shinhan-Stonebridge Petro PEF	38,898	35,559	-	35,559
	₩ 1,167,881	58,082	30,171	88,253

16. **Investments in associates (continued)**

Investees	2015			
	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
BNP Paribas Cardif Life Insurance	₩ 481,472	(21,533)	25,039	3,506
Aju Capital Co., Ltd.	844,216	48,870	(3,191)	45,679
UAMCO., Ltd.	452,759	66,455	(276)	66,179
Pohang TechnoPark 2PFV	-	(4)	-	(4)
Daewontos Co., Ltd.	3,357	(263)	-	(263)
Inhee Co., Ltd.	3,921	(1,803)	-	(1,803)
DAEGY Electrical Construction Co., Ltd.	65	385	-	385
Kukdong Engineering & Construction Co., LTD.	269,079	(10,881)	(3,072)	(13,953)
YEONWOONG SYSTEM	59	12	-	12
DOODOO LOGITECH	65	(42)	-	(42)
Neoplux Technology Valuation Investment Fund	-	(22)	-	(22)
EQP Global Energy Infrastructure Private Equity Fund	-	(767)	-	(767)
JAEYOUNG SOLUTEC CO., LTD.	-	-	-	-
Partners 4th Growth Investment Fund	-	-	-	-
PSA 1st Fintech Private Equity Fund	-	-	-	-
SHC-IMM New Growth Fund	2,899	2,655	-	2,655
QCP New Technology Fund 20th	-	(312)	-	(312)
Miraeasset 3rd Investment Fund	5,753	2,376	(1,417)	959
STI New Growth Engine Investment Fund	-	(58)	667	609
Shinhan K2 Secondary Fund	11,376	10,658	3,510	14,168
TS2013-6 M&A Investment Fund	89	(234)	3,688	3,454
KDB Daewoo Ruby PEF	3,259	2,395	-	2,395
Dream High Fund III	1,945	1,825	(218)	1,607
Haejin Shipping Co., Ltd.	13	445	-	445
SHC-EN Fund	858	735	-	735
SP New Technology Business investment Fund I	-	(110)	-	(110)
Albatross Growth Fund	25	(38)	5,925	5,887
Asia Pacific No.39 Ship Investment Co., Ltd.	1,264	663	-	663
Midas Dong-A Snowball Venture Fund	66	5	-	5
IBKS-Shinhan Creative Economy New Technology Fund	2	(37)	-	(37)
SH Rental Service	297	21	-	21
SM New Technology Business Investment Fund I	19	(85)	-	(85)
Shinhan 2014-1 New Technology Business Investment Fund	-	(91)	(2,039)	(2,130)
AJU-SHC WIN-WIN COMPANY FUND 4	4	1	-	1
APC Fund	-	(24,604)	12,968	(11,636)
BNH-CJ Bio Healthcare Fund	18,531	18,313	-	18,313
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	3,885	3,800	-	3,800
Shinhan Praxis K-Growth Global Private Equity Fund	-	(880)	-	(880)
BNPParibas Cardif General Insurance	10,148	(10,481)	-	(10,481)
SHBNPP Private Korea Equity Long-Short Professional Feeder	24,657	2,967	-	2,967
Shinhan-Stonebridge Petro PEF	48,138	44,797	-	44,797
	₩ 2,188,221	135,133	41,584	176,717

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16. Investments in associates (continued)

(d) Reconciliation of the associates' financial information to the carrying value of the Group's investments in the associates as of December 31, 2016 and 2015 are as follow:

Investees	2016					
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
BNP Paribas Cardif Life Insurance	₩ 402,951	14.99	60,443	(230)	-	60,213
Aju Capital Co., Ltd.(*1)	749,882	12.85	96,365	-	(55,529)	40,836
Pohang TechnoPark 2PFV	13,259	14.90	1,975	-	-	1,975
Daewontos Co., Ltd.(*2)	(2,093)	36.33	(760)	-	760	-
Inhee Co., Ltd.	1,403	15.36	215	-	-	215
DAEGY Electrical Construction Co., LTD.	468	27.45	128	-	-	128
YEONWOONG SYSTEM	351	21.77	77	-	-	77
DOODOO LOGITECH	885	27.96	247	-	-	247
Neoplux Technology Valuation Investment Fund	22,577	33.33	7,526	-	-	7,526
EQP Global Energy Infrastructure Private Equity Fund(*2)	(1,375)	22.64	(311)	-	311	-
JAEYOUNG SOLUTEC CO., LTD.(*3)	34,147	10.45	3,567	-	2,169	5,736
Partners 4th Growth Investment Fund	18,221	25.00	4,555	-	-	4,555
PSA 1st Fintech Private Equity Fund	9,825	25.00	2,456	-	-	2,456
KTB Newlake Global Healthcare PEF(*4)	3,327	30.00	998	-	170	1,168
JAEYANG INDUSTRY(*5)	(2,571)	25.90	(666)	-	666	-
Tigris-Aurum Fund I	5,431	27.27	1,481	-	-	1,481
Treenkid	334	23.72	79	-	-	79
Chungyoung INC(*4)	(4,412)	18.94	(836)	-	836	-
Semantic	1,294	19.25	249	-	-	249
DAEKWANG SEMICONDUCTOR CO., LTD.	22,812	20.94	4,776	-	-	4,776
Branbuil CO., LTD.(*4)	(693)	15.53	(108)	-	108	-
SHC-IMM New Growth Fund	3,559	64.52	2,295	-	-	2,295
QCP New Technology Fund 20th	5	47.17	2	-	-	2
STI-New Growth Engines Investment Partnership	3,945	50.00	1,973	-	-	1,973
Shinhan K2 Secondary Fund	8,722	10.75	938	-	-	938
TS2013-6 M&A Investment Fund	7,500	25.00	1,874	-	-	1,874
Dream High Fund III	5,765	54.55	3,144	-	-	3,144
SP New Technology Business investment Fund I	8,398	23.26	1,954	-	-	1,954
Albatross Growth Fund	4,322	36.36	1,572	-	-	1,572
Asia Pacific No.39 Ship Investment Co., Ltd.	10,351	50.00	5,176	-	-	5,176
Midas Dong-A Snowball Venture Fund	2,360	53.33	1,258	-	-	1,258
IBKS-Shinhan Creative Economy New Technology Fund	5,188	5.00	259	-	-	259
SM New Technology Business Investment Fund I	5,080	36.36	1,846	-	-	1,846

16. Investments in associates (continued)

Investees	2016					
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying value
SHC-Aju 4th	₩ 9,490	21.98	2,085	-	-	2,085
KCLAVIS Meister Fund No.4	2,553	20.00	511	-	-	511
KCLAVIS Meister Fund No.5	2,124	23.26	494	-	-	494
KCLAVIS Meister Fund No.2	5,108	38.83	1,984	-	-	1,984
Midas Dong-A Snowball Venture Fund 2	7,149	25.00	1,787	-	-	1,787
EN-Tigris Fund 1	4,139	47.62	1,971	-	-	1,971
SM New Technology Business Investment Fund II	1,971	4.55	90	-	-	90
KCLAVIS Meister Fund No.10	4,677	21.28	995	-	-	995
KCLAVIS Meister Fund No.9	1,356	34.48	468	-	-	468
KCLAVIS Meister Fund No.14	1,498	33.33	499	-	-	499
KCLAVIS Meister Fund No.17	11,458	26.09	2,989	-	-	2,989
SG No.9 Corporate Recovery Private Equity Fund	15,031	26.49	3,982	-	-	3,982
Plutus-SG Private Equity Fund	16,120	26.67	4,299	-	-	4,299
SG ARGES Private Equity Fund No.1	37,301	24.06	8,976	-	-	8,976
OST Progress- 2 Fund	5,287	27.62	1,460	-	-	1,460
Eum Private Equity Fund No.3	28,580	20.76	5,933	-	-	5,933
APC Fund	45,978	25.18	11,579	-	-	11,579
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	927	50.00	464	-	-	464
Shinhan Praxis K-Growth Global Private Equity Fund	71,725	18.87	13,533	-	-	13,533
Credian Healthcare Private Equity Fund II	11,993	34.07	4,087	-	-	4,087
Kiwoom Milestone Professional Private Real Estate Trust 19	21,523	50.00	10,761	-	-	10,761
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	99,791	21.28	21,237	-	-	21,237
Brain Professional Private Trust No.4	19,338	27.49	5,316	-	-	5,316
Hanhwa US Equity Strategy Private Real Estate Fund No.1	57,454	44.84	25,764	-	-	25,764
Brain KS Qualified Privately Placed Fund No.6	9,793	50.00	4,896	-	-	4,896
M360 CRE Income Fund	54,094	42.83	23,167	-	-	23,167
BNP Paribas Cardif General Insurance	25,839	10.00	2,584	-	-	2,584
SHBNPP Private Korea Equity Long-Short Professional Feeder	89,256	15.88	14,180	-	-	14,180
SHBNPP Private Multi Strategy Professional Feeder No.1	16,985	29.55	5,014	-	-	5,014
Shinhan-Stonebridge Petro PEF	1,014,495	1.82	18,487	-	-	18,487
	₩ 3,034,251		404,339	(230)	(50,509)	353,600

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16. Investments in associates (continued)

- (*1) Net assets do not include non-controlling interests and other adjustments represent the cumulative impairment.
- (*2) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero.
- (*3) Net assets do not include non-controlling interests; and other adjustments represent the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date and the cumulative impairment.
- (*4) Other adjustments represent the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.
- (*5) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero and the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.

16. Investments in associates (continued)

Investees	2015					
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
BNP Paribas Cardif Life Insurance ₩	383,468	14.99	57,520	(240)	-	57,280
Aju Capital Co., Ltd.(*1)	700,147	12.85	89,969	-	(55,525)	34,444
UAMCO., Ltd.(*2)	718,983	17.50	125,822	-	-	125,822
Pohang TechnoPark 2PFV	13,264	14.90	1,976	-	-	1,976
Daewontos Co., Ltd.(*3)	(1,469)	36.33	(534)	-	534	-
Inhee Co., Ltd.	1,655	15.36	254	-	-	254
DAEGY Electrical Construction Co., Ltd.	544	27.45	149	-	-	149
Kukdong Engineering & Construction Co., LTD.(*4)	46,376	14.30	6,630	-	(6,630)	-
YEONWOONG SYSTEM	486	21.77	106	-	-	106
DOODOO LOGITECH	1,374	27.96	384	-	-	384
Neoplux Technology Valuation Investment Fund	5,978	33.33	1,993	-	-	1,993
EQP Global Energy Infrastructure Private Equity Fund(*3)	(464)	22.64	(105)	-	105	-
JAHEYOUNG SOLUTECH CO., LTD.(*5)	34,193	11.90	4,069	-	2,169	6,238
Partners 4th Growth Investment Fund	7,200	25.00	1,800	-	-	1,800
PSA 1st Fintech Private Equity Fund	10,000	20.00	2,000	-	-	2,000
SHC-IMM New Growth Fund	4,921	64.52	3,175	-	-	3,175
QCP New Technology Fund 20th	5	47.17	2	-	-	2
STI New Growth Engine Investment Fund	5,526	50.00	2,763	-	-	2,763
Shinhan K2 Secondary Fund	23,966	10.75	2,576	-	-	2,576
TS2013-6 M&A Investment Fund	8,466	25.00	2,116	-	-	2,116
Dream High Fund III	2,854	54.55	1,556	-	-	1,556
Haejin Shipping Co., Ltd.	5,112	24.00	1,228	-	-	1,228
SHC-EN Fund	9,916	43.48	4,312	-	-	4,312
SP New Technology Business investment Fund I	8,484	23.26	1,974	-	-	1,974
Albatross Growth Fund	9,187	36.36	3,341	-	-	3,341
Asia Pacific No.39 Ship Investment Co., Ltd.	10,171	50.00	5,085	-	-	5,085
Midas Dong-A Snowball Venture Fund	2,255	53.33	1,202	-	-	1,202
IBKS-Shinhan Creative Economy New Technology Fund	2,963	5.00	148	-	-	148
SH Rental Service	303	20.00	61	-	-	61
SM New Technology Business Investment Fund I	5,312	36.36	1,931	-	-	1,931
AJU-SHC WIN-WIN COMPANY FUND 4	9,100	21.98	2,000	-	-	2,000
APC Fund	133,887	25.18	33,715	-	-	33,715
BNH-CJ Bio Healthcare Fund	34,104	26.67	9,095	-	-	9,095

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16. Investments in associates (continued)

Investees	2015					
	Net assets (a)	Ownership (%) (b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying value
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2 nd	56,021	50.00	28,010	-	-	28,010
Shinhan Praxis K-Growth Global Private Equity Fund	45,653	18.87	8,614	-	-	8,614
BNPParibas Cardif General Insurance	17,396	10.00	1,739	-	-	1,739
SHBNPP Private Korea Equity Long-Short Professional Feeder	94,739	29.24	28,076	-	-	28,076
Shinhan-Stonebridge Petro PEF	979,031	1.82	17,841	-	-	17,841
	<u>₩ 3,391,107</u>		<u>452,593</u>	<u>(240)</u>	<u>(59,347)</u>	<u>393,006</u>

(*1) Net assets do not include non-controlling interests and other adjustments represent the cumulative impairment loss and unequal dividends from investee.

(*2) Net assets do not include non-controlling interests.

(*3) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero.

(*4) Other adjustments represent an impairment loss, ₩9,024 million and the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date, ₩2,394 million.

(*5) Net assets do not include non-controlling interests and other adjustments represent the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.

(e) The unrecognized equity method losses for the year ended December 31, 2016 and the cumulative unrecognized equity method losses as of December 31, 2016 are as follows:

Investees	2016	
	Unrecognized equity method losses	Cumulative unrecognized equity method losses
Daewontos Co., Ltd.	₩ (226)	(760)
EQP Global Energy Infrastructure Private Equity Fund	(311)	(311)
JAERYANG INDUSTRY	(18)	(18)
	<u>₩ (555)</u>	<u>(1,089)</u>

17. Investment properties, net

(a) Investment properties as of December 31, 2016 and 2015 are as follows:

	2016	2015
Acquisition cost	₩ 438,004	266,893
Accumulated depreciation	(84,829)	(58,176)
Book value	₩ <u>353,175</u>	<u>208,717</u>

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

	2016	2015
Beginning balance	₩ 208,717	267,529
Acquisitions	175,835	10,336
Disposals	(20,479)	(53,347)
Depreciation	(19,588)	(13,117)
Amounts transferred from (to) property and equipment	10,898	(3,122)
Amounts transferred to assets held for sale(*)	(2,200)	-
Foreign currency adjustment	(8)	438
Ending balance	₩ <u>353,175</u>	<u>208,717</u>

(*) Comprise land and buildings, etc.

(c) Income and expenses on investment property for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Rental income	₩ 27,852	30,876
Direct operating expenses for investment properties that generated rental income	9,384	9,434

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

	2016	2015
Land and buildings(*)	₩ 1,127,262	1,016,736

(*) Fair value of investment properties is estimated based on the recent market transactions and certain significant unobservable inputs. Accordingly, fair value of investment properties is classified as level 3.

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18. Other assets, net

Other assets as of December 31, 2016 and 2015 are as follows:

	2016	2015
Accounts receivable	₩ 5,333,459	7,034,582
Domestic exchange settlement debit	6,123,196	2,391,014
Guarantee deposits	1,167,045	1,214,199
Present value discount	(37,863)	(47,326)
Accrued income	1,342,009	1,250,507
Prepaid expense	115,583	132,153
Suspense payments	57,691	54,865
Sundry assets	58,347	55,369
Separate account assets	2,737,869	2,473,528
Advance payments	280,301	325,933
Unamortized deferred acquisition cost	975,365	1,042,788
Other	66,592	85,321
Allowances for impairment	(51,186)	(67,006)
	₩ <u>18,168,408</u>	<u>15,945,927</u>

19. Leases

(a) Finance lease receivables of the Group as lessor as of December 31, 2016 and 2015 are as follows:

2016				
	<u>Gross investment</u>	<u>Unearned finance income</u>	<u>Present value of minimum lease payment</u>	<u>Unguaranteed residual value</u>
Not later than 1 year	₩ 760,468	73,129	687,339	-
1 ~ 5 years	1,181,663	72,813	1,108,850	-
Later than 5 years	20,172	16	20,156	-
	₩ 1,962,303	145,958	1,816,345	-

2015				
	<u>Gross investment</u>	<u>Unearned finance income</u>	<u>Present value of minimum lease payment</u>	<u>Unguaranteed residual value</u>
Not later than 1 year	₩ 774,939	127,756	647,183	-
1 ~ 5 years	1,294,374	79,795	1,214,579	-
Later than 5 years	13,728	28	13,700	-
	₩ 2,083,041	207,579	1,875,462	-

(b) The scheduled maturities of minimum lease payments of the Group as lessor as of December 31, 2016 and 2015 are as follows:

Operating leases

	<u>Minimum lease payment</u>	
	2016	2015
Not later than 1 year	₩ 14,992	17,816
1 ~ 5 years	11,062	14,644
	₩ 26,054	32,460

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

	<u>Minimum lease payment</u>	
	2016	2015
Not later than 1 year	₩ 179,057	199,139
1 ~ 5 years	162,683	232,718
Later than 5 years	3,720	3,873
	₩ 345,460	435,730

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20. Pledged assets

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

	<u>2016</u>	<u>2015</u>
Loans	₩ 76,432	364,971
Securities		
Trading assets	10,761,284	6,969,235
Financial assets designated at fair value through profit or loss	580,837	211,411
Available-for-sale financial assets	2,290,029	1,615,430
Held-to-maturity financial assets	8,011,985	6,061,673
	<u>21,644,135</u>	<u>14,857,749</u>
Deposits	701,366	779,549
Real estate	61,711	10,330
Other assets	-	116,359
	<u>₩ 22,483,644</u>	<u>16,128,958</u>

The carrying amounts of asset pledged that the pledgees have the right to sell or repledge regardless of the Group's default as of December 31, 2016 and 2015 are ₩8,877,166 million and ₩7,545,051 million, respectively.

(b) The fair value of collateral held that the Group has the right to sell or repledge regardless of pledger's default as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	
	Collateral held	Collateral sold or repledged
Securities	₩ 11,417,208	-
Others	200	-
	<u>2015</u>	
	Collateral held	Collateral sold or repledged
Securities	₩ 12,104,793	-
Others	270,100	-

21. Deposits

Deposits as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Demand deposits	₩ 93,632,192	83,639,042
Time deposits	126,325,628	122,918,419
Negotiable certificates of deposits	6,478,626	4,579,112
Note discount deposits	4,581,276	3,018,551
CMA(*)	2,473,048	2,280,816
Others	1,647,188	1,240,488
	<u>₩ 235,137,958</u>	<u>217,676,428</u>

(*) CMA: Cash management account deposits

22. Trading liabilities

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

	<u>2016</u>	<u>2015</u>
Securities sold:		
Equity	₩ 581,625	631,514
Debt	815,383	977,545
Others	93,757	72,726
	<u>1,490,765</u>	<u>1,681,785</u>
Gold deposits	485,995	453,605
	<u>₩ 1,976,760</u>	<u>2,135,390</u>

23. Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>	<u>Reason for designation</u>
Deposits	₩ 6,282	13,509	Combined instrument
Equity-linked securities sold	7,024,194	6,721,344	Combined instrument
Derivatives-combined securities sold	2,193,032	2,094,947	Combined instrument
Securities sold	10,134	86,532	Evaluation and management on a fair value basis
	<u>₩ 9,233,642</u>	<u>8,916,332</u>	

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24. Borrowings

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

	2016	
	Interest rate (%)	Amount
Borrowings in won:		
Borrowings from Bank of Korea	0.50~0.75	₩ 2,669,027
Others	0.00~5.00	7,582,778
		<u>10,251,805</u>
Borrowings in foreign currency:		
Overdraft due to banks	0.00	152,589
Borrowings from banks	0.24~3.95	3,717,391
Others	1.02~1.86	1,947,650
		<u>5,817,630</u>
Call money	0.10~10.00	1,130,476
Bills sold	0.65~1.52	12,427
Bonds sold under repurchase agreements	0.30~6.29	8,082,626
Bond issuance costs		(723)
		<u>₩ 25,294,241</u>
	2015	
	Interest rate (%)	Amount
Borrowings in won:		
Borrowings from Bank of Korea	0.50~0.75	₩ 2,001,467
Others	0.00~4.35	5,760,512
		<u>7,761,979</u>
Borrowings in foreign currency:		
Overdraft due to banks	0.00~0.76	180,640
Borrowings from banks	0.10~7.95	4,342,989
Others	0.47~1.18	2,088,665
		<u>6,612,294</u>
Call money	0.32~7.00	643,414
Bills sold	0.75~2.00	24,803
Bonds sold under repurchase agreements	0.69~3.49	6,621,251
Due to Bank of Korea in foreign currency	0.10	71,809
Bond issuance costs		(1,685)
		<u>₩ 21,733,865</u>

25. Debt securities issued

Debt securities issued as of December 31, 2016 and 2015 are as follows:

	2016	
	Interest rate (%)	Amount
Debt securities issued in won:		
Debt securities issued	0.00~8.00	₩ 33,838,495
Subordinated debt securities issued	2.20~4.69	3,991,056
Loss on fair value hedges		(147,208)
Bond issuance cost		(38,178)
		<u>37,644,165</u>
Debt securities issued in foreign currencies:		
Debt securities issued	0.03~4.38	5,526,809
Subordinated debt securities issued	3.88	1,189,067
Loss on fair value hedges		(9,977)
Bond issuance cost		(23,279)
		<u>6,682,620</u>
		<u>₩ 44,326,785</u>
	2015	
	Interest rate (%)	Amount
Debt securities issued in won:		
Debt securities issued	0.00~8.00	₩ 31,019,830
Subordinated debt securities issued	2.72~5.10	3,940,808
Loss on fair value hedges		(52,579)
Bond issuance cost		(55,288)
		<u>34,852,771</u>
Debt securities issued in foreign currencies:		
Debt securities issued	0.32~4.38	6,361,471
Gain on fair value hedges		25,983
Bond issuance cost		(18,941)
		<u>6,368,513</u>
		<u>₩ 41,221,284</u>

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26. Employee benefits

(a) Defined benefit plan assets and liabilities

Defined benefit plan assets and liabilities as of December 31, 2016 and 2015 are as follows:

		<u>2016</u>	<u>2015</u>
Present value of defined benefit obligations	₩	1,689,980	1,567,898
Fair value of plan assets		(1,559,101)	(1,341,768)
Recognized liabilities for defined benefit obligations	₩	<u>130,879</u>	<u>226,130</u>

(b) Changes in the present value of defined benefit obligation and plan assets for the years ended December 31, 2016 and 2015 were as follows:

		<u>2016</u>		
		Defined benefit obligation	Plan assets	Net defined benefit liability
Beginning balance	₩	1,567,898	(1,341,768)	226,130
Included in profit or loss:				
Current service cost		179,811	-	179,811
Past service cost		-	-	-
Interest expense (income)		50,892	(44,773)	6,119
		<u>230,703</u>	<u>(44,773)</u>	<u>185,930</u>
Included in other comprehensive income:				
Remeasurement loss (gain):				
- Actuarial gains (losses) arising from :				
Demographic assumptions		2,344	-	2,344
Financial assumptions		(297)	-	(297)
Experience adjustment		(41,538)	-	(41,538)
- Return on plan assets excluding interest income		-	19,448	19,448
		<u>(39,491)</u>	<u>19,448</u>	<u>(20,043)</u>
Other:				
Benefits paid by the plan		(75,719)	62,350	(13,369)
Contributions paid into the plan		-	(254,413)	(254,413)
Succession from associates		6,280	55	6,335
Change in subsidiaries		250	-	250
Effect of movements in exchange rates		59	-	59
		<u>(69,130)</u>	<u>(192,008)</u>	<u>(261,138)</u>
Ending balance	₩	<u>1,689,980</u>	<u>(1,559,101)</u>	<u>130,879</u>

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

26. Employee benefits (continued)

	2015		
	Defined benefit obligation	Plan assets	Net defined benefit liability
Beginning balance	₩ 1,346,881	(1,037,424)	309,457
Included in profit or loss:			
Current service cost	161,539	-	161,539
Past service cost	-	-	-
Interest expense (income)	50,950	(41,121)	9,829
	<u>212,489</u>	<u>(41,121)</u>	<u>171,368</u>
Included in other comprehensive income:			
Remeasurement loss (gain):			
- Actuarial gains (losses) arising from :			
Demographic assumptions	(21,329)	-	(21,329)
Financial assumptions	142,484	-	142,484
Experience adjustment	(30,428)	-	(30,428)
- Return on plan assets excluding interest income	-	18,396	18,396
	<u>90,727</u>	<u>18,396</u>	<u>109,123</u>
Other:			
Benefits paid by the plan	(71,964)	53,465	(18,499)
Contributions paid into the plan	-	(335,461)	(335,461)
Succession from associates	5,071	-	5,071
Change in subsidiaries	(15,403)	377	(15,026)
Effect of movements in exchange rates	97	-	97
	<u>(82,199)</u>	<u>(281,619)</u>	<u>(363,818)</u>
Ending balance	₩ <u>1,567,898</u>	<u>(1,341,768)</u>	<u>226,130</u>

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

Notes to the Consolidated Financial Statements

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26. Employee benefits (continued)

(c) The composition of plan assets as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Plan assets comprise:		
Equity securities	₩ 126,348	92,316
Debt securities	32,838	15,823
Due from banks	1,363,942	1,184,300
Other	35,973	49,329
	<u>₩ 1,559,101</u>	<u>1,341,768</u>

(d) Actuarial assumptions as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>	<u>Description</u>
Discount rate	2.78%~3.40%	2.77%~3.53%	AA corporate bond yields
Future salary increase rate	2.50%~5.38%	2.68%~4.13%	Average for 5 years
	+ Upgrade rate	+ Upgrade rate	

(e) Sensitivity analysis

Reasonably possible changes as of December 31, 2016 to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	<u>Defined benefit obligation</u>	
	<u>Increase</u>	<u>Decrease</u>
Discount rate (1%p movement)	₩ 1,542,736	1,859,428
Future salary increase rate (1%p movement)	1,858,659	1,540,686

27. Provisions

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

	2016	2015
Asset retirement obligations	₩ 50,738	48,434
Expected loss related to litigation	34,471	25,945
Unused credit commitments	450,997	434,941
Bonus card points program	25,425	27,649
Financial guarantee contracts issued	79,238	81,374
Others	88,019	80,445
	<u>₩ 728,888</u>	<u>698,788</u>

(b) Changes in provisions for the years ended December 31, 2016 and 2015 were as follows:

		2016						
		Asset retirement	Litigation	Unused credit	Card point (*2)	Guarantee	Other	Total
Beginning balance	₩	48,434	25,945	434,941	27,649	81,374	80,445	698,788
Provision		2,714	11,387	15,419	51,745	3,887	25,174	110,326
Provision used		(2,647)	(3,226)	-	(54,300)	-	(17,649)	(77,822)
Foreign exchange translation		-	365	637	-	993	60	2,055
Others(*1)		2,237	-	-	331	(7,016)	(11)	(4,459)
Ending balance	₩	<u>50,738</u>	<u>34,471</u>	<u>450,997</u>	<u>25,425</u>	<u>79,238</u>	<u>88,019</u>	<u>728,888</u>

		2015						
		Asset retirement	Litigation	Unused credit	Card point (*2)	Guarantee	Other	Total
Beginning balance	₩	44,181	33,377	402,877	33,113	107,209	73,408	694,165
Provision (reversal)		1,671	(4,474)	31,476	43,975	(32,700)	24,149	64,097
Provision used		(1,215)	(3,686)	-	(49,439)	-	(16,625)	(70,965)
Foreign exchange translation		-	728	588	-	2,552	270	4,138
Others(*1)		3,797	-	-	-	4,313	(757)	7,353
Ending balance	₩	<u>48,434</u>	<u>25,945</u>	<u>434,941</u>	<u>27,649</u>	<u>81,374</u>	<u>80,445</u>	<u>698,788</u>

(*1) Others include the effects of decrease in discount and changes in discount rate.

(*2) Provisions for card point were classified as fees and commission expense.

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27. Provisions (continued)

(c) Asset retirement obligation liabilities represent the estimated cost to restore the existing leased properties which is discounted to the present value using the appropriate discount rate at the end of the reporting period. Disbursements of such costs are expected to incur at the end of lease contract. Such costs are reasonably estimated using the average lease year and the average restoration expenses. The average lease year is calculated based on the past ten-year historical data of the expired leases. The average restoration expense is calculated based on the actual costs incurred for the past three years using the three-year average inflation rate.

(d) Allowance for guarantees and acceptances as of December 31, 2016 and 2015 are as follows:

		<u>2016</u>	<u>2015</u>
Guarantees and acceptances outstanding	₩	9,324,734	10,110,330
Contingent guarantees and acceptances		2,997,553	3,036,301
ABS and ABCP purchase commitments		2,060,089	2,668,370
Endorsed bill		32,187	29,549
	₩	<u>14,414,563</u>	<u>15,844,550</u>
Allowance for loss on guarantees and acceptances	₩	79,238	81,374
Ratio	%	0.55	0.51

28. Liability under insurance contracts

(a) Insurance risk

Insurance risk, arising out of underwriting of insurance contract and benefit payment, means a risk in which the amount from an unexpected loss is larger than the premium amount. Insurance risk management aims to minimize risk, of benefit to be paid in excess of what was initially assumed at the time of pricing due to occurrence of an unusual occasion or change of economic environment.

The insurance products that the Group provides are life insurance products and can be categorized as individual insurance and group insurance with regard to the insured person. In group insurance contracts the insured person is an employee or member of an entity and the policy holder is either the entity or a representative of the entity. The group insurances comprise savings insurances and protection type insurances. The protection type insurance means an insurance in which the aggregate of the insurance proceeds payable upon survival under the base age condition, cases where a male at the full age of 40 purchases an insurance policy, shall not exceed insurance premiums already paid. The savings insurance means an insurance, other than a protection type insurance product, in which the aggregate of insurance proceeds payable upon survival may exceed insurance premiums already paid. Individual insurances comprise death insurances (in which the insurance event is death), pure endowment insurances (in which the insurance event is survival) and endowment insurances (in which the insurance event is both survival and death).

(b) Insurance risk management

Insurance risk management comprises acceptance and administration of insurance contracts, calculation and adjustment of premium rate, review and payment of claims, reinsurance and closing accounts. Each insurance component is managed by a department operating for the risk component.

The Risk Management Team and other related departments conduct preemptive risk management when they develop or revise an insurance product. Insurance risk is continuously improved through regularly reviewing experience rate analysis, insurance risk measurement, underwriting and claims inspection process after product selling.

28. Liability under insurance contracts (continued)

i) Underwriting

The Group reviews and improves the medical underwriting guideline based on the changes of medical environment. The Group reassesses and reinforces underwriting standards through profit and loss analysis over insurance contracts. Consultants are updated with the latest underwriting standards. The Group distributes underwriting manual for consultants to prevent mis-selling. Risk Management Supporting enhances the accuracy of the risk assessment over a subscribed insurance contract. It provides various risk information that are consistent and underwriting that is reasonable.

ii) Risk management through reinsurance

The Group cedes an insurance contract to reinsurer if risks of the contract need to be transferred or diversified to ensure claims payment ability and to maintain financial sustainability of the Group. To achieve the objectives of reinsurance activity, the Group runs reinsurance business efficiently by profit-loss analysis, cedes insurance contracts to reliable reinsurer and observes relevant regulations through the internal control system.

iii) Developing insurance product

When an insurance product is developed or revised, the Group prices insurance premium based on the analysis of expected and actual insurance risk difference and sensitivity to the risk factors. The Group also reviews the appropriateness of the premium and the profitability of the products through the historical loss experience analysis. The Group reviews compliance of risk management policy and appropriateness of expected profit-loss based on experience rate as a part of post selling risk management for a high risk product. Policy and underwriting standard of the product would be revised in line with the result of the review to improve insurance risk.

iv) Assessment of claims requests and payment

A standard process for accepting requests and claims payment is enacted to regulate the assessment process of claims requests. The Group pays reasonable benefit using insurance risk management system score, assessment process by types of claims and historical insurance loss experience analysis. The Group monitors deficiency of insurance policy through claim assessment process, and based on that, modifies insurance policies and contracts. The claims payment process is continuously improved reflecting the result of insurance event inspection process monitoring, internal audit and customer complaints etc.

(c) Insurance liabilities as of December 31, 2016 and 2015 are as follows:

	2016	2015
Policy reserve	₩ 22,366,865	20,041,489
Policyholder's equity adjustment	10,569	16,795
	<u>₩ 22,377,434</u>	<u>20,058,284</u>

(d) Policy reserve as of December 31, 2016 and 2015 are as follows:

	2016	2015
Interest rate linked	₩ 15,177,891	13,541,770
Fixed interest rate	7,188,974	6,499,719
	<u>₩ 22,366,865</u>	<u>20,041,489</u>

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28. Liability under insurance contracts (continued)

		2016							
		Individual insurance				Group insurance			
		Pure endowment	Death	Endowment	Subtotal	Pure protection	Savings	Subtotal	Total
Premium reserve	₩	4,848,027	9,451,671	6,958,191	21,257,889	37,777	297	38,074	21,295,963
Guarantee reserve		11,265	44,288	156	55,709	-	-	-	55,709
Unearned premium reserve		3	376	-	379	465	-	465	844
Reserve for outstanding claims		79,017	714,129	155,735	948,881	29,788	-	29,788	978,669
Interest rate difference guarantee reserve		1,882	163	13	2,058	-	-	-	2,058
Mortality gains reserve		6,212	5,275	222	11,709	4	-	4	11,713
Interest gains reserve		17,356	268	21	17,645	-	-	-	17,645
Long term duration dividend reserve		56	10	2	68	-	-	-	68
Reserve for policyholder's profit dividend		2,862	-	-	2,862	-	-	-	2,862
Reserve for losses on dividend insurance contract		1,334	-	-	1,334	-	-	-	1,334
	₩	4,968,014	10,216,180	7,114,340	22,298,534	68,034	297	68,331	22,366,865

		2015							
		Individual insurance				Group insurance			
		Pure endowment	Death	Endowment	Subtotal	Pure protection	Savings	Subtotal	Total
Premium reserve	₩	4,228,561	8,346,382	6,439,851	19,014,794	37,088	294	37,382	19,052,176
Guarantee reserve		11,212	30,927	167	42,306	-	-	-	42,306
Unearned premium reserve		3	454	-	457	531	-	531	988
Reserve for outstanding claims		65,059	666,320	149,891	881,270	28,644	-	28,644	909,914
Interest rate difference guarantee reserve		2,046	168	14	2,228	-	-	-	2,228
Mortality gains reserve		6,658	5,372	243	12,273	4	-	4	12,277
Interest gains reserve		16,340	271	22	16,633	-	-	-	16,633
Long term duration dividend reserve		60	10	2	72	-	-	-	72
Reserve for policyholder's profit dividend		2,898	-	-	2,898	-	-	-	2,898
Reserve for losses on dividend insurance contract		1,997	-	-	1,997	-	-	-	1,997
	₩	4,334,834	9,049,904	6,590,190	19,974,928	66,267	294	66,561	20,041,489

28. Liability under insurance contracts (continued)

(f) Reinsurance credit risk as of December 31, 2016 and 2015 are as follows:

	2016	
	Reinsurance assets	Reinsurance account receivable
AA- to AA+	₩ 930	2,377
A- to A+	820	1,692
	₩ 1,750	4,069

	2015	
	Reinsurance assets	Reinsurance account receivable
AA- to AA+	₩ 852	1,630
A- to A+	533	749
	₩ 1,385	2,379

(g) Income or expenses on insurance for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Insurance income:		
Premium income	₩ 4,558,453	4,421,381
Reinsurance income	6,840	4,239
Separate account income	20,805	22,208
	4,586,098	4,447,828
Insurance expenses:		
Claims paid	2,007,831	1,946,669
Reinsurance premium expenses	8,405	5,306
Provision for policy reserves	2,325,010	2,277,549
Separate account expenses	20,805	22,207
Discount charge	548	458
Acquisition costs	559,213	596,124
Collection expenses	15,367	14,139
Deferred acquisition costs	(373,490)	(418,975)
Amortization of deferred acquisition costs	440,913	436,512
	5,004,602	4,879,989
Net loss on insurance	₩ (418,504)	(432,161)

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28. Liability under insurance contracts (continued)

(h) Maturity of premium reserve as of December 31, 2016 and 2015 are as follows:

		2016						
		Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	Total
Fixed interest rate	₩	25,096	175,097	549,783	598,030	1,186,510	4,026,275	6,560,791
Interest rate linked		38,828	220,839	1,711,187	469,287	1,227,833	11,067,198	14,735,172
Ending balance	₩	63,924	395,936	2,260,970	1,067,317	2,414,343	15,093,473	21,295,963

		2015						
		Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	Total
Fixed interest rate	₩	14,258	89,356	458,102	598,282	1,157,664	3,590,347	5,908,009
Interest rate linked		44,685	75,385	1,550,233	572,951	1,123,881	9,777,032	13,144,167
Ending balance	₩	58,943	164,741	2,008,335	1,171,233	2,281,545	13,367,379	19,052,176

(i) Liability adequacy test, LAT

Liability adequacy tests were performed on the premium reserve, unearned premium reserve and guarantee reserve for the contracts held at December 31, 2016 and 2015. The premium reserve considered the amount net level premium reserve less, where appropriate, deferred acquisition cost in accordance with the article 6-3 of Regulation on Supervision of Insurance Business Act.

The assumptions of the current estimation used to assessment and their basis for calculation was as follows:

	Assumptions		Measurement basis
	2016	2015	
Discount rate	2.31% ~ 9.11%	2.55% ~ 6.88%	Future rate of return on invested asset based on the rate scenario suggested by FSS
Mortality rate	8% ~ 445%	7% ~ 202%	Rate of premium paid on risk premium based on experience-based rate by classes of sales channel, product and transition period of last 5 years
Operating expense rate	Acquisition cost - The first time : 90% ~ 976% - From the second time : 0% ~ 283% Maintenance expense (each case): 1,300won ~ 5,636won Collection expenses (on gross premium): 0.03% ~ 1.03%	Acquisition cost - The first time : 90% ~ 818% - From the second time : 0% ~ 258% Maintenance expense (each case): 1,325won ~ 4,500won Collection expenses (on gross premium): 137won ~ 454won	Operating expense rate on gross premium or expense per contract based on experience-based rate of last 1 year
Surrender ratio	1.00% ~ 64.83%	1.17% ~ 63.16%	Surrender ratio by classes of sales channel, product and transition period of last 5 years

28. Liability under insurance contracts (continued)

The result of liability adequacy test as of December 31, 2016 and 2015 are as follows:

	2016		
	Provisions for test	LAT base	Premium loss (surplus)(*)
Participating:			
Fixed interest	₩ 610,549	1,484,058	873,509
Variable interest	806,798	904,397	97,599
	<u>1,417,347</u>	<u>2,388,455</u>	<u>971,108</u>
Non- Participating:			
Fixed interest	5,574,693	5,078,409	(496,283)
Variable interest	13,308,165	11,550,169	(1,757,997)
	<u>18,882,858</u>	<u>16,628,578</u>	<u>(2,254,280)</u>
	<u>₩ 20,300,205</u>	<u>19,017,033</u>	<u>(1,283,172)</u>
	2015		
	Provisions for test	LAT base	Premium loss (surplus)
Participating:			
Fixed interest	₩ 601,588	1,468,506	866,918
Variable interest	745,094	808,354	63,260
	<u>1,346,682</u>	<u>2,276,860</u>	<u>930,178</u>
Non- Participating:			
Fixed interest	5,017,317	4,389,627	(627,690)
Variable interest	11,615,842	9,600,136	(2,015,706)
	<u>16,633,159</u>	<u>13,989,763</u>	<u>(2,643,396)</u>
Option and guarantee	42,306	122,042	79,736
	<u>₩ 18,022,147</u>	<u>16,388,665</u>	<u>(1,633,482)</u>

(*) To the extent the premiums are deficient to cover expected future losses at the entity level, an additional reserve is recorded for the premium deficiency.

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28. Liability under insurance contracts (continued)

Sensitivity analysis as of December 31, 2016 and 2015 are as follows:

	LAT fluctuation	
	2016	2015
Discount rate increased by 0.5%	₩ (1,804,834)	(901,208)
Discount rate decreased by 0.5%	2,096,280	1,343,624
Operating expense increased by 10%	274,108	249,095
Mortality rate increased by 10%	696,982	541,400
Mortality rate increased by 5%	341,421	277,282
Surrender ratio increased by 10%	113,340	125,240

29. Other liabilities

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

	2016	2015
Accounts payable	₩ 7,258,267	8,535,444
Accrued expenses	2,835,472	2,821,615
Dividend payable	9,553	19,572
Advance receipts	180,626	168,550
Unearned income(*)	373,895	351,313
Withholding value-added tax and other taxes	338,771	478,483
Securities deposit received	713,417	721,936
Foreign exchange remittances pending	226,927	209,086
Domestic exchange remittances pending	980,663	2,227,750
Borrowing from trust account	3,447,078	2,972,023
Due to agencies	498,943	542,014
Deposits for subscription	46,983	86,111
Separate account liabilities	2,999,109	2,567,196
Sundry liabilities	969,010	1,480,086
Other	55,896	150,629
Present value discount account	(17,463)	(20,818)
	₩ 20,917,147	23,310,990

(*) Changes in deferred (unearned) point income for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Beginning balance	₩ 182,198	158,897
Deferred income	291,838	208,618
Recognized income	(283,379)	(227,077)
Ending balance	₩ 190,657	140,438

30. Equity

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

	<u>2016</u>	<u>2015</u>
Capital stock:		
Common stock	₩ 2,370,998	2,370,998
Preferred stock	274,055	274,055
	<u>2,645,053</u>	<u>2,645,053</u>
Hybrid bond	498,316	736,898
Capital surplus:		
Share premium	9,494,769	9,494,769
Others	392,566	392,566
	<u>9,887,335</u>	<u>9,887,335</u>
Capital adjustments	(458,461)	(423,536)
Accumulated other comprehensive income, net of tax:		
Valuation gain (loss) on available-for-sale financial assets	394,183	826,712
Equity in other comprehensive income of associates	21,258	18,569
Foreign currency translation adjustments for foreign operations	(151,726)	(163,737)
Net loss from cash flow hedges	(13,464)	(12,202)
Other comprehensive income of separate account	4,466	8,795
Actuarial gains (losses)	(357,300)	(373,366)
	<u>(102,583)</u>	<u>304,771</u>
Retained earnings(*1)	18,640,038	17,689,134
Non-controlling interest(*2)	635,282	973,401
	<u>₩ 31,744,980</u>	<u>31,813,056</u>

(*1) Restriction on appropriation of retained earnings is as follows:

- 1) Legal reserve of ₩1,845,691 million and ₩1,756,387 million for the years ended December 31, 2016 and 2015, respectively.
- 2) Regulatory reserve for loan loss of ₩9,144 million and ₩8,479 million for the years ended December 31, 2016 and 2015, respectively.
- 3) Retained earnings restricted for dividend at subsidiaries level pursuant to law and regulations amounts to ₩4,825,956 million for the years ended December 31, 2016.

(*2) The hybrid bonds of ₩496,392 million and ₩801,298 million issued by Shinhan Bank were attributed to non-controlling interests as of December 31, 2016 and 2015, respectively. Dividends to those hybrid bonds of ₩45,691 million and ₩57,158 million were attributed to non-controlling interests for years ended December 31, 2016 and 2015, respectively.

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30. Equity (continued)

(b) Capital stock

i) Capital stock of the Group as of December 31, 2016 and 2015 are as follows:

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

On April 21, 2016, the Group redeemed all of its Series 12 redeemable preferred stock (11,100,000 shares) through profit redemption pursuant to the redemption conditions established at the issuance of the stock. Accordingly, the capital stock does not match the total amount of the par value for preferred stock issued. As of December 31, 2016, there is no outstanding redeemable preferred stock.

(c) Hybrid bond

Hybrid bond classified as other equity as of December 31, 2016 and 2015 are as follows:

Issue date	Maturity date	Interest rate (%)		2016	2015
October 24, 2011	October 24, 2041	5.80	₩	-	238,582
May 22, 2012	May 22, 2042	5.34		298,861	298,861
June 25, 2015	June 25, 2045	4.38		199,455	199,455
			₩	<u>498,316</u>	<u>736,898</u>

The hybrid bonds above can be repaid at par value early after 5 years from date of issuance, and the Group has an unconditional right to extend the maturity under the same condition. In addition, if no dividend was to be paid for common shares, the agreed interest was also not paid. On October 24, 2016, the Group exercised early redemption to all of the 1st hybrid bonds that are past 5 years or more from the date of issuance.

(d) Capital adjustments

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

		2016	2015
Beginning balance	₩	(423,536)	(393,405)
Transaction on redemption of hybrid bonds		(1,418)	-
Other transactions with owners		(33,507)	(30,131)
Ending balance	₩	<u>(458,461)</u>	<u>(423,536)</u>

30. Equity (continued)

(e) Accumulated other comprehensive income

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

	2016						Items that will never be reclassified to profit or loss	Total
	Items that are or may be reclassified to profit or loss					Remeasurements of the defined benefit plans		
	Unrealized gain (loss) on available-for-sale financial assets	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other comprehensive income of separate account			
Beginning balance	₩ 826,712	18,569	(163,737)	(12,202)	8,795	(373,366)	304,771	
Change due to fair value	(123,415)	1,813	-	-	(5,712)	-	(127,314)	
Reclassification:								
Change due to impairment or disposal	(445,040)	-	-	-	-	-	(445,040)	
Effect of hedge accounting	-	-	-	(44,348)	-	-	(44,348)	
Hedging	2,289	-	(54,393)	42,683	-	-	(9,421)	
Effects from exchange rate fluctuations	(1,395)	-	52,936	-	-	-	51,541	
Remeasurements of the defined benefit plans	-	-	-	-	-	20,513	20,513	
Deferred income taxes	133,904	876	13,560	403	1,383	(4,845)	145,281	
Non-controlling interests	1,127	-	(91)	-	-	398	1,434	
Ending balance	₩ 394,182	21,258	(151,725)	(13,464)	4,466	(357,300)	(102,583)	

	2015						Items that will never be reclassified to profit or loss	Total
	Items that are or may be reclassified to profit or loss					Remeasurements of the defined benefit plans		
	Unrealized gain (loss) on available-for-sale financial assets	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other comprehensive income of separate account			
Beginning balance	₩ 1,092,622	6,945	(158,107)	(15,134)	5,703	(294,135)	637,894	
Change due to fair value	197,959	14,559	-	-	4,079	-	216,597	
Reclassification:								
Change due to impairment or disposal	(574,018)	(423)	-	-	-	-	(574,441)	
Effect of hedge accounting	-	-	-	(126,428)	-	-	(126,428)	
Hedging	(864)	-	(33,864)	130,296	-	-	95,568	
Effects from exchange rate fluctuations	30,796	-	27,850	-	-	-	58,646	
Remeasurements of the defined benefit plans	-	-	-	-	-	(107,598)	(107,598)	
Deferred income taxes	80,137	(2,512)	(455)	(936)	(987)	25,785	101,032	
Non-controlling interests	80	-	839	-	-	2,582	3,501	
Ending balance	₩ 826,712	18,569	(163,737)	(12,202)	8,795	(373,366)	304,771	

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30. Equity (continued)

(f) Appropriation of retained earnings

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

	<u>2016</u>	<u>2015</u>
Unappropriated retained earnings:		
Balance at beginning of year	₩ 5,422,880	5,285,274
Redemption of preferred stock	(1,125,906)	-
Dividend to hybrid bonds	(36,091)	(34,488)
Net income	1,470,250	893,041
	<u>5,731,133</u>	<u>6,143,827</u>
Reversal of regulatory reserve for loan losses	3,191	-
	<u>5,734,324</u>	<u>6,143,827</u>
Appropriation of retained earnings:		
Legal reserve	147,025	89,304
Dividends		
Dividends on common stocks paid	687,589	569,040
Dividends on preferred stocks paid	-	61,938
Regulatory reserve for loan losses	-	665
Voluntary reserve (loss compensation reserve)	2,000	-
Loss on hybrid bond redemption	1,418	-
	<u>838,032</u>	<u>720,947</u>
Unappropriated retained earnings to be carried over to subsequent year	₩ <u>4,896,292</u>	<u>5,422,880</u>

Date of appropriation:

March 23, 2017

March 24, 2016

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

30. Equity (continued)

(g) Regulatory reserve for loan loss

In accordance with Regulations for the Supervision of Financial Institutions, the Group reserves the difference between allowance for credit losses by K-IFRS and by Regulations for the Supervision of Financial Institutions at the account of regulatory reserve for loan losses.

i) Changes in regulatory reserve for loan losses including non-controlling interests for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Beginning balance	₩ 2,192,635	2,235,402
Planned regulatory reserve for (reversal of) loan losses	60,136	(42,767)
Ending balance	₩ <u>2,252,771</u>	<u>2,192,635</u>

ii) Profit attributable to equity holders of Shinhan Financial Group and earnings per share after factoring in regulatory reserve for loan losses for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Profit attributable to equity holders of Shinhan Financial Group	₩ 2,774,778	2,367,171
Adjustment for regulatory reserve for loan losses	(58,537)	46,053
Profit attributable to equity holders of Shinhan Financial Group after adjusted for regulatory reserve(*)	₩ <u>2,716,241</u>	<u>2,413,224</u>
Basic and diluted earnings per share after adjusted for regulatory reserve in won	5,612	4,886

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

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31. Dividends

(a) Details of dividends recognized as distributions to common stockholders for the years ended December 31, 2016 and 2015 are as follows:

		<u>2016</u>	<u>2015</u>
Total number of shares issued and outstanding	₩	474,199,587	474,199,587
Par value per share in won		5,000	5,000
Dividend per share in won		1,450	1,200
Dividends(*)	₩	<u>687,589</u>	<u>569,040</u>
Dividend rate per share	%	29.0	24.0

(*) The amounts are proposed or declared dividends before the financial statements were authorized for issue but not recognized as a distribution to owners during the year.

(b) As of December 31, 2016, there are no outstanding redeemable preferred stocks and no dividends on preferred stocks to be paid by the Group as an appropriation of retained earnings.

Dividends recognized as distributions to preferred stockholders for the year ended December 31, 2015 are as follows:

	<u>2015</u>				
	<u>Total shares outstanding</u>	<u>Dividend per share in won</u>	<u>Total dividend</u>	<u>Issue price per share in won</u>	<u>Dividend rate per issue price</u>
Convertible redeemable preferred stock series 12	11,100,000	5,580 ₩	61,938	100,000	5.58%

(c) Dividend for hybrid bond was calculated as follows for years ended December 31, 2016 and 2015:

		<u>2016</u>	<u>2015</u>
Amount of hybrid bond	₩	500,000	740,000
Interest rate	%	4.38~5.80	4.38~5.80
Dividend(*)	₩	<u>36,091</u>	<u>34,488</u>

(*) The dividends to hybrid bonds that were early redeemed during the period are included.

(d) There is no unrecognized dividend on cumulative preferred stocks as of December 31, 2016 and 2015.

32. Net interest income

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

	<u>2016</u>	<u>2015</u>
Interest income:		
Cash and due from banks	₩ 185,534	225,554
Trading assets	454,274	510,764
Financial assets designated at fair value through profit or loss	43,398	48,264
Available-for-sale financial assets	632,829	665,561
Held-to-maturity financial assets	561,823	539,190
Loans	9,230,303	9,024,682
Others	128,141	115,689
	<u>11,236,302</u>	<u>11,129,704</u>
Interest expense:		
Deposits	(2,586,742)	(2,861,027)
Borrowings	(300,759)	(325,564)
Debt securities issued	(1,085,830)	(1,183,758)
Others	(57,605)	(66,422)
	<u>(4,030,936)</u>	<u>(4,436,771)</u>
Net interest income	₩ <u>7,205,366</u>	<u>6,692,933</u>

33. Net fees and commission income

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

	<u>2016</u>	<u>2015</u>
Fees and commission income:		
Credit placement fees	₩ 74,352	74,769
Commission received as electronic charge receipt	137,213	136,991
Brokerage fees	333,722	410,682
Commission received as agency	131,026	167,137
Investment banking fees	66,150	79,840
Commission received in foreign exchange activities	182,975	162,989
Asset management fees	115,574	86,144
Credit card fees	2,343,255	2,351,140
Others	419,329	426,837
	<u>3,803,596</u>	<u>3,896,529</u>
Fees and commission expense:		
Credit-related fee	(32,401)	(43,337)
Credit card fees	(1,899,339)	(1,848,510)
Others	(306,317)	(383,703)
	<u>(2,238,057)</u>	<u>(2,275,550)</u>
Net fees and commission income	₩ <u>1,565,539</u>	<u>1,620,979</u>

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34. Dividend income

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

	<u>2016</u>	<u>2015</u>
Trading assets	₩ 50,805	68,607
Available-for-sale financial assets	230,818	239,670
	<u>₩ 281,623</u>	<u>308,277</u>

35. Net trading income (loss)

Net trading income (loss) for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Trading assets:		
Loss on valuation of debt securities	₩ (47,017)	(6,451)
Gain (loss) on sale of debt securities	(1,933)	55,810
Gain on valuation of equity securities	161,234	19,355
Gain on sale of equity securities	70,603	125,552
Gain (loss) on valuation of other trading assets	18,336	(5,238)
	<u>201,223</u>	<u>189,028</u>
Trading liabilities:		
Gain (loss) on valuation of securities sold	(121,262)	20,146
Gain (loss) on disposition of securities sold	5,174	(84,642)
Gain (loss) on valuation of other trading liabilities	(61,321)	24,366
Gain on disposition of other trading liabilities	2,589	1,805
	<u>(174,820)</u>	<u>(38,325)</u>
Derivatives:		
Gain (loss) on valuation of derivatives	1,667	(803,990)
Gain on transaction of derivatives	341,440	309,189
	<u>343,107</u>	<u>(494,801)</u>
	<u>₩ 369,510</u>	<u>(344,098)</u>

36. Net gain (loss) on financial instruments designated at fair value through profit or loss

Net gain (loss) on financial instruments designated at fair value through profit or loss for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Financial assets designated at fair value through profit or loss:		
Other securities		
Gain on valuation	₩ 11,798	14,707
Debt securities		
Gain (loss) on valuation	20,498	(19,786)
Gain on sale and redemption	16,625	14,651
	<u>37,123</u>	<u>(5,135)</u>
Equity securities		
Dividend income	185	112
Loss on valuation	(5,664)	(24,509)
Gain on sale	5,747	46,200
	<u>268</u>	<u>21,803</u>
Financial liabilities designated at fair value through profit or loss:		
Other securities		
Gain (loss) on valuation	(97)	95
Loss on disposal and redemption	(109)	(111)
	<u>(206)</u>	<u>(16)</u>
Borrowings		
Gain (loss) on valuation	(174,348)	778,451
Loss on disposal and redemption	(376,590)	(350,045)
	<u>(550,938)</u>	<u>428,406</u>
	<u>₩ (501,955)</u>	<u>459,765</u>

37. Net impairment loss on financial assets

Net impairment loss on financial assets for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Impairment losses on:		
Loans	₩ (1,102,781)	(1,021,711)
Available-for-sale financial assets	(96,381)	(254,883)
Other financial assets	(4,851)	-
	<u>(1,204,013)</u>	<u>(1,276,594)</u>
Reversal of impairment losses on:		
Available-for-sale financial assets	8,350	12,541
	<u>₩ (1,195,663)</u>	<u>(1,264,053)</u>

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38. General and administrative expenses

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

	<u>2016</u>	<u>2015</u>
Employee benefits:		
Salaries	₩ 2,515,492	2,478,136
Severance benefits:		
Defined contribution	22,007	20,203
Defined benefit	181,703	165,706
Termination benefits	106,833	105,031
	<u>2,826,035</u>	<u>2,769,076</u>
Rent	340,504	350,718
Entertainment	31,409	33,339
Depreciation	177,405	193,927
Amortization	74,222	75,060
Taxes and dues	164,177	195,729
Advertising	292,552	255,656
Research	14,070	13,442
Others	588,201	588,121
	<u>₩ 4,508,575</u>	<u>4,475,068</u>

39. Share-based payments

(a) Stock options granted as of December 31, 2016 are as follows:

	4th grant(*1)(*2)	5th grant(*1)(*2)	6th grant(*1)(*2)	7th grant(*1)(*2)
Grant date	March 30, 2005	March 21, 2006	March 20, 2007	March 19, 2008
Exercise price in won	₩28,006	₩38,829	₩54,560	₩49,053
Number of shares granted	2,695,200	3,296,200	1,301,050	808,700
Contractual exercise period	Within four years after three years from grant date	Within four years after three years from grant date	Within four years after three years from grant date	Within four years after three years from grant date
Changes in number of shares granted:				
Balance at January 1, 2016	102,389	108,356	58,764	45,628
Exercised	-	-	-	-
Balance at December 31, 2016	<u>102,389</u>	<u>108,356</u>	<u>58,764</u>	<u>45,628</u>
Fair value per share	₩17,244	₩6,421	-	-

(*1) The equity instruments granted are fully vested as of December 31, 2016. The weighted average exercise price for 315,137 stock options outstanding at December 31, 2016 is ₩39,726.

(*2) As of December 31, 2016, the exercise of the remaining stock options (4th, 5th, 6th and 7th grant) was temporarily suspended.

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39. Share-based payments (continued)

(b) Performance shares granted as of December 31, 2016 are as follows:

	Expired	Not expired
Type	Cash-settled share-based payment	
Performance conditions	Increase rate of the stock price and achievement of target ROE	
Operating period(*1)	4 or 5 years	
Estimated number of shares vested at December 31, 2016	277,418	1,157,390
Fair value per share in won	₩45,926 , ₩47,376 , ₩40,889 and ₩45,766 (*2)	₩45,250

(*1) Four-year period is applied from the beginning of the year that the grant date belongs while five-year period for the shares with deferred payment.

(*2) ~~₩45,926~~ of fair value per unit is applied for the shares that are vested at December 31, 2013, ~~₩47,376~~ for the shares that are vested at December 31, 2014, ~~₩40,889~~ for the shares that are vested at December 31, 2015, ~~₩45,766~~ for the shares that are vested at December 31, 2016.

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

39. Share-based payments (continued)

(c) Share-based compensation costs for the years ended December 31, 2016 and 2015 are as follows:

		2016		
		Employees of		
		The controlling company	The subsidiaries	Total
Stock options granted:				
4th	₩	51	533	584
5th		36	582	618
6th		-	-	-
7th		-	-	-
Performance shares		2,890	23,845	26,735
	₩	<u>2,977</u>	<u>24,960</u>	<u>27,937</u>
		2015		
		Employees of		
		The controlling company	The subsidiaries	Total
Stock options granted:				
4th	₩	(44)	(458)	(502)
5th		(31)	(500)	(531)
6th		-	-	-
7th		(4)	(15)	(19)
Performance shares		1,599	13,878	15,477
	₩	<u>1,520</u>	<u>12,905</u>	<u>14,425</u>

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39. Share-based payments (continued)

(d) Accrued expenses and the intrinsic value as of December 31, 2016 and 2015 are as follows:

		2016		
		Employees of		
		The controlling company	The subsidiaries	Total
Stock options granted:				
4th	₩	155	1,611	1,766
5th		41	655	696
6th		-	-	-
7th		-	-	-
Performance shares		7,433	57,638	65,071
	₩	<u>7,629</u>	<u>59,904</u>	<u>67,533</u>

The intrinsic value of share-based payments is ₩67,533 million as of December 31, 2016. For calculating, the quoted market price ₩45,250 per share was used for stock options and the fair value was considered as intrinsic value for performance shares, respectively.

		2015		
		Employees of		
		The controlling company	The subsidiaries	Total
Stock options granted:				
4th	₩	103	1,079	1,182
5th		5	73	78
6th		-	-	-
7th		-	-	-
Performance shares		5,539	39,927	45,466
	₩	<u>5,647</u>	<u>41,079</u>	<u>46,726</u>

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

40. Net other operating expense

Other operating income and other operating expense for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Other operating income		
Gain on sale of assets:		
Loans	₩ 69,002	180,306
Others:		
Gain on hedged items	392,913	356,090
Reversal of allowance for acceptances and guarantee	4,046	33,526
Gain on trust account	3,379	5,027
Gain on other allowance	30,419	6,988
Others	47,556	392,548
	<u>478,313</u>	<u>794,179</u>
	<u>547,315</u>	<u>974,485</u>
Other operating expense		
Loss on sale of assets:		
Loans	(11,021)	(10,759)
Others:		
Loss on hedged items	(451,728)	(297,066)
Contribution	(252,178)	(274,685)
Loss on allowance for acceptances and guarantee	(7,933)	(825)
Loss on other allowance	(84,048)	(55,425)
Depreciation of operating lease assets	(8,315)	(9,895)
Others	(530,003)	(769,973)
	<u>(1,334,205)</u>	<u>(1,407,869)</u>
	<u>(1,345,226)</u>	<u>(1,418,628)</u>
Net other operating expenses	₩ <u>(797,911)</u>	<u>(444,143)</u>

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41. Net other non-operating income

Other non-operating income and other non-operating expense for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Other non-operating income		
Gain on sale of assets:		
Property and equipment	₩ 3,343	2,379
Investment property	2,668	5,586
Lease assets	272	328
Others	95	433
	<u>6,378</u>	<u>8,726</u>
Gain on sale of Investments in associates	5,218	95,485
Others:		
Rental income on investment property	27,852	30,876
Reversal of impairment losses on intangible asset	301	982
Gain from assets contributed	53	714
Others	104,563	100,877
	<u>132,769</u>	<u>133,449</u>
	<u>144,365</u>	<u>237,660</u>
Other non-operating expense		
Loss on sale of assets:		
Property and equipment	(2,811)	(1,496)
Investment property	(248)	(55)
Lease assets	(2,429)	(2,714)
Others	(118)	(69)
	<u>(5,606)</u>	<u>(4,334)</u>
Loss on sale of investments in associates	(3,315)	(2,012)
Impairment loss on investments in associates	(7,339)	(9,024)
	<u>(10,654)</u>	<u>(11,036)</u>
Others:		
Donations	(19,367)	(24,830)
Depreciation of investment properties	(19,588)	(13,117)
Impaired loss on property and equipment	(2,204)	-
Impaired loss on intangible assets	(3,411)	(3,125)
Write-off of intangible assets	(966)	(960)
Collecting of written-off expenses	(4,379)	(8,088)
Others	(26,355)	(25,705)
	<u>(76,270)</u>	<u>(75,825)</u>
	<u>(92,530)</u>	<u>(91,195)</u>
Net other non-operating income	₩ <u>51,835</u>	<u>146,465</u>

42. Income tax expense

(a) Income tax expense for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Current income tax expense	₩ 718,757	556,558
Adjustment for prior periods	(36,372)	(31,101)
Temporary differences	(480,280)	67,928
Income tax recognized in other comprehensive income	143,448	101,234
Income tax expenses	<u>₩ 345,553</u>	<u>694,619</u>

(b) Income tax expense calculated by multiplying net income before tax with the tax rate for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Profit before income taxes	₩ 3,170,472	3,140,578
Income taxes at statutory tax rates	₩ 765,395	758,345
Adjustments:		
Non-taxable income	(30,839)	(16,421)
Non-deductible expense	18,786	7,862
Tax credit	(401)	(557)
Recognition of deferred tax assets related to expired unused tax losses (see note 42 (c)(*2))	(357,307)	-
Other	(13,709)	(42,869)
Refund due to adjustments of prior year tax returns	(36,372)	(11,741)
Income tax expense	<u>₩ 345,553</u>	<u>694,619</u>
Effective tax rate	%	10.90
		22.12

The Group was subject to income taxes on taxable income at the following normal tax rates.

<u>Taxable income</u>	<u>Tax Rate</u>
₩200 million or below	11.0%
Below ₩20 billion	22.0%
₩20 billion or above	24.2%

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42. Income tax expense (continued)

(c) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2016 and 2015 are as follows:

	2016			
	Beginning balance	Profit or loss	Other comprehensive income	Ending Balance(*1)
Unearned income	₩ (138,541)	(693)	-	(139,234)
Account receivable	(13,203)	1,710	-	(11,493)
Trading assets	(59,232)	25,808	-	(33,424)
Available-for-sale	90,904	(137,598)	133,591	86,897
Investment in associates	3,021	16,215	876	20,112
Valuation and depreciation of property and equipment	(154,151)	7,291	-	(146,860)
Derivative asset (liability)	190,834	(66,004)	403	125,233
Deposits	15,412	2,750	-	18,162
Accrued expenses	95,278	13,422	-	108,700
Defined benefit obligation	350,047	34,510	(6,157)	378,400
Plan assets	(308,455)	(6,426)	1,173	(313,708)
Other provisions	203,360	18,389	-	221,749
Allowance for acceptances and guarantees	20,074	(544)	-	19,530
Allowance related to asset revaluation	(46,988)	11	-	(46,977)
Allowance for expensing depreciation	(578)	57	-	(521)
Deemed dividend	1,582	(204)	-	1,378
Accrued contributions	11,261	(2,497)	-	8,764
Financial instruments designated at fair value through profit of loss	(159,839)	100,954	-	(58,885)
Allowances	75,515	19,039	-	94,554
Fictitious dividend	5,101	(268)	-	4,833
Liability under insurance contracts	10,238	2,866	-	13,104
Other	(43,851)	(46,909)	13,562	(77,198)
	₩ 147,789	(18,121)	143,448	273,116
Expired unused tax losses:				
Extinguishment of deposit and insurance liabilities(*2)	-	357,307	-	357,307
	₩ 147,789	339,186	143,448	630,423

(*1) Deferred tax assets from overseas subsidiaries were decreased by ₩1,954 million due to foreign exchange rate movements.

(*2) The Group did not previously recognized the deferred tax asset relating to the expired unused tax losses as the utilization of the expired unused tax losses had been assessed remote. In 2016, based on the new tax interpretation issued by Korea National Tax Service which allows utilization of expired unused tax losses against extinguishment of deposit and insurance liabilities and the relating recent tax refund, the Group recognized the deferred tax asset after factoring in future taxable profits and the expected future extinguishment of deposit and insurance liabilities.

42. Income tax expense (continued)

	2015			
	Beginning balance	Profit or loss	Other comprehensive income/Other	Ending Balance(*1)
Unearned income	₩ (135,815)	(2,726)	-	(138,541)
Account receivable	(16,186)	2,983	-	(13,203)
Trading assets	(49,125)	(10,107)	-	(59,232)
Available-for-sale	42,673	(31,883)	80,114	90,904
Investment in associates	18,277	(12,744)	(2,512)	3,021
Valuation and depreciation of property and equipment(*2)	(146,176)	(3,014)	(4,961)	(154,151)
Derivative asset (liability)	8,172	183,598	(936)	190,834
Deposits	29,208	(13,796)	-	15,412
Accrued expenses	111,436	(16,158)	-	95,278
Defined benefit obligation	279,207	47,005	23,835	350,047
Plan assets	(237,208)	(72,425)	1,178	(308,455)
Other provisions	206,498	(3,138)	-	203,360
Allowance for acceptances and guarantees	25,914	(5,840)	-	20,074
Allowance related to asset revaluation	(44,810)	(2,178)	-	(46,988)
Allowance for expensing depreciation	(634)	56	-	(578)
Deemed dividend	1,334	248	-	1,582
Accrued contributions	13,308	(2,047)	-	11,261
Financial instruments designated at fair value through profit of loss	42,023	(201,862)	-	(159,839)
Allowances	59,732	15,783	-	75,515
Fictitious dividend	5,375	(274)	-	5,101
Liability under insurance contracts	7,683	2,555	-	10,238
Other	(2,079)	(41,327)	(445)	(43,851)
	₩ <u>218,807</u>	<u>(167,291)</u>	<u>96,273</u>	<u>147,789</u>

(*1) Deferred tax assets from overseas subsidiaries were decreased by ₩1,455 million due to foreign exchange rate movements.

(*2) Other adjustments represent the deferred tax was changed, due to the retrospective adjustment of identifiable net assets recognized at the acquisition of PT Centratama Nasional Bank.

42. Income tax expense (continued)

(e) The amount of deductible temporary differences, unused tax losses, and unused tax credits that are not recognized as deferred tax assets as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Tax loss carry forward(*)	₩ 99,449	99,449

(*) At the end of reporting date, the expected extinctive date of tax loss carry forward and tax credits carry forward that are not recognized as deferred tax assets are as follows:

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

(f) The amount of temporary difference regarding investment in subsidiaries that are not recognized as deferred tax liabilities as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Investment in subsidiaries	₩ (283,161)	(149,604)

(g) The Group set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets and liabilities presented on a gross basis prior to any offsetting as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Deferred tax assets	₩ 701,482	261,255
Deferred tax liabilities	(71,059)	(108,505)

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43. Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Profit attributable to equity holders of Shinhan Financial Group ₩	2,774,778	2,367,171
Less:		
Dividends on preferred stock(*)	18,836	61,938
Hybrid bond	36,091	34,488
	<u>54,927</u>	<u>96,426</u>
Net profit available for common stock	2,719,851	2,270,745
Weighted average number of common shares outstanding	474,199,587	474,199,587
Basic and diluted earnings per share in won	<u>₩ 5,736</u>	<u>4,789</u>

(*) The amount of 2016 is the additionally paid amount based on the contractual dividend rate for the period from the beginning of the period to the day before the redemption date according to the redemption conditions of the redeemable preferred stocks.

44. Commitments and contingencies

(a) Guarantees, acceptances and credit commitments as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Guarantees:		
Guarantee outstanding	₩ 9,324,734	10,110,330
Contingent guarantees	2,997,553	3,036,301
	<u>12,322,287</u>	<u>13,146,631</u>
Commitments to extend credit:		
Loan commitments in won	54,077,528	53,677,696
Loan commitments in foreign currency	20,464,242	21,765,110
ABS and ABCP commitments(*)	2,060,089	2,668,370
Others	1,362,433	1,314,743
	<u>77,964,292</u>	<u>79,425,919</u>
Endorsed bills:		
Secured endorsed bills	32,187	29,549
Unsecured endorsed bills	8,822,654	7,542,862
	<u>8,854,841</u>	<u>7,572,411</u>
Loans sold under repurchase agreement	2,099	2,099
	<u>₩ 99,143,519</u>	<u>100,147,060</u>

(*) The Group consolidates a structured entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to most significantly affect those returns through its power over the structured entity based on the terms in the agreement relating to the establishment of the structured entity. The structured entities are established to buy assets from originators and issue asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The Group is involved in the securitization vehicles by purchasing or committing to purchase the asset-backed securities issued and/or providing other forms of credit enhancement. As the non-controlling interests in the structured entities are presented as liabilities in the consolidated statement of financial position of the Group, the Group does not recognize non-controlling interests for the consolidated structured entities. The Group provides ABCP purchase agreement amounting to ₩1,138,282 million to the structured entities described above.

44. Commitments and contingencies (continued)

(b) Legal contingencies

The Group's pending lawsuits as a defendant for the years ended December 31, 2016 are as follows:

Case	Number of claim	Descriptions	Claim amount
Billing of Goods	1	The plaintiff filed claims against the Group for payment of goods that were based on a forged guarantee of payment. The first appeal was ruled against the Group, and therefore, the Group has paid the claim amount. The second court decided partially in favor of the Group and therefore retrieved the amount in partial. The case is pending in the second appeal.	43,761
Demands on stock return	1	The Medison stock sales contract made between the plaintiff and PEF has been discharged or cancelled. The plaintiff is demanding the return of Medison stocks based on the invalidity of the stock sales contract and the invalidity of option contracts and revised option contracts stated within the stock sales contract.	31,000
Lehman Brothers Special Financing Inc(LBSF)	1	A plaintiff, Lehman Brothers has claimed that the CDO investment that had been returned to the Group after bankruptcy should be returned to the Lehman Brothers. Because it was contrary to US bankruptcy law. While in internal discussion for arbitral proceeding and settlement with Lemman Brothers, defendants including the Group have won the first trial and have currently denied to pay claim amount. Further action will be considered depending on the effects of the arbitration and the possibility of winning the second trial.	12,085
VAN Fee Fixing	2	Agency of VAN filed claims against VAN and the credit card company. The agency filed a lawsuit against VAN and the Group claiming for losses due to fee fixing. 2 cases were all for the same claim, and therefore, there were partial losses for VAN and the Group. All cases are currently pending in their second appeal.	4,312
Payment Guarantee	1	The plaintiff filed claims against the Group for guarantee deposit of receivable-backed ABL of KT ENS. The case are currently pending in its second appeal.	12,866
Others	183	Compensation for a loss claim, etc.	184,760
	<u>189</u>		<u>288,784</u>

As of December 31, 2016, the Group recorded ₩34,473 million as provisions and ₩1,685 million as liabilities under insurance contracts with respect to these lawsuits. In respect of a claim for Lehman Brothers Special Financing Inc (LBSF) above the Group recognised a provision of ₩5,438 million and in respect of others the Group recognised a provision of ₩29,035. Additional losses might be incurred from these legal actions, but the result of such the lawsuits cannot be predicted. The management believes that the result of the lawsuits would not have significant impact on the financial position.

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45. Statement of cash flows

(a) Cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Cash and due from banks	₩ 19,165,875	22,037,236
Due from financial institutions with a maturity over three months from date of acquisition	(4,458,286)	(4,590,643)
Restricted due from banks	(9,106,053)	(12,839,342)
	<u>₩ 5,632,536</u>	<u>4,607,251</u>

(b) Significant non-cash activities for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Debt-equity swap	₩ 32,229	34,218
Transfers from construction-in-progress to property and equipment	15,405	3,255
Transfers between property and equipment and investment property	10,898	3,122
Transfers from assets held for sale to property and equipment	411	-
Transfers from investment property to assets held for sale	2,200	-

(c) For the year ended December 31, 2016, the cash out flows related to the investments in PT. Shinhan Sekuritas Indonesia amounted to ₩4,280 million. For the year ended December 31, 2015, the cash out flows related to the investments in Nam An Securities Co., Ltd., PT Bank Metro Express, PT Centratama Nasional Bank and PT. Shinhan Indo Finance amounted to ₩163,172 million.

46. Related parties

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

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

Related party	Account	2016	2015
Investments in associates:			
Aju Capital Co., Ltd.	Trading assets	₩ 49,990	99,953
"	Loans	210,000	160,000
"	Credit card loans	1,922	2,165
"	Allowances	(627)	(479)
"	Deposits	692	1,061
"	Provisions	73	55
UAMCO., Ltd.	Loans	-	23,100
"	Credit card loans	-	42
"	Allowances	-	(32)
"	Deposits	-	410
"	Provisions	-	46
Pohang TechnoPark2PFV	Deposits	14,658	14,662
BNP Paribas Cardif Life Insurance	Other assets	197	118
"	Credit card loans	127	108
"	Allowances	(1)	(1)
"	Accrued expenses	59	153
"	Deposits	353	644
"	Provisions	1	1
BNP Paribas Cardif General Insurance	Credit card loans	44	28
"	Allowances	(1)	(1)
"	Deposits	13	12
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	Other liabilities	-	55
Kukdong Engineering & Construction CO., LTD	Credit card loans	-	11
"	Allowances	-	(1)
"	Deposits	-	5,388
"	Provisions	-	15
Dream High Fund III	Deposits	1	4
SH Rental Service	Deposits	-	219
SM New Technology Business Investment Fund I	Accounts receivable	-	55
Midas Dong-A Snowball Venture Fund	Deposits	427	303
IBKS-Shinhan Creative Economy New Technology Fund	Accounts receivable	12	-
"	Deposits	1,751	1,463
SP New Technology Business investment Fund I	Accounts receivable	-	19
"	Deposits	-	283
EQP Global Energy Infrastructure Private Equity Fund	Deposits	1	3
Shinhan Praxis K-Growth Global Private Equity Fund	Other assets	175	174
JAEYOUNG SOLUTEC CO., LTD.	Loans	14,356	15,276
"	Credit card loans	42	40
"	Allowances	(70)	(160)
"	Deposits	7,638	15,261
"	Provisions	7	15

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46. Related parties (continued)

Related party	Account	2016	2015
Partners 4th Growth Investment Fund	Deposits	₩ 2,160	2,704
SHBNPP Private Korea Equity Long-Short Professional Feeder	Other assets	175	163
Credian Healthcare Private Equity Fund II	Deposits	7	-
Midas Dong-A Snowball Venture Fund 2	Deposits	242	-
IBKS-Shinhan Creative Economy New Technology Fund II	Accounts receivable	8	-
"	Deposits	179	-
PSA 1st Fintech Private Equity Fund	Deposits	525	-
SHBNPP Private Multi Strategy Professional Feeder No.1	Other assets	43	-
Eum Private Equity Fund No.3	Deposits	80	-
Branbuil CO., LTD.	Loans	15	-
"	Credit card loans	3	-
"	Allowances	(1)	-
"	Deposits	28	-
Semantic	Credit card loans	1	-
"	Allowances	(1)	-
Albatross Growth Fund	Accounts receivable	326	-
Key management personnel and their immediate relatives:	Loans	1,877	3,415
	Assets	₩ 278,612	303,993
	Liabilities	<u>28,895</u>	<u>42,757</u>

46. Related parties (continued)

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

Related party	Account	2016	2015
Investments in associates			
Aju Capital co., Ltd	Interest income	₩ 7,332	6,440
"	Fees and commission income	257	291
"	Other operating income	-	23
"	Reversal of credit losses	-	146
"	Interest expense	(2)	(1)
"	Fees and commission expense	(302)	(694)
"	Other operating expenses	(18)	-
"	Provision for credit losses	(149)	-
UAMCO., Ltd	Interest income	-	4
"	Fees and commission income	-	9
"	Other operating income	-	4
"	Provision for credit losses	-	(32)
Pohang TechnoPark2PFV	Interest expense	(15)	(15)
BNP Paribas Cardif Life Insurance	Fees and commission income	1,712	1,994
"	Provision for credit losses	(1)	(1)
"	Non-operating expense	-	(847)
"	General and administrative expenses	(9)	(7)
Kukdong Engineering & Construction CO., LTD	Interest income	-	26
"	Fees and commission income	-	16
"	Reversal of credit losses	-	1
"	Interest expense	-	(35)
"	Fees and commission expense	-	(3)
"	Other operating expenses	-	(15)
BNP Paribas Cardif General Insurance	Fees and commission income	4	10
"	Provision for credit losses	(1)	(1)
Shinhan K2 Secondary Fund	Fees and commission income	170	116
Dream High Fund III	Interest expense	-	(5)
Midas Dong-A Snowball Venture Fund	Fees and commission income	28	30
"	Interest expense	(4)	(3)
SHC-EN Fund	Fees and commission income	15	54
SP New Technology Business investment Fund I	Fees and commission income	30	79
IBKS-Shinhan Creative Economy New Technology Fund	Fees and commission income	37	39
"	Interest expense	(1)	(2)
SH Rental Service	Interest expense	-	(1)
SM New Technology Business Investment Fund I	Fees and commission income	-	96
JAEYOUNG SOLUTEC CO., LTD.	Interest income	671	616
"	Fees and commission income	1	1
"	Other operating income	7	-
"	Reversal of credit losses	89	-
"	Interest expense	(21)	(47)
"	Provision for credit losses	-	(160)
"	Other operating expense	-	(15)

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46. Related parties (continued)

Related party	Account	2016	2015
Korea Investment Gong-pyeong Office Real Estate Investment Trust 2nd	Fees and commission income	55	21
APC Fund	Fees and commission income	175	-
Shinhan Praxis K-Growth Global Private Equity Fund	Fees and commission income	691	391
Partners 4th Growth Investment Fund	Interest expense	(2)	(6)
Albatross Growth Fund	Interest expense	(6)	-
PSA 1st Fintech Private Equity Fund	Interest expense	(5)	-
IBKS-Shinhan Creative Economy New Technology Fund II	Fees and commission income	22	-
Midas Dong-A Snowball Venture Fund 2	Interest expense	(1)	-
SHBNPP Private Korea Equity Long-Short Professional Feeder	Fees and commission income	785	506
SHBNPP Private Multi Strategy Professional Feeder No.1	Fees and commission income	160	-
Semantic	Interest income	15	-
"	Provision for credit losses	(1)	-
Branbuil CO., LTD.	Fees and commission income	1	-
"	Provision for credit losses	(1)	-
Treenkid	Interest income	3	-
Key management personnel and their immediate relatives			
Interest income		68	119
		<u>₩ 11,789</u>	<u>9,142</u>

The above outstanding balances and transactions have arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

(c) Key management personnel compensation

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

	2016	2015
Short-term employee benefits	₩ 16,428	18,462
Severance benefits	418	393
Share-based payment transactions	9,162	6,318
	<u>₩ 26,008</u>	<u>25,173</u>

46. Related parties (continued)

(d) The guarantees provided between the related parties as of December 31, 2016 and 2015 were as follows:

Guarantor	Guaranteed Parties	Amount of guarantees		Account
		2016	2015	
Shinhan Bank	Aju Capital Co., Ltd.	₩ 50,000	50,000	Unused credit line
	BNP Paribas Cardif Life Insurance	10,000	10,000	Unused credit line
	UAMCO., Ltd.	-	89,100	Unused credit line
	"	-	89,950	Security underwriting commitment
	Kukdong Engineering & Construction Co., LTD.	-	1,574	Performance guarantees
	Neoplux Technology Valuation Investment Fund	12,000	18,000	Security underwriting commitment
	JAEYOUNG SOLUTEC CO., LTD.	600	600	Unused credit
	"	483	469	Import letter of credit
		₩ 73,083	259,693	

(e) Details of collaterals provided by the related parties as of December 31, 2016 and 2015 were as follows:

Provided to	Provided by	Pledged assets	2016	2015
Shinhan Bank	Aju Capital Co., Ltd.	Beneficiary certificate	₩ 160,000	160,000
	BNP Paribas Cardif Life Insurance	Government bonds	13,699	13,676
	Treenkid	Properties	200	-
	JAEYOUNG SOLUTEC CO., LTD.	Properties	20,814	20,814
	"	Guarantee insurance policy	7,037	7,214
			₩ 201,750	201,704

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47. Information of trust business

(a) Significant balances with trust business as of December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Borrowings from trust account	₩ 3,447,078	2,972,023
Accrued fees on trust accounts	30,485	21,515
Accrued interest expense	782	998

(b) Transactions with trust business for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Trust management fees	₩ 98,712	71,753
Fees on early withdrawal	87	1
Interest on borrowings from trust account	35,894	44,986

48. Interests in unconsolidated structured entities

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

The Group is involved in assets-backed securitization, structured financing, beneficiary certificates and other structured entities and characteristics of these structured entities are as follows:

	<u>Description</u>
Assets-backed securitization	<p>Securitization vehicles are established to buy assets from originators and issue asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The Group is involved in the securitization vehicles by purchasing (or committing to purchase) the asset-backed securities issued and/or providing other forms of credit enhancement.</p> <p>The Group does not consolidate a securitization vehicle if (i) the Group is unable to make or approve decisions as to the modification of the terms and conditions of the securities issued by such vehicle or disposal of such vehicles' assets, (ii) (even if the Group is so able) if the Group does not have the exclusive or primary power to do so, or (iii) if the Group does not have exposure, or right, to a significant amount of variable returns from such entity due to the purchase (or commitment to purchase) of asset-backed securities so issued or subordinated obligations or by providing other forms of credit support.</p>
Structured financing	<p>Structured entities for project financing are established to raise funds and invest in a specific project such as M&A (mergers and acquisitions), BTL (build-transfer-lease), shipping finance, etc. The Group is involved in the structured entities by originating loans, investing in equity, or providing credit enhancement.</p>
Investment fund	<p>Investment fund means an investment trust, a PEF (private equity fund) or a partnership which invests in a group of assets such as stocks or bonds by issuing a type of beneficiary certificates to raise funds from the general public, and distributes its income and capital gains to their investors. The Group manages assets by investing in shares of investment fund or playing a role of an operator or a GP (general partner) of investment fund, on behalf of other investors.</p>

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

	<u>2016</u>	<u>2015</u>
Total assets:		
Asset-backed securitization	₩ 108,649,039	83,587,652
Structured financing	66,759,795	55,864,638
Investment fund	33,891,120	34,418,872
	<u>₩ 209,299,954</u>	<u>173,871,162</u>

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48. Interests in unconsolidated structured entities (continued)

(b) Nature of risks

i) The carrying amounts of the assets and liabilities relating to its interests in unconsolidated structured entities as of December 31, 2016 and 2015 are as follows:

		2016			
		Assets-backed securitization	Structured financing	Investment fund	Total
Assets:					
Loans	₩	380,961	5,791,745	106,234	6,278,940
Trading assets		2,082,684	30,266	31,791	2,144,741
Derivative assets		19,144	-	-	19,144
Available-for-sale financial assets		2,648,304	559,990	2,711,666	5,919,960
Held-to-maturity financial assets		2,612,564	-	-	2,612,564
Other assets		13,253	21,705	170	35,128
		<u>7,756,910</u>	<u>6,403,706</u>	<u>2,849,861</u>	<u>17,010,477</u>
Liabilities:					
Derivative liabilities		137	-	-	137
Borrowings		-	1,318	-	1,318
Other		1,006	264	-	1,270
	₩	<u>1,143</u>	<u>1,582</u>	<u>-</u>	<u>2,725</u>
		2015			
		Assets-backed securitization	Structured financing	Investment fund	Total
Assets:					
Loans	₩	302,074	5,683,497	38,013	6,023,584
Trading assets		1,793,038	44,733	-	1,837,771
Derivative assets		16,722	-	-	16,722
Available-for-sale financial assets		2,541,137	442,646	2,356,212	5,339,995
Held-to-maturity financial assets		2,496,659	-	-	2,496,659
Other assets		560	2,984	207	3,751
		<u>7,150,190</u>	<u>6,173,860</u>	<u>2,394,432</u>	<u>15,718,482</u>
Liabilities:					
Derivative liabilities		8	-	-	8
Other		134	214	322	670
	₩	<u>142</u>	<u>214</u>	<u>322</u>	<u>670</u>

48. Interests in unconsolidated structured entities (continued)

ii) Exposure to risk relating to its interests in unconsolidated structured entities as of December 31, 2016 and 2015 are as follows:

		2016			
		Assets-backed securitization	Structured financing	Investment fund	Total
Assets held	₩	7,756,910	6,403,706	2,849,861	17,010,477
ABS and ABCP commitments		1,108,282	30,000	-	1,138,282
Loan commitments		977,383	328,236	47,246	1,352,865
Guarantees		83,000	28,060	-	111,060
Others		61,400	-	-	61,400
	₩	<u>9,986,975</u>	<u>6,790,002</u>	<u>2,897,107</u>	<u>19,674,084</u>
		2015			
		Assets-backed securitization	Structured financing	Investment fund	Total
Assets held	₩	7,150,190	6,173,860	2,394,432	15,718,482
ABS and ABCP commitments		1,093,171	121,134	74,328	1,288,633
Loan commitments		1,589,389	475,091	13,500	2,077,980
Guarantees		65,000	43,240	-	108,240
	₩	<u>9,897,750</u>	<u>6,813,325</u>	<u>2,482,260</u>	<u>19,193,335</u>

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49. Acquisition of subsidiary in 2016

(a) General information

On July 21, 2016, the Group obtained control of PT. Makinta Securities by acquiring 99% of the shares and changed the company's name to PT. Shinhan Sekuritas Indonesia. The purpose of the business combination is to diversify the business by accelerating the entry into the Indonesian capital market and Asian emerging markets through the acquisition of control of the company.

(b) The fair value of assets and liabilities

The fair value of assets acquired and liabilities assumed by acquisition of PT. Shinhan Sekuritas Indonesia as of acquisition dates were as follows:

	<u>Amount</u>
Asset:	
Cash and due from banks	₩ 18,815
Property and equipment	19
Intangible assets	7
Receivable	330
Deferred tax assets	96
Other assets	78
	<u>19,345</u>
Liabilities:	
Accounts payable	329
Liabilities for defined benefit obligations	250
Other liabilities	19
	<u>598</u>
The fair value of the identifiable assets acquired and liabilities assumed	₩ <u>18,747</u>

(c) Goodwill

Goodwill arising from the acquisitions has been recognized as follows:

	<u>Amount</u>
Consideration transferred (cash)	₩ 22,987
Fair value of identifiable net assets	(18,747)
Non-controlling interest	187
Goodwill	₩ <u>4,427</u>

(d) Acquisition-related costs

The Group incurred acquisition-related costs of ₩1,320 million on legal fees and due diligence costs. These costs were included in the administrative expenses.

50. Measurement period adjustments for business combination

On December 18, 2015, the Group acquired 75% of voting shares of PT Centratama Nasional Bank ("CNB"), a local bank located in Indonesia, and obtained the control of CNB. The Group has reported provisional amounts in its prior financial statements in connection with the estimated fair value of assets acquired and liabilities assumed. In 2016, the Group retrospectively adjusted the provisional amounts recognized at the acquisition date in accordance with the paragraph 45 of K-IFRS No. 1103, upon completion of measurement for the business combination.

(a) Details of the adjustments of the fair value of assets acquired and liabilities assumed are as follows:

	<u>Before adjustments</u>	<u>Adjustments</u>	<u>After adjustments</u>
Asset:			
Cash and due from banks	₩ 23,577	-	23,577
Loans and receivables	51,443	-	51,443
Property and equipment(*1)	3,815	16,938	20,753
Intangible assets(*2)	48	1,306	1,354
Other assets	734	-	734
	<u>79,617</u>	<u>18,244</u>	<u>97,861</u>
Liabilities:			
Deposits	66,179	-	66,179
Borrowings	837	-	837
Deferred tax liabilities(*3)	-	4,961	4,961
Other liabilities	520	-	520
	<u>67,536</u>	<u>4,961</u>	<u>72,497</u>
Fair value of the identifiable assets acquired and liabilities assumed	₩ <u>12,081</u>	<u>13,283</u>	<u>25,364</u>

(*1) The increase is due to the fair value measurement of the carrying value of land and building at the acquisition date.

(*2) Identifiable intangible assets represent the estimated present value of costs saved due to the deposits with lower interest rates compared with normal borrowings.

(*3) Amount arising from temporary differences due to the difference between the fair value of identifiable assets acquired and its tax value.

(b) Details of adjustment for goodwill arising from the acquisition are as follows:

	<u>Before adjustments</u>	<u>Adjustments</u>	<u>After adjustments</u>
Consideration transferred (cash)	₩ 30,782	-	30,782
Net fair value of assets and liabilities	(12,081)	(13,283)	(25,364)
Non-controlling interests(*)	3,020	3,420	6,440
Goodwill	₩ <u>21,721</u>	<u>(9,863)</u>	<u>11,858</u>

(*) Non-controlling interests were measured in proportion to the recognized amount of the fair value of identifiable net assets.

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51. Business combination under common control

On December 6, 2016, PT Bank Shinhan Indonesia merged PT Centratama Nasional Bank. The merger is accounted as a business combination under common control pursuant to K-IFRS No. 1103, "Business Combinations".

For the merger, the shares of PT Centratama Nasional Bank were exchanged with the shares of Shinhan Bank of Indonesia. The exchange ratio between the shares is one share of PT Bank Shinhan Indonesia for 2,357.93 shares of PT Centratama Nasional Bank. The purpose of the merger is for business synergy, cost reduction, and strengthening sales capacity in Indonesia.

(a) Details of the fair value of assets acquired and liabilities assumed are as follows:

	<u>Amount</u>
Asset:	
Cash and due from banks	₩ 15,066
Loans and receivables	66,339
Property and equipment	5,170
Other assets	8,995
	<u>95,570</u>
Liabilities:	
Deposits	74,373
Other liabilities	8,885
	<u>83,258</u>
Fair value of the identifiable assets acquired and liabilities assumed	₩ <u>12,312</u>

(b) The change in the interest of the Group due to the merger is summarised as follows:

i) Before merger

	<u>PT Bank Shinhan Indonesia</u>		<u>PT Centratama Nasional Bank</u>	
	<u>Number of shares</u>	<u>Ratio</u>	<u>Number of shares</u>	<u>Ratio</u>
The Group	217,850	97.76%	100,500,000	100%
Others	5,000	2.24%	-	0%
	<u>222,850</u>	<u>100%</u>	<u>100,500,000</u>	<u>100%</u>

ii) After merger

	<u>PT Bank Shinhan Indonesia</u>	
	<u>Number of shares</u>	<u>Ratio</u>
The Group(*)	260,472	98.12%
Others	5,000	1.88%
	<u>265,472</u>	<u>100%</u>

(*) As a result of unequal capital increase for the merger, the equity interest in PT Bank Shinhan Indonesia is 98.98%.

Investor Information

Forward-Looking Statements

Shinhan Financial Group's 2016 Annual Report may contain forward-looking statements to provide value-added account of Shinhan Financial Group's businesses and results of operations. These forward-looking statements reflect our current views with respect to future events and performance, and are generally identified by the use of forward-looking terminology, such as "expect", "plan", "intend", and similar expressions.

You are cautioned not to place undue reliance in these forward-looking statements, which reflect management's current analysis of future events.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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