# SHINHAN CARD CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

**December 31, 2018 and 2017**

(With Independent Auditors' Report Thereon)

# Contents

## Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Stockholder
Shinhan Card Co., Ltd.:

### *Opinion*

We have audited the accompanying consolidated financial statements of Shinhan Card Co., Ltd. and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

### *Basis for Opinion*

We conducted our audits in accordance with Korean Standards on Auditing (KSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other Matter*

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

### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with K-IFRS 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with KSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with KSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used in the preparation of the consolidated financial statements and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Seoul, Korea
March 11, 2019

This report is effective as of March 11, 2019, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

# Consolidated Statements of Financial Position

**As of December 31, 2018 and 2017**

| *(In millions of won, except share data)* | ***Note*** | | **2018** | **2017** |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and due from banks | *10,41* | ₩ | 637,990 | 566,970 |
| Trading financial assets | *11* | | - | 360,064 |
| Financial assets at fair value through profit or loss | *12* | | 253,854 | - |
| Derivative assets | *13* | | 7,477 | 3,966 |
| Loans and receivables, net | *14* | | - | 24,284,494 |
| Credit card assets at amortized cost, etc. | *14* | | 26,902,687 | - |
| Lease assets | *15* | | 365,581 | 103,620 |
| Available-for-sale financial assets | *16* | | - | 34,585 |
| Financial assets at fair value through other comprehensive income | *17* | | 34,519 | - |
| Property and equipment, net | *18* | | 88,601 | 82,358 |
| Intangible assets | *19* | | 49,184 | 45,936 |
| Deferred tax assets | *40* | | 224,856 | 208,032 |
| Other assets | *20* | | 864,706 | 677,537 |
| **Total assets** | | ₩ | 29,429,455 | 26,367,562 |
| **Liabilities** | | | | |
| Derivative liabilities | *13* | ₩ | 80,928 | 140,732 |
| Borrowings | *21* | | 2,415,507 | 1,964,344 |
| Debentures, net | *22* | | 16,691,757 | 13,959,909 |
| Liability for defined benefit obligations | *23* | | 18,670 | 3,015 |
| Current tax liabilities | *40* | | 89,906 | 123,904 |
| Provisions | *24* | | 182,477 | 137,356 |
| Other liabilities | *25,26* | | 3,948,743 | 3,763,183 |
| **Total liabilities** | | | 23,427,988 | 20,092,443 |
| **Equity** | | | | |
| Common stock | *27* | | 626,847 | 626,847 |
| Capital surplus | *27* | | 860,592 | 860,592 |
| Capital adjustments | *27* | | 1,234 | 10 |
| Accumulated other comprehensive loss | *27* | | (43,687) | (3,534) |
| Retained earnings | *27,28* | | 4,561,125 | 4,797,629 |
| **Equity attributable to owners of the Group** | | | 6,006,111 | 6,281,544 |
| **Non-controlling interests** | *27* | | (4,644) | (6,425) |
| **Total equity** | | | 6,001,467 | 6,275,119 |
| **Total liabilities and equity** | | ₩ | 29,429,455 | 26,367,562 |

*See accompanying notes to the consolidated financial statements.*

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income

**For the years ended December 31, 2018 and 2017**

| *(In millions of won, except earnings per share)* | ***Note*** | | **2018** | **2017** |
|---|---|---|---|---|
| Interest income | | ₩ | 2,013,810 | 1,880,908 |
| Financial assets at amortized cost | | | 2,013,810 | - |
| Loans and receivables | | | - | 1,880,908 |
| Interest expense | | | (430,710) | (379,854) |
| Net interest income | *32* | | 1,583,100 | 1,501,054 |
| Fee and commission income | | | 1,485,749 | 2,434,001 |
| Fee and commission income before K-IFRS No.1115 | | | 2,621,264 | |
| Consideration paid to customers | | | (1,135,515) | |
| Fee and commission expense | | | (1,253,393) | (2,265,803) |
| Fee and commission expense before K-IFRS No.1115 | | | (2,388,908) | |
| Consideration paid to customers | | | 1,135,515 | |
| Net fee and commission income | *33* | | 232,356 | 168,198 |
| Dividend income | *34* | | 1,393 | 12,400 |
| Net income on trading financial assets | *11* | | - | 2,040 |
| Net income on financial assets at fair value through profit or loss | *12* | | 46,111 | - |
| Net income (loss) on derivatives | *13* | | 98,475 | (246,175) |
| Net income (loss) on foreign currency transactions | | | (62,516) | 279,726 |
| Net gain on sales of available-for-sale financial assets | *16* | | - | 250,572 |
| Net impairment loss on financial assets | *35* | | - | (291,694) |
| Provision for credit loss allowance | *14,36* | | (466,447) | - |
| General administrative expenses | *37* | | (703,005) | (791,163) |
| Other operating income (loss), net | *38* | | (2,969) | 278,168 |
| **Operating income** | | | 726,498 | 1,163,126 |
| Non-operating expense, net | *39* | | (25,211) | (14,956) |
| **Profit before income tax** | | | 701,287 | 1,148,170 |
| Income tax expense | *40* | | (183,526) | (249,447) |
| **Profit for the year** | | ₩ | 517,761 | 898,723 |
| **Other comprehensive income (loss) :** | | | | |
| **Items that will never be reclassified to profit or loss** | | | | |
| Remeasurement of the net defined benefit obligations | *23,27* | ₩ | (10,481) | 21,873 |
| Net changes in the unrealized fair value of financial assets at fair value through other comprehensive income | *17,27* | | 2,385 | - |
| **Items that are or may be reclassified subsequently to profit or loss** | | | | |
| Net changes in the unrealized fair value of available-for-sale financial assets | *16,27* | | - | (150,392) |
| Net changes in the unrealized fair value of cash flow hedges | *13,27* | | (30,324) | 19,030 |
| Foreign currency translation adjustments for foreign operations | *27* | | (2,206) | (1,278) |
| **Other comprehensive loss for the year, net of tax** | | | (40,626) | (110,767) |
| **Total comprehensive income for the year** | | ₩ | 477,135 | 787,956 |

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income (continued)

**For the years ended December 31, 2018 and 2017**

| *(In millions of won, except earnings per share)* | ***Note*** | | **2018** | **2017** |
|---|---|---|---|---|
| **Profit attributable to:** | | | | |
| Owners of the Company | *30* | ₩ | 519,446 | 913,791 |
| Non-controlling interests | | | (1,685) | (15,068) |
| **Profit** | | ₩ | 517,761 | 898,723 |
| | | | | |
| **Total comprehensive income (loss) attributable to:** | | | | |
| Owners of the Company | | ₩ | 479,293 | 802,986 |
| Non-controlling interests | | | (2,158) | (15,030) |
| **Total comprehensive income** | | ₩ | 477,135 | 787,956 |
| | | | | |
| **Earnings per share** | | | | |
| Basic and diluted earnings per share (in won) | *30* | ₩ | 4,143 | 7,289 |

*See accompanying notes to the consolidated financial statements.*

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

# Consolidated Statements of Changes in Equity

**For the years ended December 31, 2018 and 2017**

| (In millions of won) | | 2017 Common stock | Capital surplus | Capital adjustments | Accumulated other comprehensive income (loss) | Retained earnings | Sub total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2017** | ₩ | 626,847 | 860,592 | (370) | 107,271 | 4,283,892 | 5,878,232 | 4,314 | 5,882,546 |
| Dividends | | - | - | - | - | (400,054) | (400,054) | - | (400,054) |
| Share-based payment transactions | | - | - | 380 | - | - | 380 | - | 380 |
| Changes in non-controlling interests | | - | - | - | - | - | - | 4,291 | 4,291 |
| **Retained earnings after appropriation:** | | | | | | | | | |
| Profit for the year | | - | - | - | - | 913,791 | 913,791 | (15,068) | 898,723 |
| Remeasurement of the net defined benefit obligations | | - | - | - | 21,873 | - | 21,873 | - | 21,873 |
| Net changes in the unrealized fair value of available-for-sale financial assets | | - | - | - | (150,392) | - | (150,392) | - | (150,392) |
| Net changes in the unrealized fair value of cash flow hedges | | - | - | - | 19,030 | - | 19,030 | - | 19,030 |
| Foreign currency translation adjustments for foreign operations | | - | - | - | (1,316) | - | (1,316) | 38 | (1,278) |
| **Balance at December 31, 2017** | ₩ | 626,847 | 860,592 | 10 | (3,534) | 4,797,629 | 6,281,544 | (6,425) | 6,275,119 |

| (In millions of won) | | 2018 Common stock | Capital surplus | Capital adjustments | Accumulated other comprehensive income (loss) | Retained earnings | Sub total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2018** | ₩ | 626,847 | 860,592 | 10 | (3,534) | 4,797,629 | 6,281,544 | (6,425) | 6,275,119 |
| **Effect of changes in accounting policies** | | - | - | - | - | (155,932) | (155,932) | | (155,932) |
| Dividends | | - | - | - | - | (600,018) | (600,018) | - | (600,018) |
| Share-based payment transactions | | - | - | 1,224 | - | - | 1,224 | - | 1,224 |
| Changes in non-controlling interests | | - | - | - | - | - | - | 3,939 | 3,939 |
| **Retained earnings after appropriation:** | | | | | | | | | |
| Profit for the year | | - | - | - | - | 519,446 | 519,446 | (1,685) | 517,761 |
| Remeasurement of the net defined benefit obligations | | - | - | - | (10,481) | - | (10,481) | - | (10,481) |
| Net changes in the unrealized fair value of financial assets at fair value through other comprehensive income | | - | - | - | 2,385 | - | 2,385 | - | 2,385 |
| Net changes in the unrealized fair value of cash flow hedges | | - | - | - | (30,324) | - | (30,324) | - | (30,324) |
| Foreign currency translation adjustments for foreign operations | | - | - | - | (1,733) | - | (1,733) | (473) | (2,206) |
| **Balance at December 31, 2018** | ₩ | 626,847 | 860,592 | 1,234 | (43,687) | 4,561,125 | 6,006,111 | (4,644) | 6,001,467 |

*See accompanying notes to the consolidated financial statements.*

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

**Consolidated Statements of Cash Flows**

**For the years ended December 31, 2018 and 2017**

| *(In millions of won)* | | **2018** | **2017** |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | ₩ | 701,287 | 1,148,170 |
| Adjustment for: | | | |
| Interest income | | (2,013,810) | (1,880,908) |
| Interest expense | | 430,710 | 379,854 |
| Dividend income | | (1,393) | (12,400) |
| Fee and commission income before K-IFRS No.1115 | | - | (323,919) |
| Consideration paid to customers | | 176,188 | - |
| Fee and commission expense | | 745 | 169,640 |
| Net gain on valuation of trading financial assets | | - | (64) |
| Net gain on sales of financial assets at fair value through profit or loss | | (6,413) | - |
| Net loss on valuation of financial assets at fair value through profit or loss | | 312 | - |
| Net loss (gain) on valuation and transaction of derivatives | | (98,475) | 246,175 |
| Net loss (gain) on foreign currency transaction | | 76,952 | (173,610) |
| Net gain on sales of available-for-sale financial assets | | - | (250,572) |
| Net impairment loss on financial assets | | - | 10,182 |
| Provision for credit loss allowance | | 466,447 | - |
| General administrative expenses | | 51,822 | 58,358 |
| Other operating expenses | | 51,622 | 34,330 |
| Non-operating expenses, net | | 799 | 146 |
| | | (864,494) | (1,742,788) |
| Changes in assets and liabilities: | | | |
| Trading financial assets | | - | (19,916) |
| Financial assets at fair value through profit and loss | | 110,064 | - |
| Loans and receivables, net | | - | (2,299,004) |
| Credit card assets at amortized cost, etc. | | (3,191,263) | - |
| Lease assets | | (313,210) | (109,402) |
| Other assets | | (175,989) | (38,364) |
| Liability for defined benefit obligations | | (15,171) | (25,595) |
| Provisions | | (3,126) | (51,273) |
| Other liabilities | | 93,655 | 481,464 |
| | | (3,495,040) | (2,062,090) |
| Income taxes paid | | (159,625) | (221,157) |
| Interest received | | 1,859,324 | 1,742,429 |
| Interest paid | | (429,421) | (374,415) |
| Dividend received | | 1,393 | 12,400 |
| **Net cash used in operating activities** | | (2,386,576) | (1,497,451) |

SHINHAN CARD CO., LTD. AND SUBSIDIARIES

**Consolidated Statements of Cash Flows (continued)**

**For the years ended December 31, 2018 and 2017**

| *(In millions of won)* | ***Note*** | | **2018** | **2017** |
|---|---|---|---|---|
| **Cash flows from investing activities** | | | | |
| Increase in restricted due from banks | | ₩ | (8,663) | (100,132) |
| Proceeds from disposal of financial assets at fair value through profit or loss | | | 6,413 | - |
| Acquisition of financial assets at fair value through profit or loss | | | (710) | - |
| Proceeds from disposal of available-for-sale financial assets | | | - | 266,483 |
| Acquisition of available-for-sale financial assets | | | - | (2,000) |
| Proceeds from disposal of financial assets at fair value through other comprehensive income | | | 200 | - |
| Acquisition of financial assets at fair value through other comprehensive income | | | (300) | - |
| Proceeds from disposal of property and equipment | | | 342 | 117 |
| Acquisition of property and equipment | | | (21,805) | (25,569) |
| Proceeds from disposal of intangible assets | | | 93 | 914 |
| Acquisition of intangible assets | | | (20,669) | (13,706) |
| Decrease in guarantee deposits | | | 48,937 | 51,099 |
| Increase in guarantee deposits | | | (53,162) | (60,679) |
| **Net cash provided by (used in) investing activities** | | | (49,324) | 116,527 |
| **Cash flows from financing activities** | | | | |
| Proceeds from borrowings | | | 1,738,119 | 1,212,293 |
| Repayment of borrowings | | | (1,284,393) | (628,387) |
| Proceeds from debentures | | | 5,831,259 | 4,703,013 |
| Repayment of debentures | | | (3,183,963) | (3,562,204) |
| Cash inflows from cash flow hedges | | | 10,166 | 65,220 |
| Cash outflows from cash flow hedges | | | (16,832) | (6,490) |
| Paid in capital from non-controlling interests | | | 3,939 | 4,291 |
| Dividends paid | | | (600,018) | (400,054) |
| **Net cash provided by financing activities** | | | 2,498,277 | 1,387,682 |
| **Effect of exchange rate fluctuations on cash and cash equivalents held** | | | (20) | (199) |
| **Net increase in cash and cash equivalents** | | | 62,357 | 6,559 |
| **Cash and cash equivalents at the beginning of year** | | | 380,874 | 374,315 |
| **Cash and cash equivalents at the end of year** | *41* | ₩ | 443,231 | 380,874 |

*See accompanying notes to the consolidated financial statements.*

## 1. Reporting Entity

General information of Shinhan Card Co., Ltd. (the "Company" or the "Controlling Company") and its subsidiaries (together referred to as the "Group") is as follows.

### (a) Controlling Company

The Controlling Company was incorporated on December 17, 1985. The address of the Company's registered office is Eulji-Ro 100, Building A, Jung-Gu, Seoul (Pine Avenue Eulji-Ro 2Ga). The Company provides credit card services, factoring, installment financing and lease financing under the Specialized Credit Finance Business Act.

As of December 31, 2018, the Company has approximately 12.50 million personal credit card holders (21.16 million including check card holders), 1.82 million merchants in its network and 24 branch offices (including head office). The Company is a wholly owned subsidiary of Shinhan Financial Group Co., Ltd. ("Shinhan Financial Group").

### (b) Subsidiaries

As of December 31, 2018 and 2017 consolidated subsidiaries are summarized below.

| | | | | 2018 | | 2017 | |
|---|---|---|---|---|---|---|---|
| **Subsidiaries** | **Location** | **Fiscal year-end** | **Operating activities** | **Controlling interest** | **Non-controlling interest** | **Controlling interest** | **Non-controlling interest** |
| Shinhan Card 2014-1 (*1),(*2) | Republic of Korea | December 31 | ABS | - | - | 0.5% | 99.5% |
| Shinhan Card 2014-2 (*1),(*2) | " | " | " | - | - | " | " |
| Shinhan Card 2015-1 (*1),(*2) | " | " | " | 0.5% | 99.5% | " | " |
| Shinhan Card 2016-1 (*1),(*2) | " | " | " | " | " | " | " |
| Shinhan Card 2017-1 (*1),(*2) | " | " | " | " | " | " | " |
| Shinhan Card 2017-2 (*1),(*2) | " | " | " | " | " | " | " |
| Shinhan Card 2017-3 (*1),(*2) | " | " | " | " | " | " | " |
| Shinhan Card 2018-1 (*1),(*2) | " | " | " | " | " | - | - |
| Shinhan Card 2018-2 (*1),(*2) | " | " | " | " | " | - | - |
| Shinhan Finance LLC | Kazakhstan | " | Installment, credit loan | 100.0% | - | 100.0% | - |
| Shinhan Indo Finance | Indonesia | " | Installment, credit card and lease financing | 50%+1 of the shares | 50%-1 of the shares | 50%+1 of the shares | 50%-1 of the shares |
| Shinhan Microfinance Co., Ltd. | Myanmar | " | Credit loan | 100.0% | - | 100.0% | - |
| Specified money in trusts (*1) | Republic of Korea | " | Trust asset management | 100.0% | - | 100.0% | - |

(*1) The above subsidiaries are structured entities and voting rights or similar rights are not major factors when determining control.

## 1. Reporting Entity, continued

### (b) Subsidiaries, continued

(*2) Although the Controlling Company's ownership percentage of shares for structured entities is less than 50%, structured entities are operated according to necessity for the Controlling Company's specific business and the Controlling Company holds a majority of the benefits in the structured entities' operations. For this reason, the Controlling Company is considered to have power to control the structured entities. The Controlling Company can transfer additional credit card assets if these subsidiaries are unable to repay securitized debentures connected to the entities' underlying assets.

### (c) Change in subsidiaries

(i) Subsidiaries newly included in consolidated financial statements during the year ended December 31, 2018 are as follows;

| Subsidiary | Reason |
|---|---|
| Shinhan Card 2018-1 | New Investment |
| Shinhan Card 2018-2 | New Investment |

(ii) Subsidiary excluded from consolidated financial statements during the year ended December 31, 2018 is as follows;

| Subsidiary | Reason |
|---|---|
| Shinhan Card 2014-1 | Liquidation |
| Shinhan Card 2014-2 | Liquidation |

(In millions of won)

## 1. Reporting Entity, continued

**(d) Condensed financial information for the Group's subsidiaries as of and for the years ended December 31, 2018 and 2017 is as follows:**

| | | 2018 | | | | |
|---|---|---|---|---|---|---|
| **Subsidiaries** | | **Total assets** | **Total liabilities** | **Total equity** | **Profit (loss) for the year** | **Total comprehensive income (loss)** |
| Shinhan Card 2014-2 | ₩ | - | - | - | 476 | 510 |
| Shinhan Card 2015-1 | | 358,681 | 361,247 | (2,566) | (868) | (877) |
| Shinhan Card 2016-1 | | 606,119 | 611,850 | (5,731) | (3,634) | (3,478) |
| Shinhan Card 2017-1 | | 798,306 | 806,467 | (8,161) | (7,123) | (9,459) |
| Shinhan Card 2017-2 | | 765,804 | 774,427 | (8,623) | (6,763) | (9,074) |
| Shinhan Card 2017-3 | | 508,787 | 515,850 | (7,063) | (5,495) | (8,246) |
| Shinhan Card 2018-1 | | 625,107 | 632,942 | (7,835) | (4,860) | (7,835) |
| Shinhan Card 2018-2 | | 790,741 | 796,755 | (6,014) | (2,825) | (6,014) |
| Shinhan Finance LLC | | 13,832 | 3,375 | 10,458 | 964 | 89 |
| Shinhan Indo Finance | | 80,656 | 89,944 | (9,288) | (3,371) | (4,317) |
| Shinhan Microfinance Co., Ltd. | | 8,816 | 2,822 | 5,994 | 162 | (222) |
| Specified money in trusts | | 700,000 | - | 700,000 | 89 | 89 |

| | | 2017 | | | | |
|---|---|---|---|---|---|---|
| **Subsidiaries** | | **Total assets** | **Total liabilities** | **Total equity** | **Profit (loss) for the year** | **Total comprehensive income (loss)** |
| Shinhan Card 2013-1 | ₩ | - | - | - | (3) | (3) |
| Shinhan Card 2014-1 | | - | - | - | 6,266 | 7,735 |
| Shinhan Card 2014-2 | | 349,399 | 349,910 | (511) | 9,002 | 11,579 |
| Shinhan Card 2015-1 | | 702,737 | 704,426 | (1,689) | 4,891 | 7,249 |
| Shinhan Card 2016-1 | | 747,370 | 749,623 | (2,253) | 5,462 | 8,211 |
| Shinhan Card 2017-1 | | 798,525 | 797,227 | 1,298 | (539) | 1,298 |
| Shinhan Card 2017-2 | | 773,590 | 773,139 | 451 | (495) | 451 |
| Shinhan Card 2017-3 | | 512,615 | 511,431 | 1,184 | 213 | 1,184 |
| Shinhan Finance LLC | | 10,664 | 295 | 10,369 | 575 | (342) |
| Shinhan Indo Finance | | 88,610 | 101,461 | (12,851) | (30,135) | (30,059) |
| Shinhan Microfinance Co., Ltd. | | 7,605 | 1,389 | 6,216 | (194) | (631) |
| Specified money in trusts | | 443,000 | - | 443,000 | 187 | 187 |

## 2. Basis of Preparation

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 12, 2019, which will be submitted for approval to the stockholder's meeting to be held on March 26, 2019.

The consolidated financial statements have been prepared by initially applying K-IFRS No.1115 *Revenue from contracts with customers* and K-IFRS No.1109 *Financial instruments*. This change is explained in note 2. (d).

### (a) 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;
- financial instruments at fair value through other comprehensive income are measured at fair value;
- liabilities for share-based payment arrangements are measured at fair value; and
- liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets.

### (b) Functional and presentation currency

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

### (c) Use of estimates and judgements

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

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

Information about critical judgements in applying accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are described in note 5.

**2. Basis of Preparation, continued**

**(d) Changes in Accounting Policies**

The Group has initially adopted K-IFRS No.1115 *Revenue from Contracts with Customers* and K-IFRS No.1109 *Financial Instruments* from January 1, 2018. Other new standards that applied from January 1, 2018 do not significantly affect on the Group's financial statements.

(i) K-IFRS No.1115 *Revenue from Contracts with Customers*

K-IFRS No.1115 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*, K-IFRS No.2031 *Revenue- Barter transactions involving advertising services*, K-IFRS No.2113 *Customer Loyalty Programs*, K-IFRS No.2115 *Agreements for the construction of real estate*, K-IFRS No.2118 *Transfers of assets from customers*.

Under K-IFRS 1115, revenue is recognized when a customer controls goods or services. Control is transferred over a point or period and judgment is required.

The Group has recognized the cumulative effect of applying the initially adoption of K-IFRS No.1115 as of the initially application date, January 1, 2018, retroactively applying K-IFRS No.1115 without applying the practical expedients. Accordingly, the Group has not restated the information disclosed in 2017, which applies K-IFRS No.1011, K-IFRS No.1018 and related interpretations. In addition, the disclosure requirements of K-IFRS No.1115 have not generally been applied to comparative information.

The amount allocated to the credit card points from customer loyalty program was deferred and recognized as unearned revenue or recognized as a provision under onerous contract. However such amount is recognized as a consideration payable to a customer under K-IFRS No. 1115. As the impact of transition to K-IFRS No.1115, the Group has reclassified provision for customer loyalty programmes amounting to ₩26,104 million, unearned revenue ₩196,721 million, and accounts payable ₩62,496 million as other liabilities (point liability) amounting to ₩285,321 million on January 1, 2018.

There is no effect of changes in retained earnings and non-controlling interest from the adoption of K-IFRS No.1115.

The effect of applying K-IFRS No.1115 in the statements of financial position and statement of comprehensive income as of and for the year ended December 31, 2018 of the Group is as follows. The effect on the statements of cash flows for the year then ended of the Group is not significant.

(In millions of won)

**2. Basis of Preparation, continued**

**(d) Changes in Accounting Policies, continued**

(i) K-IFRS No.1115 *Revenue from Contracts with Customers*, continued

The effect on the consolidated statement of financial position as of December 31, 2018 is as follows:

| | | Amount after K-IFRS No.1115 | Adjustments | Amount before K-IFRS No.1115 |
|---|---|---|---|---|
| **Liabilities(*1)** | | | | |
| Provision | | | | |
| Provision for customer loyalty programmes | ₩ | - | 24,700 | 24,700 |
| Other liabilities | | | | |
| Account payable | | 2,500,661 | 41,758 | 2,542,419 |
| Unearned revenue | | 106,845 | 209,240 | 316,085 |
| Others | | 283,550 | (275,698) | 7,852 |

The effect on the consolidated statement of comprehensive income for the year ended December 31, 2018 is as follows:

| | | Amount after K-IFRS No.1115 | Adjustments | Amount before K-IFRS No.1115 |
|---|---|---|---|---|
| **Net Fee and Commission Income (*1)(*2)** | | | | |
| Fee and commission income credit card assets | ₩ | 1,357,236 | 1,135,515 | 2,492,751 |
| Fee and commission expense credit card assets | | (1,144,771) | (1,135,515) | (2,280,286) |

(*1) Before adopting K-IFRS No. 1115, the Group defers and recognizes the amount allocated to the credit card points as unearned revenue and revenue is recognized only when the points are redeemed and the Group has fulfilled its obligation to provide the benefits. In addition, a provision for onerous contracts is recognized when the expected benefits to be derived by the Group from customer loyalty program are lower than the unavoidable cost of meeting its obligations under the programmes. However under K-IFRS No.1115, the amount allocated to the credit card points is regarded as consideration payable to the customers and recognized as a reduction of fee and commission income, estimated as fair value of the monetary benefits taking into account the expected redemption rate.

(*2) The Group has changed the recognition of card holder service fee paid to a customer recognized as fee and commission expense before adopting K-IFRS No.1115, to reduction of fee and commission income under K-IFRS No.1115.

(In millions of won)

**2. Basis of Preparation, continued**

**(d) Changes in Accounting Policies, continued**

(ii) K-IFRS No.1109 *Financial Instruments*

K-IFRS No.1109 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces existing guidance in K-IFRS No.1039 *Financial Instruments*: Recognition and Measurement.

The following table summarizes the impact, net of tax, of transition to K-IFRS No.1109 on the opening balance of retained earnings as of January 1, 2018.

| | | Amount |
|---|---|---|
| **Retained earnings** | | |
| Recognition of expected credit losses under K-IFRS No.1109 | ₩ | 215,080 |
| Related tax | | (59,148) |
| Impact at January 1, 2018 | ₩ | 155,932 |

The details of K-IFRS No.1109 and the nature and effect of the changes to previous accounting policies are set out below.

ⓐ Classification and measurement of financial assets and financial liabilities

K-IFRS No.1109 largely retains the existing requirements in K-IFRS No.1039 for the classification and measurement of financial liabilities. However, it eliminates the previous K-IFRS No.1039 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of K-IFRS No.1109 has not had a significant effect on the Group’s accounting policies related to financial liabilities and derivative financial instruments (for derivatives that are used as hedging instruments, see (ⓒ) below). The impact of K-IFRS No.1109 on the classification and measurement of financial assets is set out below.

On initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (“FVOCI”) – debt investment; FVOCI – equity investment; or fair value through profit or loss (“FVTPL”). The classification of financial assets under K-IFRS No.1109 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

(In millions of won)

**2. Basis of Preparation, continued**

**(d) Changes in Accounting Policies, continued**

(ii) K-IFRS No.1109 *Financial Instruments*, continued

ⓐ Classification and measurement of financial assets and financial liabilities, continued

The effect of adopting K-IFRS No.1109 on the carrying amounts of financial assets at January 1, 2018 relates solely to the new impairment requirements, as described further below.

The following table and the accompanying notes below explain the original measurement categories under K-IFRS No.1039 and the new measurement categories under K-IFRS No.1109 for each class of the Group's financial assets as at January 1, 2018.

| | Classification under K-IFRS No.1039 | Classification under K-IFRS No.1109 | | Amounts under K-IFRS No.1039 | Amounts under K-IFRS No.1109 |
|---|---|---|---|---|---|
| Due from banks | Loans and receivables(*1) | Amortized cost | ₩ | 566,917 | 566,917 |
| Loans | Loans and receivables(*1) | Amortized cost | | 24,937,001 | 24,937,001 |
| Other financial assets | Loans and receivables(*1) | Amortized cost | | 498,492 | 498,492 |
| Trading assets (beneficiary certificates) | Fair value through profit or loss | Financial assets at FVTPL | | 360,064 | 360,064 |
| Available-for-sale financial assets (debt securities) | Available-for-sale financial assets(*2) | Financial assets at FVTPL | | 1,953 | 1,953 |
| Available-for-sale financial assets (equity securities) | Available-for-sale financial assets(*3) | Financial assets at FVTPL | | 1,503 | 1,503 |
| | Available-for-sale financial assets(*4) | Financial assets at FVOCI | | 31,129 | 31,129 |
| | | | ₩ | 26,397,059 | 26,397,059 |

(*1) Loans and other receivables that were classified as loans and receivables under K-IFRS No.1039 are now classified at amortized cost. An increase of ₩155,612 million in the loss allowance over these receivables was recognized in opening retained earnings at January 1, 2018 on transition to K-IFRS No.1109.

(*2) The corporate debt securities categorised as available-for-sale under K-IFRS No.1039 are held by the Group in a separate portfolio to provide interest income, but may be sold to meet liquidity requirements arising in the normal course of business. The Group considers that these securities are held within a business model whose objective is not achieved both by collecting contractual cash flows and by selling securities. These assets have therefore been classified as financial assets at FVTPL under K-IFRS No.1109.

(*3) Under K-IFRS No.1039 these equity securities were designated as at available-for-sale financial assets, but in principle, these equity securities have been classified as measured at FVTPL under K-IFRS No.1109.

(*4) These equity securities represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by K-IFRS No.1109, the Group has designated these investments at the date of initial application as measured at FVOCI.

(In millions of won)

**2. Basis of Preparation, continued**

**(d) Changes in Accounting Policies, continued**

(ii) K-IFRS No.1109 *Financial Instruments*, continued

ⓑ Impairment of financial assets

K-IFRS No.1109 replaces the 'incurred loss' model in K-IFRS No.1039 with an expected credit loss ("ECL") model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under K-IFRS No.1109, credit losses are recognized earlier than under K-IFRS No.1039.

The financial assets at amortized cost consist of credit card assets, cash and due from banks, accounts receivable and accrued income, etc..

Under K-IFRS No.1109, loss allowances are measured on either of the following bases:
- 12 month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

For assets in the scope of the K-IFRS No.1109 impairment model, impairment losses are generally expected to increase and become more volatile. As a result of the application of K-IFRS No.1109's impairment requirements at January 1, 2018, the Group incurred an additional loss allowance as follows.

| Classification under K-IFRS No.1039 | Classification under K-IFRS No.1109 | | Loss allowances under K-IFRS No.1039 | Loss allowances under K-IFRS No.1109 | Differences |
|---|---|---|---|---|---|
| Loans | Amortized cost | ₩ | 652,507 | 806,939 | 154,432 |
| Other financial assets | Amortized cost | | 8,688 | 9,868 | 1,180 |
| | | | 661,195 | 816,807 | 155,612 |
| Allowance for unused credit commitments | Allowance for unused credit commitments | | 72,793 | 132,261 | 59,468 |
| | | ₩ | 733,988 | 949,068 | 215,080 |

**2. Basis of Preparation, continued**

**(d) Changes in Accounting Policies, continued**

(ii) K-IFRS No.1109 *Financial Instruments*, continued

ⓒ Hedge accounting

The Group has elected to adopt the new general hedge accounting model in K-IFRS No.1109. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses swap contracts to hedge the variability in cash flows arising from changes in interest rates and foreign exchange rates relating to borrowings and debentures.

The effective portion of changes in fair value of hedging instruments is accumulated in a cash flow hedge reserve as a separate component of equity.

There was no effect of adjustments arising from application of K-IFRS No.1109 hedge accounting requirements on the amounts presented as of January 1, 2018.

ⓓ Transition

Changes in accounting policies resulting from the adoption of K-IFRS No.1109 have been applied retrospectively, except as described below.

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of K-IFRS No.1109 are recognized in retained earnings and reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of K-IFRS No.1109 but rather those of K-IFRS No.1039.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

All hedging relationships designated under K-IFRS No.1039 at December 31, 2017 met the criteria for hedge accounting under K-IFRS No.1109 at January 1, 2018 and are therefore regarded as continuing hedging relationships.

## 3. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for those as disclosed in note 2 (4).

### (a) Operating segment

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. The Group has a single reportable segment. Accordingly, information about segment assets, liabilities and profit or loss is not disclosed.

### (b) Basis of consolidation

(i) Subsidiaries

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

If a member of the Group uses accounting policies other than those adopted in the consolidated financial statements for like 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 has established a number of structured entity by way of the transfer of credit card assets and others. Structured entity is consolidated if, based on an evaluation of the substance of its relationship with the Group and the Structured entity's risks and rewards, the Group concludes that it controls the Structured entity.

(iii) Elimination of 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.

**3. Significant Accounting Policies, continued**

**(c) Cash and cash equivalents**

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

**(d) Non-derivative financial assets**

(i) Recognition and initial measurement

Issued debentures are initially recognized at the time of issue. Other financial instruments and financial liabilities are recognized only when the Group becomes a party to the contract for the financial instrument. At initial recognition, financial assets or financial liabilities are measured at fair value, and transaction costs directly related to the acquisition of the financial assets or the issue of the financial liabilities are added to fair value unless they are measured at fair value through profit or loss.

(ii) Classification and subsequent measurement

***Financial asset - accounting policies adopted from January 1, 2018***
On initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or fair value through profit or loss ("FVTPL"). Unless the Group changes its business model for managing financial assets, after first recognition, the financial assets cannot be reclassified. When, and only when, the Group changes its business model for managing financial assets, it shall reclassify all affected financial assets at the first day of the Group's next reporting period.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:
- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**3. Significant Accounting Policies, continued**

**(d) Non-derivative financial assets, continued**

(ii) Classification and subsequent measurement, continued

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets (refer to Note 7). On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

***Business model - accounting policies adopted from January 1, 2018***
The Group assesses the objective of the business model held at the portfolio level of financial assets because it best reflects the way the business is managed and information is provided to management. Such information takes into account the following:
- The accounting policies and objectives specified for the portfolio and the actual operation of these policies. This includes management's strategy focused on obtaining contractual interest revenue, maintaining the level of interest revenue, and financing the debt financing and matching the duration of the financial asset's duration and on the outflow or realization of expected cash flows through the sale of the asset;
- Assessing the performance of financial assets held in a business model and reporting the assessment to key management personnel;
- The risks affecting the performance of the business model (and the financial assets held in the business model) and how they are managed;
- Compensation for management (e.g., compensation based on the fair value of the managed asset or on the contractual cash flows received);
- The frequency, amount, timing, reasons and expectations of future sales activities of financial assets in prior periods.

For this purpose, transfers of financial assets from transactions that do not meet the derecognition requirements to third parties are not considered sales.

A portfolio of financial assets that meets the definition of trading or whose performance is valued on a fair value basis is measured at fair value through profit or loss.

***Contractual cash flows are solely payments of principal and interest on the principal amount outstanding - accounting policies adopted from January 1, 2018***
The principal amount is defined as the fair value at initial recognition of the financial asset. Interest consists of profit as well as consideration for the time value of money, consideration for the credit risk associated with the principal balance in a particular period, and consideration for other basic loan risks and costs (such as liquidity risk and operating costs).

In assessing whether contractual cash flows consist solely of principal and interest payments, the Group considers the terms and conditions of the instrument. If a financial asset contains a contractual term that changes the timing or amount of contractual cash flows, the entity must determine whether the contractual cash flows that may arise over the life of the financial instrument are solely payments of principal and interest.

**3. Significant Accounting Policies, continued**

**(d) Non-derivative financial assets, continued**

(ii) Classification and subsequent measurement, continued

To assess this, the Group considers the following:
- Contractual terms that change the timing or amount of contractual cash flows;
- Terms that adjusts the contractual interest rate, including variable interest rate features;
- Prepayment features and extension features;
- Terms and conditions that limit our claims on cash flows arising from specific assets. (e.g., non-recourse features)

If the prepayment amount represents interest on substantially outstanding principal and remaining principal and includes reasonable additional compensation for early termination of the contract, the early repayment characteristics are consistent with the terms of paying principal and interest on a specified date.

In addition, for financial assets acquired by significantly discounting or premiuming the contractual par amount, the prepayment amount effectively represents the contractual par amount and the contractual interest accrual (but unpaid) and the prepayment feature meets this condition when the fair value of the feature is insignificant at initial recognition of the financial asset.

***Subsequent measurement and profit or loss - accounting policies adopted from January 1, 2018***
The following accounting policies apply to the subsequent measurement of financial assets.

| Category of financial instruments | Accounting policies |
|---|---|
| Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. But please refer to note 3.(e) for derivative financial assets designated as the hedging instruments. |
| Financial assets at amortized cost | These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, impairment and any gain or loss on derecognition are recognized in profit or loss. |
| Debt investments at FVOCI | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. |
| Equity investments at FVOCI | These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss. |

## 3. Significant Accounting Policies, continued

### (d) Non-derivative financial assets, continued

(ii) Classification and subsequent measurement, continued

***Financial asset - accounting policies applied before January 1, 2018***
Financial assets are classified into financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets, and derivative financial assets.

***Subsequent measurement and profit or loss - accounting policies applied before January 1, 2018***
The following accounting policies apply to the subsequent measurement of financial assets.

| Category of financial instruments | Accounting policies |
|---|---|
| Financial assets at fair value through profit or loss | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. However, please refer to note 3.(e) for derivative financial assets designated as the hedging instruments. |
| Held-to-maturity investments | Subsequent to initial recognition, they are measured at amortized cost using the effective interest method. |
| Loans and receivables | Subsequent to initial recognition, they are measured at amortized cost using the effective interest method. |
| Available-for-sale financial assets | Subsequent to initial recognition, they are measured at fair value. However, investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. |

(iii) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

When the Group transfers a right on cash flow of a financial asset, but, retains substantially all of the risk and rewards of ownership relating the transferred asset, the transferred assets are continuously recognized, and the proceeds from the transfer are recognized as a liability.

(iv) Offsetting

Financial assets and liabilities are offset only when the Group has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

## 3. Significant Accounting Policies, continued

### (e) Derivative financial assets

(i) Derivatives and Hedge Accounting - accounting policies adopted from January 1, 2018

The Group holds derivative financial instruments to hedge foreign exchange and interest rate exposures. If the host contract is not a financial asset and meets certain requirements, the embedded derivative is accounted for separately and separated from the host contract.

Derivatives are measured at fair value on initial recognition and subsequently measured at fair value and changes are generally recognized in profit or loss.

The Group designate specific derivatives and non-derivative financial liabilities as hedging instruments to hedge the variability of cash flows associated with future forecast transactions that are likely to arise from changes in exchange rates and interest rates, as the purpose of hedging exchange risk against net investments in foreign operations.

At the inception of the hedge, the Group documents the purpose and strategy of risk management to perform the hedge. The Group documents the economic relationship between the hedged item and the hedging instrument, including whether changes in the cash flows of the hedged item and the hedging instrument are expected to offset each other.

(ii) Cash flow hedge - accounting policies adopted from January 1, 2018

When a derivative is designated as a cash flow hedge, an effective part of the change in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedge reserve. Effective portions of the change in the fair value of the derivative recognized in other comprehensive income limit the cumulative change in the fair value of the hedged item determined on the basis of present value from the inception of the hedge. Ineffectiveness of changes in the fair value of the derivative is recognized immediately in profit or loss.

If a hedged item that is a forecast transaction is subsequently recognized in a non-financial asset, the cumulative hedge reserve and the cost of the hedge are included directly in the initial cost of the non-financial asset when the non-financial asset is recognized.

For other hedged items that are forecast transactions, the accumulated hedge reserve and the cost of the hedge are reclassified to profit or loss in the same period or in the period during which the expected hedged future cash flows affect profit or loss.

If the hedge no longer meets the hedge accounting requirements or the hedging instrument is sold, decimated, terminated or exercised, the hedge accounting is discontinued prospectively.

If a non-financial item is a recognized hedge transaction, the cumulative amount of the hedge reserve and the cost of the hedge are left in the equity item until the non-financial item is initially recognized and the amount is included in the cost of the non-financial item. In the case of cash flow hedges that are not the case, the amount is reclassified to profit or loss as a reclassification adjustment for the period in which the hedged expected cash flows affect profit or loss.

**3. Significant Accounting Policies, continued**

**(e) Derivative financial assets, continued**

(ii) Cash flow hedge - accounting policies adopted from January 1, 2018, continued

If future cash flows of hedged items are no longer expected, the accumulated cash flow hedge reserve and the costs of hedging are reclassified to profit or loss immediately.

(iii) Net-investment hedge - accounting policies adopted from January 1, 2018

If a derivative or non-derivative financial liability is designated as a hedging instrument for a net investment in a foreign operation, an effective portion of the change in the fair value of the hedging instrument is recognized in other comprehensive income in the case of a non-derivative instrument and presented as a transaction reserve in equity. Ineffectiveness is recognized immediately in profit or loss.

The amounts recognized in other comprehensive income are reclassified to profit or loss as reclassification adjustments at the disposal of the foreign operation.

(iv) Derivatives and Hedge Accounting - accounting policies applied before January 1, 2018

The accounting polices applied in the comparative financial statements in 2017 are similar with those applied in 2018.

**(f) Fair value of financial instruments**

Fair value is the amount for which an asset could be exchanged, or a liability settled, could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

For financial instruments traded in active markets, the fair value of financial instruments is measured at quoted prices. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm’s length transactions between knowledgeable, willing parties, if available, reference to the current fair value of other instruments that are substantially the same. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-specific inputs. Periodically, the Group calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument or based on any available and observable market data.

The fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. However, if part of the consideration given or received is for something other than the financial instrument, the fair value of the financial instrument is estimated, using a valuation technique. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset.

The fair value of interest-free installment purchases (which is offered for marketing purpose to expand credit sales) is measured by using the discount rate considering the credit rating of the Group and the credit risk of customers. As the source of the yield and the purpose of customers using interest-free installment purchases are different from those of installment purchases with interest, the discount rate is calculated in that way.

**3. Significant Accounting Policies, continued**

**(g) Impairment of financial assets**

(i) Impairment of financial assets - accounting policies adopted from January 1, 2018

The Group recognizes a loss allowance for expected credit losses on the following assets:
- Financial assets measured at amortized cost.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12 month ECLs:
- Financial instrument that are determined to have low credit risk at the reporting date; and
- Financial instrument for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly when:
- Asset credit quality is cautionary or less
- Significant changes in credit rating
- Specified overdue pool segment (Personal card assets past due over seven days, etc.)

The Group considers a financial asset to be in default when:
- The financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

***Measurement of ECLs***
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

***Credit-impaired financial assets***
At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

**3. Significant Accounting Policies, continued**

**(g) Impairment of financial assets, continued**

(i) Impairment of financial assets - accounting policies adopted from January 1, 2018, continued

Evidence that financial assets are impaired includes observable information.

- Significant financial difficulty of the borrower or issuer
- Default or delinquency in interest or principal payments
- Restructuring of a loan or a concession granted by the Group, which the Group would not otherwise consider
- Indications that a borrower or issuer will enter bankruptcy or other financial reorganization
- The disappearance of an active market for a security
- Observable data 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 individual cash flows cannot be discriminated

***Presentation of impairment***

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

***Write-off***

If there is no reasonable expectation for the recovery of all or some of the contractual cash flows of the financial asset, remove the asset. For individual customers, based on past experience in recovering similar assets, the Group deducts the carrying amount if a financial asset is more than 180 days overdue and evaluate whether there is reasonable expectation of recovery for corporate customers to evaluate the timing and amount separately. The Group does not expect to significantly recover the amounts. However, each financial asset may be subject to recovery activities in accordance with the Group's procedures for the recovery of the expired amounts.

(ii) Impairment of financial assets - accounting policies applied before January 1, 2018

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets, except for financial assets at fair value through profit or loss, is impaired. A financial asset is impaired if objective evidence indicates that loss events have occurred after the initial recognition of the asset, and that they had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, a financial asset is not impaired by the expected future loss event.

Objective evidence that financial assets are impaired includes the following loss events:

- Significant financial difficulty of the borrower or issuer
- Default or delinquency in interest or principal payments
- Restructuring of a loan or a concession granted by the Group, which the Group would not otherwise consider
- Indications that a borrower or issuer will enter bankruptcy or other financial reorganization
- The disappearance of an active market for a security
- Observable data 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 individual cash flows cannot be discriminated

**3. Significant Accounting Policies, continued**

**(g) Impairment of financial assets, continued**

(ii) Impairment of financial assets - accounting policies applied before January 1, 2018, continued

In addition to the types of events above, objective evidence of impairment for an equity instrument classified as available-for-sale financial assets includes a significant or prolonged decline in the fair value of an equity instrument below its cost. If there are the objective evidences of impairment, the impairment losses measured by the following financial asset categories are recognized in profit or loss.

***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.

The impairment loss of loans and receivables measured at amortized cost which is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.
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 period.

***Financial assets carried at cost***
The amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

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

***Held-to-maturity financial assets***
An impairment loss in respect of a financial asset 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. The impairment losses of held-to-maturity financial assets and available-for-sale financial assets are recognized by reducing the carrying amount directly. 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 period. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The impairment losses on held-to-maturity financial assets are reduced from the carrying amount directly.

**3. Significant Accounting Policies, continued**

**(h) Property and equipment**

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. The Group elected to measure land and buildings at fair value at the date of transition and use those fair values as their deemed costs. After first recognition, property and equipment are recognized as book value, which is the amount of taking accumulated depreciation and accumulated impairment losses off acquisition cost.

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 costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Land is not depreciated. Other 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. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment are recognized in other operating income.

The estimated useful lives and depreciation methods are as follows:

| Descriptions | Useful lives | Depreciation method |
|---|---|---|
| Buildings | 40 years | Straight-line method |
| Vehicles | 5 years | Straight-line method |
| Other tangible assets | 4 years | Straight-line method |

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

**3. Significant Accounting Policies, continued**

**(i) Intangible assets**

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

Amortization of intangible assets 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 |
|---|---|
| Membership | Indefinite |
| Development cost | 4 years |
| Software | 4 years |
| Other intangible assets | 5 years or less |

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

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is 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.

**(j) Leases**

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

***Finance lease***
A finance lease receivable is the net investment in the lease asset representing the aggregate future minimum lease payments including unguaranteed residual value, if any. The difference between the finance lease receivable and the book value of the underlying asset is recorded as gain (loss) on disposal of lease asset. Additionally, the lease payments received are recognized as collection of finance lease receivable and interest income, determined using the effective interest rate. The Group also recognizes initial direct costs incurred in negotiating and arranging a finance lease, included as part of net investment, and those costs are expensed as an adjustment to revenue over the lease term.

***Operating lease***
For an operating lease, revenue is recognized evenly throughout the lease period, and the operating lease assets are depreciated using the same depreciation method and estimated useful lives used for similar assets held by the Group. The Group also recognizes initial direct costs incurred in negotiating and arranging an operating lease, as a separated asset. The depreciation for leased assets is consistent with the Group's depreciation for similar assets.

**3. Significant Accounting Policies, continued**

**(k) Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than assets related to employee benefit and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

**(l) Non-derivative financial liabilities**

Financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of a financial liability. Financial liabilities are recognized in the consolidated financial statements when the Group becomes a party to the contractual provisions of the instrument.

***Financial liabilities at fair value through profit or loss***
A financial liability is classified at fair value through profit or loss if it is classified as held for trading or designated as such upon 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. Attributable transaction costs are recognized in profit or loss as incurred.

***Other financial liabilities***
The financial liabilities that are not classified as at fair value through profit or loss are classified into other financial liabilities. The liabilities are measured at fair value less transaction costs that are directly attributable to the issuance upon initial recognition. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

***Derecognition of financial liabilities***
The Group removes a financial liability from its consolidated statement of financial position only when it is extinguished – i.e. when its contractual obligations are discharged, cancelled or expired.

**3. Significant Accounting Policies, continued**

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

(ii) Other long-term employee benefits

The Group's net obligation in respect of other long-term employee benefits that are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

(iii) Post-employment benefit plan

The Group has introduced both a defined benefit pension plan and defined contribution pension plan. Employees have a right to choose one of those pension plans.

***Defined contribution plans***
The Group has no further payment obligations once the contributions have been paid, which are classified as a defined contribution plan. The contributions are recognized as an expense, unless included in the cost of an asset. 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, for example, a reduction in future payments or cash refund.

***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 remeasurements 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.

**3. Significant Accounting Policies, continued**

**(m) Employee benefits, continued**

(iv) Termination benefits

Termination benefits are recognized as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

**(n) 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. If the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

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

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

The Group recognized provisions with regard to litigation and unused credit commitments for credit purchases and cash advances. Allowance for unused credit commitments is estimated using valuation model by credit conversion factor, probability of default and loss given default. In addition, in accordance with rental contracts that require restoration at the end of the contract period, present values of the expected restoration costs are recognized as allowance for asset retirement obligation.

**3. Significant Accounting Policies, continued**

**(o) 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.

(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.

(iii) Translation of the net investment in foreign operations

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.

**3. Significant Accounting Policies, continued**

**(p) Share capital**

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

**(q) Share-based payment transactions**

For equity-settled share-based payment transactions, the Group measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. 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.

Shinhan Financial Group, which is the parent company of the Group, has granted shares or share options to the Group’s employees. In accordance with a repayment arrangement with Shinhan Financial Group, the Group is required to pay Shinhan Financial Group for the provision of the share-based payments. The Group recognizes the costs as expenses and accrued expenses in liabilities for the service period. When vesting conditions are not satisfied because of death, retirement or dismissal of employees during the specified service period, no amount is recognized for goods or services received on a cumulative basis. Share-based payment arrangements in which the Group has no obligation to settle the share-based payment transaction are accounted for as equity-settled share-based payment transactions, regardless of the repayment arrangement with Shinhan Financial Group.

**(r) Revenue from Contracts with Customers**

The Group recognizes fee income from cardholders and merchants on an accrual basis applying the five-step approach (Step 1: Identify the contract(s) with a customer, Step 2: Identify the performance obligations in the contract, Step 3: Determine the transaction price, Step 4: Allocate the transaction price to the performance obligations in the contract, Step 5: Recognize revenue when the entity satisfied a performance obligation). However, the Group recognizes service charges from delinquent cardholders on cash basis. Certain fees associated with lending activities which meet specified criteria, are deferred and amortized over the life of the loan as an adjustment to the carrying amount of the loan. The amortization of deferred fee is recognized as operating revenue or expense by the effective interest rate method.

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 or by offering a variety of gifts. The amount allocated to the points is estimated by reference to the fair value of the monetary and non-monetary benefits for which they could be redeemed, since the fair value of the points themselves is not directly observable. The fair value of the benefits is estimated taking into account the expected redemption rate and the timing of such expected redemptions. The amount allocated to the points is regarded as consideration payable to the customer and recognized as a reduction of fee and commission income.

## 3. Significant Accounting Policies, continued

### (s) Finance income and finance costs

The Group's Finance income and finance costs consist of:
- Interest income
- Interest expense
- Dividend income
- Net income or loss on financial assets measured at fair value through profit or loss
- Net income or loss on foreign currency transactions
- Net impairment losses or reversals of impairment losses on financial assets measured at amorized cost
- Remeaseurement gains on acquirer's previously held equity interest in the acquiree at its acquisition-date fair value.
- Loss of changes in fair value of contingent consideration classfied as a financial liability
- Hedge ineffectiveness recognized in profit or loss
- Net reclassified profit or loss on cash flow hedges of interest rate risk and exchange rate risk of borrowings previously recognized in other comprehensive income

Interest income or expense was recognized using the effective interest method. Dividend income is recognized when the right to receive payment is established.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

When calculating interest income or interest expense, the effective interest rate applies to the gross carrying amount of the asset (if the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets, the Group applies the effective interest rate to the amortised cost of the financial asset.
for financial assets that subsequently have been credit-impaired since initial recognition, interest revenue is calculated by applying an effective interest rate to the amortised cost of the financial asset. If the asset is no longer considered credit-impaired, the entity calculates interest revenue by applying an effective interest rate to the gross carrying amount. The Group calculates the interest revenue by applying the effective interest rate to the gross carrying amount if the financial asset is no longer credit-impaired.

**3. Significant Accounting Policies, continued**

**(t) Income taxes**

Income tax on the income or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

The Company recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries and associates, except to the extent that the Company 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 Company recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that, and only 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.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the end of reporting period. The measurement of deferred tax liabilities and deferred tax assets reflect the tax consequences that would follow from the manner in which the Company 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 if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

**(u) Earnings per share**

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

**3. Significant Accounting Policies, continued**

**(v) New standards and interpretations not yet adopted**

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

(i) K-IFRS No.1116 *Leases*

K-IFRS No.1116 *Leases*, issued on May 22, 2017, shall be applied for annual periods beginning on or after January 1, 2019, but may be applied earlier. This Standard will replace the current K-IFRS No.1017 *Leases*, K-IFRS No.2104 *Determining whether an Arrangement contains a Lease*, K-IFRS No.2015 *Operating Leases-Incentives,* K-IFRS No.2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

At inception of a contract the Group determines whether the contract is, or contains, a lease, and at the date of initial application, identifies whether the contract is, or contains, a lease. The lessee and the lessor shall account for each lease component of the contract as a lease, separately from the non-lease component in a contract that is, or contains, a lease.

The lessee shall recognize a right-of-use asset that represents the right to use and a lease liability that represents an obligation to pay the lease fee. However, for short-term lease payments and payments for leases of low-value assets, exceptions to this Standard may be selected. In addition, the lessee may use the practical expedient for each lease component and its associated lease component as a single lease component, rather than separating it from separating it from the lease component.

Lessor accounting has not changed significantly from the current K-IFRS No.1017.

**3. Significant Accounting Policies, continued**

**(w) New standards and interpretations not yet adopted, continued**

(i) K-IFRS No.1116 *Leases, continued*

ⓐ Lessee accounting

***Application of K-IFRS No.1116 Leases***
The lessee may apply either retrospectively to each prior reporting period presented applying K-IFRS No.1008 *Accounting Policies, Changes in Accounting Estimates and Errors* (full retrospective approach) or retrospectively with the cumulative effect of initially applying the Standard recognized at the date of initial application ('cumulative catch-up' transition method).

As of 1 January 2019, the Group plans to apply the cumulative catch-up transition method for initial application of K-IFRS No.1116. Consequently, the cumulative effect of applying K-IFRS No.1116 is adjusted for retained earnings at the date of initial application and the comparative financial statements will not be restated.

***Financial impact of K-IFRS No.1116 Leases***
In order to assess the financial impact of the initial application of K-IFRS No.1116, the Group evaluated the effect on its financial statements in 2019 on the basis of the circumstances and available information as of January 1, 2019.

The total amount of the minimum lease payments before discounting of the assets currently used as operating leases is ₩59,072 million, and if discounted at the lessee's incremental borrowing interest rate, it is ₩56,682 million. However, the Group will apply practical expedients to all (or part) contracts that are, or contain, leases to account for each lease component and associated non-lease component as a single lease component.

As a result of a detailed analysis of the impact on the financial statements, the Group expects that the right-of-use assets and lease liabilities will increase by ₩49,569 million and ₩50,934 million, respectively, as of January 1, 2019. However, the financial impact assessment may change depending on the additional information available in the future and overseas subsidiaries were excluded from the calculation because the effect is expected to be insignificant.

**3. Significant Accounting Policies, continued**

**(w) New standards and interpretations not yet adopted, continued**

(i) K-IFRS No.1116 *Leases, continued*

ⓑ Lessor accounting

***Application and financial impact of K-IFRS No.1116 Leases***
As a lessor, the Group specifically assessed the effect on the financial statements of significant changes in the accounting for the identification of lease contracts and the separation of lease components in accordance with K-IFRS No.1116.

Interest income for the year ended December 31, 2019 are not expected to be affected by financing lease receivable as of January 1, 2019. However, this may change depending on the additional information available in the future.

If the Group is an intermediate lessor, the Group reassesses the classification of operating leases or financing leases in accordance with K-IFRS No.1116 for subleases classified as operating leases before the date of initial application and maintained at the date of initial application. If the lease is classified as a financing lease as a result of the reassessment, it is accounted for as a new financing lease entered at the date of initial application.

Based on the situation and information available as of January 1, 2019, the Group evaluated the specific financial effects with a new financing lease and is expected to have no impact on the lease payments receivable as of January 1, 2019 and the interest revenue for the year ended December 31, 2019. However, this may change depending on the additional information available in the future.

(ii) The following amendments are expected not to have a material effect on the Group.

- K-IFRS No.2123 *Uncertainty over Income Tax Treatments*
- Amendments to K-IFRS No.1109 *Financial Instruments: Prepayment Features with Negative Compensation*
- Amendments to K-IFRS No.1028 *Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Venture*
- Amendments to K-IFRS No.1019 *Employee Benefits: Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan*
- Annual improvements to K-IFRS 2015-2017 Cycle
- Amendments to *the Conceptual Framework for Financial Reporting*
- K-IFRS No.1117 *Insurance Contracts*

## 4. Financial Risk Management

### (a) General information of risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

(i) Organization for risk management

Major decisions relating to risk management are made by the Risk Management Committee under the Board of Directors. To effectively implement the Risk Management Committee's determination and deliberation, the Group runs the Risk Management Council which includes the CRO (Chief Risk Officer) as chairman and consists of heads of relevant units and divisions. In order to assist the two committees, there is an independent risk management team which is fully in charge of tasks related to risk management.

In addition, the Group established a Credit Review Committee separately from the Risk Management Council to conduct credit evaluations of corporate customers with outstanding loans over a certain amount and other significant credit matters. The Credit Review Committee is led by the CRO and consists of heads of relevant divisions.

(ii) Risk management process

The Group measures credit risk, liquidity risk, market risk, and interest rate risk. The Group presents an acceptable level of risks before the establishment of an annual financial plan, and sets the upper growth limit as a guideline, which considers available capital and risk capital. On the basis of organized financial plans in accordance with established guidelines, the Group organizes risk plans and sets risk limits, which encompass the Group's entire risk appetite.

Risk limits are set on the basis of the risk capital in principle or set by the regulatory capital in case of absence of a risk capital calculation system. The Group manages total risk limits, risk limits for each type of risk and risk limits by product. If total risk exceeds 95% of its limit, the Group immediately reports the risk limits to the CRO of Shinhan Financial Group and to the Group Risk Management Committee. In case of risk limits for each type of risk, after consultation with the Shinhan Financial Group, it is adjustable by resolution of the Risk Management Committee within the range of total risk limits. In case of risk limits by product, after prepared countermeasures, it is adjustable by resolution of the Risk Management Council.

## 4. Financial Risk Management, continued

### (a) General information of risk management, continued

(iii) Risk monitoring

Risk Monitoring is performed by Shinhan Financial Group's risk dashboard for early detection of risk, regular risk measurement and monitoring systems by the Risk Management Council and Risk Management Committee, and the Enterprise Risk Management System. The Group performs weekly monitoring on short-term credit quality indicators and leading economic indicators.

***Risk dashboard***
The risk dashboard is a risk monitoring system to support early detection and proactive responses to portfolio risks and abnormal symptoms, and key monitoring targets of portfolios by business line and credit quality of members (credit ratings). It performs the pre-detection function on the risk factors such as increases in assets and risks by each monitoring target. With regard to quantitative indicators such as increases in assets and increases in risks, the Group defines the determination level of risk detection by the statistical significance level. By regular monitoring, the risk management team together with relevant teams analyzes the cause, and prepares and implement a countermeasure.

***Risk measurement and monitoring reporting***
The Group regularly reports the overall results of risk measurement and monitoring to the Risk Management Council and Risk Management Committee. Regular monitoring items consist of operational status of risk limits (total / type / product), portfolio guidelines, levels of enterprise crisis, economic / market trends, detailed indicators of credit quality, and financing and liquidity risks.

(iv) Enterprise crisis management system

Enterprise crisis management consists of items such as quantitative crisis recognition, determination of crisis stage, developing action items, and debriefing.

Internal and external crisis indicators for each of credit risk and liquidity risk are divided into core indicators and leading indicators and the stage of crisis is determined quantitatively. Risk management working-level committee performs analysis of qualitative information and risk management council, consisting heads of departments decides whether to perform entity-wide impact analysis.

## 4. Financial Risk Management, continued

### (a) General information of risk management, continued

(iv) Enterprise crisis management system, continued

Enterprise crisis stages consist of Normal 1, Normal 2, Cautionary 1, Cautionary 2, Crisis Impending, and Crisis, which are determined by a scoring system based on internal and external indicators.

Based on the assessment of crisis stage, appropriate action items for each crisis stage are set up and implemented. For the purpose of efficient operation of the Enterprise Crisis Management System, detailed roles and responsibilities for each organization are predefined. Crisis management organizations consist of a Risk management working-level committee which performs daily monitoring, risk management council, consisting heads of departments which is convened when the crisis stage is assessed as above the Cautionary 2 two times in succession. In addition, the Group has Risk Management Council and Crisis Management Council headed by the CEO, and Group Crisis Management Council headed by the CEO of the Shinhan Financial Group. These organizations and their detailed roles and responsibilities enable the Group to cope with crisis systematically.

(v) Evaluation process

The Group sets and operates the standards on credit card issuance pursuant to the standard of review for payment ability prescribed by the Regulation on Supervision of Specialized Credit Finance Business. If the basic qualification standards are not met, credit card issuance is prohibited. When standards are met, credit card issuance is possible only if the AS (Application Score) credit rating is above a certain degree, which is based on the Group’s internal information, external information from Credit Bureaus, and personal information in the application form. The Group prevents higher-risk customers from being issued a credit card by using supplementary information such as overdue history and Credit Bureaus’ credit ratings.

The Group utilizes customer transaction records with Shinhan Financial Group’s subsidiaries, internal or external credit information, and characteristics of each customer group to improve its assessment functions on credit card issuance for new customers. The Group performs various kinds of simulations to cope with the changes in surroundings such as market conditions and economic trends so that the Group is able to predict the potential risk of certain customer groups and establish the management policy for higher-risk groups.

The Group determines an optimized credit limit for new credit card holders according to their payment ability by considering occupation, income, property, debt, and transaction records with Shinhan Financial Group’s subsidiaries. The Group operates a management system which enables the Group to monitor the changes in risk and prevent high-risk groups from being credit card holders by monitoring monthly indicators.

(vi) Credit Scoring System

The Group’s Credit Scoring System consists of ASS (Application Scoring System) and BSS (Behavioural Scoring System). BS (Behavioural Score) evaluates the credit card holder’s credit quality regularly. Credit card AS evaluates potential credit card holder’s credit quality when they apply for credit card issuance. Card loan AS and installment AS evaluate potential customers’ credit quality. The Group utilizes the Credit Scoring System in order to monitor its customers’ and portfolios’ risk exposures.

## 4. Financial Risk Management, continued

### (b) Credit risk

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 complies with credit risk management procedures pursuant to internal guidelines and regulations and continually monitors and improves these guidelines and regulations. Application of credit risk management includes not only all the transactions in these consolidated financial statements but also off balance items such as guarantees, loan agreements and derivatives transactions that could possibly generate economic loss. The Group assesses credit risks of those transactions and sets a limit on expected credit risks in advance.

The Group estimates credit risks of financial instruments using PD (Probability of Default), LGD (Loss Given Default), and EAD (Exposure at Default) utilizing the risk estimation methodology of Basel II. The Group applies the Basel basis conservatively to reflect the credit card crisis of 2003 and the nature of the credit card business. Credit risks of derivatives, due from banks and securities are assessed using the modified standard methodology of Basel. Credit risks are divided into respective business segments and merchandise segments, and the Group sets limits for each segment, which are monitored by the risk control process, and established an action plan in case that credit risks get close to, or exceed limits.

(In millions of won)

**4. Financial Risk Management, continued**

**(b) Credit risk, continued**

(i) Exposure to credit risk

The carrying amount of financial instruments represents the Group's maximum exposure to credit risk. Exposure to credit risk of the Group as of December 31, 2018 and 2017 is as follows. Cash held by the Group is excluded.

| | | 2018 | 2017 |
|---|---|---|---|
| Due from banks and credit card assets at amortized cost, etc. (*1),(*2) | | | |
| Banks | ₩ | 1,543,308 | 1,081,864 |
| Household | | | |
| Credit sales | | 12,627,203 | 11,570,580 |
| Cash advances | | 1,848,767 | 1,844,254 |
| Card loans | | 5,782,694 | 5,478,557 |
| Installment finance and others | | 3,392,838 | 3,121,724 |
| Government/Public institution/ The Bank of Korea | | 21,375 | 19,114 |
| Corporate | | 2,324,473 | 1,735,318 |
| | | 27,540,658 | 24,851,411 |
| Financial assets at FVTPL | | | |
| Debt securities | | 1,579 | - |
| Beneficiary certificates | | 250,064 | - |
| Available-for-sale financial assets | | | |
| Debt securities | | - | 1,953 |
| | | 27,792,301 | 24,853,364 |
| Derivative financial assets | | 7,477 | 3,966 |
| Other assets (*1) | | | |
| Other financial assets | | 464,790 | 489,804 |
| | ₩ | 28,264,568 | 25,347,134 |

(*1) The maximum exposure to credit risk is measured as net of allowance for doubtful accounts, deferred loan origination costs, and present value discount amount.
(*2) The carrying amount of financial instruments as of December 31, 2017 is classified as loans and receivables under the measurement categories of K-IFRS No.1039.

As of December 31, 2018 and 2017, the maximum exposure to credit risk caused by unused credit commitments amounted to ₩71,896,628 million, and ₩63,745,952 million, respectively.

(In millions of won)

## 4. Financial Risk Management, continued

### (b) Credit risk, continued

(ii) Analysis of past due and impaired amounts

Under the measurement method of loss allowance, the amounts of due from banks and credit card assets at amortized cost, etc. by internal credit rating as of December 31, 2018 is as follows:

| | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **12-month ECLs measurement** | | **Lifetime ECLs measurement** | | **Impaired assets** | **Subtotal** | **Allowance for doubtful accounts** | **Total** |
| | **Prime** | **Normal** | **Prime** | **Normal** | **Impaired** | | | |
| Banks | ₩ 1,543,194 | 114 | - | - | 43 | 1,543,351 | (43) | 1,543,308 |
| Household | 17,815,978 | 2,210,129 | 1,901,130 | 2,113,607 | 427,416 | 24,468,260 | (816,758) | 23,651,502 |
| Credit sales | 10,495,592 | 489,901 | 1,026,112 | 789,335 | 61,182 | 12,862,122 | (234,919) | 12,627,203 |
| Cash advances | 924,041 | 313,328 | 207,682 | 504,706 | 36,464 | 1,986,221 | (137,454) | 1,848,767 |
| Card loans | 3,943,961 | 790,977 | 550,799 | 683,270 | 67,597 | 6,036,604 | (253,910) | 5,782,694 |
| Installment finance and others | 2,452,384 | 615,923 | 116,537 | 136,296 | 262,173 | 3,583,313 | (190,475) | 3,392,838 |
| Government /Public institution/ The Bank of Korea | 21,375 | - | - | - | - | 21,375 | - | 21,375 |
| Corporate | 1,058,917 | 1,177,484 | 12,861 | 89,797 | 30,173 | 2,369,232 | (44,759) | 2,324,47 |
| | ₩ 20,439,464 | 3,387,727 | 1,913,991 | 2,203,404 | 457,632 | 28,402,218 | (861,560) | 27,540,658 |

(In millions of won)

**4. Financial Risk Management, continued**

**(b) Credit risk, continued**

(ii) Credit risk exposure by measurement method, continued

Under the measurement method of loss allowance, the amounts of off-balance item by internal credit rating as of December 31, 2018 is as follows:

| | | 2018 | | | |
|---|---|---|---|---|---|
| | | Loan commitments and other credit-related liabilities | | | |
| | | 12-month ECLs measurement | Lifetime ECLs measurement | Impaired assets | Total |
| Prime | ₩ | 66,104,634 | 3,625,590 | - | 69,730,224 |
| Normal | | 1,646,082 | 510,083 | - | 2,156,165 |
| Impairment | | - | - | 10,239 | 10,239 |
| | ₩ | 67,750,716 | 4,135,673 | 10,239 | 71,896,628 |

In the case of individual members, based on the internal credit rating, the Group manages the members with lower credit loss ratio compared to the profit ratio before impairment with prime, while others are classified as normal. In case of corporate members, AAA ~ BBB+ rating and non-rating of government/public institutions/central banks are classified as prime, while others are classified as normal.

(iii) Analysis of past due and impaired amounts

Set out below is an analysis of past due and impaired amounts of due from banks, loans and receivables, and debt securities as of December 31, 2017.

| | | 2017 | | | |
|---|---|---|---|---|---|
| | | Neither past due nor impaired | Past due but not impaired | Impaired | Total |
| Banks | ₩ | 1,081,865 | - | - | 1,081,865 |
| Household | | | | | |
| Credit sales | | 11,448,503 | 204,951 | 48,392 | 11,701,846 |
| Cash advances | | 1,818,544 | 73,912 | 28,224 | 1,920,680 |
| Card loans | | 5,505,138 | 132,285 | 56,497 | 5,693,920 |
| Installment finance and others | | 2,961,888 | 83,488 | 263,754 | 3,309,130 |
| | | 21,734,073 | 494,636 | 396,867 | 22,625,576 |
| Government/Public institution/ The Bank of Korea | | 18,063 | 1,050 | 1 | 19,114 |
| Corporate | | 1,609,040 | 130,694 | 39,582 | 1,779,316 |
| | | 24,443,041 | 626,380 | 436,450 | 25,505,871 |
| Allowance for doubtful accounts | | (296,971) | (86,672) | (268,864) | (652,507) |
| | ₩ | 24,146,070 | 539,708 | 167,586 | 24,853,364 |

(In millions of won)

**4. Financial Risk Management, continued**

**(b) Credit risk, continued**

(iv) Information about the credit quality of due from banks and loans and receivables that are neither past due nor impaired

The Group classifies due from banks and loans and receivables within several risk categories. In case of individual customers, on the basis of internal credit rating, when the bad debt expense ratio is less than earnings before bad debt expense ratio, the loans and receivables are determined to be “outstanding” category and the others are determined to be “normal” category. In case of corporate customers, internal credit ratings that have AAA ~ BBB+ level and unrated ratings of Government/Public institution/The Bank of Korea are determined to be "outstanding” and that of the others is determined to be "normal". Information about the credit quality of due from banks, and loans and receivables that are neither past due nor impaired as of December 31, 2017 is as follows:

| | | 2017 | | |
|---|---|---|---|---|
| | | **Outstanding** | **Normal** | **Total (*)** |
| Banks | ₩ | 1,081,714 | 150 | 1,081,864 |
| Household | | | | |
| Credit sales | | 10,297,657 | 1,077,162 | 11,374,819 |
| Cash advances | | 1,067,739 | 705,833 | 1,773,572 |
| Card loans | | 4,171,608 | 1,202,669 | 5,374,277 |
| Installment finance and others | | 2,403,456 | 548,511 | 2,951,967 |
| | | 17,940,460 | 3,534,175 | 21,474,635 |
| Government/Public institution/ The Bank of Korea | | 18,063 | - | 18,063 |
| Corporate | | 622,479 | 949,029 | 1,571,508 |
| | ₩ | 19,662,716 | 4,483,354 | 24,146,070 |

(*) The amounts are measured as net of allowance for doubtful accounts, deferred loan origination costs, and present value discount account.

(In millions of won)

**4. Financial Risk Management, continued**

**(b) Credit risk, continued**

(v) Analysis of the age of loans and receivables that are past due but not impaired

Management of the Group considers accounts that are past due for less than 90 days as not impaired, unless other information can demonstrate that this is not the case. Analysis of the aging of loans and receivables that are past due but not impaired as of December 31, 2017 is as follows:

| | | 2017 | | | |
|---|---|---|---|---|---|
| | | **Less than 30 days** | **After 30 days through 60 days** | **After 60 days through 90 days** | **Total(*)** |
| Banks | ₩ | - | - | - | - |
| Household | | | | | |
| Credit sales | | 161,782 | 11,688 | 5,637 | 179,107 |
| Cash advances | | 50,993 | 6,463 | 3,328 | 60,784 |
| Card loans | | 79,790 | 6,773 | 4,122 | 90,685 |
| Installment finance and others | | 72,994 | 3,999 | 1,674 | 78,667 |
| | | 365,559 | 28,923 | 14,761 | 409,243 |
| Government/Public institution/ The Bank of Korea | | 1,050 | - | - | 1,050 |
| Corporate | | 117,767 | 7,908 | 3,740 | 129,415 |
| | ₩ | 484,376 | 36,831 | 18,501 | 539,708 |

(*) The amounts are measured as net of allowance for doubtful accounts, deferred loan origination costs, and present value discount account.

(vi) Analysis of financial assets that are individually and collectively determined to be impaired

Financial assets that are individually and collectively determined to be impaired as of December 31, 2017 are as follows:

| | | | **2017** | **2016** |
|---|---|---|---|---|
| Financial assets that are individually determined to be impaired(*) | Debt securities | ₩ | 1,953 | 1,368 |
| Financial assets that are collectively determined to be impaired(*) | Loans and receivables | | 165,633 | 159,323 |
| | | ₩ | 167,586 | 160,691 |

(*) The amounts are measured as net of allowance for doubtful accounts.

(In millions of won)

## 4. Financial Risk Management, continued

### (c) 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. Liquidity risk could be caused by maturity mismatch of financial assets and liabilities, or temporary insolvency by unexpected cash outflows. It includes economic losses that the Group will incur in the process of financing high interest rates, or disposing of invested assets in order to meet its obligations. The Group manages liquidity risk by considering all liquidity variation factors that can cause cash inflows and cash outflows.

The Group sets the goal of “month-end liquidity” as the liquidity level at which the Group could pay its obligations in the next three months. Real liquidity gap ratio of maturity of financial assets and liabilities, liquidity buffer ratio and ABS to borrowings ratio are major indices of liquidity risks monitored by the Group, defined as cautious, apprehensive, and risky. The Group has prepared contingency plans for various liquidity crises.

(i) Non-derivatives

A maturity analysis for non-derivative financial assets and liabilities as of December 31, 2018 and 2017 is as follows. Such undiscounted contractual cash flows differ from the discounted amount included in the consolidated statement of financial position, as they include estimated interest payments.

The Group expects that there would be no significant changes in the timing of cash flows.

| | | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Less than 1 month** | **1~3 months** | **3~6 months** | **6 months ~ 1 year** | **1~5 years** | **Over 5 years** | **Total** |
| **Assets:** | | | | | | | | |
| Cash and due from banks | ₩ | 637,990 | - | - | - | - | - | 637,990 |
| Credit card assets at amortized cost, etc. | | 10,521,005 | 5,730,700 | 3,386,670 | 3,717,392 | 5,556,111 | 237,047 | 29,148,925 |
| Financial assets at FVTPL | | 253,854 | - | - | - | - | - | 253,854 |
| Financial assets at FVOCI | | - | - | - | - | - | 34,519 | 34,519 |
| Other financial assets | | 396,880 | 63 | 417 | - | - | 81,338 | 478,698 |
| | ₩ | 11,809,729 | 5,730,763 | 3,387,087 | 3,717,392 | 5,556,111 | 352,904 | 30,553,986 |
| **Liabilities:** | | | | | | | | |
| Borrowings | ₩ | 118,371 | 105,496 | 21,314 | 32,272 | 2,185,995 | - | 2,463,448 |
| Debentures | | 309,403 | 810,595 | 1,129,919 | 2,038,724 | 13,165,891 | 208,318 | 17,662,850 |
| Other financial liabilities | | 2,839,114 | 15,155 | 22,506 | 41,151 | 208,763 | 42,350 | 3,169,039 |
| | ₩ | 3,266,888 | 931,246 | 1,173,739 | 2,112,147 | 15,560,649 | 250,668 | 23,295,337 |
| **Off-balance item(*)**: | | | | | | | | |
| Unused credit commitments | ₩ | 71,896,628 | - | - | - | - | - | 71,896,628 |

(*) Unused credit commitments are classified into the earliest possible period because the payment must be executed immediately if the counterparty requests payment.

(In millions of won)

**4. Financial Risk Management, continued**

**(c) Liquidity risk, continued**

(i) Non-derivatives, continued

| | | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Less than 1 month** | **1~3 months** | **3~6 months** | **6 months ~ 1 year** | **1~5 years** | **Over 5 years** | **Total** |
| **Assets:** | | | | | | | | |
| Cash and due from banks | ₩ | 566,970 | - | - | - | - | - | 566,970 |
| Loans and receivables | | 9,532,322 | 5,168,875 | 3,085,357 | 3,349,865 | 4,857,087 | 220,257 | 26,213,763 |
| Trading financial assets | | 360,064 | - | - | - | - | - | 360,064 |
| Available-for-sale financial assets | | - | - | - | - | - | 34,585 | 34,585 |
| Other financial assets | | 423,149 | 23 | 726 | - | - | 77,531 | 501,429 |
| | ₩ | 10,882,505 | 5,168,898 | 3,086,083 | 3,349,865 | 4,857,087 | 332,373 | 27,676,811 |
| **Liabilities:** | | | | | | | | |
| Borrowings | ₩ | 310,961 | 34,555 | 241,082 | 30,985 | 1,393,926 | - | 2,011,509 |
| Debentures | | 249,411 | 436,081 | 870,339 | 1,908,981 | 10,959,528 | 234,504 | 14,658,844 |
| Other financial liabilities | | 2,970,558 | 17,574 | 25,569 | 47,568 | 182,145 | 41,523 | 3,284,937 |
| | ₩ | 3,530,930 | 488,210 | 1,136,990 | 1,987,534 | 12,535,599 | 276,027 | 19,955,290 |
| **Off-balance item(*)**: | | | | | | | | |
| Unused credit commitments | ₩ | 63,745,952 | - | - | - | - | - | 63,745,952 |

(*) Unused credit commitments are classified into the earliest possible period because the payment must be executed immediately if the counterparty requests payment.

(In millions of won)

**4. Financial Risk Management, continued**

**(c) Liquidity risk, continued**

(ii) Derivatives

A maturity analysis including the remaining contractual maturities for the derivatives as of December 31, 2018 and 2017 is as follows.
The amounts shown in the table were calculated based on the information below.

- Gross settlement: gross amount of cash received or paid.
- Net settlement: net amount of cash received or paid.

| | | 2018 | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Less than 1 month** | **1~3 months** | **3~6 months** | **6 months ~ 1 year** | **1~5 years** | **Total** |
| Net settlement cash outflow | ₩ | (271) | (793) | (1,093) | (2,543) | (17,177) | (21,877) |
| Gross settlement cash inflow | | 155,375 | 234,410 | 89,356 | 291,128 | 2,007,559 | 2,777,828 |
| Gross settlement cash outflow | | (160,868) | (244,971) | (91,111) | (289,010) | (2,004,856) | (2,790,816) |
| | ₩ | (5,764) | (11,354) | (2,848) | (425) | (14,474) | (34,865) |

| | | 2017 | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Less than 1 month** | **1~3 months** | **3~6 months** | **6 months ~ 1 year** | **1~5 Years** | **Total** |
| Net settlement cash inflow (outflow) | ₩ | (311) | (679) | (398) | (224) | 4,021 | 2,409 |
| Gross settlement cash inflow | | 93,571 | 7,059 | 11,757 | 452,076 | 1,757,186 | 2,321,649 |
| Gross settlement cash outflow | | (92,779) | (5,822) | (9,601) | (482,104) | (1,854,446) | (2,444,752) |
| | ₩ | 481 | 558 | 1,758 | (30,252) | (93,239) | (120,694) |

(In millions of won)

**4. Financial Risk Management, continued**

**(d) 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. The Group is exposed to interest rate risk of financial assets and liabilities in the case of non-trading assets and interest rate risk of MMF (Money Market Fund) in the case of trading assets and only foreign exchange rate risk of foreign currency equity securities and foreign currency deposits because the Group hedges all cash flows of foreign currency liabilities with currency rate swaps. The Group is exposed to only equity price risk of foreign currency equity securities. The Group assesses risks of expected transactions and sets up limits to control market risks to the extent that the Group can handle. The Group assessed market risks on the basis of the Basel standard methodology and the Historical VaR (Value at Risk) method, established risk limits respectively, monitored, and established an action plan in case that market risks get close to, or exceed limits.

(i) Market risk management from trading positions

The Group assessed market risk from trading positions using the standard methodology of Financial Supervisory Service. The following represents the Group's assessment of its potential loss in financial assets at fair value through profit or loss as of December 31, 2018 and trading financial assets as of December 31, 2017 that are exposed to the respective risks.:

| | | 2018 | | | |
|---|---|---|---|---|---|
| | | **Average** | **High** | **Low** | **At December 31** |
| Interest rate risk | ₩ | 1,257 | 1,972 | 768 | 1,269 |

| | | 2017 | | | |
|---|---|---|---|---|---|
| | | **Average** | **High** | **Low** | **At December 31** |
| Interest rate risk | ₩ | 1,809 | 2,550 | 1,050 | 1,800 |

Overseas subsidiaries were excluded from the calculation.

(In millions of won)

**4. Financial Risk Management, continued**

**(d) Market risk, continued**

(ii) VaR and EaR management from non-trading positions

***Interest rate risk from non-trading positions***

The principal market risk from non-trading activities of the Group is interest rate risk. The Group makes an effort to minimize variations of net assets and profit by assessing and controlling interest rate risk of non-trading positions. Interest rate VaR and EaR, to which real interest rate variations of assets and liabilities are applied, are used to assess interest rate risk.

Interest rate VaR estimates, at a 99.9% confidence level, the expected maximum loss assuming a one-year holding period. The Group calculates the Interest rate VaR using an internal model which has been designed to apply historical interest rate scenarios provided by accompanying net asset value simulations due to interest rate changes.

Interest rate EaR (Earning at Risk) is the maximum expected loss of net interest income within the next year due to negative variations of interest rates. Interest rate EaR is assessed considering interest rate repricing gap, differences between expected interest rate variation timing and target period (one year), and expected interest rate variation. Applied interest rate variation timing for each maturity level and interest rate shock (200bp) were suggested by Basel. Financial assets of low sensitivity were excluded.

Interest rate VaR and EaR of non-trading positions as of December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Interest rate VaR | ₩ | 163,804 | 147,932 |
| Interest rate EaR | | 28,267 | 32,081 |

Overseas subsidiaries were excluded from the calculation.

***Equity price risk and foreign exchange rate risk from non-trading positions***

The Group assessed equity price risk and foreign exchange rate risk from foreign currency equity securities of non-trading positions using the Historical VaR method. Assuming that asset returns are possible in case of crisis, historical VaR of the equity price and foreign currency rate is calculated at bottom 99% of 10 day holding period volatility for one year (250 trading days) in reporting date. Total VaR is calculated assuming that equity price risk and foreign exchange rate risk occur at the same time. Variance effect is calculated based on the difference between the total VaR and the sum of price risk and foreign exchange rate risk.

The Group does not have any non-trading positions that are exposed to equity risk and foreign exchange rate risk.

**4. Financial Risk Management, continued**

**(d) Market risk, continued**

(iii) Foreign exchange risk

The Group has been exposed to foreign exchange risk of financial assets and financial liabilities denominated in a foreign currency other than the functional currency, Korean won. Cash outflows of liabilities denominated by foreign currency were hedged by currency rate swap. Exposures to foreign exchange risk of foreign currency denominated assets and liabilities as of December 31, 2018 and 2017 are as follows:

*(In millions of U.S. dollars, millions of Singapore dollars, millions of Euro, millions of Indonesia Rupiah, millions of Kazakhstan Tenge, millions of Myanmar Kyat, and millions of won)*

| | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Foreign currency | | | | | | | Won Equivalent |
| | USD | SGD | EUR | KZT | IDR | MMK | | |
| Deposit | 1 | - | - | 10 | 7,800 | 333 | ₩ | 934 |
| Loans | - | - | - | 4,466 | 1,225,750 | 10,364 | | 114,815 |
| Other financial assets | - | - | - | 51 | 13,470 | 152 | | 1,296 |
| Debentures | (1,613) | (748) | (198) | - | - | - | | (2,667,946) |
| Borrowings | - | - | - | (1,000) | (1,111,854) | (2,750) | | (90,506) |
| Other financial liabilities | - | - | - | (82) | (10,490) | (195) | | (1,188) |
| On-balance exposure | (1,612) | (748) | (198) | 3,445 | 124,676 | 7,904 | | (2,642,595) |
| Off-balance derivative exposure | 1,613 | 748 | 198 | - | - | - | | 2,667,946 |
| Net position | 1 | - | - | 3,445 | 124,676 | 7,904 | ₩ | 25,351 |

*(In millions of U.S. dollars, millions of Singapore dollars, millions of euro, millions of Indonesia Rupiah, millions of Kazakhstan Tenge, millions of Myanmar Kyat, and millions of won)*

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Foreign currency | | | | | | Won Equivalent |
| | USD | SGD | KZT | IDR | MMK | | |
| Deposit | - | - | 424 | 13,562 | 569 | ₩ | 2,978 |
| Loans | - | - | 2,701 | 1,304,222 | 7,911 | | 118,009 |
| Other financial assets | - | - | 28 | 14,162 | 100 | | 1,288 |
| Debentures | (1,521) | (748) | - | - | - | | (2,227,910) |
| Borrowings | - | - | - | (1,243,821) | (1,150) | | (99,167) |
| Other financial liabilities | - | - | (48) | (4,616) | (52) | | (562) |
| On-balance exposure | (1,520) | (748) | 3,105 | 83,509 | 7,378 | | (2,205,364) |
| Off-balance derivative exposure | 1,521 | 748 | - | - | - | | 2,227,910 |
| Net position | - | - | 3,105 | 83,509 | 7,378 | ₩ | 22,546 |

## 4. Financial Risk Management, continued

### (e) Capital risk management

The Group has exposure to credit risk, liquidity risk, and market risk. By maintaining an optimal capital structure, the Group's objective is to control its financial risks, enhance its safety and soundness, stabilize the financial system, and advance the Group's credit standing.

The Group operates the credit card business under the Specialized Credit Finance Business Act. Accordingly, the Group should obey the Regulations on Supervision of Specialized Credit Finance Business. The regulations require the Group to maintain an adjusted equity capital ratio of more than 8%. Adjusted total assets and adjusted equity capital for the ratio are based on the consolidated statements of financial position and adjusted by the regulation that considered standards of the Bank for International Settlements and the nature of credit card business. The Group observes ratios of adjusted equity capital requirements regulated by the Specialized Credit Finance Business and as of December 31, 2017, the Group complied with the regulatory requirement for the adjusted equity capital ratio.

## 5. Significant Estimates and Judgments

The preparation of consolidated financial statements requires the application of certain critical estimates and judgments relative to the future. These critical estimates and judgments are assessed continually based on the elements like historic experiences and reasonably predictable future events under current conditions. Management's estimated outcomes may differ from actual outcomes.

Information about judgments on accounting assumptions and estimates, including significant risk that may result in a material adjustment in the reported amounts of assets and liabilities within the financial year are included in the following notes.

### (a) Valuation of financial instruments

The fair values of financial instruments which are not actively traded in the market are determined by using valuation techniques. The Group determines valuation methods and assumptions based on significant market conditions at the end of each reporting period. Diverse valuation techniques are used to determine the fair value of financial instruments, from generally accepted valuation models in the market to internally developed valuation model that incorporates various types of assumptions and variables.

**5. Significant Estimates and Judgments, continued**

**(b) Allowance for doubtful accounts**

(i) Individually assessed loan impairment

In assessing individual impairment, it is based on the best estimation of the Group's management about the present value of estimated future cash flows of secured financial assets. The present value is calculated by including cash flows from collateral after deducting costs to acquire and sell the collateral, regardless of probability of realization of such collateral.

(ii) Collectively assessed loan impairment

In assessing collective impairment, future cash flow of financial assets applicable to collective impairment assessment is estimated by using statistical methods of historical trends of the probability of default, and the loss rate at default, 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 methods. In adjusting the future cash flow by historical methods, the result has to be in line with changes and trends of observable data (e.g. loan and borrower type, credit rating, EAD by periods, significant changes in credit rating, recovery period and other variables). Methodologies and assumptions used to estimate future cash flow are reviewed on regular basis in order to narrow down discrepancy between impairment loss estimation and actual loss.

**(c) Qualifying hedge relationships**

In designating financial instruments in qualifying hedge relationships, the Group has determined that it expects the hedges to be highly effective over the period of the hedging relationship. In accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

**(d) Liability for defined benefit obligations**

The present value of a defined benefit obligation that is measured by actuarial valuation methods 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 period 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.

**(e) Income taxes**

Within the normal business process, there are various types of transactions and different accounting methods that may add uncertainties to the realizability of tax assets. The Group has recognized current and deferred taxes that reflect tax consequences that would follow from the manner in which the entity expects, at the end of the reporting year, to recover or settle the carrying amount of its assets and liabilities. 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 taxes at the year when the final tax effect is conformed.

## 6. Fair Value Measurement of Financial Instruments

The Group primarily uses the published price quotations in an active market for measurement of the fair value of financial instruments. If the market for a financial instrument is not active, fair value is established either by using a valuation technique or independent third-party valuation service.

The Group uses diverse valuation techniques under reasonable assumptions which are based on the observable inputs in markets at the end of each reporting period.

Valuation techniques include using the 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 measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Quoted market price (unadjusted) in an active market for an identical instrument (Level 1)

- Valuation techniques based on observable inputs, either directly or indirectly (Level 2)

- Valuation techniques using significant unobservable inputs (Level 3)

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustments based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

**6. Fair Value Measurement of Financial Instruments, continued**

(a) Financial instruments measured at fair value

(i) Fair value measurement methods of financial instruments that are measured at fair value are as follows:

| | **Fair value measurement methods** |
|---|---|
| Financial assets at FVTPL | In case that the market of a financial instrument is active, fair value is established at the closing quoted price as of the last day for the reporting period. The fair value of investments in money market funds is determined by the sum of acquisition cost and accrued interest. Fair value of debt securities which are not quoted in an active market are determined at the amount which is present value of the future cash flow estimated reasonably discounted by the rate considering the counterparty's credit risk. Equity instruments that do not have a quoted market price in an active market and whose fair value are not reliably measurable are measured at cost as an estimate of fair value. |
| Derivative assets<br>Derivative liabilities | In case that the market of a financial instrument is active, fair value is established at the closing quoted price as of the last day for the reporting period. If the market is not active, fair value is determined at the amount which is present value of the future cash flow reasonably estimated considering the counterparty's credit risk and discounted by the appropriate rate such as a risk free rate. If observable market data for the valuation is not available enough, the valuation result of the qualified external institutes is used as fair value. |
| Financial assets at FVOCI | In case that the market of a financial instrument is active, fair value is established at the closing quoted price as of the last day for the reporting period. Fair value of equity securities which are not quoted in an active market are measured by the valuation model of independent and professional institutes using reliable data. Equity instruments that do not have a quoted market price in an active market and whose fair value are not reliably measurable are measured at cost as an estimate of fair value. |

(In millions of won)

**6. Fair Value Measurement of Financial Instruments, continued**

(a) Financial instruments measured at fair value, continued

(ii) The fair value measurements classified by fair value hierarchy as of December 31, 2018 and 2017 are summarized as follows:

| | | 2018 | | | |
|---|---|---|---|---|---|
| | | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets** | | | | | |
| Beneficiary certificates at FVTPL | ₩ | - | 250,064 | - | 250,064 |
| Debt securities at FVTPL | | - | - | 1,579 | 1,579 |
| Equity securities at FVTPL | | - | - | 2,211 | 2,211 |
| Derivative financial assets for hedging | | - | 7,477 | - | 7,477 |
| Equity securities at FVOCI | | - | - | 34,519 | 34,519 |
| | ₩ | - | 257,541 | 38,309 | 295,850 |
| **Financial liabilities** | | | | | |
| Derivative financial liabilities for hedging | ₩ | - | 80,928 | - | 80,928 |

| | | 2017 | | | |
|---|---|---|---|---|---|
| | | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets** | | | | | |
| Beneficiary certificates held for trading | ₩ | - | 360,064 | - | 360,064 |
| Derivative financial assets for hedging | | - | 3,966 | - | 3,966 |
| Available-for-sale debt securities | | - | - | 1,953 | 1,953 |
| Available-for-sale equity securities | | - | - | 32,632 | 32,632 |
| | ₩ | - | 364,030 | 34,585 | 398,615 |
| **Financial liabilities** | | | | | |
| Derivative financial liabilities for hedging | ₩ | - | 140,732 | - | 140,732 |

(In millions of won)

**6. Fair Value Measurement of Financial Instruments, continued**

(a) Financial instruments measured at fair value, continued

(iii) Changes in level 3 of the fair value hierarchy

Changes of fair value measurement in level 3 for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Debt securities at FVTPL** | **Equity securities at FVTPL** | **Equity securities at FVOCI** | **Available-for-sale debt securities** | **Available-for-sale equity securities** | **Total** |
| **Balance at January 1, 2018** | ₩ | - | - | - | 1,953 | 32,632 | 34,585 |
| Effect of changes in accounting policies | | 1,955 | 1,501 | 31,129 | (1,953) | (32,632) | - |
| Net gain on valuation of financial assets at FVTPL | | (376) | - | - | - | - | (376) |
| Net changes in the unrealized fair value of FVOCI | | - | - | 3,290 | - | - | 3,290 |
| Acquisition | | - | 710 | 300 | - | - | 1,010 |
| Disposal | | | | (200) | | | (200) |
| **Balance at December 31, 2018** | ₩ | 1,579 | 2,211 | 34,519 | - | - | 38,309 |

| | | 2017 | | |
|---|---|---|---|---|
| | | **Available-for-sale debt securities** | **Available-for-sale equity securities** | **Total** |
| **Balance at January 1, 2017** | ₩ | 1,368 | 27,482 | 28,850 |
| Reversal of impairment loss | | 3,791 | - | 3,791 |
| Other comprehensive income | | - | 3,150 | 3,150 |
| Acquisition | | - | 2,000 | 2,000 |
| Disposal | | (3,206) | - | (3,206) |
| **Balance at December 31, 2017** | ₩ | 1,953 | 32,632 | 34,585 |

(In millions of won)

## 6. Fair Value Measurement of Financial Instruments, continued

(a) Financial instruments measured at fair value, continued

(iv) Valuation techniques and inputs related to level 2

Information about valuation techniques and inputs in measuring financial instruments categorized as level 2 as of December 31, 2018 and 2017 is as follows:

| | 2018 | | | | |
|---|---|---|---|---|---|
| | **Valuation techniques** | **Type of financial instruments** | | **Book value** | **Significant inputs** |
| **Financial assets at FVTPL:** | | | | | |
| | Sum of acquisition cost and accrued interest | Beneficiary certificates | ₩ | 250,064 | Interest rate |
| **Derivative assets:** | | | | | |
| | Discounted cash flow | Interest rate swap<br>Currency swap | | 7,477 | Discount rate<br>Exchange rate<br>Volatility, etc. |
| | | | ₩ | 257,541 | |
| **Derivative liabilities:** | | | | | |
| | Discounted cash flow | Interest rate swap<br>Currency swap | ₩ | 80,928 | Discount rate<br>Exchange rate<br>Volatility, etc. |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | **Valuation Techniques** | **Type of financial instruments** | | **Book value** | **Significant inputs** |
| **Trading financial assets :** | | | | | |
| | Sum of acquisition cost and accrued interest | Beneficiary certificates | ₩ | 360,064 | Interest rate |
| **Derivative assets:** | | | | | |
| | Discounted cash flow | Interest rate swap<br>Currency swap | | 3,966 | Discount rate<br>Exchange rate<br>Volatility, etc. |
| | | | ₩ | 364,030 | |
| **Derivative liabilities:** | | | | | |
| | Discounted cash flow | Interest rate swap<br>Currency swap | ₩ | 140,732 | Discount rate<br>Exchange rate<br>Volatility, etc. |

(In millions of won)

**6. Fair Value Measurement of Financial Instruments, continued**

(a) Financial instruments measured at fair value, continued

(v) Valuation techniques and inputs related to level 3

Information about valuation techniques and inputs in measuring financial instruments categorized as level 3 as of December 31, 2018 and 2017 is as follows:

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | **Valuation techniques** | **Type of financial instruments** | | **Book value** | **Significant unobservable inputs** | **Range of estimates for unobservable inputs** |
| **Financial assets at FVTPL:** | | | | | | |
| | Net asset value, etc. | Debt and equity securities | ₩ | 3,790 | Asset value | - |
| **Financial assets at FVOCI:** | | | | | | |
| | Discounted cash flow, etc. | Equity securities | | 34,519 | Discount rate<br>Growth rate | 8.43% ~ 14.14%<br>0.00% |
| | | | ₩ | 38,309 | | |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | **Valuation techniques** | **Type of financial instruments** | | **Book value** | **Significant unobservable inputs** | **Range of estimates for unobservable inputs** |
| **Available-for-sale financial assets:** | | | | | | |
| | Net asset value | Debt securities | ₩ | 1,953 | - | - |
| | Discounted cash flow, etc. | Equity securities | | 28,318 | Discount rate<br>Growth rate | 11.56% ~ 13.31%<br>0.00% |
| | Cost method | Equity securities | | 4,314 | - | - |
| | | | ₩ | 34,585 | | |

## 6. Fair Value Measurement of Financial Instruments, continued

(a) Financial instruments measured at fair value, continued

(vi) Sensitivity to changes on unobservable inputs

For level 3 fair value measurement, a reasonably possible change in one or more of the unobservable inputs used to determine the fair value would have the following effect on profit or loss, or other comprehensive income:

| | | 2018 | |
|---|---|---|---|
| **Type of financial instrument** | | **Favorable change** | **Unfavorable change** |
| Financial assets at FVOCI (*) | ₩ | 4,049 | (1,685) |

(*) Changes in fair value have been assessed by increasing or decreasing unobservable inputs such as growth rate (0%~1%) and discount rate (-1%~1%).

**6. Fair Value Measurement of Financial Instruments, continued**

(b) Financial instruments measured at amortized cost

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

| | Fair value measurement methods |
|---|---|
| Cash and due from banks | Carrying amount of cash is the same as fair value. Carrying amount (matured within three months at acquisition date) is used as approximation of fair value for cash equivalents. Fair value of other due from banks is present value of expected cash flows discounted by the rate considering market interest rate and spread. |
| Credit card assets at amortized cost, etc. | Fair value of credit card assets at amortized cost, etc. is the present value of expected cash flows discounted by the rate considering market interest rate and counterparty's credit ratings. However, carrying amount is used as approximation of fair value for credit card assets for lump-sum purchase and cash advances which contractual credit period granted is less than three months. |
| Other financial assets | Fair value of other financial assets is the present value of expected cash flows discounted by the rate considering market interest rate and counterparty's credit ratings. However, carrying amount is used as approximation of fair value for other financial assets when reliable expected cash flow is not available. |
| Borrowings | Carrying amount is used as approximation of fair value for short-term borrowings including call money. Fair value of the other borrowings is the present value of expected cash flows discounted by the rate considering market interest rate and the Group's credit ratings. |
| Debentures | Where the market of a financial instrument is active, fair value is established at the quoted price. Fair value of debentures which quoted market price is not available is determined to be the present value of contractual cash flows discounted by the rate considering market interest rate and the Group's credit ratings. |
| Other financial liabilities | Fair value of other financial liabilities is determined to be the present value of contractual cash flows discounted by the rate considering market interest rate and the Group's credit ratings. Carrying amount is used as approximation of fair value of liabilities when reliable expected cash flows are not available. |

(In millions of won)

**6. Fair Value Measurement of Financial Instruments, continued**

(b) Financial instruments measured at amortized cost, continued

(ii) The carrying amount and the fair value of financial instruments measured at amortized cost as of December 31, 2018 and 2017 are as follows:

| | | 2018 | | | | |
|---|---|---|---|---|---|---|
| | | Carrying amount | | | | |
| | | Balance | Deferred loan origination costs and others | Allowance for doubtful accounts | Total | Fair value |
| **Financial assets** | | | | | | |
| Cash | ₩ | 19 | - | - | 19 | 19 |
| Deposits | | 637,971 | - | - | 637,971 | 637,971 |
| Credit card assets | | 22,277,386 | (50,389) | (793,471) | 21,433,526 | 21,761,435 |
| Loans | | 1,597,140 | 463 | (16,688) | 1,580,915 | 1,595,464 |
| Installment assets | | 2,670,522 | 31,029 | (19,733) | 2,681,818 | 2,692,924 |
| Lease assets | | 1,239,562 | (1,466) | (31,668) | 1,206,428 | 1,214,333 |
| Other assets | | 478,698 | (2,862) | (11,046) | 464,790 | 464,918 |
| | ₩ | 28,901,298 | (23,225) | (872,606) | 28,005,467 | 28,367,064 |
| **Financial liabilities** | | | | | | |
| Borrowings | ₩ | 2,415,507 | - | - | 2,415,507 | 2,426,520 |
| Debentures in won | | 14,040,000 | (8,487) | - | 14,031,513 | 14,093,377 |
| Debentures in foreign currency | | 2,667,946 | (7,702) | - | 2,660,244 | 2,665,321 |
| Other liabilities | | 3,168,756 | (14,964) | - | 3,153,792 | 3,154,962 |
| | ₩ | 22,292,209 | (31,153) | - | 22,261,056 | 22,340,180 |

| | | 2017 | | | | |
|---|---|---|---|---|---|---|
| | | Carrying amount | | | | |
| | | Balance | Deferred loan origination costs and others | Allowance for doubtful accounts | Total | Fair value |
| **Financial assets** | | | | | | |
| Cash | ₩ | 53 | - | - | 53 | 53 |
| Deposits | | 566,917 | - | - | 566,917 | 565,867 |
| Credit card assets | | 20,484,409 | (45,828) | (595,634) | 19,842,947 | 20,061,276 |
| Loans | | 1,117,058 | 586 | (10,717) | 1,106,927 | 1,115,861 |
| Installment assets | | 2,269,942 | 29,395 | (13,758) | 2,285,579 | 2,310,097 |
| Lease assets | | 1,083,287 | (1,848) | (32,398) | 1,049,041 | 1,048,972 |
| Other assets | | 501,429 | (2,937) | (8,688) | 489,804 | 489,341 |
| | ₩ | 26,023,095 | (20,632) | (661,195) | 25,341,268 | 25,591,467 |
| **Financial liabilities** | | | | | | |
| Borrowings | ₩ | 1,964,344 | - | - | 1,964,344 | 1,954,310 |
| Debentures in won | | 11,747,000 | (7,119) | - | 11,739,881 | 11,683,595 |
| Debentures in foreign currency | | 2,227,910 | (7,882) | - | 2,220,028 | 2,230,912 |
| Other liabilities | | 3,284,755 | (11,558) | - | 3,273,197 | 3,271,976 |
| | ₩ | 19,224,009 | (26,559) | - | 19,197,450 | 19,140,793 |

(In millions of won)

**6. Fair Value Measurement of Financial Instruments, continued**

(b) Financial instruments measured at amortized cost, continued

(iii) The fair value hierarchy of financial instruments which are measured at amortized cost in the consolidated statement of financial position as of December 31, 2018 and 2017 is as follows:

| | | 2018 | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | | |
| Cash | ₩ | 19 | - | - | 19 |
| Deposits | | 637,921 | 50 | - | 637,971 |
| Credit card assets | | - | - | 21,761,435 | 21,761,435 |
| Loans | | - | - | 1,595,464 | 1,595,464 |
| Installment assets | | - | - | 2,692,924 | 2,692,924 |
| Lease assets | | - | - | 1,214,333 | 1,214,333 |
| Other assets | | - | - | 464,918 | 464,918 |
| | ₩ | 637,940 | 50 | 27,729,074 | 28,367,064 |
| **Financial liabilities**: | | | | | |
| Borrowings | ₩ | - | - | 2,426,520 | 2,426,520 |
| Debentures in won | | - | - | 14,093,377 | 14,093,377 |
| Debentures in foreign currency | | - | - | 2,665,321 | 2,665,321 |
| Other liabilities | | - | - | 3,154,962 | 3,154,962 |
| | ₩ | - | - | 22,340,180 | 22,340,180 |

| | | 2017 | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | | |
| Cash | ₩ | 53 | - | - | 53 |
| Deposits | | 565,479 | 388 | - | 565,867 |
| Credit card assets | | - | - | 20,061,276 | 20,061,276 |
| Loans | | - | - | 1,115,861 | 1,115,861 |
| Installment assets | | - | - | 2,310,097 | 2,310,097 |
| Lease assets | | - | - | 1,048,972 | 1,048,972 |
| Other assets | | - | - | 489,341 | 489,341 |
| | ₩ | 565,532 | 388 | 25,025,547 | 25,591,467 |
| **Financial liabilities**: | | | | | |
| Borrowings | ₩ | - | - | 1,954,310 | 1,954,310 |
| Debentures in won | | - | - | 11,683,595 | 11,683,595 |
| Debentures in foreign currency | | - | - | 2,230,912 | 2,230,912 |
| Other liabilities | | - | - | 3,271,976 | 3,271,976 |
| | ₩ | - | - | 19,140,793 | 19,140,793 |

(In millions of won)

## 7. Categories of Financial Instruments

(a) The carrying amounts of the categories of financial assets as of December 31, 2018 and 2017 are summarized as follows:

| | | 2018 | | | | |
|---|---|---|---|---|---|---|
| | | **Financial assets at FVTPL** | **Financial assets at amortized cost** | **Financial assets at FVOCI** | **Derivative for hedge** | **Total** |
| Cash and due from banks | ₩ | - | 637,990 | - | - | 637,990 |
| Financial assets at FVTPL | | 253,854 | - | - | - | 253,854 |
| Derivative assets | | - | - | - | 7,477 | 7,477 |
| Credit card assets at amortized cost, etc. | | - | 26,902,687 | - | - | 26,902,687 |
| Financial assets at FVOCI | | - | - | 34,519 | - | 34,519 |
| Other assets | | - | 464,790 | - | - | 464,790 |
| | ₩ | 253,854 | 28,005,467 | 34,519 | 7,477 | 28,301,317 |

| | | 2017 | | | | |
|---|---|---|---|---|---|---|
| | | **Financial assets at fair value through profit or loss** | **Loans and receivables** | **Available-for-sale financial assets** | **Derivative for hedge** | **Total** |
| Cash and due from banks | ₩ | - | 566,970 | - | - | 566,970 |
| Trading financial assets | | 360,064 | - | - | - | 360,064 |
| Derivative assets | | - | - | - | 3,966 | 3,966 |
| Loans and receivables | | - | 24,284,494 | - | - | 24,284,494 |
| Available-for-sale financial assets | | - | - | 34,585 | - | 34,585 |
| Other assets | | - | 489,804 | - | - | 489,804 |
| | ₩ | 360,064 | 25,341,268 | 34,585 | 3,966 | 25,739,883 |

(In millions of won)

**7. Categories of Financial Instrument, continued**

(b) The carrying amounts of the categories of financial liabilities as of December 31, 2018 and 2017 are summarized as follows:

| | | 2018 | | |
|---|---|---|---|---|
| | | Financial liabilities measured at amortized cost | Derivative for hedge | Total |
| Derivative liabilities | ₩ | - | 80,928 | 80,928 |
| Borrowings | | 2,415,507 | - | 2,415,507 |
| Debentures | | 16,691,757 | - | 16,691,757 |
| Other liabilities | | 3,153,792 | - | 3,153,792 |
| | ₩ | 22,261,056 | 80,928 | 22,341,984 |

| | | 2017 | | |
|---|---|---|---|---|
| | | Financial liabilities measured at amortized cost | Derivative for hedge | Total |
| Derivative liabilities | ₩ | - | 140,732 | 140,732 |
| Borrowings | | 1,964,344 | - | 1,964,344 |
| Debentures | | 13,959,909 | - | 13,959,909 |
| Other liabilities | | 3,273,197 | - | 3,273,197 |
| | ₩ | 19,197,450 | 140,732 | 19,338,182 |

(In millions of won)

## 7. Categories of Financial Instrument, continued

(c) Net gains (losses) of categories of financial instruments for the years ended December 31, 2018 and 2017 are as follows:

**2018**

| | | Interest income | Interest expense | Fee and commission income | Fee and commission expense | Dividend income | Provision for credit loss allowance | Other operating income, net | Net income (loss) | Other comprehensive income (loss) |
|---|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | | |
| Financial assets at FVTPL | ₩ | - | - | - | - | 20 | - | 46,111 | 46,131 | - |
| Financial assets at amortized cost | | 2,013,810 | - | 1,485,749 | (1,253,393) | - | (451,662) | 46,861 | 1,841,365 | - |
| financial assets at FVOCI | | - | - | - | - | 1,373 | - | - | 1,373 | 2,385 |
| Derivative for hedge | | - | - | - | - | - | - | (810) | (810) | (4,739) |
| | | 2,013,810 | - | 1,485,749 | (1,253,393) | 1,393 | (451,662) | 92,162 | 1,888,059 | (2,354) |
| **Financial liabilities** | | | | | | | | | | |
| Financial liabilities at amortized cost | | - | (430,710) | - | - | - | - | (98,755) | (529,465) | - |
| Derivative for hedge | | - | - | - | - | - | - | 99,285 | 99,285 | (25,585) |
| | | - | (430,710) | - | - | - | - | 530 | (430,180) | (25,585) |
| | ₩ | 2,013,810 | (430,710) | 1,485,749 | (1,253,393) | 1,393 | (451,662) | 92,692 | 1,457,879 | (27,939) |

**2017**

| | | Interest income | Interest expense | Fee and commission income | Fee and commission expense | Dividend income | Impairment reversal (loss) | Other operating income, net | Net income (loss) | Other comprehensive income (loss) |
|---|---|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | | | |
| Trading financial assets | ₩ | - | - | - | - | - | - | 2,040 | 2,040 | - |
| Loans and receivables | | 1,880,908 | - | 2,434,001 | (2,265,803) | - | (295,485) | 34,342 | 1,787,963 | - |
| Available-for-sale financial assets | | - | - | - | - | 12,400 | 3,791 | 250,572 | 266,763 | (150,392) |
| Derivative for hedge | | - | - | - | - | - | - | (83,526) | (83,526) | 9,006 |
| | | 1,880,908 | - | 2,434,001 | (2,265,803) | 12,400 | (291,694) | 203,428 | 1,973,240 | (141,386) |
| **Financial liabilities** | | | | | | | | | | |
| Financial liabilities measured at amortized cost | | - | (379,854) | - | - | - | - | 245,384 | (134,470) | - |
| Derivative for hedge | | - | - | - | - | - | - | (162,649) | (162,649) | 10,024 |
| | | - | (379,854) | - | - | - | - | 82,735 | (297,119) | 10,024 |
| | ₩ | 1,880,908 | (379,854) | 2,434,001 | (2,265,803) | 12,400 | (291,694) | 286,163 | 1,676,121 | (131,362) |

(In millions of won)

**7. Categories of Financial Instrument, continued**

(d) The amounts of foreign exchange differences recognized in profit or loss for each category of financial instruments for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|---|
| | | Gain on foreign currency transaction | Loss on foreign currency transaction | Net amount | Gain on foreign currency transaction | Loss on foreign currency transaction | Net amount |
| Loans and receivables | ₩ | - | - | - | 39,244 | (4,902) | 34,342 |
| Financial assets at amortized cos | | 41,907 | (5,668) | 36,239 | - | - | - |
| Financial liabilities at amortized cost | | 5,091 | (103,846) | (98,755) | 246,533 | (1,149) | 245,384 |
| | ₩ | 46,998 | (109,514) | (62,516) | 285,777 | (6,051) | 279,726 |

(In millions of won)

## 8. Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2018 and 2017 are as follows:

| | | 2018 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Gross amounts recognized | Gross amounts recognized for offsetting | Net amounts of financial instruments | Amounts not subject to offsetting | | Net amount |
| | | | | | Financial instruments | Cash collateral received | |
| **Financial assets:** | | | | | | | |
| Derivatives | ₩ | 7,477 | - | 7,477 | 310 | - | 7,167 |
| Repurchase agreements (*) | | 460,000 | - | 460,000 | 460,000 | - | - |
| **Financial liabilities:** | | | | | | | |
| Derivatives | | 80,928 | - | 80,928 | 310 | - | 80,618 |

(*) The amounts not subject to offsetting are securities that are received as collateral for repurchase agreements.

| | | 2017 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Gross amounts recognized | Gross amounts recognized for offsetting | Net amounts of financial instruments | Amounts not subject to offsetting | | Net amount |
| | | | | | Financial instruments | Cash collateral received | |
| **Financial assets:** | | | | | | | |
| Derivatives | ₩ | 3,966 | - | 3,966 | 1,104 | - | 2,862 |
| Repurchase agreements (*) | | 173,000 | - | 173,000 | 173,000 | - | - |
| **Financial liabilities:** | | | | | | | |
| Derivatives | | 140,732 | - | 140,732 | 1,104 | - | 139,628 |

(*) The amounts not subject to offsetting are securities that are received as collateral for repurchase agreements.

(In millions of won)

## 9. Operating Segments

The Group has a single reportable segment.

(a) Details of revenues by financial service type for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | | | | |
|---|---|---|---|---|---|---|
| | | **Credit card** | **Installment finance** | **Lease** | **Others** | **Total** |
| Interest incomes | ₩ | 1,784,020 | 101,593 | 53,183 | 75,014 | 2,013,810 |
| Fee and commission income | | 1,401,134 | 6,925 | 77,197 | 493 | 1,485,749 |
| Other operating income | | 7,983 | 226 | 34 | 244,430 | 252,673 |
| | ₩ | 3,193,137 | 108,744 | 130,414 | 319,937 | 3,752,232 |

| | | 2017 | | | | |
|---|---|---|---|---|---|---|
| | | **Credit card** | **Installment finance** | **Lease** | **Others** | **Total** |
| Interest incomes | ₩ | 1,686,499 | 96,078 | 51,581 | 46,750 | 1,880,908 |
| Fee and commission income | | 2,407,480 | 5,622 | 20,087 | 812 | 2,434,001 |
| Other operating income | | 7,956 | 235 | 38 | 874,042 | 882,271 |
| | ₩ | 4,101,935 | 101,935 | 71,706 | 921,604 | 5,197,180 |

(b) Over 99% of revenues from external customers for the years ended December 31, 2018 and 2017 are all attributed to the Republic of Korea, the Company's country of domicile.

(c) There is no single external customer with whom revenues amount to 10 percent or more of the Group's revenues for the years ended December 31, 2018 and 2017.

(In millions of won)

## 10. Cash and Due from Banks

(a) Details of cash and due from banks as of December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Cash | ₩ | 19 | 53 |
| Deposits in won: | | | |
| Deposits on demand | | 320,517 | 288,422 |
| Current deposits | | 17,745 | 1,475 |
| Foreign currency deposits | | 915 | 2,925 |
| Time deposits | | 50 | 388 |
| Deposit for checking accounts | | 31 | 33 |
| Deposits on demand of SPC | | 194,678 | 185,675 |
| Others | | 104,035 | 87,999 |
| | ₩ | 637,990 | 566,970 |

(b) Restricted due from banks as of December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 | Restrictions |
|---|---|---|---|---|
| Time deposits | | | | |
| Shinhan Bank | ₩ | 50 | 50 | Pledged as collateral for cash advances |
| Korea Post | | - | 338 | Pledged as collateral for a lease |
| | | 50 | 388 | |
| Other deposits | | | | |
| Woori Bank and others | | 31 | 33 | Deposit for checking accounts |
| | | 194,678 | 185,675 | Deposits on demand of SPC |
| | | 194,709 | 185,708 | |
| | ₩ | 194,759 | 186,096 | |

(In millions of won)

## 11. Trading Financial Assets

(a) Details of trading financial assets as of December 31, 2017 are as follows:

| | | 2017 |
|---|---|---|
| MMF | ₩ | 360,064 |

(b) Net income on trading financial assets for the year ended December 31, 2017 is as follows:

| | | 2017 |
|---|---|---|
| Gain on valuation of trading financial assets | ₩ | 64 |
| Gain on sale of trading financial assets | | 1,976 |
| | ₩ | 2,040 |

## 12. Financial assets at FVTPL

(a) Details of financial assets at FVTPL as of December 31, 2018 are as follows and no financial assets are designated as at FVTPL.

| | | 2018 |
|---|---|---|
| Beneficiary certificates | ₩ | 250,064 |
| Debt securities | | 1,579 |
| Equity securities | | 2,211 |
| | ₩ | 253,854 |

(b) Net income on financial assets at FVTPL for the year period ended December 31, 2018 is as follows:

| | | 2018 |
|---|---|---|
| Gain on valuation | ₩ | 64 |
| Loss on valuation | | (376) |
| Gain on sale | | 7,553 |
| Other income | | 38,870 |
| | ₩ | 46,111 |

(c) Dividend income on financial assets at FVTPL is W20 million for the year ended December 31, 2018.

(In millions of won)

## 13. Derivatives

(a) Derivative assets and liabilities

The notional amounts and fair values of derivative assets and liabilities as of December 31, 2018 and 2017 are as follows:

| | | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|---|
| | | Notional amounts | Fair value Assets | Fair value Liabilities | Notional amounts | Fair value Assets | Fair value Liabilities |
| Currency rate swap | ₩ | 2,667,945 | 7,167 | 60,143 | 2,227,910 | 286 | 139,763 |
| Interest rate swap | | 1,540,000 | 310 | 20,785 | 730,000 | 3,680 | 969 |
| | ₩ | 4,207,945 | 7,477 | 80,928 | 2,957,910 | 3,966 | 140,732 |

(b) Gain (loss) on derivatives

Gain (loss) on derivatives for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Gain on valuation of derivatives | ₩ | 72,931 | - |
| Gain on derivatives transactions | | 32,308 | 13,825 |
| Loss on valuation of derivatives | | (3,253) | (184,326) |
| Loss on derivatives transactions | | (3,511) | (75,674) |
| Gain (loss) on derivatives | ₩ | 98,475 | (246,175) |

(c) Hedge accounting

(i) Risk management strategy

The Group deals with derivative financial instruments to avoid interest rate risk and exchange risk. The Group applies cash flow hedge accounting that utilizes interest rate swap and currency swap to avoid the risk of cash flow variability from borrowings in won, debentures in won and debentures in foreign currency due to market interest rate and foreign exchange rate.

(In millions of won)

**13. Derivatives, continued**

(c) Hedge accounting, continued

(ii) The timing of the nominal amount of the hedging instrument and the average rate as of December 31, 2018 are as follows.

| | | 2018 | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Within 1 year** | **Over 1 year ~ 2 years** | **Over 2 years ~ 3 years** | **Over 3 year ~ 4 years** | **Over 4 year ~ 5 years** | **Total** |
| **Cash flow hedge** | | | | | | | |
| Currency swap | ₩ | 559,795 | 907,375 | 696,428 | 504,347 | - | 2,667,945 |
| Interest rate swap | | 150,000 | 265,000 | 230,000 | 235,000 | 660,000 | 1,540,000 |
| | ₩ | 709,795 | 1,172,375 | 926,428 | 739,347 | 660,000 | 4,207,945 |
| Average hedging ratio | | 100% | 100% | 100% | 100% | 100% | 100% |

(iii) The effect that hedge accounting has had on the statement of financial position and statement of comprehensive income

ⓐ The effect that hedge instruments have had on the statement of financial position and statement of comprehensive income as of December 31, 2018 is as follows.

| | | 2018 | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Nominal amount** | **Derivative assets** | **Derivative liabilities** | **Gain on derivatives** | **Other comprehensive income** | **Changes in fair value** |
| **Cash flow hedge** | | | | | | | |
| Exchange risk | | | | | | | |
| Currency swap | ₩ | 2,667,945 | 7,167 | 60,143 | 98,475 | (13,514) | (18,642) |
| Interest rate risk | | | | | | | |
| Interest rate swap | | 1,540,000 | 310 | 20,785 | - | (16,810) | (23,184) |
| | ₩ | 4,207,945 | 7,477 | 80,928 | 98,475 | (30,324) | (41,826) |

(In millions of won)

## 13. Derivatives, continued

(c) Hedge accounting, continued

(iii) The effect that hedge accounting has had on the statement of financial position and statement of comprehensive income, continued

ⓑ The effect that hedged items have had on the statement of financial position and statement of comprehensive income as of and for the year December 31, 2018 are as follows.

| | 2018 | | | | |
|---|---|---|---|---|---|
| | **Borrowings** | **Debentures** | **Interest expense** | **loss on foreign currency transactions** | **Cash flow hedge reserve** |
| **Cash flow hedge** | | | | | |
| Currency swap | | | | | |
| Debentures in foreign currency | ₩ - | 111,775 | (2,106) | (4,670) | 96 |
| Securitized debentures | - | 2,548,468 | (49,703) | (72,282) | (9,647) |
| Interest rate swap | | | | | |
| Debentures in won | - | 1,339,005 | (28,026) | - | (14,784) |
| Borrowings in won | 200,000 | - | (2,036) | - | (59) |
| | ₩ 200,000 | 3,999,248 | (81,871 | (76,952) | (24,394) |

(iv) Cash flow hedge activity

For cash flow hedges, the amount that was recognized in other comprehensive income and the amount that was reclassified from equity to profit or loss for the years ended December 31, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Recognized in other comprehensive income (loss) | ₩ 49,183 | (220,713) |
| Reclassified from equity to profit or loss | (91,011) | 246,175 |
| Deferred tax effect | 11,504 | (6,432) |
| Changes in accumulated other comprehensive income, net | ₩ (30,324) | 19,030 |

(In millions of won)

**14. Credit card assets at amortized cost, etc.**

(a) Details of credit card assets at amortized cost, etc. as of December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 (*) |
|---|---|---|---|
| Credit card assets: | | | |
| Lump-sum purchases | ₩ | 5,896,229 | 5,448,088 |
| Installment purchases | | 6,511,566 | 5,808,476 |
| Cash advances | | 1,845,487 | 1,768,221 |
| Revolving cash advances | | 140,905 | 150,775 |
| Revolving purchases | | 1,606,746 | 1,364,392 |
| Card loans | | 6,036,604 | 5,693,920 |
| Restructured loans | | 238,998 | 249,627 |
| Purchasing card | | 851 | 910 |
| Less : Allowance for doubtful accounts | | (793,471) | (595,634) |
| Present value discount account | | (20,161) | (18,836) |
| Deferred loan origination fees | | (30,228) | (26,992) |
| | | 21,433,526 | 19,842,947 |
| Loans: | | | |
| General loans | | 553,464 | 334,401 |
| Bonds purchased under resale agreements | | 460,000 | 173,000 |
| Factoring receivables | | 147,095 | 276,848 |
| Commercial paper | | 435,965 | 332,002 |
| Others | | 616 | 807 |
| Less : Allowance for doubtful accounts | | (16,688) | (10,717) |
| Add : Deferred loan origination costs | | 463 | 586 |
| | | 1,580,915 | 1,106,927 |
| Installment financing assets: | | | |
| Installment for cars | | 2,657,068 | 2,267,701 |
| Installment for others | | 13,454 | 2,241 |
| Less : Allowance for doubtful accounts | | (19,733) | (13,758) |
| Add : Deferred loan origination costs | | 31,029 | 29,395 |
| | | 2,681,818 | 2,285,579 |
| Lease assets: | | | |
| Financing lease receivables | | 1,239,425 | 1,083,193 |
| Cancelled financing lease receivables | | 137 | 94 |
| Less : Allowance for doubtful accounts | | (31,668) | (32,398) |
| Deferred loan origination fees | | (1,466) | (1,848) |
| | | 1,206,428 | 1,049,041 |
| | ₩ | 26,902,687 | 24,284,494 |

(*) The carrying amount of credit card assets at amortized cost, etc. as of December 31, 2017 was classified as loans and receivables under the measurement categories of K-IFRS No.1039.

(In millions of won)

**14. Credit card assets at amortized cost, etc., continued**

(b) Changes in the gross carrying amount of credit card assets at amortized cost, etc. for the year ended December 31, 2018 is as follows:

| | | 2018 | | | |
|---|---|---|---|---|---|
| | | **12 month expected credit losses** | **Lifetime expected credit losses** | **Credit-impaired financial assets** | **Total** |
| Beginning balance | ₩ | 20,512,687 | 3,998,634 | 425,680 | 24,937,001 |
| 12 month expected credit losses substitution | | 405,911 | (405,506) | (405) | - |
| Lifetime expected credit losses substitution | | (718,324) | 718,907 | (583) | - |
| Credit-impaired financial assets substitution | | (49,116) | (34,306) | 83,422 | - |
| Execution | | 3,159,593 | 127,487 | 302,664 | 3,589,744 |
| Recoveries | | - | (112,889) | (26,810) | (139,699) |
| Write-offs | | (78,866) | (174,932) | (326,336) | (580,134) |
| Disposal of loans | | (42,665) | - | - | (42,665) |
| Ending balance | | 23,189,220 | 4,117,395 | 457,632 | 27,764,247 |
| Allowance for doubtful accounts | | (186,377) | (362,389) | (312,794) | (861,560) |
| Net carrying amount | ₩ | 23,002,843 | 3,755,006 | 144,838 | 26,902,687 |

(c) Changes in allowance for credit card assets at amortized cost, etc. for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | | | |
|---|---|---|---|---|---|
| | | **12 month expected credit losses** | **Lifetime expected credit losses** | **Credit-impaired financial assets** | **Total** |
| Beginning balance (*) | ₩ | 171,160 | 342,379 | 293,400 | 806,939 |
| 12 month expected credit losses substitution | | 21,233 | (20,958) | (275) | - |
| Lifetime expected credit losses substitution | | (12,724) | 13,092 | (368) | - |
| Credit-impaired financial assets substitution | | (1,025) | (2,892) | 3,917 | - |
| Provision for loss allowance | | 86,602 | 205,700 | 138,497 | 430,799 |
| Write-offs | | (78,866) | (174,932) | (326,336) | (580,134) |
| Unwinding effect | | - | - | (2,871) | (2,871) |
| Disposal of loans | | (302) | - | (83) | (385) |
| Recoveries | | - | - | 189,815 | 189,815 |
| Others | | 299 | - | 17,098 | 17,397 |
| Ending balance | ₩ | 186,377 | 362,389 | 312,794 | 861,560 |

(*) The balance of allowance for doubtful accounts in accordance with K-IFRS No.1109.

(In millions of won)

**14. Credit card assets at amortized cost, etc., continued**

(c) Changes in allowance for credit card assets at amortized cost, etc. for the years ended December 31, 2018 and 2017 are as follows, continued:

| | | 2017 |
|---|---|---|
| Beginning balance | ₩ | 739,694 |
| Provision for loss allowance | | 280,054 |
| Write-offs | | (552,940) |
| Unwinding effect | | (1,631) |
| Allowance related to disposal of loans | | (1,928) |
| Recoveries | | 188,852 |
| Others | | 406 |
| Ending balance | ₩ | 652,507 |

(d) Financing lease assets

Total investments in financing leases and the present value of minimum lease payments for each of the following periods as of December 31, 2018 and 2017 are as follows:

| | | 2018 | | |
|---|---|---|---|---|
| | | Total investment | Unrealized interest income | Present value of minimum lease payment |
| Less than one year | ₩ | 352,917 | 66,772 | 286,145 |
| One year to five years | | 1,035,949 | 89,264 | 946,685 |
| Over five years | | 6,769 | 37 | 6,732 |
| | ₩ | 1,395,635 | 156,073 | 1,239,562 |

| | | 2017 | | |
|---|---|---|---|---|
| | | Total investment | Unrealized interest income | Present value of minimum lease payment |
| Less than one year | ₩ | 385,568 | 52,211 | 333,357 |
| One year to five years | | 810,291 | 65,887 | 744,404 |
| Over five years | | 6,110 | 584 | 5,526 |
| | ₩ | 1,201,969 | 118,682 | 1,083,287 |

(e) Changes in deferred loan origination costs (fees)

Changes in deferred loan origination costs (fees) for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Beginning balance | ₩ | 1,141 | 8,472 |
| Increase | | (28,254) | (32,237) |
| Decrease | | 26,911 | 24,906 |
| Ending balance | ₩ | (202) | 1,141 |

(In millions of won)

**15. Lease assets**

(a) Details of lease assets as of December 31, 2018 and December 31, 2017 are as follows:

| | | 2018 | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Operating lease assets | Cancelled financing lease assets | Total | Operating lease assets | Cancelled financing lease assets | Prepaid lease assets | Total |
| Acquisition cost | ₩ | 418,671 | 663 | 419,334 | 108,625 | 206 | 284 | 109,115 |
| Accumulated depreciation | | (53,683) | (70) | (53,753) | (5,488) | (7) | - | (5,495) |
| Book value | ₩ | 364,988 | 593 | 365,581 | 103,137 | 199 | 284 | 103,620 |

(b) Lease transactions as a lessee

Future minimum lease payments as lessee under non-cancellable lease assets as of December 31, 2018 is as follows:

| | | 2018 |
|---|---|---|
| Less than one year | ₩ | 16,754 |
| One year to five years | | 42,318 |
| Over five years | | - |
| | ₩ | 59,072 |

(c) Lease transactions as a lessor

Future minimum lease payments as lessor under non-cancellable lease assets as of December 31, 2018 and December 31, 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Less than one year | ₩ | 82,878 | 24,214 |
| One year to five years | | 165,311 | 59,687 |
| Over five years | | 10 | 12 |
| | ₩ | 248,199 | 83,913 |

(In millions of won)

**16. Available-for-Sale Financial Assets**

(a) Details of available-for-sale financial assets as of December 31, 2017 are as follows:

| | | 2017 |
|---|---|---|
| Debt securities | | |
| Corporate bonds | ₩ | 1,953 |
| Equity securities (*) | | |
| Stock | | 32,630 |
| Equity investments | | 2 |
| | | 32,632 |
| | ₩ | 34,585 |

(*) Equity securities with no quoted market prices in active markets and for which the fair value cannot be measured reliably are recorded at their acquisition cost. The carrying amounts of those investments are ₩4,314 million as of December 31, 2017.

(b) Changes in available-for-sale financial assets for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|---|
| | | Debt securities | Equity securities | Total | Debt securities | Equity securities | Total |
| Beginning balance | ₩ | 1,953 | 32,632 | 34,585 | 1,368 | 240,788 | 242,156 |
| Effect of changes in accounting policies | | (1,953) | (32,632) | (34,585) | - | - | - |
| Acquisition | | - | - | - | - | 2,000 | 2,000 |
| Disposal | | - | - | - | (3,206) | (248,697) | (251,903) |
| Changes in fair value of available-for-sale financial assets | | - | - | - | - | 53,778 | 53,778 |
| Exchange rate differences | | - | - | - | - | (15,237) | (15,237) |
| Reversal of impairment loss | | - | - | - | 3,791 | - | 3,791 |
| Ending balance | ₩ | - | - | - | 1,953 | 32,632 | 34,585 |

(c) Gain on sale of available-for-sale financial assets for the year ended December 31, 2017 are as follows:

| | | 2017 |
|---|---|---|
| Gain on sale of available-for-sale financial assets | ₩ | 250,572 |

(In millions of won)

**17. Financial assets at FVOCI**

(a) Details of financial assets at FVOCI as of December 31, 2018 are as follows:

| | | **2018** |
|---|---|---|
| Equity instruments designated as FVOCI | ₩ | 34,519 |

(b) The fair value of an equity instruments designated as FVOCI investing in equity instruments as of December 31, 2018 is as follows:

| | | **2018** |
|---|---|---|
| Equity securities (*) | ₩ | 34,519 |

(*) The equity securities were exercised at the FVOCI option for the purpose of holding long term for the Group strategic purposes.

(c) Details of dividend income of financial assets at FVOCI for the year ended December 31, 2018 are as follows:

| | | **2018** |
|---|---|---|
| Dividend income recognized in assets held at the end of the reporting period | | |
| Equity securities | ₩ | 1,373 |

(d) Changes of financial assets at FVOCI for the year ended December 31, 2018 are as follows:

| | | **2018** |
|---|---|---|
| Equity securities | | |
| Beginning balance | ₩ | - |
| Effect of changes in accounting policies | | 31,129 |
| Acquisition | | 300 |
| Discard | | (200) |
| Changes in fair value | | 3,290 |
| Ending balance | ₩ | 34,519 |

(e) There are no gains or losses on sales of financial assets at FVOCI for the year ended December 31, 2018.

(In millions of won)

## 18. Property and Equipment

(a) Details of Property and equipment as of December 31, 2018 and 2017 are as follows:

| | | 2018 | | | |
|---|---|---|---|---|---|
| | | **Land** | **Buildings** | **Others** | **Total** |
| Acquisition cost | ₩ | 31,400 | 7,618 | 371,033 | 410,051 |
| Accumulated depreciation | | - | (2,480) | (318,970) | (321,450) |
| Ending balance | ₩ | 31,400 | 5,138 | 52,063 | 88,601 |

| | | 2017 | | | |
|---|---|---|---|---|---|
| | | **Land** | **Buildings** | **Others** | **Total** |
| Acquisition cost | ₩ | 32,352 | 8,885 | 362,839 | 404,076 |
| Accumulated depreciation | | - | (2,216) | (317,298) | (319,514) |
| Impairment losses | | (946) | (1,258) | - | (2,204) |
| Ending balance | ₩ | 31,406 | 5,411 | 45,541 | 82,358 |

(b) Changes in property and equipment for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | | | |
|---|---|---|---|---|---|
| | | **Land** | **Buildings** | **Others** | **Total** |
| Beginning balance | ₩ | 31,406 | 5,411 | 45,541 | 82,358 |
| Acquisition | | - | - | 21,805 | 21,805 |
| Disposal | | - | - | (510) | (510) |
| Depreciation | | - | (269) | (20,123) | (20,392) |
| Others | | (6) | (4) | 5,350 | 5,340 |
| Ending balance | ₩ | 31,400 | 5,138 | 52,063 | 88,601 |

| | | 2017 | | | |
|---|---|---|---|---|---|
| | | **Land** | **Buildings** | **Others** | **Total** |
| Beginning balance | ₩ | 31,438 | 5,680 | 39,599 | 76,717 |
| Acquisition | | - | 21 | 25,548 | 25,569 |
| Disposal | | - | - | (382) | (382) |
| Depreciation | | - | (270) | (20,289) | (20,559) |
| Others | | (32) | (20) | 1,065 | 1,013 |
| Ending balance | ₩ | 31,406 | 5,411 | 45,541 | 82,358 |

(In millions of won)

**18. Property and Equipment, continued**

(c) Insured assets

Details of insured assets as of December 31, 2018 are as follows:

| Type of insurance | Assets covered | Insurance company | | Amount covered |
|---|---|---|---|---|
| Property all risks policy | Buildings, etc. | Samsung Fire & Marine Insurance, Ltd. | ₩ | 59,307 |

In addition, the Group maintains transportation theft insurance, custody theft insurance for cash and securities and liability insurance, full insurance for vehicles.

**19. Intangible Assets**

(a) Details of Intangible assets as of December 31, 2018 and 2017 are as follows:

| | | 2018 | | | |
|---|---|---|---|---|---|
| | | Club memberships | Development cost | Others | Total |
| Acquisition cost | ₩ | 15,613 | 38,170 | 31,334 | 85,117 |
| Accumulated amortization | | - | (20,000) | (14,693) | (34,693) |
| Impairment losses | | (904) | (336) | - | (1,240) |
| Ending balance | ₩ | 14,709 | 17,834 | 16,641 | 49,184 |

| | | 2017 | | | |
|---|---|---|---|---|---|
| | | Club memberships | Development cost | Others | Total |
| Acquisition cost | ₩ | 15,594 | 32,644 | 21,139 | 69,377 |
| Accumulated amortization | | - | (13,644) | (8,858) | (22,502) |
| Impairment losses | | (939) | - | - | (939) |
| Ending balance | ₩ | 14,655 | 19,000 | 12,281 | 45,936 |

(In millions of won)

**19. Intangible Assets, continued**

(b) Changes in intangible assets for the years ended December 31, 2018 and 2017 are as follows, and amortization is included in general administrative expenses.

| | | 2018 | | | |
|---|---|---|---|---|---|
| | | **Club memberships** | **Development cost** | **Others** | **Total** |
| Beginning balance | ₩ | 14,655 | 19,000 | 12,281 | 45,936 |
| Acquisition | | 19 | 11,775 | 8,875 | 20,669 |
| Reclassification | | - | (5,787) | 1,333 | (4,454) |
| Disposal | | - | (93) | - | (93) |
| Amortization | | - | (6,355) | (5,835) | (12,190) |
| Impairment loss (*) | | - | (336) | - | (336) |
| Reversal of impairment loss (*) | | 35 | - | - | 35 |
| Discard | | - | (370) | - | (370) |
| Others | | - | - | (13) | (13) |
| Ending balance | ₩ | 14,709 | 17,834 | 16,641 | 49,184 |

| | | 2017 | | | |
|---|---|---|---|---|---|
| | | **Club memberships** | **Development cost** | **Others** | **Total** |
| Beginning balance | ₩ | 15,297 | 17,967 | 13,962 | 47,226 |
| Acquisition | | 376 | 10,988 | 2,342 | 13,706 |
| Reclassification | | - | (3,497) | 673 | (2,824) |
| Disposal | | (1,063) | - | - | (1,063) |
| Amortization | | - | (6,458) | (4,682) | (11,140) |
| Reversal of impairment loss (*) | | 45 | - | - | 45 |
| Others | | - | - | (14) | (14) |
| Ending balance | ₩ | 14,655 | 19,000 | 12,281 | 45,936 |

(*) Impairment loss and reversal of impairment loss are recognized as non-operating income and expenses. Recoverable amount of club memberships is determined as the higher of its fair value less costs of disposal and fair value less costs to sell or value in use. Club memberships are tested for impairment by comparing its carrying amount with its recoverable amount.

(In millions of won)

**20. Other Assets**

(a) Details of other assets as of December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Guarantee deposits | ₩ | 81,755 | 77,530 |
| Present value discount account | | (2,862) | (2,936) |
| Accounts receivable | | 274,780 | 309,647 |
| Allowance for doubtful accounts | | (1,045) | (1,316) |
| Accrued income | | 120,618 | 112,989 |
| Allowance for doubtful accounts | | (10,001) | (7,372) |
| Advance payments | | 324,129 | 135,077 |
| Prepaid expenses | | 71,727 | 48,155 |
| Others | | 5,605 | 5,763 |
| | ₩ | 864,706 | 677,537 |

(b) Changes in allowance for other assets for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Beginning balance | ₩ | 8,688 | 11,771 |
| Effect of change in accounting policies | | 1,180 | - |
| Provision for credit loss allowance | | 20,863 | 15,431 |
| Write-offs | | (20,622) | (19,326) |
| Recoveries | | 977 | 812 |
| Others | | (40) | - |
| Ending balance | ₩ | 11,046 | 8,688 |

(In millions of won)

## 21. Borrowings

Details of borrowings as of December 31, 2018 and 2017 are as follows:

| | Interest rate (%) | | 2018 | 2017 |
|---|---|---|---|---|
| Borrowings in won: | | | | |
| Commercial paper | 1.91 ~ 2.58 | ₩ | 1,625,000 | 1,090,000 |
| General borrowings | - | | - | 96,300 |
| Borrowings from Shinhan Financial Group Co., Ltd. | 1.84 ~ 2.90 | | 700,000 | 600,000 |
| Bank overdrafts | - | | - | 78,878 |
| | | | 2,325,000 | 1,865,178 |
| Borrowings in foreign currency: | | | | |
| General borrowings | 8.40 ~ 12.00 | | 90,507 | 99,166 |
| | | ₩ | 2,415,507 | 1,964,344 |

## 22. Debentures

Details of debentures as of December 31, 2018 and 2017 are as follows:

| | Maturity | Interest rate (%) | | 2018 | 2017 |
|---|---|---|---|---|---|
| Debentures in won | 2019.01.14 ~ 2025.12.26 | 1.47 ~ 3.56 | ₩ | 14,040,000 | 11,747,000 |
| Less: discount | | | | (8,487) | (7,119) |
| | | | | 14,031,513 | 11,739,881 |
| Debentures in foreign currency | 2019.02.25 ~ 2022.05.25 | 1.83 ~ 2.36 | | 2,667,946 | 2,227,910 |
| Less: discount | | | | (7,702) | (7,882) |
| | | | | 2,660,244 | 2,220,028 |
| | | | ₩ | 16,691,757 | 13,959,909 |

(In millions of won)

## 23. Employee Benefits

(a) Defined benefit plan assets and liabilities as of December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Present value of defined benefit obligations | ₩ | 247,812 | 234,446 |
| Fair value of plan assets | | (229,142) | (231,431) |
| Recognized liabilities for defined benefit obligations | ₩ | 18,670 | 3,015 |

(b) Changes in the present value of defined benefit obligations and plan assets for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | | |
|---|---|---|---|---|
| | | Defined benefit obligations | Plan assets | Net defined benefit obligations |
| Beginning balance | ₩ | 234,446 | (231,431) | 3,015 |
| Recognized in profit or loss as incurred: | | | | |
| Current service cost | | 17,803 | - | 17,803 |
| Interest expense (income) | | 8,111 | (9,125) | (1,014) |
| | | 25,914 | (9,125) | 16,789 |
| Recognized in other comprehensive income: | | | | |
| Remeasurement loss (gain) | | | | |
| - Actuarial losses (gains) | | | | |
| Demographic assumptions | | - | - | - |
| Financial assumptions | | 13,846 | - | 13,846 |
| Experience adjustments | | (4,779) | - | (4,779) |
| - Return on plan assets | | - | 5,390 | 5,390 |
| | | 9,067 | 5,390 | 14,457 |
| Others: | | | | |
| Contributions paid into the plan | | - | (15,131) | (15,131) |
| Benefits paid by the plan | | (21,484) | 21,155 | (329) |
| Others (*) | | 288 | - | 288 |
| Exchange rate differences | | (419) | - | (419) |
| | | (21,615) | 6,024 | (15,591) |
| Ending balance | ₩ | 247,812 | (229,142) | 18,670 |

(*) Transfer from/to related parties

(In millions of won)

### 23. Employee Benefits, continued

(b) Changes in the present value of defined benefit obligations and plan assets for the years ended December 31, 2018 and 2017 are as follows, continued:

| | | 2017 | | |
|---|---|---|---|---|
| | | Defined benefit obligations | Plan assets | Net defined benefit obligations |
| Beginning balance | ₩ | 241,652 | (207,371) | 34,281 |
| Recognized in profit or loss as incurred: | | | | |
| Current service cost | | 20,984 | - | 20,984 |
| Interest expense (income) | | 7,763 | (6,656) | 1,107 |
| | | 28,747 | (6,656) | 22,091 |
| Recognized in other comprehensive income: | | | | |
| Remeasurement loss (gain) | | | | |
| - Actuarial losses (gains) | | | | |
| Demographic assumptions | | (639) | - | (639) |
| Financial assumptions | | (7,248) | - | (7,248) |
| Experience adjustments. | | (23,067) | - | (23,067) |
| - Return on plan assets | | - | 3,445 | 3,445 |
| | | (30,954) | 3,445 | (27,509) |
| Others: | | | | |
| Contributions paid into the plan | | - | (25,255) | (25,255) |
| Benefits paid by the plan | | (5,242) | 4,406 | (836) |
| Others (*) | | 497 | - | 497 |
| Acquisition of subsidiary | | (254) | - | (254) |
| | | (4,999) | (20,849) | (25,848) |
| Ending balance | ₩ | 234,446 | (231,431) | 3,015 |

(*) Transfer from/to related parties

(c) Details of the amounts included in the fair value of plan assets for each category of financial instruments as of December 31, 2018 and 2017 are as follows:

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| | | Amounts | Ratio | Amounts | Ratio |
| Cash and due from banks | ₩ | 40 | 0.0% | 40 | 0.0% |
| Securities | | 228,571 | 99.8% | 230,762 | 99.7% |
| Others | | 531 | 0.2% | 629 | 0.3% |
| Fair value of plan assets | ₩ | 229,142 | 100.0% | 231,431 | 100.0% |

(In millions of won)

**23. Employee Benefits, continued**

(d) Actuarial assumptions as of December 31, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Discount rate (AA0) | 3.02% | Permanent workers : 3.74%<br>Operating workers : 3.92%<br>Temporary workers : 2.44% |
| Future salary increasing rate | 1.80%<br>+ upgrade rate | 1.80%<br>+ upgrade rate |
| Average expected remaining years of service | 9.3 years | Permanent workers : 8.88 years<br>Operating workers : 12.08 years<br>Temporary workers : 1.17 years |

(e) Sensitivity analysis

This analysis is based on actuarial assumptions variances that the Group considered to be reasonably possible at the reporting date.

| | | Changes in the amount of defined benefit obligations |
|---|---|---|
| Discount rate (1%p decrease) | ₩ | 21,099 |
| Discount rate (1%p increase) | | (18,748) |
| Future salary increasing rate (1%p decrease) | | (19,148) |
| Future salary increasing rate (1%p increase) | | 21,164 |

Sensitivity analysis does not consider the variance of all cash flows expected to occur in the plan, but provides approximation of the sensitivity to the assumptions.

(f) The amounts recognized as expenses for defined contribution plans are ₩2,018 million and ₩2,087 million for the years ended December 31, 2018 and 2017, respectively.

(In millions of won)

**24. Provisions**

(a) Changes in provisions for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Allowance for litigation** | **Provision for customer loyalty programmes** | **Allowance for unused credit commitments** | **Asset retirement** | **Others** | **Total** |
| Beginning balance | ₩ | 746 | 26,104 | 72,793 | 7,410 | 30,303 | 137,356 |
| Effect of changes in accounting polices | | - | (26,104) | 59,468 | - | - | 33,364 |
| Provision (reversal) | | (41) | - | 14,785 | (1,741) | 745 | 13,748 |
| Payment | | (676) | - | - | (316) | (999) | (1,991) |
| Ending balance | ₩ | 29 | - | 147,046 | 5,353 | 30,049 | 182,477 |

| | | 2017 | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Allowance for litigation** | **Provision for customer loyalty programmes** | **Allowance for unused credit commitments** | **Asset retirement** | **Others** | **Total** |
| Beginning balance | ₩ | 1,002 | 25,095 | 354,305 | 7,351 | 1,920 | 389,673 |
| Provision | | (223) | 51,294 | (281,512) | 17 | 29,338 | (201,086) |
| Payment | | (33) | (50,285) | - | - | (955) | (51,273) |
| Others | | - | - | - | 42 | - | 42 |
| Ending balance | ₩ | 746 | 26,104 | 72,793 | 7,410 | 30,303 | 137,356 |

(b) Details of allowance for unused credit commitments as of December 31, 2018 and 2017 are as follows:

| | | **2018** | **2017** |
|---|---|---|---|
| Unused credit commitments | ₩ | 71,896,628 | 63,745,952 |
| Allowance | | 147,046 | 72,793 |
| Ratio (%) | | 0.20% | 0.11% |

(In millions of won)

### 24. Provisions, continued

(c) Changes in unused credit commitments for the year ended December 31, 2018 are as follows:

| | | 2018 | | | |
|---|---|---|---|---|---|
| | | 12 month expected credit losses | Lifetime expected credit losses | Credit-impaired financial assets | Total |
| Beginning balance (*) | ₩ | 52,759 | 77,525 | 1,977 | 132,261 |
| 12 month expected credit losses substitution | | 39,525 | (39,068) | (457) | - |
| Lifetime expected credit losses substitution | | (6,238) | 6,313 | (75) | - |
| Credit-impaired financial assets substitution | | (211) | (800) | 1,011 | - |
| Provision (reversal) | | (27,450) | 39,649 | 2,586 | 14,785 |
| Ending balance | ₩ | 58,385 | 83,619 | 5,042 | 147,046 |

(*) The balance of allowance for doubtful accounts in accordance with K-IFRS No.1109.

### 25. Other Liabilities

Details of other liabilities as of December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Accounts payable | ₩ | 2,500,661 | 2,581,672 |
| Accrued expenses | | 242,765 | 256,770 |
| Advances from customers | | 116,031 | 96,920 |
| Unearned revenue | | 106,845 | 296,948 |
| Withholdings | | 378,148 | 213,419 |
| Guarantee deposits | | 305,351 | 292,239 |
| Present value discount account | | (14,964) | (11,558) |
| Advances of gift card and others | | 30,356 | 30,374 |
| Others (*) | | 283,550 | 6,399 |
| | ₩ | 3,948,743 | 3,763,183 |

(*) Includes point liabilities of ₩ 275,698 million classified under the application of K-IFRS No.1115.

(In millions of won)

## 26. Deferred Revenue of Customer Loyalty Programmes

Changes in deferred revenue of customer loyalty programmes for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Beginning balance | ₩ | 196,721 | 189,830 |
| Effect of changes in accounting policies (*) | | (196,721) | - |
| Deferred | | - | 330,810 |
| Recognition as revenue | | - | (323,919) |
| Ending balance | ₩ | - | 196,721 |

(*) Classified as point liabilities in accordance with K-IFRS No.1115.

## 27. Equity

(a) Details of equity as of December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Common stock | ₩ | 626,847 | 626,847 |
| Capital surplus | | | |
| Gains on capital reduction | | 852,646 | 852,646 |
| Gains on sale of treasury stock | | 2 | 2 |
| Other additional capital | | 7,944 | 7,944 |
| | | 860,592 | 860,592 |
| Capital adjustments | | | |
| Stock options | | 1,234 | 10 |
| Accumulated other comprehensive income | | | |
| Unrealized gain on valuation of available-for-sale securities | | - | 15,904 |
| Unrealized gain on valuation of financial assets at FVOCI | | 18,289 | - |
| Effective portion of valuation gain (loss) on cash flow hedges | | (24,394) | 5,930 |
| Remeasurements of the net defined benefit obligations | | (32,918) | (22,437) |
| Foreign currency translation adjustments for foreign operations | | (4,664) | (2,931) |
| | | (43,687) | (3,534) |
| Retained earnings | | | |
| Legal reserve | | 313,424 | 313,424 |
| Reserve for credit losses (refer to Note 28) | | 891,598 | 388,351 |
| Voluntary reserve | | 11,216 | 11,216 |
| Retained earnings (*) | | 3,344,887 | 4,084,638 |
| | | 4,561,125 | 4,797,629 |
| Non-controlling interests | | (4,644) | (6,425) |
| | ₩ | 6,001,467 | 6,275,119 |

(*) ₩168,299 million of reserve for credit losses plans to reverse to retained earnings for the year ended December 31, 2018 and ₩503,246 million of retained earning reserved for credit losses for the year ended December 31, 2017.

(In millions of won)

**27. Equity, continued**

(b) Capital stock and capital surplus

As of December 31, 2018 and 2017, par value of common stock is ₩5,000 and the Group authorized 2,000,000,000 shares and issued outstanding shares amounted to 125,369,403 shares.

(c) Changes in accumulated other comprehensive income for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Valuation of financial assets at FVOCI** | **Valuation of available-for-sale financial assets** | **Valuation of cash flow hedges** | **Remeasurements of defined benefit obligations** | **Foreign currency translation adjustments for foreign operations** | **Total** |
| **Balance at January 1, 2018** | ₩ | - | 15,904 | 5,930 | (22,437) | (2,931) | (3,534) |
| Effect of changes in accounting policies | | 15,904 | (15,904) | - | - | - | - |
| Changes in fair value | | 3,290 | - | - | (14,456) | - | (11,166) |
| Exchange rate differences | | - | - | - | - | (2,389) | (2,389) |
| Changes in fair value of cash flow hedges | | - | - | 49,183 | - | - | 49,183 |
| Reclassification to profit or loss | | - | - | (91,011) | - | - | (91,011) |
| Deferred tax effect | | (905) | - | 11,504 | 3,975 | 656 | 15,230 |
| **Balance at December 31, 2018** | ₩ | 18,289 | - | (24,394) | (32,918) | (4,664) | (43,687) |

| | | 2017 | | | | |
|---|---|---|---|---|---|---|
| | | **Valuation of available-for-sale financial assets** | **Valuation of cash flow hedges** | **Remeasurements of defined benefit obligations** | **Foreign currency translation adjustments for foreign operations** | **Total** |
| **Balance at January 1, 2017** | ₩ | 166,296 | (13,100) | (44,310) | (1,615) | 107,271 |
| Changes in fair value | | 53,778 | - | 27,509 | - | 81,287 |
| Exchange rate differences | | (15,237) | - | - | (2,085) | (17,322) |
| Changes in fair value of cash flow hedges | | - | (220,713) | - | - | (220,713) |
| Reclassification to profit or loss | | (235,992) | 246,175 | - | - | 10,183 |
| Deferred tax effect | | 47,059 | (6,432) | (5,636) | 769 | 35,760 |
| **Balance at December 31, 2017** | ₩ | 15,904 | 5,930 | (22,437) | (2,931) | (3,534) |

(d) Earned surplus reserves

The Korean *Commercial Act* requires the Company to accumulate, as its earned surplus reserve, at least 10% of cash dividend in each period for the settlement of accounts until its reserve reaches half of the Company’s capital. No reserve shall be disposed of, except in recovery from deficit in capital or capitalizing its reserve as approved in the shareholder’s meeting.

**27. Equity, continued**

(e) Voluntary reserve

The Group elected to measure an item of land and buildings at the date of transition to K-IFRSs at its fair value and use that fair value as its deemed cost at that date. Revaluation surplus as a result of revaluation was classified as dividend restriction by the board of directors. Also, in accordance with amended Credit Information Use and Protection Act, the Group is liable to compensate the owners of credit information for inflicted damage and reserved voluntary reserve for fulfillment by the Act.

Details of discretionary reserve as of December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Revaluation surplus of property and equipment | ₩ | 10,216 | 10,216 |
| Claim reserves for on-line transactions | | 1,000 | 1,000 |
| | ₩ | 11,216 | 11,216 |

(f) Statements of appropriation of retained earnings for the years ended December 31, 2018 and 2017 based on separate financial statements of the Company are as follows:

Expected date of Appropriation for 2018: March 26, 2019
Date of Appropriation for 2017: March 21, 2018

| *(In millions of won, except dividends per share)* | | 2018 | 2017 |
|---|---|---|---|
| **Unappropriated retained earnings** | | | |
| Balance at beginning of year | ₩ | 3,003,677 | 3,180,966 |
| Effect of changes in accounting policies | | (155,932) | - |
| Profit for the year | | 515,413 | 925,975 |
| | | 3,363,158 | 4,106,941 |
| **Reversal of Reserve for credit losses** | | 168,299 | - |
| **Balance at end of year before appropriation** | | 3,531,457 | 4,106,941 |
| **Appropriation of retained earnings** | | | |
| Transfer to reserve for credit losses | | - | 503,246 |
| Cash dividends | | 337,745 | 600,018 |
| Dividends per share (dividend as a percentage of par value): ₩2,694 (53.88%) for 2018 ₩4,786 (95.72%) for 2017 | | | |
| | | 337,745 | 1,103,264 |
| **Unappropriated retained earnings to be carried over to subsequent year** | ₩ | 3,193,712 | 3,003,677 |

(In millions of won)

**28. Reserve for Credit Losses**

In accordance with Regulations on Supervision of Specialized Credit Finance Business, the Group reserves the difference between expected credit loss allowances recognized under K-IFRS and Regulations on Supervision of Specialized Credit Finance Business in the account of reserve for legal reserve for credit losses.

(a) Reserve for credit losses as of December 31, 2018 and 2017 are summarized as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Accumulated reserve for credit losses | ₩ | 891,598 | 388,352 |
| Reserve for (reverse of) credit losses, scheduled | | (168,299) | 503,246 |
| - Effect of changes in accounting policies | | (173,793) | - |
| - Changes in 2018 and 2017 | | 5,494 | 503,246 |
| Ending balance of reserve for credit losses | ₩ | 723,299 | 891,598 |

(b) Details of profit for the year attributable to owners of the Company after adjusting for reversal of credit losses and provision for reserve for credit losses for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Profit for the year attributable to owners of the Company | ₩ | 519,446 | 913,791 |
| Reserve for credit losses, scheduled | | (5,494) | (503,246) |
| Profit for the year attributable to owners of the Company after adjusting for reserve for credit losses | ₩ | 513,952 | 410,545 |
| Earnings per share after adjusting credit losses (in won) | ₩ | 4,100 | 3,275 |

(In millions of won)

## 29. Operating Revenue

(a) Details of operating revenues for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| **Revenue from contracts with customers** | | | |
| Fee and commission income | | | |
| Credit card assets | ₩ | 2,492,751 | 2,364,034 |
| Consideration paid to customers | | (1,135,515) | - |
| **Revenue from others** | | | |
| Interest income | | 2,013,810 | 1,880,908 |
| Fee and commission income | | | |
| Loans | | 488 | 805 |
| Installment loans | | 6,925 | 5,622 |
| Leases | | 77,197 | 20,087 |
| Other | | 43,903 | 43,453 |
| Dividend income | | 1,393 | 12,400 |
| Gain on valuation and disposal of trading financial assets | | - | 2,040 |
| Net income on financial assets at FVTPL | | 46,487 | - |
| Gains related to derivatives | | 105,239 | 13,825 |
| Gains on foreign currency transactions | | 46,998 | 285,777 |
| Gains on disposal of available-for-sale financial assets | | - | 250,572 |
| Reversal of impairment losses on financial assets | | - | 3,791 |
| Other operating income | | 52.556 | 313,866 |
| | ₩ | 3,752,232 | 5,197,180 |

(b) Classification of revenue from contracts with Customers for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| **Revenue from contracts with customers** | | | |
| Credit sales commission, etc. | ₩ | 1,171,465 | 2,223,172 |
| Insurance agency fee | | 65,106 | 56,319 |
| Others | | 120,665 | 84,543 |
| | | 1,357,236 | 2,364,034 |
| **Timing of revenue recognition** | | | |
| Transferred at a point in time | | 1,190,373 | 2,206,782 |
| Transferred over time | | 166,863 | 157,252 |
| | ₩ | 1,357,236 | 2,364,034 |

## 30. Earnings Per Share

Earnings per share for the years ended December 31, 2018 and 2017 are as follows:

*(In millions of won, except shares outstanding and earnings per share)*

| | | 2018 | 2017 |
|---|---|---|---|
| Profit for the year attributable to owners of the Company | ₩ | 519,446 | 913,791 |
| Weighted average number of common stocks outstanding | | 125,369,403 | 125,369,403 |
| Earnings per share (in won) | ₩ | 4,143 | 7,289 |

The Group had no dilutive potential ordinary shares in the calculation of diluted earnings per share for the reporting periods. Accordingly, diluted earnings per share equals basic earnings per share for the years ended December 31, 2018 and 2017.

## 31. Share-Based Payment

Share-based payment as of December 31, 2018 is summarized as follows:

(a) Share-based payment arrangements with performance conditions

(i) Performance share granted as of December 31, 2018 are as follows:

| | Granted in 2014 | Granted in 2015 | Granted in 2016 | Granted in 2017 | Granted in 2018 |
|---|---|---|---|---|---|
| Type | Equity-settled type | Equity-settled type | Equity-settled type | Equity-settled type | Equity-settled type |
| Vesting period | 2014 ~ 2016 | 2015 ~ 2017 | 2016 ~ 2018 | 2017 ~ 2019 | 2018 ~ 2020 |
| Performance condition | Based on relative stock price (20.0%)<br>Based on 4 year management index (80.0%) | | | | |
| Estimated number of shares granted | 29,258 shares | 53,141 shares | 64,846 shares | 62,401 shares | 55,108 shares |

(In millions of won)

**31. Share-Based Payment, continued**

(a) Share-based payment arrangements with performance conditions, continued

(ii) Granted shares and the fair value of grant date as of December 31, 2018 are as follows:
*(In won, except shares)*

| Grant date | Grant shares | Exercised shares | Fair value (*1) | Estimated shares (*2) |
|---|---|---|---|---|
| January 1, 2014 | 23,600 | 18,275 | 47,300 | 18,275 |
| February 10, 2014 | 9,400 | 6,448 | 42,800 | 6,448 |
| March 31, 2014 | 4,700 | 2,689 | 47,000 | 2,689 |
| July 24, 2014 | 1,600 | 541 | 46,550 | 541 |
| August 22, 2014 | 4,700 | 1,305 | 51,800 | 1,305 |
| January 1, 2015 | 50,700 | - | 44,500 | 44,750 |
| February 4, 2015 | 4,500 | - | 45,700 | 3,718 |
| August 24, 2015 | 4,500 | - | 40,250 | 1,453 |
| August 27, 2015 | 10,200 | - | 39,600 | 3,220 |
| January 1, 2016 | 74,200 | - | 39,000 | 48,227 |
| February 4, 2016 | 15,400 | - | 38,150 | 12,648 |
| June 3, 2016 | 5,200 | - | 38,800 | 2,781 |
| August 1, 2016 | 1,900 | - | 40,650 | 705 |
| October 31, 2016 | 3,100 | - | 43,850 | 485 |
| January 1, 2017 | 70,200 | - | 45,300 | 54,661 |
| March 7, 2017 | 10,600 | - | 46,950 | 7,740 |
| January 1, 2018 | 59,900 | | 49,400 | 55,108 |
| | 354,400 | 29,258 | | 264,754 |

(*1) The fair value per share was evaluated based on the closing price of Shinhan Financial Group at each grant date.
(*2) Grant shares at grant date were adjusted pursuant to relative increase ratio of stock price and achievement of management index based on standard quantity applicable to the days of service among specified period of service, which allows for the determination of acquired quantity at the end of the operation period.

(b) Share-based compensation expense for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Share-based payment arrangements with performance conditions | ₩ | 2,170 | 2,895 |

(In millions of won)

## 31. Share-Based Payment, continued

(c) Details of accrued expenses and the intrinsic value as of December 31, 2018 are as follows:

| | | Accrued expense related to compensation expenses associated with share based payments | Intrinsic values (*1) |
|---|---|---|---|
| Share-based payment arrangements with performance conditions (*2) | ₩ | 8,474 | 8,474 |

(*1) The fair value of share-based arrangements with performance conditions is considered as intrinsic value.
(*2) Payments according to arrangements with Shinhan Financial Group are calculated on the basis of the closing price on December 31, 2018, and have been recognized as liabilities.

## 32. Net Interest Income

Details of net interest income for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| **Interest income** | | | |
| Cash and due from banks | ₩ | 6,152 | 6,612 |
| Credit card assets | | 1,784,019 | 1,686,499 |
| Loans | | 66,842 | 38,483 |
| Installment loans | | 101,593 | 96,078 |
| leases | | 53,183 | 51,581 |
| Others | | 2,021 | 1,655 |
| | | 2,013,810 | 1,880,908 |
| **Interest expense** | | | |
| Borrowings | | (58,411) | (42,384) |
| Debentures | | (316,562) | (283,839) |
| Securitized debentures | | (49,703) | (47,920) |
| Others | | (6,034) | (5,711) |
| | | (430,710) | (379,854) |
| **Net interest income** | ₩ | 1,583,100 | 1,501,054 |

Interest income on impaired financial assets for the years ended December 31, 2018 and 2017 are ₩10,031 million and ₩9,628 million, respectively.

(In millions of won)

### 33. Net Fee and commission Income

Details of net fee and commission income for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| **Fee and commission income** | | | |
| Credit card assets | ₩ | 1,357,236 | 2,364,034 |
| Loans | | 488 | 805 |
| Installment loans | | 6,925 | 5,622 |
| Leases | | 77,197 | 20,087 |
| Others (*) | | 43,903 | 43,453 |
| | | 1,485,749 | 2,434,001 |
| **Fee and commission expense** | | | |
| Credit card assets | | (1,144,771) | (2,193,993) |
| Installment loans | | (21,157) | (21,255) |
| Leases | | (456) | (404) |
| Others (*) | | (87,009) | (50,151) |
| | | (1,253,393) | (2,265,803) |
| **Net fee and commission income** | ₩ | 232,356 | 168,198 |

(*) Other fee and commission income or expense includes profit or loss associated with Shinhan Credit Service (Debt exemption and debt suspension) given to credit card members. For the years ended December 31, 2018 and 2017, the amount of income related to debt exemption and debt suspension are ₩43,898 million and ₩43,446 million, respectively, and the amount of expense are ₩7,498 million and ₩7,657 million, respectively.

(In millions of won)

### 34. Dividend Income

Details of dividend income for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Available-for-sale financial assets in Korean currency | ₩ | - | 11,100 |
| Available-for-sale financial assets in foreign currency | | - | 1,300 |
| Financial assets at FVTPL in Korean currency | | 20 | - |
| Financial assets at FVOCI in Korean currency | | 1,373 | - |
| | ₩ | 1,393 | 12,400 |

### 35. Impairment Loss and Reversal on Financial Assets

Details of impairment loss and reversal on financial assets for the years ended December 31, 2017 are as follows:

| | | 2017 |
|---|---|---|
| **Impairment loss** | | |
| Loans and receivables | ₩ | (280,054) |
| Other assets | | (15,431) |
| | | (295,485) |
| **Reversal** | | |
| Available-for-sale financial assets | | 3,791 |
| **Net impairment loss on financial assets** | ₩ | (291,694) |

### 36. Provision for Credit Loss Allowance

Details of provision for credit loss allowance for the years ended December 31, 2018 are as follows:

| | | 2018 |
|---|---|---|
| **Provision for credit loss allowance** | | |
| Changes in credit card assets at amortized cost, etc. | ₩ | (430,799) |
| Other assets | | (20,863) |
| Allowance for unused loan commitments | | (14,785) |
| | ₩ | (466,447) |

(In millions of won)

## 37. General Administrative Expenses

Details of general administrative expenses for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| **Relate to employees** | | | |
| Salaries and wages | ₩ | 166,921 | 171,624 |
| Bonus | | 42,733 | 65,911 |
| Incentive of results | | 27,319 | 17,836 |
| Share-based compensation expense | | 2,170 | 2,895 |
| Employee benefits | | 80,767 | 76,651 |
| Travel | | 6,301 | 7,941 |
| Defined benefit | | 16,789 | 22,091 |
| Defined contribution | | 2,018 | 2,087 |
| Honorary retirement allowance | | - | 56,283 |
| | | 345,018 | 423,319 |
| **Depreciation and amortization** | | | |
| Depreciation | | 20,392 | 20,559 |
| Amortization | | 12,190 | 11,140 |
| | | 32,582 | 31,699 |
| **Other general administrative expenses** | | | |
| Communication | | 47,837 | 50,066 |
| Utility | | 20,872 | 19,012 |
| Vehicles maintenance | | 2,926 | 3,122 |
| Supplies | | 10,646 | 12,917 |
| Rent | | 23,891 | 25,128 |
| Insurance | | 11,618 | 7,516 |
| Repairs | | 195 | 218 |
| Entertainment | | 1,700 | 2,139 |
| Advertising | | 23,784 | 34,889 |
| Sales promotion | | 145,680 | 141,067 |
| Training | | 2,026 | 2,941 |
| Publication | | 445 | 445 |
| Freight | | 619 | 889 |
| Provision for (reversal of) asset retirement obligation | | (1,741) | 17 |
| Taxes and dues | | 34,907 | 35,779 |
| | | 325,405 | 336,145 |
| | ₩ | 703,005 | 791,163 |

(In millions of won)

### 38. Other Operating Income and Expenses

Details of other operating income and expenses for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| **Other operating income** | | | |
| Gains on recovery of bad debt | ₩ | 10,613 | 10,853 |
| Reversal of allowance for unused loan commitments | | - | 281,512 |
| Gains on sale of loans | | 9 | - |
| Others | | 41,934 | 21,501 |
| | | 52,556 | 313,866 |
| **Other operating expenses** | | | |
| Provision for allowance for unused loan commitments | | - | - |
| Losses on repayment of debentures | | - | (85) |
| Depreciation of lease assets | | (51,249) | (5,668) |
| Depreciation of other assets | | (373) | (114) |
| Others | | (3,903) | (29,831) |
| | | (55,525) | (35,698) |
| | ₩ | (2,969) | 278,168 |

### 39. Non-Operating Income and Expenses

Details of non-operating income and expenses for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| **Non-operating income** | | | |
| Gains on disposal of property and equipment | ₩ | 57 | 110 |
| Reversal of impairment losses on intangible assets | | 35 | 45 |
| Reversal of allowance for litigation | | 41 | 223 |
| Others | | 1,530 | 974 |
| | | 1,663 | 1,352 |
| **Non-operating expenses** | | | |
| Donations | | (23,779) | (13,324) |
| Losses on disposal of property and equipment | | (225) | (375) |
| Losses on disposal of intangible assets | | - | (149) |
| Impairment losses on intangible assets | | (336) | - |
| Others | | (2,534) | (2,460) |
| | | (26,874) | (16,308) |
| | ₩ | (25,211) | (14,956) |

(In millions of won)

## 40. Income Taxes

(a) The components of income tax expense for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Current income taxes payable | ₩ | 126,670 | 233,594 |
| Adjustments to the income tax expense for prior period | | 41 | 1,722 |
| Changes in deferred tax due to changes in temporary differences | | (16,824) | (2,338) |
| Income tax expense associated with items recorded in equity | | 15,074 | 35,209 |
| Others | | 58,565 | (18,740) |
| Income tax expense | ₩ | 183,526 | 249,447 |

(b) The relationship between income tax expense and profit before income taxes for the years ended December 31, 2018 and 2017 is as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Profit before income taxes (A) | ₩ | 701,287 | 1,148,170 |
| Income taxes at applicable tax rate | | 192,854 | 277,857 |
| Adjustments: | | | |
| Non-taxable income | | (380) | (177) |
| Non-deductible expense | | 901 | 848 |
| Tax deductions | | - | (195) |
| Consolidated tax return effect and others | | (9,849) | (3,287) |
| Changes in deferred tax due to change in tax rate | | - | (25,599) |
| Income tax expense (B) | ₩ | 183,526 | 249,447 |
| Effective tax rate (B/A) | | 26.17% | 21.73% |

(In millions of won)

## 40. Income Taxes, continued

(c) Changes in significant accumulated temporary differences and tax effects for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | | | | |
|---|---|---|---|---|---|---|
| | | Beginning deferred tax assets (liabilities) | Effect of changes in accounting policies | Changes in profit or loss | Change in other comprehensive income | Ending deferred tax assets (liabilities) |
| Accounts receivable | ₩ | 79 | - | - | - | 79 |
| Available-for-sale financial assets | | 84,619 | (84,619) | - | - | - |
| Financial assets at FVOCI | | - | 84,619 | - | - | 84,619 |
| Valuation on available-for-sale financial assets | | (6,033) | 6,033 | - | - | - |
| Valuation on financial assets at FVOCI | | - | (6,033) | - | (904) | (6,937) |
| Valuation on property and equipment, depreciation and others | | (2,297) | - | 177 | - | (2,120) |
| Deferred loan origination costs | | (8,387) | - | (514) | - | (8,901) |
| Derivative assets (liabilities) | | (2,249) | - | - | 11,502 | 9,253 |
| Accrued expenses | | 14,828 | - | 3,729 | - | 18,557 |
| Liability for defined benefit obligations | | 45,834 | - | (468) | 2,493 | 47,859 |
| Plan assets | | (51,216) | - | 12 | 1,482 | (49,722) |
| Other provisions | | 118,111 | 16,353 | (107) | - | 134,357 |
| Others | | 14,743 | 42,795 | (60,227) | 501 | (2,188) |
| | ₩ | 208,032 | 59,148 | (57,398) | 15,074 | 224,856 |

| | | 2017 | | | |
|---|---|---|---|---|---|
| | | Beginning deferred tax assets (liabilities) | Change in profit or loss | Change in other comprehensive income | Ending deferred tax assets (liabilities) |
| Accounts receivable | ₩ | 70 | 9 | - | 79 |
| Available-for-sale financial assets | | 76,967 | 7,652 | - | 84,619 |
| Valuation on available-for-sale financial assets | | (53,092) | - | 47,059 | (6,033) |
| Valuation on property and equipment, depreciation and others | | (2,016) | (281) | - | (2,297) |
| Deferred loan origination costs | | (8,614) | 227 | - | (8,387) |
| Derivative assets (liabilities) | | 4,183 | - | (6,432) | (2,249) |
| Accrued expenses | | 12,004 | 2,824 | - | 14,828 |
| Liability for defined benefit obligations | | 64,013 | (11,060) | (7,119) | 45,834 |
| Plan assets | | (46,706) | (5,994) | 1,484 | (51,216) |
| Other provisions | | 157,623 | (39,512) | - | 118,111 |
| Others | | 1,262 | 13,264 | 217 | 14,743 |
| | ₩ | 205,694 | (32,871) | 35,209 | 208,032 |

(In millions of won)

**40. Income Taxes, continued**

(d) Deferred income taxes associated with items, which are not recognized as profit (loss) for the years ended December 31, 2018 and 2017 are as follows:

| | | **2018** | | | | |
|---|---|---|---|---|---|---|
| | | **December 31, 2018** | | **January 1, 2018** | | **Changes in tax effect** |
| | | **Amount** | **Tax effect** | **Amount** | **Tax effect** | |
| Changes in fair value of available-for-sale financial assets | ₩ | - | - | 15,904 | (6,033) | 6,033 |
| Changes in fair value of financial assets at FVOCI | | 18,289 | (6,937) | - | - | (6,937) |
| Effective portion of valuation gain or loss on cash flow hedges | | (24,395) | 9,253 | 5,930 | (2,249) | 11,502 |
| Overseas operations translation credit (debit) | | (4,663) | 1,270 | (2,931) | 769 | 501 |
| Remeasurements of defined benefit obligations | | (32,918) | 12,486 | (22,437) | 8,511 | 3,975 |
| | ₩ | (43,687) | 16,072 | (3,534) | 998 | 15,074 |

| | | **2017** | | | | |
|---|---|---|---|---|---|---|
| | | **December 31, 2017** | | **January 1, 2017** | | **Changes in tax effect** |
| | | **Amount** | **Tax effect** | **Amount** | **Tax effect** | |
| Changes in fair value of available-for-sale financial assets | ₩ | 15,904 | (6,033) | 166,296 | (53,092) | 47,059 |
| Effective portion of valuation gain or loss on cash flow hedges | | 5,930 | (2,249) | (13,100) | 4,183 | (6,432) |
| Overseas operations translation credit (debit) | | (2,931) | 769 | (1,615) | 552 | 217 |
| Remeasurements of defined benefit obligations | | (22,437) | 8,511 | (44,310) | 14,146 | (5,635) |
| | ₩ | (3,534) | 998 | 107,271 | (34,211) | 35,209 |

(In millions of won)

**40. Income Taxes, continued**

(e) The Group offsets 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 Group has a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets and liabilities before offsetting as of December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Deferred tax assets | ₩ | 294,724 | 278,214 |
| Deferred tax liabilities | | (69,868) | (70,182) |
| | ₩ | 224,856 | 208,032 |

(f) Deferred tax assets have been recognized as the Group has determined it is probable that future profits will be available against which the Group can utilize the related benefit.

(g) As of December 31, 2018 and 2017 current tax liabilities are ₩89,906 million and ₩123,722 million, respectively. For consolidated tax return, the amount is paid to the taxation authorities through the controlling company of the Group.

**41. Statements of Cash Flows**

(a) Details of cash and cash equivalents as of December 31, 2018 and 2017 are summarized as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Cash | ₩ | 19 | 53 |
| Available deposits from banks | | | |
| Deposits on demand | | 320,517 | 288,422 |
| Current deposits | | 17,745 | 1,475 |
| Foreign currency deposits | | 915 | 2,925 |
| Others | | 104,035 | 87,999 |
| | | 443,212 | 380,821 |
| Cash and cash equivalents | ₩ | 443,231 | 380,874 |

(b) The Group presents the cash inflows and outflows of bank overdrafts and call money as net amounts, because the turnover of transactions is quick, the amounts are large, and the maturities are short.

(c) Reconciliations of the amounts of cash and cash equivalents in the statement of cash flows with the equivalent items reported in the statement of financial position as of December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Cash and cash equivalents in the statements of financial position | ₩ | 637,990 | 566,970 |
| Adjustment: | | | |
| Restricted due from banks | | (194,759) | (186,096) |
| Cash and cash equivalents in the statements of cash flows | ₩ | 443,231 | 380,874 |

(In millions of won)

**41. Statements of Cash Flows, continued**

(d) The Group presents statements of cash flows using the indirect method and significant non-cash transactions for the years ended December 31, 2018 and 2017 are summarized as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Valuation of available-for-sale financial assets | ₩ | - | 38,541 |
| Valuation of financial assets at FVOCI | | 3,290 | - |
| Valuation of derivatives | | 41,826 | 25,461 |

(e) Changes in assets and liabilities arising from financing activities for the year ended December 31, 2018 and 2017 are as follows:

| | | 2018 | | | | |
|---|---|---|---|---|---|---|
| | | Assets | Liabilities | | | |
| | | Derivative assets | Derivative liabilities | Borrowings | Debentures | Total |
| **Balance at January 1, 2018** | ₩ | 3,966 | (140,732) | (1,964,344) | (13,959,909) | (16,064,985) |
| Changes from financing cash flows | | (5,846) | 12,512 | (453,725) | (2,647,297) | (3,088,510) |
| Changes from operating cash flows | | - | - | 22,293 | (17,548) | 4,745 |
| Changes in foreign currency exchange rate | | - | - | - | (76,953) | (76,953) |
| Net income on derivatives and interest expense | | 17,115 | 81,360 | - | - | 81,360 |
| Changes in fair value | | (7,758) | (34,068) | - | - | (34,068) |
| Others | | - | - | (19,731) | 9,950 | (9,781) |
| **Balance at December 31, 2018** | ₩ | 7,477 | (80,928) | (2,415,507) | (16,691,757) | (19,188,192) |

| | | 2017 | | | | |
|---|---|---|---|---|---|---|
| | | Assets | Liabilities | | | |
| | | Derivative assets | Derivative liabilities | Borrowings | Debentures | Total |
| **Balance at January 1, 2017** | ₩ | 153,343 | (10,665) | (1,390,180) | (12,984,819) | (14,385,664) |
| Changes from financing cash flows | | (48,499) | (10,230) | (583,907) | (1,140,810) | (1,734,947) |
| Changes from operating cash flows | | - | - | 53,567 | 320,848 | 374,415 |
| Changes in foreign currency exchange rate | | - | - | - | 173,610 | 173,610 |
| Net loss on derivatives and interest expense | | (112,927) | (133,249) | (42,384) | (331,758) | (507,391) |
| Changes in fair value | | 12,049 | 13,412 | - | - | 13,412 |
| Others | | - | - | (1,440) | 3,020 | 1,580 |
| **Balance at December 31, 2017** | ₩ | 3,966 | (140,732) | (1,964,344) | (13,959,909) | (16,064,985) |

## 42. Contingent Liabilities and Commitments

(a) Contingent liabilities

The Group has eight pending lawsuits as a defendant as of December 31, 2018 for a total claim amount of ₩489 million. A legal provision of ₩29 million is recognized in the accompanying consolidated financial statements. Additional losses may 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 statements.

(b) ABS commitments

In trust-type asset securitizations, trust company can demand the Controlling Company to transfer additional assets if the transferred assets are below the agreed minimum amount. As prescribed by the respective asset transfer agreements and other contracts, the Controlling Company has an obligation to early redeem the asset-backed securities in certain cases, such as when outstanding balance of securitized assets falls below the agreed amount at each settlement period or when portfolio profitability ratio is less than primary cost ratio for three consecutive settlement periods. Investor Interest based on transferred assets is provided as collateral for asset-backed securities. As of December 31, 2018, the Group has no additional obligation for the asset-backed securities.

The Controlling Company has entered into an agreement with the trust company to provide asset management services for the transferred assets. Under the agreement, the Controlling Company provides various services such as billing, collection, and management of delinquencies, and receives service fees from the Trust company recorded as asset securitization income.

(c) Other commitments

The Group has decided to provide the total VND 4.5 trillion (KRW 216,900 million) of the lines of credit for the Vietnam-based consumer banking firm Prudential Vietnam Finance Company Limited, which is scheduled to be acquired. As of December 31, 2018, the providing lines of credit has not been signed.

The providing lines of credit above will be provided for new borrowing and full refund of the funds deposited by Prudential Vietnam Assurance Private Limited, an affiliate of the seller, in accordance with the terms of the trading agreement. A period of providing lines of credit is up to seven years from the end of the acquisition.

(In millions of won)

## 43. Asset Backed Securitization (ABS)

(a) The initial transfer price of the credit card assets sold by Asset-Backed Securitization Act as of December 31, 2018 and 2017 is as summarized as follows:

| | Initial transfer date | | 2018 | 2017 |
|---|---|---|---|---|
| Shinhan Card 2017-1 | 2017.02.08 | ₩ | - | 894,379 |
| Shinhan Card 2017-2 | 2017.04.26 | | - | 841,643 |
| Shinhan Card 2017-3 | 2017.09.12 | | - | 566,521 |
| Shinhan Card 2018-1 | 2018.03.12 | | 698,758 | - |
| Shinhan Card 2018-2 | 2018.08.30 | | 940,935 | - |
| | | ₩ | 1,639,693 | 2,302,543 |

Book value of financial liability associated with asset backed securities, which are transferred, as of December 31, 2018 and 2017 are ₩2,548,468 million, ₩2,112,983 million, respectively.

(b) The uncollected details among transfer assets, which were sold by act on ABS, as of December 31, 2018 and 2017 are summarized as follows:

| | List of disposal asset | Initial transfer date | | 2018 | 2017 |
|---|---|---|---|---|---|
| Shinhan Card 2014-2 | Credit card assets | 2014.10.29 | | - | 255,514 |
| Shinhan Card 2015-1 | Credit card assets | 2015.11.12 | | 281,434 | 654,779 |
| Shinhan Card 2016-1 | Credit card assets | 2016.02.02 | | 525,139 | 725,903 |
| Shinhan Card 2017-1 | Credit card assets | 2017.02.08 | | 800,706 | 795,302 |
| Shinhan Card 2017-2 | Credit card assets | 2017.04.26 | | 767,801 | 770,298 |
| Shinhan Card 2017-3 | Credit card assets | 2017.09.12 | | 510,486 | 510,335 |
| Shinhan Card 2018-1 | Credit card assets | 2018.03.12 | | 616,937 | - |
| Shinhan Card 2018-2 | Credit card assets | 2018.08.30 | | 788,825 | - |
| | | | ₩ | 4,291,328 | 3,712,131 |

## 44. Related Party Transactions

(a) As of December 31, 2018, related parties of the Group are summarized as follows:

| Name of company | Control relationship |
|---|---|
| Shinhan Financial Group Co., Ltd. | Parent company |
| Shinhan Bank | Other related parties |
| Shinhan Credit Information Co., Ltd. | Other related parties |
| Shinhan Life Insurance Co., Ltd. | Other related parties |
| Shinhan Data System Co., Ltd. | Other related parties |
| Shinhan Investment Corp. | Other related parties |
| Jeju Bank | Other related parties |
| BNP Paribas Cardif Life Insurance | Other related parties |
| Shinhan Savings Bank | Other related parties |
| Shinhan Aitas Co., Ltd. | Other related parties |
| Shinhan Capital Co., Ltd. | Other related parties |
| Shinhan Private Equity Investment Management | Other related parties |
| Shinhan BNP Paribas ITMC Co., Ltd. | Other related parties |
| SHC Management Co., Ltd. | Other related parties |
| BNP Paribas Cardif General Insurance | Other related parties |
| Shinhan REITs Management Co., Ltd. | Other related parties |
| Branbil Co., Ltd. | Other related parties |
| Financial Savings Information Center Co., Ltd. (*) | Other related parties |

(*) As Financial Savings Information Center Co., Ltd. became an affiliated company of Shinhan Financial Group Co., Ltd. which is the controlling company of the Group, it is included in the scope of other related parties for the year ended December 31, 2018.

(In millions of won)

**44. Related Party Transactions, continued**

(b) Significant transactions with the related parties for the years ended December 31, 2018 and 2017 are as follows:

| Related party / Account | | 2018 Revenue | 2018 Expense | 2017 Revenue | 2017 Expense |
|---|---|---|---|---|---|
| Shinhan Financial Group Co., Ltd. | | | | | |
| Interest expense | ₩ | - | 14,953 | - | 11,861 |
| Fee and commission income | | 15 | - | 12 | - |
| Fee and commission expense | | - | 8,979 | - | 8,381 |
| Reversal of allowance for doubtful accounts | | - | - | 2 | - |
| Shinhan Bank | | | | | |
| Interest income | | 177 | - | 410 | - |
| Interest expense | | - | 3,302 | - | 1,873 |
| Fee and commission income | | 1,701 | - | 1,367 | - |
| Fee and commission expense | | - | 198,770 | - | 187,548 |
| Reversal of allowance for doubtful accounts | | - | - | 43 | - |
| Other general and administrative expense | | - | 1,761 | - | 1,720 |
| Other operating income | | 43 | - | 43 | - |
| Shinhan Credit Information Co., Ltd. | | | | | |
| Fee and commission income | | 9 | - | 8 | - |
| Fee and commission expense | | - | 23,224 | - | 17,793 |
| Reversal of allowance for doubtful accounts | | - | - | 1 | - |
| Shinhan Life Insurance Co., Ltd. | | | | | |
| Fee and commission income | | 16,535 | - | 14,158 | - |
| Fee and commission expense | | - | 524 | - | 576 |
| Reversal of allowance for doubtful accounts | | - | - | 21 | - |
| Employee benefits | | - | 67 | - | 165 |
| Other general and administrative expense | | - | 45 | - | 100 |
| Shinhan Data System Co., Ltd. | | | | | |
| Fee and commission income | | 16 | - | 15 | - |
| Fee and commission expense | | - | 19,052 | - | 17,628 |
| Reversal of allowance for doubtful accounts | | - | - | 2 | - |
| Depreciation expenses | | - | 1,605 | - | 1,281 |
| Other general and administrative expense | | - | 12 | - | 4 |
| Shinhan Investment Corp. | | | | | |
| Interest income | | 126 | - | 131 | - |
| Interest expenses | | - | 26 | - | 35 |
| Fee and commission income | | 201 | - | 209 | - |
| Fee and commission expense | | - | 400 | - | 388 |
| Reversal of allowance for doubtful accounts | | - | - | 25 | - |
| Other general and administrative expense | | - | 5 | - | 4 |

(In millions of won)

**44. Related Party Transactions, continued**

(b) Significant transactions with the related parties for the years ended December 31, 2018 and 2017 are as follows, continued:

| Related party / Account | 2018 Revenue | 2018 Expense | 2017 Revenue | 2017 Expense |
|---|---|---|---|---|
| Jeju Bank | | | | |
| Interest income | - | - | 1 | - |
| Fee and commission income | 37 | - | 27 | - |
| Fee and commission expense | - | 9 | - | 8 |
| BNP Paribas Cardif Life Insurance | | | | |
| Fee and commission income | 82 | - | 93 | - |
| Bad debt expenses | - | - | - | 3 |
| Reversal of allowance for doubtful accounts | 4 | - | - | - |
| Shinhan Savings Bank | | | | |
| Fee and commission income | 860 | - | - | - |
| Fee and commission expense | - | 48 | - | - |
| Other general and administrative expense | - | 8 | - | - |
| Reversal of allowance for doubtful accounts | - | - | 1 | - |
| Shinhan Aitas Co., Ltd. | | | | |
| Reversal of allowance for doubtful accounts | - | - | 2 | - |
| Shinhan Capital Co., Ltd. | | | | |
| Reversal of allowance for doubtful accounts | - | - | 1 | - |
| Shinhan Private Equity Investment Management | | | | |
| Reversal of allowance for doubtful accounts | - | - | 1 | - |
| Fee and commission expense | - | 1 | - | - |
| Shinhan BNP Paribas ITMC Co., Ltd. | | | | |
| Fee and commission income | - | - | 1 | - |
| Fee and commission expense | - | 2 | - | 3 |
| Reversal of allowance for doubtful accounts | - | - | 1 | - |
| SHC Management Co., Ltd. | | | | |
| Other operating income | 55 | - | 55 | - |
| BNP Paribas Cardif General Insurance | | | | |
| Fee and commission income | 4 | - | 2 | - |
| Bad debt expenses | - | 1 | - | - |
| Reversal of allowance for doubtful accounts | - | - | 1 | - |
| Shinhan REITs Management Co., Ltd. | | | | |
| Fee and commission income | 5 | - | 1 | - |
| Jaeyoung Solutec Co., Ltd. (*) | | | | |
| Reversal of allowance for doubtful accounts | - | - | 1 | - |

(*) Jaeyoung Solutec Co., Ltd. was excluded from the scope of related parties for the year ended December 31, 2018.

SHINHAN CARD CO., LTD. AND SUBSIDIARIES
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**44. Related party transactions, continued**

(c) Significant balances with the related parties as of December 31, 2018 and 2017 are summarized as follows:

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| **Related party / Account** | | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Shinhan Financial Group Co., Ltd. | | | | | |
| Credit card assets | ₩ | 314 | - | 305 | - |
| Financing lease assets | | 116 | - | 218 | - |
| Consolidated tax accounts | | 15 | - | 39 | - |
| Borrowings | | - | 700,000 | - | 600,000 |
| Current tax liabilities | | - | 89,623 | - | 123,722 |
| Accrued expenses | | - | 10,307 | - | 10,901 |
| Shinhan Bank | | | | | |
| Cash and due from banks | | 23,522 | - | 6,946 | - |
| Derivative assets | | 272 | - | 2,601 | - |
| Credit card assets | | 8,780 | - | 9,183 | - |
| Financing lease assets | | 9,529 | - | 14,766 | - |
| Prepaid expenses | | 95 | - | 274 | - |
| Accrued income | | 1 | - | 2 | - |
| Guarantee deposits | | 13,921 | - | 13,921 | - |
| Derivative liabilities | | - | 4,932 | - | 554 |
| Borrowings | | - | 33,732 | - | 39,519 |
| Allowance for asset retirement obligation | | - | 545 | - | 655 |
| Accounts payable | | - | 21 | - | 7 |
| Accrued expenses | | - | 1,316 | - | 1,835 |
| Shinhan Credit Information Co., Ltd. | | | | | |
| Credit card assets | | 150 | - | 161 | - |
| Financing lease assets | | 64 | - | 116 | - |
| Accounts payable | | - | 1,177 | - | 2,080 |
| Shinhan Life Insurance Co., Ltd. | | | | | |
| Credit card assets | | 1.968 | - | 2,552 | - |
| Accounts payable | | - | 63 | - | 45 |
| Accrued expenses | | - | 29 | - | 43 |
| Allowance for asset retirement obligation | | - | 25 | - | - |
| Shinhan Data System Co., Ltd. | | | | | |
| Credit card assets | | 322 | - | 211 | - |
| Financing lease assets | | 85 | - | 137 | - |

(In millions of won)

**44. Related Party Transactions, continued**

(c) Significant balances with the related parties as of December 31, 2018 and 2017 are summarized as follows, continued:

| Related party / Account | 2018 Assets | 2018 Liabilities | 2017 Assets | 2017 Liabilities |
|---|---|---|---|---|
| Shinhan Investment Corp. | | | | |
| Cash and due from bank | 598 | - | 485 | - |
| Credit card assets | 1,597 | - | 1,581 | - |
| Prepaid expenses | 4 | - | 4 | - |
| Guarantee deposits | 300 | - | 300 | - |
| Allowance for asset retirement obligation | - | 33 | - | 66 |
| Jeju Bank | | | | |
| Cash and due from bank | 79 | - | 86 | - |
| Financing lease assets | 165 | - | 194 | - |
| Accounts payable | - | 6 | - | 8 |
| BNP Paribas Cardif Life Insurance | | | | |
| Credit card assets | 116 | - | 191 | - |
| Allowance for doubtful accounts | - | - | - | 4 |
| Shinhan Savings Bank | | | | |
| Credit card assets | 63 | - | 68 | - |
| Shinhan Aitas Co., Ltd. | | | | |
| Credit card assets | 158 | - | 191 | - |
| Shinhan Capital Co., Ltd. | | | | |
| Credit card assets | 150 | - | 136 | - |
| Shinhan Private Equity Investment Management, Inc. | | | | |
| Credit card assets | 63 | - | 44 | - |
| Shinhan BNP Paribas ITMC Co., Ltd. | | | | |
| Credit card assets | 156 | - | 146 | - |
| BNP Paribas Cardif General Insurance | | | | |
| Credit card assets | 29 | - | 29 | - |
| Allowance for doubtful accounts | - | 2 | - | 1 |
| Shinhan REITs Management Co., Ltd. | | | | |
| Credit card assets | 21 | - | - | - |
| Financing lease assets | 49 | - | 55 | - |

(In millions of won)

**44. Related Party Transactions, continued**

(c) Significant balances with the related parties as of December 31, 2018 and 2017 are summarized as follows, continued:

| Related party / Account | 2018 Assets | 2018 Liabilities | 2017 Assets | 2017 Liabilities |
|---|---|---|---|---|
| Jaeyoung Solutec Co., Ltd. (*1) | | | | |
| Credit card assets | - | - | 33 | - |
| Allowance for doubtful accounts | - | - | - | 1 |
| Financial Savings Information Center Co., Ltd. (*2) | | | | |
| Credit card assets | 3 | - | - | - |

(*1) Jaeyoung Solutec Co., Ltd. was excluded from the scope of related parties for the year ended December 31, 2018.
(*2) As Financial Savings Information Center Co., Ltd. became an affiliated company of Shinhan Financial Group Co., Ltd. which is the controlling company of the Group, it is included in the scope of other related parties for the year ended December 31, 2018.

(d) Financing transactions between the related parties for the years ended December 31, 2018 and 2017 are summarized as follows:

| Control relationship | Related party | | 2018 Borrowing | 2018 Repayment | 2017 Borrowing | 2017 Repayment |
|---|---|---|---|---|---|---|
| Parent Company | Shinhan Financial Group Co., Ltd. | ₩ | 100,000 | - | 300,000 | (150,000) |
| Other related parties | Shinhan Bank | | 16,950 | (22,737) | 39,519 | (8,011) |

(e) Key management personnel compensations for the years ended December 31, 2018 and 2017 are as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| Salaries and wages | ₩ | 2,284 | 2,743 |
| Post-employment benefits | | 30 | 64 |
| Share-based compensation expense | | 626 | 1,407 |
| | ₩ | 2,940 | 4,214 |

## 45. Interests in Unconsolidated Structured Entities

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

The Group involved in assets-backed securitization, beneficiary certificates and characteristics of these structured entities are as follows:

| | **Description** |
|---|---|
| Assets-backed securitization | Securitization vehicles are established to buy the assets from the originators and issue the asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The Group is involved in the securitization vehicles as the asset manager. |
| Beneficiary certificates | Beneficiary certificate is a type of financial instrument where investment funds raise funds from the general public to invest in a group of assets such as stocks or bonds and distribute their income and capital gains to their investors. The Group is involved in beneficiary certificates by investing in investment funds. |

(i) The size of unconsolidated structured entities as of December 31, 2018 and 2017 is as follows:

| | | **Asset-backed securitization** | |
|---|---|---|---|
| | | **2018** | **2017** |
| Total assets | ₩ | 863,432 | 314,160 |

(In millions of won)

**45. Interests in Unconsolidated Structured Entities, continued**

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

(ii) Revenues and expenses recognized relating to the Group's interests in unconsolidated structured entities for the year ended December 31, 2018 and 2017 are as follows:

| | | Asset-backed securitization | |
|---|---|---|---|
| | | **2018** | **2017** |
| Revenues | | | |
| Fee and commission income | ₩ | 56 | 596 |
| Dividend income | | - | 9,800 |
| Other operating income | | 40,445 | 4,147 |
| | ₩ | 40,501 | 14,543 |
| Expenses | ₩ | (376) | (270) |

(iii) The carrying amounts of the assets transferred to unconsolidated structured entities as of December 31, 2018 and 2017 are as follows:

| | | Asset-backed securitization | |
|---|---|---|---|
| | | **2018** | **2017** |
| Loans | ₩ | 895,652 | 122,281 |

(b) Nature of risks

(i) The carrying amounts of the assets and liabilities recognized relating to the Group's interests in unconsolidated structured entities as of December 31, 2018 and 2017 are as follows:

| | | Asset-backed securitization | |
|---|---|---|---|
| | | **2018** | **2017** |
| Assets: | | | |
| Available-for-sale financial assets | ₩ | - | 1,955 |
| Financial assets at FVTPL | | 1,578 | - |
| Other assets | | 1 | 23 |
| | ₩ | 1,579 | 1,978 |

(ii) Maximum exposure to risk relating to the Group's interests in unconsolidated structured entities as of December 31, 2018 and 2017 is as follows:

| | | Asset-backed securitization | |
|---|---|---|---|
| | | **2018** | **2017** |
| Assets held | ₩ | 1,579 | 1,978 |

## 46. Events after the Reporting Period

On January 23, 2018, the Group entered into a contract to acquire 100% shares in Prudential Vietnam Finance Company Limited, a local consumer finance company in Vietnam, for USD 151 million and on January 17, 2019, the acquisition was approved by State Bank of Vietnam.