




Contents

How to Use This Report

This is an interactive PDF.


Navigation tools at the top right of each page and within the report are indicated as follows.


 Previous page

 Cover


 Contents

 Undo

 Next page

 More information



 Useful links

 Related table or graphic

2018 Highlights

Reading Guide for This Section

This section highlights our accomplishments in 2018 in a highly-compressed manner. Please read the next few pages to see what our mid-term strategic initiative is, how we have put it into action, and what our accomplishments in 2018 were under it.

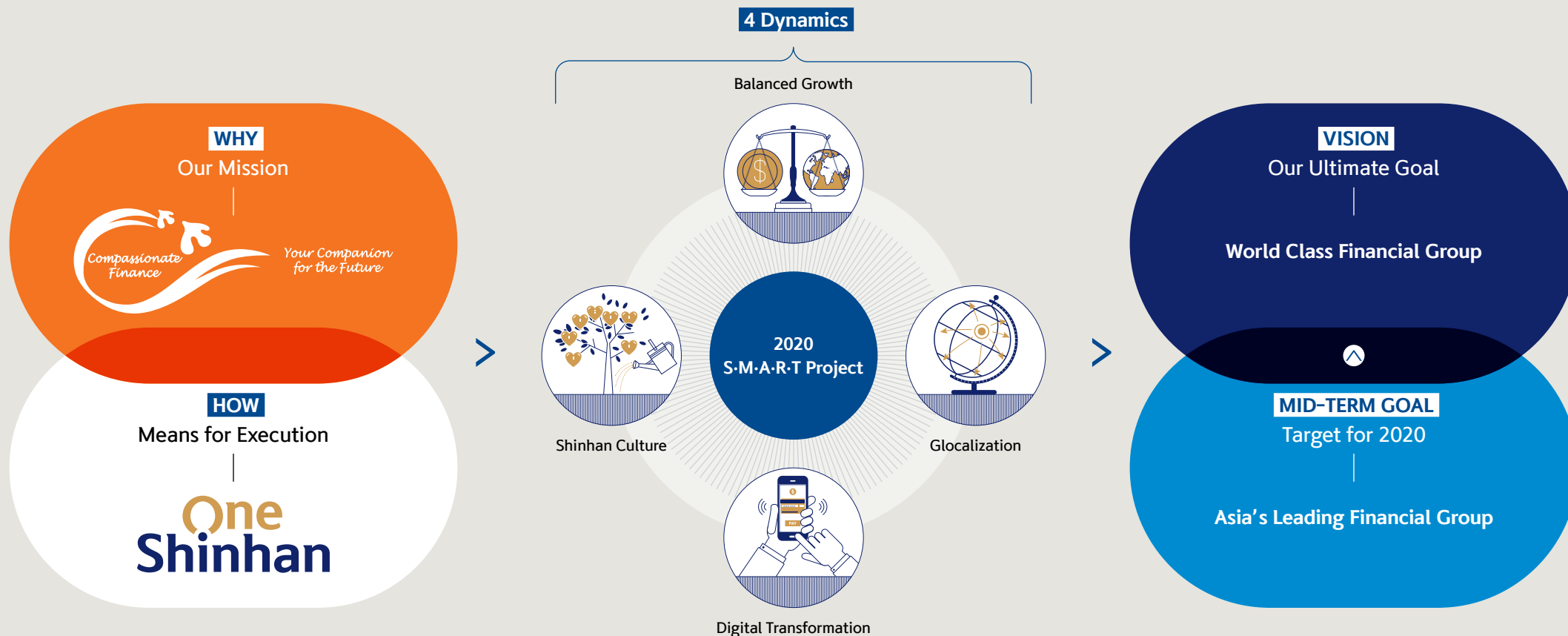
The content in this section allow readers to easily understand our achievements in 2018 by referring to diagrams and pictograms. More graphics and diagrams will appear if the mouse pointer is rolled over the  signs, so please feel free to explore. If you want to see the full report or more detailed content, please click on the “More information” icon () , which will take you directly to the page(s) containing the content you are looking for.

2020 S·M·A·R·T Project

Strategy for 2020

The Group's 2020 S·M·A·R·T Project encapsulates its strategies for achieving its corporate vision. It provides a roadmap consisting of four directions for achieving healthy and balanced growth across all the Group's business lines, laying the foundations for new growth in the global and digital areas, while also upholding the Shinhan culture.

We are creating visible outcomes through the Project, based on our mission of "Building a better world through finance" and our "One Shinhan" strategy of sharing all the Group's resources among our companies.

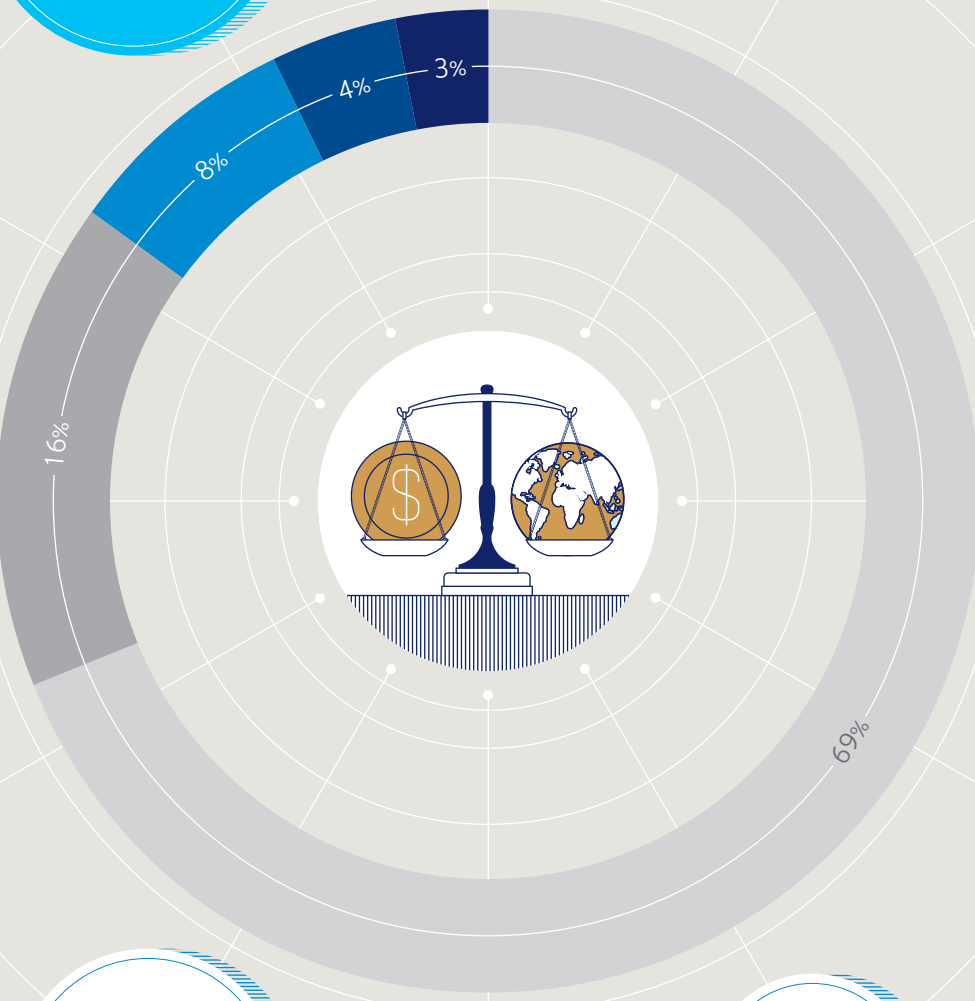
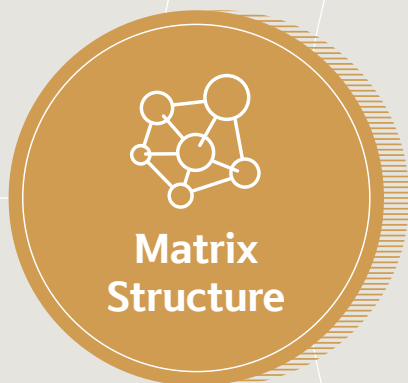


The Group has melded the capabilities of all its subsidiaries together in a bid to enhance the competitiveness of its non-banking sector and continue the industry-leading competitiveness of its banking division. In 2018, we witnessed tangible results in our efforts toward sustained and balanced growth. For example, the proportion of the revenue that it derived from its non-banking sector grew to 31% of its total, while both the organic and inorganic sectors were able to create Group-level synergy effects.

Balanced Growth

Group Subsidiary Income

- Bank
- Card
- Investment
- Life Insurance
- Capital etc.



Balanced Growth

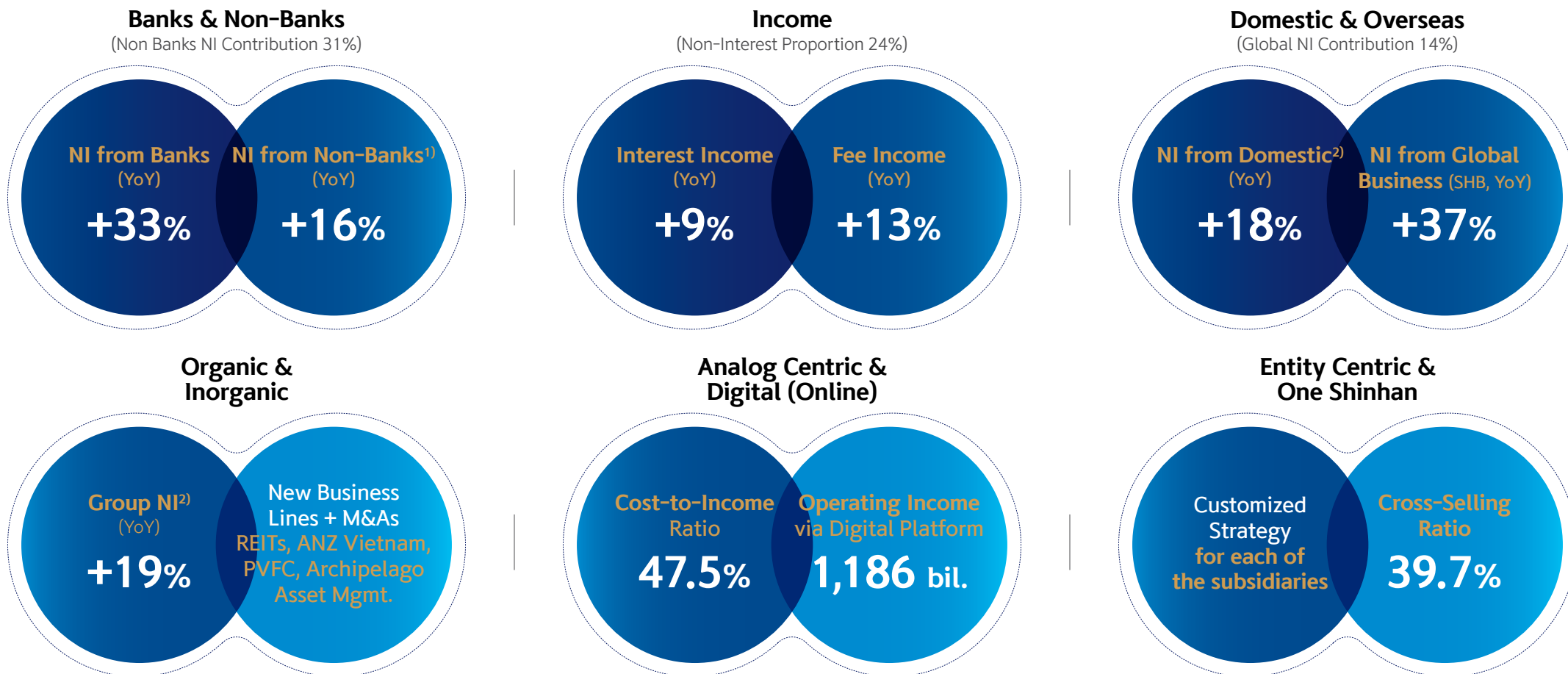
Overview

: Solid Growth throughout

The banking sector's net income rose by 33% from the previous year, while that of the non-banking division was up by 16%, reflecting healthy and solid growth in both areas. As the Group also carried out a number of M&As, adding new growth engines to its portfolio, the non-banking division is expected to expand its revenue base even further going forward.

1) Excluding non-recurring write-backs and securities disposal gain from Shinhan Card

2) Excluding non-recurring write-backs from Shinhan Card

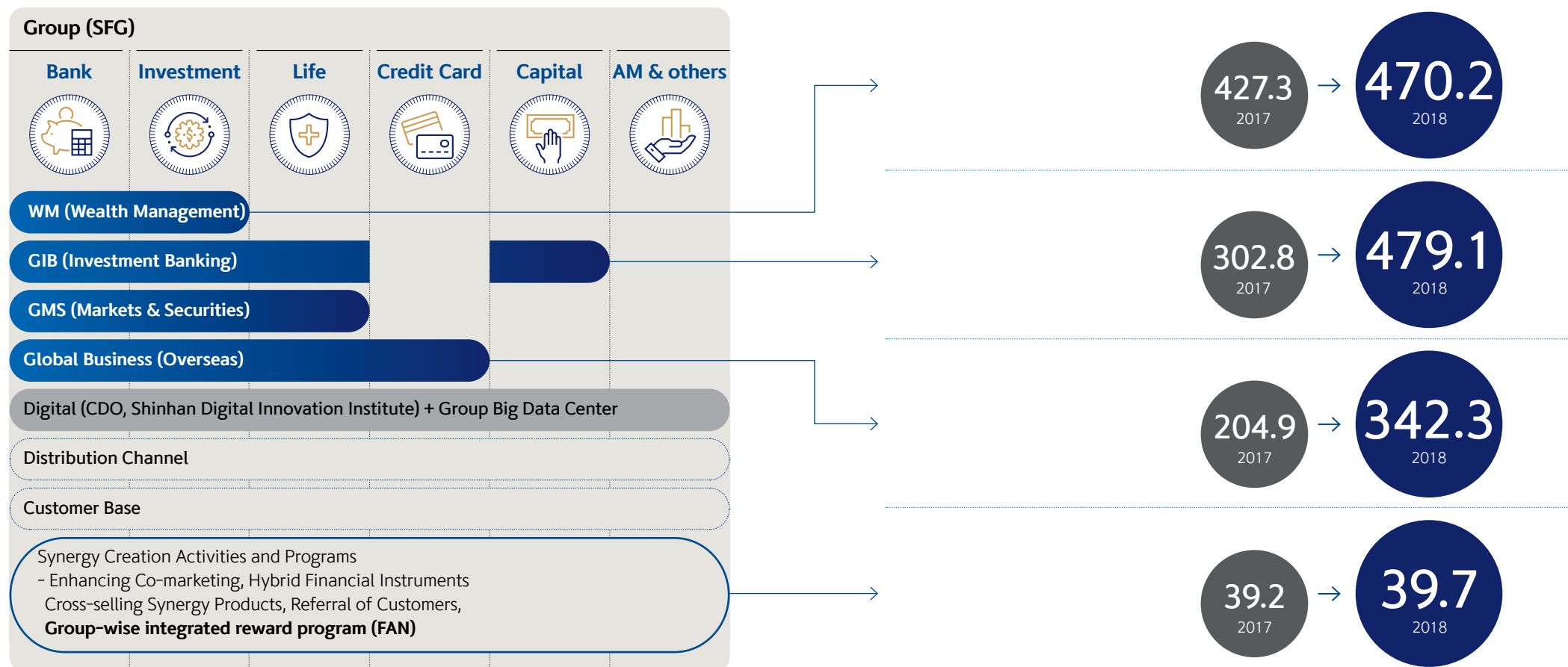


Balanced Growth

Matrix Structure

: Intermingling Capabilities

The Group has established a matrix operating system that will provide its customers with best-in-class financial services by bringing together its resources and capabilities. This led to noteworthy results in all its business divisions, including Global Business and GIB Business' earnings ballooning by 57% and 58%, respectively, over the year.



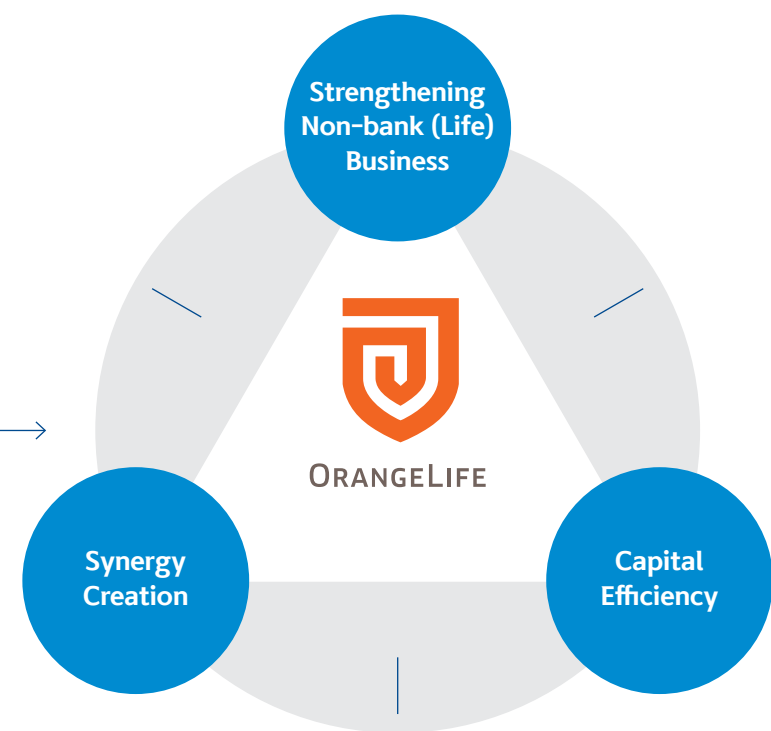
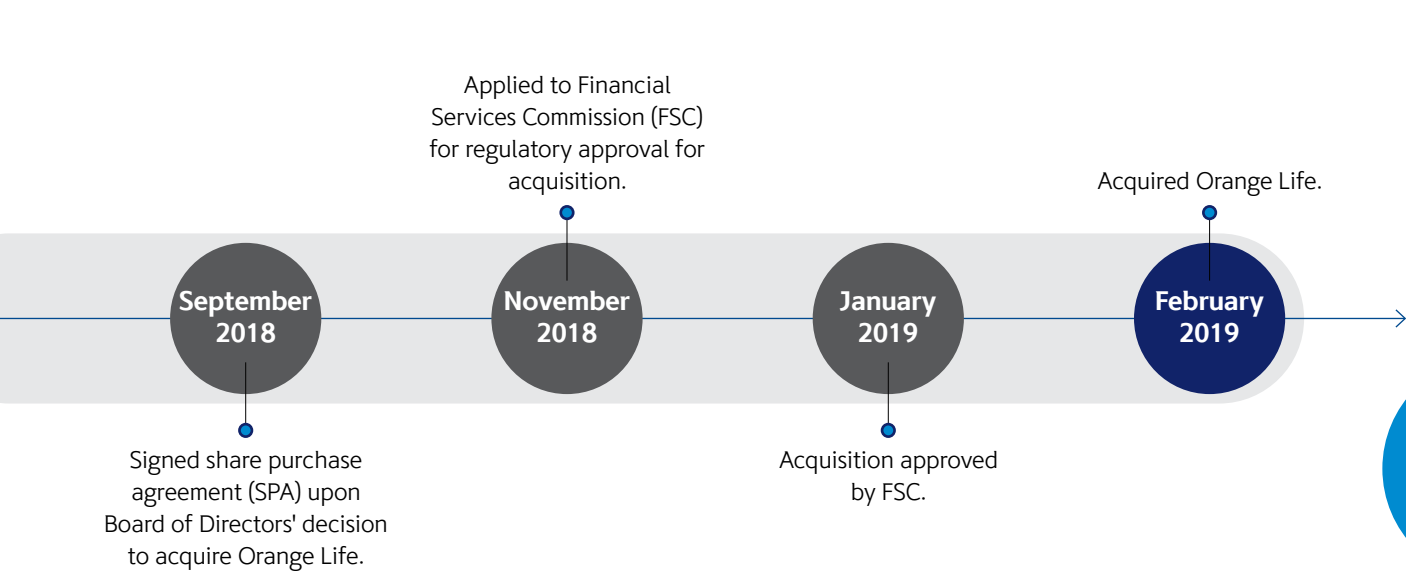
Balanced Growth

Orange Life Acquisition

: More Trust for Growth

Shinhan Financial Group acquired Orange Life (formerly ING Life Insurance) in February 2019, helping the Group to add to its inorganic growth momentum. Orange Life boasts a specialized Financial Consultant (FC)-based sales organization, the industry's highest risk-based capital (RBC) ratio, and optimized risk management capabilities for dealing with constantly-changing governmental regulations. Shinhan Life Insurance and Orange Life will provide differentiated customer values while generating synergies beyond the expansion of their asset volumes.

Timeline of Acquisition of Orange Life



Balanced Growth

Asia Trust Acquisition

: Expanding Business Horizons

Asia Trust is the industry leader in the real estate agency service trust sector in South Korea. The Group's decision to acquire it was to strengthen the real estate segment of its non-banking business portfolio, allowing it to offer customers a full range of real estate services through both internal and external collaborations.



Real Estate: Total Solutions Provider

The Group operates 189 networks in twenty countries around the world. In order to achieve its medium-term target of occupying the industry's leading position in Asia, it is concentrating its glocalization advances on emerging markets in the region, while also strengthening its performance in markets where it already operates. The ratio of the global division's earnings to those of the entire Group was 10.3% at the end of 2018, a threefold increase compared to the end of 2011.


Glocalization

Net Income Contribution by Global Business (SHB)

- Shinhan Vietnam
- Overseas Branches
- SBJ
- Shinhan Bank China
- Others
- Shinhan Asia



Asia Hub
Launch of
Hong Kong GIB



189
Networks

20
Countries

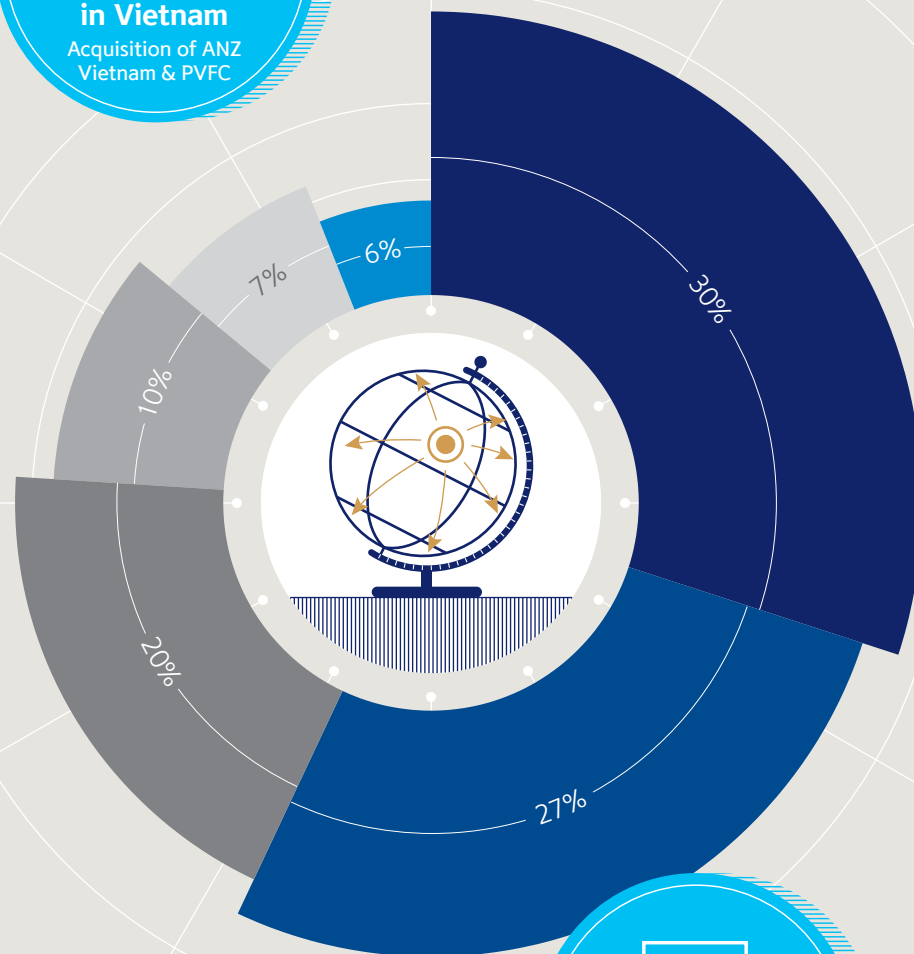


No.1
in Vietnam
Acquisition of ANZ
Vietnam & PVFC

Increase in
Bank Global Profit
+37%



Indonesia
Acquisition of
PT Archipelago Asset
Management



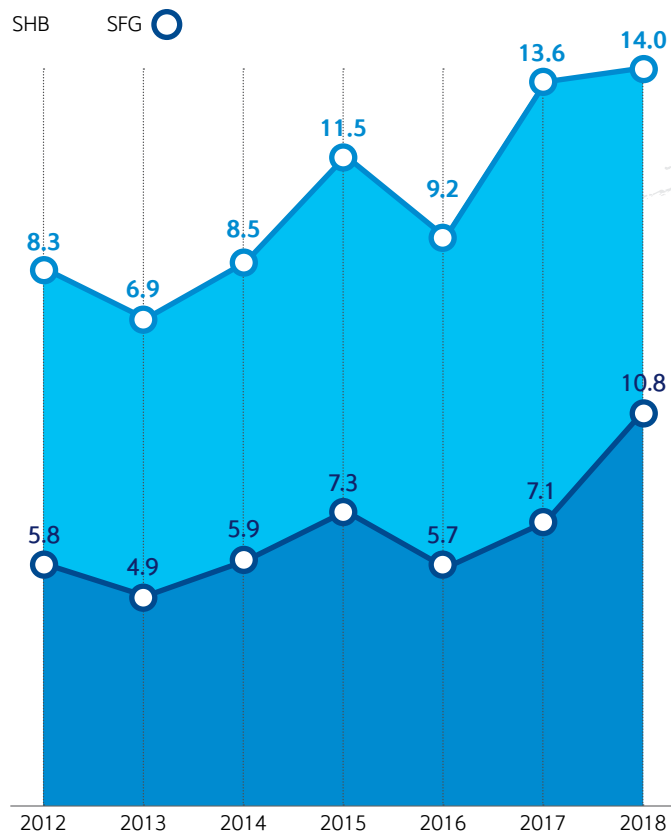
Glocalization

Overview

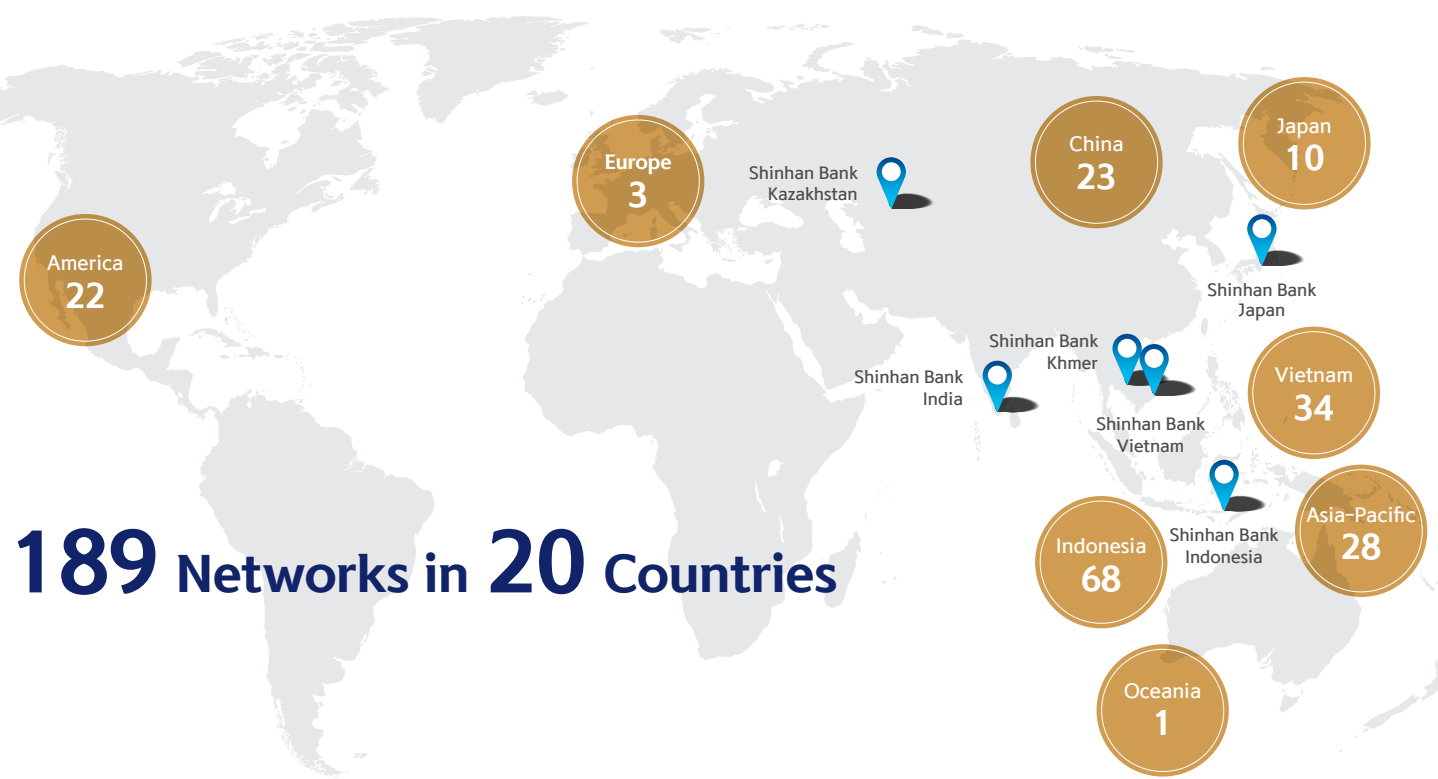
: Diversifying Earnings Base

A major part of the Group's glocalization strategy involves diversifying its earnings sources. As proof of its success, net income from Shinhan Bank's global operations ballooned by 37.1% YoY to KRW 319.5 billion, accounting for 14% of the Bank's total income. The Group's glocalization strategy for 2019 will be to continue increasing and diversifying its revenue base so that its non-banking sector can enjoy a similar rate of success. The acquisition of Prudential Vietnam Finance Company will help its non-banking sector generate new sources of revenue in its core markets.

Contribution to SHB & SFG NI (%)



Global Networks

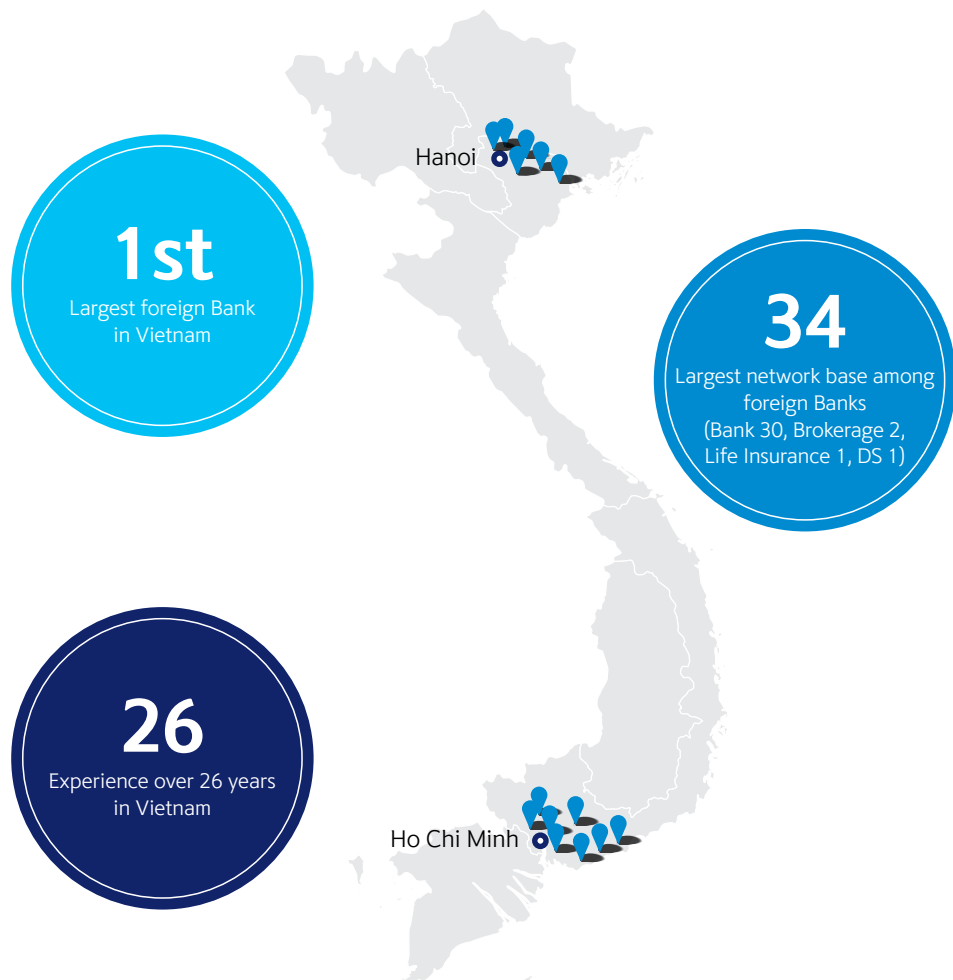


Glocalization


Vietnam


: Dynamic Growth


Shinhan Bank Vietnam ranks first in terms of assets among all the country's foreign-based banks. The Group's successful development of its localization strategies is setting a prime example to many. Shinhan Bank Vietnam was the first South Korean-based financial institution to obtain a Vietnamese custodial services license (2017) and it built on this success by aggressively pursuing an entry into the country's global custody business. It also diversified its portfolio to maximize its profit. As a result, Shinhan Bank Vietnam's contribution to Shinhan Bank's global business in 2018 stood at 29.7%. With the decision to acquire Prudential Vietnam Finance Company (PVFC), it laid the groundwork for further synergy creations across the entire spectrum of its subsidiaries.





Joint Expansion with Group Subsidiaries

- 
Bank

Shinhan Bank Vietnam (ROA 2.09%, NIM 4.32%, Asset 3,662 mil., NI 72.5 mil. (FY2018))
- 
Credit Card

7th Largest Credit Card Company in Vietnam (After acquisition of ANZ)
- 
Brokerage

Acquired Local Brokerage Company (2015)
- 
Life Insurance

Established Rep. Office (2015)
- 
Consumer Finance

Acquired of PVFC (2019)
(4th Largest with a M/S of 8% / ROE 19.4%, ROA 4.0% (FY2017))

Glocalization

Japan

: Sustainable Growth

Shinhan Bank Japan has played a formative role in the Group's globalization activities, enjoying continuous growth since it became the first overseas subsidiary of Shinhan Bank. It acquired an A2 rating from Moody's and an A rating from the Japan Credit Rating Agency, the country's largest credit rating agency, in 2018, and is currently involved in a number of digital initiatives. This includes becoming the first bank in the country to launch consumer loans that can be accessed on mobile devices, and offering car loans using the latest technology such as GPS and IoT.

Milestones in Japan

1986

Started operation with three overseas branches in Shinhan Bank

- Tokyo, Osaka and Fukuoka region

2009

Re-Launched Under the name Shinhan Bank Japan

- Obtained formal license from Japan's FSA becoming Asia's first, after Citibank

2015

Accelerating Localization

- Consistent asset growth through niche market strategy

30

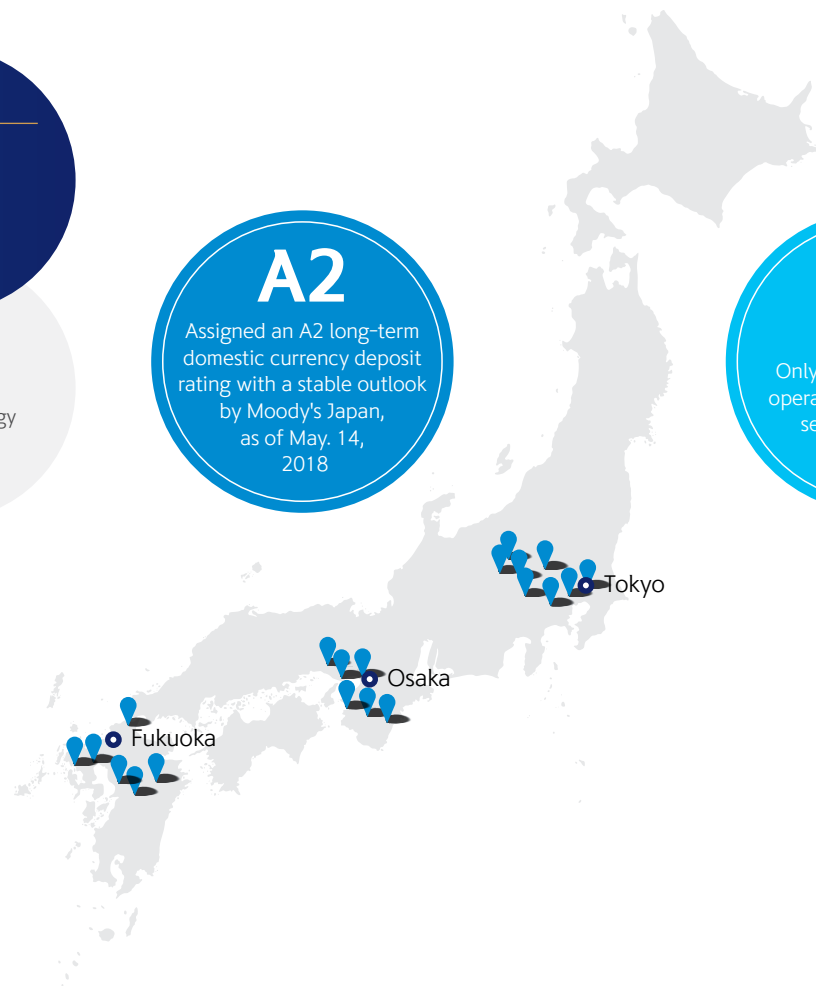
Experiences over 30 years in Japan

A2

Assigned an A2 long-term domestic currency deposit rating with a stable outlook by Moody's Japan, as of May. 14, 2018

1

Only one foreign bank operating retail banking services in Japan



The Group's Digital Transformation strategy can be summarized into "Two Tracks and Ten Enablers". The first track involves the transformation of the Group's existing business models so that they center on adding to their operational efficiency and improving customer experiences. The second deals with the construction of disruptive business models that can lead to the development of new and innovative growth engines by embracing the "Ten Enablers", including FinTech, Internet Only Bank, and other innovative business models.

Digital Transformation

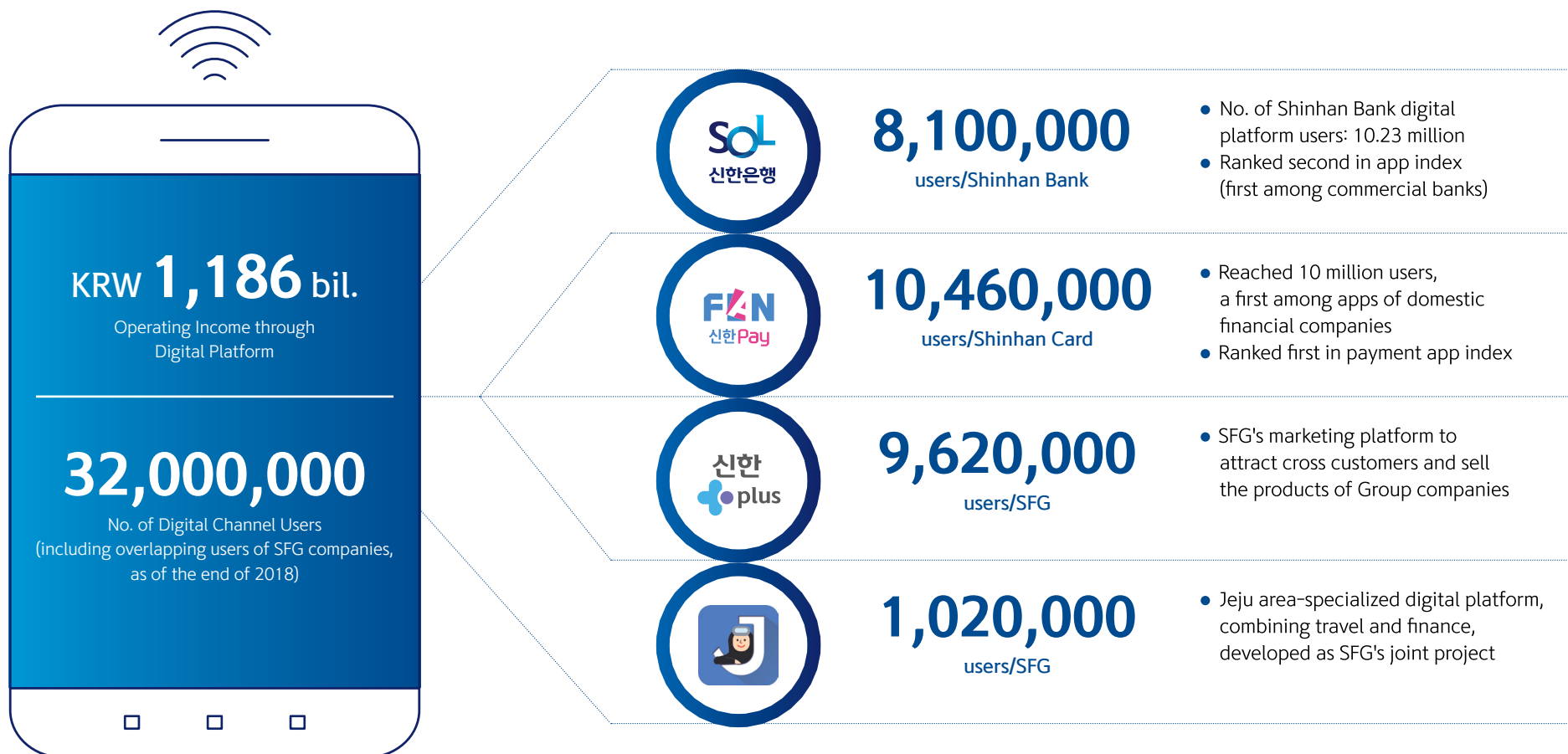
Shinhan Financial Group
Digital Strategy



Digital Transformation Overview

: A New Game Plan

“Shinhan” will soon be known as “Digital Shinhan”. The Group is busily developing an organizational structure that has the ability to swiftly respond to changes in its operating environment caused by the digital revolution. This includes revamping the flagship platforms of all its subsidiaries in order to provide a fuller and more diversified customer experience. These moves, which resulted in the Group attracting an extra thirty-two million customers to the wide range of products and services offered by its digital channels last year, brought its 2018 income to KRW 1,185.9 billion, up KRW 247.1 billion from the previous year.

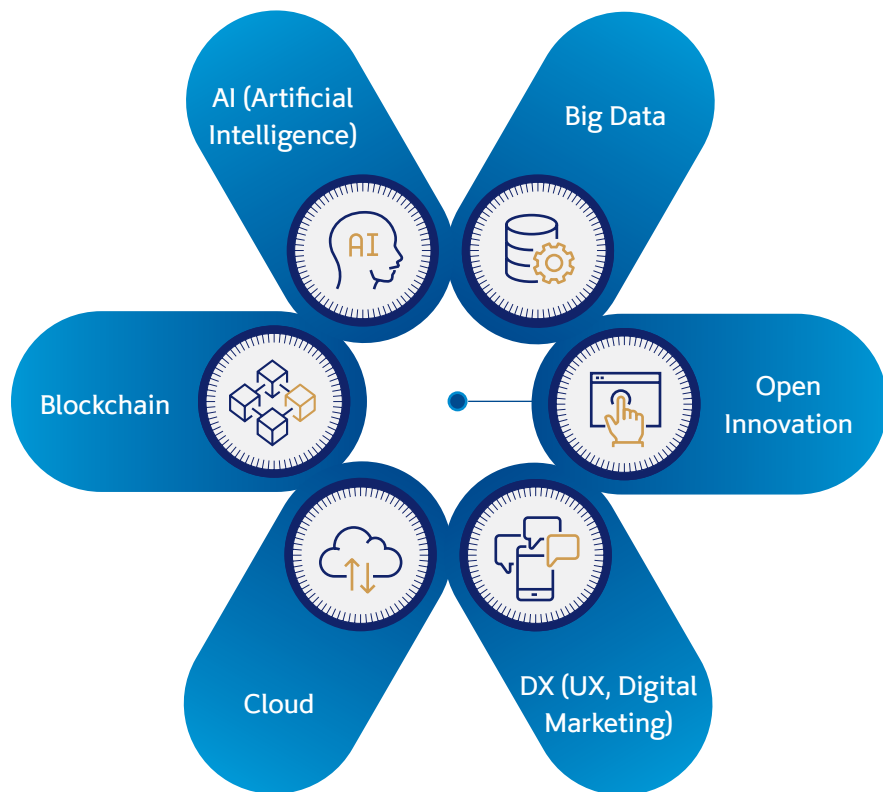


Digital Transformation

SDII

: Shinhan Digital Innovative Institute

The Group's Shinhan Digital Innovation Institute, or SDII, is known as one of the leading digital technology research facilities in all of South Korea. Operating in laboratories that conduct state-of-the-art R&D activities in six major technology areas, it houses highly-qualified experts from every Group subsidiary. The members of the SDII can freely develop their ideas in Shinhan Digital Campus located in Seoul.

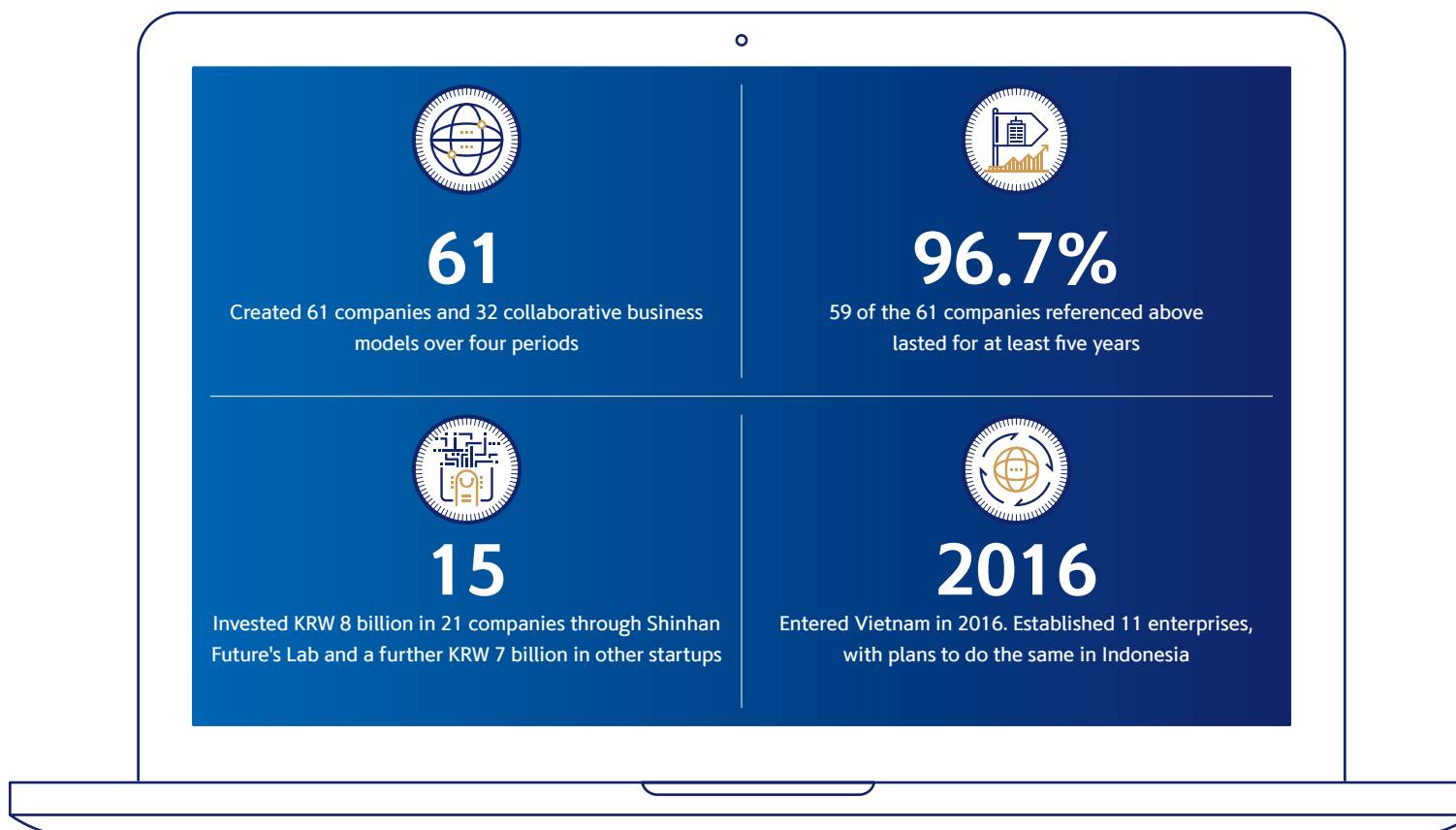


Digital Transformation

Future's Lab

: Growing with Digital Startups

The Shinhan Future's Lab has two main goals: to support the development of promising startup companies, and to build a complete and entire digital ecosystem. This includes providing startups with initial investment funding, access to ICT infrastructures, and the full range of the Group's financial acumen. In return, the startup enterprises focus on developing innovative ideas and technologies, while creating new values and sharing them with the Group, completing their half of a mutually beneficial, win-win relationship.



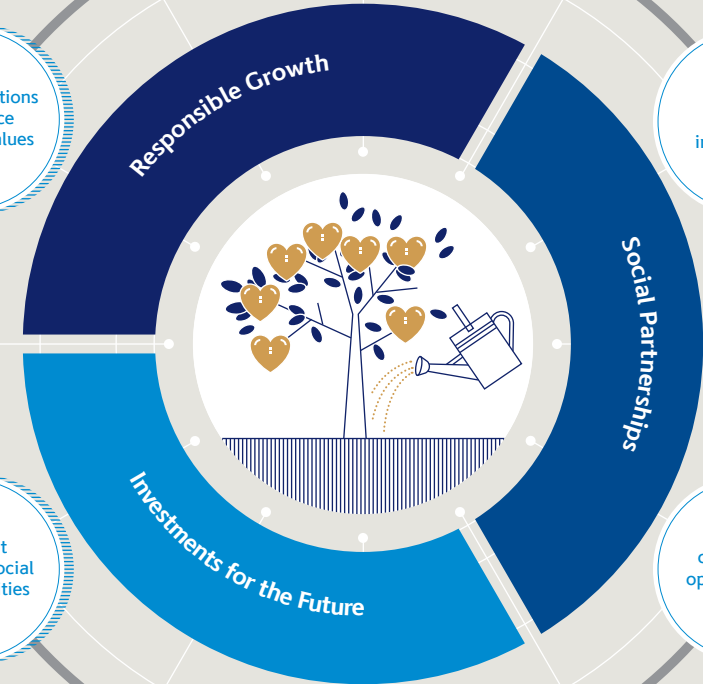
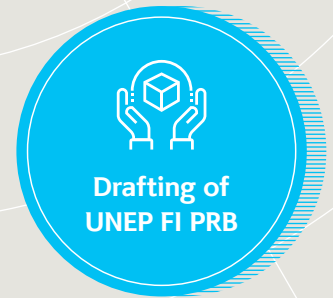
All of the Group's members share a unified value and a single, overriding mission: "Compassionate Finance, Your Companion for the Future".

All of their 2020 CSR strategies are tasked with operating from this basis, and all of them are aimed at making the world a healthier and happier place. The strategies operate under the aegis of three organizational directions: "Responsible Growth", "Social Partnerships" and "Investments for the Future".

The three directions, in turn, consist of six core strategies.

Shinhan Culture

Shinhan Financial Group
CSR Strategies

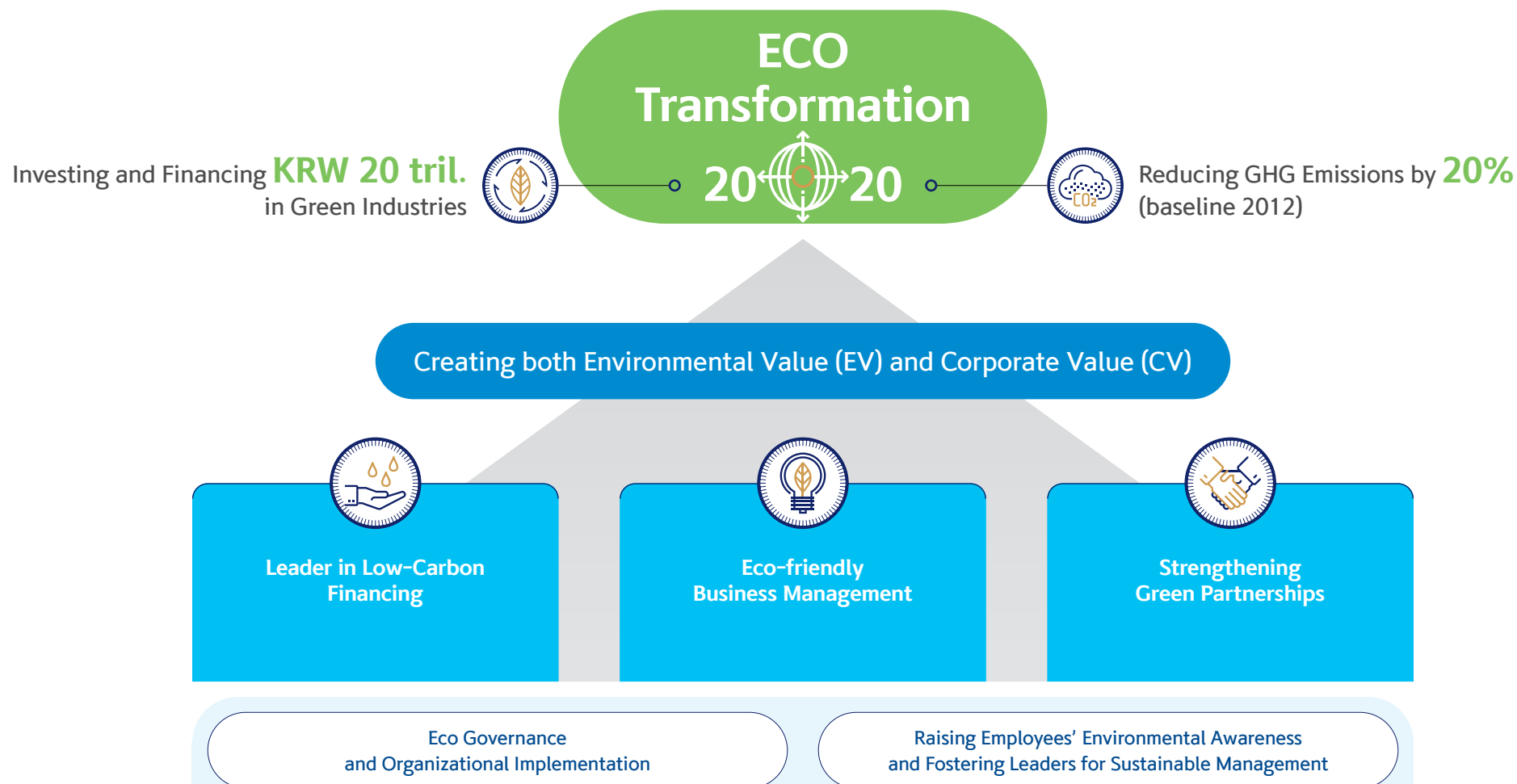


Shinhan Culture

ECO Transformation

: Financing for a Greener Future

The Group announced "ECO Transformation 20·20" as its environmental vision for 2030. The move was made to ensure its competitiveness in an era of dramatic organizational paradigm shifts, and to guarantee that its management operations will always be future-oriented and environmentally friendly. As part of this vision, the Group is planning to invest KRW 20 trillion in green industries by the year 2030 and to reduce its GHG emissions by 20%.

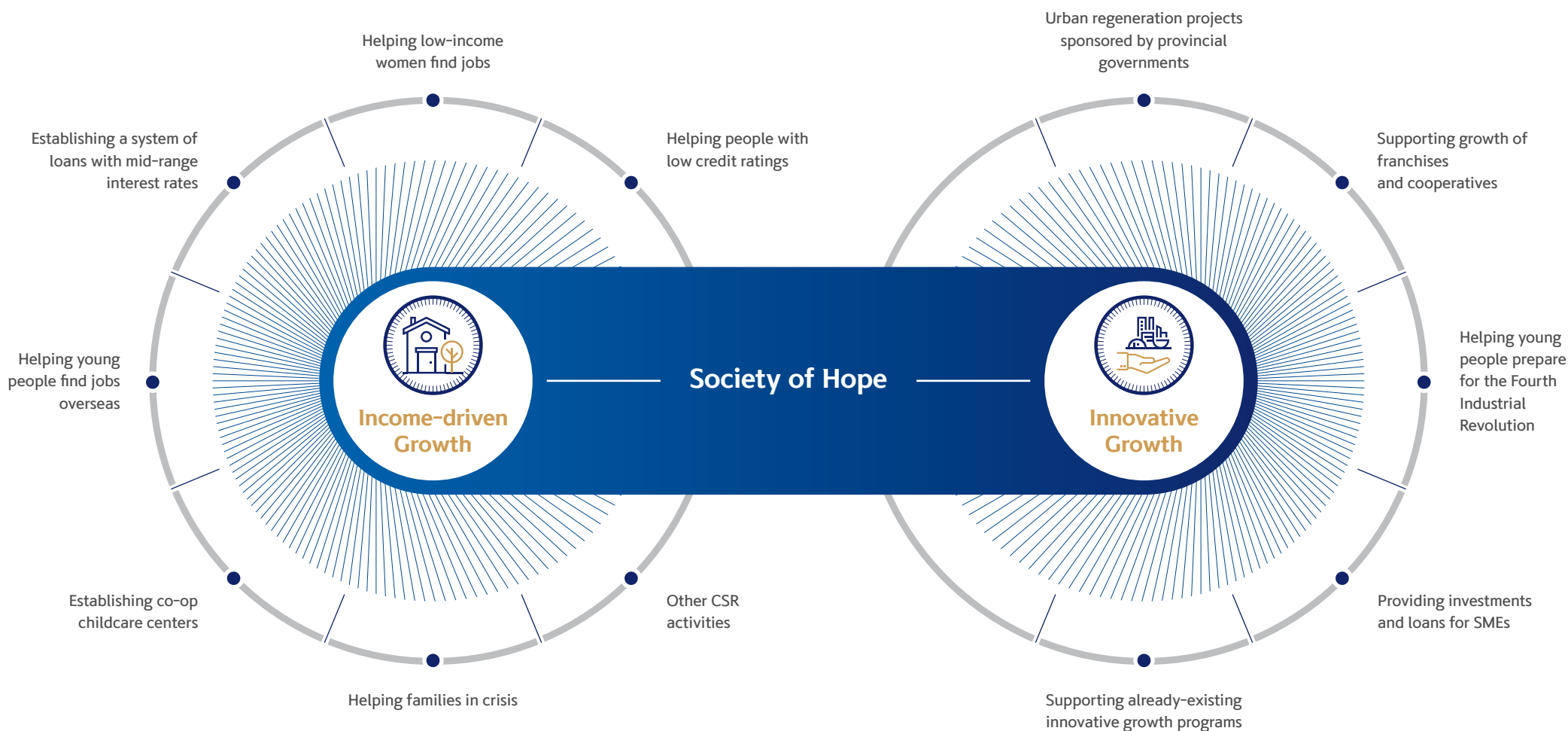


Shinhan Culture

Society of Hope

: Financing for Hope

The Group launched its "Society of Hope Project" in 2017. Its goal was to put the theories underlying its mission of "Compassionate Finance" into practice by "making the world better through finance". The Project will involve making KRW 270 billion worth of investments by 2020 in income-generating programs for the underprivileged and supporting the mutually beneficial growth of SMEs.



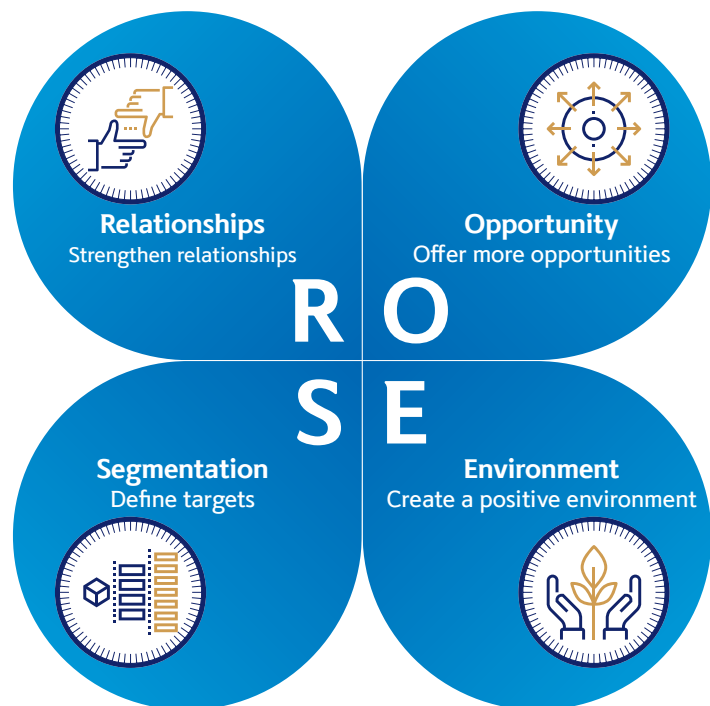
Shinhan Culture

SHeroes

: Cultivating Female Leaders

The Group is committed to increasing its number of female managers and other leaders exponentially, allowing it to add to the diversity and the flexibility of the organization as a means of ensuring its continuing healthy and sustainable growth. This included putting a plan in place in 2018 that would encourage the long-term development of promising women with a proven and significant potential for evolving into leaders at every level of its operations. Part of the plan has since evolved into a program called “Shinhan SHeroes”.

Guide to Cultivating Female Leaders within the Group



Shinhan Culture

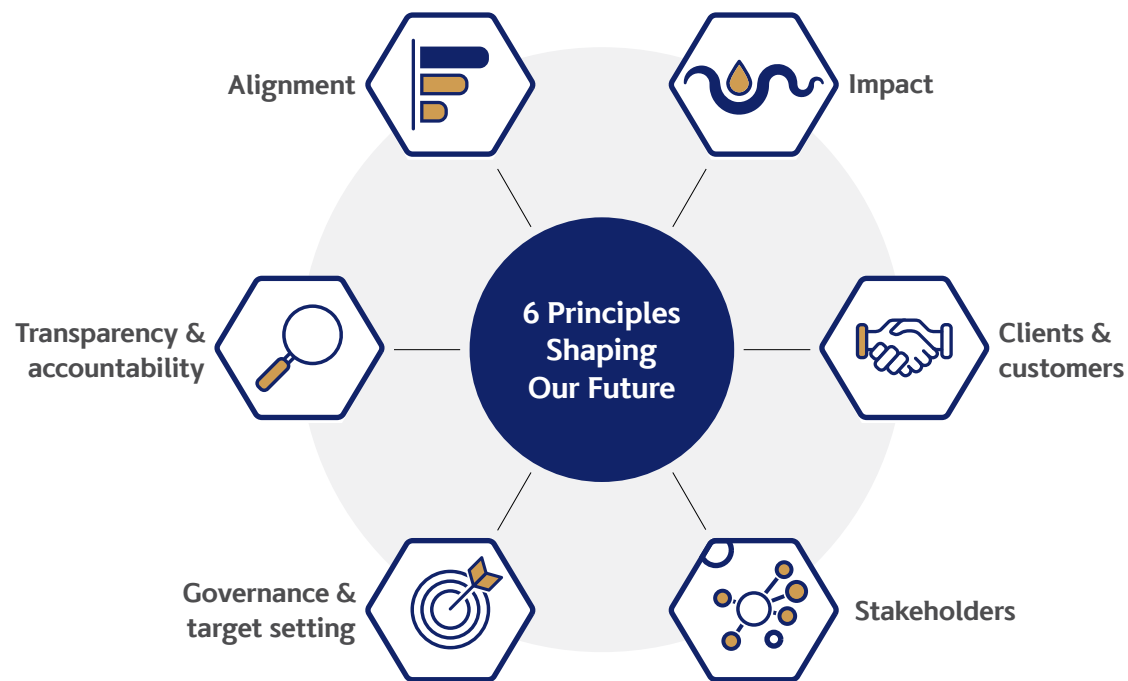
Principles for Responsible Banking

: Reshaping the Future of Banking

The Principles for Responsible Banking for the world's financial industry were announced in Paris in November 2018. They define the roles and responsibilities of their signatories for the implementation of the Paris Climate Agreement and the United Nations Sustainable Development Goals for the global financial industry. Shinhan Financial Group has been working with the UN Environment Programme Finance Initiative (UNEP FI) and its twenty-seven sister financial institutions to draft these principles since March 2018. It is committed to assisting in the implementation of these principles for the benefit of society and the environment.



UNEP FI Global Roundtable, where the Principles for Responsible Banking were announced



SFG Overview

Message from the Chairman



2018 Performance

Dear valued shareholders:

Shinhan Financial Group has been implementing its “2020 S·M·A·R·T Project” strategic initiative since 2017. The goal of this exercise is to evolve into Asia’s leading financial group. We made significant progress in doing so in 2018 in all four of its strategic directions: Balanced Growth, Glocalization, Digitalization, and Upholding The Shinhan Culture.

We maximized our corporate value by achieving balanced growth in all the Group’s business lines, including our banking and non-banking subsidiaries. This included both interest and non-interest income, as well as our online and offline platforms. At the same time, we strengthened our operations both at home and internationally through inorganic growth, including the acquisitions of Orange Life and Asia Trust here in South Korea and ANZ and Prudential Vietnam Finance Company in Vietnam.

We also widened the reach of the Group’s overseas operations. In addition to establishing Shinhan DS (Digital Solution) Vietnam and Hong Kong GIB (Group & Global Investment Banking), we expanded our network in Vietnam, Cambodia and Myanmar, with the result that the number of our global networks now stands at 189 in twenty countries. This allowed us to accumulate the highest net profits from overseas operations of any financial institution in South Korea, presenting exciting new possibilities for the country’s financial industry as a whole.

We also upgraded our digital capabilities. This included establishing the Shinhan Digital Campus, strengthening the operations of the Shinhan Digital Innovation Institute, and either building or upgrading our mobile platforms such as “SOL”, “ShinhanPayFAN”, “Shinhan Plus” and the “Smart Loans Center”.



In terms of upholding our Shinhan Culture, we redefined what it means to become a leader here, and introduced “SHeroes”, a women’s leadership training program that is the first of its kind in South Korea’s financial sector. We also named “ECO Transformation 20·20” as our signature environmental initiative, taking the lead in the industry’s efforts to fight climate change and speed the transition to a low-carbon economy. In addition, we became part of the UNEP FI’s Global Roundtable, declaring our support for the “Principles of Responsible Banking” for the sustainable management of financial institutions around the world.

2019 Business Plans

2019 will be a pivotal year for the successful realization of the Group’s 2020 S·M·A·R·T Project. By uniting all the Group’s capabilities under the blanket of “One Shinhan”, we will grow even closer to becoming Asia’s leading financial group. To accomplish this result, we will continue to strengthen our foundations for future growth all the more. This will include bringing the Group’s capabilities together

under the “One Shinhan” strategy, as well as creating maximum value through the development of flexible collaborations between our subsidiaries under the aegis of our customer/functional-oriented matrix organization. We will also continue to balance our business portfolio by optimizing our post-acquisition integration process after Orange Life and Asia Trust attain full membership in the Group.

In terms of our international operations, we will seek solid and sustainable growth through the further diversification of our global investments and the systematic upgrading of the credit assessment and risk management processes of our overseas networks. We will also concentrate on a Group-wide digital transformation in response to the introduction of Internet-only banks.

In order to fully implement our mission of “Compassionate Finance, Your Companion for the Future”, we will continue with our efforts to establish a balanced and sustainable management platform based on Environmental, Social and Governance (ESG) principles. Our efforts to raise customer

2019 will be a pivotal year for the successful realization of the Group’s 2020 S·M·A·R·T Project. By uniting all the Group’s capabilities under the blanket of “One Shinhan”, we will grow even closer to becoming Asia’s leading financial group.

value along with that of our society and the communities in which we operate will continue, with our “Society of Hope Project” and “Innovative Growth” serving as our two major initiatives.

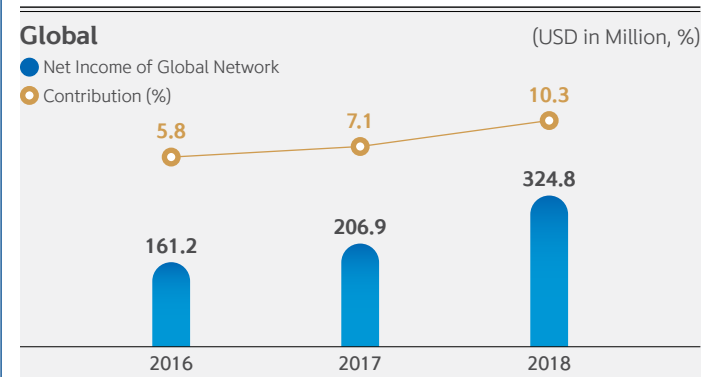
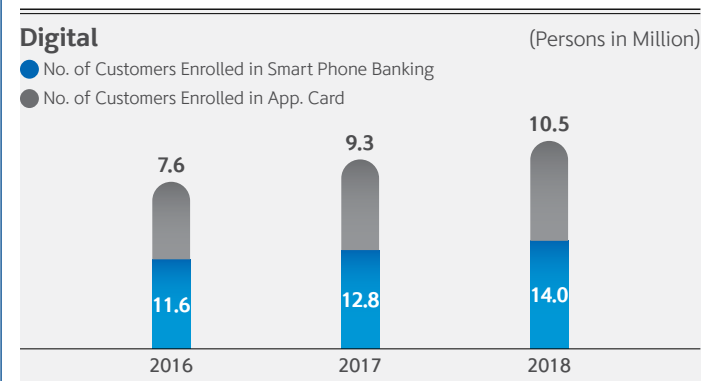
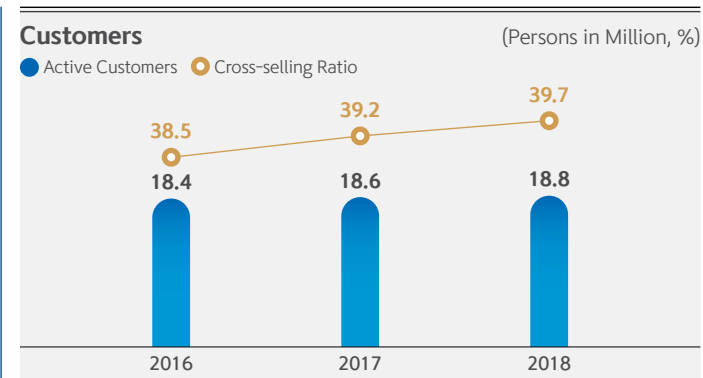
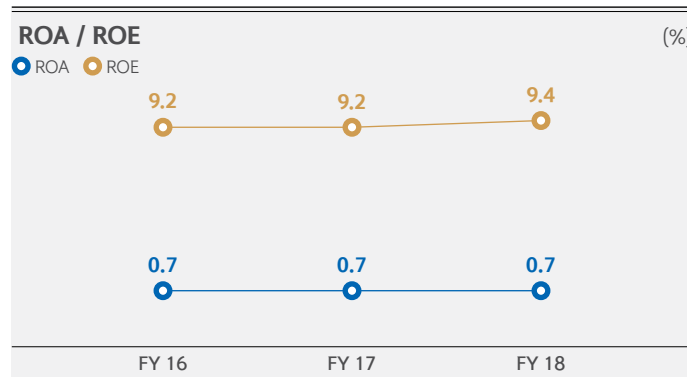
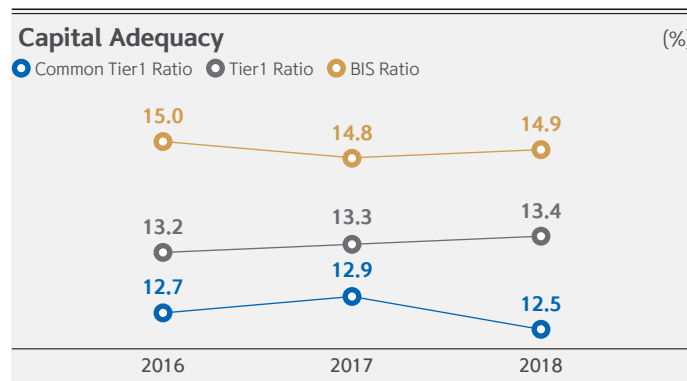
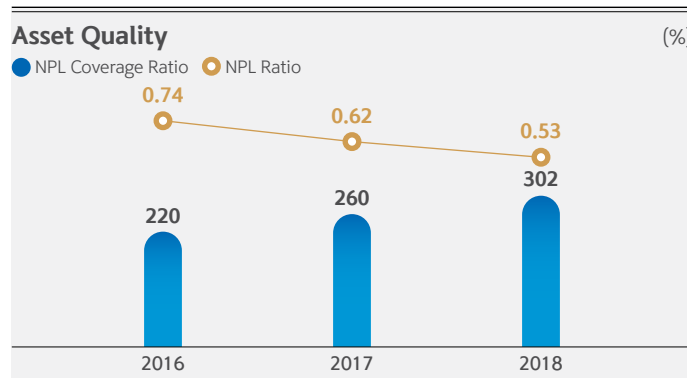
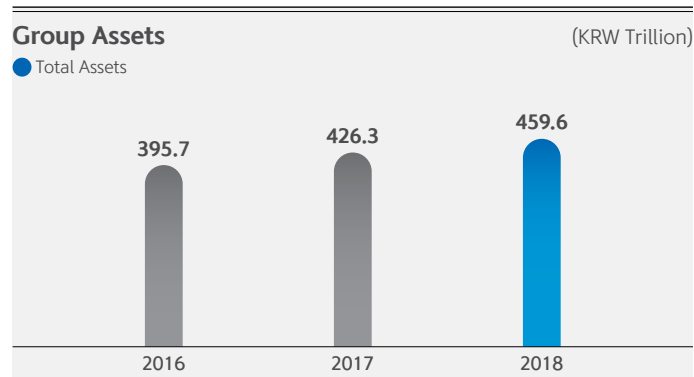
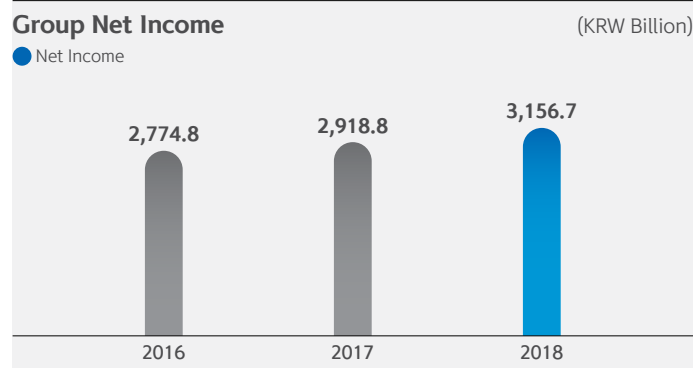
Finally, I want to tell you that we were only able to solidify our position as the leading financial group in South Korea and continue making strides towards becoming Asia’s leading financial institution because of your unwavering faith and support. All of us here at the Group will continue to do our utmost to meet your expectations.

Thank you.

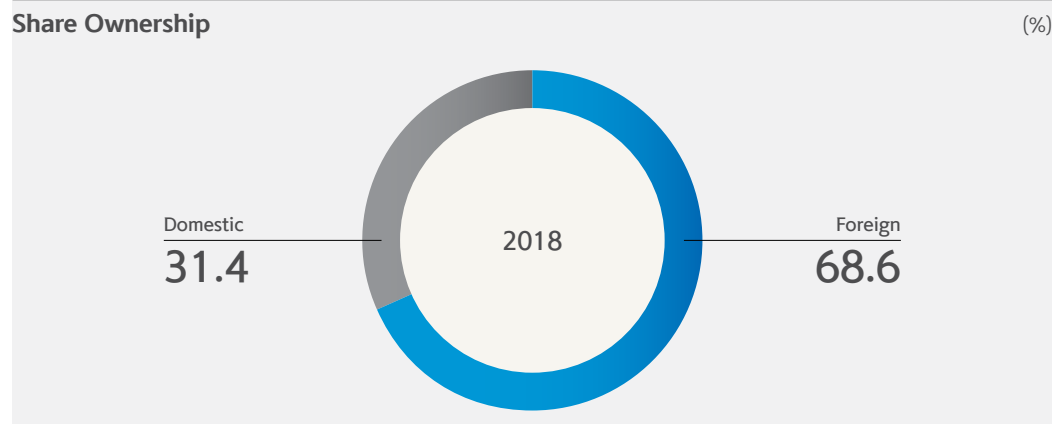
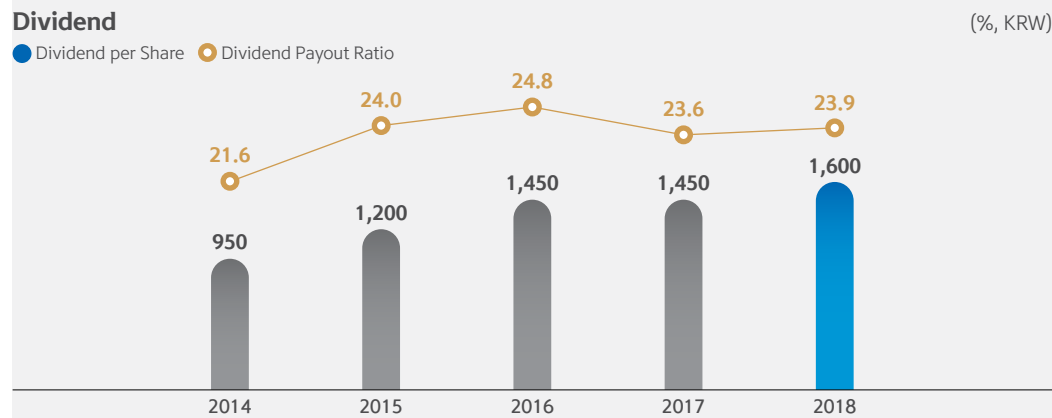
March 27, 2019

Cho Yong-byung
CEO, Shinhan Financial Group

Key Performance Indicators



Stock Information



Number of Shares Issued

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

Shareholders Holding Ownership of More than 1%

Name of Shareholder	Number of Shares Owned	Ownership
National Pension Service	44,497,838	9.38%
BlackRock Fund Advisors**	29,063,012	6.13%
SFG Employee Stock Ownership Association	22,179,229	4.68%
BNP Paribas SA	16,826,276	3.55%
Citibank, N.A. (ADR Dept.)	14,223,838	3.00%
The Government of Singapore	11,972,346	2.52%
Norges Bank	8,062,776	1.70%
Samsung Asset Management	7,034,053	1.48%
Vanguard Total Internatioal Stock Index	6,237,149	1.32%
Peoples Bank of China	5,095,455	1.07%
Lazard Funds Inc.	5,006,452	1.06%
Others	304,001,163	64.11%
Total	474,199,587	100.00%

* Based on the results of shareholder registry closing as of December 31, 2018

** Based on the large equity ownership disclosure by BlackRock Fund Advisors with the Financial Supervisory Service on September 27, 2018

Stock Performance (KRW)

	2017	2018
Market Capitalization (Year End)	23.4 trillion	18.8 trillion
Share Price	-	-
Year End	49,400	39,600
High	55,400	53,400
Low	44,800	39,050
Weighting in the KOSPI (Year End)	1.2%	1.2%
Average Daily Trading Volume	1.0 million shares	1.0 million shares
Dividend Per Share	1,450	1,600
Total Dividend Paid	688 billion	753 billion
Foreign Share Ownership	69.4%	68.6%

Group Vision and Strategy

Group Vision

Since the launch of its holding company in 2001, Shinhan Financial Group has led South Korea's financial industry through successful mergers and acquisitions, preemptive risk management, client focused business models, and more. It has also grown into a truly sustainable company that seeks to create a virtuous cycle of shared prosperity by embracing "Compassionate Finance, Your Companion for the Future" as the Group's driving mission.

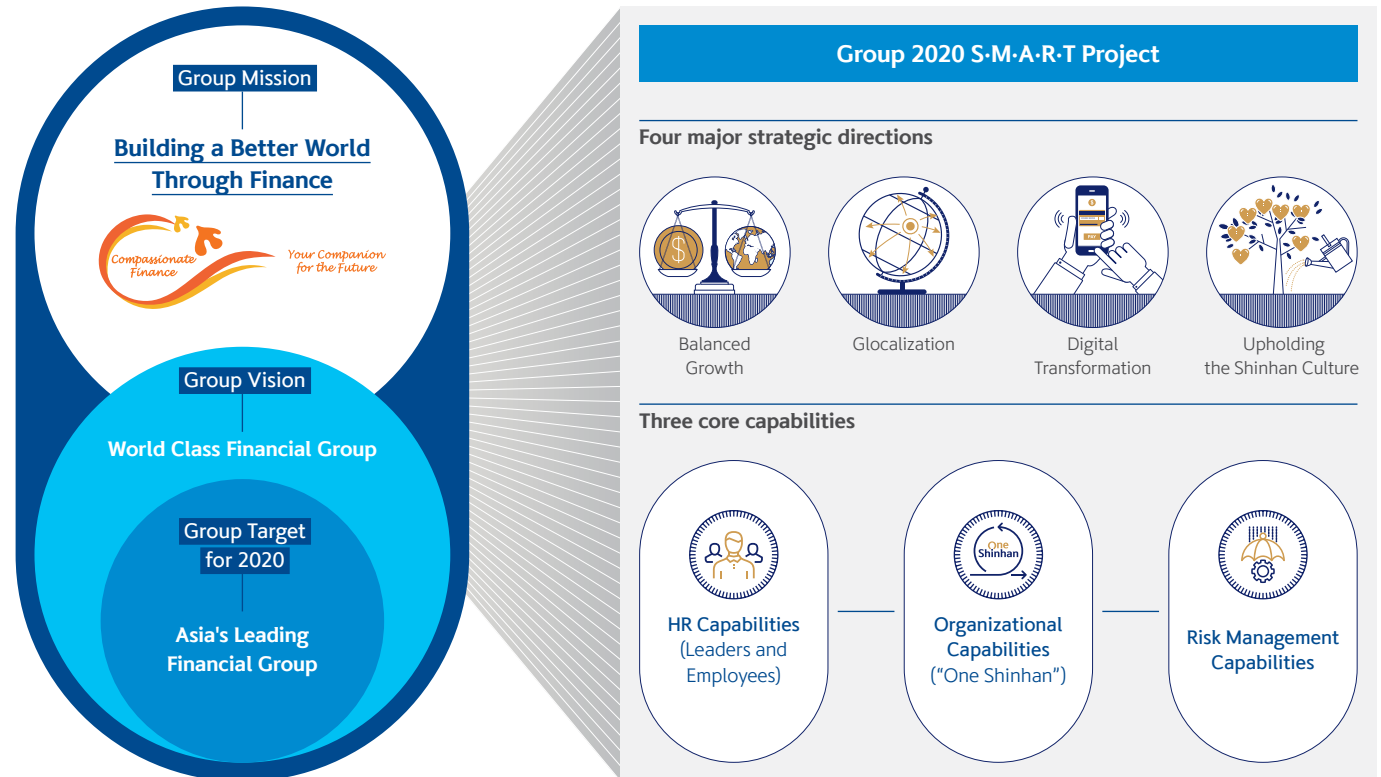
With "Compassionate Finance" as the underlying foundation, the Group will bring together the capabilities of its diversified business lines through its "One Shinhan" platform to further raise client satisfaction and corporate value. The Group will also implement a consistent and cohesive business strategy based on "2020 S-M-A-R-T Project" to realize its vision of becoming a "World-Class Financial Group",

Group Strategy: 2020 S-M-A-R-T Project

The Group established a framework for growth in 2017 by creating annual strategic directions that would ensure it would become Asia's leading financial group by the year 2020, and eventually evolve into a world-class financial player. A year later, it accelerated its plans for a differentiated growth and, is now working to achieve its vision by leading financial innovation. Under the "2020 S-M-A-R-T Project", which consists of four strategic pillars: ① Balanced Growth, ② Glocalization, ③ Digital Transformation, and ④ Upholding the Shinhan Culture, Shinhan Financial Group seeks to bring the Group's mid-term target of becoming Asia's leading financial group to fruition

in order to pursue its ultimate aim of being a truly world-class financial institution.

The Group will also reinforce the three core capabilities needed to carry out the Project successfully: ① HR Capabilities (Leaders and Employees), ② Organizational Capabilities ("One Shinhan") and ③ Risk Management Capabilities. The term "S-M-A-R-T" stands for Specific/Segmented, Measurable, Action-oriented, Realistic stretch, Time-based. Not only does it act as a primer for how Shinhan's employees should conduct themselves at their jobs, but it also provides a working image of the Group's organizational culture.



Yearly Progress and Directions for 2019

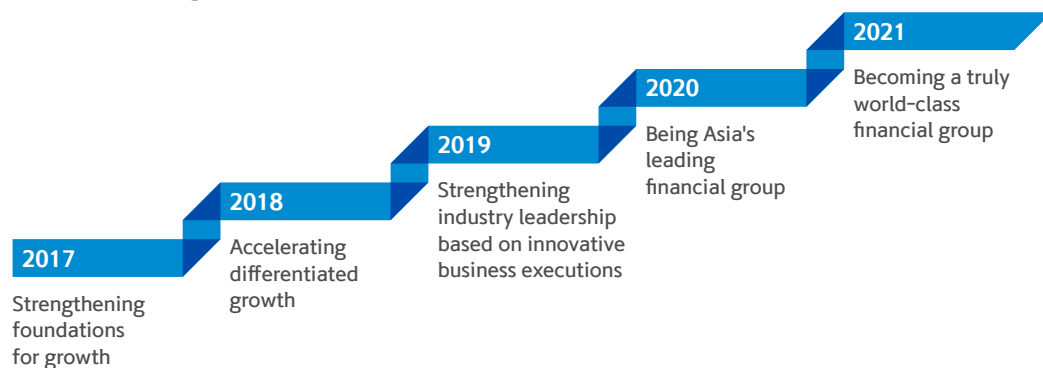
The Group's "2020 S·M·A·R·T Project" has been in place since 2017. Its purpose is three-fold: to ensure a high level of consistency in the strategic directions the Group announces every year; to continuously upgrade the strategic tasks that accompany these directions; and to speed up the progress of the overall undertaking as much as possible.

In 2018, for example, the Group emphasized the importance of "Speed, Agility, and Quickness (SAQ)", following it up with a management slogan called "Shinhan, Aiming Higher and Creatively Pioneering Ahead". The purpose of this was to assist the Group in accomplishing its mid-term goal of becoming Asia's leading financial group by 2020. There was a special emphasis placed on "Aiming Higher" in 2018, while "Creatively Pioneering Ahead" was given precedence in 2019.

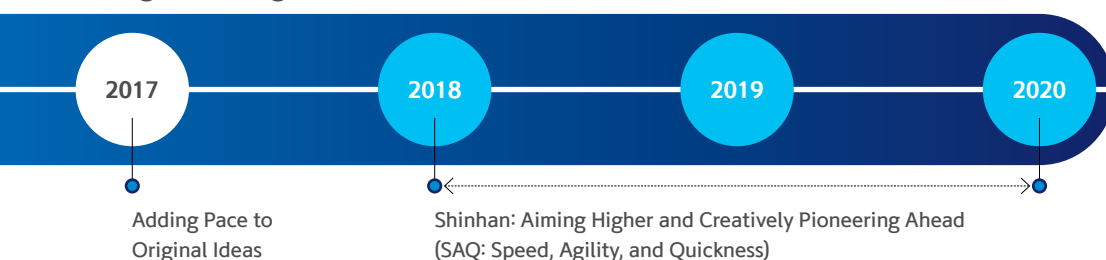
"One Shinhan" Strategy

2017 was the first year in which the Shinhan Financial Group promoted the 2020 S·M·A·R·T Project. The "One Shinhan" Strategy was included in it to demonstrate that the entire range of the Group's resources was part of a single and united corporate entity. The strategy involved laying new foundations for growth in the Group's capital, global, and digital service sectors (including IB, Global, GMS and WM), establishing a new subsidiary (Shinhan REITs Management), and establishing a Chief Digital Officer's Council.

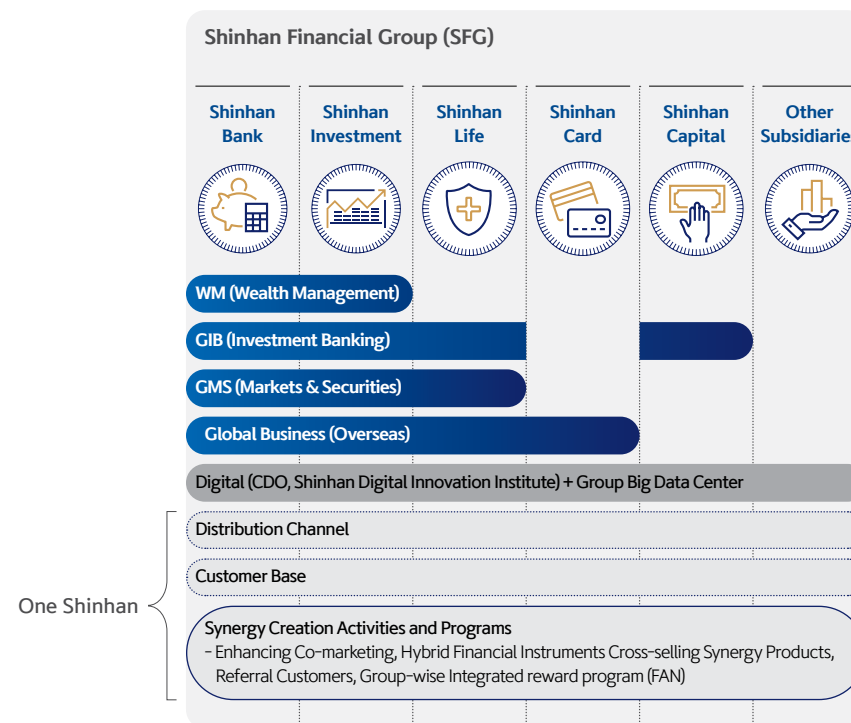
Business Strategy Directions by Year



Management Slogans



Shinhan Financial Group's Matrix Structure



These steps resulted in healthy and balanced growth across all the Group's business lines, with especially outstanding performances occurring in the capital markets, non-interest income, and global and digital areas.

2019 Group Management Strategy

With its "One Shinhan" platform maximizing the Group's competitiveness and capabilities, Shinhan Financial Group will continue its path of strengthening its leadership in the area of financial innovation under its "2020 S-M-A-R-T Project". Although its strategy remains unchanged from last year, the Group has reevaluated pending challenges, and has identified the following seven strategic tasks for the year 2019.

Strategic Task 1.

Enlarge "One Shinhan" Value Creation

The Group will magnify the value created through its "One Shinhan" platform by upgrading its matrix system into a more sophisticated operating system. Moreover, the Group seeks to maximize the combined performance among the Group's subsidiaries, including, in particular, the newly established business divisions.

Strategic Task 2.

Strengthen Areas of Future Growth

The Group's various business models will be realigned to enhance their growth, their performance, and their efficiency, resulting in optimized results from its various new and strategic business lines. A related aspect of this strategy is a plan to re-examine the entire process of identifying optimal asset management models starting from a baseline of zero. A third method of optimizing the Group's operational efficiencies and performances will be to optimize how its resources, including capital, manpower, and operating costs, are assessed and allocated.

Strategic Task 3.

Ensure High-quality Growth in Overseas Business Operations

The Group will pursue solid, high-quality growth in its global businesses in terms of both profitability and risk, while also enhancing its potential for sustainable growth by upgrading its key capabilities at the local level. In addition, it will increase the level of collaboration between its subsidiaries and its global networks.

2020 S-M-A-R-T Project



Balanced Growth

Bank	Interest Income	Domestic	Organic	Analog Centric	Entity Centric	Business Strategy	Corporate-oriented
NI from Banks (YoY)	Interest Income (YoY)	NI from Domestic (YoY)	Group NI (YoY)	Cost-to-Income Ratio	Customized Strategy for each of the subsidiaries	Mid-term Business Strategy 2020 S-M-A-R-T Project	Creative Culture, "The Shinhan Leader"
+33%	+9%	+18%	+19%	+47.5%			
Non-Banks	Non-Interest Income	Overseas	Inorganic	Digital (Online)	One Shinhan	Corporate Culture	Community-oriented
NI from Non-Banks (YoY)	Fee Income (YoY)	NI from Global Business (SHB, YoY)	New Business Lines + M&As REITs, ANZ Vietnam, PVFC, Archipelago Asset Mgmt.	Operating Income through Digital Platform	Matrix Business Lines, Cross-Selling Ratio	ESG Recognition	Compassionate Finance "Society of Hope" Project
+16%	+13%	+37%		1,186 bil.	39.7%	A+ Grade form CGS	
Non Banks NI Contribution	Non-Interest Proportion	Global NI Contribution					
31%	24%	14%					



Global Expansion



Digital Transformation



Upholding Corp. Culture

Strategic Task 4.

Increase Level and Speed of Digital Transformation

The Group is committed to elevating and accelerating the level and speed of its digital transformation. In addition to strengthening the competitiveness and efficiency of its existing business models, it will increase its involvement in such innovative business models as an "Internet Only Bank", the "Zero Pay" cash discount system, and Big Data/Cloud. Other steps to be considered include transferring more of the Group's domestic success models to its international operations and entering into new associations with highly-regarded, globally-based digital players.

Strategic Task 5.

Establish ESG system

A fifth aspect of the Group's management strategy will be to establish an Environmental, Social and Governance (ESG) system as a means of increasing its future growth potential. Such transition to a more sustainable growth model will be based on the Group's primary business of inclusive and productive finance. As a responsible and concerned corporate citizen, the Group will construct an eco-friendly management system based on its "ECO Transformation 20·20" roadmap, as well as continue with its "Hope Society Project" and "Social Enterprise Ecosystem Development" programs in efforts to provide inclusive financings to those in need.

Strategic Task 6.

Increase Risk Management Capabilities

The Group will strengthen its risk management capabilities to prepare for any and all changes in its operating and regulatory environment, including new governmental policies and regulations and evolving societal demands. These alterations will especially apply to its business expansion endeavors and overseas business operations. It will also add to its capabilities in such non-financial areas as compliance and environmental and social risks. Moreover, the Group will also seek to enhance the stability of its ICT infrastructure and strengthen its information protection processes to better deal with constant and accelerating change in its digital environment.

Strategic Task 7.

Expand the Range of "Shinhan Culture"

The Group will extend the reach of its mission of "Compassionate Finance, Your Companion for the Future" by systemically fostering its employees to become the future leaders of the Group. It will seek to fully support the Group Management Leadership and Women's Leadership Development Systems. This is particularly important in the context of fostering the development of the finest possible human resources to lead the Group's core businesses into the future.

Shinhan Financial Group's 2019 Business Plan

Management Slogan

**Shinhan, Aiming Higher
and Creatively Pioneering Ahead**

Strategic Tasks

Implementation Characteristics

- ① **Enlarge** "One Shinhan" value creation
- ② **Strengthen** future growth portfolio
- ③ **Ensure** high-quality growth in overseas business operations
- ④ **Speed up** rate of digital transformation
- ⑤ **Establish** ESG system
- ⑥ **Increase** strengths in area of risk management
- ⑦ **Increase** range of "Shinhan Culture"

Risk Management

Shinhan Financial Group has developed a set of basic principles underlining its risk management policies and processes. These principles act as the bases for the behavior of all the Group's employees, as well as the principles by which its business units deal with the various risks they face. The Group has also established a Group-level risk management system. It is based on a semi-matrix organizational model operating between the holding company and its subsidiaries.

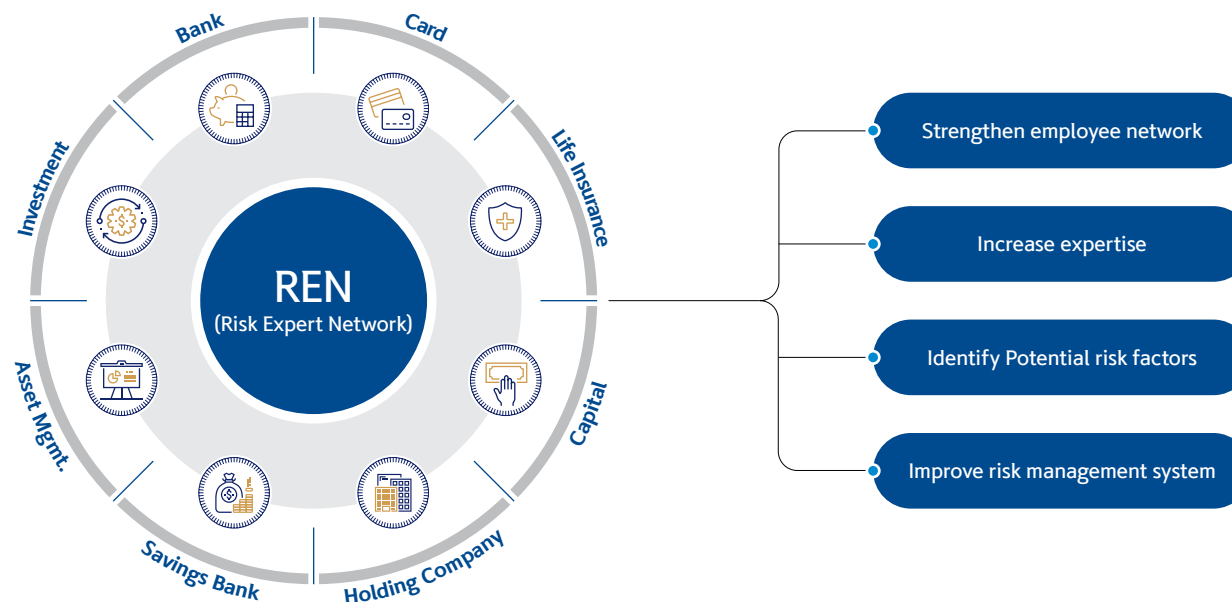
Shinhan Financial Group Risk Management Tools

Risk Management Philosophy

Shinhan Financial Group has established a set of Group-wide risk management guidelines. They apply to all the risk-related actions and decisions undertaken at all its front offices, ensuring that the fullest possible range of risks is taken into consideration in their business dealings.



REN-Risk Expert Network



Risk Monitoring System

Potential risks facing the Group are dealt with through a comprehensive monitoring system. It measures a wide range of outside economic indicators, the Group's own risk indicators, and the current status of the Group's risk management processes and policies. The Group is also tasked with developing a variety of preemptive countermeasures to any and all potential risks that have been identified and assessed in relation to their potential impact on the Group's core issues. This process, which particularly applies to the detection and control of unexpected shifts within these indicators, involves the operation of a "risk dashboard" that monitors the amount of assets, risks, and related external issues contained in the portfolios being managed by each subsidiary.

Risk Experts Network (REN)

The Group has established a Group-wide network of experts in the areas of risk and risk management. Tasked with promoting a corporate culture that encourages deploying all facets of risk management, they develop the talents of risk officers through a series of Group-wide courses and workshops.

Group-wide Corporate Credit Assessment System

All of the Group's subsidiaries are obliged to apply an identical, Group-wide credit checking system to funding requests made by potential borrowers. The system was approved by the Korea Financial Supervisory Service at the end of 2016.

Group-wide Liquidity Risk Management System

The Group operates a Group-level liquidity risk management system. Its preemptive and efficient managerial decision-making and lightning-quick emergency responses to external impacts enable it to monitor a subsidiary's level of liquidity risk in real time.

Risk Management Organization

The Group's risk management organization consists of a Group Risk Management Committee, a Group Risk Management Council, a Group Chief Risk Officer, a Holding Company Risk Management Team, other committees involved in risk management, and specially-dedicated organizations within individual subsidiaries.

Group Risk Management Committee

The Group Risk Management Committee is the Group's highest decision-making body. Composed of the outside directors of the holding company's Board of Directors, it is tasked with developing policies and strategies concerning the Group's risk management activities. It makes decisions regarding the following matters.

1. The development of risk management policies that are consistent with the Group's overall management strategies;
2. The determination of risk limits for the Group and its subsidiaries;
3. The approval of appropriate investment limits and losses;
4. The enactment and amendment of the Group's risk management regulations;
5. The organizational structure of the Group's risk management entities and the determination of their various duties;
6. Matters relating to the operation of the Group's risk management system;
7. Matters relating to the establishment of various kinds of limits, and the issuance of approvals when such limits have been exceeded;

8. Making decisions concerning FSS approvals, based on internal ratings approaches to the Group's credit evaluation system;
9. Matters relating to the Group's policies regarding the disclosure of risk;
10. The results of risk situation analyses, and relevant capital management and financing plans;
11. Dealing with all other matters deemed necessary and appropriate by the BOD.

Group Risk Management Council

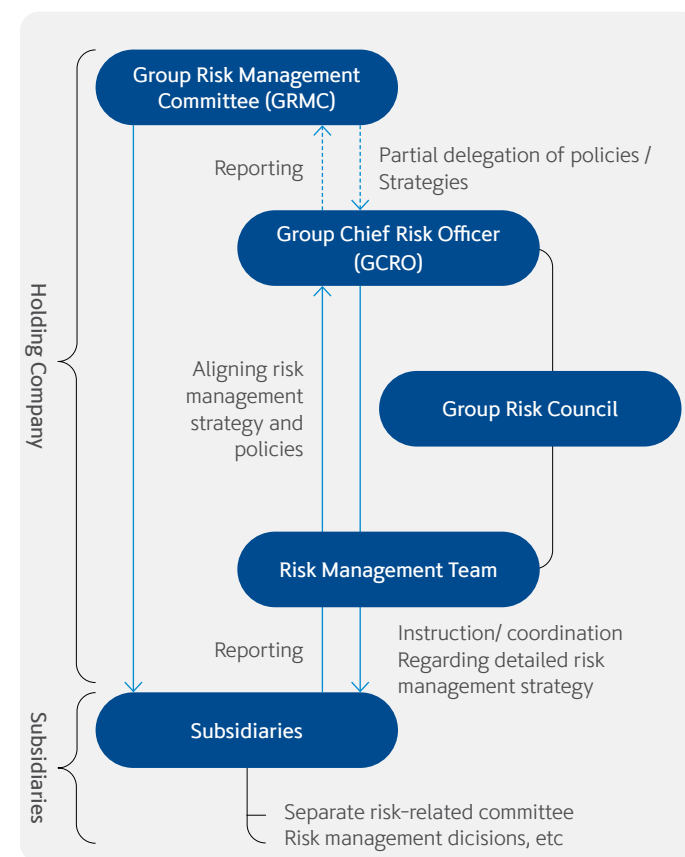
The Group Risk Management Council undertakes and reviews the risk-related policies and strategies of the Group and its subsidiaries. It also makes decisions regarding the implementation of policies determined by the Group Risk Management Committee. Composed of the Group Chief Risk Officer and the CROs of the Group's major subsidiaries, it reviews decisions made in relation to the Group's non-retail credit rating system and issues under the aegis of the Group Risk Management Committee. Its main responsibilities are as follows:

1. Setting the risk appetite for the Group and its subsidiaries;
2. Evaluating the risk measurement systems used by the Group and its subsidiaries;
3. Evaluating the operations of the risk measurement systems used by the Group and its subsidiaries;
4. Dealing with matters requiring joint consultation on risk management at the Group level;
5. Managing the amount of risk posed by assisting Group subsidiaries financially.

Group Chief Risk Officer

The Group Chief Risk Officer assists the Group Risk Management Committee in implementing risk-related policies and strategies decided on by the Committee, as well as ensuring that they are implemented consistently by all the Group's subsidiaries. The CROs of each of the Group's subsidiaries conduct performance measurements and assess the risk management practices of individual subsidiaries.

SFG Risk Management Structure



2018 Key Performances

In 2018, the Group crafted a set of responses on such topics as the US-China trade dispute, possible interest rate hikes, constantly-tightening governmental regulations, and continuing digitalization within the financial industry. It also established an "Advanced and Extended Risk Management" strategy in line with its 2020 S·M·A·R·T Project. It also upgraded its risk and portfolio management processes. This involved instituting countermeasures following an analysis of five major, Group-wide potential risks and assessing the influence of the governmental regulatory environment and the Group's Integrated Individual Credit Assessment System. In addition, the Group established a GIB monitoring system; added to its level of industrial information-sharing; became South Korea's first financial group to set up an environmental and social risk management system; made improvements to the liquidity risk management levels of its overseas subsidiaries; and shared its risk management knowledge and abilities with other financial groups both at home and abroad.

2019 Business Plans

The Group has named "Advanced and Extended Risk Management Capabilities" as constituting its strategic direction, as 2019 will be another year of Volatility, Uncertainty, Complexity, and Ambiguity (VUCA). These conditions will make it exceedingly difficult to predict the future accurately, due to concerns over interest rate hikes, economic downturns, constantly tightening governmental regulations, changes in industrial trends and demographic structures, and intensifying competition even beyond the boundaries of the financial services industry.

In addition, the Group will enhance its ability to respond to external changes and strengthen its risk management capabilities by increasing its use of big data and digital information from internal and external sources. It will also focus on extending its GIB, GMS, global, and other future growth areas, and speed up the implementation of its environmental and social risk management system. It will also fully activate its non-financial risk management system, and optimize the Group's risk management infrastructure fit for the synergy-creating "One Shinhan" structure.

Shinhan Financial Group's Risk Management Plan for 2019

Mission

To support sustainable and balanced growth by the Group by gaining a thorough understanding of the nature of change

2019 Strategy

Advanced and Extended Risk Management Capabilities

Core Tasks



Increase ability to respond to external change

Institute preemptive countermeasures against uncertainties in the financial environment both at home and abroad, as well as changes in industrial and demographic structures and regulations;



Improve internal risk management structure

Enhance capital efficient risk management, improve asset management, and increase use of digital risk management tools;



Strengthen risk management capabilities in areas of future growth

Extend risk management strengths to areas of new growth and global operations;



Put non-financial risk management systems in place

Establish environmental risk and operating risk management systems.

Emerging Risk

Shinhan Financial Group considers "climate change" and "changes in demographic structure" as factors that are likely to affect the Group's business over the long term.

Emerging Risk: Climate Change

The Earth's temperature has risen by about 1 degree Celsius since the industrialization. Climate change, as such, can also affect the stability of financial institutions through both physical risk and transition risk.

Physical risk refers to a secondary financial risk coming from the physical damage caused directly or indirectly by climate change in the real sector spreading to the financial sector through various transactions such as insurance contracts, loans and investments. Transition risk can be seen as a financial risk that could arise from the government's transition to a low-carbon economy in response to climate change, or from a sudden change in market participants' perceptions of the cost of carbon emissions. Physical risk and transition risk may lead to a decline in mortgage value, a deterioration of the borrower's financial soundness, and an increase in insurance loss ratio, which may consequently, lead to an increased credit risk of financial institutions.

According to World Wide Fund for Nature (2018), as a result of carbon emissions reduction efforts, the operating profit margin of various industries in South Korea, including energy, transportation, raw materials, construction, agriculture, forestry products, and food industry, is expected to be reduced by 2.7% to 35.3%. As for Shinhan, the Bank's exposure to the carbon emissions sector stands at 4.7 trillion won as of the end of 2018.

In response to these risks, Shinhan Financial Group has established a "Group Environmental and Social Risk Management System" in order to designate areas of interest to be put under monitoring. For sectors that have been identified as "high risk" will be subject to conditional financial support. Moreover, in case of large-scale PFs, the Group evaluates the level of environmental and social risk related to the project and manages it by reflecting risk mitigation measure in the financial contract. The Group is also participating in the TCFD support group, in line with global responses to climate change. By taking part in the Phase 2 of its Pilot program, the Group is discussing and reviewing the introduction of TCFD.

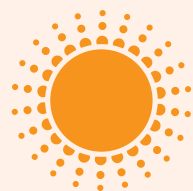
Emerging Risk: Changes in the Demographic Structure

A significant change throughout all aspects of the South Korean economy is expected as a result of a rapid aging of the population. If the proportion of the working-age population declines by 0.1% point, investment and GDP will decline by 0.96% and 0.3%, respectively (KIET, Korea Institute for Industrial Economics and Trade). Furthermore, according to Bank of Korea, the aging population has led to an increase in the proportion of insurance and pensions in household assets, which has risen from 25.0% in 2008 to 31.5% in 2014. An aging society with declining working-age population leads to increased social expenditure and decreased productivity, which, in turn, depresses borrowers' debt repayment ability. It is also likely that it will lead to a shift in investment appetite from stocks to bonds.

All these factors are expected to contribute to a deterioration of profitability, asset quality and capital adequacy of financial institutions, ultimately leading to an increased systemic risk. According to Bank of Korea, the non-performing loans ratio will be increased by 5.8% points and the capital ratio will fall 2.2% points if the proportion of the working-age population falls by 1% point.

The Group is analyzing the macroeconomic changes that results from changes in the demographic structure of the South Korean economy, as well as identifying the associated opportunities and the risks to examine its impacts and devise countermeasures at the Group level. This includes strengthening credit review process for the elderly with low repayment ability, establishing medium- to long-term retail loan strategies in response to demographic changes, such as regional population changes and the changes in the proportion of older population, and upgrading products to reflect the changes in risk appetite throughout customers' life cycle.

ESG Management



"Compassionate Finance" takes Shinhan Bank's original motto, "Be original, productive, and Compassionate", to an even higher level. In addition to being the basis of "Shinhan Culture", it underlies the Shinhan Financial Group's Environmental, Social, and Governance (ESG) strategy, as well as its mission of benefiting the world through its involvement in the finance business. It also demonstrates, in very concrete terms, how the Shinhan Financial Group intends to put its motto of "Compassionate Finance, Your Companion for the Future" into practice through its commitment to inclusiveness and social value.



2008
 • Joined UN Global Compact and UNEP-FI

The Foundation of Shinhan's ESG Strategy: Compassionate Finance



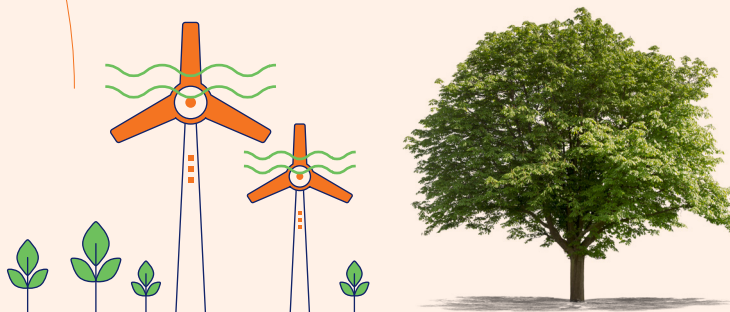
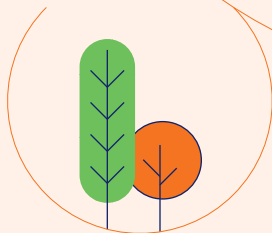
2014
 • Established 9 CSR Strategies
 • Enunciated "Compassionate Finance, Your Companion for the Future" mission statement



2010
 • Established green management system



2011
 • Enunciated "Compassionate Finance" mission statement



Overview: The History of Shinhan Financial Group's ESG

Helping the society in which it operates to become stronger, healthier, and more sustainable is an important role for a responsible corporate citizen. Shinhan Financial Group has been committed to fulfilling its corporate social responsibilities ever since its establishment. In 2005, Shinhan Bank became the first player in South Korea's financial industry to publish a Corporate Social Responsibility (CSR) Report, outlining its determination to take the industry lead in CSR management. In 2009, the Group became the first member in the industry to publish an organization-wide CSR report, strengthening its commitment to CSR management even more.

The Group has also participated in global initiatives for sustainable development. For example, both Shinhan Bank and Shinhan BNP Paribas Asset Management were signatories to the Carbon Disclosure Project (CDP) in 2007 and 2008, with the Group adding its own imprimatur in 2009. Their responsibilities include reporting on their short- and long-term management strategies regarding greenhouse gas emissions. In 2019, the Group was included in the Carbon Management Honors Club for the fifth consecutive year, winning a "Leadership A" rating as a result of its CDP evaluation. Membership in this group is reserved for the top five privately-invested enterprises in the entire country.

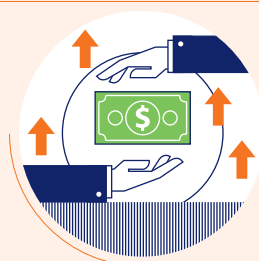
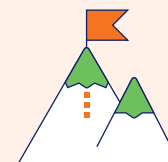
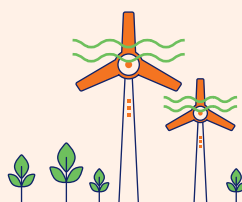
The Group also joined the United Nations Environment Programme Finance Initiative (UNEP FI) in January 2008, reflecting its commitment to sustainable development even more. In May of the same year, it joined the UN Global Compact, with its ongoing commitment to human rights, labor empowerment, the environment, and efforts to prevent financial malfeasance and corruption.

We were included in the Dow Jones Sustainability Index (DJSI) starting in 2009. Last year, we ranked first in the South Korean banking industry and were also included in the Asia Pacific index. We were included in the DJSI World Index (the first among South Korean financial groups) in 2013, and have been part of it ever since.

The Group created "9 CSR Strategies" in 2014 to carry out its sustainability management programs more efficiently and outline its CSR goals and directions more clearly. It established a CSR Committee under the aegis of its Board of Directors a year later. It consists of five directors, including the Chairman and CEO, and is responsible for making all decisions relating to the Group's CSR goals, directions, rules, and policies. Shinhan BNP Paribas Asset Management established a Stewardship Code in 2017 to strengthen its institutional investors' voting rights, while the Group became the first-ever South Korean enterprise to offer its support for the Task Force on Climate-Related Financial Disclosures Recommendations that suggest guidelines for financial disclosures related to climate change in September 2018.



2015
 • Established CSR Committee under BOD



2017
 • Outlined 2020 CSR Strategies
 • Introduced Stewardship Code for Enhanced Asset Management



2018
 • Outlined plans for "ECO Transformation 20-20"



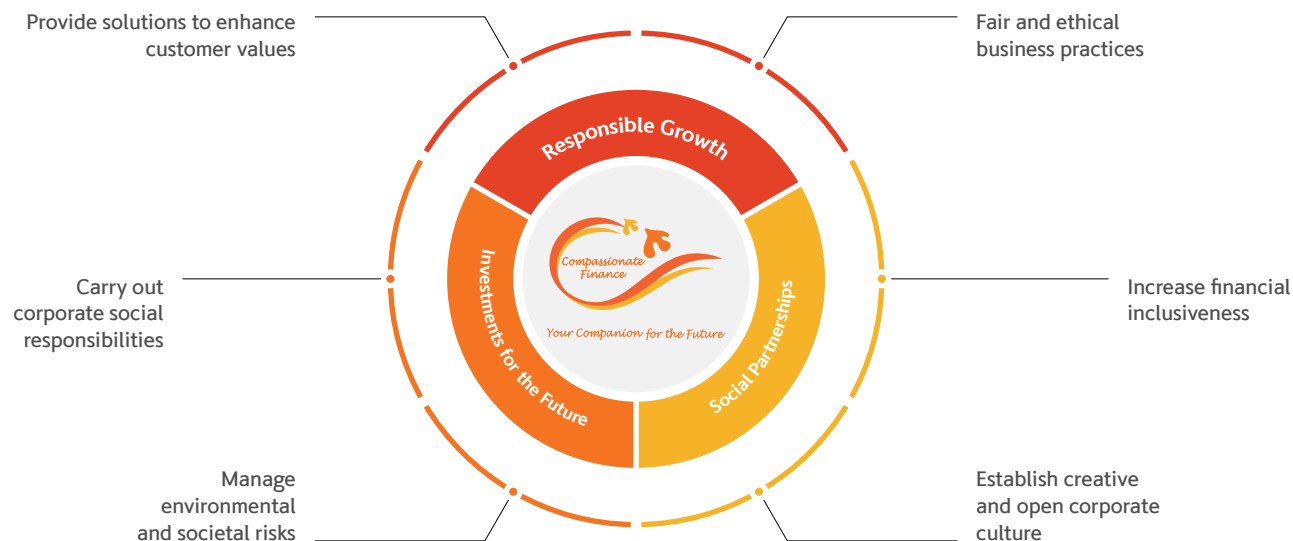
The Group's ESG Strategy

2020 CSR Strategy

The Group's 2020 CSR Strategies enhance the values of its customers, shareholders, and the larger society by increasing its ability to respond proactively to changes in its operating environment. They contain three management directions -- "Responsible Growth", "Social Partnerships", and "Investments for the Future" -- as well as six core strategies.

The core strategies will be realized by meeting annual goals for a set of ten indicators. The degree of success made in achieving them is reflected in ongoing evaluations of all the Group's subsidiaries.

SFG 2020 CSR Strategy



Strategic Indicators and Plans

Six Strategic Directions	Ten Strategic Indicators	Four-Year Plan	2018 Goals	2018 Results	Whether Achieved or Not
Provide solutions to enhance customer values	Customer satisfaction index	0.2 points increase per year	93.8 points	94.2 points	○
	Popularity of digital financing services	Increase to 72.2%	68.2%	70.1%	○
	Number of participants in financial literacy courses	One million participants (acc. from 2012)	59,990	93,145	○
Fair and ethical business practices	Number of employees taking ethical behavior training and signing pledge of ethical behavior	98% of employees	98%	99%	○
Increase financial inclusiveness	Financial support for working group	KRW 6.3 trillion	KRW 1.5 trillion	KRW 2.2 trillion	○
	Support for creation of startup ecosystem	KRW 6.6 trillion increase	KRW 1.6 trillion	KRW 4.1 trillion	○
Establish creative and open corporate culture	Participation rate in smart work system	More than 65%	55%	64%	○
Carry out corporate social responsibilities	Value of investments/loans in eco-friendly industries	KRW 20 trillion increase from 2017 to 2030	KRW 259 billion	KRW 1,007.2 billion	○
Manage environmental and societal risks	Volume of GHG emissions	Reduce by 20% from 2012 to 2030	96,422 tCO ₂ eq	91,540 tCO ₂ eq	○

2018 Performance

In November of 2018, the United Nations Environment Programme Finance Initiative (UNEP FI) released a document entitled “Principles for Responsible Banking” for public consultation at its Global Roundtable in Paris. The Principles outline the banking industry’s roles and responsibilities in aligning its business operations with the objectives of the UN’s Sustainable Development Goals and the Paris Climate Agreement. Developed by twenty-eight Core Group Members, including Shinhan Financial Group, Industrial and Commercial Bank of China, BNP Paribas, and ING Group, they provide a set of benchmarks for the financial sector in terms of its commitment to having a positive impact on society and the environment, as well as mitigating any negative factors resulting from its business strategies, products, and services. They also stress the very positive role that the industry can play in ensuring a healthy and sustainable future for people around the world. The six Principles are as follows:

(1) We will align our business strategy to be consistent with and contribute to individuals’ needs and society’s goals, as expressed in the Sustainable Development Goals (SDGs), the Paris Climate Agreement and relevant national and regional frameworks. We will focus our efforts where we have the most significant impact. (Alignment).

(2) We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. (Impact).

(3) We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations. (Clients and Customers).

(4) We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society’s goals. (Stakeholders).

(5) We will implement our commitment to these Principles through effective governance and a culture of responsible banking, demonstrating ambition and accountability by setting public targets relating to our most significant impacts. (Governance and Target Setting).

(6) We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society’s goals. (Transparency and Accountability).

The Group strengthened its capabilities for managing potential risks in the first half of 2018 by establishing an environmental and social risk management system. In addition to enacting best practices that define the purposes, principles, primary operations, and other factors affecting environmental and social risk management, it selected twelve environmental and social risk areas for in-depth monitoring and management. It also established optional financial standards to deal with illegal activities and the construction of coal-fired power plants.

The risk areas consist of twelve industries. They include forestry, mining, driftnet fishing, agriculture, tobacco, coal processing, oil refining, power generation, infrastructure, weapons systems and logistics, chemicals, and waste-water and solid waste. The Group regularly monitors each industry for its level of exposure to major risks. In response to the increasingly important issue of climate change, it made a standardized procedure to only review optional financial support only when available technologies are either super-critical or higher, or when CO2 emissions are below 800g/kWh in the case of new coal-fired power plant construction projects.

Outside Recognition

Rating Agency

Robeco SAM

Global 100

CDP

Korea Corporate Governance Service

MSCI ESG

2018 Performance

Included in DJSI World and DJSI Asia Pacific-Korea for sixth and tenth consecutive years respectively

Included in Global 100 for seven consecutive years. Ranking 9th in the world and 1st in Asia (among all companies), and ranking 2nd in the world (among financial institutions)

Selected for Carbon Disclosure Management Honors Club for fifth consecutive year (Leadership A)

A+ rating in ESG Assessment for fourth consecutive year

AA rating for third consecutive year

SFG ESG Strategy: E (Environment)

ECO Transformation 20-20

The Group introduced "ECO Transformation 20-20" as its vision for an environmentally friendly management model to deal with climate change and the need to change to a low carbon economy. In addition to investing KRW20 trillion in green industries, it will reduce its level of greenhouse gas emissions by 20%.

Three Major Directions

The Group's "ECO Transformation 20-20" corporate vision has three main components: leading the world's low-carbon financial market, increasing awareness of the need for environmentally friendly management, and strengthening environmental leadership and partnerships.

In order to achieve the first goal, the Group will add to its investments in the new and renewable energy industry and encourage growth in such areas as ESG funds, green building projects, and green bonds.

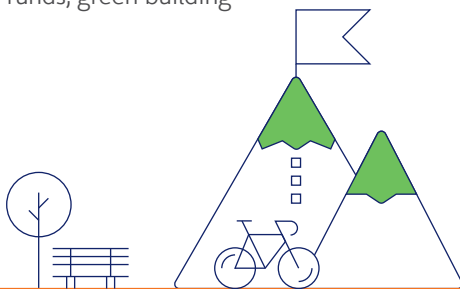
The term "green bonds" refers to financial instruments that are issued to raise funds for environmentally friendly projects and/or infrastructure ventures to mitigate the effects of climate change or contribute to the building of more energy-saving programs or facilities. Shinhan Bank issued KRW 200 billion in green bonds on August 30, making it the first issuer of green bonds among South Korea's commercial banks.

The second objective will be achieved by Shinhan Bank, Shinhan Card, and other Group subsidiaries developing a wide range of green financial products, including deposit and installment savings accounts, credit cards, insurance, and mutual funds. Other steps that the Group will take include accelerating its transformation to paperless and digital operations and strengthening its system for managing environmental and social risks.

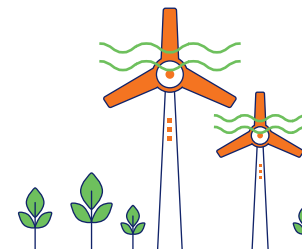
The second target will be also met in a number of ways, including using more electric vehicles for business purposes, building more facilities for charging them, making energy efficient improvements to Group facilities, and promoting the 3R's: reduce, recycle, and re-use.

The Group is also involved in a new and renewable energy initiative being proposed by the National Assembly's Renewable Energy Forum and six NGOs to help mitigate the effects of climate change and reduce the incidence of fine dust in the world's atmosphere. It involves advocating for legislation that would establish a new and renewable energy power procurement system that separates solar power, wind power, and other sources of renewable energy from other forms of power generation.

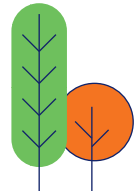
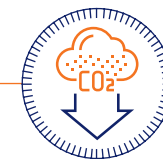
The Group is also committed to playing a leading role if and when similar environmentally friendly and energy saving initiatives are brought to its attention.



20
Investing KRW 20 trillion
in green industries by 2030



20
Reducing 2012 GHG emissions
by 20% by 2030



SFG ESG Strategy: S (Society)

Nurturing Female Leaders and Building a Happier and Healthier Society

The Group's commitment to helping to resolve social issues and creating a fairer and more just world for everyone is reflected in its motto of "Compassionate Finance, Your Companion for the Future".

In 2018, this included establishing a roadmap for nurturing the development of high-performing female leaders. This process, which includes a Group-level program called "Shinhan SHeroes", was a first for the South Korean financial industry. Its progress will be accelerated even more in 2019.

The Group also used 2018 to launch its Society of Hope Project, a Group-level CSR platform backed with funding worth KRW 270 billion that lasts until 2020. It focuses on assisting underprivileged and low-income people and supporting the growth of small- and medium-sized venture and/or social enterprises.

Increasing Female Leadership 2018 Performance

The Group's programs for nurturing the development of high-performing female employees began with a medium-term roadmap called "TFT to nurture the development of talented women employees" in the second half of 2017. This was followed by a similar program called "Shinhan SHeroes" the next year.

It also established a set of principles for carrying out this process. It is called "R.O.S.E." with R standing for "Relationships", O standing for "Opportunity", S standing for "Segmentation" and E standing for "Environment".

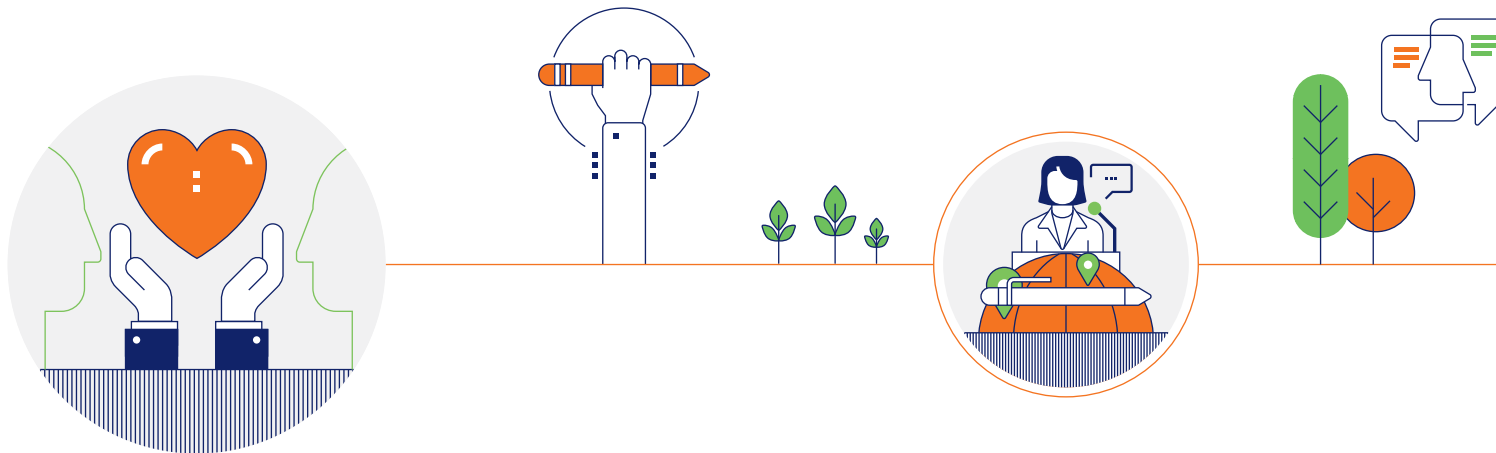
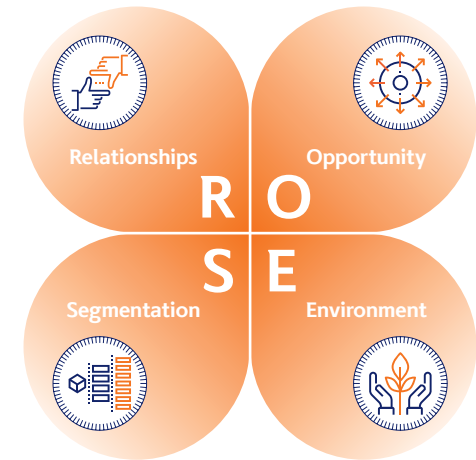
"Relationships" involves strengthening processes, such as mentoring programs to enhance the networking abilities of talented women and setting up conferences where they can exercise these talents even more.

"Opportunity" means offering women a wide range of job experiences through increased employment opportunities and career development programs. It also involves promoting job exchanges among Group subsidiaries and increasing the number of transfers to departments at the Group's headquarters.

"Segmentation" refers to building a nurturing system based on a woman's job description and responsibilities as she progresses through her working life. It includes specialized training courses for women only, supporting their development while they are taking leaves, and assisting them while they are caring for newborn children.

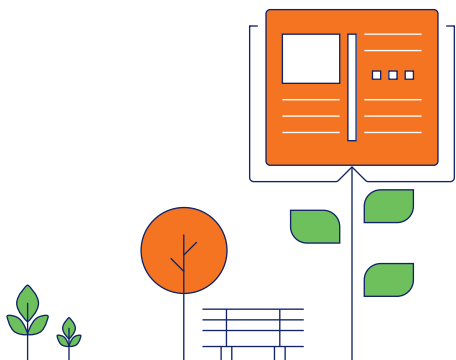
Last, but not least, "Environment" means creating policies that will ensure that highly-qualified women have constant access to a supportive and nurturing environment from the perspective of gender equality.

R.O.S.E. Nurturing Principles



In practical terms, this means upgrading the Group's smart work systems to include flex-time work, alternative work schedules, and telework, as well as making improvements to the Group's leave and vacation programs and creating a working environment that enables continuous communications at both the internal and external levels.

The Group and its subsidiaries carried out a number of nurturing activities for promising female employees based on these R.O.S.E. principles in 2018. For example, Shinhan Bank enhanced its human resources standards to help it create a larger pool of highly-qualified female leaders. Shinhan Card established a process for accomplishing the same result, while also operating female leadership training programs. Shinhan Investment added to its range of programs for strengthening female leadership within its facilities, and also made a series of improvements to its childcare leave programs. Last, but not least, Shinhan Life Insurance began offering an "S-Wing" female leadership program, as well as revamping its system for achieving a healthier work-life balance for all its employees.



Finally, the Group and its subsidiaries made improvements to their systems from the perspective of gender equality to help all their employees enjoy a healthier work-life balance. This included establishing the Group's joint childcare center and arranging for more flexible work schedules.

The Group also promoted three female employees to executive managerial positions within the organization including two new executive vice-presidents at Shinhan Bank and a division head at Shinhan Card. In addition, its percentage of female managers (based on its total number of deputy managers and higher) increased by 19% from the previous year.

2019 Plans

The Group will add to its number of high-performing female employees by continuing to operate specialized mentoring programs and by providing female leadership training programs. All of these programs will be monitored on the basis of interviews with acknowledged management leaders. It will also add to its stock of highly-trained in-house mentors, continue expanding the SHeroes Mentoring Program, and hold a "Shinhan SHeroes Conference" in the second half of the year. The purpose of this conference will be to strengthen communications sufficiently to form a consensus regarding the true meaning of "gender diversity" within the Group. It will also stress the continuing importance of nurturing the development of highly-promising female employees, and attempt to increase the participation rate of male employees in all its programs dealing with issues of gender and diversity. In addition, the Group will make adjustments to its nurturing program to better reflect the needs of each of its subsidiaries.

Society of Hope Project Accomplishments in 2018

The Group's Society of Hope Project signed a number of MOUs with government ministries and other public and non-profit organizations in 2018. One of them was the KRW 30 billion Financial Recovery Program for People with Low Credit Ratings, sponsored by the Ministry of Employment and Labor. Scheduled to be in operation for three years, it assists low-income earners by providing a maximum of KRW 1.8 million to each person who participates in a vocational training program. Another program that the Group entered into assisted about five thousand women experiencing disruptions in their careers by providing them with similar training allowances. It was sponsored by the Ministry of Gender Equality and Family.

The Group opened forty-two Shinhan Childcare Centers across the country, helping to provide after-school childcare activities to dual-income families while also contributing to a healthier work-life balance.

The first Shinhan Childcare Center facility was also recognized for being an excellent low-fertility support facility. In addition, the Group worked with the Community Chest of Korea and Good Neighbors to assist families in crisis, and supported a program that rewarded Good Samaritans who had gone out of their way to help people in danger.

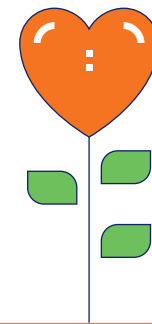


The assistance provided through these last two programs took a number of forms, including help with living expenses, educational and child-rearing costs, medical expenses, and disaster relief costs. The Group also signed an MOU with Hankuk University of Foreign Studies and the Korea Trade-Investment Promotion Agency to support a program to help up to one hundred young people hoping to work overseas. It is designed to strengthen their global competencies through training and educational opportunities both at home and abroad. After that, it helps them to find jobs overseas by accessing the overseas networks of participating organizations. Finally, the Group offered software coding, color therapy, financial literacy, and other programs to students with developmental disabilities, as well as creating a fund in tandem with SK to support the growth of social enterprises and contribute to the growth of the social finance movement.

2019 Plans

As part of its plans for 2019, the Group will create enhanced social values to enhance the well-being of people everywhere -- especially young people and the economically disadvantaged. This will include identifying and sharing the best practices of its Society of Hope Project. In addition, it will create enhanced economic values through establishing new businesses that will energize disadvantaged communities.

It will also build long-lasting foundations for its social contribution activities, particularly by strengthening their connectivity with its primary business. The Group will take decisive steps to help young people reduce their debt levels in such areas as school loans, including the signing of an MOU for a "Youth Debt Total Care Project". In addition, it will play a formative role in the development of new social contribution models that will better reflect the needs and practices of the Fourth Industrial Revolution, including adding to its supports for "best practice" social enterprises that have a demonstrated affinity with the finance business.



SFG ESG Strategy: G (Governance)

Principles of Governance Structure

In order to advance the interests of its shareholders, financial service consumers, and other stakeholders and promote its long-term development, Shinhan Financial Group has established a corporate governance structure that reflects both its growth history and its organizational culture while also ensuring its transparency, soundness, and stability. As a result, we were awarded our fourth straight "A+" rating in the Environmental, Social and Governance assessment conducted by the Korea Corporate Governance Service. We are especially proud that we were the very first company to obtain an "S" rating in the "Governance" category. This happened in 2017, and was followed by being awarded the Service's highest-possible "A+" rating in the more demanding assessment of financial institutions that began in 2018.



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



Transparent Governance Structure

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

Sound Governance Structure

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

Stable Governance Structure

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

To prevent the independent directors from becoming clubby boards, the Independent Director Recommendation Committee, which is in charge of operating the Board of Directors and evaluating Independent Directors, includes one executive director. As a rule, no independent directors are appointed as members of the Committee if they belong to SFG of candidates to be reappointed. Furthermore, we have introduced a virtuous cyclic structure for the succession of management members by restricting the age of the Chairman & CEO to seventy years or less.

Diversity and Expertise of the Board of Directors

Shinhan Financial Group strives to ensure that its corporate governance maintains diversity and expertise by specifying in its internal regulations on corporate governance the principle of diversity in the composition of the Board of Directors, in order to make sure that the board members do not share a certain common background or unfairly represent certain interests. Our Board of Directors is composed of members with diverse expertise to ensure the Board members do not share a certain common background or unfairly represent certain occupational or professional groups.

We also fill our Board of Directors with members who evenly represent the six sectors of finance, business administration, economics, legal affairs, accounting, and information technology which the Act on Corporate Governance of Financial Companies presents as general expertise requirements.

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

Governance Structure That Reflects the Group's Growth Paths

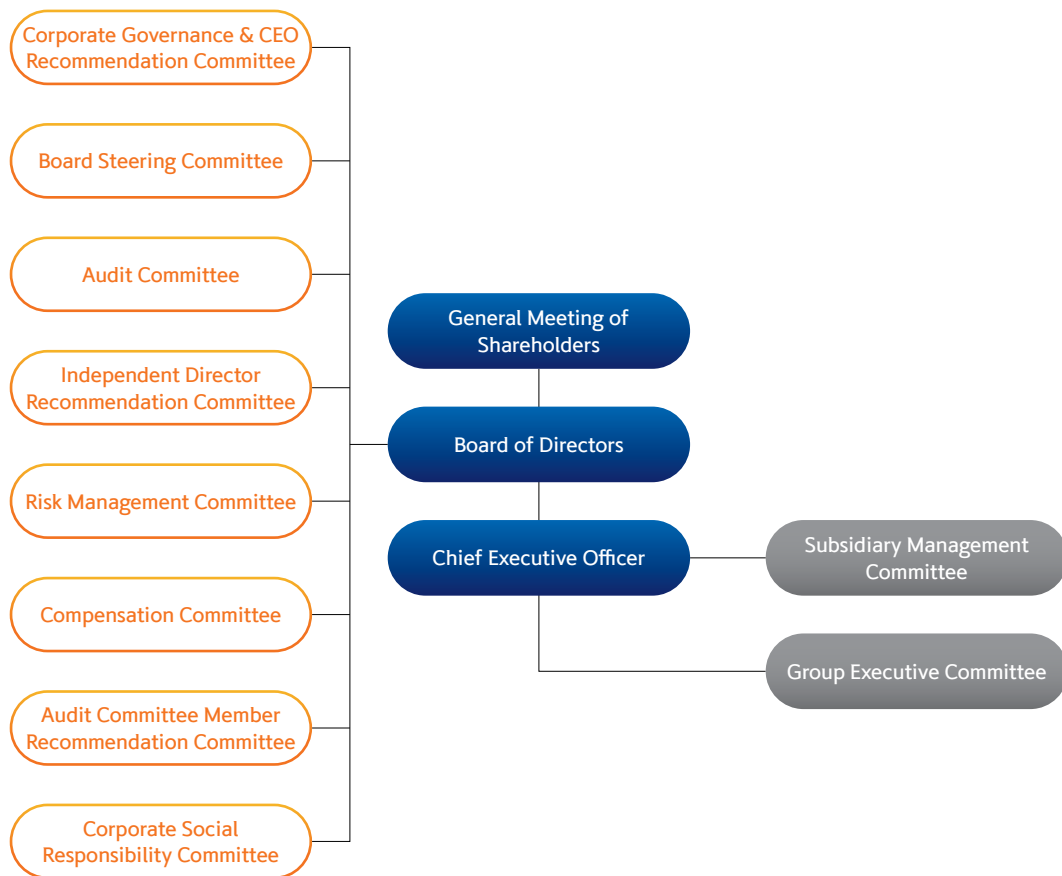
Shinhan Financial Group originates from Shinhan Bank, which was incorporated as South Korea's first commercial bank in July 1982 with only 341 minority private investors, all of whom were South Korean-Japanese shareholders (100% equity investment, paid-in capital of KRW 25.9 billion). Those initial shareholders have continued to offer their wholehearted support to Shinhan Financial Group to the present day. In particular, they have contributed to the group's growth by providing a diverse range of support, including participation in the 'Campaign for Holding Shinhan Shares' staged when the share price declined sharply during the Asian financial crisis. SFG has pursued and maintained stable development through management by financial service experts armed with an in-depth understanding of Shinhan's corporate culture from its inception to the present, based on the deep trust of its initial shareholders, the South Korean-Japanese. In addition, Shinhan Financial Group, inaugurated as South Korea's first private-sector financial holding company in 2001, has secured the foundation for a new leap forward by forging a strategic alliance with BNP Paribas Group. To reflect such growth paths and corporate culture in its corporate governance, the Group's Board of Directors is partially composed of independent directors who are professional business managers, the South Korean-Japanese who represent the founding spirit of the initial shareholders, and financial service experts recommended by BNP Paribas.

Governance Structure Features

Shinhan Financial Group's Board of Directors is vested with the authority to appoint or dismiss its chief executive officer. Composed of thirteen members, the Board's operations are centered around its eleven independent directors, one of whom also presides over the board meetings in accordance with a provision enacted in March 2010.

The Board manages eight sub-committees, including the Independent Director Recommendation Committee, Corporate Governance & CEO Recommendation Committee, Audit Committee, Remuneration Committee, Risk Management Committee, Audit Committee Member Recommendation Committee, Board Steering Committee, and CSR Committee, the first six of which are mandatory organs as provided for under the Act on Corporate Governance of Financial Companies and other statutes, whereas the Board Steering Committee and CSR Committee are voluntarily organized by the Board in order to enhance its expertise, independence, and efficiency. To recommend candidates for executive positions, SFG operates the Independent Director Recommendation Committee, Corporate Governance & CEO Recommendation Committee, Audit Committee Member Recommendation Committee, Board Steering Committee, and Subsidiary Management Committee. The Act on Corporate Governance of Financial Companies requires the mandatory formation of the Officer Recommendation Committee, which recommends candidates for executive positions. To improve efficiency, the authority to recommend executives was divided among the various sub-committees of the Board of Directors even before the Act was forced.

SFG's Governance Structure

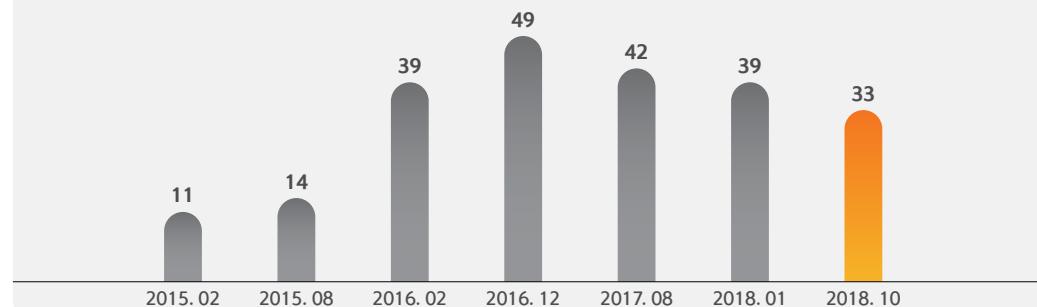


Sub-committees of the Board of Directors

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


































Number of Female Candidates for Independent Director Positions

(No. of persons)



Shinhan Financial Group Directors' Skills and Qualifications

 Major expertise,  Expertise

Name	Finance	Economy	Business Administration	Accounting	Legal Affairs	Consumer Protection	Information Technology	Global Business	Risk Management
Cho Yong-byoung									
Jin Ok-dong									
Park Cheul									
Lee Manwoo									
Yuki Hirakawa									
Philippe Avril									
Park Ansoon									
Kim Hwa-nam									
Choi Kyong-rok									
Lee Yoon-jae*									
Byeon Yang-ho*									
Huh Yong-hak*									
Sung Jaeho*									

* Newly appointed

Members of the Board of Directors after the 18th AGM

Name	Director Classification	Date of Birth	Nationality	Professional	End of Tenure
Cho Yong-byoung	Executive Director	Jun. 30, 1957	Korea	Finance	FY2019 AGM
Jin Ok-dong	Non-Executive Director	Feb. 21, 1961	Korea	Finance	FY2020 AGM
Park Cheul	Independent Director	Apr. 27, 1946	Korea	Economics	FY2019 AGM
Lee Manwoo	Independent Director	Nov. 22, 1954	Korea	Accounting	FY2019 AGM
Yuki Hirakawa	Independent Director	Oct. 21, 1960	Japan	Business Administration	FY2019 AGM
Philippe Avril	Independent Director	Apr. 27, 1960	France	Finance	FY2019 AGM
Park Ansoon	Independent Director	Jan. 24, 1945	Korea	Business Administration	FY2019 AGM
Kim Hwa-nam	Independent Director	Dec. 07, 1945	Korea	Business Administration	FY2019 AGM
Choi Kyong-rok	Independent Director	May 25, 1966	Korea	Information Technology	FY2019 AGM
Lee Yoon-jae*	Independent Director	Nov. 3, 1950	Korea	Finance	FY2020 AGM
Byeon Yang-ho*	Independent Director	Jul. 30, 1954	Korea	Finance	FY2020 AGM
Huh Yong-hak*	Independent Director	Sep. 10, 1958	Korea	Finance	FY2020 AGM
Sung Jaeho*	Independent Director	Mar. 18, 1960	Korea	Legal Affairs	FY2020 AGM

* Newly appointed

Ethical Management

The Shinhan Financial Group is a global financial group that is highly trusted by both the general public and its stakeholders. It encourages an even greater level of customer trust by promoting the use of transparent and ethical management operations at all its business levels. To accomplish this goal, the Group has been steadily upgrading its ethical management practices by constantly monitoring its programs, demanding compliance by all its human resources in the areas of operational behavior and regulatory statutes, and ensuring that everyone in the Group participate in ethical management training and educational opportunities.

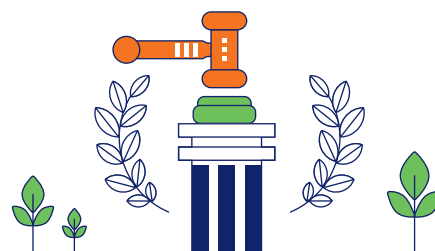
Ethical Standards and Principles

The Group created a “Shinhan Financial Group Code of Ethics” and an “Employee Code of Conduct” to ensure ethical behavior on the part of all its executives and employees and make ethical business actions part of its overall corporate culture. This included developing Group-wide, online training programs in the areas of ethics and compliance, as well as offering internal training programs tailored to each employee’s job level. Shinhan Bank has reserved the second week of each month for anti-bribery and corruption training. During that time, the Compliance Representatives in each of its departments will provide all its employees with education and training in the areas of financial regulations and rules and the prevention of money laundering and other acts of corruption. This high degree of education and training is also required at all the Shinhan Bank’s overseas units now that the Group’s companies have advanced so far into the global marketplace. Shinhan Card has implemented its own ethical management guidelines. They include the mandatory signing by all executives and employees of a sworn statement outlining the need for ethical behavior and their compliance with all relevant rules and regulations; internal inspections carried out by all departments; and a web magazine dealing with internal controls.

The company also conducts ethical compliance training for all its executives and employees on a continuing basis. This includes upgrading the skills of its compliance officers, offering courses on compliance, and training in misselling and money laundering. Shinhan Investment has also enhanced the level of ethical behavior among its executives and employees. This includes offering training and education regarding changes to statutes relating to financial services institutions, monitoring levels of employee compliance, and taking measures to prevent fraud. Shinhan Life Insurance posts a monthly “law letter” on ethical management issues on its internal portal, and also offers division-wide training and educational opportunities and self-assessment services to all its employees. Finally, Shinhan BNP Paribas Asset Management has strengthened its regulations regarding its employees’ sales activities by adding to the level of detail involved in the trading of its financial products. It has also increased its vigilance concerning improper transactions and the taking of illicit financial benefits by its executives and employees.

Internal Controls

Each subsidiary member of the Shinhan Financial Group is required to appoint Compliance Officers who are tasked with carrying out a prescribed list of internal control activities. They are supervised by the Group’s own Compliance Officer, who performs the same functions at the Group level. The Group-level Compliance Officer also receives reports outlining the compliance monitoring and internal trading activities of the Group’s subsidiaries, and carries out inspections of their various internal control processes and activities.



In addition, in accordance with the central government's *Act on Corporate Governance of Financial Companies*, the Group's subsidiaries that are financial entities now reflect the key requirements of the Act concerning their internal controls. This includes information about their whistleblower and ordered leave systems, provisions for the separation of duties for high-risk clerical employees, processes for developing and selling new products, and policies regarding internal inspections. Each of the Group's financial subsidiaries has also established an Internal Control Committee headed by its CEO. Each committee is required to conduct an annual inspection of its company's internal control system and how it was implemented during the preceding year. Their reports are then sent to their respective Boards of Directors.

Whistleblower System

The Group's whistleblower system acts to increase the efficiency of its transparency and compliance monitoring systems. It includes a wide variety of reporting tools, such as both online and mobile websites. It can be accessed by all the employees and executives of all the Group's subsidiaries. Shinhan Bank has established its own whistleblower system, called the "Shinhan Guardian". It can be accessed by its own executives and employees, as well as by workers at all its partner companies and even its customers. It includes a wide range of reporting channels, such as email, fax, regular postal mail, and a website. The website clearly indicates in its "Guidelines for Shinhan Guardian" that the company will ensure the confidentiality of the identities of the whistleblowers.

Shinhan Card also operates its own whistleblower system, targeting its executives, employees, and business partners. They can access it through a wide range of channels, including a website, the Intranet, email, fax, regular postal mail, and personal interviews. Any and all information regarding a whistleblower's identity or job position is kept strictly secret. Shinhan Investment's whistleblower system is open to use by all its executives and employees. They can access it through the company's Intranet, at offline meetings, or by phone or email. All of its executives and employees are reminded of its existence on a quarterly basis, as well as through intuitive intranet banners. Shinhan Life Insurance has an online bulletin board on its website called "Sinmungo". Information regarding it is made available to all the company's employees when they undergo training in its internal control processes and policies.

Preventing Market Abuses

In efforts to prevent market abuses, the Group provides education and training programs and monitors its subsidiaries to ensure they do not violate any regulations within the Financial Investment Services and Capital Markets Act. The Group carries out a wide-ranging, on-the-job trainings and educational programs regarding market abuses for all executives and employees of its subsidiary companies.

Shinhan Bank uses the FSS's "Declaration of Financial Investment Accounts and Declaration of Trading Particulars" to limit any unauthorized use of confidential information and unfair trading practices.

It also provides additional training for the employees of departments most likely to be in possession of confidential information. Shinhan Card issues reports on sales of financial investment products to prevent unfair trade practices, such as those outlined in the FSS's "Prohibition on the Use of Non-Public Material Information". It carried out searches for other types of unfair transactions through periodic monitoring activities, and offers a wide variety of training and educational opportunities to its executives and employees. Shinhan Investment attempts to prevent market abuse by providing training and educational programs in the "Regulations Concerning Market Abuse" that it enacted. It also conducts in-depth monitoring exercises aimed at preventing such market manipulative transactions as false and wash sales. Shinhan Life Insurance carries out periodic examinations of all its financial investment product account openings. It also examines the reports on all dealings by employees involved in asset management activities, along with details of their meetings, communications, and information exchanges amongst its operational departments. Its ultimate goal is to prevent conflicts from arising between its special accounts department, which is responsible for managing its customers' assets, and other departments that manage the company's own assets.



Review of Operations

One Shinhan

The Group is committed to providing a wide range of differentiated customer experiences through its upgraded "One Shinhan" platform, which brings together the products and services of its subsidiaries to fully accommodate customers' needs with optimized financial solutions.

Synergy Strategies

The primary goal of the Group's synergy strategies is to provide customers with a wide variety of differentiated experiences by creatively converging the capabilities of its subsidiary companies. A second, closely-related goal is to remove as many barriers between its business lines as possible.

To realize these ends, the Group has created an efficient and balanced business portfolio covering its credit card, securities, insurance, and asset management lines, with its banking services remaining firmly at the center of its operations.

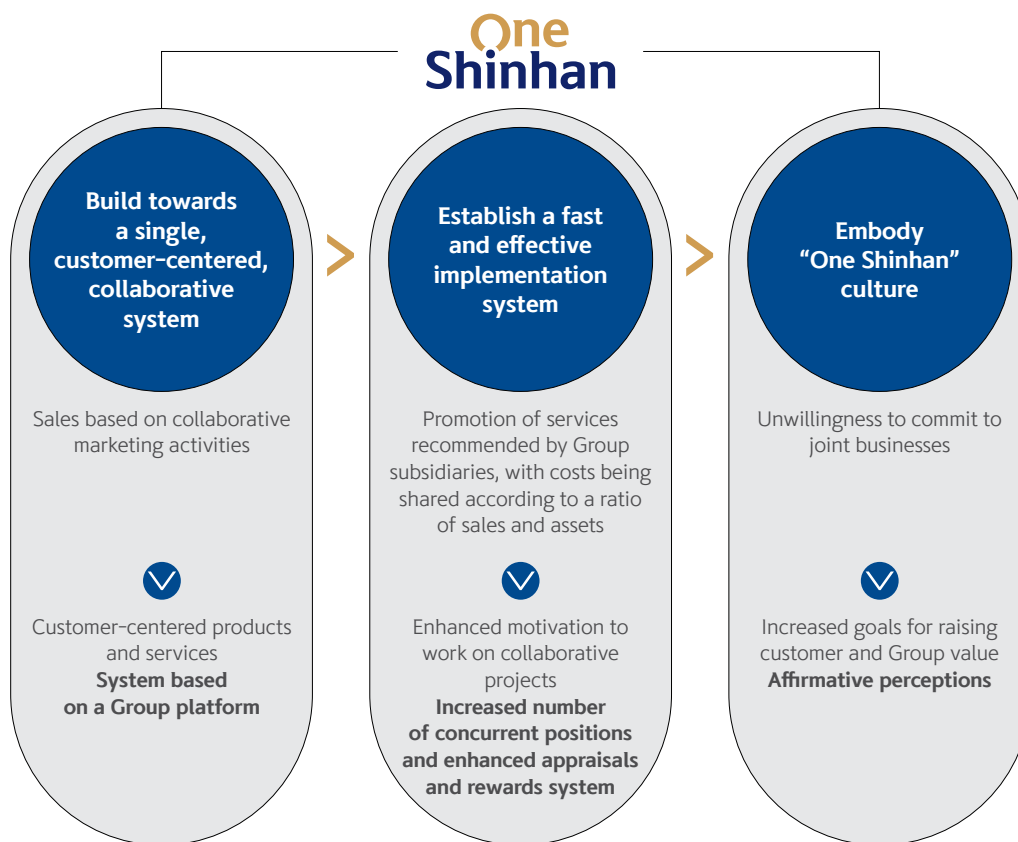
This has allowed the Group to out-compete its rivals by developing a large number of fully-integrated financial solutions that can satisfy the entire range of its customers' needs. These synergy strategies can be divided into a quantitative growth phase, a qualitative growth phase, and an advanced collaboration system phase. The quantitative growth phase, which took place until 2012, focused on the development of hybrid products through cross-division sales and the joint Group marketing of funds, bancassurance, and payment accounts.

SFG's "One Shinhan" Strategy



Synergies

"One Shinhan"



The qualitative growth phase occurred from 2012 to 2015. It focused on finding synergies in a wider range of service areas by reforming the Group's WM and CIB matrix organizations. The advanced collaboration system phase has been ongoing since 2016. It includes the promotion of the Shinhan FAN Club and other joint group platforms, as well as the upgrading of collaboration systems among the Group's subsidiaries.

Goal of the "One Shinhan" Strategy

The goal of the Group's "One Shinhan" strategy is to create a rapid and effective implementation structure at the Group level while also pursuing differentiated growth through collaborations among its subsidiaries.

It is designed to provide customers with an optimized menu of products and services that is available at the Group level, rather than from a single line of business.

Products and services are provided by all of the Group's subsidiaries through their respective channels, but by sharing the entire Group's resources. The end result is that the customer comes to see the Group as constituting a single, unified entity.

2018 Key Performances

The Group focused its efforts in 2018 on launching and advancing the performance of its major integrated, app-based platforms, such as "Shinhan Plus" and the "Smart Loan Center", while also developing new collaborative businesses and strengthening communications within the Group and the One Shinhan Council. It also promoted sales of its products, including the Shinhan Alpha REIT, under the Group's ONE brand.

Group-level Platforms and Channels

The Group merged the "Shinhan FAN Club", its integrated rewards platform, with "Shin-Na-Neun Han FAN" (which translates into "One Exciting Platform"), a group-integrated mobile platform, to form "Shinhan Plus". It also launched Jeju Jini, a non-financial platform with specialized content related to Jeju-do, one of South Korea's most preferred travel destinations. "Shinhan Plus" significantly expanded the size of the Group's customer base through its online and mobile channels, attracting 9.5 million customers, while "Jeju Jini" attracted 100 million downloads within only five months of its launch. The successful development of this non-financial platform has been recognized and awarded a grand prize in the Travel and Tourism category at the 2018 App Awards.

The Group also developed a Smart Loan Center, the first-ever Group-level credit loan platform app in South Korea. It provides packages of loan products that have been individualized for each customer by combining the credit loan products of the Group's companies, based on the Group's integrated credit rating model. This allows the Group to offer lower-interest-rate loan opportunities to customers through the combined power of Group-wide credit loan portfolios. The Center has proven to be a winning player in South Korea's mid-interest-rate loan market, attracting more than twenty thousand new loans worth KRW 10 billion only three months after its launch.

Strengthened Operating Systems

The One Shinhan Committee was established as a means of maximizing collaboration at the Group level in response to rapidly changing market conditions and the needs of its subsidiaries. In addition to providing an overall support at the Group level, it combines and coordinates the opinions of the Group's subsidiaries and melds them into mutually-beneficial agreements. This has helped to strengthen market responsiveness at the Group level in such areas as cards, payment accounts, and the Group's Seoul Municipal Depository operations.

The Group adopted a number of other measures to encourage growth within its burgeoning number of new businesses. For example, it assisted with the creation of joint operating profit indices that allow them to be evaluated both properly and fairly. In addition, the activities of the One Shinhan panel became more diversified by including sales field employees as panels to represent Group subsidiaries. This helped the Group promote communications and exchanges among all the employees of its subsidiaries.

Enhanced Competitiveness of “ONE” brand Products and Services

The Group used the collaborative power of One Shinhan to boost sales of Shinhan Alpha REIT, an IPO REITs product, by the Group’s new subsidiary called Shinhan REITs Management. Shinhan Alpha REIT, the first product to be introduced to the market by Shinhan REITs Management, posted record-high subscription deposits worth KRW 492.8 billion and a very healthy subscription rate of 4.32 to 1 in the country’s REIT IPO market. These achievements have played a major role in changing consumer awareness about listed REITs, and Shinhan REITs Management now has the potential to be a major industry player. Other steps taken by the Group to enhance the competitiveness of its products and services included introducing a card payment process for Shinhan MYCAR loan products and upgrading its bancassurance products to cover dental injuries and other threats to their health and well-being.

39.7%

2018 Cross-Selling Ratio (Meaning the ratio of customers using products and services from two or more of the Group’s major subsidiaries, including Shinhan Bank, Shinhan Card, Shinhan Investment, and Shinhan Life Insurance.)



2019 Business Plans

In 2019, the Group will expand its matrix business organization to create a more powerful One Shinhan platform. It will also continue exploring a number of Group-led business possibilities, including new business lines, the launch of more market-leading One Shinhan branded products, and strengthening the “One Shinhan” operating system.

Strengthening the “One Shinhan” Operating System

The range of the Group’s joint projects will be expanded, in tandem with the degree of collaboration among its subsidiaries and business units. Improvements will also be made to its product supply system and the way its assets are managed. This will be done by implementing the Next WM program and strengthening collaboration within the Creative Finance Plaza. The overall goal of these moves will be to maintain the Group’s leadership in the asset management market, providing better and more competitive products faster and more efficiently than its competitors can.

The Group’s market position will also be enhanced through healthy growth within its integrated mobile platforms. This will include transforming “Shinhan Plus” into the Group’s fully-integrated marketing platform, upgrading its menu of products and services, and bringing the number of its customers up to the ten million mark.

The Group will add to its strengths in the medium-interest-rate loan sector by making improvements to the Smart Loan Center and adding to its number of customers. Shinhan’s leadership in the South Korean pension market will be maintained, primarily by building a Group-integrated pension platform to provide customers with the nation’s very first Group-wide retirement pension products and services. The customer service experience will also be enhanced.

Increasing Degree of Collaboration from the “One Shinhan” Perspective

The “One Shinhan” collaboration system will be strengthened greatly when Orange Life, Asia Trust, and other new business lines are fully incorporated into the Group. This process will be accomplished as smoothly as possible, to ensure that each Group subsidiary and business unit is able to exploit synergy to the fullest extent.

The Group is also poised to launch a number of “One Shinhan” branded products that have the potential to be market leaders, with a special focus on competitive, preemptive retirement pension products that meet the needs of both customers and the market. This strategy of selling products from a single platform-based, customer-oriented perspective will ensure that the Group will continue to lead the market for productive and inclusive finance by allowing more customers to enjoy ever-more-convenient financial services.

Upgrading the “One Shinhan” Operating System

The Group will focus on core projects that are already in place by strengthening its system for evaluating new joint undertakings. This will include the establishment of a collaboration process to support the Group-wide municipal depository business, increasing the proportion of joint business-related evaluation indices within One Shinhan KPI, and simplifying its core businesses indicators. Improvements will also be made to the “One Shinhan” awards and prizes program.

In addition, the “One Shinhan” panel system will be upgraded to increase employee participation and encourage the development of a “One Shinhan” culture within the Group.



Orange Life

Shinhan Financial Group’s acquisition of Orange Life added value to its “One Shinhan” brand. Orange Life boasts a sales organization based on highly qualified financial consultants; ALM-centered asset management principles; and the highest RBC ratio in the industry. In addition, its optimized risk management capabilities and capacity for dealing with regulatory change will provide solid value to its customers and the Group. The company is also expected to create a high level of synergies with Shinhan Life Insurance, leading to increased customer value by complementing each other’s strengths and capabilities.

Creating Synergies

The Group will maximize the performance of its “One Shinhan” brand in 2019 through its acquisition of Orange Life. It will lead to the strengthening of the collaboration system that is already in place within the Group’s existing life insurance businesses, dramatically enhancing its competitiveness within the industry. The Group will retain its commitment to identifying new business opportunities in its life insurance line by taking advantage of the close collaboration between it and its insurance industry subsidiaries. It will also establish a financial consumer protection policy framework with an environmental, social, and governance evaluation perspective.

» Maintaining Competitiveness in the Insurance Business

The Group will continue leading the nation’s insurance industry by merging the wide range of sales channels employed by Shinhan Life Insurance and Orange Life. In addition, it will increase the level of coverage if offers customers through the mutual sharing of the two companies’ branch (customer center) networks, allowing it to provide an optimized portfolio of products specifically tailored to each customer’s life cycle.

» Creating New Synergies

The Group will increase its customer base and the value of the products and services they purchase by continuing with the “Shinhan Plus” Group-wide joint marketing platform and the “Tops Club” customer appreciation program. It will also add to the utilization and competitiveness of a variety of new sales channels, including online and mobile, by capitalizing on its highly-regarded digital transformation capabilities. New business and joint collaboration opportunities will also be explored, primarily through its market-leading Global Markets and Securities (GMS)/Group & Global Investment Banking (GIB) matrix organizations.

» Building a Consumer Protection System

The Group is committed to strengthening its customer-centered consumer protection plan. This will be done by combining its commitment to consumer protection with Shinhan Bank’s high-quality programs. Based on the twin values of “consumer-centered responses” and “consumer protection from an environmental, social, and governance evaluation (ESG) perspective”, the Group will take the lead in the establishment of industry-wide standards for the protection of financial consumers throughout South Korea.

※ALM: Asset and Liability Management. Orange Life has established a set of asset management strategies with a specific focus on long-term bonds.



Asia Trust

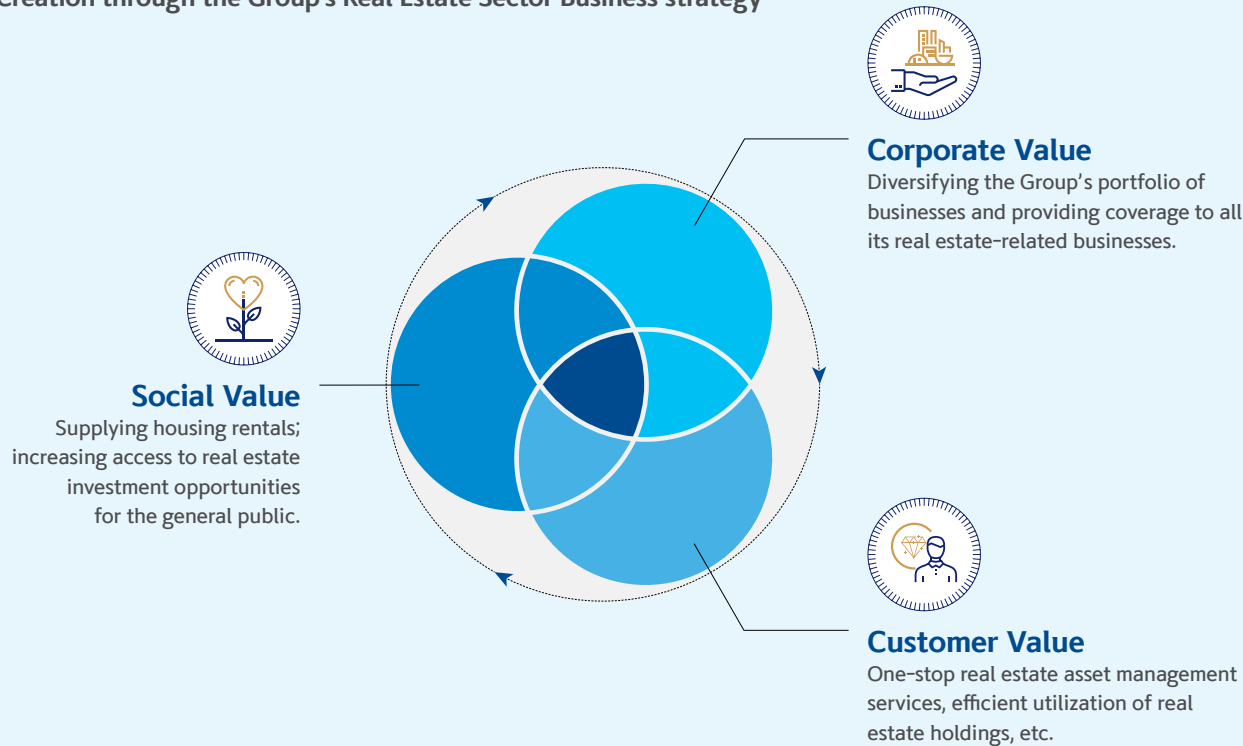
Shinhan Financial Group has made a number of moves to strengthen its non-bank business portfolio and add to its non-interest income, while also exploring a number of inorganic growth opportunities. This will maximize its value under the balanced growth strategy that has been identified as its mid-to long-term strategic direction. Part of this strategy includes the need to reinforce the Group's real estate business line. Asia Trust is expected to play a seminal role in this. Asia Trust enjoys a relatively lower-risk asset portfolio compared to its competitors, including the development of a corporate culture that focuses on intensive, risk-adjusted sales.

It concentrates its efforts on its industry-leading project management service trusts, management-type land trusts and collateral trusts, making it one of the Group's most attractive candidates in terms of its adaptability to the Group's "Real Estate sector business strategy". Based on this high degree of adaptability, the Group is planning to create new value for the society, customers, and the Group by combining its financial expertise, asset management capabilities, and healthy customer base with the high potential for synergies available through its subsidiaries.

Creating Synergies

Both the Group's value and that of its customers will be enhanced by taking the greatest possible advantage of the experience and abilities of Asia Trust's human resources and the networks they have created, as well as by undertaking a strategy of close collaboration between it and all the Group's companies and units. As part of such collaborative efforts, the Group will be able to place some of its collateralized assets under collateral trusts, which is more cost-effective than taking out mortgages. The reduced costs will result in an increased customer value. The Group will be dedicated to increasing its customer base. This will be done by connecting collective loans for profitable businesses among trust service providers with Shinhan Bank, while also attracting their business accounts. It will also increase financial accessibility by offering customers real estate asset investment opportunities, especially in collaboration with Shinhan RIETs Management. Last, but not least, the Group will explore further business opportunities by adding to its referral activities in collaboration with its GIB unit. It will also provide a wide range of real estate solutions for customers in collaboration with its WM unit, including advice on investing in real estate developments. In addition, it will utilize Asia Trust's management expertise to help it administer its own real estate assets, which are currently being managed by each of its many subsidiaries in collaboration with its GMS unit.

Value Creation through the Group's Real Estate Sector Business strategy



Digital Banking

Shinhan Financial Group's transformation into a digital banking powerhouse will be carried out through its "Two Tracks and Ten Enablers" strategy.

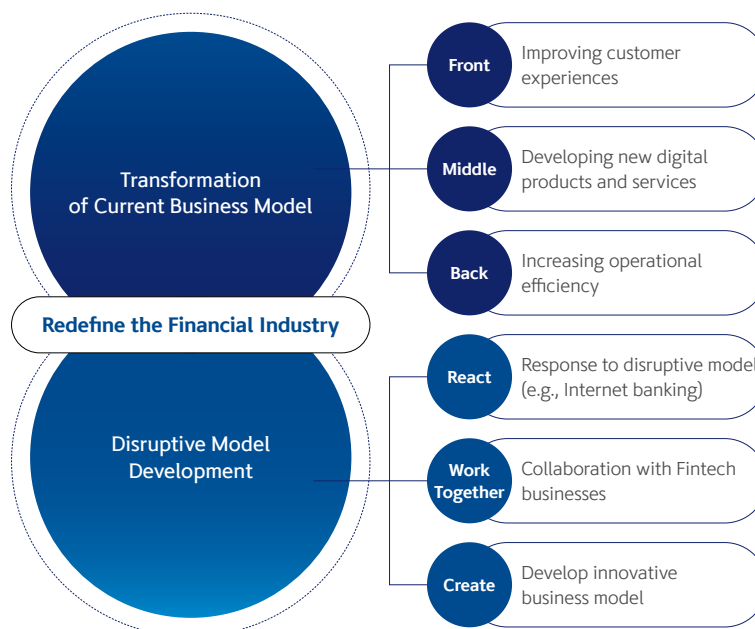
Digital Transformation Strategy

Shinhan Financial Group accelerated its transformation into a digital banking powerhouse in 2018 after spending the previous year building the infrastructure needed for the process to actually take place.

The ultimate goal behind the transformation is the Group's vision of becoming Asia's leading financial industry player. Shinhan's strategic framework for Digital Transformation is contained within its "Two Tracks and Ten Enablers" strategy. The first track is to digitalize and transform the company's business model for a differentiated level of customer experience and increased operational efficiency.

The second track involves adopting new business models, such as Internet banking, while also promoting collaborations with innovative and newly-emerging FinTech businesses. The Ten Enablers include the required technologies, the governance, and operational, cultural, and organizational capabilities needed to carry the transformation out.

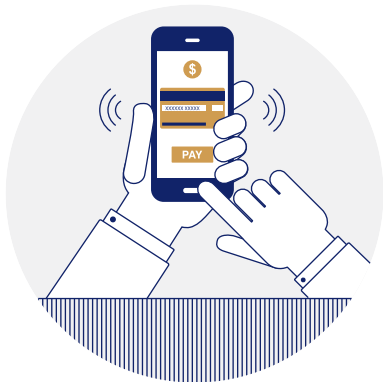
Two Tracks: Business Innovations



※ DX (Digital Experience): Including digital marketing, UX/UI, designs, VR/AR

Ten Enablers: Organizational Preparations

Digital Technologies	AI, Blockchains, Open Innovation, Cloud, Digital Experience (DX)
Human Resources	Establish training programs for digital specialists
Recruitment and Industry-academy cooperation	Industry-academy cooperation, Recruiting professionals with digital expertise
Employment culture	Agility, Testing and Learning, Openness to successes and failures
Organization and Governance	Chief Digital Officer (CDO), Matrix system, Shinhan Digital Campus
Platforms	Building financial platforms, Connecting with outside digital platforms
Partnerships and Joint Ventures	Partner with ICT and retail leaders, Build digital ecosystem
Intellectual Property Rights	"Digital Shinhan" IP rights
Strategic Roadmap, Change Management	Clarifying the Group's digital strategy and goals, Prioritizing plans, Changing communication methods
Regulatory Reforms	Improve company regulations, Lobby financial authorities



2018 Key Performances

Made improvements to CDO and CoE systems

Shinhan Financial Group named a Chief Digital Officer (CDO) in 2017. The position came with a mandate to oversee the Group's subsidiaries to accelerate the speed of their decision-making and enhance its digital capabilities.

In addition, the Group significantly boosted its digital technology capabilities at its Center of Excellence (CoE) by increasing the number of experts employed there to about 150. The Center is composed of experts in technologies from Group subsidiaries that are considered to be integral to the development of its future digital financial services.

They include AI, Blockchain, Open Innovation, Cloud, and Digital Experience (DX) Labs. It develops Group-level digital business models while sharing its technological expertise with the Group's subsidiaries. It also conducts industry-academy research projects and promotes exchanges with experts in related fields.

Shinhan Future's Lab

Launched in 2015, the Shinhan Future's Lab has achieved remarkable success in the financial services industry through its work with FinTech startups. There are a total of sixty-one businesses, including twenty-one brought on in January 2018, that are now working with it. Their efforts with FinTech companies have led to the development of forty-three collaborative business models.

The Group has invested approximately KRW 8.3 billion to support the growth of Fintech businesses. In order to accommodate startups with a full range of support, the Group has expanded its partnership base to a larger number of institutions and incubator agencies and programs.

This assistance was recently expanded to include online to offline (O2O) and other life platforms, in addition to FinTech companies.

The Group has also helped South Korean startups seeking to enter the Vietnamese market, and worked with eleven Vietnamese startups to open the Shinhan Futures Lab Vietnam in Ho Chi Min City. This year, it plans to assist a number of domestic startups in their entry into Indonesia, Japan, and other Asian markets.

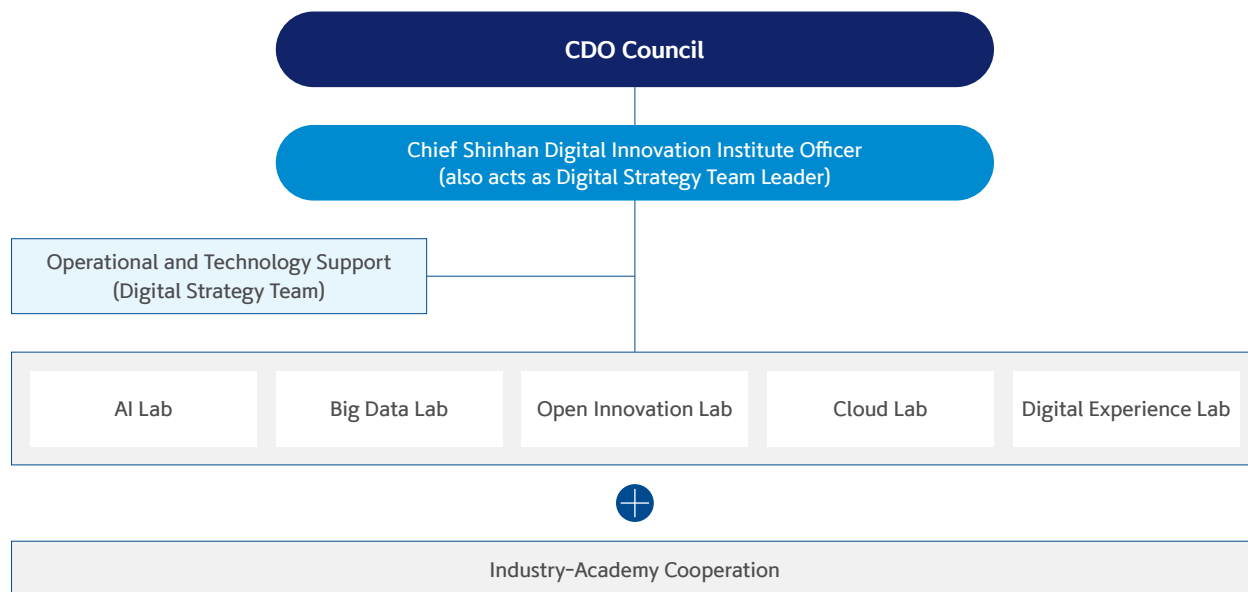
Formed Alliances

One of the Group's most important tasks in 2018 was to increase its focus on global digital partnerships and entering new markets. For example, it became the first industry player in South Korea to build an exclusive Amazon portal for customers, after establishing an alliance with Amazon Web Services the previous year. It also increased its advances into the digital global market through collaborations with ICT companies outside of South Korea. This included a digital banking service in Vietnam in partnership with Samsung Pay, MoMo, Zalo and other companies there.

It is also exploring new collaborative models with "Balance Hero", a FinTech company of India.

Here at home, the Group is exploring new business possibilities by pioneering IoT-based payment channels in collaboration with Samsung Electronics and LG Electronics.

It is also strengthening its relationship with Japan's Mizuho Financial Group in terms of exploring joint investments and developing new business models.



Created Innovative Digital Platforms

The Group offered customers a number of innovative services and products in 2018. The number of users of its digital service platforms is now approximately 3.2 million, while ShinhanPayFAN, a mobile payment service operated by Shinhan Card, has about 10.5 million. This is the largest number of customers among all of South Korea's credit card companies, making it the leader in the country's mobile payments market. It also added to its customers' convenience by installing paperless digital counters at all its branches, both at home and abroad, and is working to enhance its online UX/UI to provide users with superior experiences to its offline services.

Developed New Digital Products and Services

Shinhan Financial Group increases customer value by developing products and services incorporating new digital technologies. For example, Shinhan Bank recently promoted an AI project at the Group level, while also developing an algorithm that measures the power of global markets and their products and allocates assets based on the results. It is planning to go beyond even this to create an AI investment consulting company in 2019. In addition, it upgraded its suite of retirement pension products by introducing a robo advisor service called M-Folio. It then integrated the robo advisory service into the newly launched Shinhan SOL Rich and upgraded the service even further.

Won Large Number of Industry Awards

Shinhan Financial Group's efforts towards digital transformation won it a number of prestigious awards in recognition of the excellence of its products and services. They included ranking first at the 2018 Korea Innovation Awards and the National Customer Service Index survey, as well as winning the grand prize in the Smart Banking category at the National Consumer-Driven Brand Awards. In addition, Jeju Jini, a non-financial life platform developed by Jeju Bank, won the grand prize in the Travel category at the 2018 Smart App Award. The Group also ranked first in the Smart & Intelligent Finance category in the "Asia's Most Innovative Companies" contest organized by the Korea Trade-Investment Promotion Agency.

Digital Platforms

Shinhan Bank SOL		<ul style="list-style-type: none"> • A banking app that maximizes customer convenience by using new digital technologies. Launched in February 2018. • 8.1 million users. The bank's total number of digital platform users = 10.23 million. • Ranks second in competitiveness among South Korea's financial industry's apps, and first among commercial banks.
Shinhan Card ShinhanPay FAN		<ul style="list-style-type: none"> • Leads the country's mobile payments market, attracting many partner companies and offering users a wealth of services. Aims to become a finance-centered platform. • 10.46 million users. Was first domestic player app to reach ten million user mark. • Ranks first in competitiveness among all payment apps.
SFG Shinhan Plus		<ul style="list-style-type: none"> • Group marketing platform designed to attract customers from different subsidiaries and offer products from all Group companies. • 9.62 million users
SFG Jeju Jini		<ul style="list-style-type: none"> • A non-financial, life digital platform focusing on Jeju Island, a famous travel destination in South Korea, to offer travel and financial information. • 1.02 million users

2019 Business Plans

Speeding Up Digital Transformation

Shinhan Financial Group's plans for 2019 include carrying forward its Two Tracks and Ten Enablers strategies and producing fully successful outcomes through digital transformation. It will also enrich its customers' experiences from the omni-channel perspective, and strengthen its digital marketing capabilities. In addition to adapting such new digital technologies as AI and algorithms to more of its products and services, it will apply Robotics Process Automation (RPA) to all its subsidiaries. It will also either introduce chat bots to its subsidiaries or upgrade the ones they already have.

The Group will also devise appropriate responses to various regulatory innovations and disruptive digital innovation business models scheduled to appear in 2019, including Mydata and Cloud. In addition, it will continue with its development of convergence and integration services by forming alliances with both South Korean and internationally-based ICT companies. It will also increase its collaborations with FinTech companies and other markets and players with new and promising technologies.

In addition, the Group will enhance the competitiveness of its ICT infrastructures by increasing its use of digital technologies. This will include investing more than KRW 100.0 billion into the development of new digital technologies, as well as enhancing the efficiency and development speeds of ICT through public clouds. It will help accelerate digital transformation by establishing Group-level blockchain, Open Innovation, and big data platforms. It also plans to bring its compliance system to the global level. This will be done by strengthening its capacity to respond to new threats in collaboration with experts in the field of information security.

In terms of its global businesses, the Group will enhance the operations of its digitally-based retail financial services and carry on with the establishment of new business models based on digital alliances. It will also strengthen the digital capabilities of its international enterprises by making improvements to their ICT infrastructures and establishing overseas ICT centers.

New Digital Technology Businesses

In 2018, Shinhan Financial Group carried out over 260 Proof of Concept (PoC) tests in connection with the development of digital technologies. It will conduct more tests in 2019 as part of its plan to commercialize a host of AI-based services. In the field of big data, it will establish a Group/company data-sharing system, and continue identifying promising new business undertakings by developing an in-house data platform. It will also increase its use of public clouds to enhance the operational efficiency of its ICT infrastructures and respond to the growing demands of a globalized marketplace.

Other strategic digital moves being contemplated by the Group include adding to its menu of technical alliances and upgrading its industry-leading Open Application Program Interface (API) Platform. Another of its goals is to assist in the development of innovative models that will utilize the financial services of outside businesses. It is also committed to strengthening the overall customer experience of its digital channels and enhancing its digital marketing capabilities to mirror its customer's exact needs by engaging in data-driven marketing.

Transforming All Employees into Digital Experts

The Group carried out a wide range of training and educational courses aimed at enhancing the digital competencies of its employees in 2018. They included in-house training programs, a Master's-level program at the Korea University Graduate School of Computer and Information Technology, and courses aimed at training data scientists and digital technology professionals. In 2019, it is planning to offer more of these opportunities, along with new courses targeting various levels of competency at each of its subsidiaries. In order to turn all of the 26,000 employees of the Shinhan Financial Group into digital experts, it is also planning to introduce the "S-MOOC", an online, university-level program that can be accessed by employees 24/7.

The SDII and Digital Campus

The Group is also planning to upgrade its Center of Excellence, which is composed of a faculty of high-level digital experts, to Shinhan Digital Innovation Institute, or SDII. The Institute will be staffed by more than two hundred teachers with expertise in a wide range of digital technologies.

To this end, the Group opened Shinhan Digital Campus, a place for members of the SDII to work in a more relaxed and open environment.

The campus offers researchers industry-leading facilities in which they can devote themselves to technology development and carry out major digital projects on behalf of the Group. New ways of work, including Agile & DevOps (Development + Operation), have been applied for this exciting new digital hub for innovation.

Spreading the Shinhan Future’s Lab 2.0 Strategy Around the World

The Shinhan Future’s Lab fosters the growth and development of Fintech companies. It is planning to broaden its scope to explore new markets and new technologies related to the Fourth Industrial Revolution. To reach that goal, it will strengthen cooperation with such potential global partners as startup support organizations, venture capital enterprises, and universities and government agencies. It will also increase its level of investment to support the growth of promising and innovative companies. In addition, the Group will expand its operations to include Japan, Indonesia, and Vietnam in order to grow its financial ecosystem around the world.

Increasing Successful Outcomes from Alliances

In order to ensure the success of its digital transformation program, the Group has entered into a number of partnerships with such industry-leading enterprises as Amazon Web Services, collaborating with them to develop working-level business models.

In 2019, the Group will increase its efforts to achieve meaningful results from these relationships, in addition to commercializing the business models they have developed. It is also planning to attract more partners in a number of countries in which it operates, such as China, India, Vietnam, and Japan.

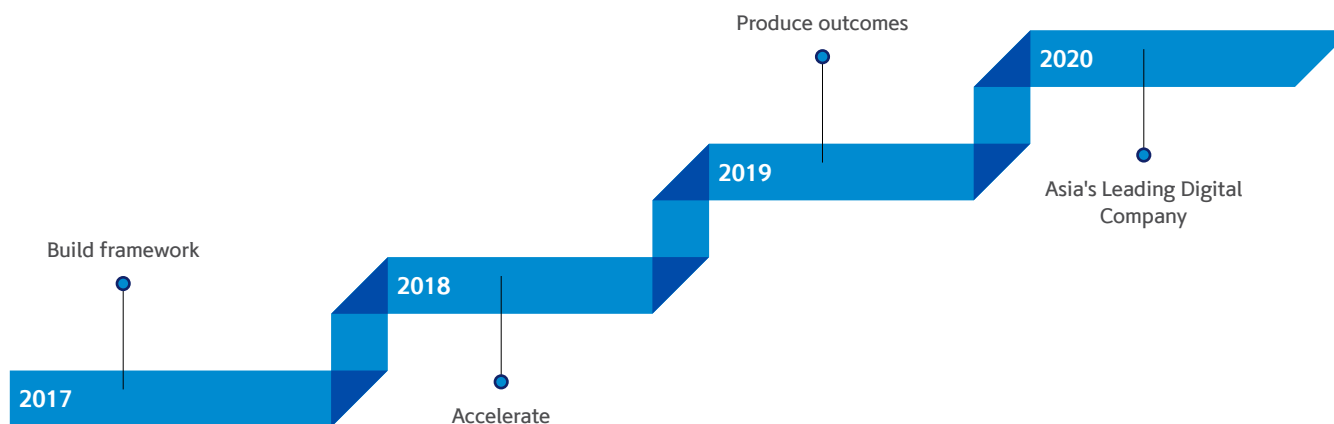
Putting Innovative Ideas into Practice

The Group has always sponsored a wide range of idea contests and Shinhan Venture Programs at its subsidiaries. In 2018, the Group encouraged them to participate in a program of digital innovation called the “Digital Shinhan Idea Challenge”, and the winning ideas are currently being commercialized by digital and technological experts at the winning companies. This year, the Group is extending the concept by hosting an open, API-based hackathon that will allow people who aren’t employed at any of its subsidiaries to participate in it.

Transforming the Way of Work

The Shinhan Financial Group is committed to finding and applying new digital ways of work that transcend conventional ones. Following the application of Agile methodology to a series of pilot projects in 2017, the Group has increased its level of training at many of its subsidiaries, teaching employees how to apply Agile & DevOps, Lean Startup, and Design Thinking methodologies to their jobs. Shinhan Bank, Shinhan Card, and some other Group companies have already introduced digital ways of work at their organizations.

Shinhan Digital Transformation, Journey to 2020



Global Business

Shinhan Financial Group expanded its territories overseas with a special emphasis on Asia to diversify its earning base and to secure a new growth engine for the future.

As of the end of 2018, the number of the Group's global network stood at 189 networks in twenty countries. This growth was a result of a successful implementation of the following three strategies: localization, selection and concentration, and establishing footholds. Over the years, the number of countries the Group has entered and the scale of its endeavors have both increased significantly. For example, the total assets of its global network by the end of 2018 were up by 224.5% since 2011, while its contribution to the Group's revenues had risen from 3.5% in 2011 to 10.3%.

2018 Key Performances

The Group's Global Business Division plays a key role in its 2020 S·M·A·R·T Project. The organization's matrix system was applied to its operations in 2017 to backstop its strategy of securing promising growth engines by establishing strong foundations in the Asian market. This included taking steps for the optimal allocation of the Group's resources, as well as enhancing its sales capabilities under a consistent, Group-wide global business strategy. The Division developed the four following tasks to see that these measures were brought to fruition.

Organic Growth

The Group added to its financial soundness by enhancing its global risk management policies and procedures. It also entered key regions like Japan, China, Vietnam, the US, India, and Indonesia by launching financial products that matched the business conditions in each locale.

For example, in 2017, Shinhan Bank Vietnam became the first South Korean-based financial institution to be awarded a Custodial Service License. This enabled it to launch a range of new products, including a Global Custody Service. It also diversified its business portfolio by adding to the range of operations at its Global Trading Center, establishing a Global IB support desk, and developing new products for its Global Transactions Banking operations.

Inorganic Growth

The Group spent 2018 taking stock of the achievements reached by its already-existing inorganic growth strategies, while also exploring new growth opportunities through M&As. As a result of this organic and inorganic growth, its total global assets as of the end of 2018 increased to USD 30.3 billion, up 15.0% YoY, while its net income from global operations surged to USD 273 million, up 33.0%.

The Group laid the foundations for becoming a truly international financial player by diversifying its business portfolio in Vietnam. This included acquiring the retail division of a Vietnamese financial institution called ANZ Bank in 2017, while Shinhan Card took possession of Prudential Vietnam Finance Company (PVFC) in January 2018.

The Group expects to achieve additional growth by building synergies among its subsidiaries. It launched Shinhan Asset Management Indonesia in 2018 through the acquisition of PT Archipelago Asset Management, and acquired global growth engines in both its banking and non-banking lines through ongoing investments and new business undertakings centering on the Asian financial market.

Entered Global Markets Using Digitalized Financing Services

The Group added to its range of overseas operations by entering into partnerships with digital platform providers in a number of countries. This included launching a variety of services such as consumer loans in alliance with Akulaku in Indonesia, as well as the JD Finance e-Commerce Platform, unsecured personal loans, and a financial information service through the Wechat Messenger Official Account (OA) in China. It also added new digital banking products and services in Vietnam, including electronic customs payments, S-Pay, and Global Sol.



Created Global Business Models

The Group added to its non-banking business portfolio and strengthened its operational capabilities in the global markets it had already entered. It also enhanced efficiency in its funding and management operations by increasing the level of collaboration and optimizing resources among its overseas subsidiaries and networks. This included engaging in regionally-based shared marketing activities using the "One Shinhan" platform through the Country Head system and developing jointly-created financial products by merging Shinhan Bank's power to raise capital with Shinhan Card's expertise in sales.

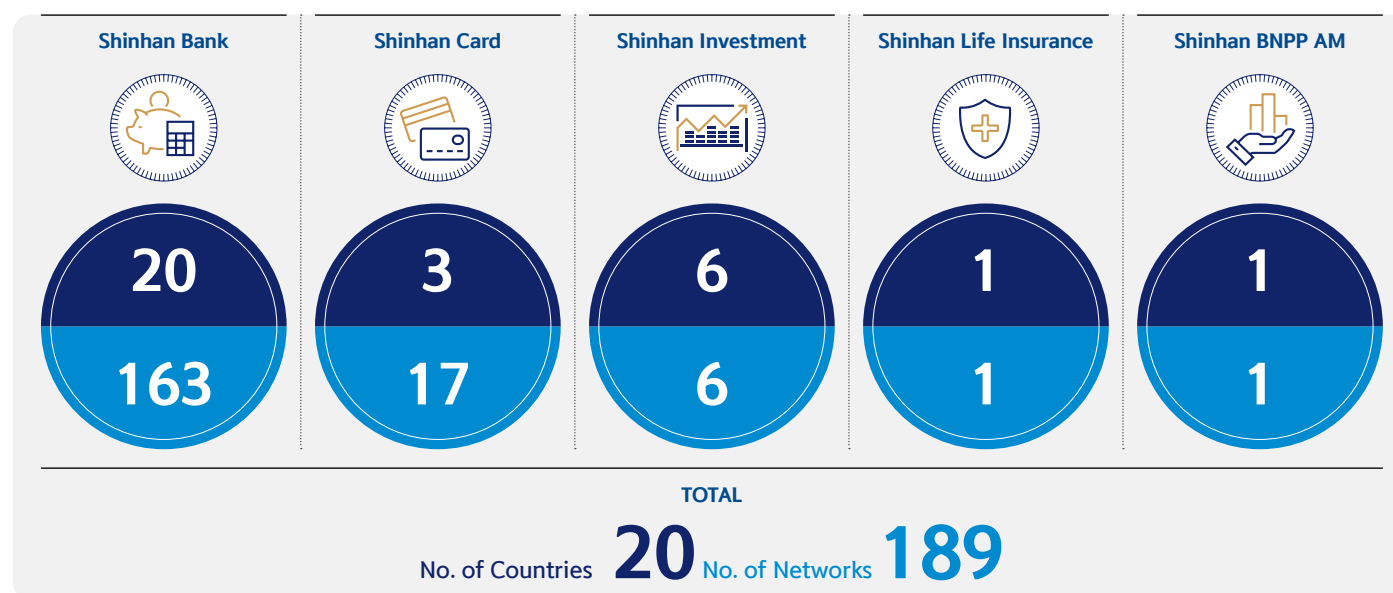
Key Business Performances

(USD million)

	2013	2014	2015	2016	2017	2018
Global Assets	16,011	17,223	18,318	21,519	26,368	30,326
Global Income	102	123	141	158	206	273
Number of Networks	71	75	151	165	178	189
Number of Countries in which Shinhan Operates	15	16	19	20	20	20
Number of Employees from South Korea	188	184	212	226	238	253
Number of Locally-Hired Employees	1,617	1,799	2,963	3,551	4,029	4,942

Global Business

● No. of Countries ● No. of Networks



2019 Business Plans

This year, the Group will carry out a program of smart asset growth utilizing its highly-regarded global risk management processes. It will also focus on consistency in its operations, and add to the tasks that had been carried out in the previous year. In addition, it will strengthen its foundations for stable and sustainable growth based on its matrix operating model and strategies that have been optimized for use in the global marketplace.

Global Risk Management

The Group will achieve healthy growth in the value of its assets by applying a number of strategies that take both risk and profitability into account, including asset monitoring and in-depth management. It will also continue its exploration of new business models and strengthen its income bases under its 4G business models--Global IB, Global Transaction Banking, Global Trading Center, and Global Custody.

In addition, it will add to the efficiency of its management processes by reorganizing its business models to make more efficient use of its resources. Furthermore, it will also seek for possible M&As and equity investment opportunities, and will prudently consider each case under the principles of inorganic growth by taking into consideration factors such as ROI, economies of scale, comparative advantages, and synergy creation.

Optimizing Operational Results

The Group is committed to increasing the range of its products and services in the global marketplaces as part of its "One Shinhan" operating strategy. For example, its Shinhan Investment Asia (Hong Kong) subsidiary will add to its sales of investment and trust products in its role as the Shinhan Global Product Center responsible for supplying financial products for the entire Group. It will also maintain its focus on its IB operations.

The Group also anticipates heightened growth in Vietnam through increased sales of highly-profitable financial products such as revolving card loans following the acquisition of the ANZ retail division by Shinhan Bank and the Prudential Vietnam Finance Company by Shinhan Card.

Moreover, the Group will continue to support its many global businesses as part of its "One Shinhan" performance creation strategy, providing them with a wide range of products and services that meets the needs of their local customers.

Digital transformation

The Group will add to the digital capabilities of all its global subsidiaries. It will also apply custom-tailored digital solutions to their individual business models to better and more accurately reflect the economic development conditions of the countries in which they are operating.

In addition, the Corporate Banking Division will increase its customer base by developing a safe and secure payment system and providing a wide range of cash management services (CMS) to its clients such as firm banking and SWIFT SCORE services.

The Retail Banking Division will provide a variety of financial services in collaboration with various FinTech companies, including the LINE Pay Currency Exchange service in Japan, WeChat Pay in China, and MoMo in Vietnam. It will also add to the convenience and functionality of its Internet and mobile banking platforms and continue disseminating the Digital Transformation component of the Group's 2020 S·M·A·R·T Project to all the processes of its global operations.

Strategies for 2019

Vision

Asia's Leading Financial Group

Strategic Goal

Smart Asset Growth through Enhanced Risk Management

Strategic Tasks

Produce Tangible "One Shinhan" Outcomes	Pursue Smart Growth	Encourage Risk-Based Growth	Increase Global Digital Capabilities
<ul style="list-style-type: none"> Expedite organic growth Maximize synergy among its overseas operations Establish an enhanced role of Country Heads 	<ul style="list-style-type: none"> Encourage efficient growth of assets Add to value of business models Promote well-thought-out inorganic growth 	<ul style="list-style-type: none"> Strengthen global risk management processes and internal controls Foster development of globally-oriented human resources 	<ul style="list-style-type: none"> Pursue digital transformation Develop new businesses based on mutually beneficial partnerships Attract more corporate customers through more competitive CMS

Investment Banking

Shinhan Financial Group has transformed its Investment Banking division into Group and Global Investment Banking (GIB) division to bring together the capabilities of all its subsidiaries to provide integrated financial solutions to fully accommodate customers' needs.

2018 Key Performances

The GIB Division had an estimated pre-tax income of more than KRW 360.0 billion in 2018, approximately a 70% increase from the year before. This is mainly attributable to a rise in the value of non-interest income due to strengthened arrangement operations, increased equity investments, and a continuous income growth from overseas operations. As a result, the Division has laid the foundations for eventually earning an annual income of KRW 600.0 billion, a 2020 S·M·A·R·T Project target.

Capital Market Leadership

» Enhanced Syndicate Loans Market Position

The GIB Division strengthened its capital market leadership by employing sector-specific strategies. This included arranging a large number of "mega deals" (i.e., valued at over KRW 300.0 billion) under the One GIB system. We also arranged ADP CAPS acquisition financing and other deals by increasing the number of joint arrangements between Shinhan Bank and Shinhan Investment; entered the REIT IPO market (including the listing of Shinhan Alpha REIT); led the real estate redevelopment market; and broadened our real estate market business, mainly by means of structured finance.

GIB Matrix Structure & Business Units



» **Increased Corporate Bond Underwriting Targeting Big Issuers**

The Division's underwriting ratio to the total value of underwritings by all the market's major corporate bond issuers in 2018 (including Hyundai Motor, Lotte, LG, SK, and power generation subsidiaries) rose by 11% points for Lotte Group (i.e., from 6.5% in 2017 to 17.4% in 2018) and by 6.4% points for LG Group (i.e., from 3.4% in 2017 to 9.8% in 2018). Our market influence also continued to grow, mainly due to an expanded POSCO project and an underwriting project for Korea Energy.

» **Strengthened IPO Market Position**

South Korea's IPO Market in 2018 recorded a net worth of KRW 2.8 trillion, a sharp decrease from KRW 7.9 trillion in 2017. This was primarily due to a lack of large-scale IPOs. Even in this weak market situation, the GIB Division still managed to arrange two IPOs out of six big deals worth over KRW 100.0 billion—KRW 124.8 billion for T'way Air, and KRW 114.0 billion for Shinhan Alpha REIT.

» **Improved ECM Market Position for SMEs and Mid-cap Companies**

The Division strengthened its IB operations targeting SMEs and mid-cap companies through its "Creative Finance Plaza", a joint sales organization composed of Shinhan Bank and Shinhan Investment, ranking first in terms of both revenue and ECM market share for SMEs and mid-cap companies. Much of this success was due to its introduction of mezzanine products, its investments in Redeemable Convertible Preference Shares (RCPS) through equity investments, and increasing its investments in the Technology Credit Bureau (TCB).

Overseas Expansion

» **Strengthened the Global Corporate Bond Business**

Shinhan Investment's Vietnamese subsidiary issued VND 400 billion (about KRW 19 billion) worth of corporate bonds (CBs) for GELEX, the country's largest maker of power supply equipment, with the GIB Division offering financing solutions. This was the first time that a South Korean business had entered this market, and it laid the groundwork for building a platform that could lead the development of private placement corporate bonds for large companies in Vietnam and similar countries. The GIB Division also continued with the expansion of Shinhan's global CB Business platform by issuing USD 40 million worth of CBs for an Indonesian media group in the Hong Kong market.

» **Increased Scale of Assistance Programs**

The Division has been operating a Global IB Desk support program sending employees overseas to take charge of its GIB operations. In 2018, it opened an office in Ho Chi Minh City, and moved the one in Shanghai to Tokyo. It also made improvements to its overseas assistance system, sending Global Pathfinders to London and Singapore. Global Pathfinders are GIB specialists who are sent overseas to source deals, build overseas networks, and support the Division's local IB operations. We also created a Global IB Support Desk to support all our global channels.

» **Launched Hong Kong GIB**

The Hong Kong GIB was launched in November 2018. This was done after we had finished moving the IB businesses of Shinhan Bank and Shinhan Investment to Hong Kong. In addition, we closed Shinhan Asia Limited, Shinhan Bank's Hong Kong subsidiary, transferring its operations to the IB Center of the Hong Kong branch and merging it with the IB division of Shinhan Investment's subsidiary. The Hong Kong GIB will now act as the Group's Asia IB hub, with a special focus on debt financing.

Hong Kong GIB



Enhancing Market Presence using One GIB Solutions

» Listed Shinhan Alpha REIT

The GIB Division and Shinhan REITs Management were named joint preferred bidders for an IPO REITs project to purchase Building 6-4 of the Pangyo Alpha Dome City. Located in the core of Pangyo City, the development boasts a floor area of about 95,589㎡, with a total estimated value of about KRW 500 billion. The IPO for KRW 114 billion worth of common shares was held in July 2018, resulting in the first-ever 100% subscription in the history of IPO REITs in South Korea. The IPO was especially important in that it met all the requirements of the central government's and the Korea Land and Housing Corporation's policy directive of offering REITs IPOs and listings to ordinary people to increase their access to real estate investment opportunities.

GTX-A

Shinhan Financial Group's GIB Division was selected as the preferred bidder for the privately-invested GTX Line A project.



» GTX Line A Project

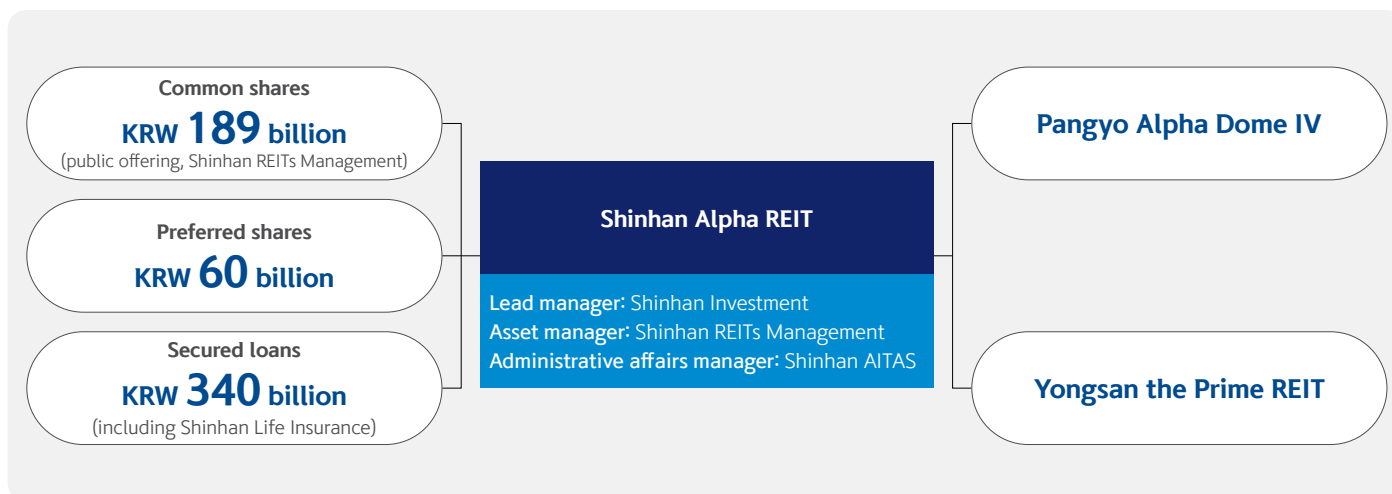
A GIB-led consortium was selected as the preferred bidder for the Great Train eXpress (GTX) Line A project in April 2018. This marked the first time that a financial institution became the central player in South Korea's infrastructure market, which had primarily been led by construction investors before that. This was largely attributed to the fact that financial structures can be more efficiently designed when a project is led by a financial institution, and, consequently, construction companies can access them to raise the funds needed to cover their costs.

2019 Business Plans

Improving Performance of "One Shinhan"

The GIB collaboration system will be expanded to add even more value to "One Shinhan", mainly by increasing the role it plays in the community. We will also upgrade our "One GIB" collaboration models to help drive the Group's growth. This will be done by identifying more areas of collaboration within the Group's capital market affiliates (i.e., asset management, REITs management, and alternative management). In addition, we will continue to make improvements to our product supply business platform to increase the ROIs our customers receive, especially by enhancing our menu of GIB products.

Building 6-4, Pangyo Alpha Dome City IPO and Listing Project



Overseas Expansion

The Division will continue making improvements to its global support and collaboration system. This will include taking more of its core businesses overseas as a means of diversifying our income from international operations. This is expected to lead to an increased level of participation in high-quality overseas development projects and real estate investments. We will also strengthen our new business platforms to broaden our global operations, mainly by utilizing our linkage with our Hong Kong network and enhancing our global corporate bond business. In addition, it will open a London GIB Desk and make sure that the Hong Kong GIB's new operating system is 100% functional.

Leading Global Capital Market

The Division will enlarge its investment business coverage operations to boost its earnings in the future. This will mainly be done by increasing its involvement in "productive finance", such as promoting the ESG and developing new markets in a variety of investment areas. It will also strengthen its dominance in the capital market area, including brokerage and consulting. Last, but not least, it will continue to seek differentiated GIB solutions as a means of increasing its revenue. This will include offering total solutions for both overall deal life cycles and stages of corporate growth.

Constructing an Infrastructure for Sustainable Growth

The Division will enhance the efficiency of its operations to increase its sales. This will include the further segmentation of the organization, such as expanding each company's headquarters and number of departments. It will also foster the ongoing development of key GIB human resources into high-quality IB professionals. In addition, it will strengthen the Shinhan GIB organizational culture by identifying and disseminating a representative sampling of GIB collaboration "best practices".

Strategies for 2019

Vision

**A leader of South Korea's capital market,
working to become the leading financial group in Asia**

Strategic Goals

Enhance "One GIB" leadership. Become leader of the global capital market.

Strategic Directions



Improve
"One Shinhan"
performance



Expand
global
operations



Lead South Korea's
capital
markets



Build sustainable
growth
infrastructures

Wealth Management

Shinhan Financial Group creates best values for its wealth management customers by offering them the industry's widest range of asset management models.

The Group operates a total of twenty-seven Private Wealth Management (PWM) Centers throughout South Korea. The number of these centers, which are in the form of hybrid branches offering products and services from both Shinhan Bank and Shinhan Investment has been growing steadily since the center's successful launch in 2012. The major focuses of its Wealth Management Unit have been to respond to changes in the market, ensuring its competitiveness in the area of asset management, and achieving leadership in South Korea's wealth management industry through customer-centered asset management. It developed the "PWM Lounge", a retail branch benchmarking PWM Centers as a means of responding to the central government's move to deregulate the operation of purely hybrid branches.

2018 Key Performances

The Groups' Wealth Management Division posted market-leading results despite a very difficult operating environment. It focused on customer value, exceeded a number of targeted performance indicators, and received positive assessments from evaluating entities both at home and abroad.

Strengthened Operating System

The Division focused its efforts in 2017 on enhancing its customers' ROI. It spent 2018 building an operational framework that would enable it to expand its asset management operations from the individual level to that of corporate enterprises. This included incorporating a group of bankers with both expertise and experience in the field of corporate asset management into twenty-seven of its PWM Centers spread across the country. It also created a number of custom-tailored corporate wealth management services, and added to its portfolio of "One Shinhan"-based, non-Group financial products to improve the product supply competitiveness of its Investment Products & Services (IPS) Department. In addition, it launched a total of twenty-four independently-developed products boasting an enhanced ability to respond to market volatility, initiated an online auction consultation platform called "Shinhan Auction SA" in the first half of 2018, and opened an online asset management platform called "SOL Rich" in the second.

Awards and Accolades in 2018

Organizer/Media	Award Name	Date of Receipt	Remarks
<i>The Asset</i>	Triple A Investment Awards - WM	September	Seven years in a row
	Triple A Investment Awards - PB	September	Four years in a row
<i>The Asian Banker</i>	The Korea Country Awards 2018 <ul style="list-style-type: none"> • Best Wealth Management Bank in Korea • Investment Product of the Year • Best Wealth Management Service Quality 	December	Four times



The Group's Private Wealth Management Division held KRW 90.7 trillion worth of assets in trust in 2018, its largest amount since its establishment. Its gross operating income was KRW 470.2 billion. The Division has earned the confidence of a large number of high-net-worth individuals due to its outstanding performances since its launch in 2012. This includes maintaining the highest annual average growth rate in the entire industry.

Awards and Accolades

The Division's asset management services have been commented on favorably both at home and abroad. This includes being named Best WM by *The Asset* for seven straight years and Best PB for four. It was given accolades for Best Wealth Management Bank in Korea, Investment Product of the Year, and Best Wealth Management Service Quality by *The Asian Banker*.

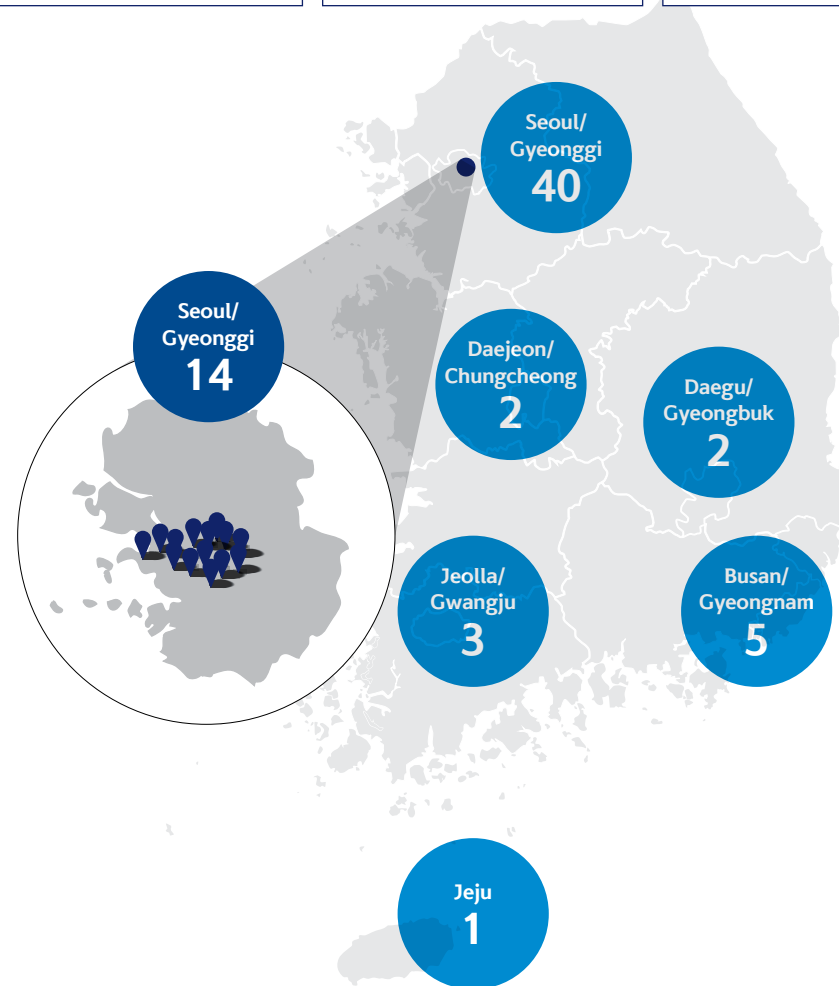
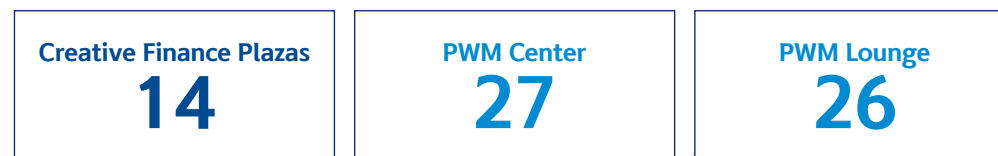
It has also ranked first for eleven straight years in the Korea Standard Premium Brand Index survey conducted by the Korean Standards Association and for nine in the Korea Brand Power Index survey conducted by Korea Management Association Consultants. It received a grand total of twelve awards in 2018.

Hybrid Branches in Shinhan Financial Group

	PWM Centers (Launched in 2012)	PWM Lounges (Launched in 2015)	Creative Finance Plazas (Launched in 2015)
Target Demographics	UHNW: Ultra-high-net-worth customers (i.e., worth over KRW 300 million)	Affluent customers (i.e., worth KRW 100 to 300 million)	SMEs and mid-cap companies
No. of Branches	Twenty-seven, including one insurance hybrid branch	Twenty-six, including two insurance hybrid branches	Fourteen
Type	Location shared by Shinhan Bank and Shinhan Investment PB branches	Shinhan Investment branches located within Shinhan Bank branches	Shinhan Investment branches located within Shinhan Bank branches

Hybrid Branches of Shinhan Financial Group

(Number of Hybrid Branches)



2019 Business Plans

The Group's Private Wealth Management Division will continue providing its many satisfied customers with a wealth of industry-leading products and services in 2019.

Enhancing Asset Management Skills and Competencies

The Division has been offering clients a full range of industry-leading asset management services since 2017. In 2018, it placed Corporate Private Bankers (CPBs) in twenty-seven of its Private Wealth Management offices throughout the country, while also adding to its menu of services and products. This year, it will increase the sales abilities of these CPBs and upgrade its corporate asset management services even more. This will involve establishing an Outbound Chief Investment Officer (OCIO) system, and partnering with outside companies specializing in the provision of corporate assistance and advice.

Strengthening Wealth Management Business Models

The Division will enhance its competitiveness in managing the wealth of ultra-high-net-worth customers. This will involve studying the pros and cons of a number of operating systems, and continuing to grow its wealth management abilities. Under the "One Shinhan" system, the resources of the Group's subsidiaries will be fully utilized to offer high-end products and services to meet every need of our customers.

Growing Digital Shinhan Wealth Management Activities

The Division will spend much of 2019 strengthening its already-leading position in the area of asset management digitization. This will involve using big data to segment its customer demographics even more and enhancing its custom-tailored client services. It will also continue incorporating the IPS's expertise into its "SOL Rich" mobile asset management platform to ensure that the general public will have easy access to all its asset management services.

"Shinhan Auction SA" is an online auction platform that the Division launched in 2018. This year, the Division will upgrade both its operating system and its content to provide users with a wider range of high-quality information. Doing this will help it to build longer-term and more satisfying relationships with its customers.

Reforming the Organization and Elevating Levels of Support

The Division has been busy making changes to how it is organized in a bid to strengthen its hands-on expertise and enhance its operational skills. One step involved the establishment of the Wealth Management Consulting Center. It has also integrated its formerly-decentralized specialist organizations, including those dealing with taxation and customer consultations. In addition, it added to its number of solutions partners specializing in offering clients advice about their asset portfolios. Another move that it made was to merge the supply functions of its investment products, which had formerly been operated in both PWM and retail departments.

This was done to allow the Division to develop products from an integrative perspective, and to provide highly-competitive PWM products all the way to the retail level.

Fostering the Development of Professionals

Another step that the Division will take in 2019 will be to add to its competitiveness in the area of asset management through a program called WM Transformation--PWM Expertise Internalization. This will include upgrading its wealth management employee training programs, and nurturing the development of highly-trained professionals at the Group level. It will also continue supporting the development of industry-leading experts who have both the training and the expertise needed to offer customers its full range of asset management services. In 2019, Shinhan will upgrade its WM model a step further, based on the differentiated competitive advantages it has accumulated over the years, and will eventually become a true asset manager recognized by its customers.

Strategies for 2019

Strategic Goal



Strategic Directions



Develop super customer-centered services (Super Customization)



Increase competitiveness in terms of basic solutions (Solutions Competitiveness)



Build foundations for new and future growth (New Way of Next WM)

Global Markets & Securities

The Group's Global Markets and Securities (GMS) Business Division was established in 2018. It comprises the asset management teams that formerly belonged to Shinhan Bank, Shinhan Investment, and Shinhan Life Insurance.

2018 Key Performances

Since its launch in 2018, the GMS Business Division has centered its operations on three key tasks: making immediate and appropriate responses to changes in the market, strengthening the Group's collaboration system and creating synergies, and adding to the Group's portfolio of subsidiaries to fulfill its vision of becoming "Asia's Leading Trading Group". The Division's GMS Asset Management Committee established a framework for its investment strategies in 2018. The goal of this exercise was to increase the earnings of its securities management department in response to the asset and liability management plans of the Group and its subsidiaries. It also strengthened its capabilities in the areas of communications and execution, including working with other members of the Group to create effective countermeasures for guarding against unexpected volatility in the marketplace. In addition, Shinhan Bank and Shinhan Life Insurance introduced their new performance-based compensation programs. They are based on the principle of providing a fair and reasonable level of compensation to employees who perform their asset management functions in an efficient and professional manner. Both companies expect that this very attractive compensation program will not only motivate the Division's current employees, but will also lead to the hiring of more highly-professional and very experienced human resources in the field of asset management.

Corporate Integration and Synergy Creation

The asset management departments of each Group subsidiary met in August 2018 to celebrate their integration into the new GMS Division. Part of the new organization's mandate will be to carry out the strategy referred to above for increasing its volume of earnings regardless of market conditions. The strategy includes having all formerly separate organizations work together to the greatest degree possible to create synergies that will enhance the new Division's organizational and management capabilities.

2019 Business Plans

Strengthening Organizational and Management Capabilities

All the members of the Division believe that increasing the Group's asset management capabilities will be more necessary in 2019 than ever before, given that uncertainties in the marketplace are expected to increase exponentially in the future. As a result, the Division intends to inaugurate a vigorous program of enhancing its organizational and management capabilities. This strategy will include adding to its menu of alternative investment instruments and targets, its fixed income investments in the trading account, and its earnings from its sales of foreign currency bonds.



Strengthening the Asset Management Committee

2018 was a year in which the Division overhauled its organization and its systems in preparation for an unknown but very challenging future. In contrast, 2019 will be spent expanding its dominant position in the capital market. Operating under the banner of "One Shinhan", it will do everything in its power to assist the Group in achieving its 2020 Vision. This will include actively collaborating both with the Group's other matrix-type divisions, and with all the other members in the organization.

In order to carry out this plan, the Division will redefine the roles and functions of its Asset Management Committee. This will mainly be done by increasing its number of human resources job exchanges, establishing an enhanced risk management response process, strengthening its functions for monitoring the marketplace, and sharing its management strategies and directions with other members of the Group.

Enhancing Competitiveness of Products and Sales

Achieving healthy and sustainable growth in an era of constantly-changing financial markets requires the opening of new markets and adding to the range and competitiveness of a company's products. This means that the Division will continue with its strategy of in-depth research and benchmarking to assist it in developing new products that will lead the market. Another of its goals will be to increase the profitability of its assets and diversify its risks. This will involve strengthening its menu of alternative investment products, enhancing the competitiveness of its retail bond products, and improving its equity-linked securities hedging infrastructure.

Upgrading Organizational and Internal Systems

The Division will also upgrade its organizational and internal systems to create a sustainable earnings base. This will include studying the various compensation programs used by each Group subsidiary and then upgrading its support systems. It will also hire outside experts who can strengthen the capabilities of its securities management personnel, and encourage more human resources exchanges to facilitate the creation of synergies among all the Group's members.

Strategies for 2019

Strategic Goal

Increase revenue through better risk management and diversifying investments

Strategic Directions

Increasing and diversifying type of investment vehicles

- Increase ROI of stock portfolio
- Increase range of alternative investments and add more investment targets
- Increase volume of and revenues from fixed income investments in the trading account
- Increase volume of and revenues from foreign currency bond management activities

Redefining roles and functions of Asset Management Committee

- Enhance risk response processes
- Cope with risks by better monitoring of markets
- Share management strategies and directions with other Group members

Making Shinhan Investment products and sales more competitive

- Develop new products with potential to lead the market
- Enhance competitiveness of retail bonds
- Make additional improvements to ELS hedging infrastructure

Upgrading organizational and internal systems

- Introduce performance-based compensation programs at Shinhan Bank and Shinhan Life Insurance
- Strengthen capabilities of securities management personnel by hiring outside experts
- Increase number of human resources exchanges to create additional synergies
- Enhance overseas management support system

Core Tasks

Retail Banking

The Group's Retail Banking Division consists of a central headquarters and eleven departments comprising two groups: the Retail Banking Group, which manages accounts belonging to individual customers, business owners, and institutional customers, and the Wealth Management Group, which targets high-net-worth clients. It also operates twenty-two regional headquarters that are tasked with supporting the work of its branches. It closed or consolidated the operations of seven branches and three branch offices in 2018, and carried out business at 517 retail outlets.



2018 Key Performances

The Division enjoyed remarkable results in 2018. They included carrying out a strategy of catering to the nation's young people to expand its customer base, conducting marketing activities targeting people who work for affiliates of the country's conglomerates, and promoting products like its Early Asset Growth, Home Leasing, and MY CAR loans. Its number of active customers grew by 270,000 to reach 10,030,000.

Focusing on High-Quality Asset Growth

The Division contributed to the Group's asset growth in 2018 by increasing its volume of floating core deposits, retail loans, and SME loans. The value of its floating core deposits increased by KRW 1.3 trillion from the previous year, led by increases in the number of active customers, credit card and merchant payments, and deposits by public institutions. It placed 45,602 online and 49,583 offline loans, up 47.9% and 52.1% respectively YoY. The value of its MY CAR loans totaled KRW 2.1 trillion, highest among the country's financial institutions. It added to the quality of its retail loans portfolio by focusing on the granting of floating-rate, interest-only payment loans.

Diversifying Revenue by Increasing the Value of Non-Interest Income

The Division took a number of steps to diversify its revenue structure. They included increasing its sales of installment savings-type funds, credit card accounts, bancassurance, and other non-interest, income-related products. Its number of new credit card accounts reached 365,000, the largest increase since the launch of the fully-integrated Shinhan Card in 2007.

Financing for the Underprivileged

The Group has made a concerted effort to add to the value of its customers' assets and enhance its social value under its mission of "building a better world through finance". As a result, it was named the "Best Provider of Financial Services for the Underprivileged" by the Financial Supervisory Service for the sixth consecutive year in 2018. This assistance included offering such specialized financial products as its New Hope Spore Loans, targeting needy and underprivileged people.

2019 Business Plans

The Division will continue with its efforts to become a leading retail bank by overcoming a host of difficult domestic and global operating conditions in 2019. To achieve that goal, it has adopted three strategic directions: increasing its volume of smart assets, expanding its customer base, and focusing on collaborative and cooperative marketing campaigns.

Growing Revenue Stream

One of the ways by which the Division will grow its revenue stream in 2019 is by focusing on its portfolio of consumer loans, including home leasing loans, high-quality unsecured loans, and MY CAR loans. It will also establish a direct marketing system targeting people who use mobile devices for all their everyday needs.

Expanding Customer Base

The Division will take a number of steps to add to its three core customer bases. These include attracting more employee payroll accounts, and encouraging business owners to open more of their payment accounts at its branches. It will also continue with its strategy of catering to the youth demographic, with a special focus on high school students.

Innovative Marketing

The Division entered into a collaborative marketing partnership with Samsung Electronics in 2018, by leveraging its Total Marketing Complex (TMC) platform. It also revamped its "Shinhan Plus" product scheme to make it more customer-oriented, and is hoping to expand it to the Group level. It also made improvements to its Korea Baseball Organization (KBO) platform, such as upgrading its marketing channels to facilitate approvals of MY CAR loans and the marketing of new products.

Products and Services Targeting Seoul Civil Servants

As Shinhan Bank has been newly designated as the main depository bank for the Seoul municipal government, the Division is offering a broad range of financial services and products exclusively to the people who work for the city of Seoul. In efforts to further increase the Division's customer base, it is also planning to undertake a number of other marketing activities that will encourage these customers to make Shinhan their most preferred financial services provider.

Strategies for 2019

Strategic Goal

Beyond Retail, New Leap Forward

Strategic Directions



Maximize customer value



Increase level of smart revenue



Focus on cooperative and collaborative marketing campaigns

Key Strategies

- Maximize customer value by life stage
- Achieve NEXT SOHO, BEST SOHO
- Upgrade CRM system

- Smart asset management
- Increase amount of floating core deposits
- Increase non-interest income

- Establish new partnerships
- Enhance TMC collaborations
- Continue putting "compassionate finance" into practice

Digital Sales System

Complete introduction of customer-centered digital sales system

Increase revenues and reduce costs through digitalization

Create more synergies through Shinhan Plus

Corporate Banking

The Corporate Banking Division strives to lead the market through the solid growth of high-quality assets and the continuing development of a stable revenue structure.

2018 Key Performances

The Corporate Banking Division undertook three strategic directions to achieve its 2018 strategic goal of "Redefine Corporate Banking, Creative Territory Expansion." Its main aims were to secure differentiated growth by freeing itself from the constraints of competition, and to overcome stagnant sales in an era of constant low growth. As a result, it enjoyed extremely satisfactory results in all its areas of operation, including growth potential, profitability, and financial soundness.

Increased Leadership in Core Markets

The Division worked hard to achieve balanced growth in its core markets of both audited and non-audited mid-cap, blue-chip corporations. It maintained a solid rate of growth in all its assets, with a particular focus on SMEs, especially the non-audited SMEs.

It also added to its customer base by increasing the menu of services it offers at each stage of corporate growth. As a result, its number of SME customers with more than KRW 100.0 million in loans rose by 3,968 over the year, ranking first among all of the country's commercial banks. It was also named the "Best Bank" in the SME Support Evaluation category by the Financial Supervisory Service.

Continued Building Sustainable Revenue Structure

The Division continued building a stable revenue structure to ensure its sustainable growth throughout 2018. This included carrying out a wide range of marketing activities that would benefit both small and medium-sized enterprises and mid-cap companies, such as collaborations within communities, referral marketing among its business groups, and maximizing synergies between its affiliates.

A number of new business opportunities were realized by strengthening the Division's ties with outside organizations. For example, it offered subsidized loans to cultural content organizations in linkage with the Korea Culture and Content Agency, as well as R&D commercialization loans in new industry areas in collaboration with the Ministry of Trade, Industry and Economy and the Korea Technology Finance Corporation. The Division also enjoyed healthy growth in both its ROI and the value of its assets by diversifying its revenue structure. This included increasing the amounts of its floating core deposits and its non-interest income, such as foreign exchange, trusts and pensions, and derivatives.

Maintained Leadership in Future Growth Market

The Division made unceasing efforts to maintain its leadership in areas of future growth. This included providing financial support to promising SMEs to promote technology financing, as well as working to build a "Shinhan Way" relationship with them by increasing its number of equity investments, non-financial services, and long-term loans.

It also continued to play a prominent role in the market for eco-friendly future energy sources, including solar energy and energy storage systems; identified and supported businesses involved in the Fourth Industrial Revolution; and increased its financial support for business startups with excellent promise in the area of technologies. In addition, it continued with its drive towards business reorganization and the enhancement of its competitiveness, by using an advisory platform for M&As and underwritings to assist SMEs and mid-cap businesses.

8.2%

YoY Growth in SME Loans by Shinhan Bank in 2018



2019 Business Plans

The Division has adopted three strategic directions as part of its 2019 strategic slogan of “Challenging for the T.O.P. — A Quantum Growth for an Unrivaled Corporate Banking Service Provider”. This step was taken in response to intensifying competition in South Korea’s banking industry, a high level of uncertainty in its operating environment, and as part of its continuing drive to maintain its industry leadership—particularly in terms of innovation.

Healthy Growth

The Division will increase the value of its high-quality assets by balancing risk and profitability in its loans to SMEs including mid-cap, blue-chip, audited, and non-audited corporations, which are its core targets. It will increase its customer base by engaging in the bond market more actively, offering more external policy-related funds, and deepening its relationships with its long-term customers. In addition, it will react to government policies through continuing its program of productive, all-embracing financial services, including relationship banking, technology finance, social finance, and asset-backed lending.

Profitable Growth

Smart and efficient asset management is one of the keys to balanced and sustainable growth. The Division will continue to lay the foundations for stable revenue gains by increasing its floating core deposits and strengthening its profitability-based loan support system. In addition, it will diversify its revenue structure by adding to its competencies in the IB market and the careful management of non-interest revenue items. Bank-wide revenue will be increased through an enhanced program of community collaboration and referral marketing. In line with its designation as a Seoul Municipal Depository bank, the Division will develop products and services that are relevant to these types of operations. This will include building collaborative social finance models with the city of Seoul, and launching financial supports for social housing and similar products.

Differentiated Growth

The Division will continue to diversity its competitive advantages within the financial industry in South Korea, both for today and for the future. This will include signing more cooperative and collaborative agreements with the Ministry of Trade, Industry and Energy, the Ministry of SMEs and Startups, and other policy sources, entering specialist markets through the development of innovative new products, and enhancing its support for organizations involved with cultural technologies, environmental technologies, bio technologies, and other areas of new growth.

Another step that the Division will take is to continue creating sustainable growth engines in the area of corporate banking. This will be done in large part by upgrading its Customer Relationship Management (CRM) system and increasing its digital channel services in the F/X sector, helping to accelerate the switch from corporate banking to digital services. It will also increase its number of high-quality, fully-capable, CB-trained employees who will be able to lead the markets of the future.

Strategies for 2019

Strategic Goal

Challenge for the T.O.P.

Territorial expansion
(Growth Potential)

Outstanding levels of profitability
(Profitability)

Proactive risk management
(Soundness)

Strategic Directions


Core Market
Customer Value Creation
(Healthy Growth)


Profitability-
Based Growth
(Profitable Growth)


Differentiated
Future Market Growth
(Different Growth)

Credit Card

Shinhan Card will extend the limits of the credit card business by creating high values through the nurturing of healthy and caring relationships.

South Korea's credit card industry faced many threats in 2018. The situation was primarily caused by a reduction in the fees paid for transactions by member merchants, increasing regulations governing interest rates and total financial assets, and advancements in FinTech-based payment services by non-financial companies.

Despite these difficult conditions, Shinhan Card was still able to maintain its industry-leading position as the result of a preemptive sales paradigm shift. This included reducing marketing efforts that only supported short-term performances, and providing its customers with a wider range of custom-tailored products and services optimized to meet their needs. These moves helped it to achieve the industry's highest level in terms of qualitative indicators.



2018 Key Performances

Shinhan Card continued with its efforts to overcome a very challenging operating environment in 2018. This included upgrading the company's contingency plan for both of its operational and financial managements, as well as changing its business model to reduce the level of reliance on merchant transaction fees as a source of revenue. The company also continued with the digital transformation, and achieved desired outcomes in terms of both customer experience and cost savings.

As a result of these measures, Shinhan Card managed to maintain its industry-leading position in terms of both quality and quantity. For example, its number of newly-launched "Deep Dream" cards quickly streaked past the three million mark, while ShinhanPayFAN became the nation's largest payment platform with ten million members.

The company also took steps to make up for a possible loss of income arising from its decision to lessen its reliance on merchant transaction fees as a source of revenue. For example, it improved its cost structure through automation and more efficient operating processes, and enhanced the efficiency of its marketing efforts in support of high-cost services. All of these measures were backstopped by its digital and big data capabilities.

The company also increased its involvement in areas of promising new growth, such as Installment and fee businesses. This was done both as a means of minimizing the impact upon it of temporary governmental regulations and other changes to its operating environment to advance its long-term goal of going beyond the credit card business and evolving into a multi-finance player.

It also entered into alliances with such renowned global players as Amazon, Uber, Airbnb, and Hotels.com. This included offering exclusive discount benefits to users of Amazon on Black Friday and during the Christmas holidays. It also entered the platform business (including ShinhanPayFAN, MySHOP, and MyAUTO), taking advantage of the industry's largest membership base. The company also pioneered new market possibilities by

becoming part of the UnionPay International card acceptance business. This especially involved the targeting of Chinese tourists, which had formerly been monopolized by one of its competitors. It also increased its level of collaboration with promising business startups such as Bank Salad.

On the international front, the company acquired the PVFC (Prudential Vietnam Finance) in January 2018, with the acquisition being approved by the State Bank of Vietnam a year later. It also strengthened its operations in Kazakhstan, Indonesia, and Myanmar.

At the domestic level, the company's "I'm Ventures" startup assistance program made arrangements for the early commercialization of three of its businesses that had been approved by the Ministry of SMEs and Startups in 2018.

No. 1

Shinhan Card's Market Share in South Korea



2019 Business Plans

Shinhan Card adopted "Deep Focus" as its strategic direction for 2019 to help it deal with the threatening operating environment facing it. Its goal was to take its members beyond their card-only relationship with the company and extend it to include its financial, installment, platform, and global businesses. This will be done by adding to its menu of products and services and its number of affiliated and partner companies. It will also engage more heavily in hyper-personalization in order to deliver a more relevant information about its content, products, and services to each of its users. This will be done in accordance with the following five strategies.

Leader in Payments

The company will upgrade the profitability of its credit card operations, in large part by its involvement in the new payment service market. This will include the ShinhanPayFAN platform and other digital technologies, such as QR, NFC, and Bluetooth.

Multi Finance

The term “multi finance” refers to going beyond a reliance on credit card-based financial products to the opening of other channels, including apps, webs, and simple, digitally-based financial products. It also means the way that Shinhan Card is planning to diversify its customer base and business portfolio. The company will become a true “multi-finance” provider by diversifying its product lineup and upgrading the price and marketing competitiveness of its data-based financial products. It also intends to increase its market share in South Korea’s installment financing sector.

Customer-Oriented Services

The company will strengthen its commitment to customer-centered products and services by upgrading the various platforms that service them, including ShinhanPayFAN and MyShop, and increasing its big data analysis capabilities. It will also continue digitalizing its operating processes. This will allow it to offer customers optimized packages of services and products, such as custom-tailored discounts and store recommendations.

New Business Models

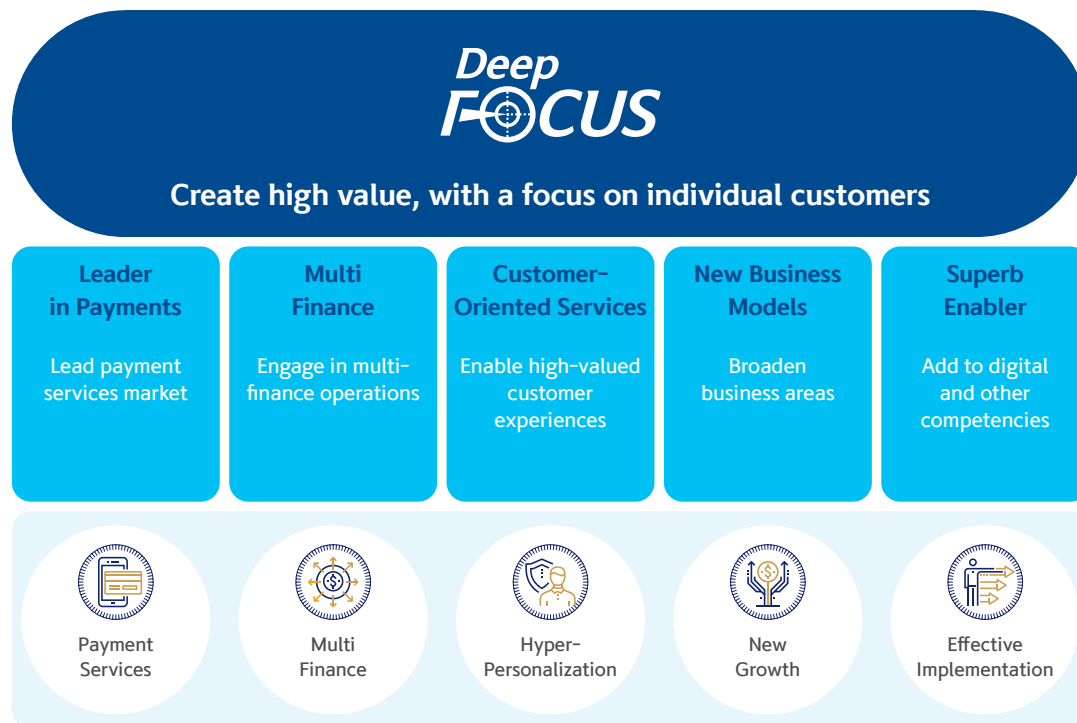
The company has already established a New Business Team, an E-Commerce Team, and a Rental Business Team in 2019, and will continue creating other new business models in the same vein. It will also strengthen its big data operations, including offering advice to merchants and corporations to turn it into a profit-making venture. Another step that it will take will be to foster the development of its global operations into full-fledged contributors to its business portfolio.

Strategies for 2019

Strategic Direction

Strategies

Keywords



Superb Enabler

Competencies in the areas of digitalization, big data and ICT are no longer an option in today’s financial industry. Shinhan Card will continue to upgrade its digital and other abilities as a means of advancing its operational strategies and attracting new customers. To be based primarily on big data, it will be carried out by forming alliances with other industry players, allowing the company to maintain its high profile in South Korea’s card industry while also identifying and developing future growth engines.

Brokerage

Shinhan Investment acts as the hub of the Group's capital market-based activities with its industry-best research, superior product development and management capabilities, and customer-oriented management philosophy.

2018 Key Performances

Although Shinhan Investment faced difficulties from both home and abroad in 2018, it was still able to achieve outstanding results in all its operating areas. This included record-making performances, and the industry's highest-ever ROE. It also received high-level evaluations from a variety of outside rating agencies. This included obtaining the industry's highest global credit rating, winning a top-tier rating in the management evaluation conducted by the Financial Supervisory Service, and ranking first in the Korean Standard Service Quality Index (KS-SQI) survey by the Korean Standards Association.



Human Resources

Shinhan Investment reopened the S-Hub after a series of renovations, allowing users renewed access to prime educational content 24/7, with more than 1,170 people enrolled in forty-eight CoPs learning clubs. The working environment for our employees was dramatically improved by switching to LED lighting in our headquarters. Recent renovations made to the Top Square, employer's lounge and the gym, and implementations of an automatic PC-off program also helped its employees achieve an ideal work-life balance.

Product Competitiveness

Shinhan Investment has developed a number of innovative products through company-wide, matrix-based collaborations among its product sourcing, manufacturing, and sales divisions. They include short-term electronic bonds wrap accounts, global alternative investment products, private equity funds, and an industry-exclusive indexed ELS. It listed Shinhan Alpha REIT in July, receiving a highest-ever competition ratio of 4.3-1 in the nation's REITs market. Its trust balance passed the KRW 20.0 trillion mark in August--the second-highest level in the nation's securities industry.

2nd

Research Ranking by *Maeil Business Newspaper*



New Business and Global Expansion

The value of the company's in-house hedge funds exceeded KRW 2.0 trillion in April, ranking second in the industry. In July, it became the first South Korean industry player to launch fractional share purchasing of US shares. In addition to becoming the first domestic industry player to enter the Indonesian asset management market, it was instrumental in creating a wide range of global bonds and other products in collaboration with its subsidiaries in Vietnam and Indonesia.

Strategic Road Map



It also fostered the development of a number of internationally-based high-performing human resources, including fifty-one Global Pioneers.

Work Innovations

The company is intensely committed to building a highly-efficient working culture, by eliminating unnecessary operations and offering a Leader Innovation programs. It is also allocating its human resources more efficiently through the adoption of "Smart PB".

2019 Business Plans

The environment surrounding South Korea's and the world's financial investment industry is more difficult than ever. One result of this is that the global economy will experience different rates of economic growth in 2019, due to slowdowns in China, the Euro zone, Japan, and elsewhere. In addition, interest rates are expected to rise. The South Korean economy will also witness sluggish growth in light of declining exports and weakening domestic consumption, forcing the central government to intervene in such areas as property market stabilization and household lending, while also strengthening its regulations regarding financial soundness and the protection of consumers. Despite this, competition is expected to proceed apace, mainly due to the continuing entry of platform companies into the financial sector.

On the other hand, this uncertainty and volatility can provide huge opportunities for the capital market. As part of its commitment to assisting growth within the Group through constant change and innovation, the company has adopted "Creatively leading the Group's growth through differentiated strategies" as its strategic goal for 2019, with "Be Different! Be Excellent!" as its management slogan. In order to achieve these goals, we have established seven strategic directions for fiscal year 2019.

To begin, we will create greater value through differentiated growth, by expanding our IB business territories and by improving our management strategy as a means of enhancing

the Group's overall return on asset management. Moreover, we will seek stronger market leadership across all areas of asset management.

We will upgrade our operations through convergence and integration, including embracing new technologies that will overcome any and all limits to growth in our existing businesses.

We will enhance our brokerage business to attract more customers and improve our profitability, and strengthen our wholesale operations business by expanding its scope.

We will also enhance our operating efficiency.

This will include eliminating unnecessary and wasteful operations through innovation and restructuring activities that are already underway and making more efficient use of our corporate resources by introducing Smart PBs.

Last, but not least, we will strengthen our involvement in high-potential industries that will contribute to our earnings in the future. We will increase the profitability of our global business operations, and become agile and fast-paced in all aspects of our operations, including its digital operations. The "One Shinhan" collaboration system will also gain greater traction, as will our commitment to preemptive risk management and stronger internal controls. We will also continue to strengthen the development of our human resources and our organizational culture.

Strategies for 2019

Vision

Asia's leading financial investment player

Strategic Goal

Play a seminal role in the Group's growth through strategic goals and differentiated strategies

Management Slogan

Be Different! Be Excellent!

Strategic Directions

Excellence Maximize value creation through differentiated growth	Clients Upgrade customer services through convergence and integration, including digital and new technologies	Mutual Respect Improve business and operational efficiency through innovation and reform	Change Accelerate change for stronger future growth
Increase synergies through "One Shinhan" collaboration system	Make improvements to preemptive risk management and internal control systems	Strengthen development of human resources and ensure sustainability management	

Insurance

Shinhan Life Insurance is committed to growing in tandem with its customers, based on a belief in “compassionate insurance”, respecting the basics, and providing a wide range of high-quality products and advanced-level financial services.

Shinhan Life Insurance believes in a sustained and balanced growth. It offers its customers a wide variety of insurance and pension products through a number of sales channels, including traditional financial consulting, customer-based marketing (telemarketing), general agency, bancassurance, and the Internet.

The company has gained a high degree of financial soundness through its ALM-based asset management operations. It enjoys an enviable level of returns on the management of its assets through policy loans, secured loans, unsecured loans, investments in equities, bonds, derivatives, and other financial instruments.

Recently, the company also witnessed a surge in investment opportunities derived from the Group’s matrix organizations such as the GIB and GMS divisions.

In 2018, the company’s share in the South Korean market grew from 18.7% the previous year to 29.4%. Much of this success was due to its strategy of continuously increasing its number of highly profitable protection-type insurance products that meet the long-term needs of customers especially well.

240.5

Risk-Based Capital (RBC) Ratio as of the end of 2018



2018 Key Performances

Shinhan Life Insurance has enunciated its corporate vision to be “the industry leader in maximizing the intrinsic value of insurance”. Its motto for achieving the core strategies of the Group’s 2020 S-M-A-R-T Project is “Innovation 2018: The Evolution of Value Management”.

2018 was a year in which the South Korean insurance industry faced increasing levels of volatility, uncertainty, complexity, and ambiguity. This situation made it exceedingly difficult to predict the future—especially prior to the introduction of such new systems as the IFRS 17 and the K-ICS, both of which will hopefully bring some much-needed stability to the industry. In order to survive, and even thrive, in this operating climate, Shinhan Life Insurance named “Innovation 2018 - Evolution of Value Management” as its strategy for pursuing the core goals of the 2020 S-M-A-R-T Project.” In order to achieve its vision of becoming the industry leader in maximizing the intrinsic value of insurance, the company pursued the three following tasks.

Enhanced Product and Asset Management

The company boasts a 94% share of the South Korean market for highly-profitable protection-type insurance policies, thanks to a strategy of adding more medium- to low-priced products to its portfolio. It also established an Optimal Asset Allocation Committee to oversee its asset management strategies and systemize its decision-making, and did its best to maintain its profitability by increasing its level of non-interest income and its sales profits.

Upgraded Operating Models

The company’s financial consultant channel strengthened its operations by becoming more efficient and hiring more salespeople, while its Customer Based Marketing (CBM) channel explored new business models with Shinhan DS to accommodate new regulations promulgated by the central government in 2019. It also made improvements to its operations to meet the demands of a rapidly changing market. Its General Agency (GA) channel promoted a strategy of expanding its full-selling operations, while its bancassurance channel concentrated on sales of protection-type policies. The company is also extending its range of digital services. This included a “subscription chatbot” that enables customers to apply for insurance coverage online, developing an infrastructure that changes people’s voices into text, and producing marketing videos featuring well-known celebrities and other influential people.



Met IFRS 17 Requirements

The company is dealing with changes to the IFRS by constructing an IFRS 17 accounts settlement system. It is scheduled for completion in the first half of 2019. It carried out recapitalization activities in June and November of 2018 to increase its level of financial soundness. In addition, it continued with its efforts to improve working conditions by adding to its flexible work program, creating a Shinhan Childcare Center, and taking additional steps to foster the development of female management leaders and other key human resources.

2019 Business Plans

South Korea's insurance market is anticipating more uncertainty and competition in 2019, with its players concentrating on creating strategies to deal with the enforcement of the IFRS 17 and the K-ICS risk-based capital ratio system. Another threat to it is the growing presence of large general-service insurance agencies, and the movement of many very experienced and well-trained agents to their offices. Consequently, competition with these companies is expected to intensify.

The industry is also expecting to see more changes to the market itself. This will include the expansion of digital-based services, as well as encroachments on it by FinTech companies. Another problem will be the probable introduction of more consumer protection rules and regulations by the supervisory authorities.

In response to this environment, Shinhan Life Insurance has named "Innovation that respects the basics" as its 2019 managerial slogan for achieving its vision of becoming "The industry leader in maximizing the intrinsic value of insurance". It has established three tasks to meet this challenge.

The first task is to boost the company's value and profitability by selling more high-quality, mid- to low-price protection-type insurance policies, such as health and term life insurance. The company will also raise its productivity by developing more efficient strategies for increasing sales by each of its channels.

The company will maintain its financial soundness by continuing with its ALM-centered optimal asset allocation processes. It will also increase its return on asset management, adding to its commission and other non-interest income and taking advantage of rising interest rates. In addition, it will respond to concerns over the financial soundness of the country's insurance industry after the introduction of the K-ICS by reducing the gap between its assets and its liabilities.

Finally, the company will reinforce its infrastructures to strengthen its foundations for future growth. For example, it will search out future growth engines and create a framework for balanced and sustainable growth in such areas as digital, human resources, and its organizational culture. It will also continue its commitment to its corporate social responsibilities by pursuing an enhanced-level Environmental, Social, and Governance (ESG) system in tandem with the Group. Last, but not least, it will follow the Group's directions on joint marketing as a means for achieving sustainable growth.

Strategies for 2019

Strategic Goal

Innovations that respect the basics

Detailed strategies



Products and Underwriting

Sell products with a high degree of profitability.
Improve operational efficiencies.



Asset Management

Manage assets with a focus on ALM.
Increase financial soundness.



Infrastructures

Reinforce infrastructures to strengthen foundations for future growth.

Asset Management

Shinhan BNP Paribas Asset Management offers customers a wide range of tailor-made investment solutions, increasing their returns in an era of uncertainty and volatility while also serving as the Group's investment solutions center.

Shinhan BNP Paribas AM is the Group's center for asset management services. Its management philosophy is to become its customers' most trusted and longest-term investment solutions provider.

The company offers a wide range of investment solutions to both domestic and international clients. They include structured products, such as derivatives and ELFs, as well as alternative investment opportunities in such areas as real estate, mezzanines and infrastructures, and more traditional investments like equities and bonds. It manages KRW 51.1 trillion worth of assets, including wrap accounts, and was ranked fifth in terms of net assets out of more than 240 South Korean asset management firms as of the end of 2018.



2018 Key Performances

Shinhan BNP Paribas AM provided industry-leading investment solutions to its many loyal customers to assist them in dealing with the increasingly volatile conditions of the capital market in 2018. The company added to its number of domestic stock-type fund assets under management by promoting small- and medium-sized funds. It also maintained its leading position as a bond provider, offering a wide range of institutional funds based on its reputation for management excellence.

5th

Ranked fifth-largest among 240 asset management companies in South Korea



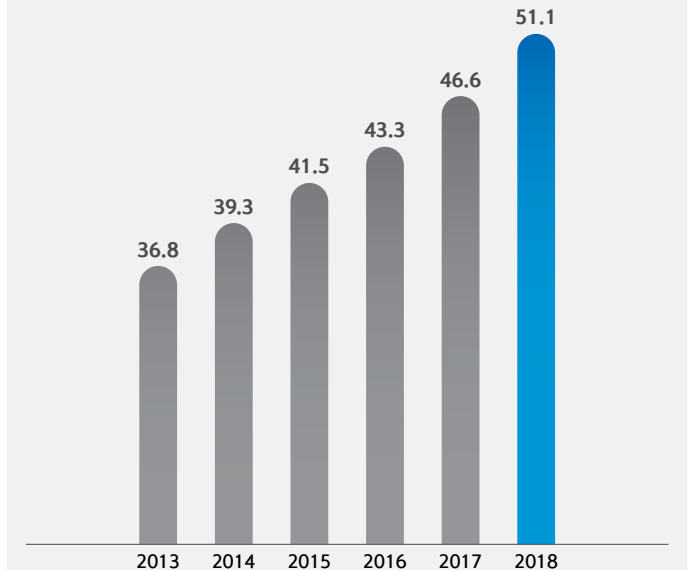
In the domestic market, the company continued to offer a wide range of custom-tailored solutions, establishing a large number of investment strategies to help meet its goal of diversifying its growth so as to gain an early edge in terms of future opportunities.

As a result, it attracted KRW 5.2 trillion worth of new funds from institutional investors. It also became the first player in the outsourced chief investment officer (OCIO) business to acquire an OCIO project, for the publicly-offered Radioactive Waste Management Fund. In addition, it was named the general advisory manager for POSTECH. It also attracted a number of institutional funds in the alternative investment sector by adding to its menu of products, including startup venture funds. It also responded to the needs of its retail customers, including hybrid products for clients seeking a medium level of risk and returns. In addition, it continued offering Global Bond Funds, Best Hedge Funds, and Snowball Funds, in addition to its flagship "Covered Call Security Feeder Investment Trust" product.

The company also strengthened its global asset allocation capabilities, in collaboration with BNP Paribas Multi-Asset, Quantitative, and Solutions, or MAQS. It supported the overseas investment activities of a number of institutional investors by launching a wide range of funds of funds in collaboration with Fund Quest. In addition, it continued to increase its volume of overseas investments by sourcing alternative assets. It also developed a number of environmentally friendly ESG and solar power plant infrastructure funds.

Assets under Management

(KRW billion, Net Asset Value)



Another step that the company took was to introduce structured products as a means of enhancing its customers' returns. This was done by diversifying its underlying assets and management strategies. It also launched the Target Date Fund and other retirement pension funds, becoming one of the country's leading asset management companies in the process. As a result of these efforts, Shinhan BNP Paribas AM was recognized for having the "Best Equity Fund" at the 2018 Market Leader Awards by *E-Today* and the "Innovative Fund of the Year" (for its Shinhan BNPP Covered Call Security Feeder Investment Trust) at the 2018 Korea Funds Awards by *Moneytoday*.

The company also decided to assume the role of the asset management solutions center for the entire Shinhan Financial Group. This direction was taken both to assist in fulfilling the aims of the Group's "2020 S·M·A·R·T Project" to advance and secure its balanced and sustainable future growth, and to ensure the company's position as the leading comprehensive asset management player among all bank-affiliated companies in South Korea. In order to meet these goals, the company has established three core tasks as its mid- and long-term strategic plans. They include growth through the enhancement of its comprehensive asset management capabilities, differentiated growth through the development of its multiple asset solutions capabilities, and the fulfillment of its role as the Group's asset management solutions center. In addition, it will continue to realize its vision of becoming "THE Asset Management Company in South Korea," based on its deep and meaningful collaborations with all of the Group's affiliates as well as a global partnership with BNP Paribas AM Holdings.

2019 Business Plans

The company anticipates that uncertainties in the market will continue to grow in 2019. This will include interest rate hikes both at home and abroad, the continuation of the US-China trade war, and currency and financial difficulties in emerging markets. The equity market is expected to remain volatile, while interest rates will continue to be relatively low. It also believes that investors will begin to demand a wider range of investment solutions for their funds, including absolute return funds such as "deposits interest rate + α " funds. This desire for safe yet profitable alternative forms of investment will be due in large part to the limited returns they are currently receiving from more traditional investments.

Shinhan BNP Paribas AM intends to maintain its leading position as a large-scale asset management industry player, while also enhancing its capabilities as the asset management solutions center for the Shinhan Financial Group. It will also continue to develop a wide and attractive range of investment products. Above all, it will seek diversified growth based on its industry-leading solutions capabilities. In order to achieve these ends, the company has developed the following eight strategic tasks.

Strategies for 2019

Strategic Goal

Diversified Growth Based on Solutions Capabilities

Strategic Tasks



Increase synergies by strengthening One Shinhan collaboration



Respond to market by building agile product development processes



Enhance competitiveness in managing alternative assets



Ensure competitiveness in OCIO sector



Increase global investment opportunities by improving solution capabilities



Add to sales capacity by utilizing digital platforms



Establish investment portfolio based on ESG framework



Build industry-leading human resources management system

MD&A

Management Discussion and Analysis

2018 IN REVIEW

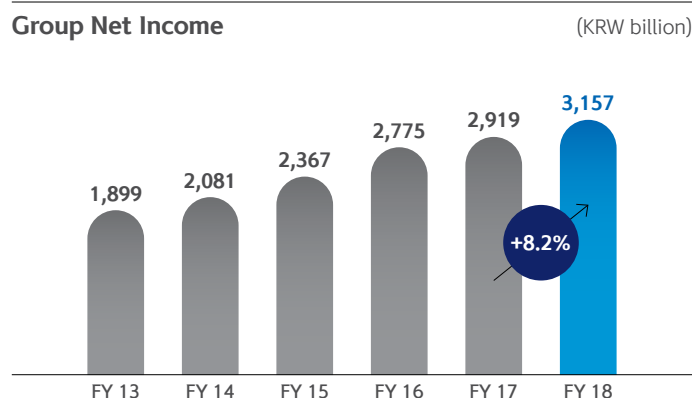
Group Overview

Shinhan Financial Group posted KRW 3,156.7 billion in consolidated net income attributable to equity shareholders in 2018, up 8.2% over the previous year and the largest total in its history. This income has been on an upward spiral for the past five years, led by the success of its 2020 S·M·A·R·T Project that it launched in 2017 and extremely healthy results from its non-banking sector as a result of the One Shinhan strategy. The Group's net interest margin also rose steadily, due to profitability-oriented asset growth and improvements in its funding portfolio. Non-interest income also contributed to continuing growth in the Group's operating income (meaning the total of its interest income plus its non-interest income), since its trust business also posted an increase in its fees and commissions income.

In terms of general and administrative expenses, the Group continued with its stable cost management strategy through its early retirement programs and other operational efficiencies. It was also able to adapt quickly to a constantly-changing market environment through the deployment of its Digital Transformation strategy. Its credit costs also remained at a stable level as a result of its systematic and proactive risk management practices, contributing significantly to growth in its net income.

Another way that the Group profited from the success of its 2020 S·M·A·R·T Project to strengthen its competitiveness in the global and capital market sectors can be seen in the increasing diversification of its income sources.

Shinhan Bank's global operations, for example, posted a net income of KRW 321.5 billion—about 14% of the bank's total income. With successful implementation of the matrix organizational structures, both GIB and WM sectors recorded YoY growth through Group-wide collaborative efforts.



INCOME

Group Income

The Group posted KRW 3,156.7 billion in consolidated net income attributable to equity shareholders in 2018, the largest total since its establishment. Interest income rose by 9.4% YoY to KRW 8,580.1 billion, with its net interest margin continuing to increase as a result of its emphasis on stable funding and profitability-oriented asset growth.

Total non-interest income rose by 4.3% to KRW 1,399.5 billion, led by a rise in brokerage commissions. Trust fee income also

showed an increase from the previous year, mainly because of a healthy uptick in the retirement pension market, and an increase in its amount of invested assets. Income from credit card fees remained steady, recording a YoY increase despite regulatory measures to reduce merchant fees for small- and medium-sized merchants since the second half of 2017.

Group Income

(KRW billion)

	FY 17	FY 18	YoY%
Operating Income (a=b+c)	9,184.2	9,979.6	8.7
Interest Income (b)	7,843.0	8,580.1	9.4
Non-Interest Income (c)	1,341.3	1,399.5	4.3
G&A Expenses (d)	4,811.2	4,741.6	-1.4
Pre-Provision Operating Income (e=a-d)	4,373.0	5,238.0	19.8
Non-Operating Income (f)	-32.4	-32.8	n.a.
Pre-Provision Income (g=e+f)	4,340.6	5,205.2	19.9
Provision for Credit Losses (h)	543.0	738.6	36.0
Earnings before Income Tax (i=g-h)	3,797.6	4,466.6	17.6
Income Tax	848.4	1,268.3	49.5
Consolidated Net Income ¹⁾	2,918.8	3,156.7	8.2

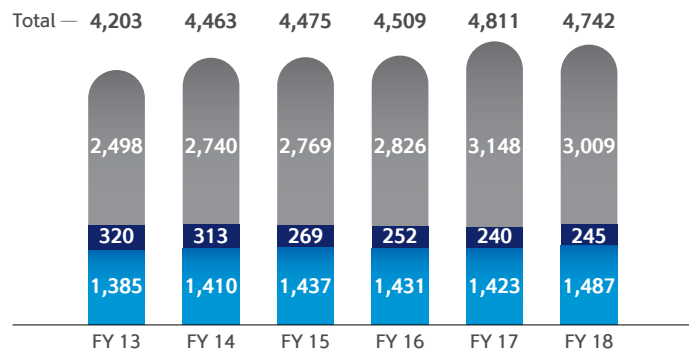
Note 1) Net Income in Controlling Interest

The Group has been making a number of efforts to reduce its costs since 2012. In 2018, its total general and administrative expenses fell by 1.4% from the previous year to KRW 4,741.6 billion. Its cost-to-income ratio also stood at a very satisfactory 47.5%.

Group G&A Expenses

(KRW billion)

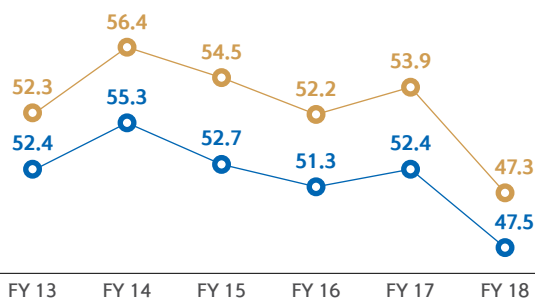
● Other Expenses ● D&A ● Salary & Employee Benefit



Group and Shinhan Bank Cost-to-Income Ratio

(%)

● SFG ● SHB

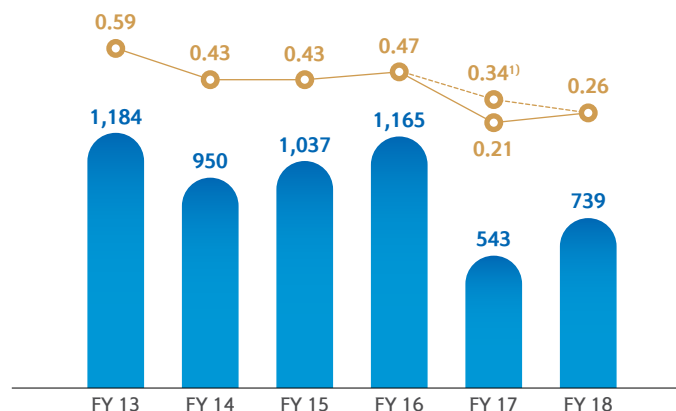


The Group's credit costs rose by 36.0% to KRW 738.6 billion. They would actually have fallen by 9.8% if Shinhan Card's KRW 275.8 billion reversal of its allowances was factored in. Credit costs for Shinhan Bank and Shinhan Card both exhibited a slight downward trend, while the Group's annual credit-to-cost ratio stayed at a stable 26bp.

Group Credit Costs

(KRW billion, %)

● Provision for Credit Losses ● Credit Cost Ratio



Note 1) Excluding write-backs from Shinhan Card

The Group posted its best-ever results in 2018. One reason for this was a healthy increase in its interest income due to an uptick in its number of loans and a higher net interest margin. Another cause was its continuing efforts to cut costs on a long-term basis, while a third was its stable credit-to-cost ratio.

Group Subsidiaries Income

The Group is pursuing balanced growth arising from its 2020 S·M·A·R·T Project and by increasing the earnings of its banking and non-banking subsidiaries through its One Shinhan strategy.

Group Subsidiaries Income

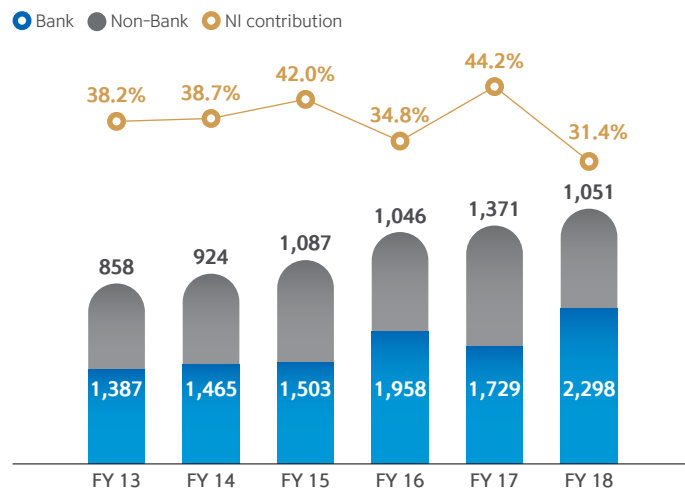
(KRW billion)

	FY 17	FY 18	YoY%
Bank (a)	1,729.4	2,297.9	32.9
Shinhan Bank	1,712.1	2,279.0	33.1
Jeju Bank	17.3	18.9	8.9
Non-Bank (b)	1,371.0	1,050.7	-23.4
Shinhan Card	913.8	519.4	-43.2
Shinhan Investment	211.9	251.3	18.6
Shinhan Life Insurance	120.6	131.0	8.6
Shinhan BNPP AM	12.8	12.3	-4.2
Shinhan Capital	87.6	103.4	18.0
Shinhan Savings Bank	16.8	19.4	15.4
Shinhan DS	1.4	1.3	-6.4
Shinhan AITAS	6.5	8.4	30.5
Shinhan Credit Information	0.3	1.4	309.7
Shinhan Alternative Investment	-0.8	-0.8	n.a.
Shinhan REITs Management	-	3.6	n.a.
Total (a+b)	3,100.4	3,348.6	8.0
Consolidate Net Income ¹⁾	2,918.8	3,156.7	8.2

Note 1) Net Income in Controlling Interest

Net Income Contribution by Non-bank Subsidiaries

(KRW billion)



Note) After reflecting ownership by SFG

» Shinhan Bank

Shinhan Bank's net income for 2018 rose by 33.1% over the previous year to KRW 2,279.0 billion. This was attributed to an 11.9% increase in its interest income due to steady asset growth and stable NIM management. Other causes were stable G&A costs resulting from its cost reduction efforts and improvements to its credit cost management system and its upgraded risk management processes.

Shinhan Bank Income

(KRW billion)

	FY 17	FY 18	YoY%
Operating Income (a=b+c)	5,782.8	6,468.6	11.9
Interest Income (b)	4,992.1	5,586.0	11.9
Non-Interest Income (c)	790.7	882.6	11.6
G&A Expenses (d)	3,118.1	3,061.8	-1.8
Pre-Provision Operating Income (e=a-d)	2,664.7	3,406.8	27.8
Non-Operating Income (f)	-46.6	-18.3	n.a.
Pre-Provision Income (g=e+f)	2,618.1	3,388.5	29.4
Provision for Credit Losses (h)	459.0	242.1	-47.2
Earnings before Income Tax (i=g-h)	2,159.1	3,146.4	45.7
Income Tax	446.8	867.0	94.1
Net Income ¹⁾	1,712.1	2,279.0	33.1

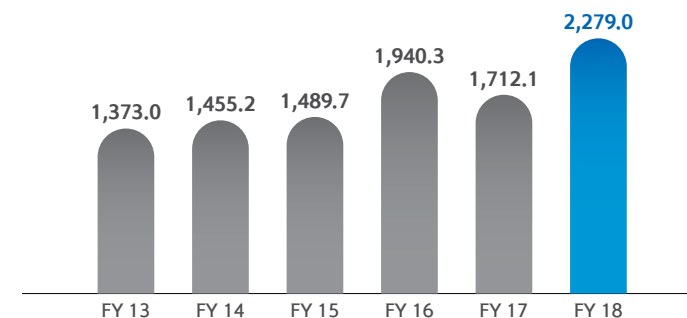
Note 1) Net Income in Controlling Interest

The bank's interest income increased by 11.9% to KRW 5,586.0 billion, while its non-interest income rose by 11.6% to KRW 882.6 billion backed by an increase in fees and commissions income.

The bank's G&A expenses fell by 1.8% from the previous year to KRW 3,061.8 billion, reflecting a temporary surge in early retirement costs in 2017, and its long-term cost management efforts. Credit costs dropped by 47.2% to KRW 242.1 billion, continuing a downward trend resulting from its risk management system.

Shinhan Bank Net Income

(KRW billion)



» Shinhan Card

Shinhan Card posted a net income of KRW 519.4 billion in 2018, down 43.2% from the previous year. This was attributable to a reversal in its credit costs, gains on the trading of securities, and other one-time income during 2017. Recurring profits were steady once these one-time factors were excluded. Net income was also stable, thanks to a higher volume of transactions and careful cost management efforts, and despite lower merchant fees from the second half of 2017.

Shinhan Card Income

(KRW billion)

	FY 17	FY 18	YoY%
Operating Revenue (a)	3,855.0	3,753.9	-2.6
Card Business	2,853.4	2,960.9	3.8
Installment Finance	102.5	110.0	7.4
Lease	69.7	126.5	81.6
Others	829.4	556.4	-32.9
(Derivatives & FX)	299.6	152.2	-49.2
Interest Expense (b)	379.9	430.7	13.4
G&A Expenses (c)	791.1	703.0	-11.1
Commission & Other Expenses (d)	1,522.0	1,452.4	-4.6
(Derivatives & FX)	266.1	116.3	-56.3
Pre-Provision Income (e=a-b-c-d)	1,161.9	1,167.7	0.5
Provision for Credit Losses (f)	13.8	466.4	3,288.0
Earnings before Income Tax (g=e-f)	1,148.2	701.3	-38.9
Income Tax	249.4	183.5	-26.4
Net Income ¹⁾	913.8	519.4	-43.2

Note 1) Net Income in Controlling Interest

The company's card business posted the same level of revenue as it enjoyed the year before. This was due to a higher volume of transactions and increased sales of financial products and despite lower merchant fees from the second half of 2017. Its installment finance and leasing business increased its revenues, led by stronger long-term car rentals and the very healthy operations of a subsidiary in Indonesia. Other sources of revenue fell, mainly due to a drop in securities valuation losses following their disposal.

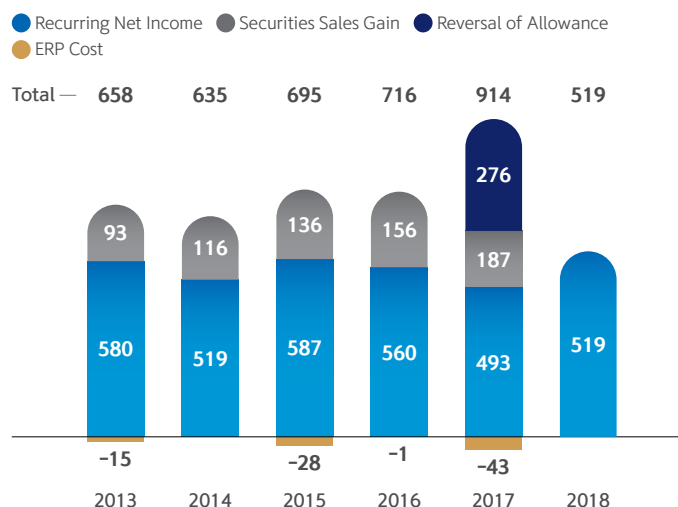
Interest costs rose by 13.4% YoY to KRW 430.7 billion. This happened because its volume of borrowings increased due to growth in its total transaction volume, and even though lending rates remained at same level as in 2017.

General and administrative expenses fell by 11.8% to KRW 703.0 billion, due to company-wide cost savings and a temporary increase in early retirement costs in 2017. Commission and other expenses rose following an increase in commission expenses caused by rises in credit purchases and installment financing.

Credit costs ballooned by 3,288.0% YoY to KRW 466.4 billion. However, if modifications to the loan loss allowance worth KRW 363.9 billion were excluded, these costs actually remained at a stable level.

Shinhan Card Net Income

(KRW billion)

**Shinhan Investment**

Shinhan Investment posted a net income of KRW 251.3 billion in 2018, up 18.57% YoY. Increased market volatility led to healthy rises in its brokerage fee income, sales of financial products, and proprietary trading.

Shinhan Investment Income

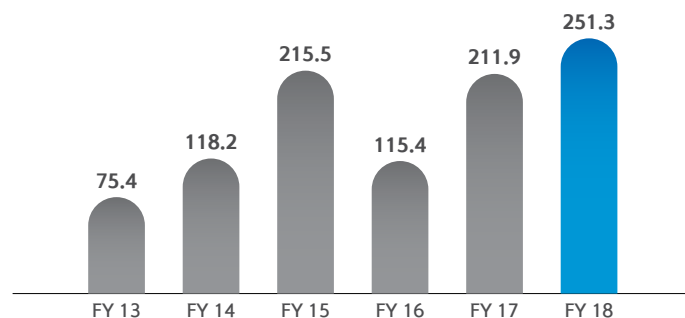
(KRW billion)

	FY 17	FY 18	YoY%
Operating Revenue	795.0	959.1	20.6
Fees & Commissions	429.5	506.7	18.0
Proprietary Trading	239.3	321.4	34.3
Others	126.3	131.0	3.7
Operating Expense	542.2	624.3	15.1
G&A Expenses	456.3	500.3	9.6
Commission Expenses	81.9	113.5	38.6
Provision for Credit Losses	4.1	10.5	158.5
Operating Income	252.8	334.8	32.5
Net Income	211.9	251.3	18.6
Net Capital Ratio	495%	768%	273%p
ROE	6.7%	7.6%	0.9%p
ROA	0.8%	0.9%	0.1%p

The company's fees and commissions income increased by 18.0% to KRW 506.7 billion. Its brokerage and IB fees rose following an increase in their value in the stock market trading value and the activation of its IB operations. Its gains from proprietary trading surged by 34.3%, thanks to healthy results from its investments in bonds and stocks. Its general and administrative expenses grew by 9.6% to KRW 500.3 billion, mainly due to rising payroll and incentive costs. On the plus side, operating income grew by 32.5% thanks to higher operating profits.

Shinhan Investment Net Income

(KRW billion)

**» Shinhan Life Insurance**

Shinhan Life Insurance's net income grew to KRW 131.0 billion in 2018, up 8.6% from the previous year. This growth was attributable to its strategy for lowering its costs and healthy sales of protection-type insurance policies, and came despite losses in its asset management business. The company's operating margin increased, led by a rise in its expenses margin. This happened despite a decrease in its mortality and morbidity margin due to growth in the popularity of protection-type insurance policies and a larger number of accident claims. The company will pursue added efficiencies in all its operations by achieving further synergies with Orange Life, which became part of Shinhan Financial Group in February 2019. This will include a strategy of cross-selling, as well as benchmarking the other company's best practices. These steps will raise the status of both Shinhan Life Insurance and Orange Life within the country's life insurance industry and strengthen their contributions to the Group's earnings.

Shinhan Life Insurance Income

(KRW billion)

	FY 17	FY 18	YoY%
Insurance Operating Margin	266.8	287.5	7.8
Expenses Margin	188.3	231.3	22.9
Mortality & Morbidity Margin	78.5	56.2	-28.4
Investment Margin	-90.2	-93.8	n.a.
Other Margin	-14.6	-12.3	n.a.
Earnings before Income Tax	162.1	181.5	11.9
Income Tax	41.4	50.4	21.7
Net Income	120.6	131.0	8.6

ASSET GROWTH**Group Asset Growth**

The Group's total consolidated assets at the end of 2018 was KRW 459.6 trillion, up 7.8% over the previous year, while its total assets (including invested assets) rose by 12.6% to KRW 603.5 trillion. The Group achieved balanced growth between its banking and non-banking sectors as a result of its 2020 S·M·A·R·T Project initiative.

The value of the assets in its banking division grew as a result of increased won-currency loans to retail and corporate customers. The non-banking sector saw healthy increases in the amount of loans by Shinhan Card and higher growth in the trust assets of Shinhan Investment and the invested assets of Shinhan BNPP AM.

Group Asset Growth

(KRW billion)

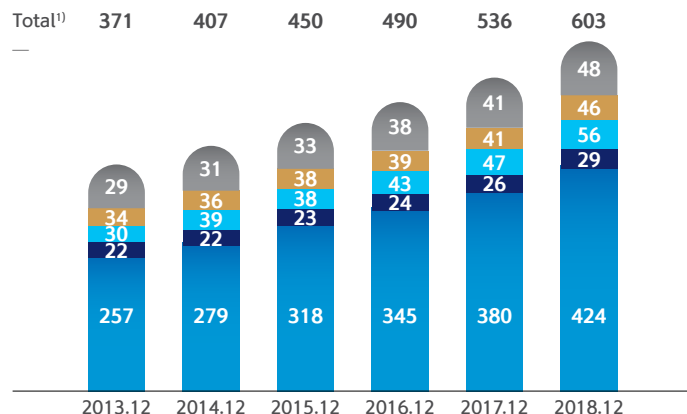
	2017.12	2018.12	YTD%
Bank (a)	380,209.9	423,928.2	11.5
Shinhan Bank	374,647.0	417,947.3	11.6
Jeju Bank	5,562.9	5,980.9	7.5
Non-Bank (b)	153,789.7	175,787.8	14.3
Shinhan Card	26,367.6	29,429.5	11.6
Shinhan Investment	46,721.0	55,703.6	19.2
Shinhan Life Insurance	29,719.4	31,823.6	7.1
Shinhan BNPP AM	41,134.5	46,165.7	12.2
Shinhan Capital	5,315.4	6,116.6	15.1
Shinhan Savings Bank	1,287.2	1,454.3	13.0
Shinhan DS	39.8	43.1	8.3
Shinhan AITAS	58.2	65.7	13.0
Shinhan Credit Information	22.7	24.4	7.3
Shinhan Alternative Investment	292.5	1,211.6	314.2
Shinhan REITs Management	29.3	801.3	2,632.9
Others	2,802.1	2,948.6	5.2
Total ¹⁾	535,915.9	603,453.5	12.6
Consolidate Total Assets	426,305.7	459,600.5	7.8

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

Group Asset Growth

(KRW trillion)

Bank Shinhan Card Shinhan Investment
Shinhan BNPP AM Others



Note: Including trust assets of Shinhan Investment and AUM of Shinhan BNPP AM

Subsidiaries' Asset Growth

Shinhan Bank

Loans

The total value of Shinhan Bank's won-currency loans came to KRW 209.6 trillion at the end of 2018, up 7.2% over the year. It also continued adding to its volume of high-quality assets by achieving balanced growth between its retail and corporate banking sectors. This contributed significantly to healthy growth in interest income, both for the bank and the Group. The bank's won-currency retail loans rose by 7.5% to KRW 106.3 trillion. Its retail loans showed satisfactory growth, led by upturns in housing lease loans and high-quality but unsecured personal loans. The value of its mortgage loans grew by 2.1%, mostly because of a hike in the base rate by the Bank of Korea and tightened governmental regulations regarding the country's real estate industry.

The bank's won-currency corporate loans went up by 6.9% from the previous year to KRW 103.3 trillion. Its SME loans climbed by 8.2% as it pursued an asset growth strategy of focusing on loans to unaudited SMEs and SOHOs.

Shinhan Bank Loans

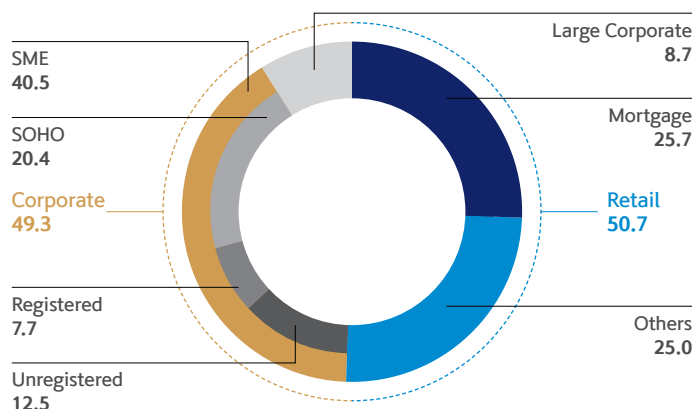
(KRW billion)

	2017.12	2018.12	YTD%
Loan in KRW	195,497	209,568	7.2
Retail	98,877	106,304	7.5
Mortgage	52,808	53,935	2.1
Others ¹⁾	46,069	52,369	13.7
Corporate	96,620	103,264	6.9
SME	78,556	84,974	8.2
SOHO	38,610	42,665	10.5
Large Corporate etc.	18,064	18,290	1.3
Loan in FX	7,658	7,807	1.9

Note 1) Including Unsecured Personal Loans, Secured Loans, Housing Lease Loans etc.

Composition of Shinhan Bank Loans

(%)



Deposits

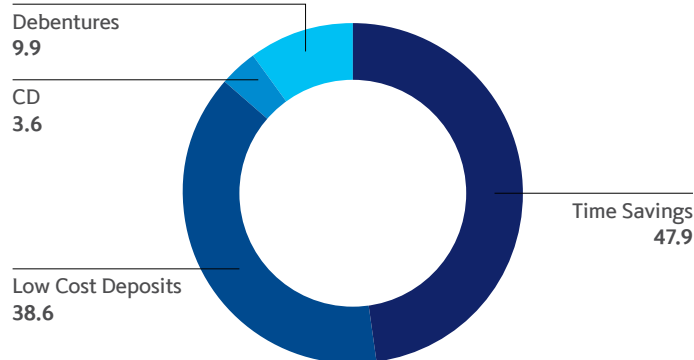
Shinhan Bank's year-end won-currency deposits were valued at KRW 208.3 trillion, up 5.6% YoY. Although the rate of increase for its low-cost deposits edged down slightly due to higher interest rates, market liquidity remained steady. The bank also continued with its efforts to attract high-quality customer deposits, including payroll accounts and credit card payment accounts.

Shinhan Bank Deposits

(KRW billion)

	2017.12	2018.12	YTD%
Total Deposits in KRW	197,355	208,349	5.6
Low Cost Deposits	89,462	92,950	3.9
Demand	26,936	28,455	5.6
Savings	62,525	64,495	3.2
Time Savings	107,894	115,399	7.0
Time Deposits	99,491	106,684	7.2
Accumulative etc.	8,403	8,715	3.7
Certificate of Deposits	6,973	8,603	23.4
Debentures in KRW	20,057	23,814	18.7

Composition of Shinhan Bank Funding (%)



» Shinhan Card Number of Members

The number of Shinhan Card's active cardholders reached 12.5 million at the end of 2018, up 1.6% from the previous year. The company is emphasizing qualitative rather than quantitative growth in order to retain its position as South Korea's leading credit card industry player. It is also taking steps to diversify its earnings base by increasing its number of digital-based, small- and medium-sized merchant store operations and seeking to build partnerships in other key markets.

Number of Active Card Customers and Merchants (thousand)

	2017	2018	YTD (%)
Active Cardholders	12,295	12,495	1.6
Merchants	2,724	2,810	3.1

Assets

The company's earning assets stood at KRW 27.3 trillion at the end of 2018, up 11.0% YoY. Credit purchases rose by 11.1% YoY, mainly due to strong growth in mobile and online payments, while card loans increased by 5.6%. Its lease assets climbed by 28.2%, reflecting growth in the long-term car rental business and a rising value in the lease assets at the company's Indonesian subsidiary.

Shinhan Card Earning Assets

(KRW billion)

	2017.12	2018.12	YTD (%)
Earning Assets	24,553	27,254	11.0
Credit Purchase	12,620	14,015	11.1
Cash Advances	1,921	1,986	3.4
Card Loan	5,944	6,276	5.6
(Re-aged Loan)	250	239	-4.3
Installment Finance	2,270	2,671	17.6
Lease etc.	1,798	2,306	28.2

Funding

Shinhan Card's total funding was valued at KRW 19.0 trillion at the end of 2018, up 20.2% from 2017. This included debentures, asset-backed securities, commercial paper, and other financial instruments, depending on market conditions. Its threat of liquidity risk is minimized through a strategy of diversifying their dates of maturity.

Shinhan Card Funding

(KRW billion)

	2017.12	2018.12	YTD (%)
Total Funding	15,840	19,033	20.2
Debentures	11,814	14,112	19.4
ABS	2,121	2,556	20.5
CP	1,130	1,665	47.3
Others	775	700	-9.7

» Shinhan Investment

The value of Shinhan Investment's total assets at the end of 2018 was KRW 29.1 trillion, up 1.7% from 2017. Loans surged by 26.1% due to more IB-related loans.

The company's brokerage transaction volume increased by 51.4% to KRW 377 trillion, with a market total of KRW 6,392 trillion and a market share of 5.90%. Strong domestic and global markets led to a recovery in investor sentiment and resulted in stable growth for the company.

Shinhan Investment Total Assets

(KRW billion)

	2017.12	2018.12	YTD (%)
Total Assets	28,649	29,140	1.7
Cash and Deposit	3,306	3,631	9.8
Securities	18,511	18,322	-1.1
(Trading securities)	16,195	16,698	3.1
Derivatives	655	311	-52.5
Loans	3,702	4,670	26.1
(Broker's loans)	2,080	1,777	-14.6
Tangible fixed assets	122	123	0.1
Other assets	2,354	2,084	-11.5

Shinhan Investment Trading Volume

(KRW trillion)

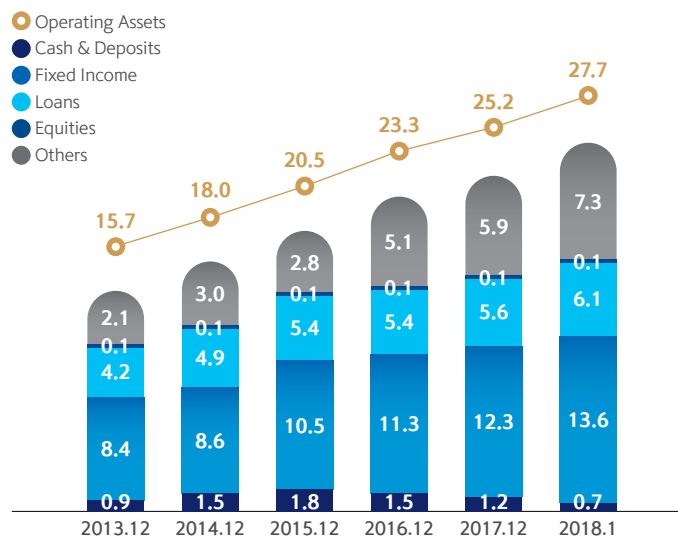
	2017.12	2018.12	YTD (%)
Stocks	377	249	51.4
Futures	820	508	61.4
Options	18	15	18.2

Shinhan Life Insurance

Shinhan Life Insurance had assets valued at KRW 27.7 trillion at the end of 2018, up 10.2% from 2017. Fixed income increased by 10.0% YoY as the company increased its range of investments to include held-to-maturity bonds. The value of its loans grew by 8.7%.

Shinhan Life Insurance Operating Assets Growth

(KRW trillion)


ASSET QUALITY
Group Asset Quality

The Group's ratio of non-performing loans fell by 0.09% points from the previous year to 0.53%, the lowest since its inception. This was achieved by the gradual elimination of riskier assets and a concomitant strategy of centering on the acquisition of safer ones.

The value of the Group's substandard and below loans was KRW 1.5 trillion at the end of 2018, down by 7.6% from the previous year. Its NPL coverage ratio reached 170% (excluding the reserve for credit losses), more than enough to cover any potential losses in the future.

Group Asset Quality

(KRW billion)

	2017.12	2018.12	YTD (%)
Total Loans ¹⁾	263,976	287,918	9.1
Normal	259,957	284,180	9.3
Precautionary	2,384	2,227	-6.6
Substandard	551	479	-13.2
Doubtful	518	498	-3.7
Estimated Loss	567	535	-5.6
Substandard & Below	1,635	1,512	-7.6
NPL Ratio	0.62%	0.53%	-0.09%p
Loan Loss Allowance ²⁾	4,246	4,562	7.4
Reserve for Credit Losses ³⁾	2,059	1,987	-3.5
(New) NPL Coverage Ratio ⁴⁾	134%	170%	37%p
(Old) NPL Coverage Ratio	260%	302%	42%p

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

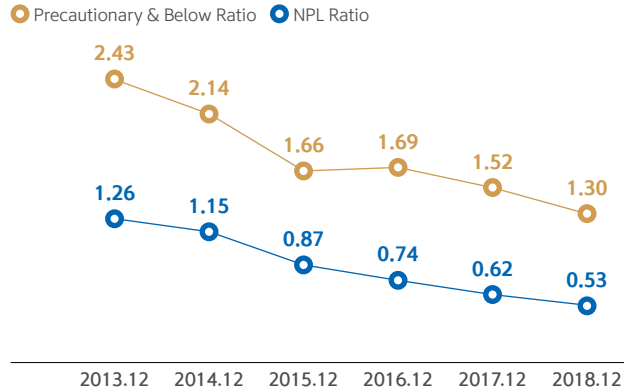
2) Sum of IFRS standard LLA and reserves for credit losses

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

4) Excluding reserve for credit losses in accordance with the revision of relevant regulation (Dec. 2016)

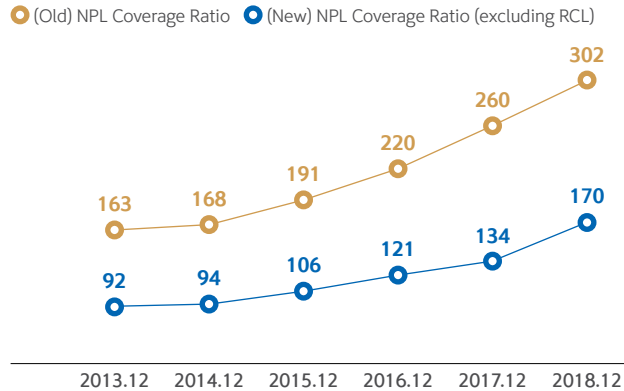
Group NPL Ratio

(%)



Group NPL Coverage Ratio

(%)



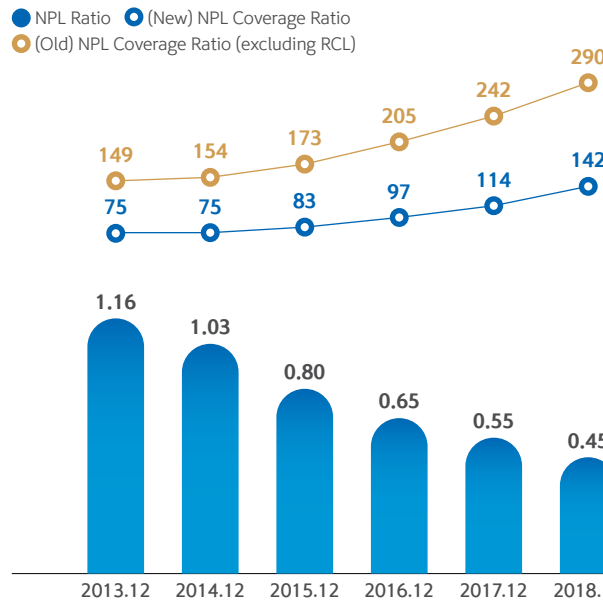
Subsidiaries' Asset Quality

» Shinhan Bank

Shinhan Bank's NPL ratio fell by 0.10% points to 0.45% from the previous year. It maintained its NPL ratio and other indicators of the quality of its assets at a highly stable level through a growth strategy that focused on the acquisition of safe and highly-profitable assets. Substandard and below loans amounted to KRW 1.1 trillion, down 11.2% from the previous year, while its delinquency ratio was just 0.25%.

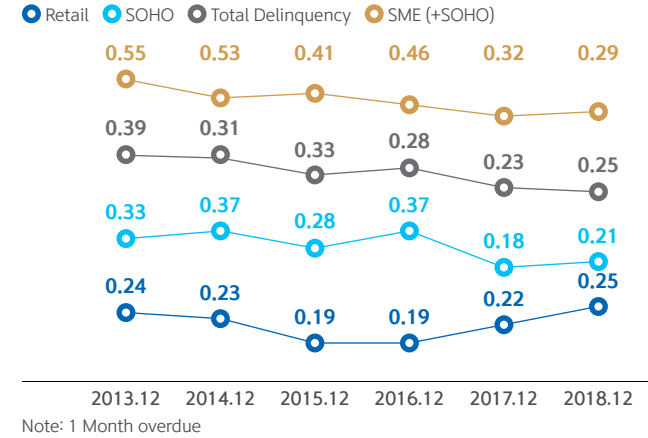
Shinhan Bank NPL Coverage Ratio & NPL Ratio

(%)



Shinhan Bank Delinquency Ratio

(%)

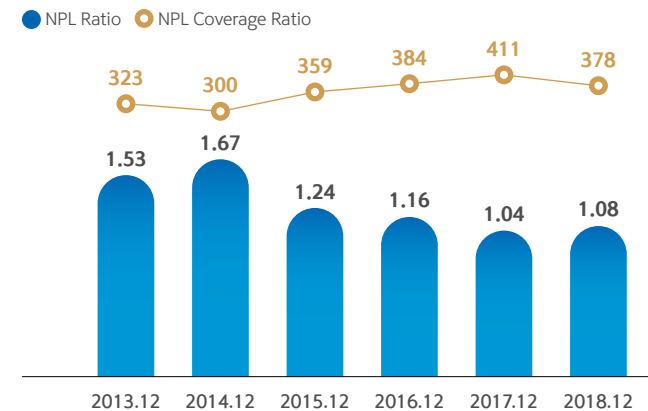


» Shinhan Card

Shinhan Card's NPL ratio fell by 0.04% points from the previous year to 1.08%. Substandard and below loans remained at acceptable levels despite a rise in credit card loans, while the delinquency ratio remained stable at 1.30% thanks to its preemptive risk management.

Shinhan Card NPL Coverage Ratio & NPL Ratio

(%)



CAPITAL ADEQUACY

Group Capital Adequacy

The Group's Common Equity Tier 1 (CET 1) Capital rose by 7.2% from the previous year due to an increase in net income and a stable generation of earnings. Risk-weighted assets grew by 10.1%, mainly due to increased sales by its global operations and a strategy of only investing in high-quality assets. Its CET 1 ratio declined slightly to 12.5% as a result.

The Basel 3 standard recommendation for a financial institution's CET 1 Ratio is 8%, while its upper limit is 10.5% if a 2.5% counter-cyclical buffering ratio is factored in. The Group's CET 1 Ratio was 12.5% at the end of 2018, leaving a buffer of about an extra 200bp over this upper limit.

The Group decided to pay a dividend of KRW 1,600 per share for the 2018 fiscal year, making its dividend payout ratio and dividend yield 23.9% and 3.9%, respectively. It has been gradually raising its dividend payout ratio ever since its establishment in an effort to improve shareholder value. It is also committed to flexible and proactive capital policies, including its decision to buy back KRW 200 billion worth of shares in September 2018.

Group BIS Ratio

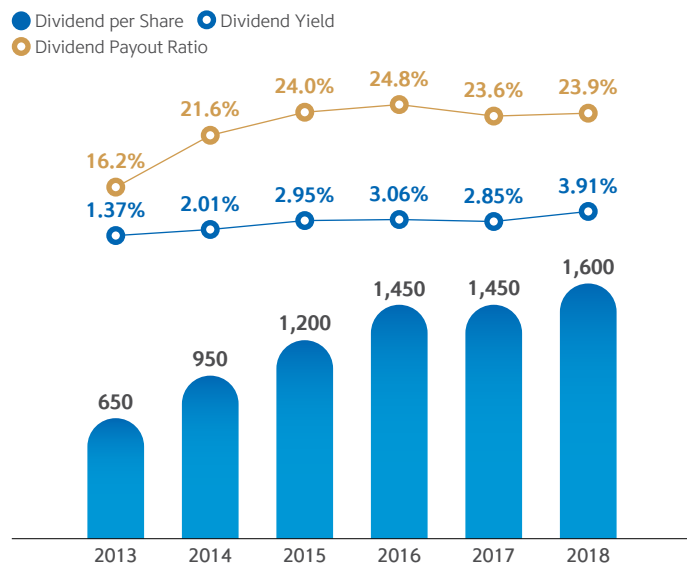
(KRW billion)

	2017.12	2018.12	YTD (%)
Risk-Weighted Assets	207,769	228,623	10.0
Capital	30,713	34,014	10.7
CET1	26,757	28,710	7.3
Tier1	27,673	30,693	10.9
BIS Ratio	14.8%	14.9%	0.1%p
CET1	12.9%	12.6%	-0.3%p
Tier1	13.3%	13.4%	0.1%p

Note: Based on Basel 3

Group Dividend

(KRW)



Subsidiaries' Capital Adequacy

» Shinhan Bank

Shinhan Bank maintained its CET 1 and Tier 1 ratios at a stable level of 12.9% and 13.3% at the end of 2018. It enjoyed a stable capital ratio thanks to its policy of focusing its growth on profitability-oriented loans and engaging in ongoing net income generation.

Shinhan Bank BIS Ratio

(KRW billion)

	2017.12	2018.12	YTD (%)
Risk-Weighted Assets	162,875	171,593	5.4
Capital	25,391	27,499	8.3
CET1	20,891	22,118	5.8
Tier1	21,561	22,812	5.8
BIS Ratio	15.6%	16.0%	0.4%p
CET1	12.8%	12.9%	0.1%p
Tier1	13.2%	13.3%	0.1%p

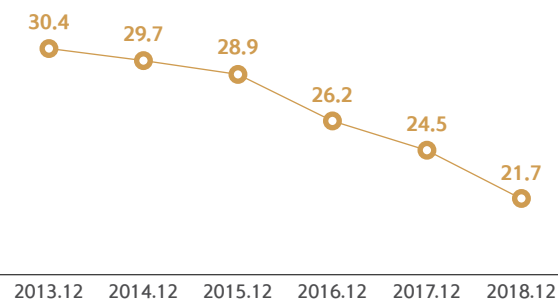
Note: Based on Basel 3

» Shinhan Card

Shinhan Card boasted a capital adequacy ratio of 21.7% at the end of the year, a highly satisfactory level compared to the minimum regulatory ratio of 8%. It has maintained an adjusted capital ratio of 20% or better since 2007. This is mainly attributable to its ongoing efforts to reduce its credit costs through the exercise of preemptive risk management processes and maintain a stable net income.

Shinhan Card Capital Adequacy Ratio

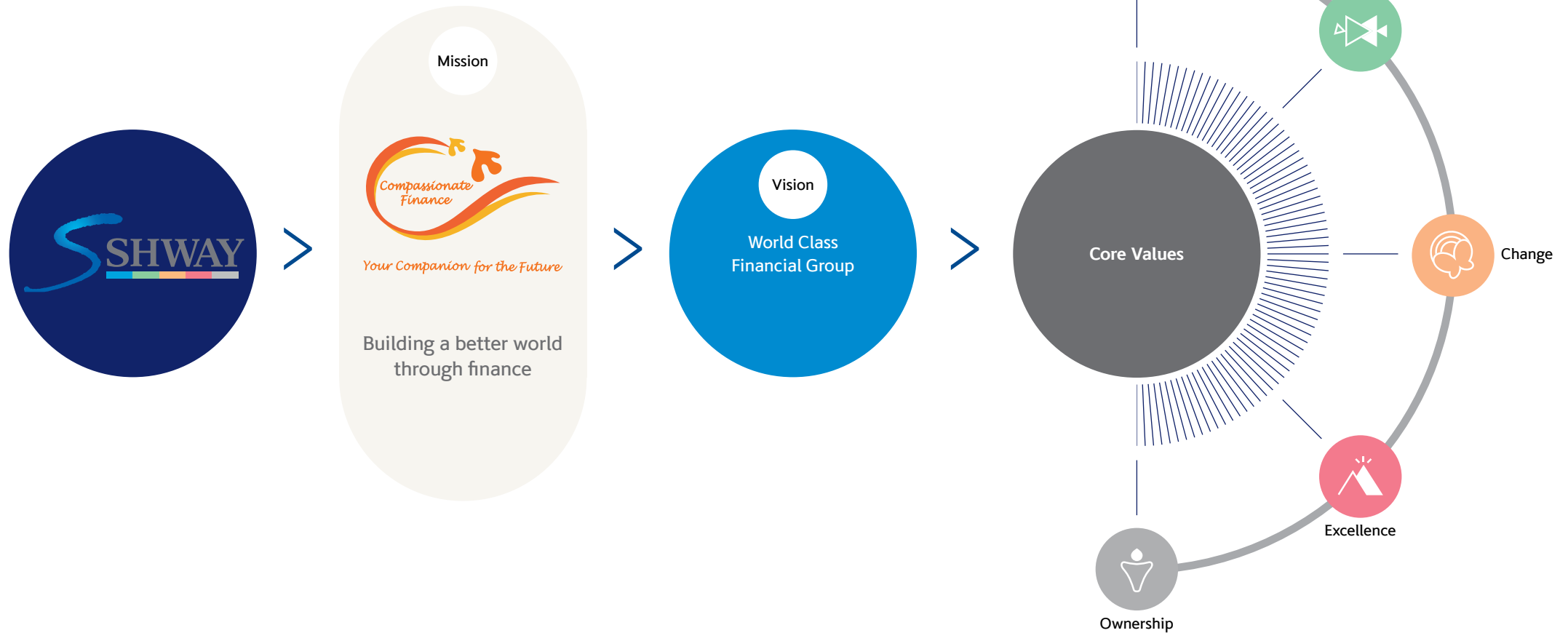
(%)



Appendix

Shinhan WAY

Shinhan WAY, comprised of the Group's mission, core values and vision, represents a value system by which all members of the Shinhan Financial Group measure their thoughts and actions.

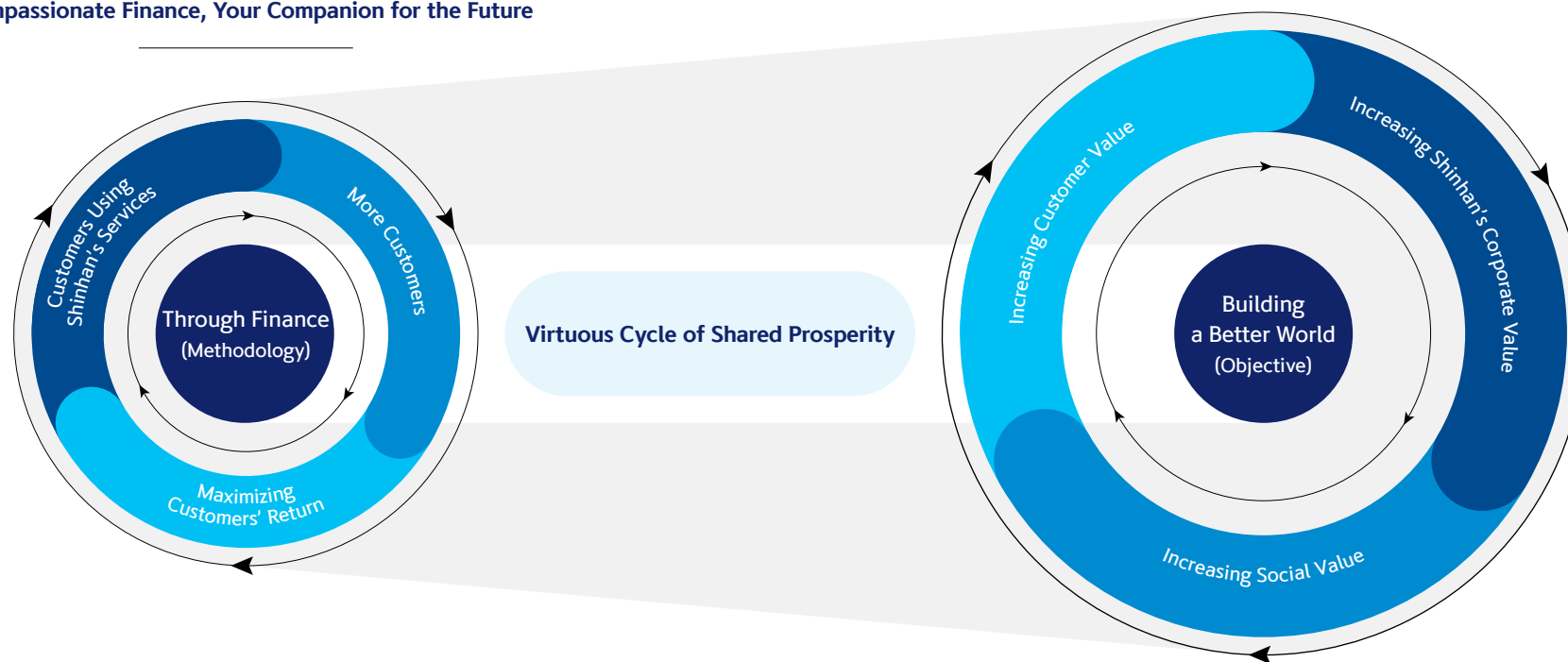


Group Mission

Shinhan Financial Group has set "Compassionate Finance, Your Companion for the Future" as its mission. Under our mission, which is the fundamental reason and purpose of the Group, we strive to uphold a virtuous cycle of shared prosperity that will create greater value for our clients and society as a whole. To this end, we need to part with the past and practice "Creative Finance" with new methods befitting a new environment with regard to products, services, and money management, in order to make a better world through finance.

We help clients achieve their goals by providing financial products and services that meet the latest trends, and delivering high returns on the funds entrusted to us. Financial products, services and money management must evolve along with the changing times and business environment in order for our core business to succeed. Departing from past conventions, we seek innovative new solutions using a methodology we call creative finance. As Shinhan helps more clients succeed and fulfills the fundamental role of finance, that is, the efficient allocation of resources, value will increase for the whole of society. The interlinked values of Shinhan and society will grow together and lead to progress in a virtuous cycle of shared prosperity. 'Compassionate Finance, Your Companion for the Future' is significant in that it shows how corporate value and client(social) value can coexist instead of merely competing. In order to realize such coexistence, Shinhan Financial Group will work to ensure that all employees embody the spirit of compassionate finance when working and upgrade its policies and systems so that clients can benefit from differentiated services.

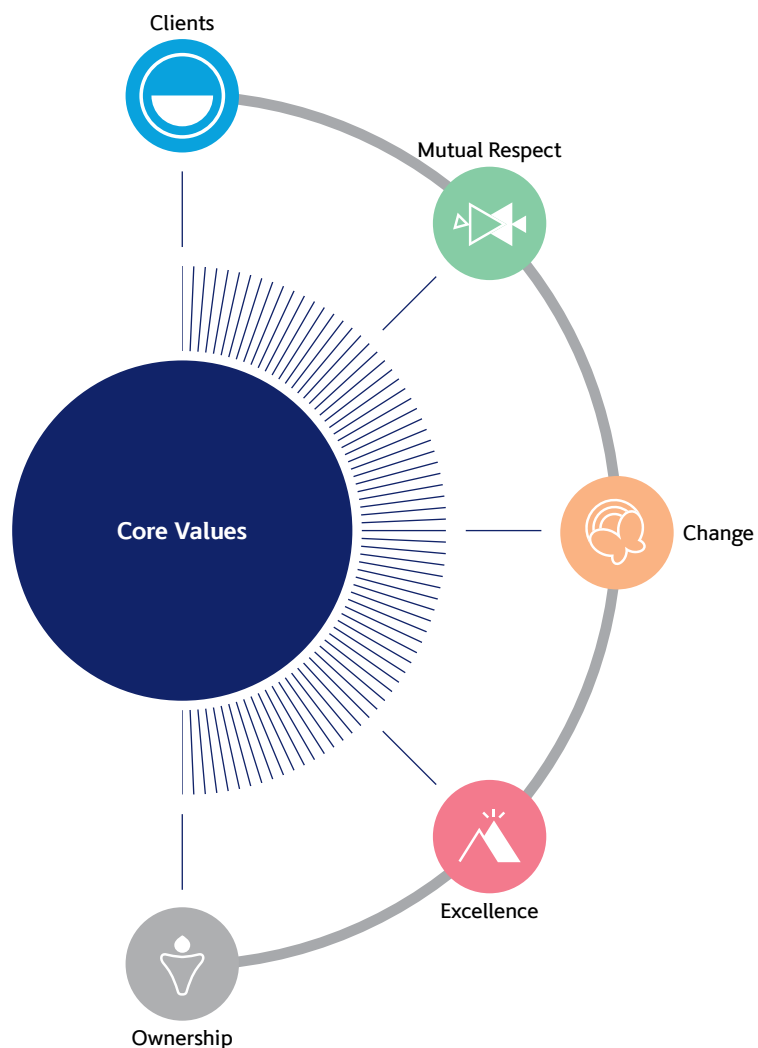
A Better World Through Finance
Compassionate Finance, Your Companion for the Future



Core Values

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

Core Values



Meaning

Clients

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

Mutual Respect

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

Change

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

Excellence

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




Ownership



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

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

Code of Conduct

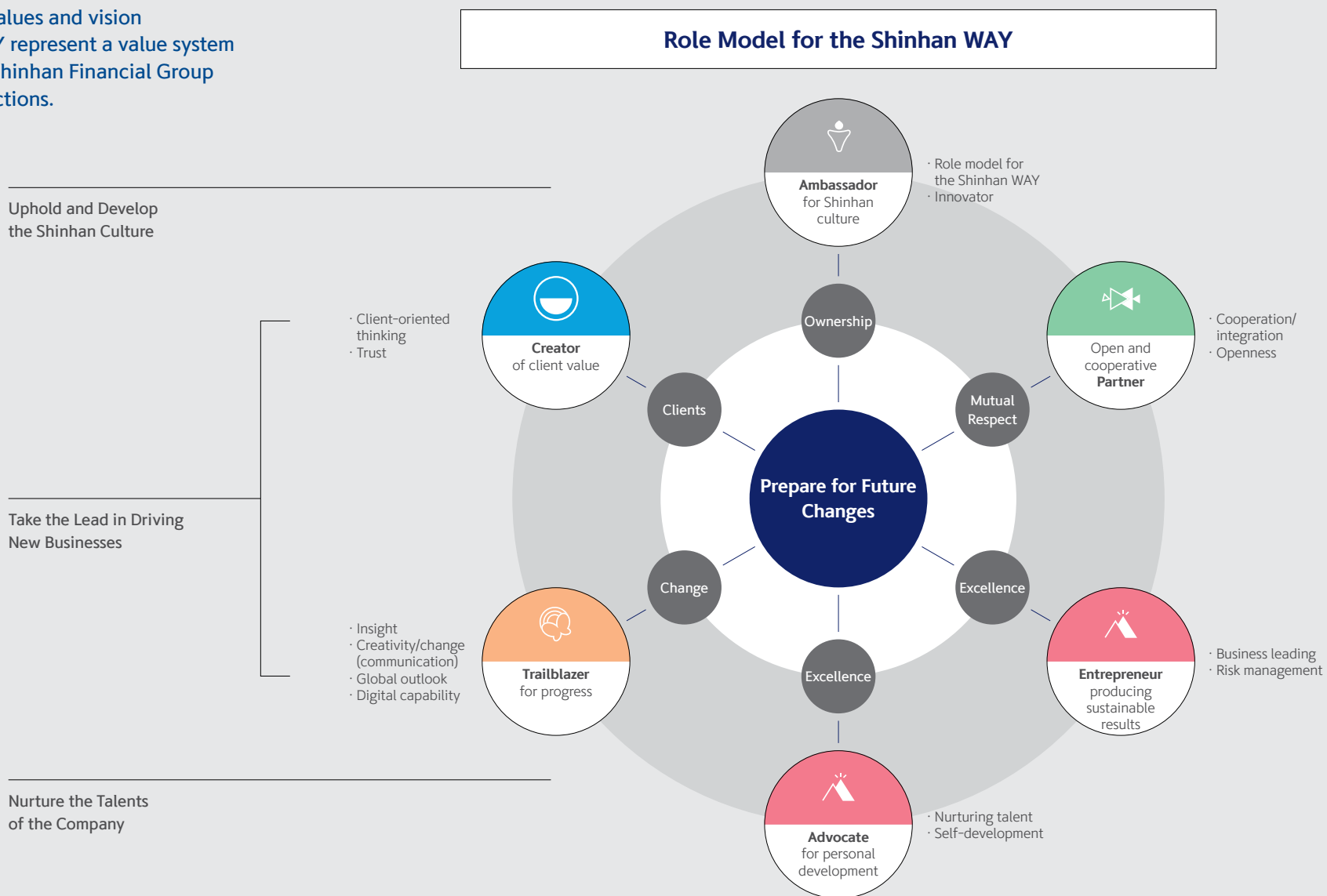
The code of conduct outlines the standards for employees' judgment and actions when applying the core values to their duties.

Core Values	Keyword	Code of Conduct
 Clients	Client-oriented thinking	Provide products and services based on in-depth understanding of clients' needs and their perspective.
	Client value	Make every effort to increase client value as the client's companion for the future.
	Trust	Build trust with clients by adhering to strict ethical standards and principles.
 Mutual Respect	Coordination and integration	Pursue cooperation as a member of One Shinhan but with respect and consideration for the other's perspective.
	Openness	Form a broad and diverse network of stakeholders beyond financial businesses with emphasis on open communication.
	Shared prosperity	Make judgments and take action to raise the value of Shinhan and society at large.
 Change	Insight	Predict the direction and implication of changes from a broad and comprehensive standpoint.
	Creativity	Think outside the box to discover new solutions and implement new approaches.
	Innovation	Take bold and swift action to introduce meaningful changes without being afraid of failure.

Core Values	Keyword	Code of Conduct
 Excellence	Challenge and execution	Set challenging goals and follow through with specific plans and perseverance.
	Sustainable performance	Strive to produce results that can be sustained over the long term.
	Self-development	Continue learning to gain the highest level of expertise and constantly explore new pursuits.
 Ownership	Role model for the Shinhan WAY	Set an example through actions based on a deep and sincere understanding of the Shinhan Way.
	Pride	Take pride and satisfaction in doing good work as a member of Shinhan.
	Self-motivation	Harness one's passion to inspire passion in others and take the initiative in fulfilling one's responsibilities.




The Shinhan Leader

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



Code of Conduct for the Shinhan Leader

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

 <p>Ambassador for Shinhan culture</p> <p>Ownership</p>	<p>Practice and promote the Shinhan WAY with conviction and sincerity, and uphold and develop the Group's culture in step with changes in the business environment.</p>	<ul style="list-style-type: none"> · Role model for the Shinhan WAY Promote the Shinhan WAY and foster an organizational culture where employees are recognized for following its principles. · Innovator Find solutions by taking an interest in cultural issues and continue developing Shinhan's culture in step with changes in the business environment.
 <p>Creator of client value</p> <p>Clients</p>	<p>Think from the client's perspective when making judgments and decisions, and build a relationship of trust by observing high ethical standards.</p>	<ul style="list-style-type: none"> · Client-oriented thinking Gain a thorough understanding of the client's needs and ensure delivery of products and services from the client's perspective. · Trust Foster trust by following strict ethical guidelines and aspire to increasing value for the client, Shinhan and society.
 <p>Open and cooperative partner</p> <p>Mutual Respect</p>	<p>Combine resources and capabilities for optimal group-wide performance and cultivate strategic partnerships through cooperation.</p>	<ul style="list-style-type: none"> · Cooperation/integration Establish strategies from the perspective of One Shinhan, find common ground through communication and constructive feedback, and allocate resources to suit changes in the business environment. · Openness Develop a broad and diverse network of stakeholders beyond financial businesses, and enter into strategic partnerships to create new value.

 <p>Entrepreneur producing sustainable results</p> <p>Excellence</p>	<p>Discover new business opportunities from a comprehensive standpoint, and deliver sustainable results through preemptive risk management.</p>	<ul style="list-style-type: none"> · Business leading Embrace an integrated view to discover business opportunities, strive for sustainable performance, and take responsibility for the outcome. · Risk management Embrace an expansive view to identify risk factors in an evolving business environment and take preemptive action to manage the risks.
 <p>Advocate for personal development</p> <p>Excellence</p>	<p>Make a long-term commitment to nurturing talented employees, create an open corporate culture, and continue to acquire new skills and knowledge.</p>	<ul style="list-style-type: none"> · Nurturing talent Strengthen the Group by helping employees grow capabilities in preparation for the future and by creating an open culture receptive to talented outsiders. · Self-development Continue education to become the top expert in a specific field and keep exploring new areas of interest.
 <p>Trailblazer for progress</p> <p>Change</p>	<p>Predict the future based on knowledge and insight, and make changes through honest communication and cooperation.</p>	<ul style="list-style-type: none"> · Insight Anticipate changes based on in-depth expertise with a broad and comprehensive perspective. · Creativity/change (communication) Foster an atmosphere that encourages creative thinking, and reach consensus by sharing concrete visions about change. · Global outlook Evaluate and respond to the consequences of changes in the world, and satisfy global standards in communication and other aspects. · Digital capability Help employees adapt to changing times by presenting a vision for the digital future and reflect their input in setting the strategic direction.

BOD and Management

Executive Director

Cho Yong-byoung

Date of Birth June 30, 1957
Current Position Chairman & CEO, Shinhan Financial Group
Education B.A. in Law, Korea University

Main Work Experience

- 2017-Current Chairman & CEO, Shinhan Financial Group
- 2015-2017 President & CEO, Shinhan Bank
- 2013-2015 CEO, Shinhan BNP Paribas Asset Management
- 2011-2013 Deputy President, Shinhan Bank

Non-Executive Director

Jin Ok-dong

Date of Birth February 21, 1961
Current Position President & CEO, Shinhan Bank
Education MBA, Chung Ang University

Main Work Experience

- 2018-Current President & CEO, Shinhan Bank
- 2017-2018 Deputy President, Shinhan Financial Group
- 2017 Deputy President, Shinhan Bank
- 2015-2016 CEO, Shinhan Bank Japan

Independent Directors

Park Cheul

Date of Birth April 27, 1946
Current Position Former) Chairman & CEO, Leading Investment & Securities Co., Ltd.
Education M.A. in Economics, New York University

Main Work Experience

- 2006-2013 Chairman & CEO, Leading Investment & Securities Co., Ltd.
- 2004 Member of the Committee, National Economy Advisory Council
- 2003-2006 Independent Director, Korea Development Bank
- 2000-2003 Senior Deputy Governor, Bank of Korea

Lee Manwoo

Date of Birth November 22, 1954
Current Position Professor, Korea University Business School
Education Ph.D. in Business Administration, University of Georgia

Main Work Experience

- 2007-2008 Chairman, Korean Accounting Association
- 2006-2007 Chairman, Korean Academic Society of Taxation
- 2001-2007 Committee Member of Securities Listing, Korea Exchange
- 1988-Current Professor, Korea University Business School

Yuki Hirakawa

Date of Birth October 21, 1960
Current Position CEO, Primer Korea LLC
Education B.A. in Spanish, Osaka University

Main Work Experience

- 2013-Current CEO, Primer Korea LLC
- 1994-2012 CEO, Hirakawa Industry Development Co., Ltd.

Philippe Avril

Date of Birth April 27, 1960
Current Position Chairman & Representative Director, BNP Paribas Securities (Japan) Ltd.
Education M.A. in Economics, Universite de Paris Dauphine

Main Work Experience

- 2017-Current Chairman & Representative Director, BNP Paribas Securities (Japan) Ltd.
- 2012-Current Chief Country Officer, Tokyo Branch of BNP Paribas
- 2011-2017 CEO & Representative Director, BNP Paribas Securities (Japan) Ltd.

Park Ansoon

Date of Birth January 24, 1945
Current Position Chairman, Taisei Group Co., Ltd.
Education B.A. in Philosophy, Waseda University

Main Work Experience

- 2018-Current Chairman, the Korean Residents Union in Japan
- 2012-2018 Vice Chairman, the Korean Residents Union in Japan
- 2010-Current Chairman, Taisei Group Co., Ltd.

Kim Hwa-nam

Date of Birth December 7, 1945
Current Position CEO, Gimhae Corporation Co., Ltd.
Education B.A. in Economics, Rikkyo University

Main Work Experience

- 2015-Current Chairman, Korea Investment Association of Korean Residents in Japan
- 2013-2016 Chairman, The World Federation of Korea Association of Commerce in Japan
- 1996-Current CEO, Gimhae Corporation Co., Ltd.
- 1995-Current Chairman of Board of Directors, Jeju Girl's School Foundation

Choi Kyong-rok

Date of Birth May 25, 1966
Current Position CEO, CYS Corporation
Education M.S. in Computational Science, Keio University

Main Work Experience

- 2010-2015 Independent Director, Shinhan Life Insurance
- 2004-Current CEO, CYS Corporation
- 2001-2004 Deputy President, CYS Corporation
- 1997-2001 Research Associate, Information Technology Center at Keio University

Lee Yoon-jae

Date of Birth November 3, 1950
Current Position Former) CEO, KorEI
Education MBA, Stanford Graduate School of Business

Main Work Experience

- 2009-2015 Independent Director, LG
- 2006-2012 Independent Director, KT&G
- 2006-2008 Independent Director, S-Oil
- 2001-2010 CEO, KorEI

Byeon Yang-ho

Date of Birth July 30, 1954
Current Position Company Advisor, VIG Partners
Education Ph.D. in Economics, Northern Illinois University

Main Work Experience

- 2016-Current Company Advisor, VIG Partners
- 2011-2015 Non-Executive Director, TongYang Life Insurance
- 2005 Founder of Korean 1st Private Equity Fund, Vogo Fund
- 2004-2005 President, Korea Financial Intelligence Unit

Huh Yong-hak

Date of Birth September 10, 1958
Current Position CEO, First Bridge Strategy Ltd.
Education M.S. in International Affairs, Columbia University

Main Work Experience

- 2015-Current CEO, First Bridge Strategy Ltd.
- 2008-2014 CIO of Alternative Investment, Hong Kong Monetary Authority
- 2004-2008 Executive Director of Asia Investment Banking Division, HSBC
- 2003-2004 Managing Director, Olympus Capital Investment

Sung Jaeho

Date of Birth March 18, 1960
Current Position Professor, Sung Kyun Kwan University School of Law
Education Ph.D. in Law, Sung Kyun Kwan University

Main Work Experience

- 2018-2019 Independent Director, NICE Holdings
- 2015-2019 Independent Director, Shinhan Card
- 2015 Chairman, Korea council of International Law
- 1994-Current Professor, Sung Kyun Kwan University School of Law

Deputy Presidents

Park Woo-hyuk

Date of Birth June 3, 1963
Current Position Deputy President (CSO), Shinhan Financial Group

Main Work Experience

- 2019-Current Deputy President, Shinhan Financial Group
- 2017-2018 Deputy President, Shinhan Bank

Yu Sunghun

Date of Birth January 29, 1965
Current Position Deputy President (CFO), Shinhan Financial Group

Main Work Experience

- 2019-Current Deputy President, Shinhan Financial Group
- 2016-2018 Managing Director, Shinhan Financial Group

Lee Byeong-Cheol

Date of Birth January 22, 1963
Current Position Deputy President (CPRO), Shinhan Financial Group

Main Work Experience

- 2019-Current Deputy President, Shinhan Financial Group
- 2017-2018 Managing Director, Shinhan Financial Group

Jeong Woon-jin

Date of Birth April 20, 1964
Current Position Deputy President (Head of GIB),
 Shinhan Financial Group

Main Work Experience

· 2019-Current Deputy President, Shinhan Financial Group
 Deputy President & Head of GIB, Shinhan Bank, Shinhan
 Investment, Shinhan Life, Shinhan Capital
 · 2018 Deputy President, Shinhan Bank

Jang Dong-ki

Date of Birth January 2, 1964
Current Position Deputy President (Head of GMS),
 Shinhan Financial Group

Main Work Experience

· 2019-Current Deputy President, Shinhan Financial Group
 Deputy President & Head of GMS, Shinhan Bank,
 Shinhan Investment, Shinhan Life
 · 2018 Deputy President, Shinhan Financial Group

Jeong Jiho

Date of Birth June 25, 1963
Current Position Deputy President (Head of Global Business),
 Shinhan Financial Group

Main Work Experience

· 2019-Current Deputy President, Shinhan Financial Group
 Deputy President & Head of Global Business,
 Shinhan Bank, Shinhan Card, Shinhan Investment,
 Shinhan Life
 · 2017-2018 Managing Director, International Trade Business Division

Wang Mi-hwa

Date of Birth October 5, 1964
Current Position Deputy President (Head of WM),
 Shinhan Financial Group

Main Work Experience

· 2019-Current Deputy President, Shinhan Financial Group
 Deputy President & Head of WM, Shinhan Bank,
 Shinhan Investment
 · 2018 Managing Director, Shinhan Bank

Kim Im-geun

Date of Birth July 25, 1963
Current Position Deputy President (CRO), Shinhan Financial Group

Main Work Experience

· 2019-Current Deputy President, Shinhan Financial Group
 · 2015-2019 Executive Director, Shinhan Financial Group

President of Future Strategy Research Institute

Sunny Yi

Date of Birth March 25, 1962
Current Position President of Future Strategy Research Institute

Main Work Experience

· 2019-Current President of Future Strategy Research Institute
 · 2000-2017 Global Director & Managing Partner (Korea),
 Bain & Company
 · 1991-2000 Managing Partner (Asia), AT Kearney

Executive Directors

Wang Ho-min

Date of Birth March 4, 1964
Current Position Executive Director (CCO), Shinhan Financial Group

Main Work Experience

· 2019-Current Executive Director, Shinhan Financial Group
 · 2017-2018 General Manager of Jamsil-nam Branch, Shinhan Bank

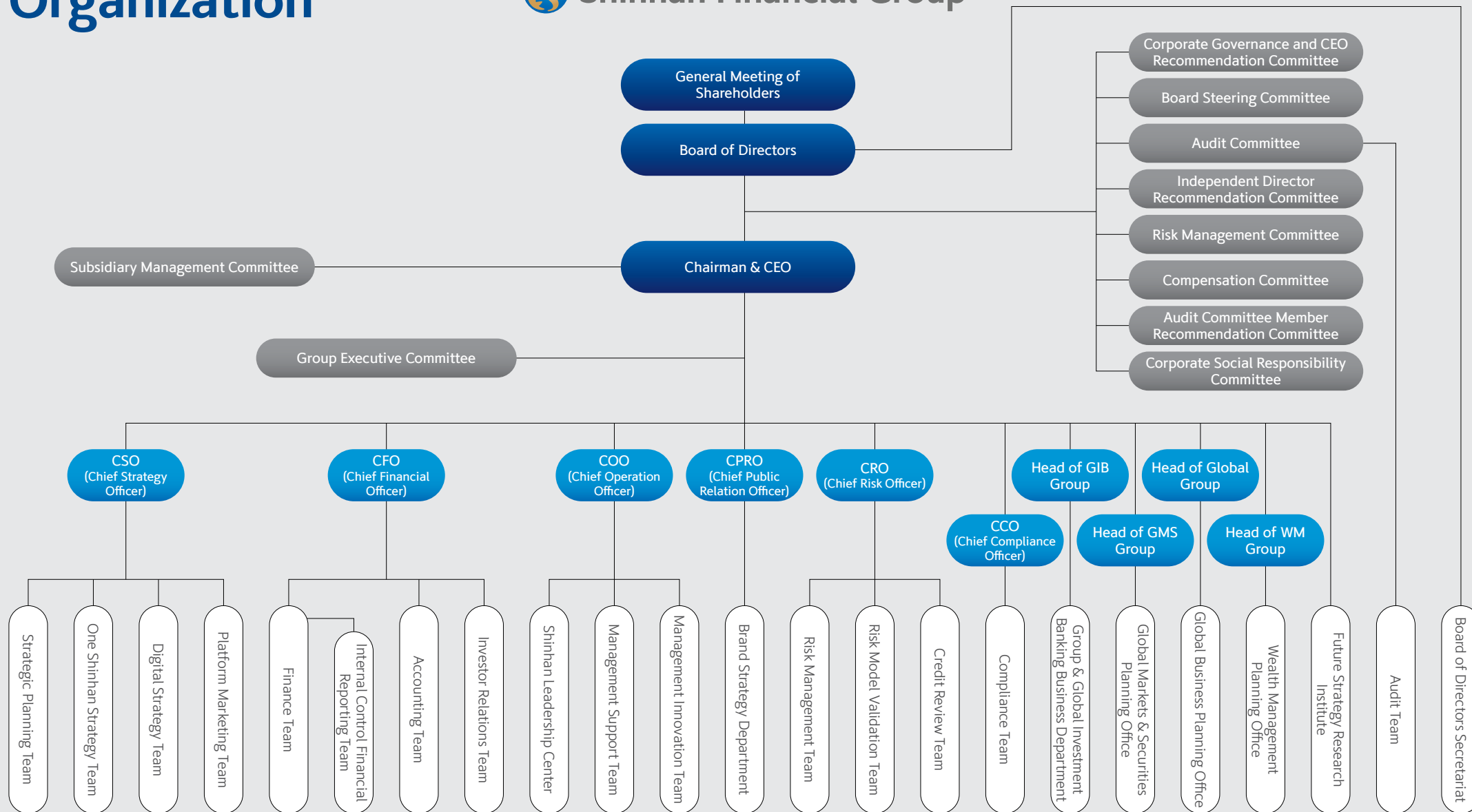
Lee Een-Kyoon

Date of Birth April 1, 1967
Current Position Executive Director (COO), Shinhan Financial Group

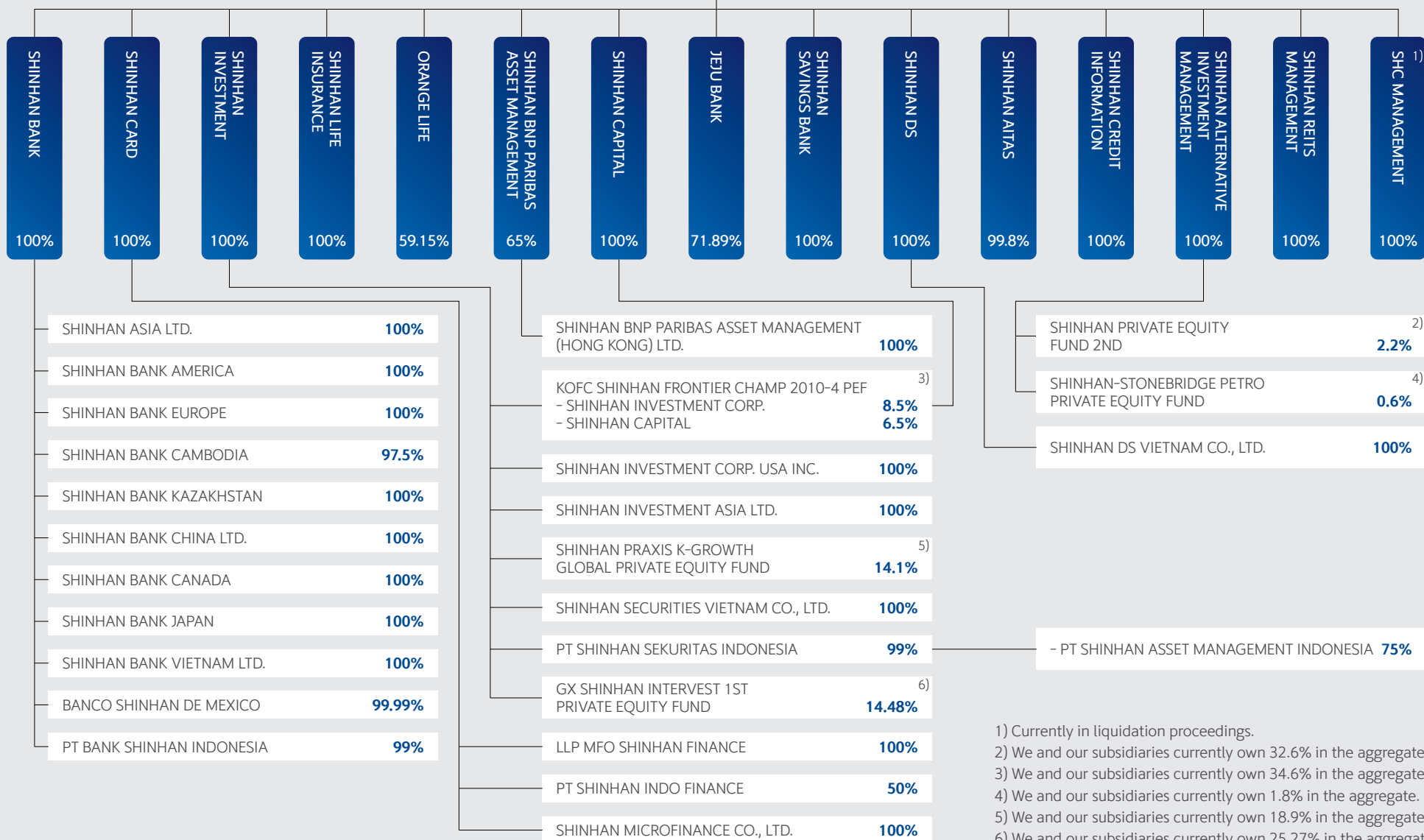
Main Work Experience

· 2019-Current Executive Director, Shinhan Financial Group
 · 2017-2018 Head of Management Support Team,
 Shinhan Financial Group

Organization



Business Portfolio



1) Currently in liquidation proceedings.
 2) We and our subsidiaries currently own 32.6% in the aggregate.
 3) We and our subsidiaries currently own 34.6% in the aggregate.
 4) We and our subsidiaries currently own 1.8% in the aggregate.
 5) We and our subsidiaries currently own 18.9% in the aggregate.
 6) We and our subsidiaries currently own 25.27% in the aggregate.

Global Network

Shinhan Bank

Country	Name	Telephone	Address
Japan	SHINHAN BANK JAPAN	81-3-6403-0505	The Mita Bellju Building 5F, 108-0014 5-36-7 Shiba, Minato-ku, Tokyo, Japan
China	SHINHAN BANK (CHINA)	86-10-8529-0088	12th Fl. Zhongyu Plaza No.6, Workers' Stadium Road N.,Chaoyang District, Beijing 100027, China
Vietnam	SHINHAN BANK VIETNAM	84-8-3829-1581	Ground Floor, Mezzanine, 2nd & 3rd floor, Empress Tower, 138 – 142 Hai Ba Trung, Dakao Ward, District 1, Ho Chi Minh City, Vietnam
USA	SHINHAN BANK AMERICA	1-646-843-7300	330 5th Avenue 4th Floor New York, NY 10001 USA
Indonesia	PT BANK SHINHAN INDONESIA	62-21-2975-1500	International Financial Centre Tower 2, Ground floor, Mezzanine, 30th and 31st floor, Jl. Jenderal Sudirman Kav.22-23 South Jakarta, Indonesia
Germany	SHINHAN BANK EUROPE GmbH	49-69-975-7130	Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany
Canada	SHINHAN BANK CANADA	1-416-250-3500	5140 Yonge Street Suite 2300 Toronto, Ontario, M2N6L7, Canada
Hong Kong	SHINHAN ASIA LIMITED	852-3717-0700	Units 7704, 77/F International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong
Cambodia	SHINHAN KHMER BANK	855-23-727-380	No.277 Norodom Blvd Sangkat Tonle Bassac Khan Chamkarmon Phnom Penh Cambodia
Kazakhstan	SHINHAN BANK KAZAKHSTAN	7-727-356-9620	38 Dostyk ave. Almaty, 050010, Republic of Kazakhstan
Mexico	BANCO SHINHAN DE MEXICO	52-55-6722-8000	Av. Paseo de la Reforma 250, Reforma Capital Torre B Cuauhtemoc, Juarez, 06600, Mexico D.F., Mexico
Hong Kong	HONGKONG BRANCH	852-2867-0100	Unit 7703, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong
USA	NEWYORK BRANCH	1-212-371-8000	600 3rd Ave, 17th Floor, New York, NY10016, U.S.A
England	LONDON BRANCH	44-207-600-0606	6th Floor, 77 Gracechurch Street, London, EC3V 0AS.
Singapore	SINGAPORE BRANCH	65-6536-1144	1 George St. #15-03, Singapore 049145
India	MUMBAI BRANCH	91-22-6199-2000	5th Floor, Wockhardt Towers, C2, G Block, Bandra Kurla Complex, Bandra, Mumbai, 400-051, India
India	NEW DELHI BRANCH	91-11-4500-4800	3rd Floor, D-6, Part II South Extension, New Delhi, India
India	KANCHEEPURAM BRANCH	91-44-2714-3500	Survey No:69/4A1 B No.101A, Bangalore Highway Road, Thandalam Village, Kancheepuram, Tamilnadu, India 602105
India	PUNE BRANCH	91-20-3086-4800	Ground Floor, Red Building. Plot No.2, Galaxy Society, Boat Club Road, Pune, Maharashtra, India 411001
India	AHMEDABAD BRANCH	91-79-7117-0400	FF2&FF3, 1st Floor, Shapath V Building, Opp. Karnavati Club, S.G.Highway, Ahmedabad, Gujarat, India 380015
India	RANGA REDDY BRANCH	91-40-6635-2000	SLN Terminus, 1st Floor, Survey No 133, Gachibowli, Serilingampally, Mandal, Ranga Reddy District, Telangana State, India 500032
Myanmar	YANGON BRANCH	95-1-9345-170	No.192, 10th Floor, Myanmar Centre Tower 1, Kabaraye Pagoda Road, Bahan Township, Yangon, Myanmar
Australia	SYDNEY BRANCH	61-2-9224-7901	Level 25, 52 Martin Place, Sydney, NSW 2000, Australia
Philippines	MANILA BRANCH	63-2-405-6300	21st Floor, RCBC Savings Bank Corporate Center(RSBCC), 26th & 25th Street, Bonifacio South, Bonifacio Global City, Taguig City, Manila, Philippines
UAE	DUBAI BRANCH	971-4-551-2820	S1204, Emirates Financial Tower, DIFC, P.O. Box 507001, Dubai, U.A.E.
Uzbekistan	SHINHAN BANK UZBEKISTAN REPRESENTATIVE OFFICE	998-71-150-1184	Neworld bldg. 3rd fl., Oybek st. 22 Tashkent, Uzbekistan 100015

Shinhan Card

Country	Name	Telephone	Address
Indonesia	PT SHINHAN INDO FINANCE	62-21-857-9095	Wisma Indomobil 1, 10th Floor, Jl. Letjen M.T. Haryono Kav. 8, Jakarta 13330, Indonesia
Kazakhstan	LLP MFO SHINHAN FINANCE	7-727-352-85-62	Office 2/3, 2nd floor, 48 Auezov street, Almaty, Republic of Kazakhstan
Myanmar	SHINHAN MICROFINANCE CO., LTD.	094-5296-7837	Room 206, 3 RC Building, Thiri Mingalar Street, East Ywama Township, Yangon, Myanmar

Shinhan Investment

Country	Name	Telephone	Address
Indonesia	SHINHAN SEKURITAS INDONESIA	62-21-8086-9900	Jalan Jendral Sudirman Kav. 22-23, RT.10/RW.1, Karet, Setia Budi, Kota Jakarta Selatan, DKI Jakarta 12920, Indonesia
Hong Kong	SHINHAN INVESTMENT ASIA	852-3713-5301	Units 7705A, Level 77 International Commerce Center(ICC), 1 Austin Road West, Kowloon, Hong Kong
Vietnam	SHINHAN INVESTMENT VIETNAM	84-28-6299-8000	22nd floor, Centec Tower, 72-74 Nguyen Thi Minh Khai, Phuong 6, District 3, Ho Chi Minh City, Vietnam
USA	SHINHAN INVESTMENT NEW YORK	1-212-397-4000	1325 Avenue of the Americas #2002A, New York, NY 10019, USA
China	SHINHAN INVESTMENT SHANGHAI REPRESENTATIVE OFFICE	86-21-6194-6624	1st Floor, Huaneng Unite Mansion, 958, Lujiazui Ring Road, Pudong New Area, Shanghai 200120, China
Vietnam	SHINHAN INVESTMENT HO-CHI-MINH CITY REPRESENTATIVE OFFICE	84-28-6287-8034	22nd floor, Centec Tower, 72-74 Nguyen Thi Minh Khai, Phuong 6, District 3, Ho Chi Minh City, Vietnam
Indonesia	SHINHAN ASSET MANAGEMENT INDONESIA	62-21-3100078	Sucaco, Jl. Kebon Sirih No.71, RT.3/RW.2, Kb. Sirih, Menteng, Kota Jakarta Pusat, Daerah Khusus Ibukota, Jakarta 10340 Indonesia

Shinhan Life Insurance

Country	Name	Telephone	Address
Vietnam	SHINHAN LIFE HANOI OFFICE	84-24-3766-2000	2501-2 Keangnam Hanoi Landmark Tower, Plot E6, Cau Giay, New Urban Area, Me Tri Ward, Nam Tu Liem District, Hanoi City, Vietnam

Shinhan BNPP AM

Country	Name	Telephone	Address
Hong Kong	SHINHAN BNP PARIBAS ASSET MGT HK LIMITED	001-852-2525-9110	29/F THREE EXCHANGE SQUARE 9 CONNAUGHT PLACE CENTRAL, HONG KONG

Shinhan DS

Country	Name	Telephone	Address
Vietnam	SHINHAN DS VIETNAM COMPANY LIMITED	84-28-3823-7255	Room 201, 2nd Floor, Centec Tower, 72-74 Nguyen Thi Minh Khai, Ward 6, District 3, Ho Chi Minh City, Vietnam

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

Consolidated Financial Statements

December 31, 2018

(With Independent Auditors' Report Thereon)

Contents

	Page
Independent Auditors' Report	1
Consolidated Statements of Financial Position	5
Consolidated Statements of Comprehensive Income	7
Consolidated Statements of Changes in Equity	9
Consolidated Statements of Cash Flows	11
Notes to the Consolidated Financial Statements	14

Independent Auditors' Report

Based on a report originally issued in Korean

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

Opinion

We have audited the consolidated financial statements of Shinhan Financial Group 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 significant accounting policies and other explanatory information.

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as of and for the year ended December 31, 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(1) Credit loss allowance – collective assessment of impairment

The Group recognized credit loss allowance amounting to KRW 2,725,068 million as of December 31, 2018, and the credit loss allowance under collective assessment is KRW 1,470,204 million as of December 31, 2018 (refer to Note 14 of the consolidated financial statements).

To perform the collective assessment component of the credit loss allowance, the Group groups loans together with similar risk characteristics, and estimates the possibility of default based on default information such as delinquency status, or settlement history, and loss given default. These estimates involves judgments on historical data (including determination of the length of historical data used), and the methodology of categorizing loan receivables with similar risk characteristics. In order to determine the default rate and the recovery rate, it is necessary to make a significant judgment by the management, such as reflecting forward-looking information and setting statistical assumptions.

We have identified the following as key audit matters, considering the possibility of errors, the level of involvement of management judgment, and the impact of risks:

- Risk that the credit loss allowance is misstated due to loan-analyst's arbitrary assessment of non-financial factors in the process of loan grading, or failure of timely identification of significant increase in credit risk
- Risk that the credit loss allowance is misstated due to errors and fraud in the process of estimating probability of

default and recovery rate.

The primary audit procedures we performed to address the above key audit matters included:

- We have tested certain internal controls over assessment of non-financial factors in the process of loan grading (i.e. borrower's location, industry experience and risks of related companies).
- We have independently evaluated loan grading according to the Group's policy on a sample basis.
- We have tested certain internal controls over the reliability of the relevant underlying data in the process of estimating probability of default and recovery rate, and access control that prohibits unauthorized changes and access to the calculated probability of default and recovery rate.
- We have independently re-calculated probability of default and recovery rate according to the Group's methodology on a sample basis.

(2) Credit loss allowance – individual assessment of impairment

The Group recognized credit loss allowance amounting to KRW 2,725,068 million as of December 31, 2018, and the credit loss allowance under individual assessment identified as a key audit matter is KRW 613,773 million (refer to Note 14 of the consolidated financial statements).

The Group recognizes credit loss allowance under individual assessment if the impaired loan balance measured at amortized cost is significant. The individual assessment involves management judgment in identifying impaired loan, estimate of the future cash flows and valuation of collateral.

We have identified the following as key audit matters, considering the possibility of errors, the level of involvement of management judgment, and the impact of risks:

- Risk that the credit loss allowance is misstated due to errors in applying recovery rates for collaterals and the future cash flows in the process of discounted cash flow calculation.
- Risk that the credit loss allowance is misstated due to unsupported forecasts resulting from involvement of judgment in the process of estimating the future cash flows.

The primary audit procedures we performed to address the above key audit matters included:

- We have tested certain internal controls over the appropriateness of the estimated future cash flows by considering whether the future cash flows are estimated in accordance with the Group's methodology.
- We have evaluated whether estimated recoverable amounts from collaterals are reasonably applied to the cash flows.
- We have evaluated whether recovery rates for the collaterals the Group uses are reasonable based on the external information available.

(3) Valuation of financial instruments using valuation techniques

If the fair value of a financial instruments is measured using valuation techniques where significant input is not observable in the market, the Group classifies financial instruments as Level 3. As of December 31, 2018, the Group's level 3 financial assets and liabilities amount to KRW 7,793,933 million and KRW 7,480,822 million, respectively, which include the level 3 derivatives, the level 3 hybrid instruments, the level 3 unlisted equity instruments, the level 3 debt and other instruments (refer to Note 4.(5) of the consolidated financial statements).

We have identified the following as key audit matters, considering the possibility of errors, the level of involvement of management judgment, and the impact of risks:

- Risk that the estimate of the financial instruments' fair value is misstated due to applying inappropriate valuation methodology and inputs (i.e. discount rate, stock price, underlying asset index, volatility, correlation, etc).
- Risk that the estimate of the financial instruments' fair value is misstated due to inappropriate assumptions in estimating the future cash flows.

The primary audit procedures we performed to address the above key audit matters included:

- We have tested certain internal controls over the appropriateness of the changes in the methodology used to value the financial instruments, and the appropriateness of the model applied to the valuation of new products based on the characteristics of the products.
- We have tested certain internal controls over the appropriateness of the inputs used to estimate the fair value by considering whether the inputs are generated in accordance with the authorized method.
- We have tested certain internal controls over the appropriateness of the underlying data used to estimate the future cash flows and discount rates by considering internal data, observable market data, macroeconomic indicators, etc.
- We have also involved our internal valuation specialists to assist us in evaluating the reasonableness of methodologies and inputs used in valuation. In addition, we have evaluated the assumptions used in the valuation by considering the recent condition the Group faces, market and macroeconomic indicators, and we have compared the historical financial data used in the valuation to the disclosed information available.
- We have independently re-calculated the fair value and compared it to the Group's estimates on a sample basis.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Min-Seon Chae.

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 FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Financial Position

As December 31, 2018 and 2017

(In millions of won)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Assets			
Cash and due from banks at amortized cost	4, 8, 24, 60	₩ 17,348,626	-
Cash and due from banks	4, 9, 24, 60	-	22,668,598
Financial assets at fair value through profit or loss	4, 10, 24, 60	43,534,766	-
Trading assets	4, 11, 24, 60	-	28,464,296
Financial assets designated at fair value through profit or loss (K-IFRS 1039)	4, 12, 24, 60	-	3,579,057
Derivative assets	4, 13, 60	1,793,613	3,400,178
Securities at fair value through other comprehensive income	4, 16, 24, 60	38,314,170	-
Available-for-sale financial assets	4, 17, 24, 60	-	42,116,937
Securities at amortized cost	4, 16, 24, 60	28,478,136	-
Held-to-maturity financial assets	4, 17, 24, 60	-	24,990,680
Loans at amortized cost	4, 14, 24, 60	299,609,472	-
Loans	4, 15, 24, 60	-	275,565,766
Property and equipment	18, 24	3,003,886	3,021,772
Intangible assets	19, 58	4,320,134	4,273,321
Investments in associates	20	671,330	631,294
Current tax receivable		45,100	25,015
Deferred tax assets	51	426,965	592,283
Investment property	21	474,820	418,303
Other assets	4, 22, 60	21,571,918	16,551,958
Assets held for sale		<u>7,574</u>	<u>7,550</u>
Total assets		<u>₩ 459,600,510</u>	<u>426,307,008</u>

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position (Continued)

As December 31, 2018 and 2017

<i>(In millions of won)</i>	Note	2018	2017
Liabilities			
Deposits	4, 25, 60	₩ 265,000,190	249,419,224
Financial liabilities at fair value through profit or loss	4, 26, 60	1,420,306	-
Trading liabilities	4, 27, 60	-	1,848,490
Financial liabilities designated at fair value through profit or loss (K-IFRS 1109)	4, 28, 60	8,535,800	-
Financial liabilities designated at fair value through profit or loss (K-IFRS 1039)	4, 29, 60	-	8,297,609
Derivative liabilities	4, 13, 60	2,439,892	3,487,661
Borrowings	4, 30, 60	29,818,542	27,586,610
Debt securities issued	4, 31, 60	63,227,699	51,340,821
Liabilities for defined benefit obligations	32	127,348	7,144
Provisions	33	508,416	428,958
Current tax payable		430,306	348,830
Deferred tax liabilities	51	22,020	9,982
Liabilities under insurance contracts	34	26,218,882	24,515,288
Other liabilities	4, 35, 60	25,199,679	25,312,773
Total liabilities		422,949,080	392,603,390
Equity	36		
Capital stock		2,645,053	2,645,053
Hybrid bonds		1,531,759	423,921
Capital surplus		9,895,488	9,887,335
Capital adjustments		(552,895)	(398,035)
Accumulated other comprehensive loss	60	(753,220)	(529,734)
Retained earnings	57, 60	22,959,440	20,791,681
Total equity attributable to equity holders of Shinhan Financial Group Co., Ltd.		35,725,625	32,820,221
Non-controlling interests		925,805	883,397
Total equity		36,651,430	33,703,618
Total liabilities and equity		₩ 459,600,510	426,307,008

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(In millions of won)

	Note	2018	2017
Interest income			
Financial assets at fair value through other comprehensive income and at amortized cost	₩	12,891,850	-
Financial assets at fair value through profit or loss		680,606	-
Loans and receivables and investment securities		-	11,250,919
Short-term trading securities		-	547,735
		13,572,456	11,798,654
Interest expense		(4,992,367)	(3,955,701)
Net interest income	38	8,580,089	7,842,953
Fees and commission income			
Fees and commission income		3,295,256	4,044,955
Fees and commission expense		(1,356,259)	(2,334,001)
Net fees and commission income	39	1,938,997	1,710,954
Insurance income			
Insurance income		4,398,738	4,599,808
Insurance expenses		(4,870,437)	(5,059,847)
Net insurance loss	34	(471,699)	(460,039)
Dividend income			
Dividend income	40	87,826	257,306
Net gain on financial assets at fair value through profit or loss			
Net gain on financial assets at fair value through profit or loss	41	420,026	-
Net gain on financial assets at fair value through profit or loss (overlay approach)	10	74,944	-
Net trading income	42	-	963,223
Net loss on financial assets designated at fair value through profit or loss	43	(26,643)	-
Net loss on financial instruments designated at fair value through profit or loss	44	-	(1,059,826)
Net foreign currency transaction gain		194,136	364,006
Net gain on disposal of financial asset at fair value through other comprehensive income	16	20,554	-
Net gain on disposal of available-for-sale financial assets	17	-	499,187
Net loss on disposal of securities at amortized cost	16	(9)	-
Provision for credit loss allowance	45	(747,877)	-
Impairment losses on financial assets	46	-	(1,013,548)
General and administrative expenses	47	(4,741,575)	(4,811,198)
Other operating expenses, net	49	(829,355)	(462,992)
Operating income		4,499,414	3,830,026
Equity method income			
Equity method income	20	17,488	20,393
Other non-operating income (expense), net	50	(50,292)	(52,811)
Profit before income taxes		4,466,610	3,797,608
Income tax expense			
Income tax expense	51	1,268,345	848,403
Profit for the year	₩	3,198,265	2,949,205

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Continued)

For the years ended December 31, 2018 and 2017

<i>(In millions of won, except earnings per share data)</i>	Note	2018	2017
Other comprehensive income (loss) for the year, net of income tax			
Items that are or may be reclassified to profit or loss:			
Gain on financial asset at fair value through other comprehensive income	₩	161,008	-
Loss on financial asset at fair value through profit or loss (overlay approach)	10	(54,333)	-
Net change in unrealized fair value of available-for-sale financial assets		-	(323,127)
Equity in other comprehensive income (loss) of associates		7,407	(22,813)
Foreign currency translation adjustments for foreign operations		19,983	(194,172)
Net change in unrealized fair value of cash flow hedges		(20,192)	15,904
Other comprehensive income (loss) of separate account		8,676	(9,278)
		<u>122,549</u>	<u>(533,486)</u>
Items that will never be reclassified to profit or loss:			
Remeasurements of the defined benefit liability		(93,098)	103,525
Equity in other comprehensive income of associates		28	847
Valuation gain on financial asset at fair value through other comprehensive income		22,725	-
Loss on disposal of financial asset at fair value through other comprehensive income		(2,635)	-
Changes in own credit risk on financial liabilities designated at fair value through profit of loss		1,723	-
		<u>(71,257)</u>	<u>104,372</u>
Total other comprehensive loss, net of income tax	36	<u>51,292</u>	<u>(429,114)</u>
Total comprehensive income for the year	₩	<u>3,249,557</u>	<u>2,520,091</u>
Profit attributable to:			
Equity holders of Shinhan Financial Group Co., Ltd.	36,52 ₩	3,156,722	2,918,816
Non-controlling interests		41,543	30,389
	₩	<u>3,198,265</u>	<u>2,949,205</u>
Total comprehensive income attributable to:			
Equity holders of Shinhan Financial Group Co., Ltd.	₩	3,207,602	2,491,251
Non-controlling interests		41,955	28,840
	₩	<u>3,249,557</u>	<u>2,520,091</u>
Earnings per share:			
Basic and diluted earnings per share in won	36,52 ₩	<u>6,579</u>	<u>6,118</u>

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the year ended December 31, 2017

(In millions of won)

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.							Non-controlling interests	Total	
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Sub-total			
Balance at January 1, 2017	₩	2,645,053	498,316	9,887,335	(458,461)	(102,583)	18,640,038	31,109,698	635,282	31,744,980
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	2,918,816	2,918,816	30,389	2,949,205
Other comprehensive income (loss), net of income tax:										
Net change in unrealized fair value of available-for-sale financial assets		-	-	-	-	(322,056)	-	(322,056)	(1,071)	(323,127)
Equity in other comprehensive loss of associates		-	-	-	-	(21,552)	(414)	(21,966)	-	(21,966)
Foreign currency translation adjustments		-	-	-	-	(193,474)	-	(193,474)	(698)	(194,172)
Net change in unrealized fair value of cash flow hedges		-	-	-	-	15,904	-	15,904	-	15,904
Other comprehensive loss of separate account		-	-	-	-	(9,278)	-	(9,278)	-	(9,278)
Remeasurements of defined benefit plans		-	-	-	-	103,305	-	103,305	220	103,525
Total other comprehensive loss		-	-	-	-	(427,151)	(414)	(427,565)	(1,549)	(429,114)
Total comprehensive income (loss)		-	-	-	-	(427,151)	2,918,402	2,491,251	28,840	2,520,091
Other changes in equity										
Dividends		-	-	-	-	-	(687,589)	(687,589)	-	(687,589)
Dividends to hybrid bonds		-	-	-	-	-	(17,678)	(17,678)	-	(17,678)
Issuance of hybrid bonds		-	224,466	-	-	-	-	224,466	-	224,466
Redemption of hybrid bonds		-	(298,861)	-	(1,139)	-	-	(300,000)	-	(300,000)
Change in other capital adjustments		-	-	-	61,565	-	(61,493)	72	-	72
Change in other non-controlling interests		-	-	-	-	-	-	-	219,275	219,275
		-	(74,395)	-	60,426	-	(766,760)	(780,729)	219,275	(561,454)
Balance at December 31, 2017	₩	2,645,053	423,921	9,887,335	(398,035)	(529,734)	20,791,680	32,820,220	883,397	33,703,617

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity (Continued)

For the year ended December 31, 2018

(In millions of won)

	Equity attributable to equity holders of Shinhan Financial Group Co., Ltd.								
	Capital stock	Hybrid bonds	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at January 1, 2018	₩ 2,645,053	423,921	9,887,335	(398,035)	(529,734)	20,791,680	32,820,220	883,397	33,703,617
Adoption effect of K-IFRS 1109 and 1115, net of tax (Note 60)	-	-	-	-	(277,011)	(251,854)	(528,865)	(3,155)	(532,020)
Balance at January 1, 2018 (adjusted)	2,645,053	423,921	9,887,335	(398,035)	(806,745)	20,539,826	32,291,355	880,242	33,171,597
Total comprehensive income (loss) for the year									
Profit for the year	-	-	-	-	-	3,156,722	3,156,722	41,543	3,198,265
Other comprehensive income (loss), net of income tax:									
Gain on financial asset at fair value through other comprehensive income	-	-	-	-	179,793	-	179,793	1,305	181,098
Loss on financial asset at fair value through profit or loss (overlay approach)	-	-	-	-	(54,333)	-	(54,333)	-	(54,333)
Equity in other comprehensive income of associates	-	-	-	-	7,435	-	7,435	-	7,435
Foreign currency translation adjustments	-	-	-	-	20,465	-	20,465	(482)	19,983
Net change in unrealized fair value of cash flow hedges	-	-	-	-	(20,192)	-	(20,192)	-	(20,192)
Other comprehensive income of separate account	-	-	-	-	8,676	-	8,676	-	8,676
Remeasurements of defined benefit plans	-	-	-	-	(92,687)	-	(92,687)	(411)	(93,098)
Changes in own credit risk on financial liabilities designated at fair value through profit or loss	-	-	-	-	1,723	-	1,723	-	1,723
Total other comprehensive income (loss)	-	-	-	-	50,880	-	50,880	412	51,292
Total comprehensive income (loss)	-	-	-	-	50,880	3,156,722	3,207,602	41,955	3,249,557
Other changes in equity									
Dividends	-	-	-	-	-	(687,589)	(687,589)	-	(687,589)
Dividends to hybrid bonds	-	-	-	-	-	(40,357)	(40,357)	-	(40,357)
Issuance of hybrid bonds	-	1,107,838	-	-	-	-	1,107,838	-	1,107,838
Acquisition of treasury stock	-	-	-	(155,923)	-	-	(155,923)	-	(155,923)
Change in other capital adjustments	-	-	8,153	1,063	-	(6,517)	2,699	-	2,699
Change in other non-controlling interests	-	-	-	-	-	-	-	3,608	3,608
	-	1,107,838	8,153	(154,860)	-	(734,463)	226,668	3,608	230,276
Reclassification of OCI retained earnings	-	-	-	-	2,645	(2,645)	-	-	-
Balance at December 31, 2018	₩ 2,645,053	1,531,759	9,895,488	(552,895)	(753,220)	22,959,440	35,725,625	925,805	36,651,430

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(In millions of won)

	Note	2018	2017
Cash flows from operating activities			
Profit before income taxes	₩	4,466,610	3,797,608
Adjustments for:			
Interest income	38	(13,572,456)	(11,798,654)
Interest expense	39	4,992,367	3,955,701
Dividend income	40	(87,826)	(257,306)
Net fees and commission expense		176,932	169,640
Net insurance loss		2,080,509	2,571,094
Net gain on financial assets at fair value through profit or loss	41	66,455	-
Net gain on financial assets at fair value through profit or loss (overlay approach)	10	(74,944)	-
Net trading gain	42	-	(334,133)
Net foreign currency translation loss (gain)		377,632	(87,384)
Net gain on financial assets designated at fair value through profit or loss	43	(382,667)	-
Net loss on financial instruments designated at fair value through profit or loss	44	-	231,772
Net gain on disposal of financial asset at fair value through other comprehensive income	16	(20,554)	-
Net gain on disposal of available-for-sale financial assets	17	-	(499,187)
Net loss on disposal of securities at amortized cost	16	9	-
Provision for credit loss allowance	45	747,877	-
Provision for credit losses	46	-	815,249
Impairment losses on other financial assets	46	-	198,299
Employee costs		155,672	232,709
Depreciation and amortization	47	301,916	253,344
Other operating expense (income)		(278,274)	602,027
Equity method income, net	20	(17,488)	(20,393)
Other non-operating expense (income)		3,147	(29,080)
		<u>(5,531,693)</u>	<u>(3,996,302)</u>
Changes in assets and liabilities:			
Cash and due from banks at amortized cost		6,024,743	-
Due from banks		-	(3,347,818)
Securities at fair value through profit or loss		(3,082,516)	-
Due from banks at fair value through profit or loss		(82,014)	-
Loans at fair value through profit or loss		(422,326)	-
Trading assets and liabilities		-	(1,706,990)
Financial asset designated at fair value through profit or loss (K-IFRS 1109)		723,037	-
Financial instruments designated at fair value through profit or loss (K-IFRS 1039)		-	(1,300,760)
Derivative instruments		203,006	(488,706)
Loans at amortized cost		(27,547,413)	-
Loans		-	(19,232,732)
Other assets		(5,177,725)	(250,806)

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2018 and 2017

(In millions of won)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Deposits	₩	16,699,467	15,632,957
Liabilities for defined benefit obligations		(145,639)	(178,054)
Provisions		14,542	(69,584)
Other liabilities		174,590	4,845,053
		<u>(12,618,248)</u>	<u>(6,097,440)</u>
Income taxes paid		(850,696)	(664,286)
Interest received		13,208,601	11,425,960
Interest paid		(5,058,596)	(3,710,093)
Dividends received		63,826	265,887
		<u>63,826</u>	<u>265,887</u>
Net cash provided by (used in) operating activities		<u>(6,320,196)</u>	<u>1,021,334</u>
Cash flows from investing activities			
Decrease in financial assets at fair value through profit or loss		2,150,860	-
Increase in financial assets at fair value through profit or loss		(3,290,960)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income		27,074,948	-
Acquisition of financial assets at fair value through other comprehensive income		(27,037,290)	-
Proceeds from disposal of available-for-sale financial assets		-	29,638,281
Acquisition of available-for-sale financial assets		-	(34,703,066)
Proceeds from disposal of financial assets at amortized cost		2,093,506	-
Acquisition of financial assets at amortized cost		(5,836,342)	-
Proceeds from maturity of held-to-maturity financial assets		-	1,712,326
Acquisition of held-to-maturity financial assets		-	(7,033,310)
Proceeds from disposal of property and equipment	18, 50	39,202	11,459
Acquisition of property and equipment	18	(142,933)	(155,186)
Proceeds from disposal of intangible assets	19, 50	3,638	9,286
Acquisition of intangible assets	19	(157,160)	(111,257)
Proceeds from disposal of investments in associates		189,118	163,649
Acquisition of investments in associates		(227,914)	(380,213)
Proceeds from disposal of investment property	21, 50	15,433	4,869
Acquisition of investment property	21	(115,333)	(2,125)
Proceeds from disposal of assets held for sale		4,498	10,466
Other, net		(311,744)	(10,435)
Proceeds from settlement of hedging derivative financial instruments for available-for-sale financial assets		67,039	85,616
Settlement of hedging derivative financial instruments for available-for-sale financial assets		(26,653)	(27,629)
Net cash flow from entity merge	57, 58	(4,498)	83,631
Net cash used in investing activities		<u>(5,512,585)</u>	<u>(10,703,638)</u>

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2018 and 2017

<i>(In millions of won)</i>	<u>Note</u>	<u>2018</u>	<u>2017</u>
Cash flows from financing activities			
Redemption of hybrid bonds	₩	-	(300,000)
Issuance of hybrid bonds		1,107,838	224,466
Net increase in borrowings		1,772,203	3,047,844
Proceeds from debt securities issued		26,487,712	20,006,957
Repayments of debt securities issued		(14,689,246)	(12,222,815)
Other liabilities		528	8,498
Dividends paid		(714,705)	(706,565)
Proceeds from settlement of hedging derivative financial instruments for debt securities issued		10,675	65,220
Settlement of hedging derivative financial instruments for debt securities issued		(16,832)	(6,509)
Acquisition of treasury stock		(151,993)	-
Increase in non-controlling interests		347	215,357
Net cash provided by financing activities		<u>13,806,527</u>	<u>10,332,453</u>
Effect of exchange rate fluctuations on cash and cash equivalents held			
		<u>(30,640)</u>	<u>(46,035)</u>
Increase in cash and cash equivalents		1,943,106	604,114
Cash and cash equivalents at beginning of year	54	<u>6,236,650</u>	<u>5,632,536</u>
Cash and cash equivalents at end of year	54 ₩	<u>8,179,756</u>	<u>6,236,650</u>

See accompanying notes to the consolidated financial statements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

1. Reporting entity

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

(a) Controlling company

Shinhan Financial Group Co., Ltd. (the “Shinhan Financial Group” or the “Company”), a controlling company, was incorporated on September 1, 2001 for the main purposes of Shinhan Bank, Shinhan Securities Co.,Ltd., Shinhan Capital Co.,Ltd., and Shinhan BNP Asset Management Co.,Ltd. with a stock transfer. The total capital stock amounted to ₩1,461,721 million. Also, Shinhan Financial Group’s shares has been listed on the Korea Exchange since September 10, 2001 and Shinhan Financial Group’s American Depository Shares were listed on the New York Stock Exchange since September 16, 2003.

(b) Ownership of Shinhan Financial Group and its major consolidated subsidiaries as of December 31, 2018 and 2017 are as follows:

Investor	Investee	Location	Date of financial information	Ownership (%)	
				2018	2017
Shinhan Financial Group Co., Ltd.	Shinhan Bank	Korea	December 31	100.0	100.0
"	Shinhan Card Co., Ltd.	"	"	100.0	100.0
"	Shinhan Investment Corp.	"	"	100.0	100.0
"	Shinhan Life Insurance Co., Ltd.	"	"	100.0	100.0
"	Shinhan Capital Co., Ltd.	"	"	100.0	100.0
"	Jeju Bank(*1)	"	"	71.89	68.9
"	Shinhan Credit Information Co., Ltd.	"	"	100.0	100.0
"	Shinhan Alternative Investment Management Inc.	"	"	100.0	100.0
"	Shinhan BNP Paribas Asset Management Co., Ltd.	"	"	65.0	65.0
"	SHC Management Co., Ltd.	"	"	100.0	100.0
"	Shinhan DS(*2)	"	"	100.0	100.0
"	Shinhan Savings Bank	"	"	100.0	100.0
"	Shinhan AITAS Co., Ltd.	"	"	99.8	99.8
"	Shinhan REITs Management Co., Ltd.	"	"	100.0	100.0
Shinhan Bank	Shinhan Asia Limited	Hong Kong	"	99.9	99.9
"	Shinhan Bank America	USA	"	100.0	100.0
"	Shinhan Bank Europe GmbH	Germany	"	100.0	100.0
"	Shinhan Bank Cambodia(*3)	Cambodia	"	97.5	97.5
"	Shinhan Bank Kazakhstan Limited	Kazakhstan	"	100.0	100.0
"	Shinhan Bank Canada	Canada	"	100.0	100.0
"	Shinhan Bank (China) Limited	China	"	100.0	100.0
"	Shinhan Bank Japan	Japan	"	100.0	100.0
"	Shinhan Bank Vietnam Ltd.	Vietnam	"	100.0	100.0
"	Banco Shinhan de Mexico	Mexico	"	100.0	100.0
"	PT Bank Shinhan Indonesia	Indonesia	"	99.0	99.0
Shinhan Card Co., Ltd.	LLP MFO Shinhan Finance	Kazakhstan	"	100.0	100.0
"	PT. Shinhan Indo Finance	Indonesia	"	50.0	50.0
"	Shinhan Microfinance Co., Ltd.	Myanmar	"	100.0	100.0
Shinhan Investment Corp.	Shinhan Investment Corp. USA Inc.	USA	"	100.0	100.0
"	Shinhan Investment Corp. Asia Ltd.	Hong Kong	"	100.0	100.0

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

1. Reporting entity (continued)

Investor	Investee	Location	Date of financial information	Ownership (%)	
				2018	2017
Shinhan Investment Corp.	SHINHAN SECURITIES VIETNAM CO., LTD.	Vietnam	December 31	100.0	100.0
"	PT. Shinhan Sekuritas Indonesia	Indonesia	"	99.0	99.0
PT. Shinhan Sekuritas Indonesia	PT Shinhan Asset Management Indonesia	"		75.0	-
Shinhan BNP Paribas Asset Management Co., Ltd.	Shinhan BNP Paribas Asset Management (Hong Kong) Limited	Hong Kong	"	100.0	100.0
Shinhan DS	SHINHAN DS VIETNAM CO.,LTD.	Vietnam		100.0	-

(*1) The Group participated in the capital increase of Jeju Bank by acquisition of 7,854,600 shares. (₩5,000 per share)

(*2) Shinhan Data System changed its name into Shinhan DS for the year ended December 31, 2018 and the Group participated in the capital increase of ₩3 billion in October 2018.

(*3) Shinhan Khmer Bank PLC changed its name into Shinhan Bank Cambodia for the period ended December 31, 2018.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

1. Reporting entity (continued)

(c) Consolidated structured entities

Consolidated structured entities are as follows:

Category	Consolidated structured entities	Description
Trust	18 trusts managed by Shinhan Bank including development trust	A trust is consolidated when the Group as a trustee is exposed to variable returns, for example, if principle or interest amounts of the entrusted properties falls below guaranteed amount, the Group should compensate it; and the Group has the ability to affect those returns.
Asset-Backed Securitization	MPC Yulchon Green I and 130 others	An entity for asset backed securitization is consolidated when the Group has the ability to dispose assets or change the conditions of the assets, is exposed to variable returns and has the ability to affect the variable returns providing credit enhancement and purchases of subordinated securities.
Structured Financing	SHPE Holdings One Co., Ltd. and 2 others	An entity established for structured financing relating to real estate, shipping, or mergers and acquisitions is consolidated, when the Group has granted credit to the entity, has sole decision-making authority of these entities due to the entities default, and is exposed to, or has rights to related variable returns.
Investment Fund	KoFC Shinhan Frontier Champ 2010-4 PEF and 73 others	An investment fund is consolidated, when the Group manages or invests assets of the investment funds on behalf of other investors, or has the ability to dismiss the manager of the investment funds, and is exposed to, or has rights to, the variable returns.

(*) The Group provides ABPC purchase agreements of ₩1,397,717 million for the purpose of credit enhancement of structured companies.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

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 27, 2019.

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

(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.

Management’s assessment of the application of the Group’s accounting policies and their estimates used in the consolidated financial statements is based on the same accounting policies and assumptions used in the consolidated financial statements for the year ended December 31, 2017.

- Credit loss allowance

The Group recognizes credit loss allowance for expected credit losses on debt instruments, loans and receivables that are measured at amortized cost, loan commitments and financial guarantee contracts in accordance with K-IFRS No. 1109 ‘*Financial Instruments*.’ The allowance is determined by techniques, assumptions and input variables used by the Group to measure expected future cash flows of individual financial instruments and to measure expected credit losses in a collective manner. The details of techniques, assumptions and input variables used to measure the credit loss allowance for expected credit losses as of December 31, 2018 are described in Note 4.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

2. Basis of preparation (continued)

(d) Change in accounting policy

The Group has adopted the same accounting policies for the year ended December 31, 2018, except for the application of the first amendment standard, effective from January 1, 2018, as explained below.

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

Effective January 1, 2018 the Group has applied K-IFRS No. 1115, 'Revenue from Contracts with Customers', which 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 Programmes', K-IFRS No. 2115, 'Agreement for the Construction of Real Estate', and K-IFRS No. 2118, 'Transfers of Assets from Customers.'

K-IFRS No. 1018 and other standards outlined revenue recognition for different types of transactions such as sales of goods and services, interest income, loyalty programs, dividend income and construction contracts; however, according to K-IFRS No.1115, all types of contracts recognize revenue through five-step revenue recognition model (① 'Identifying the contract' → ② 'Identifying performance obligations' → ③ 'Determining the transaction price' → ④ 'Allocating the transaction price to performance obligations' → ⑤ 'Recognizing the revenue by satisfying performance obligations').

Effects on equity as a result of initial application of K-IFRS No. 1115 are included in Note 60.

ii) K-IFRS No. 1102, 'Share-based Payment'

The Standard has been amended to clarify that measurement of cash-settled share-based payment transactions shall reflect both vesting conditions and non-vesting conditions with the same approach as equity-settled share-based payment transactions, and to clarify classification of share-based payment transactions with a net settlement feature for withholding tax obligations.

iii) K-IFRS No. 1040, 'Investment property'

Effective January 1, 2018 and after, the Group has adopted the amendments to K-IFRS 1040 Investment Property. The amendment clarifies that it meets the definition of an investment property and, if there is evidence of change in use, it is possible to substitute an investment property. We have also clarified that real estate under construction is included in the scope. The effect of the amendment on the consolidated financial statements is not significant.

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

The Group has applied K-IFRS No. 1109 'Financial Instruments', which was published on September 25, 2015, from the year starting on January 1, 2018. K-IFRS No. 1109 replaced K-IFRS No. 1039, 'Financial Instruments: Recognition and Measurement.'

The main characteristics of K-IFRS No. 1109 are: classification and measurement of financial instruments based on characteristics of contractual cash flows and business model, impairment model based on expected credit losses, the expansion of the types of qualifying hedging instruments and hedged items, and changes in hedge effectiveness tests, etc.

In principle, K-IFRS No. 1109 should be applied retrospectively. However, there are exemptions for restating the comparative information with respect to classification, measurement of financial instruments, and impairment. In addition, for hedge accounting, the new standard will be applied prospectively except for certain cases such as accounting for the time value of options. As permitted by the transition requirements of K-IFRS 1109, comparative periods have not been restated. The effects of the first application of K-IFRS No.1109 on equity items, the reconciliation of the carrying amount of financial assets and financial liabilities, and the adjustment of loss provisions under K-IFRS No.1039 are included in note 60.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies

Except for the new standards and the amendment to the following standard, which are applied from January 1, 2018, the accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2018 and have mentioned on the note 2.

(a) Operating segments

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

The segment reporting to a chief executive officer includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly general expenses and income tax assets and liabilities. The Group considers the Chief Executive Officer ("CEO") of the Bank as the chief operating decision maker.

It is CEO's responsible for evaluating the resources to be distributed to the business and the performance of the business, and makes strategic decisions.

(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 the same transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

ii) Structured entity

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

iii) Intra-group transactions eliminated on consolidation

Intra-group balances, 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.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

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 interests balance below zero.

(c) Business combinations

i) Business combinations

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

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

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

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

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

ii) Goodwill

The Group measures goodwill at the acquisition date as:

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

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

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

(d) Investments in associates

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

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

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

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

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

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Equity instruments 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. However, the Group's account overdraft is included in borrowings.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

(f) Non-derivative financial assets - policy applicable from January 1, 2018

Financial assets are recognized when the Group becomes a party to the contractual provisions of the instrument. In addition, a regular way purchase or sale (a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market concerned) is recognized on the trade date.

A financial asset is measured initially at its fair value plus, for an item not at Fair Value Through Profit or Loss (“FVTPL”), transaction costs that are directly attributable to its acquisition of the financial asset. Transaction costs on the financial assets at FVTPL that are directly attributable to the acquisition are recognized in profit or loss as incurred.

i) Financial assets designated at FVTPL

Financial assets can be irrevocably designated as measured at FVTPL despite of classification standards stated below, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains or losses on them on different bases.

ii) Equity instruments

For the equity instruments that are not held for trading, at initial recognition, the Group may make an irrevocable election to present subsequent changes in fair value in other comprehensive income. Equity instruments that are not classified as financial assets at Fair Value through Other Comprehensive Income (“FVOCI”) are classified as financial assets at FVTPL.

The Group subsequently measures all equity investments at fair value. Valuation gains or losses of the equity instruments that are classified as financial assets at FVOCI previously recognized as other comprehensive income is not reclassified as profit or loss on derecognition. The Group recognizes dividends in profit or loss when the Group’s right to receive payments of the dividend is established.

Valuation gains or losses due to changes in fair value of the financial assets at FVTPL are recognized as gains or losses on financial assets at FVTPL. Impairment loss (reversal) on equity instruments at FVOCI is not recognized separately.

iii) Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model in which the asset is managed and the contractual cash flow characteristics of the asset. Debt instruments are classified as financial assets at amortized cost, at FVOCI, or at FVTPL. Debt instruments are reclassified only when the Group’s business model changes.

Ⓐ Financial assets at amortized cost

Assets that are held within a business model whose objective is to hold assets to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Impairment losses, and gains or losses on derecognition of the financial assets at amortized cost are recognized in profit or loss. Interest income on the effective interest method is included in the ‘Interest income’ in the consolidated statement of comprehensive income.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

ⓑ Financial assets at FVOCI

Assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Other than impairment losses, interest income amortized using effective interest method and foreign exchange differences, gains or losses of the financial assets at FVOCI are recognized as other comprehensive income in equity. On derecognition, gains or losses accumulated in other comprehensive income are reclassified to profit or loss. The interest income on the effective interest method is included in the 'Interest income' in the consolidated statement of comprehensive income. Foreign exchange differences and impairment losses are included in the 'Net foreign currency transaction gain' and 'Impairment loss on financial assets' in the consolidated statement of comprehensive income, respectively.

ⓒ Financial assets at FVTPL

Debt securities other than financial assets at amortized costs or FVOCI are classified at FVTPL. Unless hedge accounting is applied, gains or losses from financial assets at FVTPL are recognized as profit or loss and are included in 'Net gain on financial assets at fair value through profit or loss' in the consolidated statement of comprehensive income.

iv) Embedded derivatives

Financial assets with embedded derivatives are classified regarding the entire hybrid contract, and the embedded derivatives are not separately recognized. The entire hybrid contract is considered when it is determined whether the contractual cash flows represent solely payments of principal and interest.

v) Derecognition of financial assets

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

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

vi) Offsetting

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

(g) Non-derivative financial assets - policy applicable before January 1, 2018

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

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

i) Financial assets at fair value through profit or loss

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

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

(g) Non-derivative financial assets - policy applicable before January 1, 2018 (continued)

ii) Held-to-maturity financial assets("HTM")

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

iii) Loans and receivables

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

iv) Available-for-sale financial assets("AFS")

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

v) De-recognition of financial assets

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

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

vi) Offsetting between financial assets and financial liabilities

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

(h) Derivative financial instruments - policy applicable from January 1, 2018

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

i) Hedge accounting

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

Net investment hedge

The portion of the change in fair value of a financial instrument designated as a hedging instrument that meets the requirements for hedge accounting for a net investment in a foreign operation is recognized in other comprehensive income and the ineffective portion of the hedge is recognized in profit or loss. The portion recognized as other comprehensive income that is effective as a hedge is recognized in the statement of comprehensive income as a result of reclassification adjustments in accordance with K-IFRS No. 1021, "Effect of Changes in Foreign Exchange Rates" at the time of disposing of its overseas operations or disposing of a portion of its overseas operations To profit or loss.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

(h) Derivative financial instruments - policy applicable from January 1, 2018 (continued)

Other derivative financial instruments

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

Unobservable valuation differences at initial recognition

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

(i) Derivative financial instruments - policy applicable before January 1, 2018

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

i) Hedge accounting

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

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

- *Fair value hedge* – Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.
- *Cash flow hedge* – When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

(i) Derivative financial instruments - policy applicable before January 1, 2018 (continued)

- *Hedge of net investment* – Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the accumulated other comprehensive income is transferred to profit or loss as part of the profit or loss on disposal in accordance with K-IFRS No.1021, ‘The Effects of Changes in Foreign Exchange Rates’.

ii) Separable embedded derivatives

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

iii) Other derivative financial instruments

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

iv) Unobservable valuation differences at initial recognition

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

(j) Impairment: Financial assets and contract assets - policy applicable from January 1, 2018

The Group recognize provision for credit loss allowance for debt instruments measured at amortized cost and fair value through other comprehensive income, and lease receivable, loan commitments and financial guarantee contracts using the expected credit loss impairment model. Financial assets migrate through the following three stages based on the change in credit risk since initial recognition and loss allowances for the financial assets are measured at the 12-month expected credit losses (“ECL”) or the lifetime ECL, depending on the stage.

	<u>Category</u>	<u>Provision for credit loss allowance</u>
STAGE 1	When credit risk has not increased significantly since the initial recognition	12-months ECL: the ECL associated with the probability of default events occurring within the next 12 months
STAGE 2	When credit risk has increased significantly since the initial recognition	Lifetime ECL: a lifetime ECL associated with the probability of default events occurring over the remaining lifetime
STAGE 3	When assets are impaired	Same as above

The Group, meanwhile, only recognizes the cumulative changes in lifetime expected credit losses since the initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

The total period refers to the expected life span of the financial instrument up to the contract expiration date.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

(j) Impairment: Financial assets and contract assets - policy applicable from January 1, 2018 (continued)

Reflection of forward-looking information

The Group reflects forward-looking information presented by internal experts based on a variety of information when measuring expected credit losses. For the purpose of estimating these forward-looking information, the Group utilizes the economic outlook published by domestic and overseas research institutes or government and public agencies.

The Group reflects future macroeconomic conditions anticipated from a neutral standpoint that is free from bias in measuring expected credit losses. Expected credit losses in this respect reflect conditions that are most likely to occur and are based on the same assumptions that the Group used in its business plan and management strategy.

Measurement of amortization cost regarding the expected credit loss of financial assets

The expected credit loss of an amortized financial asset is measured as the difference between the present value of the cash flows expected to be received and the cash flow expected to be received. For this purpose, we calculate expected cash flows for individually significant financial assets.

For non-individual significant financial assets, the financial assets collectively include expected credit losses as part of a set of financial assets with similar credit risk characteristics.

Expected credit losses are deducted using the allowance for doubtful accounts and are amortized as if the financial assets were not recoverable. The allowance of bad debts is increased when the loan receivables are subsequently recovered and the changes in the credit loss allowance are recognized in profit or loss.

Measurement of estimated credit loss of financial assets at FVOCI

The calculation of expected credit losses is the same as for financial assets measured at amortized cost, but changes in credit loss allowance are recognized in other comprehensive income. In the case of disposal and redemption of other comprehensive income - fair value, the credit loss allowance is reclassified from other comprehensive income to profit or loss and recognized in profit or loss.

(k) Impairment: Financial assets and contract assets - policy applicable before January 1, 2018

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

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

(k) Impairment: Financial assets and contract assets - policy applicable before January 1, 2018 (continued)

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

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

i) Loans and receivables

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

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

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

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

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

(k) Impairment: Financial assets and contract assets - policy applicable before January 1, 2018 (continued)

ii) Available-for-sale financial assets

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

iii) Held-to-maturity financial assets

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

(l) Property and equipment

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

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Certain land and buildings are measured at fair value at the date of transition to K-IFRS, which is deemed cost, in accordance with K-IFRS No.1101, 'First-time Adoption of K-IFRS'. Dividend from relevant revaluation surplus is prohibited in accordance with the resolution of the board of directors.

The Group recognizes in the carrying amount of an item of property and equipment the cost of replacing part of property and equipment when that cost is incurred if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced 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. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives for the current and comparative periods are as follows:

Descriptions	Useful lives
Buildings	40 years
Other properties	4~5 years

The gain or loss arising from the derecognition of an item of property and equipment, which is included in profit or loss, is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Depreciation methods, useful lives and residual values are reassessed at each fiscal year-end and any adjustment is

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

(l) Property and equipment (continued)

Accounted for as a change in accounting estimate.

(m) Intangible assets

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

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

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

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

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

(n) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or both. An investment property is initially recognized at cost including any directly attributable expenditure. Subsequent to initial recognition, the asset is measured at cost less accumulated depreciation and accumulated impairment losses, if any.

The depreciation method and the estimated useful lives for the current and comparative periods were as follows:

Descriptions	Depreciation method	Useful lives
Buildings	Straight-line	40 years

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as changes in accounting estimates.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

(o) Leased assets

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

i) Finance leases

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

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

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

ii) Operating leases

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the period of the lease.

iii) Lessor

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

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

(p) Assets held for sale

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

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

(q) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

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

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

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

(r) Non-derivative financial liabilities - policy applicable from January 1, 2018

The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability in accordance with the substance of the contractual arrangement and the definitions of financial liabilities.

Transaction costs on the financial liabilities at FVTPL are recognized in profit or loss as incurred.

i) Financial liabilities designated at FVTPL

Financial liabilities can be irrevocably designated as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases, or a group of financial instruments is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. The amount of change in the fair value of the financial liabilities designated at FVTPL that is attributable to changes in the credit risk of that liabilities shall be presented in other comprehensive income.

ii) Financial liabilities at FVTPL

Since initial recognition, financial liabilities at FVTPL is measured at fair value, and changes in the fair value are recognized as profit or loss.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

iii) Other financial liabilities

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

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

(s) Non-derivative financial liabilities - policy applicable before January 1, 2018

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

i) Financial liabilities at fair value through profit or loss

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

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

ii) Other financial liabilities

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

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

(t) Foreign currencies

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group 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 using the reporting date's exchange rate. 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 was determined.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

ii) Foreign operations

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

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and are translated using the exchange rate at the reporting date.

iii) Net investment in a foreign operation

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

(u) Equity capital

i) Capital stock

Capital stock is classified as equity. Incremental costs directly attributable to the transaction of stock are deducted from equity, net of any tax effects.

Preferred stocks are classified as equity if they do not need to be repaid or are repaid only at the option of the Group and if payment is determined by the Group's discretion, and dividends are recognized when the shareholders' meeting approves the dividends. Preferred stocks that are eligible for reimbursement of a defined or determinable amount on or after a certain date are classified as liabilities. The related dividend is recognized in profit or loss at the time of occurrence as interest expense.

ii) Hybrid bonds

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

iii) Capital structure

The effect of changes in ownership interests in subsidiaries that do not lose control over the equity attributable to owners of the parent is included in capital adjustments.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

(v) Employee benefits

i) Short-term employee benefits

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

ii) Other long-term employee benefits

The Group's net obligation in respect of other long-term employee benefits that are not expected to be settled wholly before 12 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) Retirement benefits: defined benefit plans

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

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.

iv) Retirement benefits: defined contribution plans

The Group recognizes the contribution expense as an account of severance payments in profit or loss in the period according to the defined contribution plans.

Defined benefit liabilities are calculated annually by independent actuaries using the predicted unit credit method. If the net present value of the defined benefit obligation less the fair value of the plan assets is an asset then the present value of the economic benefits available to the entity in the form of a refund from the plan or a reduction in future contributions to the plan.

The remeasurement component of net defined benefit liability is the change in the effect of the asset except for the amount included in the net interest income of plan assets and net revenues of plan assets excluding actuarial gains and losses to the net of defined benefit liabilities. It is immediately recognized in other comprehensive income. The Group determines the net interest on the net defined benefit obligation (asset) by multiplying the net defined benefit obligation (asset) by the discount rate determined at the beginning of the annual reporting period and is the net present value of the net defined benefit obligation. It is determined by taking into consideration the fluctuations. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When an amendment or reduction of the system occurs, the gain or loss resulting from the change or decrease in the benefits to the past service is immediately recognized in profit or loss. The Group recognizes gains or losses on settlement when the defined benefit plan is settled.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

v) Termination benefits

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

(w) Share-based payment transactions

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

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

(x) Provisions

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

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

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.

Provisions shall be used only for expenditures for which the provisions are originally recognized.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

(y) Financial guarantee contract - policy applicable from January 1, 2018

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

Financial guarantee contracts are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee contract. The financial guarantee liability is subsequently measured at the higher of the amount of the best estimate of the expenditure required to settle the present obligation at the end of reporting period; and the amount initially recognized less, cumulative amortization recognized on a straight-line basis over the guarantee period. Financial guarantee liabilities are included within other liabilities.

After initial recognition, financial guarantee contracts are measured at the higher of:

- Loss allowance in accordance with K-IFRS No.1109, '*Financial Instruments*'
- The amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of K-IFRS No.1115, '*Revenue from Contracts with Customers*'

(z) Financial guarantee contract - policy applicable before January 1, 2018

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

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

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

(aa) Insurance contracts

1) Investment contract liabilities, including insurance contract liabilities and discretionary dividend factors

The group establishes liability reserves in accordance with the Insurance Business Law and the related regulations. The reserves are calculated according to the insurance policy, insurance premiums and liability reserve calculation method. The main contents are as follows.

1-1) Premium reserves

The present value of the premiums payable to the policy holders after the balance sheet date is the present value of the net premium to be paid after the end of the reporting period. The amount is deducted from the value.

1-2) Unpaid premium reserves

As of the end of the reporting period, premiums that have paid due are calculated based on premiums and the liability reserve calculation method.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

1-3) Guarantee reserves

The total amount of reserve for variable minimum guarantee (①) and reserve for general account guarantee (②) is provided as guarantee reserve.

① Variable minimum guarantee reserve

This reserve is the amount that must be accumulated to guarantee insurance premiums above a certain level for contracts maintained as of the end of the reporting period, and is measured at the higher of :

- i) the average amount of the top 30% of net loss expected in the future
- ii) the minimum required amount by insurance types, minimum guarantees and limits of stock investment portion

② General account guarantee reserve

As of the end of the reporting period, the amount of reserve for insurance contracts that are insured under general account is required to be paid to guarantee the level of refunds,

- i) Average of the amount deducted from the appropriateness of the liability reserve calculated by excluding the guarantee option from the appropriateness evaluation of the liability reserve calculated by including the guarantee option for each interest rate scenario
- ii) The amount of compensation (including annulment contract) against the guarantee received from the policy holder by the rate applied at the premium calculation in the insurance premium and liability reserve calculation method

1-4) Reserve for outstanding claims

As of the end of the reporting period, the Group has accrued the amount for which the reason for the payment of insurance claims, etc. has been incurred and the amount of the claim payment has not been paid yet due to the dispute or lawsuit related to the insurance settlement. In addition, the Group recognizes unrecognized losses based on historical experience.

1-5) Reserves for participating policyholders' dividends

The reserve is provided for the purpose of contributing to the policyholder dividend according to the laws and regulations and the reserve for dividend reserve for the policyholder and the dividend reserve for the subsequent business year.

The policyholder dividend reserve is the amount that is not paid as of the end of the reporting period for the settlement amount and the reserve for dividend policy for the next fiscal year is based on the policyholder dividend calculated on the insurance contract effective as of the end of the reporting period.

① Excess crediting rate reserve

In the case of a dividend insurance contract which has been maintained for more than one year as of the end of the reporting period among contracts signed before October 1, 1997, the difference between the planned interest rate and the one-year maturity deposit rate shall be preserved.

② Mortality dividend reserve

Dividends arising from contracts that are maintained for more than one year at the end of the reporting period are used to offset the expected mortality and actual mortality rates applied to premiums.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

③ Interest dividend reserve

For the contracts that have been maintained for more than one year as of the end of the reporting period, the amount calculated by applying the interest dividend reserve rate to the net written premium reserve less the unearned acquisition costs. However, the insurance sold before October 1, 1997 is applied to the amount deducted from the net premium in the event that the planned interest rate by the insurance product is less than the dividend standard.

④ Reserves for long-term special dividends

For the effective dividend policy agreement that has been maintained for 6 years or more, the amount calculated by applying the long-term special dividend rate to the amount deducted from the net premiums for the end of the year.

However, insurance sold before October 1, 1997 is applied to the deduction of unearned premiums at the end of the year when the expected interest rate by the insurance product is less than the dividend standard rate

1-6) Reserve for interest dividends

In order to cover the policyholder dividend in the future, the amount is accumulated in accordance with the laws and regulations and the insurance contracts.

1-7) Reserve for dividend insurance loss reserve

In accordance with the regulations set by the supervisory authority, dividend insurance profit is accumulated within 30/100 of the contractor's stake. The reserve loss for dividend insurance shall be preserved at the end of the reporting period and shall be used as the policyholder dividend source for the individual contractor.

2) Contractor's equity adjustment

The Group classifies the gains and losses on available-for-sale financial assets as of the end of the reporting period as contractor's equity and shareholder's equity based on the ratio of the average liability reserves of the dividend and non-dividend policies for the fiscal year.

3) Evaluation of debt appropriateness

At the end of each reporting period, the group assesses whether the recognized insurance liability is appropriate using the current estimates of future cash flows of the policy, and if the carrying amount of the insurance liability is deemed to be inappropriate in terms of the estimated future cash flows. The reserve for premiums is added to the profit or loss by the amount corresponding to the deficiency.

4) Reinsurance assets

The group presents the recoverable amount of reinsurance assets. The group assesses at the end of each reporting period whether there is objective evidence that a reinsurance asset is impaired. If there is objective evidence that the entity will not be able to collect all amounts under the terms of the agreement as a result of an event that occurred after the initial recognition and if the event has a reliable and measurable impact on the amount to be received. If reinsurance assets are determined to be impaired, impairment loss is recognized in the profit and loss for the current period.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

5) Deferred acquisition cost

The group recognizes unrealized gains and losses arising from long-term insurance contracts as assets and amortizes the premiums over the life of the insurance contracts equally. If the contribution period exceeds 7 years, the amortization period is 7 years if there is an unrecognized balance at the date of the cancellation, the entire amount of the cancellation is amortized in the fiscal year to which the cancellation date belongs. But, if the ratio of additional premiums is higher at the early stage of the insurance period for the purpose of recovering the excess of the unearned premiums and the early settlement costs, the new settlement expenses are treated as the period expense.

(ab) Recognition of revenues and expenses

Other than revenues under the scope of K-IFRS No.1017, 'Leases', K-IFRS No.1028, 'Investments in Associates and Joint Ventures', K-IFRS No.1109, 'Financial Instruments', K-IFRS No.1110, 'Consolidated Financial Statements', and K-IFRS No.1111, 'Joint Arrangements', the Group's revenues are recognized using five-step revenue recognition model as follows: ① 'Identifying the contract' → ② 'Identifying performance obligations' → ③ 'Determining the transaction price' → ④ 'Allocating the transaction price to performance obligations' → ⑤ 'Recognizing the revenue by satisfying performance obligations'.

i) Interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, and all other premiums or discounts. When it is not possible to estimate reliably the cash flows or the expected life of a financial instrument, the Group uses the contractual cash flows over the full contractual term of the financial instrument.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

ii) Fees and commission

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument.

Ⓐ Fees that are an integral part of the effective interest rate of a financial instrument

Such fees are generally treated as an adjustment to the effective interest rate. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, preparing and processing documents, closing the transaction and the origination fees received on issuing financial liabilities. However, when the financial instrument is measured at fair value with the change in fair value recognized in profit or loss, the fees are recognized as revenue when the instrument is initially recognized.

Ⓑ Fees earned as services are provided

Fees and commission income, including investment management fees, sales commission, and account servicing fees, are recognized as the related services are provided.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

㉔ Fees that are earned on the execution of a significant act

The fees that are earned on the execution of a significant act including commission on the allotment of shares or other securities to a client, placement fee for arranging a loan between a borrower and an investor and sales commission, are recognized as revenue when the significant act has been completed.

iii) Insurance income

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

iv) Dividends

Dividends income is recognized when the shareholder's right to receive payment is established. Usually this is the ex-dividend date for equity securities. The Group provides compensation in various forms such as payment discounts and gifts.

(ac) Revenue from Contracts with Customers - policy applicable from January 1, 2018

The fair value of the consideration received or receivable in exchange for the initial transaction is allocated to the reward points ("points") and the remainder of the fee income. The consideration to be allocated to the points is estimated based on the fair value of the monetary benefits to be provided in consideration of the expected recovery rate of points awarded in accordance with the customer loyalty program and the expected time of recovery. Points for distribution through the cost paid by the customer is recognized by deducting from the revenue from fees.

(ad) Customer loyalty system - policy applicable before January 1, 2018

Under the Customer Loyalty system, the fair value of the consideration received or receivable in exchange for the initial transaction is allocated to the reward points ("points") and the remainder of the fee income. The Group provides compensation in various forms such as payment discounts and gifts. The consideration allocated to the points is based on the fair value of the monetary benefits to be provided for the points to be recovered. The fair value of the benefits provided for the points reclaimed in accordance with the customer loyalty program is estimated taking into account the expected recovery rate and the expected recovery time. The consideration to be allocated to the points is estimated based on the fair value of the monetary benefits to be provided in consideration of the expected recovery rate of points awarded in accordance with the customer loyalty program and the expected time of recovery. Revenue recognition is measured based on the relative size of the points recovered and exchanged for monetary consideration at the total points expected to be recovered.

In addition, if the unavoidable costs incurred to fulfill the compensation obligation in connection with the customer loyalty system are expected to exceed the amount not recognized as revenue allocated to the compensation score at the time of initial sale, the excess amount is recognized as provision.

(ae) Income tax

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

i) Current tax

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

ii) Deferred tax

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

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

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

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

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

If any additional income tax expense exists by payment of dividends, the Group recognizes it when the liability relating to the payment is recognized.

(af) Accounting for trust accounts

The Group accounts for trust accounts separately from its bank accounts under the Financial Investment Services and Capital Markets Act and thus the trust accounts are not included in the accompanying consolidated financial statements. Borrowings from trust accounts are included in other liabilities. Trust fees and commissions in relation to the service provided to trust accounts by the Group are recognized as fees and commission income.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

(ag) Earnings per share

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

(ah) New standards and interpretations not yet adopted

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

i) K-IFRS No.1116 "Lease"

K-IFRS No. 1116, "Leases", which was enacted on May 22, 2017, is effective for annual periods beginning on or after January 1, 2019, but may be applied early.

The Standard is based on current Korean IFRS 1017 "Leases", K-IFRS 2104, "Determining whether an arrangement contains a lease", K-IFRS No. 2015 "Operating lease: Incentive" It will replace Interpretation No. 2027, "Evaluating the substances of transactions involving the legal form of a lease".

At the date of commitment, the Group determines whether the contract is a lease or whether the contract includes a lease, and identifies whether the contract includes a lease or a lease in accordance with this standard. The lessee and lessor must account for each lease element of the lease as a lease, separate from the non-lease element in an agreement that includes a lease or lease.

The lessee is required to recognize an asset that represents the right to use the underlying asset and a liability that represents the obligation to pay the lease payments. However, in the case of short-term lease and small asset lease, the lessee is not required to separate the non-lease component from the lease component in accordance with the simplified method, and can apply the method of accounting for each lease component and related non-lease component as one lease component.

The accounting treatment of lessor is not significantly different from the accounting treatment of the current K-IFRS 1017.

< Accounting treatment as a lessee >

① Application method of K-IFRS 1116 "Lease"

The lessee recognizes the cumulative effect of applying the retrospective application (full retroactive method) to each past reporting period presented in accordance with K-IFRS No. 1008, "Accounting Policies, Changes in Accounting Estimates and Errors" (Cumulative Effect Batch Reconciliation Action).

The Group plans to apply CAS Statement No. 1116 for the first time by applying cumulative effect and cumulative temporary adjustment measures as of January 1, 2019. Accordingly, the cumulative effect of applying K-IFRS No. 1116 is adjusted in the retained earnings (or, where appropriate, other components of equity) at the date of initial application and the comparative financial statements are not going to be restated.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

3. Significant accounting policies (continued)

② Financial effect of K-IFRS No. 1116 "Lease"

We assessed the impact on the financial statements for the year 2019 based on the information and available information as of January 1, 2019, in order to assess the financial impact of the initial adoption of K-IFRS 1116.

The aggregate amount of the minimum lease payments prior to the present value discount of the assets currently used as operating leases is ₩ 610,091 million and the discount amount is ₩ 591,714 million at the incremental borrowing rate of the lessee. However, the Group will account for each lease element and associated non-lease element as a single lease element, using the simplified method of accounting for contracts that include all or part of the lease or lease.

As a result of a detailed analysis of the effect on the financial statements, the Group expects the assets and liabilities to be pledged as of January 1, 2019 to increase by ₩ 581,925 million and ₩ 536,831 million, respectively.

< Accounting treatment as a lessor >

① Application method and financial impact of K-IFRS 1116 "Lease"

As a lessor, the Group has specifically assessed the effect of accounting for the identification of lease contracts, separation of lease components on the financial statements in accordance with K-IFRS No. 1116. There is no impact on finance lease payment receivables as of January 1, 2019.

If the Group is a medium-term lease contractor, it is classified as an operating lease before the initial application date. The lease is classified as operating lease or finance lease according to K-IFRS No. 1116. If the lease is classified as a finance lease, it is accounted for as a new finance lease at the date of initial application. As a result of assessing the specific financial impact based on the context and available information as of January 1, 2019, we have not been accounted for as a new finance lease. However, the financial impact assessment may change depending on additional information available in the future.

ii) Amendment of K-IFRS No.1109 "Financial instruments"

Financial assets that are redeemable with reimbursable financial assets are remeasured to be measured at amortized cost. When the financial liabilities measured at amortized cost are changed but not eliminated, the effect of the change should be recognized in profit or loss. These amendments will be effective from the fiscal year beginning on or after January 1, 2019 and are subject to early adoption.

iii) Amendment of K-IFRS No.1019 "Employee benefits"

If the change in the defined benefit plan results in the revision, reduction or settlement of the plan, the assumptions used in remeasurement of the net defined benefit obligation (asset) to estimate the current service cost and net interest for the remaining period of the period after the adjustments in the plan. In addition, the decrease in excess of the amount of unrecognized actuarial gain or loss is reflected in profit or loss as a part of past service cost or settlement profit or loss. The amendments are applied prospectively to the amendment, reduction, and settlement of systems that have occurred since the fiscal year beginning on or after January 1, 2019.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

3. Significant accounting policies (continued)

iv) Amendment of K-IFRS No.1028 “Investment in associates and joint ventures”

The clarification has been conducted that other financial instruments (financial instruments that do not apply the equity method) to the related companies or joint ventures are subject to K-IFRS No. 1109, and that the long-term investment interests that form part of the net investment in the related companies or joint ventures was revised accordingly with the K-IFRS 1109. These amendments will be effective from the fiscal year beginning on or after January 1, 2019 and are subject to early adoption. In addition, the first-time adoption of this standard does not require reclassification of comparative information by applying the transitional provisions of No. 1109, and the effect of retroactive application is reflected in the beginning retained earnings (or other appropriate capital elements) at the date of initial application .

v) Establishment of K-IFRS No.2123 “Uncertainty over income tax treatments”

The interpretation is applied to the recognition and measurement of deferred tax and deferred income tax if there is uncertainty about whether or not the tax treatment applied by the entity will be recognized by the taxing authority. Guidance on accounting units of uncertainty in taxation and circumstances requiring reevaluation Includes. The interpretation is effective from January 1, 2019, and it can choose between retroactively reclassifying comparative financial statements or reflect the effect of the change on the basis of the first year of adoption.

vi) Annual amendments through year 2015 – 2017

vi-i) K-IFRS No.1103 “Business combination”

The business combination that is held in stages to acquire control over the joint business (meeting the definition of the business) while retaining the rights and liabilities for the assets related to the joint business. Therefore, Remeasurement should be conducted for all underlying assets and liabilities. The amendments are effective for annual periods beginning on or after January 1, 2019, or reflect the effect of the change on the basis of the first year of adoption.

vi-ii) K-IFRS No. 1111 “Joint arrangements”

If a jointly controlled entity that participates in a joint venture but does not have joint control obtains joint control over the joint venture, the previously held equity interest in the joint venture is not remeasured. This amendment is effective for transactions beginning after January 1, 2019 and beginning after the fiscal year beginning on or reflect the effect of the change on the basis of the first year of adoption.

vi-iii) K-IFRS No.1012 “Income taxes”

The provisions of paragraph 57A of K-IFRS 1012 (defining the timing and recognition of dividend tax effects) apply to all income tax effects of dividends and are recognized in profit or loss, other comprehensive income or capital. This amendment is effective for fiscal years beginning on or after January 1, 2019, but may be applied early.

vi-iv) K-IFRS No.1023 “Borrowing costs”

If most of the necessary activities to enable us to use (or sell) our qualifying assets has been completed, it will include the funds borrowed for specific purposes in ordinary borrowings to acquire those assets. This amendment applies to borrowing costs incurred subsequent to the first year of the application of the amendment and may be applied early in the financial year beginning after January 1, 2019.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

4. Financial risk management

(a) Overview

As a financial services provider, Shinhan Financial Group Co., Ltd. and its subsidiaries (collectively the “Group”) are exposed to various risks relating to lending, credit card, insurance, securities investment, and trading and leasing businesses, its deposit taking and borrowing activities in addition to the operating environment.

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

i) Risk management principles

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

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

ii) Risk management organization

The Group risk management system is organized along with the following hierarchy: from the top and at the Group level, the Group Risk Management Committee, the Group Risk Management Council, the Chief Risk Officer and the Group Risk Management Team, and at the subsidiary level, the Risk Management Committees and the Risk Management Team of the relevant subsidiary.

The Group Risk Management Committee, which is under the supervision of the controlling company’s Board of Directors, sets the basic group wide risk management policies and strategies. The controlling company’s Chief Risk Officer reports to the Group Risk Management Committee, and the Group Risk Management Council, whose members consist of the controlling company’s Chief Risk Officer and the risk management team heads of each of subsidiaries, coordinates the risk management policies and strategies at the group level as well as at the subsidiary level among each of subsidiaries.

Each of subsidiaries also has a separate Risk Management Committee, Risk Management Working Committee and Risk Management Team, whose tasks are to implement the group wide risk management policies and strategies at the subsidiary level as well as to set risk management policies and strategies specific to such subsidiary in line with the group wide guidelines. The Group also has the Group Risk Management Team, which supports the controlling company’s Chief Risk Officer in his or her risk management and supervisory role.

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

4. Financial risk management (continued)

(a) Overview (continued)

- *Risk management* – The Group maintain a group wide risk management system to detect the signals of any risk crisis and, in the event of a crisis actually happening, to respond on a timely, efficient and flexible basis so as to ensure the Group's survival as a going concern. Each subsidiary maintains crisis planning for three levels of contingencies, namely, "alert", "imminent crisis" and "crisis", determination of which is made based on quantitative and qualitative monitoring and consequence analysis, and upon the happening of any such contingency, is required to respond according to a prescribed contingency plan. At the controlling company level, the Group maintains and installs crisis detection and response system which is applied consistently group wide, and upon the happening of any contingency at two or more subsidiary level, the Group directly takes charge of the situation so that the Group manages it on a concerted group wide basis.

(b) Credit risk

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

• Credit Risk Management of Shinhan Bank

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

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

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

4. Financial risk management (continued)

(b) Credit risk (continued)

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

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

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

• Credit Risk Management of Shinhan Card

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

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

4. Financial risk management (continued)

(b) Credit risk (continued)

i) Techniques, assumptions and input variables used to measure impairment

i-1) Determining significant increases in credit risk since initial recognition

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

i-1-1) Measuring the risk of default

The Group assigns an internal credit risk rating to each individual exposure based on observable data and historical experiences that have been found to have a reasonable correlation with the risk of default. The internal credit risk rating is determined by considering both qualitative and quantitative factors that indicate the risk of default, which may vary depending on the nature of the exposure and the type of borrower.

i-1-2) Measuring term structure of probability of default

The Group accumulates information after analyzing the information regarding exposure to credit risk and default information by the type of product and borrower and results of internal credit risk assessment. For some portfolios, the Group uses information obtained from external credit rating agencies when performing these analyses.

The Group applies statistical techniques to estimate the probability of default for the remaining life of the exposure from the accumulated data and to estimate changes in the estimated probability of default over time.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017

4. Financial risk management (continued)

(b) Credit risk (continued)

i-1-3) Significant increases in credit risk

The Group uses the indicators defined as per portfolio to determine the significant increase in credit risk and such indicators generally consist of changes in the risk of default estimated from changes in the internal credit risk rating, qualitative factors, days of delinquency, and others. The method used to determine whether credit risk of financial instruments has significantly increased after the initial recognitions is summarized as follows:

<u>Corporate exposures</u>	<u>Retail exposures</u>	<u>Card exposures</u>
Significant change in credit ratings Continued past due more than 30 days	Significant change in credit ratings Continued past due more than 30 days	Significant change in credit ratings Continued past due more than 7 days(personal card)
Loan classification of and below precautionary	Loan classification of and below precautionary	Loan classification of and below precautionary
Borrower with early warning signals	Borrower with early warning signals	Specific pool segment
Negative net assets	Specific pool segment	
Adverse audit opinion or disclaimer of opinion	Loans relating to constructor whose collective loans are insolvent	
Interest coverage ratios of below 1 for consecutive three years		
Negative cash flows from operating activities for consecutive two years		

The Group considers the credit risk of financial instrument has been significantly increased since initial recognition if a specific exposure is past due more than 30 days (however, for a specific portfolio if it is past due more than 7 days). The Group counts the number of days past due from the earliest date on which the Group has not fully received the contractual payments from the borrower and does not consider the grace period granted to the borrower.

The Group regularly reviews the criteria for determining if there have been significant increases in credit risk from the following perspective.

- A significant increase in credit risk shall be identified prior to the occurrence of default.
- The criteria established to judge the significant increase in credit risk shall have a more predictive power than the criteria for days of delinquency.
- As a result of applying the judgment criteria, financial instruments shall not be to move too frequently between the 12-months expected credit losses measurement and the lifetime expected credit losses measurement.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

4. Financial risk management (continued)

(b) Credit risk (continued)

i-2) Modified financial assets

If the contractual cash flows on a financial asset have been renegotiated or modified and the financial asset was not derecognized, the Group assesses whether there has been a significant increase in the credit risk of the financial instrument by comparing the risk of a default occurring at initial recognition based on the original, unmodified contractual terms and the risk of a default occurring at the reporting date based on the modified contractual terms.

The Group may adjust the contractual cash flows of loans to customers who are in financial difficulties in order to manage the risk of default and enhance the collectability (hereinafter referred to as 'debt restructuring'). These adjustments generally involve extension of maturity, changes in interest payment schedule, and changes in other contractual terms.

Debt restructuring is a qualitative indicator of a significant increase in credit risk and the Group recognizes lifetime expected credit losses for the exposure expected to be the subject of such adjustments. If a borrower faithfully makes payments of contractual cash flows that were modified in accordance with the debt restructuring or if the borrower's internal credit rating has recovered to the level prior to the recognition of the lifetime expected credit losses, the Group recognizes the 12-months expected credit losses for that exposure again.

i-3) Risk of default

The Group considers a financial asset to be in default if it meets one or more of the following conditions:

- If a borrower is overdue 90 days or more from the contractual payment date,
- If the Group judges that it is not possible to recover principal and interest without enforcing the collateral on a financial asset

The Group uses the following indicators when determining whether a borrower is in default:

- Qualitative factors (e.g. breach of contract terms),
- Quantitative factors (e.g. if the same borrower does not perform more than one payment obligations to the Group, the number of days past due per payment obligation. However, in the case of a specific portfolio, the Group uses the number of days past due for each financial instrument)
- Internal data and external data

The definition of default applied by the Group generally conforms to the definition of default defined for regulatory capital management purposes; however, depending on the situations, the information used to determine whether a default has incurred and the extent thereof may vary.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

4. Financial risk management (continued)

(b) Credit risk (continued)

i-4) Reflection of forward-looking information

The Group reflects forward-looking information presented by internal experts based on a variety of information when measuring expected credit losses. For the purpose of estimating these forward-looking information, the Group utilizes the economic outlook published by domestic and overseas research institutes or government and public agencies.

The Group reflects future macroeconomic conditions anticipated from a neutral standpoint that is free from bias in measuring expected credit losses. Expected credit losses in this respect reflect conditions that are most likely to occur and are based on the same assumptions that the Group used in its business plan and management strategy.

The Group identified the key macroeconomic variables needed to forecast credit risk and credit losses for each portfolio as follows by analyzing past experience data and drew correlations across credit risk for each variable.

<u>Key macroeconomic variables</u>	<u>Correlation with credit risk</u>
Economic growth	Negative
Consumer price index	Negative
Benchmark rate	Positive
10-year Korea Treasury Bond	Positive
3-year Corporate Bond	Positive
KOSPI	Negative

The predicted correlations between the macroeconomic variables and the risk of default, used by the Group, were derived based on data from the past nine years.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

4. Financial risk management (continued)

(b) Credit risk (continued)

i-5) Measurement of expected credit losses

Key variables used in measuring expected credit losses are as follows:

- Probability of default (“PD”)
- Loss given default (“LGD”)
- Exposure at default (“EAD”)

These variables have been estimated from historical experience data by using the statistical techniques developed internally by the Group and have been adjusted to reflect forward-looking information.

Estimates of PD over a specified period are estimated by reflecting characteristics of counterparties and their exposure, based on a statistical model at a specific point of time. The Group uses its own information to develop a statistical credit assessment model used for the estimation, and additional information observed in the market is considered for some portfolios such as a group of large corporates. When a counterparty or exposure is concentrated in specific grades, the method of measuring PD for that grades would be adjusted, and the PD by grade is estimated by considering contract expiration of the exposure.

LGD refers to the expected loss if a borrower defaults. The Group calculates LGD based on the experience recovery rate measured from past default exposures. The model for measuring LGD is developed to reflect type of collateral, seniority of collateral, type of borrower, and cost of recovery. In particular, LGD for retail loan products uses loan to value (LTV) as a key variable. The recovery rate reflected in the LGD calculation is based on the present value of recovery amount, discounted at the effective interest rate.

EAD refers to the expected exposure at the time of default. The Group derives EAD reflecting a rate at which the current exposure is expected to be used additionally up to the point of default within the contractual limit. EAD of financial assets is equal to the total carrying amount of the asset, and EAD of loan commitments or financial guarantee contracts is calculated as the sum of the amount expected to be used in the future.

When measuring expected credit losses on financial assets, the Group reflects a period of expected credit loss measurement based on a contractual maturity. The Group takes into consideration of the extension rights held by a borrower when deciding the contractual maturity.

Risk factors of PD, LGD and EAD are collectively estimated according to the following criteria:

- Type of products
- Internal credit risk rating
- Type of collateral
- Loan to value (LTV)
- Industry that the borrower belongs to
- Location of the borrower or collateral
- Days of delinquency

The criteria classifying groups is periodically reviewed to maintain homogeneity of the group and adjusted if necessary. The Group uses external benchmark information to supplement internal information for a particular portfolio that did not have sufficient internal data accumulated from the past experience.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

(b) Credit risk (continued)

i-6) Write-off of financial assets

The Group writes off a portion of or entire loan or debt security that is not expected to receive its principal and interest. In general, the Group conducts write-off when it is deemed that the borrower has no sufficient resources or income to repay the principal and interest. Such determination on write-off is carried out in accordance with the internal rules of the Group and is carried out with the approval of an external institution, if necessary. Apart from write-off, the Group may continue to exercise its right of collection under its own recovery policy even after the write-off of financial assets.

ii) *Maximum exposure to credit risk*

Exposure to credit risk is the exposure related to due from banks, loans, investments in debt securities, derivative transactions, off-balance sheet accounts such as loan commitment. The exposures of due from banks and loans were classified into government, bank, corporation, or retail based on the exposure classification criteria of BASEL III credit risk weights.

The Group's maximum exposure to credit risk without taking into account of any collateral held or other credit enhancements as of December 31, 2018 and December 31, 2017 are as follows:

	<u>2018</u>
Due from banks and loans at amortized cost (*1)(*3):	
Banks	₩ 17,935,816
Retail	136,499,558
Government	6,517,215
Corporations	131,795,992
Card receivable	21,592,287
	<u>314,340,868</u>
Deposits and securities at FVTPL(*1)(*3)	
Bank	890,660
Corporations	1,189,190
	<u>2,079,850</u>
Financial asset at FVTPL	40,289,846
Securities measured at fair value - OCI	37,677,646
Securities measured at amortized cost	28,478,136
Derivative assets	1,793,613
Other financial assets(*1)(*2)	16,837,141
Financial guarantee contracts	4,413,874
Loan commitments and other credit liabilities	165,399,937
	<u>₩ 611,310,911</u>

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

(*2) Other financial assets mainly comprise brokerage, securities and spot transaction related receivables, accrued interest receivables, secured key money deposits and domestic exchange settlement debit settled in a day.

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

(b) Credit risk (continued)

ii) *Maximum exposure to credit risk (continued)*

	<u>2017</u>
Due from banks and loans(*1)(*3):	
Banks	₩ 13,373,140
Retail	124,868,554
Government	14,442,747
Corporations	123,637,882
Card receivable	20,119,514
	<u>296,441,837</u>
Trading assets	23,829,943
Financial assets designated at FVTPL	2,344,701
AFS financial assets	37,186,552
HTM financial assets	24,990,680
Derivative assets	3,400,178
Other financial assets(*1)(*2)	12,041,304
Financial guarantee contracts	3,267,707
Loan commitments and other credit liabilities	139,264,031
	<u>₩ 542,766,933</u>

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

(*2) Other financial assets mainly comprise brokerage, securities and spot transaction related receivables, accrued interest receivables, secured key money deposits and domestic exchange settlement debit settled in a day.

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

iii) *The maximum amount of exposure to credit risk by type of collateral of held financial instruments is as follows :*

Classification		12 months Expected credit loss	Total expected credit loss		Total
			Not recognized	Recognized	
Guarantee	₩	13,608,254	3,870,047	61,623	17,539,924
Deposits and Savings		1,016,391	241,567	1,379	1,259,337
Property and equipment		1,051,573	244,571	18,766	1,314,910
Real estate		119,174,347	13,856,638	281,943	133,312,928
Securities		3,460,263	105,397	-	3,565,660
Other		2,593,792	28	218	2,594,038
Total	₩	<u>140,904,620</u>	<u>18,318,248</u>	<u>363,929</u>	<u>159,586,797</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018

(In millions of won)

4. Financial risk management (continued)

(b) Credit risk (continued)

iv) *Impairment information by credit risk of financial assets*

- Credit loss allowances of financial assets as of December 31, 2018 are as follows:

	<u>12-month expected loss</u>		<u>Life time expected loss</u>			<u>Total</u>	<u>Allowances</u>	<u>Net</u>	<u>Mitigation of credit risk due to collateral</u>
	<u>Grade 1(*1)</u>	<u>Grade 2(*1)</u>	<u>Grade 1(*1)</u>	<u>Grade 2(*1)</u>	<u>Impaired</u>				
Due from banks and loans at amortized cost:									
Banks	₩ 16,873,064	980,673	94,866	11,493	-	17,960,096	(24,280)	17,935,816	55,008
Retail	122,318,451	6,122,202	4,991,709	3,103,779	402,975	136,939,116	(439,558)	136,499,558	81,216,489
Government	6,474,219	2,399	45,871	-	-	6,522,489	(5,274)	6,517,215	17,050
Corporations	82,476,923	28,445,914	9,800,260	11,659,375	882,394	133,264,866	(1,468,874)	131,795,992	74,069,579
Card receivable	16,129,536	2,022,525	1,791,147	2,039,390	411,595	22,394,193	(801,906)	21,592,287	7,599
	244,272,193	37,573,713	16,723,853	16,814,037	1,696,964	317,080,760	(2,739,892)	314,340,868	155,365,725
Securities at fair value through other comprehensive income(*2)	30,705,879	6,865,937	-	105,830	-	37,677,646	-	37,677,646	-
Securities at amortized cost	27,661,749	803,174	22,474	-	-	28,487,397	(9,261)	28,478,136	-
Ending balance	₩ 302,639,821	45,242,824	16,746,327	16,919,867	1,696,964	383,245,803	(2,749,153)	380,496,650	155,365,725

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018

4. Financial risk management (continued)

(b) Credit risk (continued)

iv) *Impairment information by credit risk of financial assets (continued)*

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

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

(*2) Provision for credit loss allowance for securities at fair value through other comprehensive income amounted to ₩26,084 million.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

(b) Credit risk (continued)

iv) *Impairment information by credit risk of financial assets (continued)*

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

		2017					
		<u>Banks</u>	<u>Retail</u>	<u>Government</u>	<u>Corporations</u>	<u>Card</u>	<u>Total</u>
Grade 1(*3)	₩	13,382,414	116,304,917	14,447,016	86,831,895	16,314,189	247,280,431
Grade 2(*3)		7,857	8,056,563	-	36,835,347	3,473,826	48,373,593
		13,390,271	124,361,480	14,447,016	123,667,242	19,788,015	295,654,024
Less : allowance (collective)		(17,131)	(212,502)	(4,269)	(647,694)	(288,362)	(1,169,958)
	₩	<u>13,373,140</u>	<u>124,148,978</u>	<u>14,442,747</u>	<u>123,019,548</u>	<u>19,499,653</u>	<u>294,484,066</u>
Mitigation of credit risk due to collateral(*2)	₩	96,835	80,354,889	-	64,018,607	6,358	144,476,689

(*1) Credit quality of deposits and loans is classified according to internal credit rating.

(*2) The credit risk mitigation effect of the collateral was estimated based on the fair value of the collateral.

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2017

(In millions of won)

4. Financial risk management (continued)

(b) Credit risk (continued)

iv) *Impairment information by credit risk of financial assets (continued)*

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

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

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018

(In millions of won)

4. Financial risk management (continued)

v) Credit risk exposures per credit grade of off-balance items

- Credit risk exposures per credit grade of off-balance items as of December 31, 2018 are as follows:

		2018			
		Grade 1(*1)	Grade 2(*1)	Impaired	Total
Financial guarantee:					
12-month expected credit loss	₩	2,137,695	1,975,877	-	4,113,572
Life time expected credit loss		146,236	152,277	-	298,513
Impaired		-	-	1,789	1,789
		<u>2,283,931</u>	<u>2,128,154</u>	<u>1,789</u>	<u>4,413,874</u>
Loan commitment and other credit line					
12-month expected credit loss		137,920,323	19,044,745	-	156,965,068
Life time expected credit loss		6,636,365	1,787,965	-	8,424,330
Impaired		-	-	10,539	10,539
		<u>144,556,688</u>	<u>20,832,710</u>	<u>10,539</u>	<u>165,399,937</u>
	₩	<u><u>146,840,619</u></u>	<u><u>22,960,864</u></u>	<u><u>12,328</u></u>	<u><u>169,813,811</u></u>

(*1) Grade 1: BBB+ or above per internal credit rating

Grade 2: Below BBB+ per internal credit rating

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

vi) *Credit ratings of debt securities*

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

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

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

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

(*1) KIS: Korea Investors Service

(*2) KR: Korea Ratings

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

	₩	2017
Neither past due nor impaired		88,160,626
Impaired		1,953
	₩	<u>88,162,579</u>

- Credit quality of derivative assets as of December 31, 2018 and 2017 are as follows:

	₩	2018	2017
Grade 1(*1)(*2)		1,687,005	3,290,638
Grade 2(*1)(*2)		106,608	109,540
	₩	<u>1,793,613</u>	<u>3,400,178</u>

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

vii) Concentration by geographic location

An analysis of concentration by geographic location for financial instrument, net of allowance, as of December 31, 2018 and 2017 are as follows:

	2018								
	Korea	USA	England	Japan	Germ- any	Vietnam	China	Other	Total
Due from banks and loans at amortized cost									
Banks	₩ 8,996,272	1,712,675	462,540	640,895	213,399	947,315	3,221,442	1,741,278	17,935,816
Retail	130,034,683	359,668	4,432	3,440,623	2,151	1,031,299	974,568	652,134	136,499,558
Government Corporations	4,257,877	499,742	-	750,676	108,667	182,822	546,597	170,834	6,517,215
Card	116,621,693	2,707,273	109,295	2,578,989	96,468	1,846,470	2,621,744	5,214,060	131,795,992
	<u>21,453,128</u>	<u>8,435</u>	<u>301</u>	<u>2,107</u>	<u>208</u>	<u>92,992</u>	<u>20,785</u>	<u>14,331</u>	<u>21,592,287</u>
	<u>281,363,653</u>	<u>5,287,793</u>	<u>576,568</u>	<u>7,413,290</u>	<u>420,893</u>	<u>4,100,898</u>	<u>7,385,136</u>	<u>7,792,637</u>	<u>314,340,868</u>
Deposits and loans at FVTPL									
Bank	186,465	704,195	-	-	-	-	-	-	890,660
Corporations	1,189,190	-	-	-	-	-	-	-	1,189,190
	<u>1,375,655</u>	<u>704,195</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,079,850</u>
Securities at FVTPL	38,782,201	973,716	163,658	28,062	11,507	20,740	104,853	205,109	40,289,846
Securities at FVOCI	34,667,702	1,209,756	21,749	197,234	46,417	392,668	616,143	525,977	37,677,646
Securities at amortized cost	26,053,245	1,048,909	-	68,594	-	360,953	34,923	911,512	28,478,136
	<u>₩ 382,242,456</u>	<u>9,224,369</u>	<u>761,975</u>	<u>7,707,180</u>	<u>478,817</u>	<u>4,875,259</u>	<u>8,141,055</u>	<u>9,435,235</u>	<u>422,866,346</u>
	2017								
	Korea	USA	England	Japan	Germ- any	Vietnam	China	Other	Total
Due from banks and loans:									
Banks	₩ 6,315,655	1,186,576	205,705	268,533	144,382	583,094	3,420,223	1,248,972	13,373,140
Retail	119,993,323	346,746	3,811	2,695,890	2,057	745,725	615,079	465,923	124,868,554
Government Corporations	12,887,534	130,553	-	388,142	134,011	35,786	664,030	202,691	14,442,747
Card	110,025,699	2,371,400	175,038	2,169,445	73,998	1,613,022	2,530,507	4,678,773	123,637,882
	<u>20,002,457</u>	<u>7,434</u>	<u>282</u>	<u>2,208</u>	<u>174</u>	<u>76,608</u>	<u>16,806</u>	<u>13,545</u>	<u>20,119,514</u>
	<u>269,224,668</u>	<u>4,042,709</u>	<u>384,836</u>	<u>5,524,218</u>	<u>354,622</u>	<u>3,054,235</u>	<u>7,246,645</u>	<u>6,609,904</u>	<u>296,441,837</u>
Trading assets	23,294,062	235,474	189,297	985	8,704	5,074	60,037	36,310	23,829,943
Financial assets designated at FVTPL	2,262,222	82,479	-	-	-	-	-	-	2,344,701
AFS financial assets	34,323,438	1,242,570	14,517	163,652	32,148	474,134	510,678	425,415	37,186,552
HTM financial assets	22,458,896	1,466,037	-	34,487	-	237,641	37,096	756,523	24,990,680
	<u>₩ 351,563,286</u>	<u>7,069,269</u>	<u>588,650</u>	<u>5,723,342</u>	<u>395,474</u>	<u>3,771,084</u>	<u>7,854,456</u>	<u>7,828,152</u>	<u>384,793,713</u>

(*) The following accounts are the net book value less provision for doubtful accounts.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

viii) Concentration by industry sector

An analysis of concentration by industry sector of financial instrument, net of allowance, as of December 31, 2018 and 2017 are as follows:

	2018								
	Finance and insurance	Manu- facturing	Retail and wholesale	Real estate and service	Construction service	Hotel and food service	Other	Retail customers	Total
Due from banks and loans at amortized cost:									
Banks	₩ 17,579,099	2,219	-	300	-	-	354,198	-	17,935,816
Retail	-	-	-	-	-	-	-	136,499,558	136,499,558
Government Corporations	6,385,776	-	-	2,795	-	-	128,644	-	6,517,215
Card receivable	8,456,599	43,957,565	17,420,532	27,009,286	3,272,406	5,610,146	26,066,753	2,705	131,795,992
	36,343	210,324	169,070	43,236	42,209	23,506	20,968,820	98,779	21,592,287
	<u>32,457,817</u>	<u>44,170,108</u>	<u>17,589,602</u>	<u>27,055,617</u>	<u>3,314,615</u>	<u>5,633,652</u>	<u>47,518,415</u>	<u>136,601,042</u>	<u>314,340,868</u>
Deposits and loans at FVTPL									
Bank	870,656	-	-	20,004	-	-	-	-	890,660
Corporations	554,832	213,715	209,631	2,593	1,621	900	205,898	-	1,189,190
	<u>1,425,488</u>	<u>213,715</u>	<u>209,631</u>	<u>22,597</u>	<u>1,621</u>	<u>900</u>	<u>205,898</u>	<u>-</u>	<u>2,079,850</u>
Financial asset at fair value through profit or loss	25,067,491	1,646,132	1,185,571	342,124	208,455	60,829	11,779,244	-	40,289,846
Securities at fair value through other comprehensive income	22,436,768	1,695,624	302,789	480,979	480,585	-	12,280,901	-	37,677,646
Securities at amortized cost	6,634,975	99,437	-	775,580	595,334	-	20,372,810	-	28,478,136
	<u>₩ 88,022,539</u>	<u>47,825,016</u>	<u>19,287,593</u>	<u>28,676,897</u>	<u>4,600,610</u>	<u>5,695,381</u>	<u>92,157,268</u>	<u>136,601,042</u>	<u>422,866,346</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2017

(In millions of won)

4. Financial risk management (continued)

vii) *Concentration by industry sector (continued)*

An analysis of concentration by industry sector of financial instrument, net of allowance, as of December 31, 2018 and 2017 are as follows:

	2017								
	Finance and insurance	Manu- facturing	Retail and wholesale	Real estate and service	Construction service	Hotel and food service	Other	Retail customers	Total
Due from banks and loans at amortized cost:									
Banks	₩ 11,094,855	1,592	-	56,744	-	-	2,219,949	-	13,373,140
Retail	-	-	-	-	-	-	-	124,868,554	124,868,554
Government Corporations	13,381,461	1,314	-	-	-	-	1,059,972	-	14,442,747
Card receivable	5,474,353	40,364,768	16,563,849	23,005,675	2,880,851	2,413,929	32,934,457	-	123,637,882
	41,825	295,290	140,117	37,801	38,580	12,257	395,145	19,158,499	20,119,514
	<u>29,992,494</u>	<u>40,662,964</u>	<u>16,703,966</u>	<u>23,100,220</u>	<u>2,919,431</u>	<u>2,426,186</u>	<u>36,609,523</u>	<u>144,027,053</u>	<u>296,441,837</u>
Trading assets	17,183,669	1,139,609	1,206,133	176,273	112,409	71,656	3,940,194	-	23,829,943
Financial asset designated at fair value through profit or loss	1,201,464	202,906	36,112	45,178	27,678	-	831,363	-	2,344,701
AFS financial assets	23,384,608	1,409,017	227,289	632,410	348,269	-	11,184,959	-	37,186,552
HTM financial assets	5,975,448	48,981	-	785,859	557,591	-	17,622,801	-	24,990,680
	<u>₩ 77,737,683</u>	<u>43,463,477</u>	<u>18,173,500</u>	<u>24,739,940</u>	<u>3,965,378</u>	<u>2,497,842</u>	<u>70,188,840</u>	<u>144,027,053</u>	<u>384,793,713</u>

(*) The following accounts are the net book value less provision for doubtful accounts.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

(c) Market risk

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

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

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

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

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

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

i) Market risk management from trading positions

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

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

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

An analysis of the Group's requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2018 and 2017 based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, was as follows:

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

(c) Market risk (continued)

		2018			
		Average	Maximum	Minimum	December 31
Interest rate	₩	425,235	453,644	403,195	453,644
Stock price		201,408	227,167	143,238	143,238
Foreign exchange		143,202	174,702	124,292	139,617
Commodity		6,250	9,026	4,501	6,343
Option volatility		34,334	56,834	22,045	56,834
	₩	810,429	921,373	697,271	799,676

		2017			
		Average	Maximum	Minimum	December 31
Interest rate	₩	431,065	463,340	414,689	415,139
Stock price		186,652	225,553	157,730	199,041
Foreign exchange		113,208	121,041	105,823	121,041
Commodity		11,395	22,366	4,562	4,562
Option volatility		10,405	12,599	7,809	12,599
	₩	752,725	844,899	690,613	752,382

i-1) Shinhan Bank

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Bank as of and for the years ended December 31, 2018 and 2017 are as follows:

		2018			
		Average	Maximum	Minimum	December 31
Interest rate	₩	22,559	29,748	16,194	18,797
Stock price		12,118	25,701	1,976	22,212
Foreign exchange(*)		39,282	45,738	34,162	34,294
Option volatility		131	511	30	261
Commodity		17	61	-	24
Portfolio diversification					(21,298)
	₩	43,957	57,462	38,026	54,290

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

(c) Market risk (continued)

i-2) Shinhan Card

The analyses of Shinhan Card's requisite capital in light of the market risk for trading positions as of and for the years ended December 31, 2018, and 2017, based on the standard guidelines for risk management promulgated by the Financial Supervisory Service, are as follows:

		2018			
		<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>December 31</u>
Interest rate	₩	1,257	1,972	768	1,269

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

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

i-3) Shinhan Investment

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Investment as of and for the years ended December 31, 2018 and 2017 are as follows:

		2018			
		<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>	<u>December 31</u>
Interest rate	₩	7,563	14,314	3,656	7,321
Stock price		64,107	103,846	6,202	43,748
Foreign exchange		5,992	13,798	154	154
Option volatility		9,200	31,810	2,195	31,810
Portfolio diversification					(1,375)
	₩	<u>74,821</u>	<u>128,261</u>	<u>11,174</u>	<u>81,658</u>

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

(c) Market risk (continued)

i-4) Shinhan Life Insurance

The analyses of the ten-day 99.9% confidence level-based VaR for managing market risk for trading positions of Shinhan Life Insurance as of and for the year ended December 31, 2018 and 2017 are as follows:

		2018			
		Average	Maximum	Minimum	December 31
Interest rate	₩	2,994	6,410	260	293
Stock price		4,084	4,933	2,030	4,793
Foreign exchange		1,111	2,825	40	352
Option volatility		824	4,916	89	106
	₩	9,013	19,084	2,419	5,544

		2017			
		Average	Maximum	Minimum	December 31
Interest rate	₩	3,838	16,598	85	3,848
Stock price		1,195	3,368	-	3,178
Foreign exchange		1,213	3,569	3	1,924
Option volatility		5,083	7,423	2,777	3,809
	₩	11,329	30,958	2,865	12,759

ii) Interest rate risk management from non-trading positions

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

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

Interest rate VaR represents the maximum anticipated loss in a net present value calculation, whereas interest rate EaR represents the maximum anticipated loss in a net earnings calculation for the immediately following one-year period, in each case, as a result of negative movements in interest rates. Accordingly, the Group measures and manages interest rate risk for non-trading activities by taking into account effects of interest rate changes on both its income and net asset value.

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

ii) *Interest rate risk management from non-trading positions (continued)*

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

Non-trading positions for interest rate VaR and EaR as of December 31, 2018 and 2017 are as follows:

ii-1) Shinhan Bank

		<u>2018</u>	<u>2017</u>
VaR(*1)	₩	164,393	293,355
EaR(*2)		316,718	174,262

ii-2) Shinhan Card

		<u>2018</u>	<u>2017</u>
VaR(*1)	₩	163,804	147,932
EaR(*2)		28,267	32,081

ii-3) Shinhan Investment

		<u>2018</u>	<u>2017</u>
VaR(*1)	₩	31,274	44,505
EaR(*2)		112,093	108,866

ii-4) Shinhan Life Insurance

		<u>2018</u>	<u>2017</u>
VaR(*1)	₩	442,008	319,689
EaR(*2)		61,942	70,434

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

iii) Foreign exchange risk

Exposure to foreign exchange risk can be defined as the difference (net position) between assets and liabilities presented in foreign currency, including derivative financial instruments linked to foreign exchange rate. Foreign exchange risk is a factor that causes market risk of the trading position and is managed by the Group under the market risk management system.

The management of Shinhan Bank's foreign exchange position is centralized at the FX & Derivatives Department. Dealers in the FX & Derivatives Department manage Shinhan Bank's overall position within the set limits through spot trading, forward contracts, currency options, futures and swaps and foreign exchange swaps. Shinhan Bank sets a limit for net open positions by currency and the limits for currencies other than the U.S. dollars, Japanese yen, Euros and Chinese yuan are set in order to minimize exposures from the other foreign exchange trading.

Foreign currency denominated assets and liabilities as of December 31, 2018 and 2017 are as follows:

	2018					
	<u>USD</u>	<u>JPY</u>	<u>EUR</u>	<u>CNY</u>	<u>Other</u>	<u>Total</u>
Assets:						
Cash and due from banks at amortized cost	₩ 4,797,714	1,216,221	259,631	1,595,799	1,654,668	9,524,033
Due from banks at FVTPL	704,195	-	-	-	-	704,195
Loan receivables measured at FVTPL	347,966	3,430	4,127	-	-	355,523
Loan at amortized cost	16,301,367	6,862,146	1,275,174	3,496,937	5,934,670	33,870,294
Securities at FVTPL	3,812,541	998	81,300	-	313,750	4,208,589
Derivative assets	133,197	285	2,299	406	11,875	148,062
Securities at FVOCI	3,209,293	125,512	-	357,682	728,456	4,420,943
Securities at amortized cost	1,405,775	128,512	-	34,955	1,175,733	2,744,975
Other financial assets	2,958,609	135,984	70,321	456,405	357,856	3,979,175
	<u>₩ 33,670,657</u>	<u>8,473,088</u>	<u>1,692,852</u>	<u>5,942,184</u>	<u>10,177,008</u>	<u>59,955,789</u>
Liabilities:						
Deposits	₩ 13,333,500	7,217,318	727,291	4,565,067	5,232,529	31,075,705
Financial liabilities at FVTPL	4,389	-	-	-	458,934	463,323
Derivative liabilities	172,556	-	1,914	2,089	4,892	181,451
Borrowings	6,287,797	446,102	280,949	395,719	173,731	7,584,298
Debt securities issued	6,517,415	317,125	293,708	-	1,715,780	8,844,028
Financial liabilities designated at FVTPL	1,168,024	-	-	-	-	1,168,024
Other financial liabilities	2,684,717	192,161	125,434	573,544	548,754	4,124,610
	<u>₩ 30,168,398</u>	<u>8,172,706</u>	<u>1,429,296</u>	<u>5,536,419</u>	<u>8,134,620</u>	<u>53,441,439</u>
Net assets	₩ 3,502,259	300,382	263,556	405,765	2,042,388	6,514,350
Off-balance derivative exposure	(2,056,586)	(157,445)	(217,232)	(34,986)	(164,797)	(2,631,046)
Net position	<u>₩ 1,445,673</u>	<u>142,937</u>	<u>46,324</u>	<u>370,779</u>	<u>1,877,591</u>	<u>3,883,304</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

iii) Foreign exchange risk (continued)

Foreign currency denominated assets and liabilities as of December 31, 2018 and 2017 are as follows (continued) :

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

(d) Liquidity risk

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

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

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

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

Contractual maturities for financial instruments including cash flows of principal and interest and off balance as of December 31, 2018 and 2017 are as follows:

	2018						Total
	Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	
Non-derivative financial instruments:							
Assets:							
Cash and due from banks at amortized cost	₩ 14,451,366	796,510	905,259	1,196,790	1,526	57,259	17,408,710
Due from banks at fair value through profit or loss	115,476	131,712	518,109	105,359	6,053	-	876,709
Loans at fair value through profit or loss	290,724	388,218	42,550	201,591	257,873	48,982	1,229,938
Loans at amortized cost	34,025,588	34,254,065	45,151,571	68,239,781	87,760,434	66,889,553	336,320,992
Securities at fair value through profit or loss	36,043,891	41,287	35,677	403,849	1,572,268	3,351,681	41,448,653
Securities at fair value through other comprehensive income	37,519,813	12,093	5,145	20,291	255,091	507,920	38,320,353
Securities at amortized cost	505,417	1,378,525	481,193	2,270,447	15,067,164	16,896,833	36,599,579
Other financial assets	15,130,599	5,629	19,173	433,060	92,753	1,215,953	16,897,167
	₩ 138,082,874	37,008,039	47,158,677	72,871,168	105,013,162	88,968,181	489,102,101
Liabilities:							
Deposits(*2)	₩ 123,166,403	24,736,962	34,096,334	56,060,670	28,316,319	2,880,197	269,256,885
Financial liabilities at fair value through profit or loss	1,402,726	193	53	10,403	10,124	-	1,423,499
Borrowings	13,542,317	2,879,693	2,207,560	2,965,132	5,854,335	2,553,162	30,002,199
Debt securities issued	3,779,407	5,433,266	5,633,286	10,468,221	36,694,200	5,291,240	67,299,620
Financial liabilities designated at fair value through profit or loss	332,249	303,996	171,927	1,061,443	5,552,824	1,113,361	8,535,800
Other financial liabilities	19,423,802	22,744	110,883	146,256	432,277	71,318	20,207,280
	₩ 161,646,904	33,376,854	42,220,043	70,712,125	76,860,079	11,909,278	396,725,283
Off balance(*4):							
Finance guarantee contracts	₩ 4,413,874	-	-	-	-	-	4,413,874
Loan commitments and other	166,498,542	-	-	-	-	-	166,498,542
	₩ 170,912,416	-	-	-	-	-	170,912,416
Derivatives:							
Cash inflows	₩ 2,402,504	585,267	814,009	1,110,368	6,223,707	6,746,091	17,881,946
Cash outflows	(2,854,430)	(591,008)	(840,579)	(1,116,920)	(6,261,239)	(6,756,747)	(18,420,923)
	₩ (451,926)	(5,741)	(26,570)	(6,552)	(37,532)	(10,656)	(538,977)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

Contractual maturities for financial instruments including cash flows of principal and interest and off balance as of December 31, 2018 and 2017 are as follows (continued) :

	2017						Total
	Less than 1 month	1~3 months	3~6 months	6 months ~ 1 year	1~5 years	More than 5 years	
Non-derivative financial instruments:							
Assets:							
Cash and due from banks	₩ 19,576,010	868,907	945,027	1,290,451	8,320	49,767	22,738,482
Trading assets(*3)	27,327,076	627,936	247,905	54,631	183,577	31,862	28,472,987
Financial assets designated at fair value through profit or loss	2,819,112	35,001	91,487	20,097	364,898	248,609	3,579,204
Loans	29,831,671	34,176,546	43,120,328	63,496,597	76,247,244	59,983,675	306,856,061
Available-for-sale financial assets(*3)	37,273,740	352,098	20,013	2,472,184	408,106	1,598,529	42,124,670
Held-to-maturity financial assets	153,833	178,514	309,115	1,672,095	15,018,937	14,954,247	32,286,741
Other financial assets	10,457,000	13,915	22,999	401,431	1,151,508	104,097	12,150,950
	₩ <u>127,438,442</u>	<u>36,252,917</u>	<u>44,756,874</u>	<u>69,407,486</u>	<u>93,382,590</u>	<u>76,970,786</u>	<u>448,209,095</u>
Liabilities:							
Deposits(*2)	₩ 130,916,019	21,725,284	31,482,983	52,440,287	16,137,734	1,940,194	254,642,501
Trading liabilities(*3)	1,848,490	-	-	-	-	-	1,848,490
Financial liabilities designated at fair value through profit or loss	303,065	324,807	548,868	916,388	5,106,209	1,098,518	8,297,855
Borrowings	15,286,424	2,543,847	1,655,662	2,823,721	3,658,670	1,844,417	27,812,741
Debt securities issued	2,261,028	3,717,185	3,651,503	10,565,098	30,391,156	4,224,471	54,810,441
Other financial liabilities	19,387,718	42,948	137,810	335,104	363,245	59,188	20,326,013
	₩ <u>170,002,744</u>	<u>28,354,071</u>	<u>37,476,826</u>	<u>67,080,598</u>	<u>55,657,014</u>	<u>9,166,788</u>	<u>367,738,041</u>
Off balance(*4):							
Finance guarantee contracts	₩ 3,267,707	-	-	-	-	-	3,267,707
Loan commitments and other	140,675,467	-	-	-	-	-	140,675,467
	₩ <u>143,943,174</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>143,943,174</u>
Derivatives:							
Cash inflows	₩ 3,735,274	790,313	829,659	1,411,010	2,684,189	143,032	9,593,477
Cash outflows	(3,324,459)	(498,396)	(727,887)	(1,321,939)	(2,594,372)	(60,717)	(8,527,770)
	₩ <u>410,815</u>	<u>291,917</u>	<u>101,772</u>	<u>89,071</u>	<u>89,817</u>	<u>82,315</u>	<u>1,065,707</u>

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

(*2) Demand deposits amounting to ₩106,160,833 million and ₩102,928,642 million as of December 31, 2018 and December 31, 2017 are included in the 'Less than 1 month' category, respectively.

(*3) Short-term financial instruments that are valued at market prices are classified as the shortest within one month.

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

(e) Measurement of fair value

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

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

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

(e) Measurement of fair value (continued)

i) Financial instruments measured at fair value

- The fair value hierarchy of financial assets presented at their fair values in the statements of financial position as of December 31, 2018 and 2017 are as follows:

	2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Due from banks measured at FVTPL	₩ -	57,236	813,420	870,656
Loan receivables measured at FVTPL	-	891,636	317,558	1,209,194
Financial assets at FVTPL:				
Debt securities and other securities	5,084,767	29,552,429	5,497,769	40,134,965
Equity securities	528,113	143,139	493,818	1,165,070
Gold deposits	154,881	-	-	154,881
Derivative assets:				
Trading	62,275	1,548,769	116,277	1,727,321
Hedging	-	61,706	4,586	66,292
Securities measured at FVOCI:				
Debt securities	10,532,244	27,095,555	49,846	37,677,645
Equity securities	135,866	-	500,659	636,525
	₩ <u>16,498,146</u>	<u>59,350,470</u>	<u>7,793,933</u>	<u>83,642,549</u>
Financial liabilities:				
Financial liabilities measured at FVTPL:				
Securities sold	₩ 961,372	-	-	961,372
Gold deposits	458,934	-	-	458,934
Financial liabilities designated at fair value through profit or loss:				
Derivatives-combined securities	-	1,702,063	6,833,737	8,535,800
Derivative liabilities:				
Trading	116,160	1,444,545	285,965	1,846,670
Hedging	-	232,102	361,120	593,222
	₩ <u>1,536,466</u>	<u>3,378,710</u>	<u>7,480,822</u>	<u>12,395,998</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

i) *Financial instruments measured at fair value*

- The fair value hierarchy of financial assets presented at their fair values in the statements of financial position as of December 31, 2018 and 2017 are as follows:

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

- Changes in carrying values of financial instruments classified as Level 3 for the years ended December 31, 2018 and 2017 are as follows:

	2018				
	Financial asset at fair value through profit or loss	Financial asset designated at fair value through profit or loss	Securities at fair value through other comprehensive profit or loss	Derivative assets and liabilities, net	Financial liabilities designated at fair value through profit or loss
Beginning balance	₩ 5,831,369	152,091	621,207	(250,662)	(7,273,754)
Recognized in total comprehensive income for the year:					
Recognized in profit (loss) for the year(*1)	359,160	3,390	4,692	(128,816)	10,090
Recognized in other comprehensive income (loss) for the year	-	-	29,388	-	235
	359,160	3,390	34,080	(128,816)	10,325
Purchase	2,143,853	-	2,510	2,236	-
Issue	-	-	-	-	(7,127,670)
Settlement	(1,212,202)	(155,481)	(107,292)	(148,987)	7,557,362
Transfer in(*2)	1,370	-	-	6	-
Transfer out(*2)	(985)	-	-	-	-
Ending balance	₩ 7,122,565	-	550,505	(526,223)	(6,833,737)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

- Changes in carrying values of financial instruments classified as Level 3 for the years ended December 31, 2018 and 2017 are as follows (continued):

	2017				
	Trading assets	Financial assets designated at FVTPL	Available-for-sale financial assets	Derivative assets and liabilities, net	Financial liabilities designated at FVTPL
Beginning balance	₩ 82,477	614,039	3,883,441	(492,136)	(7,574,327)
Recognized in total comprehensive income for the year:					
Recognized in profit (loss) for the year(*1)	41,127	(9,202)	(200,701)	634,438	(913,760)
Recognized in other comprehensive income (loss) for the year	-	-	(3,149)	-	-
	41,127	(9,202)	(203,850)	634,438	(913,760)
Purchase	589,144	210,856	1,150,904	29,333	-
Issue	-	-	-	4,541	(8,710,656)
Settlement	(139,562)	(267,098)	(565,146)	(383,873)	9,924,989
Transfer in(*2)	101,557	-	31,087	28	-
Transfer out(*2)	-	-	-	-	-
Ending balance	₩ 674,743	548,595	4,296,436	(207,669)	(7,273,754)

(*1) Recognized profit or loss of the changes in carrying value of financial instruments classified as Level 3 for the years ended December 31, 2018 and 2017 are included in the accounts of the statements of comprehensive income, of which the amounts and the related accounts are as follows:

	2018	
	Amounts recognized in profit or loss	Recognized profit or loss from the financial instruments held as of December 31
Net gain (loss) on financial assets at fair value through profit or loss	₩ 179,658	(14,586)
Net gain on financial assets designated at fair value through profit or loss	10,090	392,096
Net gain on securities at fair value through other comprehensive income	2,575	-
Reversal of (provision for) credit loss allowance	17	(28)
Other operating expenses	56,176	57,317
	₩ 248,516	434,799

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

- Changes in carrying values of financial instruments classified as Level 3 for the years ended December 31, 2018 and 2017 are as follows (continued):

(*1) Recognized profit or loss of the changes in carrying value of financial instruments classified as Level 3 for the years ended December 31, 2018 and 2017 are included in the accounts of the statements of comprehensive income, of which the amounts and the related accounts are as follows (continued):

	2017	
	Amounts recognized in profit or loss	Recognized profit or loss from the financial instruments held as of December 31
Trading income	₩ 843,657	121,643
Loss on financial instruments designated at FVTPL	(922,962)	(129,654)
Gain on disposal of available-for-sale financial assets	17,193	977
Impairment losses on financial assets	(180,206)	(180,206)
Other operating expenses	(205,780)	(216,135)
	<u>₩ (448,098)</u>	<u>(403,375)</u>

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

- Valuation techniques and inputs used in measuring the fair value of financial instruments classified as level 2 as of December 31, 2018 are as follows:

Type of financial instrument	Valuation technique	Carrying Value	Significant inputs
Assets			
Financial asset at fair value through profit or loss			
Debt securities	DCF(*1),	₩ 30,501,301	Discount rate
Equity securities	NAV(*2)	143,139	Price of underlying assets
		<u>30,644,440</u>	
Derivative assets			
Trading	Option model,	1,548,769	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
Hedging	DCF(*1)	61,706	
		<u>1,610,475</u>	
Securities at fair value through other comprehensive income	DCF(*1),	27,095,555	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
		<u>₩ 59,350,470</u>	
Liabilities			
Financial liabilities designated at fair value through profit or loss			
Derivative liabilities	DCF(*1)	₩ 1,702,063	Discount rate
Trading	Option model,	1,444,545	Discount rate, foreign exchange rate, volatility, stock price, commodity index, etc.
Hedging	DCF(*1)	232,102	
		<u>1,676,647</u>	
		<u>₩ 3,378,710</u>	

(*1) DCF : Discounted cash flow

(*2) NAV : Net asset value

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

- Valuation techniques and significant inputs, but not observable, used in measuring the fair value of financial instruments classified as level 3 as of December 31, 2018 are as follows:

Type of financial instrument	Valuation technique	Carrying value(*2)	Significant unobservable inputs	Range
Financial assets				
Financial asset at fair value through profit or loss				
Debt securities	DCF, Option model(*1)	₩ 6,628,747	The volatility of the underlying asset Correlations	16.39%~42.56% 1.26%~39.45% 0.00%
Equity securities	DCF, NAV	493,818	The volatility of the underlying asset Correlations	5.80%~41.00% 0.00%~74.00%
		<u>7,122,565</u>		
Derivative assets				
Equity and foreign exchange related	Option model(*1)	43,183	The volatility of the underlying asset Correlations	2.20%~38.00% 12.00%~82.00%
Interest rates related	Option model(*1)	44,848	The volatility of the underlying asset Regression coefficient Correlations	0.00%~1.00% 0.42%~1.65% 44.93%~91.00%
Credit and commodity related	Option model(*1)	32,832	The volatility of the underlying asset Correlations	1.00%~33.00% 33.00%~67.00%
		<u>120,863</u>		
Securities at fair value through other comprehensive income				
Debt securities	DCF	49,846	Discount rate	8.43%~17.40%
Equity securities	NAV	500,659	Growth rate	0.00%~3.00%
		<u>550,505</u>		
		<u>₩ 7,793,933</u>		

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

- Valuation techniques and significant inputs, but not observable, used in measuring the fair value of financial instruments classified as level 3 as of December 31, 2018 are as follows (continued):

Type of financial instrument	Valuation technique	Type	Carrying value(*2)	Significant unobservable inputs	Range
Financial liabilities					
Financial liabilities designated at fair value through profit or loss					
Equity related	Option model(*1)		₩ 6,833,737	The volatility of the underlying asset Correlations	0.00%~107.00% -42.00%~93%
Derivative liabilities					
Equity and foreign exchange related	Option model(*1)		199,504	The volatility of the underlying asset Correlations	2.20%~98.00% -3.00%~82.00%
Interest rates related	Option model(*1)		374,976	The volatility of the underlying asset Regression coefficient Correlations	0.00%~33.00% 0.42%~2.77% 28.15%~91.00%
Credit and commodity related	Option model(*1)		72,605	The volatility of the underlying asset Correlations	1.00%~107.00% -20.00%~93.00%
			<u>647,085</u>		
			₩ <u>7,480,822</u>		

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

(*2) There is no disclosure for valuation techniques and input variables related to items where the carrying amount is recognized as a reasonable approximation of fair value and the carrying amount is disclosed at fair value.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

- Sensitivity analysis for fair value measurements in Level 3

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

For level 3 fair value measurement, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effects on profit or loss, or other comprehensive income as of December 31, 2018 and 2017.

	2018	
	Favorable changes	Unfavorable changes
Financial assets:		
Effects on profit or loss for the period(*1):		
Financial asset at fair value through profit or loss	₩ 45,760	(20,662)
Derivative assets	28,115	(27,201)
	<u>73,875</u>	<u>(47,863)</u>
Effects on other comprehensive income for the period:		
Securities at fair value through other comprehensive income(*2)	23,885	(17,231)
	<u>₩ 97,760</u>	<u>(65,094)</u>
Financial liabilities:		
Effects on profit or loss for the period(*1):		
Financial liabilities designated at fair value through profit or loss	₩ 112,212	(131,080)
Derivative liabilities	103,938	(88,348)
	<u>₩ 216,150</u>	<u>(219,428)</u>
2017		
	Favorable changes	Unfavorable changes
Financial assets:		
Effects on profit or loss for the period(*1):		
Trading assets	₩ 2,792	(2,742)
Financial assets designated at fair value through profit or loss	1,843	(1,941)
Derivative assets	29,059	(28,077)
	<u>33,694</u>	<u>(32,760)</u>
Effects on other comprehensive income for the period:		
Available-for-sale financial assets(*2)	39,460	(25,505)
	<u>₩ 73,154</u>	<u>(58,265)</u>
Financial liabilities:		
Effects on profit or loss for the period(*1):		
Financial liabilities designated at fair value through profit or loss	₩ 72,063	(56,754)
Derivative liabilities	32,770	(33,343)
	<u>₩ 104,833</u>	<u>(90,097)</u>

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

ii) Financial instruments measured at amortized cost

- The method of measuring the fair value of financial instruments measured at amortized cost is as follows:

Type	Measurement methods of fair value
Cash and due from banks	The carrying amount and the fair value for cash are identical and most of deposits are floating interest rate deposits or next day deposits of a short-term instrument. For this reason, the carrying value approximates fair value.
Loans	The fair value of the loans is measured by discounting the expected cash flow at the market interest rate and credit risk.
Securities measured at amortized cost	The minimum price between the Korea Asset Pricing's valuation, and KIS Pricing's is used as a fair value.
Deposits and borrowings	The carrying amount and the fair value for demand deposits, cash management account deposits, call money as short-term instrument are identical. The fair value of others is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.
Debt securities issued	Where available, the fair value of deposits and borrowings is based on the published price quotations in an active market. In case there is no data for an active market price, it is measured by discounting the contractual cash flow at the market interest rate that takes into account the residual risk.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

ii) *Financial instruments measured at amortized cost (continued)*

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

	2018	
	<u>Carrying value</u>	<u>Fair value</u>
Assets:		
Deposits measured at amortized cost	₩ 14,471,988	14,471,920
Loans measured at amortized cost		
Retails	125,265,676	126,266,820
Corporations	146,302,462	147,420,557
Public and other funding loans	2,868,154	2,891,202
Loans between banks	3,579,169	3,580,576
Credit card	21,594,011	21,930,174
Securities measured at amortized cost		
Government bonds	18,000,454	18,974,413
Financial institution bonds	2,171,623	2,195,425
Debentures	8,306,059	8,506,853
Other financial assets	16,837,141	16,859,986
	₩ <u>359,396,737</u>	<u>363,097,926</u>
Deposit liabilities:		
Demand deposits	₩ 106,160,834	106,160,834
Time deposits	139,644,763	139,580,314
Certificate of deposit	9,247,088	9,298,457
Issued bill deposit	4,087,530	4,087,338
CMA deposits	4,084,709	4,084,709
Other	1,775,266	1,775,276
Borrowing debts:		
Call-money	1,425,162	1,425,162
Bills sold	14,536	14,506
Bonds sold under repurchase agreements	7,472,459	7,472,459
Borrowings	20,906,385	20,986,518
Debts:		
Borrowings in won	54,769,670	55,240,467
Borrowings in foreign currency	8,458,029	8,265,842
Other financial liabilities	20,545,181	20,233,920
	₩ <u>378,591,612</u>	<u>378,625,802</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

ii) *Financial instruments measured at amortized cost (continued)*

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

	<u>2017</u>	
	<u>Carrying value</u>	<u>Fair value</u>
Assets:		
Loans:		
Retails	₩ 111,609,285	111,275,346
Corporations	138,712,234	139,243,914
Public and other funding loans	2,288,647	2,296,669
Loans between banks	2,965,727	2,956,294
Credit card	19,989,873	20,216,334
Held-to-maturity securities:		
Government bonds	15,164,133	15,556,048
Financial institution bonds	2,708,148	2,694,121
Debentures	7,118,399	7,140,166
Other financial assets	12,041,304	12,038,310
	₩ <u>312,597,750</u>	<u>313,417,202</u>
Deposit liabilities:		
Demand deposits	₩ 102,928,642	102,928,642
Time deposits	129,483,260	129,358,203
Certificate of deposit	7,583,365	7,622,796
Issued bill deposit	3,423,459	3,423,320
CMA deposits	4,197,146	4,197,146
Other	1,803,352	1,803,047
Borrowing debts:		
Call-money	856,813	856,813
Bills sold	13,605	13,580
Bonds sold under repurchase agreements	9,056,232	9,056,232
Borrowings	17,659,960	17,670,216
Debts:		
Borrowings in won	44,961,871	44,871,647
Borrowings in foreign currency	6,378,950	6,406,046
Other financial liabilities	20,205,312	20,179,542
	₩ <u>348,551,967</u>	<u>348,387,230</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

- The fair value hierarchy of financial assets and liabilities which are not measured at their fair values in the statements of financial position but with their fair value disclosed as of December 31, 2018 and 2017 are as follows:

		2018			
		Level 1	Level 2	Level 3	Total
Assets:					
Deposits measured at amortized cost	₩	3,105,588	10,587,086	779,246	14,471,920
Loans measured at amortized cost					
Retails		-	-	126,266,820	126,266,820
Corporations		-	-	147,420,557	147,420,557
Public and other funding loans		-	-	2,891,202	2,891,202
Loans between banks		590	2,498,193	1,081,793	3,580,576
Credit card		-	-	21,930,174	21,930,174
Securities measured at amortized cost:					
Government bonds		7,887,135	11,087,278	-	18,974,413
Financial institution bonds		719,925	1,475,500	-	2,195,425
Debentures		-	8,423,809	83,044	8,506,853
Other financial assets		74,625	11,606,369	5,178,992	16,859,986
	₩	<u>11,787,863</u>	<u>45,678,235</u>	<u>305,631,828</u>	<u>363,097,926</u>
Deposit liabilities:					
Demand deposits	₩	1,136,610	104,998,305	25,919	106,160,834
Time deposits		-	-	139,580,314	139,580,314
Certificate of deposit		-	-	9,298,457	9,298,457
Issued bill deposit		-	-	4,087,338	4,087,338
CMA deposits		-	4,084,709	-	4,084,709
Other		1,665,090	-	110,186	1,775,276
Borrowing debts:					
Call-money		465,000	960,162	-	1,425,162
Bills sold		-	-	14,506	14,506
Bonds sold		-	-	-	-
under repurchase agreements		5,243,217	-	2,229,242	7,472,459
Borrowings		-	123,874	20,862,644	20,986,518
Debts:					
Borrowings in won		-	36,335,879	18,904,588	55,240,467
Borrowings in foreign currency		-	5,558,527	2,707,315	8,265,842
Other financial liabilities		74,638	6,630,725	13,528,557	20,233,920
	₩	<u>8,584,555</u>	<u>158,692,181</u>	<u>211,349,066</u>	<u>378,625,802</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

- The fair value hierarchy of financial assets and liabilities which are not measured at their fair values in the statements of financial position but with their fair value disclosed as of December 31, 2018 and December 31, 2017 are as follows:

	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Loans :				
Retails	₩ -	-	111,275,346	111,275,346
Corporations	-	-	139,243,914	139,243,914
Public and other funding loans	-	-	2,296,669	2,296,669
Loans between banks	3,065	845,567	2,107,662	2,956,294
Credit card	-	-	20,216,334	20,216,334
Held-to-mature securities:				
Government bonds	6,915,067	8,640,981	-	15,556,048
Financial institution bonds	936,067	1,758,054	-	2,694,121
Debentures	-	7,140,166	-	7,140,166
Other financial assets	79,889	6,832,567	5,125,854	12,038,310
	₩ 7,934,088	25,217,335	280,265,779	313,417,202
Deposit liabilities:				
Demand deposits	₩ 1,185,912	101,742,730	-	102,928,642
Time deposits	-	-	129,358,203	129,358,203
Certificate of deposit	-	-	7,622,796	7,622,796
Issued bill deposit	-	-	3,423,320	3,423,320
CMA deposits	-	4,197,146	-	4,197,146
Other	1,736,929	-	66,118	1,803,047
Borrowing debts:				
Call-money	295,000	561,813	-	856,813
Bills sold	-	-	13,580	13,580
Bonds sold under repurchase agreements	5,663,846	-	3,392,386	9,056,232
Borrowings	-	4,905	17,665,311	17,670,216
Debts:				
Borrowings in won	-	29,447,273	15,424,374	44,871,647
Borrowings in foreign currency	-	4,175,134	2,230,912	6,406,046
Other financial liabilities	84,665	5,642,143	14,452,734	20,179,542
	₩ 8,966,352	145,771,144	193,649,734	348,387,230

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

- For financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed, information on valuation technique and inputs used in measuring fair value of financial instruments classified as level 2 or level 3 at December 31, 2018 and 2017 are as follows:

		2018		
		Fair value(*2)	Valuation technique	Inputs
Financial instruments classified as level 2 :				
Assets				
Due from banks measured at amortized cost	₩	10,587,086	DCF(*1)	Discount rate
Loans measured at amortized cost		2,498,193	DCF(*1)	Discount rate, credit spread, prepayment rate
Securities measured at amortized cost		20,986,587	DCF(*1)	Discount rate
Other financial assets		11,606,369	DCF(*1)	Discount rate
	₩	<u>45,678,235</u>		
Liabilities				
Deposits	₩	109,083,014	DCF(*1)	Discount rate
Borrowings		1,084,036	DCF(*1)	Discount rate
Debt securities issued		41,894,406	DCF(*1)	Discount rate
Other financial liabilities		6,630,725	DCF(*1)	Discount rate
	₩	<u>158,692,181</u>		
Financial instruments classified as level 3 :				
Assets				
Due from banks measured at amortized cost	₩	779,246	DCF(*1)	Discount rate
Loans measured at amortized cost		299,590,546	DCF(*1)	Discount rate, credit spread, prepayment rate
Securities measured at amortized cost		83,044	DCF(*1)	Discount rate
Other financial assets		5,178,992		
	₩	<u>305,631,828</u>		
Liabilities				
Deposits	₩	153,102,214	DCF(*1)	Discount rate
Borrowings		23,106,392	DCF(*1)	Discount rate
Debt securities issued		21,611,903	DCF(*1)	Discount rate, regression coefficient, correlation coefficient
Other financial liabilities		13,528,557	DCF(*1)	Discount rate
	₩	<u>211,349,066</u>		

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

- For financial instruments not measured at fair value in the statement of financial position but for which the fair value is disclosed, information on valuation technique and inputs used in measuring fair value of financial instruments classified as level 2 or level 3 at December 31, 2018 and 2017 are as follows:

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

(*1) DCF : discounted cash flow

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

Changes in the difference between the fair value at initial recognition (the transaction price) and the value using models with unobservable inputs for the years ended December 31, 2018 and 2017

	2018	2017
Beginning balance	₩ (137,393)	(89,695)
Deferral on new transactions	(91,625)	(108,832)
Recognized in profit for the year	102,907	66,063
Ending balance	<u>₩ (126,111)</u>	<u>(132,464)</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

(f) Classification by categories of financial instruments

Financial assets and liabilities are measured at fair value or amortized cost. The financial instruments measured at fair value or amortized costs are measured in accordance with the Group's valuation methodologies, which are described in Note 4.(e) Measurement of fair value.

The carrying amounts of each category of financial assets and financial liabilities as December 31, 2018 and 2017 are as follows:

	2018				
	FVTPL	FVOCI	Amortized cost	Derivatives held for hedging	Total
Assets:					
Cash and due from banks at amortized cost	₩ -	-	17,348,626	-	17,348,626
Due from banks at fair value through profit or loss	870,656	-	-	-	870,656
Securities at fair value through profit or loss	41,454,916	-	-	-	41,454,916
Loans at fair value through profit or loss	1,209,194	-	-	-	1,209,194
Derivatives	1,727,321	-	-	66,292	1,793,613
Securities at fair value through other comprehensive income	-	38,314,170	-	-	38,314,170
Securities at amortized cost	-	-	28,478,136	-	28,478,136
Loans at amortized cost	-	-	299,609,472	-	299,609,472
Other	-	-	16,837,141	-	16,837,141
	<u>₩ 45,262,087</u>	<u>38,314,170</u>	<u>362,273,375</u>	<u>66,292</u>	<u>445,915,924</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

(f) Classification by categories of financial instruments (continued)

The carrying amounts of each category of financial assets and financial liabilities as December 31, 2018 and 2017 are as follows:

		2018				
		FVTPL	FVTPL liabilities designated	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities:						
Deposits	₩	-	-	265,000,190	-	265,000,190
Financial liabilities at fair value through profit or loss		1,420,306	-	-	-	1,420,306
Financial liabilities designated at FVTPL		-	8,535,800	-	-	8,535,800
Derivatives		1,846,669	-	-	593,223	2,439,892
Borrowings		-	-	29,818,542	-	29,818,542
Debt securities issued		-	-	63,227,699	-	63,227,699
Other		-	-	20,545,181	-	20,545,181
	₩	<u>3,266,975</u>	<u>8,535,800</u>	<u>378,591,612</u>	<u>593,223</u>	<u>390,987,610</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

(f) Classification by categories of financial instruments (continued)

The carrying amounts of each category of financial assets and financial liabilities as December 31, 2018 and 2017 are as follows:

		2017						
		Trading assets	FVTPL assets	AFS	HTM	Loans and receivable	Derivatives held for hedging	Total
Assets:								
Cash and due from banks	₩	-	-	-	-	22,668,598	-	22,668,598
Trading assets		28,464,296	-	-	-	-	-	28,464,296
Financial assets designated at FVTPL		-	3,579,057	-	-	-	-	3,579,057
Derivatives		3,280,775	-	-	-	-	119,403	3,400,178
Loans		-	-	-	-	275,565,766	-	275,565,766
AFS financial assets		-	-	42,116,937	-	-	-	42,116,937
HTM financial assets		-	-	-	24,990,680	-	-	24,990,680
Other		-	-	-	-	12,041,304	-	12,041,304
	₩	<u>31,745,071</u>	<u>3,579,057</u>	<u>42,116,937</u>	<u>24,990,680</u>	<u>310,275,668</u>	<u>119,403</u>	<u>412,826,816</u>

		2017				
		Trading liabilities	FVTPL liabilities	Financial liabilities measured at amortized cost	Derivatives held for hedging	Total
Liabilities:						
Deposits	₩	-	-	249,419,224	-	249,419,224
Trading liabilities		1,848,490	-	-	-	1,848,490
Financial liabilities designated at FVTPL		-	8,297,609	-	-	8,297,609
Derivatives		2,804,834	-	-	682,827	3,487,661
Borrowings		-	-	27,586,610	-	27,586,610
Debt securities issued		-	-	51,340,821	-	51,340,821
Other		-	-	20,205,312	-	20,205,312
	₩	<u>4,653,324</u>	<u>8,297,609</u>	<u>348,551,967</u>	<u>682,827</u>	<u>362,185,727</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

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

(g) **Transfer of financial instruments**

i) *Transfers that do not qualify for derecognition*

- Bonds sold under repurchase agreements as of December 31, 2018 and 2017 are as follows:

	2018	
Transferred asset:		
Securities at FVTPL	₩	6,711,060
Securities at FVOCI		688,593
Securities at amortized cost		156,066
Loans at FVTPL		-
Loans at amortized cost		-
	₩	<u>7,555,719</u>
Associated liabilities:		
Bonds sold under repurchase agreements	₩	7,167,364
	2017	
Transferred asset:		
Financial assets at fair value through profit or loss	₩	7,688,025
Available-for-sale financial assets		1,240,063
Held-to-maturity financial assets		615,352
Loans		51,900
	₩	<u>9,595,340</u>
Associated liabilities:		
Bonds sold under repurchase agreements	₩	9,057,138

- Securities loaned as of December 31, 2018 and 2017 are as follows:

	2018	2017	Borrowers
Government bonds	₩ 1,216,381	495,737	Korea Securities Finance Corp., Korea Securities Depository and others
Financial institutions bonds	409,831	319,581	Korea Securities Finance Corp., Korea Securities Depository
Equity securities	6,029	34,870	Korea Securities Finance Corp.
	₩ <u>1,632,241</u>	<u>850,188</u>	

ii) *Financial instruments qualified for derecognition and continued involvement*

There was no financial instruments which qualify for derecognition and in which the Group has continuing involvements as of December 31, 2018, and 2017.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

(h) Offsetting financial assets and financial liabilities

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

	2018					
	Gross amounts of recognized financial assets/ liabilities	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Assets:						
Derivatives(*1)	₩ 1,730,828	-	1,730,828			
Other financial instruments(*1)	7,476,505	1,268,779	6,207,726	6,746,640	26,638	1,165,276
Bonds purchased under repurchase agreements(*2)	12,945,380	-	12,945,380	12,557,025	-	388,355
Securities loaned(*2)	1,827,066	-	1,827,066	1,246,157	-	580,909
Domestic exchange settlement debit(*3)	32,647,367	26,502,610	6,144,757	74,552	-	6,070,205
Receivables from disposal of securities(*4)	22,906	519	22,387	-	-	22,387
Insurance receivables	8,014	-	8,014	4,872	-	3,142
	<u>₩ 56,658,066</u>	<u>27,771,908</u>	<u>28,886,158</u>	<u>20,629,246</u>	<u>26,638</u>	<u>8,230,274</u>
Liabilities:						
Derivatives(*1)	₩ 11,858,108	-	11,858,108			
Other financial instruments(*1)	6,594,979	1,268,779	5,326,200	7,850,210	-	9,334,098
Bonds purchased under repurchase agreements(*2)	7,170,744	-	7,170,744	7,170,744	-	-
Securities borrowed(*2)	936,705	-	936,705	936,705	-	-
Domestic exchange settlement pending(*3)	27,647,185	26,502,611	1,144,574	1,090,808	-	53,766
Payable from purchase of securities(*4)	552	519	33	33	-	-
Insurance payables	4,984	-	4,984	4,871	-	113
	<u>₩ 54,213,257</u>	<u>27,771,909</u>	<u>26,441,348</u>	<u>17,053,371</u>	<u>-</u>	<u>9,387,977</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

(h) Offsetting financial assets and financial liabilities (continued)

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

	2017					
	Gross amounts of recognized financial assets/ liabilities	Gross amounts of recognized financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Assets:						
Derivatives(*1)	₩ 3,219,982	-	3,219,982	5,626,795	318,813	1,650,336
Other financial instruments(*1)	5,911,577	1,535,614	4,375,962	-	-	-
Bonds purchased under repurchase agreements(*2)	12,861,514	-	12,861,514	12,312,131	-	549,383
Securities loaned(*2)	850,188	-	850,188	633,407	-	216,781
Domestic exchange settlement debit(*3)	33,367,006	30,367,425	2,999,581	79,882	-	2,919,699
Receivables from disposal of securities(*4)	15,568	1,152	14,416	-	-	14,416
Insurance receivables	6,807	-	6,807	3,376	-	3,431
	<u>₩ 56,232,642</u>	<u>31,904,191</u>	<u>24,328,450</u>	<u>18,655,591</u>	<u>318,813</u>	<u>5,354,046</u>
Liabilities:						
Derivatives(*1)	₩ 12,625,941	-	12,625,941	6,378,052	-	9,907,534
Other financial instruments(*1)	5,195,260	1,535,615	3,659,645	-	-	-
Bonds purchased under repurchase agreements(*2)	9,057,138	-	9,057,138	9,057,138	-	-
Securities borrowed(*2)	1,450,877	-	1,450,877	1,450,877	-	-
Domestic exchange settlement pending(*3)	32,202,236	30,367,425	1,834,811	1,763,331	-	71,480
Payable from purchase of securities(*4)	1,519	1,152	367	326	-	41
Insurance payables	3,376	-	3,376	3,376	-	-
	<u>₩ 60,536,347</u>	<u>31,904,192</u>	<u>28,632,155</u>	<u>18,653,100</u>	<u>-</u>	<u>9,979,055</u>

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

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

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

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

4. Financial risk management (continued)

(i) Capital risk management

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

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

The capital adequacy ratio of the Group as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Capital :		
Tier I common equity capital	₩ 28,696,267	26,756,509
Additional tier 1 capital	1,981,609	916,383
Tier I capital	30,677,876	27,672,892
Tier II capital	3,315,185	3,040,572
Total capital (A)	₩ <u>33,993,061</u>	<u>30,713,464</u>
Total risk-weighted assets (B)	₩ 228,678,105	207,768,636
Capital adequacy ratio (A/B)	14.87%	14.78%
Tier I capital adequacy ratio	13.42%	13.32%
Common equity capital adequacy ratio	12.55%	12.88%

As of December 31, 2018 and 2017, the Group met the regulatory capital ratio above 8%.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

5. Significant estimates and judgments

The preparation of consolidated financial statements requires the application of certain critical estimates and judgments relative to the future. Management's estimated outcomes may differ from actual outcomes. The change in an accounting estimate is recognized prospectively in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both.

(a) Estimation of impairment of goodwill

The Group reviews the goodwill annually in accordance with the accounting policy in Note 3. The recoverable amount of the cash-generating unit (group) was determined based on the value-in-use calculation. These calculations are based on estimates.

(b) Income taxes

The Group is subject to tax laws from various countries. In the normal course of business, there are various types of transactions and different accounting methods that may add uncertainties to the decision of the final income taxes. The Group has recognized current and deferred taxes that reflect tax consequences based on the best estimates in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. However, actual income taxes in the future may not be identical to the recognized deferred tax assets and liabilities, and this difference can affect current and deferred tax at the period when the final tax effect is determined.

(c) Fair value of financial instruments

The fair values of financial instruments which are not actively traded in the market are determined by using valuation techniques. The Group determines valuation techniques 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 generic valuation techniques to internally developed valuation models that incorporate various types of assumptions and variables.

(d) Credit loss allowance, guarantees and unused loan commitments

The Group determines and recognizes allowances for losses on debt securities, loans and other receivables measured at amortized cost or FVOCI, and recognizes provisions for guarantees and unused loan commitments through impairment testing. The accuracy of allowances and provisions for credit losses is determined by the estimation of expected cash flows for individually assessed allowances, and methodology and assumptions used for collectively assessed allowances and provisions for groups of loans, guarantees and unused loan commitments.

(e) Defined benefit obligation

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. Other significant assumptions related to defined benefit obligations are based on current market situations.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

5. Significant estimates and judgments (continued)

(f) Hedging relationship

The Group expects a high risk hedging effect throughout the hedging period in designating the hedging relationship and it is probable that the hedged transaction will be highly probable in the cash flow hedge.

6. Subsidiary investment

(a) The summarized financial information of the controlling party and the Group's major subsidiaries as of December 31, 2018 and 2017 is as follows:

Investees(*1)(*2)	2018			2017(*3)		
	Asset balance	Liability balance	Equity balance	Asset balance	Liability balance	Equity balance
Shinhan Financial Group(separate)	₩ 30,114,232	8,464,164	21,650,068	27,639,783	7,447,705	20,192,078
Shinhan Bank	348,523,615	324,331,076	24,192,539	324,314,242	301,660,298	22,653,944
Shinhan Card Co., Ltd.	29,429,455	23,427,988	6,001,467	26,367,562	20,092,443	6,275,119
Shinhan Investment Corp.	29,140,427	25,767,858	3,372,569	28,644,288	25,391,599	3,252,689
Shinhan Life Insurance Co., Ltd.	31,823,631	30,078,522	1,745,109	29,719,359	27,987,427	1,731,932
Shinhan Capital Co., Ltd.	6,116,585	5,368,265	748,320	5,315,366	4,603,786	711,580
Jeju Bank	5,980,941	5,507,949	472,992	5,562,924	5,158,123	404,801
Shinhan Credit Information Co., Ltd.	24,377	8,750	15,627	22,726	8,144	14,582
Shinhan Alternative Investment Management Inc.	102,079	92,194	9,885	86,902	76,250	10,652
Shinhan BNP Paribas Asset Management Co., Ltd.	173,964	14,841	159,123	174,839	18,286	156,553
SHC Management Co., Ltd.	9,755	198	9,557	9,438	190	9,248
Shinhan DS	43,095	23,118	19,977	39,799	24,446	15,353
Shinhan Savings Bank	1,454,290	1,291,012	163,278	1,287,170	1,139,533	147,637
Shinhan AITAS Co., Ltd.	65,725	7,367	58,358	58,158	6,209	51,949
Shinhan REITs Management Co., Ltd.	36,298	3,496	32,802	29,319	71	29,248

(*1) The consolidated financial statements of the consolidated subsidiaries are based on consolidated financial statements, if applicable.

(*2) Trusts, beneficiary certificates, securitization special limited liability companies, associates and private equity investment specialists.

(*3) As the accounting treatment for the acquisition of ANZ Retail business by Shinhan Bank Vietnam Co. Ltd was completed, the amount was adjusted retrospectively.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

6. Subsidiary investment (continued)

(b) The summarized income information of the controlling party and the Group's major subsidiaries for the years ended December 31, 2018 and 2017 is as follows:

Investees(*1)(*2)	2018			2017(*3)		
	Operating Income	Net Income	Comprehensive Income	Operating Income	Net Income	Comprehensive Income
Shinhan Financial Group(separate)	₩ 1,519,197	1,234,883	1,234,044	1,008,868	754,727	755,018
Shinhan Bank	19,731,711	2,279,362	2,333,266	21,240,193	1,712,314	1,496,582
Shinhan Card Co., Ltd.	3,752,232	517,761	477,135	5,186,592	898,723	787,956
Shinhan Investment Corp.	5,553,118	251,268	269,058	5,558,862	211,919	195,910
Shinhan Life Insurance Co., Ltd.	5,633,679	131,021	150,997	5,997,997	120,642	46,062
Shinhan Capital Co., Ltd.	439,031	103,400	100,317	351,772	87,647	88,128
Jeju Bank	224,766	27,446	30,579	208,661	25,143	22,053
Shinhan Credit Information Co., Ltd.	37,616	1,392	985	32,836	340	377
Shinhan Alternative Investment Management Inc.	21,590	(780)	(780)	29,410	(844)	(842)
Shinhan BNP Paribas Asset Management Co., Ltd.	78,378	18,868	18,980	77,474	19,705	20,073
SHC Management Co., Ltd.	140	309	309	177	1,036	1,036
Shinhan DS	99,279	1,314	1,525	79,063	1,404	2,482
Shinhan Savings Bank	94,636	19,384	18,919	78,516	16,800	16,757
Shinhan AITAS Co., Ltd.	44,729	8,461	8,461	40,781	6,481	6,481
Shinhan REITs Management Co., Ltd.	7,386	3,564	3,552	70	(752)	(752)

(*1) The consolidated financial statements of the consolidated subsidiaries are based on consolidated financial statements, if applicable.

(*2) Trusts, beneficiary certificates, securitization special limited liability companies, associates and private equity investment specialists.

(*3) As the accounting treatment for the acquisition of ANZ Retail business by Shinhan Bank Vietnam Co. Ltd was completed, the amount was adjusted retrospectively.

(c) Change in the scope of consolidation

(1) Change in consolidated subsidiaries for the year ended December 31, 2018 are as follows:

	Company	Description
Included(2018)	PT Shinhan Asset Management Indonesia	Newly acquired subsidiary
	SHINHAN DS VIETNAM CO,LTD	Newly invested subsidiary

(2) Change in consolidated subsidiaries for the year ended December 31, 2017 are as follows:

	Company	Description
Included(2017)	Shinhan REITs Management	Newly invested subsidiary

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

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

7. Operating segments

(a) Segment information

The general descriptions by operating segments as of December 31, 2018 are as follows:

<u>Segment</u>	<u>Description</u>
Banking	The banking segment offers commercial banking services such as lending to and receiving deposits from corporations and individuals and also includes securities investing and trading and derivatives trading primarily through domestic and overseas bank branches and subsidiaries.
Credit card	The credit card segment primarily consists of the credit card business of Shinhan Card, including its installment finance and automobile leasing businesses.
Securities	Securities segment comprise securities trading, underwriting and brokerage services.
Life insurance	Life insurance segment consists of life insurance services provided by Shinhan Life Insurance.
Others	Leasing, assets management and other businesses

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

7. Operating segments (continued)

(b) The following tables provide information of income and expense for each operating segment for the years ended December 31, 2018 and 2017:

		2018						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income	₩	5,707,813	1,583,100	429,095	761,742	95,618	2,721	8,580,089
Net fees and commission income		850,646	433,043	388,944	69,780	198,828	(2,244)	1,938,997
Allowance provided for credit loss on financial assets		(250,134)	(466,447)	(9,226)	(13,400)	(10,238)	1,568	(747,877)
General and administrative expenses		(3,098,629)	(751,580)	(493,906)	(227,740)	(263,046)	93,326	(4,741,575)
Other income (expense), net		(163,104)	74,954	17,963	(409,151)	80,857	(131,739)	(530,220)
Operating income		3,046,592	873,070	332,870	181,231	102,019	(36,368)	4,499,414
Equity method income (loss)		(977)	-	15,228	(1,026)	6,909	(2,646)	17,488
Income tax expense		832,494	225,837	95,438	50,429	59,556	4,591	1,268,345
Profit for the period	₩	2,195,263	629,307	251,268	131,021	49,168	(57,762)	3,198,265
Controlling interest	₩	2,194,950	630,993	251,265	131,021	49,168	(100,675)	3,156,722
Non-controlling interests		313	(1,686)	3	-	-	42,913	41,543

		2017						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income	₩	5,107,888	1,501,054	433,047	727,917	69,231	3,816	7,842,953
Net fees and commission income		816,795	359,408	297,718	53,271	180,510	3,252	1,710,954
Impairment losses on financial assets		(674,706)	(291,694)	(15,752)	(13,162)	(36,830)	18,596	(1,013,548)
General and administrative expenses		(3,149,436)	(831,927)	(444,935)	(222,650)	(234,649)	72,399	(4,811,198)
Other income (expense), net		(11,556)	567,234	(17,229)	(385,226)	53,815	(106,173)	100,865
Operating income		2,088,985	1,304,075	252,849	160,150	32,077	(8,110)	3,830,026
Equity method income (loss)		1,306	-	12,081	(910)	8,796	(880)	20,393
Income tax expense		418,679	285,853	63,472	41,441	32,805	6,153	848,403
Profit for the period	₩	1,623,425	1,012,755	211,919	120,642	9,600	(29,136)	2,949,205
Controlling interest	₩	1,623,184	1,027,823	211,907	120,642	9,600	(74,340)	2,918,816
Non-controlling interests		241	(15,068)	12	-	-	45,204	30,389

(*) As the accounting treatment for the acquisition of ANZ Retail business by Shinhan Bank Vietnam Co. Ltd was completed, the amount was adjusted retrospectively.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

7. Operating segments (continued)

(c) The following tables provide information of net interest income (expense) of each operating segment for the years ended December 31, 2018 and 2017 :

		2018						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income from:								
External customers	₩	5,714,568	1,602,849	423,156	762,978	76,538	-	8,580,089
Internal transactions		(6,755)	(19,749)	5,939	(1,236)	19,080	2,721	-
	₩	<u>5,707,813</u>	<u>1,583,100</u>	<u>429,095</u>	<u>761,742</u>	<u>95,618</u>	<u>2,721</u>	<u>8,580,089</u>

		2017						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net interest income from:								
External customers	₩	5,113,584	1,517,399	427,888	727,975	56,107	-	7,842,953
Internal transactions		(5,696)	(16,345)	5,159	(58)	13,124	3,816	-
	₩	<u>5,107,888</u>	<u>1,501,054</u>	<u>433,047</u>	<u>727,917</u>	<u>69,231</u>	<u>3,816</u>	<u>7,842,953</u>

(d) The following tables provide information of net fees and commission income (expense) of each operating segment for the years ended December 31, 2018 and 2017 :

		2018						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net fees and commission income from:								
External customers	₩	872,631	464,342	400,227	77,145	124,652	-	1,938,997
Internal transactions		(21,985)	(31,299)	(11,283)	(7,365)	74,176	(2,244)	-
	₩	<u>850,646</u>	<u>433,043</u>	<u>388,944</u>	<u>69,780</u>	<u>198,828</u>	<u>(2,244)</u>	<u>1,938,997</u>

		2017						
		Banking	Credit card	Securities	Life insurance	Others	Consolidation adjustment	Total
Net fees and commission income from:								
External customers	₩	844,349	384,356	306,407	60,555	115,287	-	1,710,954
Internal transactions		(27,554)	(24,948)	(8,689)	(7,284)	65,223	3,252	-
	₩	<u>816,795</u>	<u>359,408</u>	<u>297,718</u>	<u>53,271</u>	<u>180,510</u>	<u>3,252</u>	<u>1,710,954</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

7. Operating segments (continued)

(e) Financial information of geographical area

The following table provides information of income from external consumers by geographical area for the years ended December 31, 2018 and 2017.

	2018	2017
Domestic	₩ 4,023,916	3,504,780
Overseas	475,498	325,246
	<u>₩ 4,499,414</u>	<u>3,830,026</u>

(*) As the accounting treatment for the acquisition of ANZ Retail business by Shinhan Bank Vietnam Co. Ltd was completed, the amount was adjusted retrospectively.

The following table provides information of non-current assets by geographical area as of December 31, 2018 and 2017.

	2018	2017
Domestic	₩ 7,597,266	7,513,736
Overseas	201,574	199,660
	<u>₩ 7,798,840</u>	<u>7,713,396</u>

(*1) Non-current assets comprise property and equipment, intangible assets and investment properties.

(*2) As the accounting treatment for the acquisition of ANZ Retail business by Shinhan Bank Vietnam Co. Ltd was completed, the amount was adjusted retrospectively.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

8. Cash and due from banks at amortized cost

(a) Cash and due from banks at amortized cost as of December 31, 2018 are as follows:

	2018
Cash and cash equivalents	₩ 2,617,231
Deposits in won:	
Reserve deposits	2,360,416
Time deposits	1,346,015
Other	2,271,812
	<u>5,978,243</u>
Deposits in foreign currency:	
Deposits	5,045,513
Time deposits	2,791,486
Other	930,977
	<u>8,767,976</u>
Allowance for credit losses	(14,824)
	<u>₩ 17,348,626</u>

(b) Restricted due from banks at amortized cost as of December 31, 2018 are as follows:

	2018
Deposits denominated in won:	
Reserve deposits	₩ 2,360,416
Other(*1)	2,182,119
	<u>4,542,535</u>
Deposits denominated in foreign currency	1,632,971
	<u>₩ 6,175,506</u>

(*1) Pursuant to the Regulation on Financial Investment Business, the Group is required to deposit certain portions of customers' deposits with the Korean Securities Finance Corporation ("KSFC") or banks to ensure repayment of customer deposits and the deposits may not be pledged as collateral.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

9. Cash and due from banks

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

	2017
Cash and cash equivalents	₩ 1,792,527
Deposits in won:	
Reserve deposits	8,689,515
Time deposits	1,361,612
Other	3,023,087
	<u>13,074,214</u>
Deposits in foreign currency:	
Deposits	4,064,408
Time deposits	3,053,464
Other	698,039
	<u>7,815,911</u>
Allowance for credit losses	(14,054)
	<u>₩ 22,668,598</u>

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

	2017
Deposits denominated in won:	
Reserve deposits	₩ 8,689,515
Other(*1)	3,628,419
	<u>12,317,934</u>
Deposits denominated in foreign currency	1,117,597
	<u>₩ 13,435,531</u>

(*1) Pursuant to the Regulation on Financial Investment Business, the Group is required to deposit certain portions of customers' deposits with the Korean Securities Finance Corporation ("KSFC") or banks to ensure repayment of customer deposits and the deposits may not be pledged as collateral.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

10. Financial assets at fair value through profit or loss

(a) Financial assets at fair value through profit or loss as of December 31, 2018 are as follows:

	<u>2018</u>
Debt instruments:	
Governments	₩ 2,765,054
Financial institutions	9,415,470
Corporations	6,664,839
Stocks with put option	381,844
Equity investment with put option	1,080,723
Beneficiary certificates	9,062,004
Commercial papers	5,535,397
CMA(*1)	3,001,831
Others(*2)	2,227,802
	<u>40,134,964</u>
Equity instruments:	
Stocks	1,050,097
Equity investment	4,908
Others	110,066
	<u>1,165,071</u>
	<u>41,300,035</u>
Other:	
Loans at fair value	1,209,194
Due from banks at fair value	870,656
Gold deposits	154,881
	<u>₩ 43,534,766</u>

(*1) CMA: Cash management account deposits

(*2) Restricted reserve for claims of customers' deposits (trusts) as of December 31, 2018 are ₩1,040,180 million.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

10. Financial assets at fair value through profit or loss (continued)

(b) Financial assets to which overlay approach were applied in accordance with K-IFRS No. 1109 'Financial Instruments' and K-IFRS No. 1104 'Insurance Contracts' as of December 31, 2018 are as follows.

	<u>2018</u>	
Due from banks at fair value through profit or loss	₩	870,656
Securities at fair value through profit or loss		3,160,525
	₩	<u>4,031,181</u>

A financial asset is eligible for designation for the overlay approach, if it is measured at fair value through profit or loss applying K-IFRS 1109 but would not have been measured at fair value through profit or loss in its entirety applying K-IFRS 1039; and it is not held in respect of an activity that is not associated with contracts within the scope of K-IFRS 1104.

The reclassified amounts between profit or loss and other comprehensive income due to the overlay approach as of and for the year ended December 31, 2018 are as follows:

	<u>Profit or loss</u>		<u>Other comprehensive income</u>	
	<u>By K-IFRS 1109</u>	<u>By K-IFRS 1039</u>	<u>Amount</u>	<u>Tax effect</u>
Net gain (loss) on valuation of financial assets at fair value through profit or loss	₩ (77,179)	(4,425)	(72,754)	20,007
Net gain (loss) on disposal of financial assets at fair value through profit or loss	4,310	6,498	(2,188)	602
	₩ <u>(72,869)</u>	<u>2,073</u>	<u>(74,942)</u>	<u>20,609</u>

11. Trading assets

Trading assets as of December 31, 2017 are as follows:

	<u>2017</u>	
Debt securities:		
Governments	₩	3,254,587
Financial institutions		8,014,128
Corporations		5,097,200
Commercial papers		3,625,436
CMA(*1)		3,157,475
Others		491,820
		<u>23,640,646</u>
Equity securities:		
Stocks		738,666
Beneficiary certificates		3,728,027
Others		167,660
		<u>4,634,353</u>
Other		
Gold deposits		189,297
	₩	<u>28,464,296</u>

(*1) CMA: Cash management account deposits

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

12. Financial asset designated at fair value through profit or loss

Financial asset designated at fair value through profit or loss as of December 31, 2017 are as follows:

	<u>2017</u>	<u>Reason for designation</u>
Debt securities	₩ 2,110,809	Evaluation and management on a fair value basis, accounting mismatch
Equity securities(*1)	1,234,356	Evaluation and management on a fair value basis, accounting mismatch
Others	233,892	Combined instrument
	<u>₩ 3,579,057</u>	

(*1) Restricted reserve for claims of customers' deposits (trusts) as of December 31, 2017 are ₩958,236 million.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

13. Derivatives

(a) The notional amounts of derivatives as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Foreign currency related:		
Over the counter:		
Currency forwards	₩ 139,804,552	100,806,648
Currency swaps	31,794,900	30,269,510
Currency options	1,939,939	1,178,047
	<u>173,539,391</u>	<u>132,254,205</u>
Exchange traded:		
Currency futures	436,714	1,179,986
	<u>173,976,105</u>	<u>133,434,191</u>
Interest rates related:		
Over the counter:		
Interest rate swaps	31,228,489	30,269,249
Interest rate options	294,000	310,000
	<u>31,522,489</u>	<u>30,579,249</u>
Exchange traded:		
Interest rate futures	1,739,697	1,545,905
Interest rate swaps(*1)	56,862,374	53,625,962
	<u>58,602,071</u>	<u>55,171,867</u>
	<u>90,124,560</u>	<u>85,751,116</u>
Credit related:		
Over the counter:		
Credit swaps	3,094,077	2,443,609
Equity related:		
Over the counter:		
Equity swaps and forwards	5,149,967	4,223,096
Equity options	645,709	1,230,635
	<u>5,795,676</u>	<u>5,453,731</u>
Exchange traded:		
Equity futures	630,409	526,913
Equity options	2,708,557	3,238,049
	<u>3,338,966</u>	<u>3,764,962</u>
	<u>9,134,642</u>	<u>9,218,693</u>
Commodity related:		
Over the counter:		
Commodity swaps and forwards	1,062,588	931,644
Commodity options	4,780	4,880
	<u>1,067,368</u>	<u>936,524</u>
Exchange traded:		
Commodity futures and options	245,751	122,394
	<u>1,313,119</u>	<u>1,058,918</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

13. Derivatives (continued)

(a) The notional amounts of derivatives as of December 31, 2018 and 2017 are as follows (continued) :

	<u>2018</u>	<u>2017</u>
Hedge:		
Currency forwards	₩ 1,522,306	1,227,354
Currency swaps	4,143,828	3,866,015
Interest rate swaps	10,147,731	8,088,422
	<u>15,813,865</u>	<u>13,181,791</u>
	₩ <u>293,456,368</u>	<u>245,088,318</u>

(*1) The notional amount of derivatives which is settled in the ‘Central Counter Party (CCP)’ system.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

13. Derivatives (continued)

(b) Fair values of derivative instruments as of December 31, 2018 and 2017 are as follows:

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Foreign currency related:				
Over the counter:				
Currency forwards	₩ 912,795	870,984	1,895,225	1,636,715
Currency swaps	393,702	372,725	854,892	865,551
Currency options	7,637	12,273	12,023	12,070
	<u>1,314,134</u>	<u>1,255,982</u>	<u>2,762,140</u>	<u>2,514,336</u>
Exchange traded:				
Currency futures	11	-	416	553
	<u>1,314,145</u>	<u>1,255,982</u>	<u>2,762,556</u>	<u>2,514,889</u>
Interest rates related:				
Over the counter:				
Interest rate swaps	251,251	172,019	204,449	208,901
Interest rate options	-	5,347	-	1,893
	<u>251,251</u>	<u>177,366</u>	<u>204,449</u>	<u>210,794</u>
Exchange traded:				
Interest rate futures	412	1,569	1,771	544
	<u>251,663</u>	<u>178,935</u>	<u>206,220</u>	<u>211,338</u>
Credit related:				
Over the counter:				
Credit swaps	37,951	14,916	63,359	10,617
Equity related:				
Over the counter:				
Equity swap and forwards	51,869	205,709	112,282	13,502
Equity options	2,265	2,352	91,040	12,177
	<u>54,134</u>	<u>208,061</u>	<u>203,322</u>	<u>25,679</u>
Exchange traded:				
Equity futures	15,937	778	72	805
Equity options	37,690	109,795	23,562	18,521
	<u>53,627</u>	<u>110,573</u>	<u>23,634</u>	<u>19,326</u>
	<u>107,761</u>	<u>318,634</u>	<u>226,956</u>	<u>45,005</u>
Commodity related:				
Over the counter:				
Commodity swaps and forwards	7,548	74,158	15,576	22,593
Commodity options	27	29	72	77
	<u>7,575</u>	<u>74,187</u>	<u>15,648</u>	<u>22,670</u>
Exchange traded:				
Commodity futures	8,226	4,016	6,037	315
	<u>15,801</u>	<u>78,203</u>	<u>21,685</u>	<u>22,985</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

13. Derivatives (continued)

(b) Fair values of derivative instruments as of December 31, 2018 and 2017 are as follows (continued) :

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Hedge:				
Currency forwards	₩ 9,185	30,497	50,492	1,567
Currency swaps	21,976	79,492	59,399	161,896
Interest rate swaps	35,131	483,233	9,511	519,364
	<u>66,292</u>	<u>593,222</u>	<u>119,402</u>	<u>682,827</u>
	₩ <u>1,793,613</u>	<u>2,439,892</u>	<u>3,400,178</u>	<u>3,487,661</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

13. Derivatives (continued)

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

	<u>2018</u>	<u>2017</u>
Foreign currency related		
Over the counter:		
Currency forwards	₩ 41,188	85,498
Currency swaps	(34,444)	91,410
Currency options	8,247	5,422
	<u>14,991</u>	<u>182,330</u>
Exchange traded:		
Currency futures	11	(137)
	<u>15,002</u>	<u>182,193</u>
Interest rates related		
Over the counter:		
Interest rate swaps	86,675	(17,805)
Interest rate options	(1,459)	413
	<u>85,216</u>	<u>(17,392)</u>
Exchange traded:		
Interest rate futures	(2,512)	6,950
	<u>82,704</u>	<u>(10,442)</u>
Credit related		
Over the counter:		
Credit swaps	(8,318)	46,593
Equity related		
Over the counter:		
Equity swap and forwards	(270,929)	73,490
Equity options	4,326	36,662
	<u>(266,603)</u>	<u>110,152</u>
Exchange traded:		
Equity futures	15,159	(733)
Equity options	(44,163)	22,315
	<u>(29,004)</u>	<u>21,582</u>
	<u>(295,607)</u>	<u>131,734</u>
Commodity related		
Over the counter:		
Commodity swaps and forwards	(89,902)	13,435
Commodity options	33	(10)
	<u>(89,869)</u>	<u>13,425</u>
Exchange traded:		
Commodity futures	4,209	5,722
	<u>(85,660)</u>	<u>19,147</u>
Hedge		
Currency forwards	(26,031)	48,050
Currency swaps	66,156	(143,737)
Interest rate swaps	38,767	(191,233)
	<u>78,892</u>	<u>(286,920)</u>
	<u>₩ (212,987)</u>	<u>82,305</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

13. Derivatives (continued)

(d) Impact of hedge accounting on the consolidated financial statements

i) Gains (losses) on fair value hedged items and hedging instruments attributable to the hedged ineffectiveness for the year ended December 31, 2018 were as follows:

		Gains on fair value hedges (hedged items)	Gains on fair value hedges (hedging instruments)	Hedge ineffectiveness recognized in profit or loss (*2)
Fair value hedges				
Interest rate swaps(*1)	₩	(76,573)	79,635	3,062
Foreign exchange risk(*1)		55,188	(60,380)	(5,192)
	₩	<u>(21,385)</u>	<u>19,255</u>	<u>(2,130)</u>

(*1) The related account categories are presented as interest rate swap assets / liabilities and currency swap assets.

(*2) Ineffective portion of hedge: The difference between hedging instruments and hedged items

ii) Due to the ineffectiveness of hedge of cash flow risk and hedge of net investment in foreign operations during the year, the amounts recognized in the income statement and other comprehensive income are as follows.

		Gains on hedges recognized in other comprehensive income	Hedge ineffectiveness recognized in profit or loss (*2)	From cash flow hedge reserve to profit or loss Reclassified amount
Cash flow hedges				
Foreign exchange risk(*1)	₩	65,386	(5,188)	70,051
Interest rate risk(*1)		(23,186)	-	-
Hedge of net investments				
Foreign exchange risk(*1)		(35,879)	(3,765)	-
	₩	<u>6,321</u>	<u>(8,953)</u>	<u>70,051</u>

(*1) The related account categories are presented as interest rate swap assets / liabilities and currency swap assets / liabilities, currency forwards assets / liabilities and borrowings.

(*2) Ineffective portion of hedge: The difference between hedging instruments and hedged items.

(e) Nominal values and average hedge ratio for derivatives as of December 31, 2018 are as follows:

		2018						
		Less than 1 year	1~2 years	2~3 years	3~4 years	4~5 years	More than 5 years	Total
Interest risk:								
Nominal values:	₩	190,000	737,632	723,177	707,254	1,305,584	6,484,084	10,147,731
Average hedge ratio:		100%	100%	100%	100%	100%	100%	100%
Exchange risk:								
Nominal values:		2,731,517	1,958,746	827,158	1,038,935	302,423	-	6,858,779
Average hedge ratio:		100%	100%	100%	100%	100%	-	100%

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

13. Derivatives (continued)

(f) Effect of hedge accounting on financial statement, statement of comprehensive income, statement of changes in equity

i) Purpose and strategy of risk avoidance

The Group transacts with derivative financial instruments to hedge its interest rate risk and currency risk arising from the assets and liabilities of the Group. The Group applies the fair value hedge accounting for the changes in the market interest rates of the Korean won structured notes, foreign currency generated financial debentures, structured deposits in foreign currencies, foreign currency structured deposits and foreign currency investment receivables; and cash flow hedge accounting for interest rate swaps and currency swaps to hedge cash flow risk due to interest rates and foreign exchange rates of the Korean won debt, the Korean won bonds, foreign currency bonds, etc. In addition, in order to hedge the exchange rate risk of the net investment in overseas business, the Group applies the net investment hedge accounting for foreign operations using currency forward and non-derivative financial instruments.

ii) Effect of derivatives on statement financial position, statement of comprehensive income, statement of changes in equity

		Nominal amount	BV of asset(*1)	BV of liabilities(*1)	Changes if fair value in the period
Fair value hedges					
Interest rate swap	₩	9,377,731	35,093	467,381	55,244
Currency swap		33,543	433	-	(1,502)
Cash flow hedge					
Interest rate swap		770,000	38	15,853	(23,186)
Currency swap		4,110,285	21,543	79,492	(54)
Currency forward		1,298,686	3,191	24,925	(33,460)
Hedge of net investments in foreign operations					
Currency forward		223,620	5,994	5,572	(3,261)
Borrowings		1,192,645	-	1,186,792	(36,383)

(*1) The related account categories are presented as interest rate swap assets / liabilities and currency forwards.

iii) Effect of hedging items on statement financial position, statement of comprehensive income, statement of changes in equity

		BV of asset	BV of liabilities	Assets of Cumulative fair value hedge adjustment	Liabilities of Cumulative fair value hedge adjustment	Changes if fair value in the period	Cash flow hedge reserve	Foreign currency conversion reserves
Fair value hedges								
Interest rate risk	₩	293,215	8,873,059	(2,832)	(524,459)	(56,462)	-	-
Foreign exchange risk		62,406	-	-	-	2,675	-	-
Cash flow hedge								
Interest rate risk		-	1,539,005	-	-	-	(10,184)	-
Foreign exchange risk		2,795,320	2,716,148	-	-	63,860	(2,006)	-
Hedge of net investments in foreign operations								
Foreign exchange risk		-	-	-	-	(35,879)	-	138,416

(*1) The related account categories are presented as interest rate swap assets / liabilities and currency forwards.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

14. Loans at amortized cost

(a) Loans at amortized cost as of December 31, 2018 are as follows:

	2018
Household loans	₩ 120,832,081
Corporate loans	152,164,476
Public and other loans	2,831,026
Loans to banks	3,585,563
Credit card receivables	22,447,614
	<u>301,860,760</u>
Discount	(23,588)
Deferred loan origination costs and fees	497,368
	<u>302,334,540</u>
Less: Allowance for impairment	(2,725,068)
	<u>₩ 299,609,472</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

14. Loans at amortized cost, continued

(b) Changes in book value of Loans at amortized cost and other assets as of December 31, 2018 are as follows:

		Loans at amortized cost			Other assets (*1)			Total
		12 month expected credit loss	Life time expected credit loss	Impaired financial asset	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	
Beginning balance	₩	245,310,809	30,030,619	1,784,601	31,599,203	456,538	23,243	309,205,013
Transfer (from) to 12 month expected credit losses		7,532,588	(7,527,159)	(5,429)	28,028	(28,024)	(4)	-
Transfer (from) to lifetime expected credit losses		(20,879,174)	20,943,897	(64,723)	(51,596)	51,607	(11)	-
Transfer (from) to credit-impaired financial assets		(1,948,419)	(185,166)	2,133,585	(22,162)	(2,986)	25,148	-
Origination		130,894,396	529,735	315,389	30,085,141	27,251	21,930	161,873,842
Collection		(93,938,952)	(10,682,116)	(1,008,819)	(30,207,574)	(410,559)	(4,236)	(136,252,256)
Charge off		-	-	(851,397)	-	-	(20,984)	(872,381)
Disposal		(121,915)	(19,056)	(582,491)	-	(495)	(13,083)	(737,040)
Others (*2)		749,646	(52,157)	(23,752)	77,654	6,129	-	757,520
Ending balance	₩	267,598,979	33,038,597	1,696,964	31,508,694	99,461	32,003	333,974,698

(*1) The amortized cost includes the gross carrying amount of deposits and other assets.

(*2) Other changes are due to bond adjustment, investment conversion, and exchange rate fluctuations.

(*3) The amount of uncollected loans receivable (principal and interest) is ₩ 9,597,389 million, which is written off as of December 31, 2018.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

14. Loans at amortized cost (continued)

(c) Changes in allowance for credit loss of Loans at amortized cost and other financial assets as of December 31, 2018 are as follows:

	Loans at amortized cost			Other assets (*1)			Total
	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	12 month expected credit loss	Life time expected credit loss	Impaired financial asset	
Beginning balance	₩ 730,613	1,088,259	1,053,114	39,048	7,666	20,166	2,938,866
Transfer (from) to 12 month expected credit losses	115,780	(114,614)	(1,166)	581	(578)	(3)	-
Transfer (from) to lifetime expected credit losses	(61,415)	103,502	(42,087)	(212)	222	(10)	-
Transfer (from) to credit-impaired financial assets	(2,509)	(40,729)	43,238	(94)	(2,209)	2,303	-
Provided (reversed)	23,662	159,565	521,288	(1,998)	1,775	24,293	728,585
Charge off	-	-	(851,397)	-	-	(20,984)	(872,381)
Discount	-	-	(20,778)	-	-	-	(20,778)
Disposal	(636)	(374)	(59,567)	-	(7)	(2,736)	(63,320)
Collection	-	-	311,280	-	-	1,815	313,095
Others (*2)	(74,495)	(167,687)	12,221	2,602	61	(80)	(227,378)
Ending balance	₩ 731,000	1,027,922	966,146	39,927	6,930	24,764	2,796,689

(*1) The amortized cost includes the gross carrying amount of deposits and other assets.

(*2) Other changes are due to bond adjustment, investment conversion, and exchange rate fluctuations.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

14. Loans at amortized cost (continued)

(d) Changes in deferred loan origination costs for the year ended December 31, 2018 are as follows:

		December 31, 2018
Beginning balance (*1)	₩	434,746
Loan origination		235,032
Amortization		(172,410)
Ending balance	₩	<u>497,368</u>

(*1) The beginning balance for 2018 was restated in accordance with K-IFRS No.1109.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

15. Loans

(a) Loans as of December 31, 2017 are as follows:

	<u>2017</u>
Household loans	₩ 111,590,777
Corporate loans	139,989,642
Public and other	2,297,631
Loans to banks	2,969,784
Card receivables	<u>20,640,857</u>
	277,488,691
Discount	(44,936)
Deferred loan origination costs and fees	<u>432,615</u>
	277,876,370
Allowance for credit losses	<u>(2,310,604)</u>
	<u>₩ 275,565,766</u>

(b) Changes in the allowance for credit losses for the year ended December 31, 2017 are as follows:

	<u>2017</u>		
	<u>Loans</u>	<u>Other(*3)</u>	<u>Total</u>
Beginning balance	₩ 2,360,795	66,896	2,427,691
Provision for (reversal of) allowance(*1)	799,577	15,672	815,249
Write-offs	(973,943)	(20,063)	(994,006)
Effect of discounting(*2)	(23,316)	-	(23,316)
Disposal	(63,091)	16	(63,075)
Recoveries	311,042	1,591	312,633
Others(*1)(*4)	<u>(100,460)</u>	<u>(379)</u>	<u>(100,839)</u>
Ending balance	<u>₩ 2,310,604</u>	<u>63,733</u>	<u>2,374,337</u>

(*1) As the accounting for the acquisition of ANZ Retail business by Shinhan Bank of Vietnam was completed, the amount was adjusted retrospectively.

(*2) Interest income from impaired financial assets

(*3) Included allowance for due from banks and other assets

(*4) Other changes were due to debt restructuring, debt-equity swap, and foreign exchange rate, etc.

(c) Changes in deferred loan origination costs for the year ended December 31, 2017 are as follows:

	<u>December 31, 2017</u>
Beginning balance	₩ 395,394
Loan origination	178,890
Amortization	(141,669)
Ending balance	<u>₩ 432,615</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

16. Securities at fair value through other comprehensive income and securities at amortized cost

(a) Details of securities at FVOCI and securities at amortized cost as of December 31, 2018 are as follows:

	<u>December 31, 2018</u>
Securities at FVOCI:	
Debt securities:	
Government bonds	₩ 8,975,391
Financial institutions bonds	17,341,330
Corporate bonds	<u>11,360,924</u>
	<u>37,677,645</u>
Equity securities(*1):	
Stocks	630,010
Equity investments	<u>6,515</u>
	<u>636,525</u>
	<u>₩ 38,314,170</u>
Securities at amortized cost:	
Debt securities:	
Government bonds	₩ 18,000,454
Financial institutions bonds	2,171,623
Corporate bonds and others	<u>8,306,059</u>
	<u>28,478,136</u>
	<u>₩ 66,792,306</u>

(*1) Equity securities in the above table are classified as other comprehensive income - equity securities designated as fair value items, and other comprehensive income and fair value options were exercised for the purpose of holding as required by the policy.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

16. Securities at fair value through other comprehensive income and securities at amortized cost (continued)

(b) Changes in carrying value of debt securities at fair value through other comprehensive income and securities at amortized cost for the year ended December 31, 2018 are as follows :

	Securities at fair value through other comprehensive income			Securities at amortized cost		
	12 month expected credit loss	Life time expected credit loss	Total	12 month expected credit loss	Life time expected credit loss	Total
Beginning allowance	₩ 36,641,928	15,879	36,657,807	24,403,423	21,444	24,424,867
Transfer to 12 month expected credit loss	-	-	-	-	-	-
Transfer to life time expected credit loss	(26,187)	26,187	-	-	-	-
Transfer to impaired financial asset	-	-	-	-	-	-
Origination	26,938,512	98,778	27,037,290	5,836,342	-	5,836,342
Disposal	(7,182,343)	(18,687)	(7,201,030)	-	-	-
Repayment	(19,338,938)	-	(19,338,938)	(1,607,467)	(3)	(1,607,470)
Others (*1)	538,842	(16,326)	522,516	(167,377)	1,034	(166,343)
Ending balance	₩ 37,571,814	105,831	37,677,645	28,464,921	22,475	28,487,396

(*1) Included the effects from changing currency rate.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

16. Securities at fair value through other comprehensive income and securities at amortized cost (continued)

(c) Changes in allowance for credit loss of debt securities at fair value through other comprehensive income and securities at amortized cost for the year ended December 31, 2018 are as follows:

	Securities at fair value through other comprehensive income			Securities at amortized cost		
	12 month expected credit loss	Life time expected credit loss	Total	12 month expected credit loss	Life time expected credit loss	Total
Beginning allowance	₩ 17,038	1,938	18,976	6,327	2,232	8,559
Transfer to 12 month expected credit loss	-	-	-	-	-	-
Transfer to life time expected credit loss	(234)	234	-	-	-	-
Transfer to impaired financial asset	-	-	-	-	-	-
Reversals (repayment)	15,286	(3,220)	12,066	4,615	(2,215)	2,400
Disposal	(5,251)	(229)	(5,480)	-	-	-
Others (*1)	(1,117)	1,639	522	(1,699)	-	(1,699)
Ending balance	₩ 25,722	362	26,084	9,243	17	9,260

(*1) Included the effects from changing currency rate

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

16. Securities at fair value through other comprehensive income and securities at amortized cost (continued)

(d) Gain or loss on disposal of securities at fair value through other comprehensive income and securities at amortized cost for the year ended December 31, 2018 are as follows :

	<u>2018</u>
Gain on disposal of securities at FVOCI	₩ 28,018
Loss on disposal of securities at FVOCI	(7,464)
Loss on disposal of securities at amortized cost	<u>(9)</u>
	<u>₩ 20,545</u>

(e) Income or loss on equity securities at fair value through other comprehensive income

As of December 31, 2018, the Group recognizes dividends amounting to ₩16,871 million related to equity securities at fair value through other comprehensive income.

In addition, the disposition of equity securities at fair value through other comprehensive income are as follows :

	<u>2018</u>
Fair value at the date of disposal	₩ 3,285
Cumulative net profit at the time of disposal	(3,635)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

17. Available-for-sale financial assets and held-to-maturity financial assets

(a) Available-for-sale financial assets and held-to-maturity financial assets as of December 31, 2017 are as follows:

	<u>2017</u>
Available-for-sale financial assets:	
Debt securities:	
Government bonds	₩ 7,570,104
Financial institution bonds	17,649,694
Corporate bonds and others	11,966,754
	<u>37,186,552</u>
Equity securities(*1):	
Stocks	1,026,666
Equity investments	749,818
Beneficiary certificates	3,126,851
Others	27,050
	<u>4,930,385</u>
	<u>42,116,937</u>
Held-to-maturity financial assets:	
Debt securities:	
Government bonds	15,164,133
Financial institutions bonds	2,708,148
Corporate bonds and others	7,118,399
	<u>24,990,680</u>
	<u>₩ 67,107,617</u>

(*1) Equity securities with no quoted market prices in active markets and for which the fair value cannot be measured reliably are recorded at cost were ₩126,220 million as of December 31, 2017.

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

	<u>2017</u>
Gain on sale of available-for-sale financial assets	₩ 529,411
Loss on sale of available-for-sale financial assets	(30,224)
	<u>₩ 499,187</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

18. Property and equipment

(a) Details of property and equipment as of December 31, 2018 and 2017 were as follows:

		December 31, 2018		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	1,827,711	-	1,827,711
Buildings		1,173,888	(321,319)	852,569
Others		2,002,755	(1,679,149)	323,606
	₩	<u>5,004,354</u>	<u>(2,000,468)</u>	<u>3,003,886</u>

		December 31, 2017		
		Acquisition cost	Accumulated depreciation	Book value
Land	₩	1,819,912	-	1,819,912
Buildings		1,158,661	(275,240)	883,421
Others		1,958,787	(1,640,348)	318,439
	₩	<u>4,937,360</u>	<u>(1,915,588)</u>	<u>3,021,772</u>

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

		2018			
		Land	Buildings	Others	Total
Beginning balance	₩	1,819,912	883,421	318,439	3,021,772
Acquisitions(*1)		33	14,612	136,244	150,889
Disposals(*1)		(17,735)	(3,282)	(9,699)	(30,716)
Depreciation		-	(47,207)	(124,564)	(171,771)
Impairment		-	-	-	-
Amounts transferred from(to) investment property		23,972	4,227	-	28,199
Amounts transferred from(to) non-current assets held for sale(*2)		(32)	(48)	-	(80)
Effects of foreign currency movements		1,561	846	3,186	5,593
Ending balance	₩	<u>1,827,711</u>	<u>852,569</u>	<u>323,606</u>	<u>3,003,886</u>

(*1) ₩6,319 million transferred from construction-in progress was included.

(*2) Included buildings, land.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

18. Property and equipment (continued)

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

	2017			
	Land	Buildings	Others	Total
Beginning balance	₩ 1,885,233	941,043	319,337	3,145,613
Acquisitions(*1)	1,460	24,354	129,435	155,249
Disposals(*1)	(5,487)	(357)	(3,163)	(9,007)
Depreciation	-	(44,285)	(129,256)	(173,541)
Impairment	-	-	(16)	(16)
Amounts transferred from(to) investment properties	(59,263)	(32,519)	-	(91,782)
Amounts transferred from(to) non-current assets held for sale	(1,815)	(3,521)	-	(5,336)
Effects of foreign currency movements	(216)	(1,294)	2,102	592
Ending balance	₩ 1,819,912	883,421	318,439	3,021,772

(*1) ₩14,285 million transferred from construction-in progress was included.

(c) Insured assets and liability insurance as of December 31, 2018 were as follows:

Type of insurance	Insured assets	Amount covered	Insurance company
Comprehensive insurance for financial institutions	Cash(including ATM)	23,200	Samsung Fire & Marine Insurance Co., Ltd.
Comprehensive Property insurance	Property Total Risk, Machine Risk, General Liability Liability Collateral	1,328,969	Samsung Fire & Marine Insurance Co., Ltd., etc.
Fire insurance	Business property and real estate	70,351	Meritz Fire & Marine Insurance Co., Ltd., etc.
Compensation liability insurance for officers	Officer liability	50,000	Meritz Fire & Marine Insurance Co., Ltd., etc.
Compensation liability insurance for employee accident	Executives	32,743	Meritz Fire & Marine Insurance Co., Ltd., etc.
Burglary insurance	Cash and securities	18,195	Samsung Fire & Marine Insurance Co., Ltd., etc.
Others	Personal information liability insurance	80,724	Samsung Fire & Marine Insurance Co., Ltd.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

19. Intangible assets

(a) Details of intangible assets as of December 31, 2018 and 2017 were as follows:

		<u>2018</u>	<u>2017</u>
Goodwill	₩	3,903,518	3,901,260
Software		102,393	83,829
Development cost		82,536	75,322
Others		231,687	212,910
	₩	<u>4,320,134</u>	<u>4,273,321</u>

(b) Changes in intangible assets for the years ended December 31, 2018 and 2017 were as follows:

		<u>Goodwill</u>	<u>Software</u>	<u>Development cost</u>	<u>Other</u>	<u>Total</u>
Beginning balance	₩	3,901,260	83,829	75,322	212,910	4,273,321
Acquisitions		-	56,009	38,230	69,501	163,740
Business combination		2,258	-	-	-	2,258
Disposals		-	(334)	(5,880)	(7,117)	(13,331)
Impairment(*1)		-	-	(706)	(362)	(1,068)
Amortization(*2)		-	(40,792)	(24,430)	(41,957)	(107,179)
Effects of foreign currency movements		-	3,681	-	(1,288)	2,393
Ending balance	₩	<u>3,903,518</u>	<u>102,393</u>	<u>82,536</u>	<u>231,687</u>	<u>4,320,134</u>

(*1) Memberships such as golf and condominium memberships are intangible assets that cannot be limited to a specific period of time. If the market value of the exchanges is less than the carrying amount at the end of the reporting period, the impairment loss is recognized.

(*2) Included general administrative expense and other operating income at comprehensive income

		<u>Goodwill</u>	<u>Software</u>	<u>Development cost</u>	<u>Other</u>	<u>Total</u>
Beginning balance	₩	3,873,060	94,261	56,563	202,628	4,226,512
Acquisitions		-	27,354	40,378	56,982	124,714
Business combination(*1)		28,200	-	-	15,255	43,455
Disposals		-	(21)	-	(12,901)	(12,922)
Impairment(*2)		-	-	(206)	26	(180)
Amortization(*3)		-	(38,095)	(21,413)	(48,941)	(108,449)
Effects of foreign currency movements		-	330	-	(139)	191
Ending balance	₩	<u>3,901,260</u>	<u>83,829</u>	<u>75,322</u>	<u>212,910</u>	<u>4,273,321</u>

(*1) As the accounting treatment for the acquisition of ANZ Retail business by Shinhan Bank Vietnam Co. Ltd was completed, the amount was adjusted retrospectively.

(*2) Memberships such as golf and condominium memberships are intangible assets that cannot be limited to a specific period of time. If the market value of the exchanges is less than the carrying amount at the end of the reporting period, the impairment loss is recognized.

(*3) Included general administrative expense and other operating income at comprehensive income

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

19. Intangible asset (continued)

(c) Goodwill

i) Goodwill allocated in the Group's CGUs as of December 31, 2018 and 2017

	<u>2018</u>	<u>2017(*1)</u>
Banking	₩ 810,058	810,058
Credit card	2,773,231	2,773,231
Securities	7,904	5,646
Life insurance	275,371	275,371
Others	36,954	36,954
	<u>₩ 3,903,518</u>	<u>3,901,260</u>

(*1) As the accounting treatment for the acquisition of ANZ Retail business by Shinhan Bank Vietnam Co. Ltd. was completed, the amount was adjusted retrospectively.

ii) Changes in goodwill for the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017(*1)</u>
Beginning balance	₩ 3,901,260	3,873,060
Acquisitions through business combinations(*2)	2,258	28,200
Ending balance	<u>₩ 3,903,518</u>	<u>3,901,260</u>

(*1) As the accounting treatment for the acquisition of ANZ Retail business by Shinhan Bank Vietnam Co. Ltd. was completed, the amount was adjusted retrospectively (Note 57).

(*2) Goodwill recognized as a result of the acquisition of the business by Shinhan Financial Investment Co., Ltd. (Note 58).

iii) Goodwill impairment test

The recoverable amounts of each CGU were evaluated based on their respective value in use.

- Explanation on evaluation method

The income approach was applied when evaluating the recoverable amounts based on value in use, considering the characteristics of each unit or group of CGU.

- Projection period

When evaluating the value in use, 5.5 years of cash flow estimates – July 1, 2018 through December 31, 2023 – was used in projection and the value thereafter was reflected as terminal value. In case of Shinhan Life Insurance, only the 30 years of future cash flows were applied since the present value of the future cash flows thereafter is not significant.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

19. Intangible assets, net (continued)

- Discount rates and terminal growth rates

The required rates of return expected by shareholders were applied to the discount rates by calculating the cost of capital which comprises a risk-free interest rate, a market risk premium and systemic risk (beta factor). Expected terminal growth rate is on the basis of inflation rates.

Discount rates and terminal growth rates applied to each CGU are as follows:

	<u>Discount rates(%)</u>	<u>Terminal growth rate(%)</u>
Banking	7.0~13.8	1.2~2.9
Credit card	8.4	1.8
Securities	11.9, 12.4	2.9
Life insurance	8.5	0.0
Others	9.8, 13.2	1.8

iv) Key assumptions

Key assumptions used in the discounted cash flow calculations of CGUs (other than Shinhan Life Insurance) are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
CPI growth	1.6%	1.7%	1.5%	2.1%	2.3%	2.3%
Real retail sales growth	3.0%	2.4%	2.2%	2.3%	2.2%	2.2%
Real GDP growth	2.9%	2.8%	2.4%	3.2%	3.0%	3.0%

Key assumptions used in the discounted cash flow calculations of Shinhan Life Insurance are as follows:

	<u>Key assumptions</u>
Rate of return on investment	3.65%
Risk-based capital ratio	199.61%

The values for the CPI growth rate, real retail sales growth rate, real GDP growth rate, rate of return on investment and risk-based capital ratio are based on a combination of internal and external analysis.

v) Total recoverable amount and total carrying value of CGUs to which goodwill has been allocated, are as follows:

	<u>Amount</u>
Total recoverable amount	₩ 42,291,637
Total carrying value	₩ 37,775,928
	<u>₩ 4,515,709</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates

(a) Investments in associates as of December 31, 2018 and December 31, 2017 are as follows:

Investees	Country	Reporting date	Ownership (%)	
			2018	2017
BNP Paribas Cardif Life Insurance(*1)(*3)	Korea	September 30	14.99	14.99
Daewontos Co., Ltd.(*1)(*4)	"	December 31	36.33	36.33
Neoplux Technology Valuation Investment Fund(*1)	"	September 30	33.33	33.33
JAERYOUNG SOLUTEC CO., LTD.(*7)	"	-	-	9.61
Partners 4th Growth Investment Fund(*1)	"	September 30	25.00	25.00
Songrim Partners.(*1)(*4)	"	"	35.34	35.34
KTB Newlake Global Healthcare PEF(*1)	"	"	30.00	30.00
JAERYANG INDUSTRY(*1)(*4)	"	December 31	25.90	25.90
Chungyoung INC(*10)	"	-	-	18.94
DAEKWANG SEMICONDUCTOR CO., LTD.(*1)(*4)	"	September 30	20.94	20.94
Shinhan-Neoplux Energy Newbiz Fund(*1)	"	"	23.33	23.33
Shinhan-Albatross Tech Investment Fund	"	December 31	50.00	50.00
Asia Pacific No.39 Ship Investment Co., Ltd.(*7)	"	-	-	50.00
KCLAVIS Meister Fund No.17	"	December 31	26.09	26.09
SG No.9 Corporate Recovery Private Equity Fund	"	"	26.49	26.49
Plutus-SG Private Equity Fund	"	"	26.67	26.67
SG ARGES Private Equity Fund No.1	"	"	24.06	24.06
OST Progress- 2 Fund(*7)	"	-	-	27.62
Eum Private Equity Fund No.3	"	December 31	20.76	20.76
Richmond Private Yong in Retail Facility Real Estate Fund No.1(*7)	"	-	-	41.80
KTB Confidence Private Placement	"	December 31	30.29	30.29
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	"	"	23.89	23.89
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	"	"	20.16	20.16
Pine Asia Unsecured Individual Rehabilitation Bond Fund 18(*7)	"	-	-	22.86
VOGO DEBT STRATEGY QUALIFIED INV PRIVATE R/E INV TR 4	"	December 31	20.00	20.00
Platform Partners Brick Save Private Investment Trust(*6)	"	"	98.77	98.77
Synergy-Shinhan Mezzanine New Technology Investment Fund	"	"	47.62	47.62
The Asia Pacific Capital Fund II L.P.	Cayman Islands	"	25.18	25.18
Shinhan Praxis K-Growth Global Private Equity Fund(*5)	Korea	"	18.87	18.87
Credian Healthcare Private Equity Fund II	"	"	34.07	34.07
Kiwoom Milestone Professional Private Real Estate Trust 19	"	"	50.00	50.00
AIP EUROGREEN Private Real Estate Investment Trust No.3(*11)	"	"	21.28	21.28
Brain Professional Private Trust No.4	"	"	27.50	27.49
Hanhwa US Equity Strategy Private Real Estate Fund No.1	"	"	44.84	44.84
Brain KS Qualified Privately Placed Fund No.6	"	"	50.00	50.00

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(a) Investments in associates as of December 31, 2018 and December 31, 2017 are as follows (continued):

Investees	Country	Reporting date	Ownership (%)	
			2018	2017
M360 CRE Income Fund(*7)	U.S.A	-	-	57.87
Shinhan Global Healthcare Fund 1(*5)	Korea	December 31	4.41	4.41
JB Power TL Investment Type Private Placement Special Asset Fund 7	"	"	33.33	33.33
IBK AONE convertible 1	"	"	47.25	47.25
Rico Synergy Collabo Multi-Mezzanine 3(*9)	"	"	50.03	50.00
KB NA Hickory Private Speical Asset Fund	"	"	37.50	37.50
GB Professional Private Investment Trust 6(*6)	"	"	94.51	94.51
Koramco Europe Core Private Placement Real Estate Fund No.2-2	"	"	44.02	48.49
SHBNPP Private Korea Equity Long-Short Professional Feeder	"	"	21.52	9.85
Shinhan-Stonebridge Petro PEF(*5)	"	"	1.82	1.82
BNP Paribas Cardif General Insurance(*1)(*2)	"	September 30	10.00	10.00
Axis Global Growth New Technology Investment Association	"	December 31	31.85	31.85
Polaris No7 Start up and Venture Private Equity Fund	"	"	28.57	28.57
Hermes Private Investment Equity Fund	"	"	29.17	29.17
Shinhan AIM FoF Fund 1a	"	"	24.91	-
Daishin Heim Qualified Investor Private Investment Trust No.1808	"	"	34.48	-
Heungkuk High Class Professional Trust Private Fund 37	"	"	50.00	-
IGIS Global Credit Fund 150-1	"	"	25.11	-
GX SHINHAN INTERVEST 1st Private Equity Fund	"	"	25.27	-
Soo Commerce Platform Growth Fund	"	"	24.62	-
Partner One Value up I Private Equity Fund	"	"	27.91	-
Genesis No.1 Private Equity Fund	"	"	22.80	-
GMB ICT New Technology Investment Fund	"	"	26.75	-
Soo Delivery Platform Growth Fund	"	"	30.00	-
Genesis North America Power Company No.1 PEF	"	"	39.92	-
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	"	"	23.33	-

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(a) Investments in associates as of December 31, 2018 and December 31, 2017 are as follows (continued):

- (*1) The latest financial statements were used for the equity method since the financial statements as of December 31, 2018 were not available. Significant trades and events occurred within the period were properly reflected.
- (*2) The Group applies the equity method accounting as the Group has significant influence on the financial and operating policies of the investee through the ability to elect investees' board members and representation in decision making bodies of the investee.
- (*3) The Group applies the equity method accounting as the Group has a significant influence on the investees through important business transactions.
- (*4) As a part of the rehabilitation process, the Group acquired shares through the conversion of equity investments; as the Group cannot exercise voting rights during the process, the Group has classified the shares as investments at fair value through profit or loss. As the process has ended, the Company has the shares into investment in associates.
- (*5) As a managing partner, the Group has a significant influence over the investees.
- (*6) As a limited partner, the Group does not have an ability to participate in policy-making processes to obtain economic benefit from the investees that would allow the Group to control the entity.
- (*7) The associates were disposed or reclassified.
- (*8) Although the ownership interests were less than 20%, the Group has a significant influence.
- (*9) Although the ownership interests were more than 50%, the Group applies the equity method accounting as the Group does not have an ability to participate in the financial and operating policy-making process.
- (*10) These entities were excluded from the scope of associates due to the Shinhan Bank's accounting policy change, which is to change significant influence criteria from 15% to 20%.
- (*11) During this period, the name of FG EUROGREEN Private Real Estate Investment Trust No.3 has been changed to AIP EUROGREEN Private Real Estate Investment Trust No.3.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(b) Changes in investments in associates for the years ended December 31, 2018 and 2017 were as follows:

Investees	2018					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
BNP Paribas Cardif Life Insurance ₩	52,616	(2,043)	783	(1,540)	-	49,816
Daewontos Co., Ltd.(*1)	-	-	-	-	-	-
Songrim Partners.(*1)	48	-	(48)	-	-	-
Neoplux Technology Valuation Investment Fund	13,470	6,000	(242)	(490)	-	18,738
JAEYOUNG SOLUTEC CO., LTD. Partners 4th Growth Investment Fund	3,849	(2,865)	(836)	(148)	-	-
JAEYANG INDUSTRY(*1)	-	-	-	-	-	-
KTB Newlake Global Healthcare PEF	2,653	7,470	(238)	-	-	9,885
DAEKWANG SEMICONDUCTOR CO., LTD.	3,824	-	(490)	-	-	3,334
Shinhan-Neoplux Energy Newbiz Fund	1,400	2,800	(226)	-	-	3,974
Shinhan-Albatross Tech Investment Fund	2,672	6,000	(70)	306	-	8,908
Asia Pacific No.39 Ship Investment Co., Ltd.	4,682	(4,803)	121	-	-	-
KCLAVIS Meister Fund No.17	3,039	-	44	-	-	3,083
SG No.9 Corporate Recovery Private Equity Fund	3,963	(3,102)	566	-	-	1,427
Plutus-SG Private Equity Fund	4,251	(132)	133	-	-	4,252
SG ARGES Private Equity Fund No.1	6,422	(2,295)	214	-	-	4,341
OST Progress- 2 Fund	4,895	(4,895)	-	-	-	-
Eum Private Equity Fund No.3	4,925	(277)	241	-	-	4,889
Richmond Private Yong in Retail Facility Real Estate Fund No.1	8,101	(10,286)	2,185	-	-	-
KTB Confidence Private Placement	6,403	(389)	387	(1,099)	-	5,302
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	6,757	(1,518)	193	-	-	5,432
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	8,387	(305)	347	-	-	8,429
Pine Asia Unsecured Individual Rehabilitation Bond Fund 18	6,012	(6,035)	23	-	-	-
VOGO DEBT STRATEGY QUALIFIED INV PRIVATE R/E INV TR 4	1,638	3,060	133	-	-	4,831
Platform Partners Brick Save Private Investment Trust	8,069	(496)	547	-	-	8,120
Synergy-Shinhan Mezzanine New Technology Investment Fund	4,999	5,000	150	-	-	10,149
The Asia Pacific Capital Fund II L.P.	7,307	(3,004)	(656)	2,602	(5,849)	400

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(b) Changes in investments in associates for the years ended December 31, 2018 and 2017 were as follows (continued):

Investees	2018					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
Shinhan Praxis K-Growth Global Private Equity Fund	₩ 18,954	(7,473)	5,046	-	-	16,527
Credian Healthcare Private Equity Fund II	3,813	-	740	-	-	4,553
Kiwoom Milestone Professional Private Real Estate Trust 19	10,408	(199)	210	-	-	10,419
AIP EURO GREEN PRIVATE REAL ESTATE TRUST No.3	20,460	(1,253)	1,337	-	-	20,544
Brain Professional Private Trust No.4	5,847	(1,274)	671	-	-	5,244
Hanhwa US Equity Strategy Private Real Estate Fund No.1	25,479	(2,000)	2,753	-	-	26,232
Brain KS Qualified Privately Placed Fund No.6	4,805	-	292	-	-	5,097
M360 CRE Income Fund	153,905	(171,215)	6,183	11,127	-	-
Shinhan Global Healthcare Fund 1	3,407	-	(122)	-	-	3,285
JB Power TL Investment Type Private Placement Special Asset Fund 7	18,690	(2,075)	869	-	-	17,484
IBK AONE convertible 1	5,122	-	784	-	-	5,906
Rico synergy collabo Multi-Mezzanine 3	5,026	-	264	-	-	5,290
KB NA Hickory Private Speical Asset Fund	34,091	(1,560)	1,829	-	-	34,360
GB Professional Private Investment Trust 6	8,600	-	(12)	-	-	8,588
Koramco Europe Core Private Placement Real Estate Fund No.2-2	20,760	(2,357)	213	-	-	18,616
SHBNPP Private Korea Equity Long-Short Professional Feeder	4,861	9,412	97	-	-	14,370
Shinhan-Stonebridge Petro PEF	19,201	(1,133)	613	-	-	18,681
BNP Paribas Cardif General Insurance	4,429	-	(1,026)	20	-	3,423
Axis Global Growth New Technology Investment Association	4,953	-	(78)	-	-	4,875
Polaris No7 Start up and Venture Private Equity Fund	4,359	-	(21)	-	-	4,338
Hermes Private Investment Equity Fund	17,497	(5,158)	(5,274)	-	-	7,065
Shinhan AIM FoF Fund 1a	-	4,125	226	-	-	4,351
Daishin Heim Qualified Investor Private Investment Trust No.1808	-	9,786	340	-	-	10,126
Heungkuk High Class Professional Trust Private Fund 37	-	9,178	260	-	-	9,438
IGIS Global Credit Fund 150-1	-	8,529	367	-	-	8,896
GX SHINHAN INTERVEST 1st Private Equity Fund	-	34,900	(3,069)	-	-	31,831

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(b) Changes in investments in associates for the years ended December 31, 2018 and 2017 were as follows
(continued) :

Investees	2018					Ending balance
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	
Soo Commerce Platform Growth Fund	-	6,500	(122)	-	-	6,378
Partner One Value up I Private Equity Fund	-	12,000	(61)	-	-	11,939
Genesis No.1 Private Equity Fund	-	46,068	(310)	-	-	45,758
GMB ICT New Technology Investment Fund	-	8,000	(66)	-	-	7,934
Soo Delivery Platform Growth Fund		9,000	(17)	-	-	8,983
Genesis North America Power Company No.1 PEF		21,592	(768)	-	-	20,824
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3		6,300	(96)			6,204
Others(*2)	52,855	37,442	1,550	2	-	91,849
	<u>₩ 631,294</u>	<u>17,617</u>	<u>17,488</u>	<u>10,780</u>	<u>(5,849)</u>	<u>671,330</u>

(*1) The Group has stopped recognizing its equity method income or loss due to the investees' cumulative loss.

(*2) Disposal by account reclassification includes non-cash flow.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(b) Changes in investments in associates for the years ended December 31, 2018 and 2017 were as follows
(continued) :

Investees	₩	2017					Ending balance
		Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	
BNP Paribas Cardif Life Insurance		60,213	(255)	3,682	(11,024)	-	52,616
Aju Capital Co., Ltd.		40,836	(42,022)	438	748	-	-
Daewontos Co., Ltd.(*2)		-	-	-	-	-	-
Neoplux Technology Valuation Investment Fund		7,526	3,890	1,564	490	-	13,470
JAEYOUNG SOLUTEC CO., LTD.(*1)		5,736	-	(2,009)	122	-	3,849
Partners 4th Growth Investment Fund		4,555	9,220	(385)	-	-	13,390
JAEYANG INDUSTRY(*2)		-	-	-	-	-	-
Chungyoung INC(*2)		-	-	-	-	-	-
DAEKWANG SEMICONDUCTOR CO., LTD.		4,776	-	(952)	-	-	3,824
Dream High Fund III		3,144	-	(109)	(830)	-	2,205
Asia Pacific No.39 Ship Investment Co., Ltd.		5,176	(802)	300	8	-	4,682
KCLAVIS Meister Fund No.17		2,989	-	50	-	-	3,039
SG No.9 Corporate Recovery Private Equity Fund		3,982	(192)	173	-	-	3,963
Plutus-SG Private Equity Fund		4,299	(132)	84	-	-	4,251
SG ARGES Private Equity Fund No.1		8,976	(2,754)	200	-	-	6,422
OST Progress- 2 Fund		1,460	3,500	(65)	-	-	4,895
Eum Private Equity Fund No.3		5,933	(1,362)	354	-	-	4,925
Richmond Private Yong in Retail Facility Real Estate Fund No.1		-	7,223	878	-	-	8,101
KTB Confidence Private Placement		-	4,927	377	1,099	-	6,403
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund		-	6,504	457	(204)	-	6,757
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund		-	8,012	628	(253)	-	8,387
Pine Asia Unsecured Individual Rehabilitation Bond Fund 18		-	5,867	145	-	-	6,012
Platform Partners Brick Save Private Investment Trust		-	7,877	192	-	-	8,069
Synergy-Shinhan Mezzanine New Technology Investment Fund		-	5,000	(1)	-	-	4,999
The Asia Pacific Capital Fund II L.P.		11,579	454	(901)	(3,825)	-	7,307
Shinhan Praxis K-Growth Global Private Equity Fund		13,533	6,415	(1,590)	596	-	18,954
Credian Healthcare Private Equity Fund II		4,087	-	7	(281)	-	3,813
Kiwoom Milestone Professional Private Real Estate Trust 19		10,761	(222)	(131)	-	-	10,408

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(b) Changes in investments in associates for the years ended December 31, 2018 and 2017 were as follows
(continued) :

Investees	2017					
	Beginning balance	Investment and dividend	Equity method income (loss)	Change in other comprehensive income	Impairment loss	Ending balance
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	₩ 21,237	(841)	641	(577)	-	20,460
Brain Professional Private Trust No.4	5,316	-	529	2	-	5,847
Hanhwa US Equity Strategy Private Real Estate Fund No.1	25,764	(1,859)	1,591	(17)	-	25,479
Brain KS Qualified Privately Placed Fund No.6	4,896	-	(78)	(13)	-	4,805
M360 CRE Income Fund	23,167	132,768	9,270	(11,300)	-	153,905
Shinhan Global Healthcare Fund 1	-	3,440	(33)	-	-	3,407
JB Power TL Investment Type Private Placement Special Asset Fund 7	-	18,268	422	-	-	18,690
IBK AONE convertible 1	-	5,000	122	-	-	5,122
Rico synergy collabo Multi-Mezzanine 3	-	5,001	25	-	-	5,026
KB NA Hickory Private Speical Asset Fund	-	33,362	729	-	-	34,091
GB PROFESSIONAL PRIVATE INVESTMENT TRUST 6	-	8,600	-	-	-	8,600
Koramco Europe Core Private Real Estate Trust No.2-2	-	21,408	(648)	-	-	20,760
SHBNPP Private Korea Equity Long-Short Professional Feeder	14,180	(9,972)	653	-	-	4,861
SHBNPP Private Multi Strategy Professional Feeder No.1	5,014	(5,049)	35	-	-	-
Shinhan-Stonebridge Petro PEF	18,487	-	714	-	-	19,201
BNP Paribas Cardif General Insurance	2,584	2,750	(910)	5	-	4,429
Axis Global Growth New Technology Investment Association	-	5,000	(47)	-	-	4,953
Polaris No.7 Entrepreneur Private Equity Fund	-	4,400	(41)	-	-	4,359
Hermes Private Investment Equity Fund	-	17,500	(3)	-	-	17,497
Others	33,394	21,820	4,036	(45)	(144)	59,061
	₩ 353,600	282,744	20,393	(25,299)	(144)	631,294

(*1) The market value of the investment is ₩6,826 million as of December 31, 2017 based on the quoted market price.

(*2) The Group has stopped recognizing its equity method income or loss due to the investees' cumulative loss.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(c) The statement of financial information as of and for the year ended December 31, 2018 and 2017 were as follows (continued):

Investees	2018						
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	
BNP Paribas Cardif Life Insurance	₩ 3,995,746	3,662,567	53,756	5,191	(10,268)	(5,077)	
Daewontos Co., Ltd.	400	2,492	-	-	-	-	
Songrim Partners.	2,288	2,311	1,898	(164)	-	(164)	
Neoplux Technology Valuation Investment Fund	57,018	804	390	(724)	(1,969)	(2,693)	
Partners 4th Growth Investment Fund	67,403	954	4,424	3,025	-	3,025	
JAERYANG INDUSTRY	2,146	4,717	-	-	-	-	
KTB Newlake Global Healthcare PEF	32,508	123	69	(793)	-	(793)	
DAEKWANG SEMICONDUCTOR CO., LTD.	25,459	9,537	15,794	(2,341)	-	(2,341)	
Shinhan-Neoplux Energy Newbiz Fund	17,347	315	19	(968)	-	(968)	
Shinhan-Albatross Tech Investment Fund	18,009	182	299	(435)	917	482	
KCLAVIS Meister Fund No.17	11,866	47	398	167	-	167	
SG No.9 Corporate Recovery Private Equity Fund	5,566	181	-	2,136	-	2,136	
Plutus-SG Private Equity Fund	16,012	69	778	499	-	499	
SG ARGES Private Equity Fund No.1	18,085	46	-	888	-	888	
Eum Private Equity Fund No.3	23,552	5	1,667	1,311	-	1,311	
KTB Confidence Private Placement	38,559	21,054	506	256	(3,629)	(3,373)	
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	22,739	1	1,451	62	-	62	
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	41,809	2	3,027	1,044	-	1,044	
VOGO DEBT STRATEGY QUALIFIED INV PRIVATE R/E INV TR 4	24,174	15	3,046	1,165	-	1,165	
Platform Partners brick save Private Investment trust	8,286	64	809	763	-	763	
Synergy-Shinhan Mezzanine New Technology Investment Fund	21,312	-	553	331	-	331	

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(c) The statement of financial information as of and for the year ended December 31, 2018 and 2017 were as follows (continued) :

Investees	2018					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
The Asia Pacific Capital Fund II L.P.	₩ 1,674	86	1	(25,828)	-	(25,828)
Shinhan Praxis K-Growth Global Private Equity Fund	87,897	307	31,059	26,381	-	26,381
Credian Healthcare Private Equity Fund II	13,408	47	2,364	2,171	-	2,171
Kiwoom Milestone Professional Private Real Estate Trust 19	57,678	36,839	3,383	422	-	422
AIP EURO GREEN PRIVATE REAL ESTATE TRUST No.3	96,624	86	18,700	6,287	-	6,287
Brain Professional Private Trust No.4	19,113	46	4,306	2,435	-	2,435
Hanhwa US Equity Strategy Private Real Estate Fund No.1	58,575	77	10,098	6,139	-	6,139
Brain KS Qualified Privately Placed Fund No.6	10,089	-	812	477	-	477
Shinhan Global Healthcare Fund 1	74,409	-	4	(2,757)	-	(2,757)
JB Power TL Investment Type Private Placement Special Asset Fund 7	52,627	174	9,878	2,607	-	2,607
IBK AONE Convertable 1	12,807	307	2,042	1,660	-	1,660
Rico Synergy Collabo Multi-Mezzanine 3	10,736	161	686	529	-	529
KB NA Hickory Private Special Asset Fund	91,694	67	9,601	4,877	-	4,877
GB Professional Private Investment Trust 6	9,088	1	1	(13)	-	(13)
Koramco Europe Core Private Placement Real Estate Fund No.2-2	44,491	2,202	6,470	878	-	878
SHBNPP Private Korea Equity Long-Short Professional Feeder	77,465	10,728	18,729	728	-	728
Shinhan-Stonebridge Petro PEF	1,025,884	807	36,968	33,616	-	33,616
BNP Paribas Cardif General Insurance	51,211	16,986	10,972	(10,264)	196	(10,069)
Axis Global Growth New Technology Investment Association	15,308	-	1	(245)	-	(245)
Polaris No7 Start up and Venture Private Equity Fund	15,193	10	-	(75)	-	(75)
Hermes Private Investment Equity Fund	24,233	8	6	(18,025)	-	(18,025)
Shinhan AIM FoF Fund 1a	17,478	11	3,004	342	-	342
Daishin Heim Qualified Investor Private Investment Trust No.1808	29,770	405	806	741	-	741
Heungkuk High Class Professional Trust Private Fund 37	20,523	1,646	1,045	1,005	-	1,005

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(c) The statement of financial information as of and for the year ended December 31, 2018 and 2017 were as follows (continued) :

Investees	2018						
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	
IGIS Global Credit Fund 150-1	₩ 35,453	27	3,457	214	-	214	
GX SHINHAN INTERVEST 1st Private Equity Fund	125,954	-	6	(12,146)	-	(12,146)	
Soo Commerce Platform Growth Fund	25,905	3	-	(497)	-	(497)	
Partner One Value up I Private Equity Fund	42,776	-	326	(224)	-	(224)	
Genesis No.1 Private Equity Fund	201,103	434	-	(1,360)	-	(1,360)	
GMB ICT New Technology Investment Fund	29,657	-	3	(242)	-	(242)	
Soo Delivery Platform Growth Fund	29,946	2	-	(56)	-	(56)	
Genesis North America Power Company No.1 PEF	52,393	223	1	(1,922)	-	(1,922)	
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	26,826	237	2	(411)	-	(411)	

(*) As of December 31, 2018, the Group has discontinued the application of the equity method of accounting and excluded the financial information of the associates for which financial information is not available.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(c) The statement of financial information as of and for the years ended December 31, 2018 and 2017 were as follows (continued) :

Investees	2017						
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	
BNP Paribas Cardif Life Insurance Daewontos Co., Ltd.	₩ 4,133,674 400	3,781,688 2,492	78,010 -	24,230 -	(73,495) -	(49,265) -	
Neoplux Technology Valuation Investment Fund	40,692	283	5,895	4,691	1,471	6,162	
JAEYOUNG SOLUTECH CO., LTD.(*1)	157,009	137,916	142,228	(22,756)	2,764	(19,992)	
Partners 4th Growth Investment Fund	53,944	383	137	(1,540)	-	(1,540)	
JAEYANG INDUSTRY	2,146	4,717	-	-	-	-	
Chungyoung INC	3,292	8,392	5,568	(693)	-	(693)	
DAEKWANG SEMICONDUCTOR CO., LTD.	29,069	10,806	13,929	(4,549)	-	(4,549)	
Dream High Fund III	4,076	34	27	(200)	(1,522)	(1,722)	
Asia Pacific No.39 Ship Investment Co., Ltd.	9,389	27	666	616	32	648	
KCLAVIS Meister Fund No.17	11,694	42	425	194	-	194	
SG No.9 Corporate Recovery Private Equity Fund	15,035	76	(157)	652	-	652	
Plutus-SG Private Equity Fund	16,009	69	317	316	-	316	
SG ARGES Private Equity Fund No.1	26,758	69	(351)	832	-	832	
OST Progress- 2 Fund	17,829	107	(234)	(234)	-	(234)	
Eum Private Equity Fund No.3	23,725	5	1,614	1,649	-	1,649	
Richmond Private Yong in Retail Facility Real Estate Fund No.1	48,006	28,624	2,265	2,100	-	2,100	
KTB Confidence Private Placement Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	42,230	21,090	1,604	1,242	3,629	4,871	
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	28,286	1	1,914	1,913	(856)	1,057	
Pine Asia Unsecured Individual Rehabilitation Bond Fund 18	41,599	1	3,117	3,116	(1,257)	1,859	
Platform Partners Brick Save Private Investment Trust	26,316	14	648	634	-	634	
Synergy-Shinhan Mezzanine New Technology Investment Fund	8,441	271	207	194	-	194	
The Asia Pacific Capital Fund II L.P.	10,500	3	-	(3)	-	(3)	
Shinhan Praxis K-Growth Global Private Equity Fund	29,103	88	-	(3,582)	(10,269)	(13,851)	
Credian Healthcare Private Equity Fund II	100,805	353	7,273	(8,428)	3,156	(5,272)	
	11,236	47	211	19	(823)	(804)	

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(c) The statement of financial information as of and for the years ended December 31, 2018 and 2017 were as follows (continued) :

Investees	2017					
	Asset	Liability	Operating revenue	Net profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Kiwoom Milestone Professional Private Real Estate Trust 19	₩ 57,405	36,589	2,742	(262)	-	(262)
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	97,203	1,066	5,851	3,012	(2,713)	299
Brain Professional Private Trust No.4	21,369	105	2,942	1,925	-	1,925
Hanhwa US Equity Strategy Private Real Estate Fund No.1	56,898	78	11,562	3,549	(37)	3,512
Brain KS Qualified Privately Placed Fund No.6	9,639	28	3	(110)	(72)	(182)
M360 CRE Income Fund	265,945	-	7	14,179	-	14,179
Shinhan Global Healthcare Fund 1	77,166	-	3	(757)	-	(757)
JB Power TL Investment Type Private Placement Special Asset Fund 7	56,125	53	7,115	1,267	-	1,267
IBK AONE Convertable 1	10,840	-	279	258	-	258
Rico Synergy Collabo Multi-Mezzanine 3	10,054	3	371	50	-	50
KB NA Hickory Private Special Asset Fund	90,978	67	11,092	1,945	-	1,945
GB PROFESSIONAL PRIVATE INVESTMENT TRUST 6	9,101	1	1	-	-	-
Koramco Europe Core Private Placement Real Estate Fund No.2-2	44,886	2,074	2,503	(1,337)	-	(1,337)
SHBNPP Private Korea Equity Long-Short Professional Feeder	54,029	4,733	28,956	9,356	-	9,356
Shinhan-Stonebridge Petro PEF	1,056,401	2,740	39,170	39,170	-	39,170
BNP Paribas Cardif General Insurance	59,699	15,405	10,093	(9,294)	94	(9,200)
Axis Global Growth New Technology Investment Association	15,553	-	(147)	(147)	-	(147)
Polaris No7 Start up and Venture Private Equity Fund	15,280	22	(142)	(142)	-	(142)
Hermes Private Investment Equity Fund	60,000	10	(10)	(10)	-	(10)

(*) As of December 31, 2017, the Group has discontinued the application of the equity method of accounting and excluded the financial information of the associates for which financial information is not available.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of December 31, 2018 and 2017 are as follow :

Investees	2018					
	Net assets (a)	Ownership (%)(b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
BNP Paribas Cardif Life Insurance	₩ 333,179	14.99	49,952	(136)	-	49,816
Daewontos Co., Ltd.(*1)	(2,092)	36.33	(760)	-	760	-
Songrim Partners(*1)	(23)	35.34	(8)	-	8	-
Neoplux Technology Valuation Investment Fund	56,214	33.33	18,738	-	-	18,738
Partners 4th Growth Investment Fund	66,449	25.00	16,612	-	-	16,612
JAEYANG INDUSTRY(*2)	(2,571)	25.90	(666)	-	666	-
KTB Newlake Global Healthcare PEF(*3)	32,385	30.00	9,715	-	170	9,885
DAEKWANG SEMICONDUCTOR CO., LTD.	15,922	20.94	3,334	-	-	3,334
Shinhan-Neoplux Energy Newbiz Fund	17,032	23.33	3,974	-	-	3,974
Shinhan-Albatross Tech Investment Fund	17,827	50.00	8,908	-	-	8,908
KCLAVIS Meister Fund No.17	11,819	26.09	3,083	-	-	3,083
SG No.9 Corporate Recovery Private Equity Fund	5,385	26.49	1,427	-	-	1,427
Plutus-SG Private Equity Fund	15,943	26.67	4,252	-	-	4,252
SG ARGES Private Equity Fund No.1	18,039	24.06	4,341	-	-	4,341
Eum Private Equity Fund No.3	23,547	20.76	4,889	-	-	4,889
KTB Confidence Private Placement	17,505	30.29	5,302	-	-	5,302
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	22,738	23.89	5,432	-	-	5,432
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	41,807	20.16	8,429	-	-	8,429
VOGO DEBT STRATEGY QUALIFIED INV PRIVATE R/E INV TR 4	24,159	20.00	4,831	-	-	4,831
Platform Partners brick save Private Investment trust	8,222	98.77	8,120	-	-	8,120
Synergy-Shinhan Mezzanine New Technology Investment Fund	21,312	47.62	10,149	-	-	10,149
The Asia Pacific Capital Fund II L.P.	1,588	25.18	400	-	-	400
Shinhan Praxis K-Growth Global Private Equity Fund	87,590	18.87	16,527	-	-	16,527
Credian Healthcare Private Equity Fund II	13,361	34.07	4,553	-	-	4,553
Kiwoom Milestone Professional Private Real Estate Trust 19	20,839	50.00	10,419	-	-	10,419
AIP EURO GREEN PRIVATE REAL ESTATE TRUST No.3	96,538	21.28	20,544	-	-	20,544
Brain Professional Private Trust No.4	19,067	27.50	5,244	-	-	5,244

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of December 31, 2018 and December 31, 2017 are as follows (continued) :

Investees	2018					
	Net assets (a)	Ownership (%)(b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
Hanhwa US Equity Strategy Private Real Estate Fund No.1	₩ 58,498	44.84	26,232	-	-	26,232
Brain KS Qualified Privately Placed Fund No.6	10,089	50.00	5,097	-	-	5,097
Shinhan Global Healthcare Fund 1	74,409	4.41	3,285	-	-	3,285
JB Power TL Investment Type Private Placement Special Asset Fund 7	52,453	33.33	17,484	-	-	17,484
IBK AONE Convertable 1	12,500	47.25	5,906	-	-	5,906
Rico Synergy Collabo Multi- Mezzanine 3	10,575	50.03	5,290	-	-	5,290
KB NA Hickory Private Special Asset Fund	91,627	37.50	34,360	-	-	34,360
GB Professional Private Investment Trust 6	9,087	94.51	8,588	-	-	8,588
Koramco Europe Core Private Placement Real Estate Fund No.2-2	42,289	44.02	18,616	-	-	18,616
SHBNPP Private Korea Equity Long- Short Professional Feeder	66,737	21.52	14,370	-	-	14,370
Shinhan-Stonebridge Petro PEF	1,025,077	1.82	18,681	-	-	18,681
BNP Paribas Cardif General Insurance	34,225	10.00	3,423	-	-	3,423
Axis Global Growth New Technology Investment Association	15,308	31.85	4,875	-	-	4,875
Polaris No7 Start up and Venture Private Equity Fund	15,183	28.57	4,338	-	-	4,338
Hermes Private Investment Equity Fund	24,225	29.17	7,065	-	-	7,065
Shinhan AIM FoF Fund 1a	17,467	24.91	4,351	-	-	4,351
Daishin Heim Qualified Investor Private Investment Trust No.1808	29,365	34.48	10,126	-	-	10,126
Heungkuk High Class Professional Trust Private Fund 37	18,877	50.00	9,438	-	-	9,438
IGIS Global Credit Fund 150-1	35,426	25.11	8,896	-	-	8,896
GX SHINHAN INTERVEST 1st Private Equity Fund	125,954	25.27	31,831	-	-	31,831
Soo Commerce Platform Growth Fund	25,902	24.62	6,378	-	-	6,378
Partner One Value up I Private Equity Fund	42,776	27.91	11,939	-	-	11,939
Genesis No.1 Private Equity Fund	200,669	22.80	45,758	-	-	45,758
GMB ICT New Technology Investment Fund	29,657	26.75	7,934	-	-	7,934
Soo Delivery Platform Growth Fund	29,944	30.00	8,983	-	-	8,983
Genesis North America Power Company No.1 PEF	52,170	39.92	20,824	-	-	20,824
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	26,589	23.33	6,204	-	-	6,204
Others	315,179	-	91,483	-	366	91,849
	₩ 3,476,038	-	669,496	(136)	1,970	671,330

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of December 31, 2018 and 2017 are as follows (continued) :

- (*1) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero.
- (*2) Other on this investee represents the cumulative losses as the Group has stopped the equity method, and its carrying value becomes zero due to the adjustment for the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.
- (*3) Other adjustments represent the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of December 31, 2018 and 2017 are as follows (continued) :

Investees	2017					
	Net assets (a)	Ownership (%)(b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
BNP Paribas Cardif Life Insurance	₩ 351,986	14.99	52,763	(147)	-	52,616
Daewontos Co., Ltd.(*1)	(2,092)	36.33	(760)	-	760	-
Neoplux Technology Valuation Investment Fund	40,409	33.33	13,470	-	-	13,470
JAERYOUNG SOLUTEC CO., LTD.(*2)	17,484	9.61	1,680	-	2,169	3,849
Partners 4th Growth Investment Fund	53,561	25.00	13,390	-	-	13,390
JAERYANG INDUSTRY(*3)	(2,571)	25.90	(666)	-	666	-
Chungyoung INC(*3)	(5,100)	18.94	(966)	-	966	-
DAEKWANG SEMICONDUCTOR CO., LTD.	18,263	20.94	3,824	-	-	3,824
Dream High Fund III	4,042	54.55	2,205	-	-	2,205
Asia Pacific No.39 Ship Investment Co., Ltd.	9,362	50.00	4,682	-	-	4,682
KCLAVIS Meister Fund No.17	11,652	26.09	3,039	-	-	3,039
SG No.9 Corporate Recovery Private Equity Fund	14,959	26.49	3,963	-	-	3,963
Plutus-SG Private Equity Fund	15,940	26.67	4,251	-	-	4,251
SG ARGES Private Equity Fund No.1	26,689	24.06	6,422	-	-	6,422
OST Progress- 2 Fund	17,722	27.62	4,895	-	-	4,895
Eum Private Equity Fund No.3	23,720	20.76	4,925	-	-	4,925
Richmond Private Yong in Retail Facility Real Estate Fund No.1	19,382	41.80	8,101	-	-	8,101
KTB Confidence Private Placement	21,140	30.29	6,403	-	-	6,403
Meritz AI-SingA330-A Investment Type Private Placement Special Asset Fund	28,285	23.89	6,757	-	-	6,757
Meritz AI-SingA330-B Investment Type Private Placement Special Asset Fund	41,598	20.16	8,387	-	-	8,387
Pine Asia Unsecured Individual Rehabilitation Bond Fund 18	26,302	22.86	6,012	-	-	6,012
Platform Partners Brick Save Private Investment Trust	8,170	98.77	8,069	-	-	8,069
Synergy-Shinhan Mezzanine New Technology Investment Fund	10,497	47.62	4,999	-	-	4,999
The Asia Pacific Capital Fund II L.P.	29,015	25.18	7,307	-	-	7,307
Shinhan Praxis K-Growth Global Private Equity Fund	100,452	18.87	18,954	-	-	18,954
Credian Healthcare Private Equity Fund II	11,189	34.07	3,813	-	-	3,813
Kiwoom Milestone Professional Private Real Estate Trust 19	20,816	50.00	10,408	-	-	10,408
FG EURO GREEN PRIVATE REAL ESTATE TRUST No.3	96,137	21.28	20,460	-	-	20,460

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(d) Reconciliation of the financial information to the carrying values of its interests in the associates as of December 31, 2018 and 2017 are as follows (continued) :

Investees	2017					
	Net assets (a)	Ownership (%)(b)	Interests in the net assets (a)*(b)	Intra-group transactions	Other	Carrying Value
Brain Professional Private Trust No.4	₩ 21,264	27.49	5,847	-	-	5,847
Hanhwa US Equity Strategy Private Real Estate Fund No.1	56,820	44.84	25,479	-	-	25,479
Brain KS Qualified Privately Placed Fund No.6	9,611	50.00	4,805	-	-	4,805
M360 CRE Income Fund	265,945	57.87	153,905	-	-	153,905
Shinhan Global Healthcare Fund 1	77,166	4.41	3,407	-	-	3,407
JB Power TL Investment Type Private Placement Special Asset Fund 7	56,072	33.33	18,690	-	-	18,690
IBK AONE Convertable 1	10,840	47.25	5,122	-	-	5,122
Rico Synergy Collabo Multi- Mezzanine 3	10,051	50.00	5,026	-	-	5,026
KB NA Hickory Private Special Asset Fund	90,911	37.50	34,091	-	-	34,091
GB PROFESSIONAL PRIVATE INVESTMENT TRUST 6	9,100	94.51	8,600	-	-	8,600
Koramco Europe Core Private Placement Real Estate Fund No.2-2	42,812	48.49	20,760	-	-	20,760
SHBNPP Private Korea Equity Long- Short Professional Feeder	49,296	9.85	4,861	-	-	4,861
Shinhan-Stonebridge Petro PEF	1,053,661	1.82	19,201	-	-	19,201
BNP Paribas Cardif General Insurance	44,294	10.00	4,429	-	-	4,429
Axis Global Growth New Technology Investment Association	15,553	31.85	4,953	-	-	4,953
Polaris No7 Start up and Venture Private Equity Fund	15,258	28.57	4,359	-	-	4,359
Hermes Private Investment Equity Fund	59,990	29.17	17,497	-	-	17,497
Others	218,647	-	58,362	-	699	59,061
	₩ 3,116,300		626,181	(147)	5,260	631,294

(*1) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero.

(*2) Net assets do not include non-controlling interests and other adjustments represent the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.

(*3) Other adjustments represent the unrecognized equity method losses because the Group has stopped recognizing its equity method losses as the balance of the investment has been reduced to zero and the difference between the cost of the investment and the Group's interests in the net carrying value of the investee's assets and liabilities at the investment date.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

20. Investments in associates (continued)

(e) The unrecognized equity method losses as of and for the years ended December 31, 2018 and 2017 are as follows:

Investees	2018	
	Unrecognized equity method losses	Cumulative unrecognized equity method losses
Daewontos Co., Ltd.	₩ -	(760)
JAEYANG INDUSTRY	-	(18)
Songlim Partners.	(8)	(8)
	₩ (8)	(786)

Investees	2017	
	Unrecognized equity method losses	Cumulative unrecognized equity method losses
Daewontos Co., Ltd.	₩ -	(760)
JAEYANG INDUSTRY	-	(18)
Chungyoung INC	(130)	(130)
	₩ (130)	(908)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

21. Investment properties

(a) Investment properties as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Acquisition cost	₩ 579,852	508,784
Accumulated depreciation	(105,032)	(90,481)
Book value	<u>₩ 474,820</u>	<u>418,303</u>

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

	<u>2018</u>	<u>2017</u>
Beginning balance	₩ 418,303	353,175
Acquisitions	115,333	2,125
Disposals	(13,608)	(6,277)
Depreciation	(16,917)	(16,095)
Amounts transferred from (to) property and equipment	(28,199)	91,782
Amounts transferred to assets held for sale(*)	-	(6,306)
Foreign currency adjustment	(92)	(101)
Ending balance	<u>₩ 474,820</u>	<u>418,303</u>

(*) Comprise land and buildings, etc.

(c) Income and expenses on investment property for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Rental income	₩ 32,488	33,023
Direct operating expenses for investment properties that generated rental income	12,191	10,998

(d) The fair value of investment property as of December 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Land and buildings(*)	₩ 1,121,985	1,027,830

(*) Fair value of investment properties is estimated based on the recent market transactions and certain significant unobservable inputs. Accordingly, fair value of investment properties is classified as level 3.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

22. Other assets

Other assets as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Accounts receivable	₩ 7,666,217	6,295,129
Domestic exchange settlement debit	6,121,332	2,973,751
Guarantee deposits	1,152,434	1,158,693
Present value discount	(44,694)	(50,170)
Accrued income	1,896,822	1,624,992
Prepaid expense	194,040	163,727
Suspense payments	73,153	63,486
Sundry assets	92,221	53,034
Separate account assets	2,650,302	3,040,534
Advance payments	616,996	219,861
Unamortized deferred acquisition cost	786,134	888,262
Other	423,759	170,338
Allowances for impairment	(56,798)	(49,679)
	<u>₩ 21,571,918</u>	<u>16,551,958</u>

23. Leases

(a) Finance lease receivables of the Group as lessor as of December 31, 2018 and 2017 are as follows:

		<u>2018</u>		
		<u>Gross investment</u>	<u>Unearned finance income</u>	<u>Present value of minimum lease payment</u>
Not later than 1 year	₩	595,427	85,333	510,094
1 ~ 5 years		1,306,571	106,333	1,200,238
Later than 5 years		16,529	38	16,491
	₩	<u>1,918,527</u>	<u>191,704</u>	<u>1,726,823</u>
		<u>2017</u>		
		<u>Gross investment</u>	<u>Unearned finance income</u>	<u>Present value of minimum lease payment</u>
Not later than 1 year	₩	688,358	76,677	611,681
1 ~ 5 years		1,176,334	86,280	1,090,054
Later than 5 years		16,226	585	15,641
	₩	<u>1,880,918</u>	<u>163,542</u>	<u>1,717,376</u>

(b) The scheduled maturities of minimum lease payments for operating leases of the Group as lessor as of December 31, 2018 and 2017 are as follows:

i) Finance lease

		<u>2018</u>		
		<u>Minimum lease payment</u>	<u>Present value adjustment</u>	<u>Present value of minimum lease payment</u>
Not later than 1 year	₩	595,427	85,333	510,094
1 ~ 5 years		1,306,571	106,333	1,200,238
Later than 5 years		16,529	38	16,491
	₩	<u>1,918,527</u>	<u>191,704</u>	<u>1,726,823</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

23. Leases (continued)

(b) The scheduled maturities of minimum lease payments for operating leases of the Group as lessor as of December 31, 2018 and 2017 are as follows (continued) :

		2017		
		Minimum lease payment	Present value adjustment	Present value of minimum lease payment
Not later than 1 year	₩	688,358	76,677	611,681
1 ~ 5 years		1,176,334	86,280	1,090,054
Later than 5 years		16,226	585	15,641
	₩	<u>1,880,918</u>	<u>163,542</u>	<u>1,717,376</u>

ii) Operating lease

		Minimum lease payment	
		2018	2017
Not later than 1 year	₩	94,540	37,455
1 ~ 5 years		180,304	70,764
Over 5 years		10	12
	₩	<u>274,854</u>	<u>108,231</u>

(c) Future minimum lease payments under non-cancellable operating lease of the Group as lessee as of December 31, 2018 and 2017 are as follows:

		Minimum lease payment	
		2018	2017
Not later than 1 year	₩	204,323	247,815
1 ~ 5 years		382,620	328,482
Later than 5 years		23,148	32,740
	₩	<u>610,091</u>	<u>609,037</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

24. Pledged assets

(a) Assets pledged as collateral as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Loans		
Loans	-	99,158
Loans at amortized cost	₩ 129,210	-
Securities		
Securities at FVTPL	11,533,107	-
Securities at FVOCI	1,372,746	-
Securities at amortized cost	10,670,253	-
Trading assets	-	12,660,710
Financial assets designated at fair value through profit or loss	-	587,380
Available-for-sale financial assets	-	1,968,870
Held-to-maturity financial assets	-	10,508,112
	<u>23,576,106</u>	<u>25,725,072</u>
Deposits		
Deposits	-	1,501,661
Deposits at amortized cost	1,481,085	-
Real estate	154,490	157,485
	<u>₩ 25,340,891</u>	<u>27,483,376</u>

The carrying amounts of asset pledged that the pledgees have the right to sell or repledge regardless of the Group's default as of December 31, 2018 and 2017 are ₩8,026,332 million and ₩9,688,816 million, respectively.

(b) The fair value of collateral held that the Group has the right to sell or repledge regardless of pledger's default as of December 31, 2018 and 2017 are as follows:

		<u>2018</u>	
		<u>Collateral held</u>	
		<u>Assets pledged as collateral</u>	<u>Assets received as collateral</u>
Securities	₩	7,342,239	5,190,387
		<u>2017</u>	
		<u>Collateral held</u>	
		<u>Assets pledged as collateral</u>	<u>Assets received as collateral</u>
Securities	₩	8,779,621	3,749,516

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

25. Deposits

Deposits as of December 31, 2018 and 2017 were as follows:

	2018	2017
Demand deposits:		
Korean won	₩ 94,210,806	90,770,606
Foreign currencies	11,950,027	12,158,036
	<u>106,160,833</u>	<u>102,928,642</u>
Time deposits:		
Korean won	123,572,793	115,617,568
Foreign currencies	16,071,970	13,865,692
	<u>139,644,763</u>	<u>129,483,260</u>
Negotiable certificates of deposits	9,247,088	7,583,365
Note discount deposits	4,087,530	3,423,459
CMA	4,084,709	4,197,146
Others	1,775,267	1,803,352
	<u>₩ 265,000,190</u>	<u>249,419,224</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

26. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss as of December 31, 2018 are as follows:

		<u>2018</u>
Securities sold:		
Stocks	₩	488,873
Bonds		440,382
Others		32,117
		<u>961,372</u>
Gold deposits		458,934
	₩	<u>1,420,306</u>

27. Trading liabilities

Trading liabilities as of December 31, 2018 are as follows:

		<u>2017</u>
Securities sold:		
Stocks	₩	495,019
Bonds		871,884
Others		47,001
		<u>1,413,904</u>
Gold deposits		434,586
	₩	<u>1,848,490</u>

28. Financial liabilities designated at fair value through profit or loss (K-IFRS 1109)

Financial liabilities designated at fair value through profit or loss as of December 31, 2018 are as follows:

		<u>2018</u>	<u>Reason for designation</u>
Equity-linked securities sold	₩	6,439,292	Combined instrument
Securities sold with embedded derivatives		2,096,508	Combined instrument
	₩	<u>8,535,800</u>	

(*) The Group designated the financial liabilities at the initial recognition (or subsequently) in accordance with paragraph 6.7.1 of K-IFRS No. 1109 as financial liabilities at fair value through profit or loss.

Maximum credit risk exposure of the financial liabilities designated at fair value through profit or loss amounts to ₩8,535,800 million as of December 31, 2018. Changes in values of the liability are ₩2,376 million for the year ended December 31, 2018 and the accumulated changes are ₩235 million as of December 31, 2018.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

29. Financial liabilities designated at fair value through profit or loss (K-IFRS 1039)

Financial liabilities designated at fair value through profit or loss as of December 31, 2017 are as follows:

	<u>2017</u>	<u>Reason for designation</u>
Equity-linked securities sold	₩ 5,865,990	Combined instrument
Securities sold with embedded derivatives	2,394,646	Combined instrument
Securities sold	36,973	Evaluation and management on a fair value basis
	<u>₩ 8,297,609</u>	

30. Borrowings

Borrowings as of December 31, 2018 and 2017 were as follows:

	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	<u>Interest rate (%)</u>	<u>Amount</u>	<u>Interest rate (%)</u>	<u>Amount</u>
Call money	0.00~6.85	₩ 1,425,162	0.00~6.20	₩ 856,813
Bill sold	0.75~1.70	14,536	0.65~3.26	13,605
Bonds sold under repurchase agreements:	0.50~6.50	7,614,659	0.00~6.00	9,056,232
Borrowings in Korean won:				
Borrowings from Bank of Korea	0.50~0.75	2,329,946	0.50~0.75	2,913,045
Others	0.00~4.25	12,108,741	0.00~5.00	9,585,511
		<u>14,438,687</u>		<u>12,498,556</u>
Borrowings in foreign currencies:				
Overdraft due to banks	0.00	77,673	0.00	128,634
Borrowings from banks	0.00~9.20	4,653,055	0.10~12.50	3,737,366
Others	2.60~7.90	1,596,626	0.00~7.90	1,295,572
		<u>6,327,354</u>		<u>5,161,572</u>
Deferred origination costs		(1,856)		(168)
		<u>₩ 29,818,542</u>		<u>₩ 27,586,610</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

31. Debt securities issued

Debt securities issued as of December 31, 2018 and 2017 were as follows:

	December 31, 2018		December 31, 2017	
	Interest rate (%)	Amount	Interest rate (%)	Amount
Debt securities issued in Korean won:				
Debt securities issued	0.00~8.00	₩ 50,661,472	0.00~8.00	₩ 41,781,486
Subordinated debt securities issued	2.20~4.60	4,400,145	2.20~4.60	3,500,401
Loss on fair value hedges		(206,985)		(274,047)
Discount on debt securities issued		(84,962)		(45,969)
		<u>54,769,670</u>		<u>44,961,871</u>
Debt securities issued in foreign currencies:				
Debt securities issued	0.20~4.01	6,278,680	0.00~4.20	4,989,904
Subordinated debt securities issued	3.75~5.00	2,271,799	3.75~3.88	1,446,390
Loss on fair value hedges		(55,251)		(25,794)
Discount on debt securities issued		(37,199)		(31,550)
		<u>8,458,029</u>		<u>6,378,950</u>
		<u>₩ 63,227,699</u>		<u>₩ 51,340,821</u>

32. Employee benefits

(a) Defined benefit obligations and plan assets

Defined benefit obligations and plan assets as of December 31, 2018 and December 31, 2017 are as follows:

	2018	2017
Present value of defined benefit obligations	₩ 1,841,982	1,695,191
Fair value of plan assets	(1,714,634)	(1,688,047)
Recognized liabilities for defined benefit obligations	<u>₩ 127,348</u>	<u>7,144</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

32. Employee benefits (continued)

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

	2018		
	Defined benefit obligation	Plan assets	Net defined benefit liability
Beginning balance	₩ 1,695,191	(1,688,047)	7,144
Included in profit or loss:			
Current service cost	144,923	-	144,923
Past service cost	54	-	54
Interest expense (income)	59,836	(66,676)	(6,840)
	<u>204,813</u>	<u>(66,676)</u>	<u>138,137</u>
Included in other comprehensive income:			
Remeasurement loss (gain):			
- Actuarial gains (losses) arising from :			
Demographic assumptions	18,399	-	18,399
Financial assumptions	79,038	1,215	80,253
Experience adjustment	(10,762)	-	(10,762)
- Return on plan assets excluding interest income	-	40,486	40,486
	<u>86,675</u>	<u>41,701</u>	<u>128,376</u>
Other:			
Benefits paid by the plan	(142,938)	137,335	(5,603)
Contributions paid into the plan	-	(139,348)	(139,348)
Settlement gain or loss	407	-	407
Effect of movements in exchange rates	(1,273)	-	(1,273)
Others(*2)	(893)	401	(492)
	<u>(144,697)</u>	<u>(1,612)</u>	<u>(146,309)</u>
Ending balance	₩ <u>1,841,982</u>	<u>(1,714,634)</u>	<u>127,348</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

32. Employee benefits (continued)

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

	2017		
	Defined benefit obligation	Plan assets	Net defined benefit liability
Beginning balance	₩ 1,689,980	(1,559,101)	130,879
Included in profit or loss:			
Current service cost	172,152	-	172,152
Past service cost	2,810	-	2,810
Interest expense (income)	54,485	(52,136)	2,349
	<u>229,447</u>	<u>(52,136)</u>	<u>177,311</u>
Included in other comprehensive income:			
Remeasurement loss (gain):			
- Actuarial gains (losses) arising from :			
Demographic assumptions	4,471	-	4,471
Financial assumptions	(96,957)	-	(96,957)
Experience adjustment	(56,709)	-	(56,709)
- Return on plan assets excluding interest income	-	27,460	27,460
	<u>(149,195)</u>	<u>27,460</u>	<u>(121,735)</u>
Other:			
Benefits paid by the plan	(74,841)	69,857	(4,984)
Contributions paid into the plan	-	(174,127)	(174,127)
Effect of movements in exchange rates	(200)	-	(200)
	<u>(75,041)</u>	<u>(104,270)</u>	<u>(179,311)</u>
Ending balance	₩ <u>1,695,191</u>	<u>(1,688,047)</u>	<u>7,144</u>

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

(*2) Others represent the change amounts due to the conversion to defined contribution.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

32. Employee benefits(continued)

(c) The composition of plan assets as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Plan assets comprise:		
Equity securities	₩ 257,581	231,620
Debt securities	817	43,990
Due from banks	1,394,634	1,380,656
Other	61,602	31,781
	<u>₩ 1,714,634</u>	<u>1,688,047</u>

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

	<u>2018</u>	<u>2017</u>	<u>Description</u>
Discount rate	3.02%~3.22%	2.44%~4.07%	AA0 corporate bond yields
Future salary increase rate	0.99%~3.40%	0.99%~5.61%	Average for 5 years
	+ Upgrade rate	+ Upgrade rate	
Weighted average maturity	7.7 years ~ 9.9 years	7.25 years ~ 9.33years	

(e) Sensitivity analysis

As of December 31, 2018, reasonably possible changes in one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	<u>Defined benefit obligation</u>	
	<u>Increase</u>	<u>Decrease</u>
Discount rate (1%p movement)	₩ (159,549)	180,542
Future salary increase rate (1%p movement)	176,924	(159,169)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

33. Provisions

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

		<u>2018</u>	<u>2017</u>
Asset retirement obligations	₩	49,183	45,495
Expected loss related to litigation		25,554	32,650
Unused credit commitments		232,347	168,006
Bonus card point reward program (*)		-	26,434
Financial guarantee contracts issued		115,325	80,861
Others		86,007	75,512
	₩	<u>508,416</u>	<u>428,958</u>

(*) In accordance with K-IFRS No. 1115, the Group has adjusted all bonus card point reward program related to customer loyalty programs.

(b) Changes in provision for unused credit commitments and financial guarantee contracts issued as of December 31, 2018 are as follows:

		<u>Unused credit commitments</u>			<u>Financial guarantee contracts issued</u>			<u>Total</u>
		<u>12 month expected credit loss</u>	<u>Life time expected credit loss</u>	<u>Impaired financial asset</u>	<u>12 month expected credit loss</u>	<u>Life time expected credit loss</u>	<u>Impaired financial asset</u>	
Beginning allowance	₩	124,492	96,010	2,137	31,456	3,368	2,464	259,927
Transfer to 12 month expected credit loss		42,514	(42,057)	(457)	1,140	(1,140)	-	-
Transfer to life time expected credit loss		(8,899)	8,976	(77)	(1,804)	1,804	-	-
Transfer to impaired financial asset		(213)	(802)	1,015	(13)	-	13	-
Provided (reversed)		(32,070)	38,576	2,519	(3,964)	455	(690)	4,826
FX change		578	105	-	758	481	449	2,371
Others (*1)		-	-	-	36,621	936	(479)	37,078
Ending balance	₩	<u>126,402</u>	<u>100,808</u>	<u>5,137</u>	<u>64,194</u>	<u>5,904</u>	<u>1,757</u>	<u>304,202</u>

(*1) Others include the adjustment of the provision from financial guarantee contracts measured at fair value newly, and the expired contracts, and the change of discount rate.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

33. Provisions (continued)

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

		2018				
		Asset retirement	Litigation	Guarantee	Other	Total
Beginning						
balance(*1)	₩	45,495	32,650	46,340	75,512	199,997
Provision(reversal)		4,789	(1,138)	(2,833)	4,900	5,718
Provision used		(4,210)	(6,343)	-	(7,554)	(18,107)
Foreign exchange translation		-	385	1,677	(1,006)	1,056
Others(*2)		3,109	-	(1,714)	14,155	15,550
Ending balance	₩	49,183	25,554	43,470	86,007	204,214

(*1) In accordance with K-IFRS No. 1115, the Group has adjusted all bonus card point reward program related to customer loyalty programs.

(*2) Others include the effects of decrease in discount and changes in discount rate.

		2017						
		Asset retirement	Litigation	Unused credit	Card point (*2)	Guarantee	Other	Total
Beginning balance	₩	50,738	34,471	450,997	25,425	79,238	88,019	728,888
Provision(reversal)		(4,562)	704	(279,508)	51,294	2,548	11,797	(217,727)
Provision used		(2,695)	(1,908)	-	(50,285)	(132)	(22,637)	(77,657)
Foreign exchange translation		-	(617)	(3,483)	-	(4,458)	(52)	(8,610)
Others(*1)		2,014	-	-	-	3,665	(1,615)	4,064
Ending balance	₩	45,495	32,650	168,006	26,434	80,861	75,512	428,958

(*1) Others include the effects of decrease in discount and changes in discount rate.

(*2) Provisions for card point were classified as fees and commission expense.

(d) Asset retirement obligation liabilities represent the estimated cost to restore the existing leased properties which is discounted to the present value using the appropriate discount rate at the end of the reporting period. Disbursements of such costs are expected to incur at the end of lease contract. Such costs are reasonably estimated using the average lease year and the average restoration expenses. The average lease year is calculated based on the past ten-year historical data of the expired leases. The average restoration expense is calculated based on the actual costs incurred for the past three years using the three-year average inflation rate.

(e) Allowance for guarantees and acceptances as of December 31, 2018 and 2017 are as follows:

		2018	2017
Guarantees and acceptances outstanding	₩	9,437,691	7,611,211
Contingent guarantees and acceptances		3,985,532	3,259,613
ABS and ABCP purchase commitments		2,083,522	2,035,543
Endorsed bill		37,667	85,456
	₩	15,544,412	12,991,823
Allowance for loss on guarantees and acceptances	₩	115,325	80,861
Ratio	%	0.74	0.62

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

34. Liability under insurance contracts

(a) Insurance liabilities as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Policy reserve	₩ 26,211,044	24,515,364
Policyholder's equity adjustment	7,838	(76)
	<u>₩ 26,218,882</u>	<u>24,515,288</u>

(b) Policy reserve as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Interest rate linked	₩ 17,328,353	16,464,193
Fixed interest rate	8,882,691	8,051,171
	<u>₩ 26,211,044</u>	<u>24,515,364</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

34. Liability under insurance contracts (continued)

(c) The details of policy reserves as of December 31, 2018 and 2017 are as follows :

	2018							
	Individual insurance				Group insurance			
	Pure endowment	Death	Endowment	Subtotal	Pure protection	Savings	Subtotal	Total
Premium reserve	₩ 5,729,045	11,722,964	7,482,084	24,934,093	24,422	58	24,480	24,958,573
Guarantee reserve	10,148	64,978	124	75,250	-	-	-	75,250
Unearned premium reserve	3	301	-	304	506	-	506	810
Reserve for outstanding claims	99,676	837,317	185,328	1,122,321	18,089	-	18,089	1,140,410
Interest rate difference guarantee reserve	2,068	148	11	2,227	-	-	-	2,227
Mortality gains reserve	7,026	4,741	176	11,943	3	-	3	11,946
Interest gains reserve	18,662	254	19	18,935	-	-	-	18,935
Long term duration dividend reserve	52	9	1	62	-	-	-	62
Reserve for policyholder's profit dividend	1,773	-	-	1,773	-	-	-	1,773
Reserve for losses on dividend insurance contract	1,058	-	-	1,058	-	-	-	1,058
	<u>₩ 5,869,511</u>	<u>12,630,712</u>	<u>7,667,743</u>	<u>26,167,966</u>	<u>43,020</u>	<u>58</u>	<u>43,078</u>	<u>26,211,044</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

34. Liability under insurance contracts (continued)

(c) The details of policy reserves as of December 31, 2018 and 2017 are as follows (continued):

	2017							
	Individual insurance				Group insurance			
	Pure endowment	Death	Endowment	Subtotal	Pure protection	Savings	Subtotal	Total
Premium reserve	₩ 5,343,670	10,628,661	7,323,183	23,295,514	32,538	57	32,595	23,328,109
Guarantee reserve	11,678	50,615	151	62,444	-	-	-	62,444
Unearned premium reserve	3	364	-	367	652	-	652	1,019
Reserve for outstanding claims	98,596	784,535	176,566	1,059,697	26,068	-	26,068	1,085,765
Interest rate difference guarantee reserve	2,280	159	12	2,451	-	-	-	2,451
Mortality gains reserve	7,736	5,195	200	13,131	5	-	5	13,136
Interest gains reserve	18,463	268	20	18,751	-	-	-	18,751
Long term duration dividend reserve	59	10	1	70	-	-	-	70
Reserve for policyholder's profit dividend	2,374	-	-	2,374	-	-	-	2,374
Reserve for losses on dividend insurance contract	1,245	-	-	1,245	-	-	-	1,245
	<u>₩ 5,486,104</u>	<u>11,469,807</u>	<u>7,500,133</u>	<u>24,456,044</u>	<u>59,263</u>	<u>57</u>	<u>59,320</u>	<u>24,515,364</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

34. Liability under insurance contracts (continued)

(d) Reinsurance credit risk as of December 31, 2018 and 2017 are as follows:

		2018	
		Reinsurance assets	Reinsurance account receivable
AA- to AA+	₩	2,451	4,416
A- to A+		1,622	3,598
	₩	<u>4,073</u>	<u>8,014</u>
		2017	
		Reinsurance assets	Reinsurance account receivable
AA- to AA+	₩	1,893	3,420
A- to A+		1,217	3,387
	₩	<u>3,110</u>	<u>6,807</u>

(e) Income or expenses on insurance for the years ended December 31, 2018 and 2017 are as follows:

		2018	2017
Insurance income:			
Premium income	₩	4,348,745	4,550,277
Reinsurance income		15,222	10,532
Separate account income		34,771	38,999
		<u>4,398,738</u>	<u>4,599,808</u>
Insurance expenses:			
Claims paid		2,549,147	2,213,285
Reinsurance premium expenses		18,482	13,220
Provision for policy reserves (*)		1,694,716	2,147,139
Separate account expenses		34,770	38,999
Discount charge		669	632
Acquisition costs		454,479	543,752
Collection expenses		16,046	15,716
Deferred acquisition costs		(283,665)	(336,851)
Amortization of deferred acquisition costs		385,793	423,955
		<u>4,870,437</u>	<u>5,059,847</u>
Net loss on insurance	₩	<u>(471,699)</u>	<u>(460,039)</u>

(*) Shinhan Life Insurance's saving interest is included. (Accumulated ₩ 966,910 million as of December 31, 2018 and accumulated ₩ 960,927 million as of December 31, 2017)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

34. Liability under insurance contracts (continued)

(f) Maturity of premium reserve as of December 31, 2018 and 2017 are as follows:

		2018						
		Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	Total
Fixed interest rate	₩	111,102	247,619	741,222	502,572	1,288,815	5,284,548	8,175,878
Interest rate linked		195,843	922,832	1,247,871	343,562	1,500,893	12,571,694	16,782,695
Ending balance	₩	<u>306,945</u>	<u>1,170,451</u>	<u>1,989,093</u>	<u>846,134</u>	<u>2,789,708</u>	<u>17,856,242</u>	<u>24,958,573</u>
		2017						
		Less than 1 year	1 ~ 3 years	3 ~ 7 years	7 ~ 10 years	10 ~ 20 years	More than 20 years	Total
Fixed interest rate	₩	62,611	256,126	646,634	550,935	1,227,656	4,629,667	7,373,629
Interest rate linked		32,364	660,966	1,549,321	384,276	1,359,071	11,968,482	15,954,480
Ending balance	₩	<u>94,975</u>	<u>917,092</u>	<u>2,195,955</u>	<u>935,211</u>	<u>2,586,727</u>	<u>16,598,149</u>	<u>23,328,109</u>

(g) Liability adequacy test, LAT

i) Liability adequacy tests were performed on the premium reserve, unearned premium reserve and guarantee reserve for the contracts held at December 31, 2018 and 2017. The premium reserve considered the amount net level premium reserve less, where appropriate, deferred acquisition cost in accordance with the article 6-3 of Regulation on Supervision of Insurance Business Act.

ii) Output overview

In the debt appraisal system, the insurance premium surplus method is applied to calculate premium deficits.

Premium deficiency refers to deficiency when the amount of accumulated reserve is insufficient due to a decrease in the interest rate after the sale of the product or an increase in the risk rate compared with the expected basic rate at the time of product development.

The insurance premium standard inspection method is a method of calculating the reserve amount based on the present value of total income reflecting the interest rate, the risk rate, the business ratio, the cancellation rate, etc. and the present value of the total expenditure, that is, (discount rate), business ratio, risk rate, and cancellation rate calculated based on the Group's own experience, which reflects company-specific characteristics, and does not reflect subjective factors such as management's willingness to improve management.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

34. Liability under insurance contracts (continued)

iii) The assumptions of the current estimation used to assessment and their basis for calculation was as follows:

	Assumptions		Measurement basis
	2018	2017	
Discount rate	1.27% ~ 4.95%	1.98% ~ 8.77%	The scenario adding liquidity premium to risk-free rate, which is suggested from Financial Supervisory Service
Mortality rate	2.58% ~ 247.65%	6.24% ~ 257.25%	Ratio by claims paid per premium paid on risk premium based on experience-based rate by products, collateral of last 5 years.
Operating expense rate	Acquisition cost - The first time : 90% ~ 982.7% - From the second time : 0% ~ 193.5% Maintenance expense (each case): 207 won ~ 3,531 won Collection expenses (on gross premium): 0.04% ~ 1.10%	Acquisition cost - The first time : 90% ~ 1034.9% - From the second time : 0% ~ 212.9% Maintenance expense (each case): 843 won ~ 3,768 won Collection expenses (on gross premium): 0.03% ~ 1.05%	Business rate on insurance premium or expenses per contract based on experience-based rate of last 1 year
Surrender ratio	0.95% ~ 48.35%	0.95% ~ 34.08%	Surrender ratio by elapsed period, classes of sales channel, product of last 5 years

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

34. Liability under insurance contracts (continued)

vi) The result of liability adequacy test as of December 31, 2018 and 2017 are as follows:

		2018		
		Provisions for test	LAT base	Premium loss (surplus)
Participating:				
Fixed interest	₩	589,618	1,368,008	778,390
Variable interest		859,858	964,358	104,500
		<u>1,449,476</u>	<u>2,332,366</u>	<u>882,890</u>
Non- Participating:				
Fixed interest		6,009,771	3,019,087	(2,990,684)
Variable interest		14,149,581	12,339,559	(1,810,022)
		<u>20,159,352</u>	<u>15,358,646</u>	<u>(4,800,706)</u>
	₩	<u>21,608,828</u>	<u>17,691,012</u>	<u>(3,917,816)</u>
		2017		
		Provisions for test	LAT base	Premium loss (surplus)
Participating:				
Fixed interest	₩	582,842	1,448,564	865,722
Variable interest		811,078	895,052	83,973
		<u>1,393,920</u>	<u>2,343,616</u>	<u>949,695</u>
Non- Participating:				
Fixed interest		5,374,209	2,204,431	(3,169,778)
Variable interest		13,374,917	10,448,900	(2,926,017)
		<u>18,749,126</u>	<u>12,653,331</u>	<u>(6,095,795)</u>
	₩	<u>20,143,046</u>	<u>14,996,947</u>	<u>(5,146,100)</u>

v) Sensitivity analysis as of December 31, 2018 and 2017 are as follows:

	LAT fluctuation	
	2018	2017
Discount rate increased by 0.5%	₩ (2,010,046)	(1,532,611)
Discount rate decreased by 0.5%	2,353,179	1,836,098
Operating expense increased by 10%	236,693	216,340
Mortality rate increased by 10%	866,683	818,261
Mortality rate increased by 5%	435,423	410,822
Surrender ratio increased by 10%	298,121	457,119

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

35. Other liabilities

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

	2018	2017
Accounts payable	₩ 9,748,168	8,524,295
Accrued expenses	3,267,188	3,022,127
Dividend payable	49,486	8,345
Advance receipts	131,386	120,724
Unearned income	236,827	402,541
Withholding value-added tax and other taxes	547,097	343,938
Securities deposit received	651,153	911,304
Foreign exchange remittances pending	225,956	223,465
Domestic exchange remittances pending	1,115,939	1,808,652
Borrowing from trust account	2,999,445	4,057,649
Due to agencies	779,473	607,743
Deposits for subscription	76,019	79,154
Separate account liabilities	2,845,380	3,213,389
Sundry liabilities	2,496,169	1,930,410
Other	50,881	76,966
Present value discount account	(20,888)	(17,929)
	₩ <u>25,199,679</u>	<u>25,312,773</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

36. Equity

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

	<u>2018</u>	<u>2017</u>
Capital stock:		
Common stock	₩ 2,370,998	2,370,998
Preferred stock	274,055	274,055
	<u>2,645,053</u>	<u>2,645,053</u>
Hybrid bond	1,531,759	423,921
Capital surplus:		
Share premium	9,494,769	9,494,769
Others (*1)	400,719	392,566
	<u>9,895,488</u>	<u>9,887,335</u>
Capital adjustments(*2)	(552,895)	(398,035)
Accumulated other comprehensive income, net of tax:		
Gain on financial assets at fair value through other comprehensive income	2,958	-
Valuation gain on available-for-sale financial assets	-	72,126
Loss on financial assets at fair value through profit or loss (overlay approach)	(79,057)	-
Equity in other comprehensive income of associates	4,883	(294)
Foreign currency translation adjustments for foreign operations	(321,853)	(345,199)
Net gain(loss) from cash flow hedges	(17,751)	2,440
Other comprehensive income(loss) of separate account	4,112	(4,812)
Actuarial losses	(346,682)	(253,995)
Changes in own credit risk on financial liabilities designated under fair value option	170	-
	<u>(753,220)</u>	<u>(529,734)</u>
Retained earnings (*3)(*4)(*5)(*6)	22,959,440	20,791,681
Non-controlling interest (*7)	925,805	883,397
	<u>₩ 36,651,430</u>	<u>33,703,618</u>

(*1) During the year ended December 31, 2018, the Group recorded a capital surplus of KRW 8,153 million as a result of participating in the capital increase of its subsidiary, Jeju Bank Co. Ltd.

(*2) The Group acquired treasury stock through treasury stock trusts, and the consideration paid or received is recognized directly in equity.

(*3) The reserve for profits of the Group, due to In accordance with Article 53 of the Financial Holding Company Act, amounted to ₩ 2,068,190 million and ₩ 1,992,716 million as of December 31, 2018 and 2017, respectively.

(*4) The reserve for loan losses in the retained earnings amounted to ₩ 7,572 million and ₩ 5,953 million as of December 31, 2018 and 2017, respectively.

(*5) The total amount of retained earnings from the consolidated subsidiaries that are not available for the payment of cash dividends due to the related regulation is 5,800,002 million.

(*6) The acquisition of ANZ Retail business by Shinhan Bank of Vietnam was completed and the amount was adjusted retrospectively.

(*7) As of December 31, 2018 and 2017, Shinhan Bank and Jeju Bank have recognized ₩ 748,497 million and ₩ 718,775 million, respectively, as non-controlling interests. The amount of dividends paid by Shinhan Bank and Jeju Bank ₩ 27,546 million and ₩ 30,442 million are allocated to the net income of non-controlling interests.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

36. Equity (continued)

(b) Capital stock

Capital stock of the Group as of December 31, 2018 and 2017 are as follows:

Number of authorized shares		1,000,000,000
Par value per share in won	₩	5,000
Number of issued common stocks outstanding		474,199,587

(c) Hybrid bonds

Hybrid bonds classified as other equity instruments as of December 31, 2018 and December 31, 2017 are as follows:

Issue date	Currency	Maturity date	Interest rate (%)		2018	2017
June 25, 2015	KRW	June 25, 2045	4.38	₩	199,455	199,455
September 15, 2017	"	-	3.77		134,683	134,683
September 15, 2017	"	-	4.25		89,783	89,783
April 13, 2018	"	-	4.08		134,678	-
April 13, 2018	"	-	4.56		14,955	-
August 29, 2018	"	-	4.15		398,679	-
August 13, 2018	USD	-	5.88		559,526	-
				₩	<u>1,531,759</u>	<u>423,921</u>

The Group can make advanced redemption for the above bonds, after 5 or 10 years from the issuance date; and has unconditional rights to extend the maturity under the same condition. In addition, if the determination has been made that dividend is not paid for common shares, then the interest for the above bonds is also not paid.

(d) Capital adjustments

Changes in capital adjustments for the years ended December 31, 2018 and 2017 are as follows:

		2018	2017
Beginning balance	₩	(398,035)	(458,461)
Transaction on redemption of hybrid bonds		-	(1,139)
Acquisition of stocks		(155,923)	-
Other transactions with owners		1,063	61,565
Ending balance	₩	<u>(552,895)</u>	<u>(398,035)</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

36. Equity (continued)

(e) Accumulated other comprehensive income

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

	2018										
	Items that are or may be reclassified to profit or loss						Items that will never be reclassified to profit or loss				
	Gain(loss) on financial asset at fair value through other comprehensive income	Gain(loss) on financial asset at fair value through profit or loss (overlapy approach)	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other comprehensive income of separate account	Remeasurements of the defined benefit plans	Equity in other comprehensive income of associates	Gain (loss) on financial asset at fair value through other comprehensive income	Changes in own credit risk on financial liabilities designated under fair value option	Total
Beginning balance	₩ (211,003)	(24,724)	(2,516)	(342,318)	2,441	(4,564)	(253,995)	(46)	31,533	(1,553)	(806,745)
Change due to fair value	225,173	(74,942)	(2,327)	-	-	11,967	-	39	25,078	2,376	187,364
Reclassification:											
Change due to impairment or disposal	15,812	-	13,103	-	(91,011)	-	-	-	-	-	(62,096)
Effect of hedge accounting	-	-	-	-	(1,261)	-	-	-	-	-	(1,261)
Hedging	(2,365)	-	-	(35,879)	60,501	-	-	-	-	-	22,257
Effects from exchange rate fluctuations	1,733	-	-	45,904	-	-	-	-	423	-	48,060
Remeasurements of the defined benefit plans	-	-	-	-	-	-	(128,139)	-	-	-	(128,139)
Deferred income taxes	(79,345)	20,609	(3,369)	9,958	11,579	(3,291)	35,041	(11)	(5,410)	(653)	(14,892)
Transfer to other account	-	-	-	-	-	-	-	10	2,635	-	2,645
Non-controlling interests	(1,305)	-	-	482	-	-	411	-	-	-	(412)
Ending balance	₩ (51,300)	(79,057)	4,891	(321,853)	(17,751)	4,112	(346,682)	(8)	54,258	170	(753,220)

(*) The beginning balance is restated due to the adoption of K-IFRS 1109 and 1115.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

36. Equity (continued)

(e) Accumulated other comprehensive income (continued)

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

	2017						
	Unrealized gain (loss) on available-for-sale financial assets	Equity in other comprehensive income of associates	Foreign currency translation adjustments for foreign operations	Net loss from cash flow hedges	Other comprehensive income of separate account	Remeasurements of the defined benefit plans	Total
Beginning balance	₩ 394,182	21,258	(151,725)	(13,464)	4,466	(357,300)	(102,583)
Change due to fair value	(60,397)	(24,886)	-	-	(12,529)	-	(97,812)
Reclassification:							
Change due to impairment or disposal	(346,126)	-	-	-	-	-	(346,126)
Effect of hedge accounting	-	-	-	250,875	-	-	250,875
Hedging	1,241	-	97,353	(229,747)	-	-	(131,153)
Effects from exchange rate fluctuations	(28,553)	-	(276,285)	-	-	-	(304,838)
Remeasurements of the defined benefit plans	-	-	-	-	-	121,735	121,735
Transfer to other account	-	(414)	-	-	-	-	(414)
Deferred income taxes	110,708	3,748	(15,240)	(5,224)	3,251	(18,210)	79,033
Non-controlling interests	1,071	-	698	-	-	(220)	1,549
Ending balance	₩ 72,126	(294)	(345,199)	2,440	(4,812)	(253,995)	(529,734)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

36. Equity (continued)

(f) Appropriation of retained earnings

Statements of appropriation of retained earnings for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
	March 27, 2019	March 22, 2018
Date of appropriation:		
Unappropriated retained earnings:		
Balance at beginning of year	₩ 4,867,521	4,896,292
Net effect due to change in accounting policy	(23)	-
Dividend to hybrid bonds	(40,357)	(17,678)
Net income	1,234,883	754,727
	<u>6,062,024</u>	<u>5,633,341</u>
Reversal of regulatory reserve for loan losses	<u>-</u>	<u>-</u>
	<u>6,062,024</u>	<u>5,633,341</u>
Appropriation of retained earnings:		
Legal reserve	(123,488)	(75,473)
Dividends		
Dividends on common stocks paid	(753,041)	(687,589)
Regulatory reserve for loan losses	(1,156)	(1,619)
Loss on redemption of hybrid bonds	-	(1,139)
	<u>(877,685)</u>	<u>(765,820)</u>
Unappropriated retained earnings to be carried over to subsequent year	₩ <u>5,184,339</u>	<u>4,867,521</u>

(*) These statements of appropriation of retained earnings were based on the separate financial statements of Shinhan Finance Group.

(g) Regulatory reserve for loan losses

In accordance with Regulations for the Supervision of Financial Institutions, the Group reserves the difference between allowance for credit losses by K-IFRS and that as required by the Regulations at the account of regulatory reserve for loan losses in retained earnings.

i) Changes in regulatory reserve for loan losses including non-controlling interests for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	₩ 2,885,018	2,252,771
K-IFRS 1109 adoption	(388,551)	-
Planned regulatory reversal of loan losses	348,223	632,247
Ending balance	₩ <u>2,844,690</u>	<u>2,885,018</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

36. Equity (continued)

(g) Regulatory reserve for loan losses (continued)

ii) Profit attributable to equity holders of Shinhan Financial Group and earnings per share after factoring in regulatory reserve for loan losses for the years ended December 31, 2018 and 2017 are as follows:

		<u>2018</u>	<u>2017 (*3)</u>
Profit attributable to equity holders of Shinhan Financial Group	₩	3,156,722	2,918,816
Provision for regulatory reserve for loan losses (*1)		(348,127)	(631,578)
Profit attributable to equity holders of Shinhan Financial Group adjusted for regulatory reserve	₩	<u>2,808,595</u>	<u>2,287,238</u>
Basic and diluted earnings per share adjusted for regulatory reserve in won(*2)		5,844	4,786

(*1) Amortization of reserve for credit losses due to the transfer of K-IFRS No. 1109 during the year is excluded. (*2) Dividends for hybrid bonds are deducted.

(*3) The acquisition of ANZ Retail business by Shinhan Bank of Vietnam was completed, the amount was adjusted retrospectively.

(h) Treasury stock

The acquisition of treasury stock is as follows:

		<u>Beginning balance</u>	<u>Acquisition</u>	<u>disposal</u>	<u>Ending balance</u>
The number of share		-	3,648,659	-	3,648,659
Carrying value	₩	-	155,923	-	155,923

(*) For the December 31, 2018, the Group entered into a treasury stock trust agreement with Samsung Securities Co., Ltd. for a total consideration of ₩200,000 million.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

37. Dividends

(a) Details of dividends recognized as distributions to common stockholders for the years ended December 31, 2018 and 2017 are as follows:

		<u>2018 (*1)</u>	<u>2017</u>
Total number of shares issued and outstanding	₩	474,199,587	474,199,587
Par value per share in won		5,000	5,000
Dividend per share in won		1,600	1,450
Dividends(*2)	₩	<u>753,041</u>	<u>687,589</u>
Dividend rate per share	%	32.0	29.0

(*1) The dividend is the amount of dividend that will be paid on March 27, 2019 and is not recognized as a distribution to the owners during the period.

(*2) The amounts are proposed or declared dividends before the financial statements were authorized for issue but not recognized as a distribution to owners during the year.

(b) Dividend for hybrid bond was calculated as follows for the years ended December 31, 2018 and 2017 :

		<u>2018</u>	<u>2017</u>
Amount of hybrid bond	₩	1,538,150	425,000
Interest rate	%	3.77 ~ 5.88	3.77~4.38
Dividend(*)	₩	<u>40,357</u>	<u>17,678</u>

(*) The dividends to hybrid bonds that were early redeemed during the period are included.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

38. Net interest income

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

		2018
Interest income:		
Cash and deposits at amortized cost	₩	155,075
Deposits at FVTPL		33,845
Securities at FVTPL		623,651
Securities at FVOCI		759,301
Securities at amortized cost		730,382
Loans at amortized cost		11,158,558
Loans at FVTPL		23,110
Others		88,534
		<u>13,572,456</u>
Interest expense:		
Deposits		(3,091,659)
Borrowings		(468,068)
Debt securities issued		(1,336,840)
Others		(95,800)
		<u>(4,992,367)</u>
Net interest income	₩	<u>8,580,089</u>
		2017
Interest income:		
Cash and due from banks	₩	167,793
Trading assets		489,836
Financial assets designated at fair value through profit or loss		57,899
Available-for-sale financial assets		671,912
Held-to-maturity financial assets		651,107
Loans		9,673,635
Others		86,472
		<u>11,798,654</u>
Interest expense:		
Deposits		(2,482,415)
Borrowings		(352,069)
Debt securities issued		(1,085,366)
Others		(35,851)
		<u>(3,955,701)</u>
Net interest income	₩	<u>7,842,953</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

39. Net fees and commission income

Net fees and commission income for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Fees and commission income:		
Credit placement fees	₩ 62,766	59,133
Commission received as electronic charge receipt	146,309	142,755
Brokerage fees	412,165	373,108
Commission received as agency	120,508	129,460
Investment banking fees	91,273	66,191
Commission received in foreign exchange activities	214,395	197,705
Asset management fees	235,275	190,802
Credit card fees	1,360,322	2,369,745
Others	652,243	516,056
	<u>3,295,256</u>	<u>4,044,955</u>
Fees and commission expense:		
Credit-related fee	(36,817)	(35,665)
Credit card fees	(944,533)	(1,988,826)
Others	(374,909)	(309,510)
	<u>(1,356,259)</u>	<u>(2,334,001)</u>
Net fees and commission income	₩ <u>1,938,997</u>	<u>1,710,954</u>

40. Dividend income

Dividend income for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Securities at FVTPL	₩ 70,955	-
Trading assets	-	57,615
Securities at FVOCI	16,871	-
Available-for-sale financial assets	-	199,691
	<u>₩ 87,826</u>	<u>257,306</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

41. Net gain (loss) on trading assets measured at fair value through profit or loss

Net gain (loss) on trading assets measured at fair value through profit or loss for the year ended December 31, 2018 are as follows:

	2018
Net gain(loss) on deposits measured at FVTPL	
Loss on valuation	₩ (61,848)
Net gain(loss) on loans measured at FVTPL	
Gain on valuation	916
Gain on sale	9,133
	<u>10,049</u>
Net gain(loss) on securities measured at FVTPL	
Debt securities	
Gain on valuation	111,029
Gain on sale	78,718
Other gains	223,731
	<u>413,478</u>
Equity securities	
Gain on valuation	286,801
Loss on sale	(275,356)
	<u>11,445</u>
Other	
Gain on valuation	19,086
Net gain(loss) on financial liabilities measured at FVTPL	
Debt securities	
Loss on valuation	(115,667)
Gain (loss) on disposition	268,932
	<u>153,265</u>
Other	
Gain (loss) on valuation	(14,892)
Gain on disposition	1,394
	<u>(13,498)</u>
Derivatives:	
Gain on valuation	(291,879)
Gain on transaction	179,928
	<u>(111,951)</u>
	<u>₩ 420,026</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

42. Net trading income (loss)

Net trading income (loss) for the year ended December 31, 2017 are as follows:

	<u>2017</u>
Trading assets:	
Debt securities	
Loss on valuation	₩ (90,442)
Loss on sale	(93,528)
	<u>(183,970)</u>
Equity securities	
Gain on valuation	187,442
Gain on sale	128,118
	<u>315,560</u>
Other	
Gain on valuation	5,782
Trading liabilities:	
Securities sold	
Loss on valuation	(138,134)
Loss on disposition	(20,610)
	<u>(158,744)</u>
Other	
Gain on valuation	260
Gain on disposition	2,440
	<u>2,700</u>
Derivatives:	
Gain on valuation	369,225
Gain on transaction	612,670
	<u>981,895</u>
	<u>₩ 963,223</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

43. Net gain (loss) on financial instruments measured at fair value through profit or loss

Net gain (loss) on financial instruments measured at fair value through profit or loss for the year ended December 31, 2018 are as follows:

	<u>2018</u>
Financial assets measured at fair value through profit or loss:	
Equity securities:	
Gain on sale	₩ (4,737)
Financial liabilities measured at fair value through profit or loss:	
Borrowings	
Gain on valuation	382,667
Loss on sale and redemption	(404,573)
	₩ <u>(26,643)</u>

44. Net gain (loss) on financial instruments designated at fair value through profit or loss

Net gain (loss) on financial instruments designated at fair value through profit or loss for the year ended December 31, 2017 are as follows:

	<u>2017</u>
Financial assets designated at fair value through profit or loss:	
Other securities	
Gain on valuation	₩ 13,020
Debt securities	
Loss on valuation	(65,475)
Gain on sale and redemption	11,673
	<u>(53,802)</u>
Equity securities	
Dividend income	51
Loss on valuation	(78,633)
Gain on sale	5,622
	<u>(72,960)</u>
Financial liabilities designated at fair value through profit or loss:	
Other securities	
Loss on disposal and redemption	(43)
Borrowings	
Loss on valuation	(100,685)
Loss on disposal and redemption	(845,356)
	<u>(946,041)</u>
	₩ <u><u>(1,059,826)</u></u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

45. Allowance provided (reversed) for credit loss on financial assets

Allowance provided (reversed) for credit loss on financial assets for the year ended December 31, 2018 are as follows:

	<u>2018</u>
Loans at amortized cost	₩ (704,515)
Other financial assets at amortized cost	(24,070)
Securities at fair value through other comprehensive income	(12,066)
Others (unused credit line and financial guarantee, etc)	(4,826)
Securities at amortized cost	(2,400)
	<u>₩ (747,877)</u>

46. Net impairment loss on financial assets

Net impairment loss on financial assets for the year ended December 31, 2017 are as follows:

	<u>2017 (*)</u>
Impairment losses on:	
Loans	₩ (799,577)
Available-for-sale financial assets	(202,360)
Other financial assets	(15,672)
	<u>(1,017,608)</u>
Reversal of impairment losses on:	
Available-for-sale financial assets	4,061
	<u>₩ (1,013,548)</u>

(*) As the acquisition of ANZ Retail business by Shinhan Bank of Vietnam was completed, the amount was adjusted retrospectively.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

47. General and administrative expenses

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

	<u>2018</u>	<u>2017</u>
Employee benefits:		
Salaries	₩ 2,736,604	2,668,224
Severance benefits:		
Defined contribution	23,745	21,040
Defined benefit	133,749	173,080
Termination benefits	115,275	285,158
	<u>3,009,373</u>	<u>3,147,502</u>
Rent	357,981	336,124
Entertainment	30,442	29,039
Depreciation	171,771	173,541
Amortization	73,575	66,860
Taxes and dues	176,133	165,689
Advertising	287,688	271,819
Research	13,928	14,093
Others	620,684	606,531
	<u>₩ 4,741,575</u>	<u>4,811,198</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won, except per share data)

48. Share-based payments

(a) Stock options granted as of December 31, 2018 are as follows:

	<u>4th grant(*1)</u>	<u>5th grant(*1)</u>	<u>6th grant(*1)</u>	<u>7th grant(*1)(*2)</u>
Grant date	March 30, 2005	March 21, 2006	March 20, 2007	March 19, 2008
Exercise price in won	₩28,006	₩38,829	₩54,560	₩49,053
Number of shares granted	2,695,200	3,296,200	1,301,050	808,700
Options expiry dates	August 30, 2018	August 21, 2019	August 19, 2020	May 17, 2021/ September 17, 2021
Changes in number of shares granted:				
Balance at January 1, 2018	2,500	2,500	58,764	45,628
Exercised	2,500	-	-	-
Balance at September 30, 2018	<u>-</u>	<u>2,500</u>	<u>58,764</u>	<u>45,628</u>
Fair value per share in won	-	₩2,874	₩397	₩1,441 (Expiration of contractual exercise period : May 17, 2021)
				₩1,610 (Expiration of contractual exercise period : Sep 17, 2021)

(*1) The weighted average exercise price for 106,892 stock options outstanding at December 31, 2018 is ₩51,841.

(*2) As of December 31, 2018, the exercise of the remaining for 9,466 stock options (7th grant) was temporarily suspended.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won, except per share data)

48. Share-based payments (continued)

(b) Performance shares granted as of December 31, 2018 are as follows:

Type	Expired	Not expired
	Cash-settled share-based payment	
Performance conditions	Increase rate of the stock price and achievement of target ROE	
Operating period(*)	4 or 5 years	
Estimated number of shares vested at December 31, 2018	397,464	1,336,188
Fair value per share in won	₩45,926, ₩47,376, ₩40,889, ₩45,766, ₩49,405, ₩40,580 for the expiration of operating period from 2013 to 2018	₩39,600

(*) Four-year period is applied from the beginning of the year that the grant date belongs while five-year period for the shares with deferred payment.

The amount of cash payment for the Group's cash-settled share-based payment arrangements with performance conditions is determined at the fourth anniversary date from the grant date based on the share price which is an arithmetic mean of weighted average share prices of the past two-months, past one-month and past one-week. Share price to be paid in the future is evaluated using the share price as of the end of the reporting period. For share-based payment transactions among the Company and its subsidiaries, the Company and its subsidiaries receiving the services shall measure the services received as a cash-settled and an equity-settled share-based payment transaction, respectively.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

48. Share-based payments (continued)

(c) Share-based compensation costs for the years ended December 31, 2018 and 2017 were as follows:

	2018		
	Employees of		
	The controlling company	The subsidiaries	Total
Stock options granted:			
4th	₩ -	(14)	(14)
5th	-	(19)	(19)
6th	(23)	(139)	(162)
7th	(59)	(86)	(145)
Performance share	1,154	9,768	10,922
	₩ 1,072	9,510	10,582

	2017		
	Employees of		
	The controlling company	The subsidiaries	Total
Stock options granted:			
4th	₩ 67	413	480
5th	48	757	805
6th	26	159	185
7th	83	120	203
Performance share	1,782	15,717	17,499
	₩ 2,006	17,166	19,172

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

48. Share-based payments (continued)

(d) Accrued expenses and the intrinsic value as of December 31, 2018 and 2017 are as follows:

	2018		
	Employees of		
	The controlling company	The subsidiaries	Total
Stock options granted:			
4th	₩ -	-	-
5th	-	7	7
6th	3	20	23
7th	24	33	57
Performance share	7,328	61,790	69,118
	₩ 7,355	61,850	69,205

The intrinsic value of share-based payments is ₩69,120 million as of December 31, 2018. For calculating, the quoted market price ₩39,600 per share was used for stock options and the fair value was considered as intrinsic value for performance shares, respectively.

	2017		
	Employees of		
	The controlling company	The subsidiaries	Total
Stock options granted:			
4th	₩ -	54	54
5th	-	26	26
6th	26	159	185
7th	83	120	203
Performance share	8,286	62,769	71,055
	₩ 8,395	63,128	71,523

The intrinsic value of share-based payments is ₩71,151 million as of December 31, 2017. For calculating, the quoted market price ₩49,400 per share was used for stock options and the fair value was considered as intrinsic value for performance shares, respectively.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

49. Net other operating expense

Other operating income and other operating expense for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Other operating income		
Gain on sale of assets:		
Loans	₩ 40,624	50,707
Others:		
Gain on hedged items	418,390	634,695
Reversal of allowance for acceptances and guarantee	2,834	-
Gain on trust account	-	14
Gain on other allowance	5,033	286,932
Others	131,345	82,375
	<u>557,602</u>	<u>1,004,016</u>
	<u>598,226</u>	<u>1,054,723</u>
Other operating expense		
Loss on sale of assets:		
Loans	(14,271)	(8,394)
Others:		
Loss on hedged items	(406,872)	(629,754)
Contribution	(283,331)	(252,419)
Loss on allowance for acceptances and guarantee	-	(2,548)
Loss on other allowance	(13,036)	(12,133)
Depreciation of operating lease assets	(56,570)	(12,943)
Others	(653,501)	(599,524)
	<u>(1,413,310)</u>	<u>(1,509,321)</u>
	<u>(1,427,581)</u>	<u>(1,517,715)</u>
Net other operating expenses	₩ <u>(829,355)</u>	<u>(462,992)</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

50. Net other non-operating income

Other non-operating income and other non-operating expense for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Other non-operating income		
Gain on sale of assets:		
Property and equipment	₩ 12,611	5,278
Investment property	4,783	219
Gain on disposition of assets held for sale	-	22,748
Lease assets	1,153	605
Others	-	125
	<u>18,547</u>	<u>28,975</u>
Gain on sale of Investments in associates	17,427	8,891
Others:		
Rental income on investment property	32,488	33,023
Reversal of impairment losses on intangible asset	62	91
Gain from assets contributed	77	1,067
Others	49,276	67,535
	<u>81,903</u>	<u>101,716</u>
	<u>117,877</u>	<u>139,582</u>
Other non-operating expense		
Loss on sale of assets:		
Property and equipment	(3,082)	(2,642)
Investment property	(2,958)	(1,627)
Lease assets	(3,964)	(1,282)
Others	(3)	(149)
	<u>(10,007)</u>	<u>(5,700)</u>
Loss on sale of investments in associates	(11,546)	(1,332)
Impairment loss on investments in associates	(5,849)	(144)
	<u>(17,395)</u>	<u>(1,476)</u>
Others:		
Donations	(88,650)	(140,243)
Depreciation of investment properties	(16,917)	(16,095)
Impaired loss on property and equipment	-	(16)
Impaired loss on intangible assets	(771)	(271)
Write-off of intangible assets	(1,537)	(1,210)
Collecting of written-off expenses	(6,048)	(7,162)
Others	(26,844)	(20,220)
	<u>(140,767)</u>	<u>(185,217)</u>
	<u>(168,169)</u>	<u>(192,393)</u>
Net other non-operating income (loss)	<u>₩ (50,292)</u>	<u>(52,811)</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

51. Income tax expense

(a) Income tax expense for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017 (*)
Current income tax expense	₩ 900,016	749,649
Adjustment for prior periods	(3,261)	(23,265)
Temporary differences	383,190	46,468
Income tax recognized in other comprehensive income	(11,600)	75,551
Income tax expenses	₩ <u>1,268,345</u>	<u>848,403</u>

(*) As the acquisition of ANZ Retail business by Shinhan Bank of Vietnam was completed, the amount was adjusted retrospectively.

(b) Income tax expense calculated by multiplying net income before tax with the tax rate for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017(*)
Profit before income taxes	₩ 4,466,610	3,796,257
Income taxes at statutory tax rates	1,222,840	917,802
Adjustments:		
Non-taxable income	(6,300)	(10,614)
Non-deductible expense	12,854	12,772
Tax credit	(23,317)	(195)
Changes in deferred tax due to change in tax rate	-	(72,985)
Other	65,529	24,888
Refund due to adjustments of prior year tax returns	(3,261)	(23,265)
Income tax expense	₩ <u>1,268,345</u>	<u>848,403</u>
Effective tax rate	% 28.40	22.34

(*) As the acquisition of ANZ Retail business by Shinhan Bank of Vietnam was completed, the amount was adjusted retrospectively.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

51. Income tax expense (continued)

(c) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2018 and 2017 are as follows:

	2018			
	Beginning Balance (*1)	Profit or loss	Other comprehensive income	Ending Balance(*2)
Unearned income	₩ (202,069)	(53,267)	-	(255,336)
Account receivable	(19,267)	(4,872)	-	(24,139)
Financial assets at fair value through profit or loss	(47,548)	79,000	16,825	48,277
Securities at fair value through other comprehensive income	307,729	(47,548)	(82,823)	177,358
Investment in associates	24,918	3,205	(3,380)	24,743
Valuation and depreciation of property and equipment	(163,313)	1,317	-	(161,996)
Derivative asset (liability)	(70,828)	171,000	11,579	111,751
Deposits	27,904	132	-	28,036
Accrued expenses	171,310	(38,621)	-	132,689
Defined benefit obligation	408,266	6,965	32,427	447,658
Plan assets	(411,935)	(37,117)	2,729	(446,323)
Other provisions	191,298	3,177	-	194,475
Allowance for acceptances and guarantees	23,929	5,228	-	29,157
Allowance related to asset revaluation	(52,886)	3,173	-	(49,713)
Allowance for expensing depreciation	(529)	64	-	(465)
Deemed dividend	5,317	(5,317)	-	-
Accrued contributions	11,904	9,807	-	21,711
Financial instruments designated at fair value through profit of loss	(7,194)	(80,214)	-	(87,408)
Allowances	131,222	(82,438)	-	48,784
Fictitious dividend	4,990	(3,665)	-	1,325
Liability under insurance contracts	18,105	4,488	-	22,593
Deficit carried over	1,505	(1,505)	-	-
Other	59,471	(296,190)	11,043	(225,676)
	<u>412,299</u>	<u>(363,198)</u>	<u>(11,600)</u>	<u>37,501</u>
Expired unused tax losses:				
Extinction of deposit and insurance liabilities	375,807	(8,363)	-	367,444
	<u>₩ 788,106</u>	<u>(371,561)</u>	<u>(11,600)</u>	<u>404,945</u>

(*1) Changes in the scope of application of K-IFRS No.1109 and 1115 have been reflected (Note 60).

(*2) Deferred tax assets from overseas subsidiaries were decreased by ₩29 million due to foreign exchange rate movements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

51. Income tax expense (continued)

(c) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2018 and 2017 are as follows (continued) :

	2017			
	Beginning Balance	Profit or loss	Other comprehensive income	Ending Balance(*1)(*2)
Unearned income	₩ (139,234)	(62,835)	-	(202,069)
Account receivable	(11,493)	(7,774)	-	(19,267)
Trading assets	(33,424)	44,841	-	11,417
Available-for-sale	86,897	77,198	110,405	274,500
Investment in associates	20,112	1,062	3,748	24,922
Valuation and depreciation of property and equipment	(146,860)	(16,452)	-	(163,312)
Derivative asset (liability)	125,233	(197,253)	(5,224)	(77,244)
Deposits	18,162	9,742	-	27,904
Accrued expenses	108,700	62,610	-	171,310
Defined benefit obligation	378,400	50,410	(20,544)	408,266
Plan assets	(313,708)	(100,624)	2,396	(411,936)
Other provisions	221,749	(47,484)	-	174,265
Allowance for acceptances and guarantees	19,530	3,608	-	23,138
Allowance related to asset revaluation	(46,977)	(5,909)	-	(52,886)
Allowance for expensing depreciation	(521)	(8)	-	(529)
Deemed dividend	1,378	3,939	-	5,317
Accrued contributions	8,764	3,140	-	11,904
Financial instruments designated at fair value through profit of loss	(58,885)	52,397	-	(6,488)
Allowances	94,554	(70,201)	-	24,353
Fictitious dividend	4,833	157	-	4,990
Liability under insurance contracts	13,104	5,001	-	18,105
Deficit carried over	-	1,505	-	1,505
Other	(77,198)	49,675	(15,230)	(42,753)
	<u>273,116</u>	<u>(143,255)</u>	<u>75,551</u>	<u>205,412</u>
Expired unused tax losses:				
Extinguishment of deposit and insurance liabilities	357,307	18,500	-	375,807
	<u>₩ 630,423</u>	<u>(124,755)</u>	<u>75,551</u>	<u>581,219</u>

(*1) As the acquisition of ANZ Retail business by Shinhan Bank of Vietnam was completed, the amount was adjusted retrospectively.

(*2) Deferred tax assets from overseas subsidiaries were decreased by ₩1,654 million due to foreign exchange rate movements.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

51. Income tax expense (continued)

(d) Deferred tax assets and liabilities that were directly charged or credited to equity for the years ended December 31, 2018 and 2017 are as follows:

	<u>January 1, 2018 (*2)</u>		<u>Changes</u>		<u>December 31, 2018</u>	
	<u>OCI</u>	<u>Tax effect</u>	<u>OCI</u>	<u>Tax effect</u>	<u>OCI</u>	<u>Tax effect</u>
Financial assets measured at FVOCI	₩ (255,593)	76,124	267,306	(84,878)	11,713	(8,754)
Financial liabilities measured at FVTPL	(2,141)	588	2,376	(653)	235	(65)
Foreign currency translation adjustments for foreign operations	(317,264)	(25,054)	10,498	9,967	(306,766)	(15,087)
Gain (loss) on cash flow hedge	7,286	(4,845)	(31,771)	11,578	(24,485)	6,733
Equity in other comprehensive income of associates	(5,868)	3,306	10,825	(3,380)	4,957	(74)
The accumulated other comprehensive income in separate account(*1)	(6,295)	1,731	11,967	(3,291)	5,672	(1,560)
Remeasurements of the defined benefit liability	(349,538)	95,543	(127,844)	35,157	(477,382)	130,700
Financial asset measured at FVTPL (Overlay approach)	(33,713)	8,988	(74,942)	20,609	(108,655)	29,597
Income tax charged or credited directly to equity	₩ (963,126)	156,381	68,415	(14,891)	(894,711)	141,490
	<u>January 1, 2017</u>		<u>Changes</u>		<u>December 31, 2017</u>	
	<u>OCI</u>	<u>Tax effect</u>	<u>OCI(*2)</u>	<u>Tax effect</u>	<u>OCI</u>	<u>Tax effect</u>
Valuation gain (loss) on available-for-sale financial assets	₩ 524,335	(130,153)	(432,461)	110,405	91,874	(19,748)
Foreign currency translation adjustments for foreign operations	(141,815)	(9,910)	(178,244)	(15,230)	(320,059)	(25,140)
Gain (loss) on cash flow hedge	(17,763)	4,299	21,128	(5,224)	3,365	(925)
Equity in other comprehensive income of associates	22,559	(1,301)	(25,300)	3,748	(2,741)	2,447
The accumulated other comprehensive income in separate account(*1)	5,891	(1,425)	(12,529)	3,251	(6,638)	1,826
Remeasurements of the defined benefit liability	(471,141)	113,841	121,451	(18,146)	(349,690)	95,695
Income tax charged or credited directly to equity	₩ (77,934)	(24,649)	(505,955)	78,804	(583,889)	54,155

(*1) Deferred tax effects, which are originated from the accumulated other comprehensive income in separate account, were included in the other assets of separate account's financial statement.

(*2) Changes in the scope of application of K-IFRS No.1109 and 1115 have been reflected (Note 60)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

51. Income tax expense (continued)

(e) The amount of deductible temporary differences, unused tax losses, and unused tax credits that are not recognized as deferred tax assets as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Tax loss carry forward(*)	₩ 99,449	99,449

(*) At the end of reporting date, the expected extinctive date of tax loss carry forward and tax credits carry forward that are not recognized as deferred tax assets are as follows:

	<u>1 year or less</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>More than 3 years</u>
Tax loss carry forward	₩ 99,449	-	-	-

(f) The amount of temporary difference regarding investment in subsidiaries that are not recognized as deferred tax liabilities as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Investment in associates	₩ (686,107)	(480,184)

(g) The Group set off a deferred tax asset against a deferred tax liability of the same taxable entity if, and only if, they relate to income taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. Deferred tax assets and liabilities presented on a gross basis prior to any offsetting as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017(*)</u>
Deferred tax assets	₩ 483,517	659,594
Deferred tax liabilities	(78,572)	(77,293)

(*) As the acquisition of ANZ Retail business by Shinhan Bank of Vietnam was completed, the amount was adjusted retrospectively.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won, except per share data)

52. Earnings per share

(a) Basic and diluted earnings per share for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017(*2)</u>
Profit attributable to equity holders of Shinhan Financial Group	₩ 3,156,722	2,918,816
Less:		
Dividends to hybrid bond	(40,357)	(17,678)
Net profit available for common stock	₩ <u>3,116,365</u>	<u>2,901,138</u>
Weighted average number of common shares outstanding(*1)	473,649,076	474,199,587
Basic and diluted earnings per share in won	₩ <u>6,579</u>	<u>6,118</u>

(*1) The number of basic ordinary shares outstanding is 474,199,587 shares. As a result of the acquisition of treasury stock, the weighted average number of common shares outstanding for the year ended December 31, 2018 decreased.

(*2) As the acquisition of ANZ Retail business by Shinhan Bank of Vietnam was completed, the amount was adjusted retrospectively.

(b) The Board of Directors' meeting on February 12, 2019, after the reporting period, approved an issue of a convertible preferred stock that could potentially dilute basic earnings per share in the future (Note 59).

53. Commitments and contingencies

(a) Guarantees, acceptances and credit commitments as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Guarantees:		
Guarantees outstanding	₩ 9,437,691	7,611,211
Contingent guarantees	3,985,532	3,259,613
	<u>13,423,223</u>	<u>10,870,824</u>
Commitments to extend credit:		
Loan commitments in won	69,906,336	54,827,918
Loan commitments in foreign currency	19,967,297	18,992,984
ABS and ABCP commitments	2,083,522	2,035,543
Others	73,816,233	66,767,465
	<u>165,773,388</u>	<u>142,623,910</u>
Endorsed bills:		
Secured endorsed bills	37,667	85,456
Unsecured endorsed bills	7,758,242	7,810,788
	<u>7,795,909</u>	<u>7,896,244</u>
Loans sold with recourse	2,099	2,099
	₩ <u>186,994,619</u>	<u>161,393,077</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

53. Commitments and contingencies (continued)

(b) Legal contingencies

The Group's pending lawsuits as a defendant for the year ended December 31, 2018 are as follows:

Case	Number of claim	Descriptions	Claim amount
Demands on stock return	1	The plaintiff filed claims against the Group for guarantee deposit of receivable-backed ABL of KT ENS. The case are currently pending in its second appeal.	₩ 12,866
Lehman Brothers Special Financing Inc(LBSF)	1	According to the asset custody contract, the plaintiff is liable for damages caused by a fire in the property of the real estate investment company in which the company is holding assets. In 2015 and 2017, the plaintiffs prevailed, but the first and second decisions were different.	6,893
Payment Guarantee	1	Hanwha Savings Bank, a party to the lender of Meat Loan, filed a lawsuit against all creditors to confirm deposit accounts for the sale of frozen meat. As a result, the lawsuit has been commissioned by the legal firm proceed a Matron's private lawsuit related the Group.	5,575
Others	152	Compensation for a loss claim, etc.	78,900
	<u>155</u>		<u>₩ 104,234</u>

As of December 31, 2018, the Group has recorded ₩ 25,554 million and ₩ 1,006 million, respectively, as other provisions and insurance contract liabilities (reserve for claims) for litigations, etc., The outcome of the lawsuits is not expected to have a material impact on the consolidated financial statements, but additional losses may result from future litigation

(c) The Group entered into an agreement with Asia Trust Co., Ltd. (60% of its total shares) to acquire remaining stake in the Group. In accordance with the agreement, the Group has the right to purchase shares held by the shareholders of Asia Trust Co., Ltd. In response, the shareholders of Asia Trust Co., Ltd. have the right to demand to purchase the shares of the Group.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

54. Statement of cash flows

(a) Cash and cash equivalents in the consolidated statements of cash flows as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Cash and due from banks	₩ 17,363,450	22,682,652
Adjustments:	(3,008,188)	
Due from financial institutions with a maturity over three months from date of acquisition	(6,175,506)	(3,010,471)
Restricted due from banks	(9,183,694)	(13,435,531)
	<u>₩ 8,179,756</u>	<u>6,236,650</u>

(b) Significant non-cash activities for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Debt-equity swap	₩ 28,759	32,530
Transfers from construction-in-progress to property and equipment	6,319	14,285
Transfers between property and equipment and investment property	28,199	91,782
Transfers between assets held for sale to property and equipment	80	5,336
Transfers between investment property and assets held for sale	-	6,306

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

	<u>2018</u>				
	<u>Assets</u>		<u>Liabilities</u>		
	<u>Derivative assets</u>	<u>Derivative liabilities</u>	<u>Borrowings</u>	<u>Debentures</u>	<u>Total</u>
Balance at January 1, 2018	₩ 3,966	146,278	27,586,610	51,340,821	79,077,675
Changes from cash flows	(5,845)	(12,002)	1,772,203	11,798,466	13,552,822
Changes from non-cash flows					
Amortization of discount on borrowings and debentures	-	-	181,050	335,935	516,985
Changes in foreign currency exchange rate	-	-	955,512	229,277	1,184,789
Others	9,356	(49,697)	(676,833)	(476,800)	(1,193,974)
Balance at December 31, 2018	<u>₩ 7,477</u>	<u>84,579</u>	<u>29,818,542</u>	<u>63,227,699</u>	<u>93,138,297</u>
	<u>2017</u>				
	<u>Assets</u>		<u>Liabilities</u>		
	<u>Derivative assets</u>	<u>Derivative liabilities</u>	<u>Borrowings</u>	<u>Debentures</u>	<u>Total</u>
Balance at January 1, 2017	₩ 153,343	12,276	25,294,241	44,326,785	69,633,302
Changes from cash flows	48,500	10,211	3,047,844	7,784,142	10,842,197
Changes from non-cash flows					-
Amortization of discount on borrowings and debentures	-	-	1,480	16,126	17,606
Changes in foreign currency exchange rate	-	-	(22,850)	(635,836)	(658,686)
Others	(197,875)	128,819	(734,105)	(150,396)	(755,682)
Balance at December 31, 2017	<u>₩ 3,968</u>	<u>151,306</u>	<u>27,586,610</u>	<u>51,340,821</u>	<u>79,078,737</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

55. Related parties

Intra-group balances, and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(a) Balances with the related parties as of December 31, 2018 and 2017 are as follows:

<u>Related party</u>	<u>Account</u>	<u>2018</u>	<u>2017</u>
Investments in associates:			
BNP Paribas Cardif Life Insurance	Other assets	₩ 9,860	9,868
"	Credit card loans	116	191
"	Allowances	-	(4)
"	Deposits	444	446
"	Provisions	-	2
JAEYOUNG SOLUTEC CO., LTD. (*1)	Loans	-	14,847
"	Allowances	-	(124)
"	Credit card loans	-	33
"	Deposits	-	2,659
"	Provisions	-	4
Partners 4th Growth Investment Fund	Deposits	1,855	2,076
BNP Paribas Cardif General Insurance	Credit card loans	29	29
"	Allowances	(2)	(1)
"	Deposits	157	221
Shinhan Praxis K-Growth Global Private Equity Fund	Other assets	151	174
Dream High Fund III	Deposits	4	3
Midas Dong-A Snowball Venture Fund	Deposits	159	220
IBKS-Shinhan Creative Economy New Technology Fund (*1)	Deposits	-	78
Credian Healthcare Private Equity Fund II	Deposits	45	26
Midas Dong-A Snowball Venture Fund 2	Deposits	354	239
IBKS-Shinhan Creative Economy New Technology Fund II	Deposits	672	76
Eum Private Equity Fund No.3	Deposits	49	65
Branbuil CO., LTD. (*2)	Deposits	-	55
SHBNPP Private Korea Equity Long-Short Professional Feeder	Other assets	133	97
Shinhan Global Healthcare Fund 1	Unearned revenue	360	409
Shinhan Fintech New Technology Fund No.1	Unearned revenue	123	123
KTB Newlake Global Healthcare PEF	Deposits	151	465
"	Provisions	-	13
Taihan Industrial System Co., Ltd.	Deposits	85	100
Incorporated association Finance Saving Information Center	Credit card loans	3	-
"	Deposits	4	4
GX Shinhan interest 1 st Private Equity Fund	Unearned revenue	278	-
Nomura investment property trust No.19	Loans	11,966	-
"	Other assets	45	-
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	Other assets	236	-
Key management personnel and their immediate relatives:			
	Loans	3,313	3,247
	Assets	₩ 25,850	28,357
	Liabilities	4,740	7,280

(*1)

Excluded from related parties due to the disposal or terminated.

(*2) As a result of changes in accounting policies at the beginning of the current year, they were excluded from associates.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

55. Related parties (continued)

(b) Transactions with the related parties for the years ended December 31, 2018 and 2017 were as follows:

Related party	Account	2018	2017
Investments in associates			
BNP Paribas Cardif Life Insurance	Fees and commission income	₩ 3,716	4,631
"	Other operating income	4	-
"	Reversal of credit losses	-	(3)
"	General and administrative expenses	(17)	(10)
Shinhan Praxis K-Growth Global Private Equity Fund	Fees and commission income	685	689
BNP Paribas Cardif General Insurance	Fees and commission income	9	4
"	Provision for credit losses	-	1
"	Bad debt	(2)	-
Midas Dong-A Snowball Venture Fund	Fees and commission income	47	38
"	Interest expense	(2)	(3)
SP New Technology Business investment Fund I (*1)	Fees and commission income	317	41
IBKS-Shinhan Creative Economy New Technology Fund I (*1)	Fees and commission income	13	37
"	Interest expense	-	(2)
SM New Technology Business Investment Fund I	Fees and commission income	55	55
JAEOYOUNG SOLUTEC CO., LTD.(*1)	Interest income	523	654
"	Fees and commission income	2	1
"	Other revenue	3	3
"	Interest expense	-	1
"	Provision for credit losses	(2)	(4)
"	Other operating expenses	(1)	(55)
The Asia Pacific Capital Fund II L.P.	Fees and commission income	-	85
Partners 4th Growth Investment Fund	Interest expense	(19)	(16)
Shinhan-Albatross Technology Investment	Fees and commission income	216	152
"	Interest expense	-	(21)
IBKS-Shinhan Creative Economy New Technology Fund 2	Fees and commission income	16	25
SHBNPP Private Korea Equity Long-Short Professional Feeder	Fees and commission income	975	892
KDBC Midas Dong-A Snowball Venture Fund II	Interest expense	(2)	-
Branbuil CO., LTD. (*2)	Fees and commission income	-	2
STI-New Growth Engines Investment	Fees and commission income	16	30
Shinhan Fintech New Technology Fund No.1	Fees and commission income	153	30
KTB New lake medical Global Investment	Interest income	2	10
"	Other operating expenses	-	(13)
Shinhan Global health Care Investment No.1	Fees and commission income	785	282

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

55. Related parties (continued)

(b) Transactions with the related parties for the years ended December 31, 2018 and 2017 were as follows:

Related party	Account	2018	2017
Taihan Industrial System Co., Ltd.	Fees and commission income	₩ 1	2
Shinhan capital-Cape FN Fund No.1	Fees and commission income	82	-
SHC-K2 Global Material Fund	Fees and commission income	20	-
Synergy-Shinhan Mezzanine New Technology Investment Fund	Fees and commission income	127	-
Shinhan-Midas Dong-A Secondary Venture Fund	Fees and commission income	71	-
GX Shinhan interest 1st Private Equity Fund	Fees and commission income	412	-
Shinhan-Nvestor Liquidity Solution Fund	Fees and commission income	214	-
SHC ULMUS Fund No.1	Fees and commission income	51	-
Shinhan-PS Investment Fund No.1	Fees and commission income	12	-
Nomura investment property trust No.19	Interest income	312	-
"	Fees and commission income	(34)	-
SHBNPP MAIN Professional Investment Type Private Mixed Asset Investment Trust No.3	Fees and commission income	236	-

Key management personnel and their immediate relatives

Interest income	101	101
	₩ <u>9,097</u>	<u>7,638</u>

(*1) Excluded from related parties due to the disposal or terminated.

(*2) As a result of changes in accounting policies at the beginning of the current year, they were excluded from associates.

(c) Key management personnel compensation

Key management personnel compensation for the years ended December 31, 2018 and 2017 were as follows:

	2018	2017
Short-term employee benefits	₩ 22,502	17,112
Severance benefits	419	979
Share-based payment transactions(*)	4,944	6,787
	₩ <u>27,865</u>	<u>24,878</u>

(*) The expenses of share-based payment transactions are the remuneration expenses during the vesting period.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

55. Related parties (continued)

(d) The guarantees provided between the related parties as of December 31, 2018 and 2017 were as follows:

Guarantor	Guaranteed Parties	Amount of guarantees		Account
		2018	2017	
Shinhan Bank	New lake Alliance	₩ 849	700	Unused credit line
	BNP Paribas Cardif Life Insurance	10,000	10,000	Unused credit line
	Neoplux Technology Valuation Investment Fund	-	6,000	Security underwriting commitment
	JAEYOUNG SOLUTEC CO., LTD.(*)	-	109	Unused credit
	"	-	429	Import letter of credit
			₩ 10,849	17,238

(*) Excluded from related parties due to the disposal.

(e) Details of collaterals provided by the related parties as of December 31, 2018 and December 31, 2017 were as follows:

Provided to	Provided by	Pledged assets	2018	2017
Shinhan Bank	BNP Paribas Cardif Life Insurance	Government bonds	₩ 12,000	11,666
	JAEYOUNG SOLUTEC CO., LTD.(*)	Properties	-	20,814
"	"	Guarantee insurance policy	-	7,037
			₩ 12,000	39,517

(*) Excluded from related parties due to the disposal.

(f) Details of significant loan transactions with related parties as of December 31, 2018 are as follows:

Classification	Company	Beginning	Loan	Recover	Other (*)	Ending
Investments in associates	Nomura investment property trust No.19	₩ -	12,000	-	(34)	11,966

(*) The effect of changes in allowance for doubtful accounts is included.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

56. Interests in unconsolidated structured entities

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

The Group involved in assets-backed securitization, structured financing, beneficiary certificates (primarily investment funds) and other structured entities and characteristics of these structured entities are as follows:

	<u>Description</u>
Assets-backed securitization	<p>Securitization vehicles are established to buy assets from originators and issue asset-backed securities in order to facilitate the originators' funding activities and enhance their financial soundness. The Group is involved in the securitization vehicles by purchasing (or committing to purchase) the asset-backed securities issued and/or providing other forms of credit enhancement.</p> <p>The Group does not consolidate a securitization vehicle if (i) the Group is unable to make or approve decisions as to the modification of the terms and conditions of the securities issued by such vehicle or disposal of such vehicles' assets, (ii) (even if the Group is so able) if the Group does not have the exclusive or primary power to do so, or (iii) if the Group does not have exposure, or right, to a significant amount of variable returns from such entity due to the purchase (or commitment to purchase) of asset-backed securities so issued or subordinated obligations or by providing other forms of credit support.</p>
Structured financing	<p>Structured entities for project financing are established to raise funds and invest in a specific project such as M&A (mergers and acquisitions), BTL (build-transfer-lease), shipping finance, etc. The Group is involved in the structured entities by originating loans, investing in equity, or providing credit enhancement.</p>
Investment fund	<p>Investment fund means an investment trust, a PEF (private equity fund) or a partnership which invests in a group of assets such as stocks or bonds by issuing a type of beneficiary certificates to raise funds from the general public, and distributes its income and capital gains to their investors. The Group manages assets by investing in shares of investment fund or playing a role of an operator or a GP (general partner) of investment fund, on behalf of other investors.</p>

The size of unconsolidated structured entities as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Total assets:		
Asset-backed securitization	₩ 196,108,655	175,953,075
Structured financing	132,050,391	84,719,599
Investment fund	71,487,406	69,736,443
	<u>₩ 399,646,452</u>	<u>330,409,117</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

56. Interests in unconsolidated structured entities (continued)

(b) Nature of risks

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

	2018			
	Assets-backed securitization	Structured financing	Investment fund	Total
Assets:				
Loans measured at fair value through profit or loss	₩ 292	504,571	802,825	1,307,688
Loan at amortized cost	478,998	6,925,438	33,500	7,437,936
Securities at fair value through profit or loss	4,263,817	288,757	5,293,807	9,846,381
Derivate assets	16,390	578	-	16,968
Securities at fair value through other comprehensive income	2,244,364	91,316	32,279	2,367,959
Securities at amortized cost	4,277,675	-	-	4,277,675
Other assets	5,453	48,457	34,333	88,243
	<u>₩ 11,286,989</u>	<u>7,859,117</u>	<u>6,196,744</u>	<u>25,342,850</u>
Liabilities:				
Derivative liabilities	₩ 111	-	-	111
Other	5,368	4,128	-	9,496
	<u>₩ 5,479</u>	<u>4,128</u>	<u>-</u>	<u>9,607</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

56. Interests in unconsolidated structured entities (continued)

(b) Nature of risks (continued)

		2017			
		Assets-backed securitization	Structured financing	Investment fund	Total
Assets:					
Loans	₩	329,776	6,189,042	91,078	6,609,896
Trading assets		3,201,400	958	351,290	3,553,648
Derivative assets		14,218	-	-	14,218
Available-for-sale financial assets		2,200,974	400,283	3,525,538	6,126,795
Held-to-maturity financial assets		3,259,451	-	-	3,259,451
Other assets		729	2,576	1,150	4,455
	₩	<u>9,006,548</u>	<u>6,592,859</u>	<u>3,969,056</u>	<u>19,568,463</u>
Liabilities:					
Derivative liabilities	₩	4,448	-	-	4,448
Other		557	1,050	9	1,616
	₩	<u>5,005</u>	<u>1,050</u>	<u>9</u>	<u>6,064</u>

ii) Exposure to risk relating to its interests in unconsolidated structured entities as of December 31, 2018 and 2017 are as follows:

		2018			
		Assets-backed securitization	Structured financing	Investment fund	Total
Assets held	₩	11,286,989	7,859,117	6,196,744	25,342,850
ABS and ABCP commitments		1,395,417	2,300	602,594	2,000,311
Loan commitments		1,791,650	815,910	26,100	2,633,660
Guarantees		88,810	142,032	-	230,842
Others		-	49,464	-	49,464
	₩	<u>14,562,866</u>	<u>8,868,823</u>	<u>6,825,438</u>	<u>30,257,127</u>

		2017			
		Assets-backed securitization	Structured financing	Investment fund	Total
Assets held	₩	9,006,548	6,592,859	3,969,056	19,568,463
ABS and ABCP commitments		1,391,035	57,300	452,311	1,900,646
Loan commitments		529,566	719,650	31,987	1,281,203
Guarantees		74,300	15,200	-	89,500
Others		4,200	45,634	-	49,834
	₩	<u>11,005,649</u>	<u>7,430,643</u>	<u>4,453,354</u>	<u>22,889,646</u>

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

57. Measurement period adjustments for business combination

(a) Overview

The Group has acquired ANZ Retail Business in Vietnam on December 17, 2017, which was a local entity operating banking business in Vietnam, to strengthen business competitiveness and synergies through the acquisition of related businesses. The Group could not complete the initial accounting for the business acquisition until the end of the reporting period in which the acquisition incurred, since the valuation data of the acquired business has not been obtained, and the goodwill value was recognized at a provisional amount. The Group has finished the business acquisition accounting during 2018, reflecting the valuation results on the acquired net assets, and retrospectively adjusted the provisional value of net assets recognized at the acquisition date.

(b) Retroactive adjustment of fair value of assets and liabilities

The retroactive adjustment of fair value of assets acquired and liabilities assumed by acquisition of ANZ as of acquisition date is as follows:

	<u>Amount</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Assets:			
Cash and due from banks	₩ 8,151	-	8,151
Loans(*1)	301,766	(1,352)	300,414
Property and equipment	538	-	538
Intangible assets(*2)	-	15,256	15,256
Other assets	9,269	-	9,269
	<u>319,724</u>	<u>13,904</u>	<u>333,628</u>
Liabilities:			
Deposits	(436,285)	-	(436,285)
Other liabilities	(1,022)	-	(1,022)
	<u>(437,307)</u>	<u>-</u>	<u>(437,307)</u>
The fair value of the identifiable assets acquired and liabilities assumed	₩ <u>(117,583)</u>	<u>13,904</u>	<u>(103,679)</u>

(*1) Adjustments are mainly due to the loan loss estimation.

(*2) The intangible assets mainly comprise the present value of the saved borrowing costs due to the deposits amounting to ₩4,454 million and the future economic benefits generated due to the relationship with the customers amounting to ₩10,802 million.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

57. Measurement period adjustments for business combination (continued)

(c) Adjustments of goodwill

The retrospective adjustments of goodwill due to the measurement period adjustment for business combination are as follows:

	<u>Amount</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Consideration received (cash)	₩ (75,480)	-	(75,480)
Fair value of identifiable net assets	(117,583)	13,904	(103,679)
Goodwill	₩ 42,103	(13,904)	28,199

(d) Adjustments of the prior year end balances.

	<u>Amount</u>	<u>Adjustments</u>	<u>Adjusted Amount</u>
Intangible assets	₩ 4,271,969	1,352	4,273,321
Deferred tax liabilities	9,712	270	9,982
Retained earnings	₩ 20,790,599	1,082	20,791,681

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

58. Acquisition of subsidiary

(a) General information

On September 12, 2018, the Group acquires 75% of the shares of PT ARCHIPELAGO ASSET MANAGEMENT in Indonesia and acquired control, and changed its name to PT Shinhan Asset Management Indonesia. The Group acquired a subsidiary in Indonesia to pursue new market penetration through its asset management business.

(b) Identifiable net assets

The assets and liabilities of PT Shinhan Asset Management Indonesia recognized at the acquisition date are as follows.

Classification		Amounts
Asset	Cash and cash equivalent assets	₩ 18
	Financial assets measured at FVTPL	3,012
	PP&E	20
	Deferred tax assets	20
	Other assets	17
	Total	3,087
Liabilities	Income tax payable	7
	Other liabilities	75
	Total	82
Identifiable net assets at fair value	₩ <u>3,005</u>	

(c) Goodwill

Goodwill recognized as a result of business combination is as follows.

Classification	Amounts
Previous transfer price	₩ 4,476
Identifiable net assets at fair value	(3,005)
Non-controlling interest	787
Goodwill	₩ <u>2,258</u>

(d) In connection with the business combination, the Group incurred a charge of KRW 192 million, including legal fees and due diligence fees, which were recognized as commissions in the consolidated statement of comprehensive income.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

59. Events after reporting period

(a) Subsidiary investments

i) Orange Life Insurance Co. Ltd

The Group has entered into a share purchase agreement to acquire a 59.15% stake in Orange Life Insurance Co., Ltd. on January 16, 2019. The Financial Services Commission approved the transfer of the subsidiary, and the acquisition process was completed on February 1, 2019, after the reporting period.

ii) Asis Trust Co. Ltd

The Group has entered into a contract to acquire a stake in Asia Trust Co., Ltd. during the current period. Based on the approval of the supervisory authority, the Group will acquire 60% of its total shares for 193.4 billion won. (FN 53)

iii) Prudential Finance Co. Ltd

On January 23, 2018, the Group entered into a contract to acquire a 100% stake in Prudential Vietnam Finance Company Limited, a local consumer finance company in Vietnam, for US \$ 151 million. On January 17, 2019, and was approved by the local FSS.

(b) Rights offering

The Board of Directors approved the issuance of convertible preferred stock of KRW 750 billion at the meeting held on February 1, 2019. Investors may request a conversion from one year after the issuance date before four years after the date, and the convertible preferred stock that has not been converted until four years after the date will automatically be converted to common shares.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

60. Transition effects arising from changes in accounting policies

The Group has changed its accounting policies as applying K-IFRS No. 1109, *Financial Instruments*, and K-IFRS No. 1115, *Revenue from Contracts with Customers*. With respect to classification, measurement and impairment of financial instruments, the financial statements as of and for the year ended December 31, 2017 have not been restated in accordance with the clause waiving the requirement to restate comparative financial statements.

K-IFRS No. 1109 replaces K-IFRS No. 1039, *Financial Instruments: Recognition and Measurement*, relating to recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. Additionally, K-IFRS No. 1109 have made amendments to other standards relating to financial instruments such as K-IFRS No. 1107, *Financial Instruments: Disclosures*.

(i) Changes in equity due to application of K-IFRS No.1109 and 1115

Changes in equity as of January 1, 2018 due to the initial application date of K-IFRS No. 1109 and 1115 are as follows:

	<u>Amounts</u>
Retained earnings at January 1, 2018 before changes	₩ 20,791,681
Adjustments of retained earnings due to the application of K-IFRS No. 1109 :	
Reclassification from financial assets at amortized cost to financial assets measured at fair value through profit or loss	(74,061)
Reclassification from available-for-sale financial assets to financial assets measured at fair value through profit or loss	178,518
Reclassification from available-for-sale financial assets to financial assets measured at fair value through other comprehensive income(*1)	204,457
Increase in loss allowance for financial assets measured at amortized cost	(573,088)
Increase in loss allowance for loan commitments and financial guarantee contracts	(55,274)
Increase in loss allowance for debt instruments measured at fair value through other comprehensive income	(18,976)
Effect of overlay approach application	34,102
Others(*2)	(40,063)
	<u>(344,385)</u>
Adjustments of retained earnings due to the application of K-IFRS No. 1115(*3)	(2,896)
Tax effects(*4)	95,426
Retained earnings at January 1, 2018 after changes	₩ <u>20,539,826</u>

(*1) With the application of K-IFRS No. 1109, the effect of retained earnings of the recognized impairment from equity securities has reclassified to other comprehensive income.

(*2) Include translation of foreign currencies, etc.

(*3) The Group has divided the trust fees into trust sales fees and trust managing fees and recognition of trust managing fees are deferred.

(*4) Tax effects due to the application of K-IFRS No. 1109 are separately shown.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

60. Transition effects arising from changes in accounting policies (continued)

(i) Changes in equity due to application of K-IFRS No. 1109 and 1115 (continued)

	<u>Amounts</u>
Accumulated other comprehensive loss at January 1, 2018 before changes	₩ (529,734)
Adjustments of accumulated other comprehensive income due to the application of K-IFRS No. 1109:	
Reclassification from available-for-sale financial assets to financial assets measured at fair value through profit or loss	(178,518)
Reclassification from available-for-sale financial assets to financial assets measured at fair value through other comprehensive income(*1)	(204,457)
Increase in loss allowance for debt instruments measured at fair value through other comprehensive income	18,976
Effect of overlay approach application	(34,102)
Others(*2)	11,039
	<u>(387,062)</u>
Tax effects(*3)	110,051
Accumulated other comprehensive loss at January 1, 2018 after changes	₩ <u>(806,745)</u>

(*1) The effect on retained earnings arising from the recognition of impairment losses related to equity securities in the prior periods was transferred to other comprehensive income upon the application of K-IFRS 1109.

(*2) Other adjustments include foreign currency translation and changes in non-controlling interests, resulting from the adoption of K-IFRS No. 1109.

(*3) Tax effects due to the application of K-IFRS No. 1109 are separately shown.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

60. Transition effects arising from changes in accounting policies (continued)

(ii) Reclassification of financial instruments upon adoption of K-IFRS No. 1109

Details of reclassification of financial instruments as of January 1, 2018, the initial application date of K-IFRS No. 1109, are as follows:

K-IFRS No. 1039		K-IFRS No. 1109(*2)	Carrying value under K-IFRS No. 1039(*1)	Carrying value under K-IFRS No. 1109(*1)	Difference
Financial assets:					
Due from banks	Loans and receivables	Financial assets measured at FVTPL(*2)	₩ 902,124	833,942	(68,182)
	Loans and receivables	Amortized cost	19,988,001	19,988,001	-
Loan receivables	Loans and receivables	Financial assets measured at FVTPL(*2)	750,342	778,985	28,643
	Loans and receivables	Amortized cost	277,126,029	277,126,029	-
Other financial assets	Loans and receivables	Amortized cost	12,090,983	12,090,983	-
Trading assets (debt securities)	Financial assets at FVTPL	Financial assets measured at FVTPL	23,640,646	23,640,646	-
Trading assets (equity securities)	Financial assets at FVTPL	Financial assets measured at FVTPL	4,634,353	4,634,353	-
Trading assets (deposit in gold and silver)	Financial assets at FVTPL	Financial assets measured at FVTPL	189,297	189,297	-
Financial assets designated as at FVTPL (debt securities)	Financial assets at FVTPL	Financial assets measured at FVTPL(*3)	2,030,522	2,030,522	-
	Financial assets at FVTPL	Financial assets designated as at FVTPL	80,288	80,288	-
Financial assets designated as at FVTPL (equity securities)	Financial assets at FVTPL	Financial assets measured at FVTPL(*3)	1,162,553	1,162,553	-
	Financial assets at FVTPL	Financial assets designated as at FVTPL	71,803	71,803	-
Financial assets designated as at FVTPL (other securities - compound financial instruments)	Financial assets at FVTPL	Financial assets measured at FVTPL(*3)	233,892	233,892	-
Derivatives	Financial assets at FVTPL	Financial assets measured at FVTPL(*3)	3,400,178	3,348,803	(51,375)
AFS financial assets (debt securities)	AFS financial assets	Financial assets measured at FVTPL(*2)	528,745	533,452	4,707
	AFS financial assets	Financial assets measured at FVOCI	36,657,807	36,657,807	-
AFS financial assets (equity securities)	AFS financial assets	Financial assets measured at FVTPL(*2)	4,339,979	4,350,969	10,990
	AFS financial assets	Financial assets measured at FVOCI	590,405	590,405	-
HTM financial assets (debt securities)	HTM financial assets	Financial assets measured at FVTPL(*2)	565,813	529,906	(35,907)
	HTM financial assets	Amortized cost	24,424,867	24,424,867	-
			₩ 413,408,627	413,297,503	(111,124)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

60. Transition effects arising from changes in accounting policies (continued)

(ii) Reclassification of financial instruments upon adoption of K-IFRS No. 1109 (continued)

K-IFRS No. 1039		K-IFRS No. 1109	Carrying value under K-IFRS No. 1039(*1)	Carrying value under K-IFRS No. 1109(*1)	Difference
Financial Liabilities:					
Deposits	Financial liability measured at amortized cost	Financial liabilities measured at amortized cost	₩ 249,419,224	249,419,224	-
Trading liabilities	Financial liabilities at FVTPL	Financial liabilities measured at FVTPL	1,848,490	1,848,490	-
Financial liabilities designated as at FVTPL	Financial liabilities at FVTPL	Financial liabilities designated as at FVTPL	8,260,636	8,260,636	-
	Financial liabilities at FVTPL	Financial liabilities measured at FVTPL(*3)	36,973	36,973	-
Derivatives	Financial liabilities at FVTPL	Financial liabilities measured at FVTPL(*3)	3,487,661	3,483,642	(4,019)
Borrowings	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	27,586,610	27,586,313	(297)
Debt securities issued	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	51,340,821	51,340,821	-
Others	Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost	20,124,451	20,124,432	(19)
			₩ 362,104,866	362,100,531	(4,335)

(*1) Gross carrying amounts that are before netting allowance for loan losses or credit loss allowance.

(*2) Under K-IFRS 1109, these financial instruments were categorized as financial assets or liabilities – FVTPL, as 1) the instruments are not held within a business model whose objective is achieved by both collecting contractual cash flows and selling them, or 2) the contractual terms of them does not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(*3) For hybrid contracts including embedded derivatives, the host contract and the derivatives are separated in accordance with K-IFRS 1109.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

60. Transition effects arising from changes in accounting policies (continued)

(iii) Impairment of financial assets upon adoption of K-IFRS No. 1109

Changes of credit loss allowance as of January 1, 2018, the initial application date of K-IFRS No. 1109, are as follows:

Classification based on K-IFRS No. 1039	Classification based on K-IFRS No. 1109	Loss allowance based on K-IFRS No. 1039	Loss allowance based on K-IFRS No. 1109
Loans and receivables			
Due from banks	Financial assets at amortized cost	₩ 14,054	15,062
Loan receivables	Financial assets at amortized cost	2,307,275	2,871,986
	Financial assets measured at FVTPL	3,329	-
Other financial assets	Financial assets at amortized cost	49,679	51,818
AFS financial assets			
debt securities	Financial assets measured at FVOCI	-	18,976
HTM financial assets			
debt securities	Financial assets at amortized cost	-	8,559
		2,374,337	2,966,401
Financial guarantee	Financial guarantee	36,506	37,289
Unused credit line and other credit commitment	Unused credit line and other credit commitment	168,006	222,498
		₩ 204,512	259,787

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

60. Transition effects arising from changes in accounting policies (continued)

(iv) The reclassification applying business model

For the financial assets as of January 1, 2018, the date of the initial application of K-IFRS No. 1109, the management of the Group has assessed business model of those, and classified those applying the K-IFRS.

The effect of reclassification is as follows:

1) Gross carrying amounts

	Carrying value based on the current standard	Amount reclassified	Amount remeasured	Carrying value based on the new standard	Changes in retained earnings	Changes in other comprehensive income
Financial assets :						
Due from banks						
Carrying value under K-IFRS 1039 as of January 1, 2018	₩ 20,890,125	-	-	20,890,125	-	-
Reclassification to financial assets measured at FVTPL	-	(902,124)	-	(902,124)	-	-
	20,890,125	(902,124)	-	19,988,001	-	-
Loans						
Carrying value under K-IFRS 1039 as of January 1, 2018	277,876,371	-	-	277,876,371	-	-
Reclassification to financial assets measured at FVTPL	-	(750,342)	-	(750,342)	-	-
	277,876,371	(750,342)	-	277,126,029	-	-
Other financial assets						
Carrying value under K-IFRS 1039 as of January 1, 2018	12,090,983	-	-	12,090,983	-	-
Trading (debt instruments)(*1)						
Carrying value under K-IFRS 1039 as of January 1, 2018	23,640,646	-	-	23,640,646	-	-
Reclassification to financial assets measured at FVTPL	-	(23,640,646)	-	(23,640,646)	-	-
	23,640,646	(23,640,646)	-	-	-	-
Trading (equity instruments)						
Carrying value under K-IFRS 1039 as of January 1, 2018	4,634,353	-	-	4,634,353	-	-
Reclassification to financial assets measured at FVTPL	-	(4,634,353)	-	(4,634,353)	-	-
	4,634,353	(4,634,353)	-	-	-	-
Trading (gold deposit)(*1)						
Carrying value under K-IFRS 1039 as of January 1, 2018	189,297	-	-	189,297	-	-
Reclassification to financial assets measured at FVTPL	-	(189,297)	-	(189,297)	-	-
	189,297	(189,297)	-	-	-	-
Derivatives(*1)						
Carrying value under K-IFRS 1039 as of January 1, 2018	3,400,178	-	-	3,400,178	-	-
Reclassification to financial assets measured at FVTPL	-	(51,375)	-	(51,375)	-	-
	3,400,178	(51,375)	-	3,348,803	-	-
Financial assets designated at FVTPL(*1)						
Carrying value under K-IFRS 1039 as of January 1, 2018	3,579,057	-	-	3,579,057	-	-
Reclassification to financial assets measured at FVTPL	-	(3,426,966)	-	(3,426,966)	-	-
Reclassification to financial assets designated at FVTPL	-	(152,091)	-	(152,091)	-	-
	3,579,057	(3,579,057)	-	-	-	-

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

60. Transition effects arising from changes in accounting policies (continued)

(iv) The reclassification applying business model (continued)

	Carrying value based on the current standard	Amount reclassified	Amount remeasured	Carrying value based on the new standard	Changes in retained earnings (*3)	Changes in other comprehensive income(*3)
AFS (debt instruments)						
Carrying value under K-IFRS 1039 as of January 1, 2018	₩ 37,186,552	-	-	37,186,552	-	-
Reclassification to financial assets measured at FVTPL	-	(528,745)	-	(528,745)	-	-
Reclassification to financial assets measured at FVOCI	-	(36,657,807)	-	(36,657,807)	-	-
	37,186,552	(37,186,552)	-	-	-	-
AFS (equity instruments)						
Carrying value under K-IFRS 1039 as of January 1, 2018	4,930,385	-	-	4,930,385	-	-
Reclassification to financial assets measured at FVTPL	-	(4,339,979)	-	(4,339,979)	-	-
Reclassification to financial assets measured at FVOCI	-	(590,405)	-	(590,405)	-	-
	4,930,385	(4,930,385)	-	-	-	-
HTM						
Carrying value under K-IFRS 1039 as of January 1, 2018	24,990,680	-	-	24,990,680	-	-
Reclassification to financial assets measured at FVTPL	-	(565,813)	-	(565,813)	-	-
Reclassification to financial assets measured at amortized cost	-	(24,424,867)	-	(24,424,867)	-	-
	24,990,680	(24,990,680)	-	-	-	-
Financial assets as measured at FVTPL						
Carrying value under K-IFRS 1039 as of January 1, 2018	-	-	-	-	-	-
Transfer from due from banks	-	902,124	(68,182)	833,942	-	(68,182)
Transfer from loans and other receivables	-	750,342	30,027	780,369	30,027	-
Transfer from trading	-	28,464,296	-	28,464,296	-	-
Transfer from assets designated at FVTPL	-	3,426,967	-	3,426,967	-	-
Transfer from AFS	-	4,868,724	7,708	4,876,432	108,532	(108,532)
Transfer from HTM	-	565,813	(35,907)	529,906	-	(35,907)
Transfer from derivative assets	-	51,375	(42,195)	9,180	-	-
	-	-	(2,575)	(2,575)	-	-
	-	39,029,641	(111,124)	38,918,517	138,559	(212,620)
Financial assets designated at FVTPL(K-IFRS 1109)						
Carrying value under K-IFRS 1039 as of January 1, 2018	-	-	-	-	-	-
Transfer from financial assets designated at FVTPL(K-IFRS 1039)	-	152,091	-	152,091	-	-
	-	152,091	-	152,091	-	-
Financial assets measured at FVOCI(*2)						
Carrying value under K-IFRS 1039 as of January 1, 2018	-	-	-	-	-	-
Transfer from AFS	-	37,248,212	-	37,248,212	204,457	(204,457)
	-	37,248,212	-	37,248,212	204,457	(204,457)
Financial assets measured at amortized cost(*2)						
Carrying value under K-IFRS 1039 as of January 1, 2018	-	-	-	-	-	-
Transfer from HTM	-	24,424,867	-	24,424,867	-	-
	-	24,424,867	-	24,424,867	-	-
₩	413,408,627	-	(111,124)	413,297,503	343,016	(417,077)

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2018 and 2017
(In millions of won)

60. Transition effects arising from changes in accounting policies (continued)

(iv) The reclassification applying business model (continued)

Financial liabilities :	Carrying value based on the current standard	Amount reclassified	Amount remeasured	Carrying value based on the new standard	Changes in retained earnings	Changes in other comprehensive income
Deposits						
Carrying value under K-IFRS 1039 as of January 1, 2018	₩ 249,419,224	-	-	249,419,224	-	-
	249,419,224	-	-	249,419,224	-	-
Trading liabilities(*1)						
Carrying value under K-IFRS 1039 as of January 1, 2018	1,848,490	-	-	1,848,490	-	-
Reclassification to financial liabilities measured at FVTPL	-	(1,848,490)	-	(1,848,490)	-	-
	1,848,490	(1,848,490)	-	-	-	-
Financial liabilities designated at FVTPL						
Carrying value under K-IFRS 1039 as of January 1, 2018	8,297,609	-	-	8,297,609	-	-
Reclassification to financial liabilities designated at FVTPL	-	(8,260,636)	-	(8,260,636)	-	-
Reclassification to financial liabilities measured at FVTPL	-	(36,973)	-	(36,973)	-	-
	8,297,609	(8,297,609)	-	-	-	-
Financial liabilities measured at FVTPL						
Carrying value under K-IFRS 1039 as of January 1, 2018	-	-	-	-	-	-
Transfer from trading liabilities	-	1,848,490	-	1,848,490	-	-
Transfer from financial liabilities designated at FVTPL	-	36,973	-	36,973	-	-
	-	1,885,463	-	1,885,463	-	-
Financial liabilities designated at FVTPL						
Carrying value under K-IFRS 1039 as of January 1, 2018	-	-	-	-	-	-
Transfer from financial liabilities designated at FVTPL	-	8,260,636	-	8,260,636	-	-
	-	8,260,636	-	8,260,636	-	-
Derivative liabilities						
Carrying value under K-IFRS 1039 as of January 1, 2018	3,487,661	-	-	3,487,661	-	-
Other	-	-	(4,019)	(4,019)	-	-
	3,487,661	-	(4,019)	3,483,642	-	-
Borrowings						
Carrying value under K-IFRS 1039 as of January 1, 2018	27,586,610	-	-	27,586,610	-	-
Other	-	-	(297)	(297)	-	-
	27,586,610	-	(297)	27,586,313	-	-
Debt securities issued						
Carrying value under K-IFRS 1039 as of January 1, 2018	51,340,821	-	-	51,340,821	-	-
Other financial liabilities						
Carrying value under K-IFRS 1039 as of January 1, 2018	20,124,451	-	-	20,124,451	-	-
Other	-	-	(19)	(19)	-	-
	20,124,451	-	(19)	20,124,432	-	-
	₩ 362,104,866	-	(4,335)	362,100,531	-	-

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

60. Transition effects arising from changes in accounting policies (continued)

(iv) The reclassification applying business model (continued)

(*1) With respect to financial assets and financial liabilities reclassified from the category of fair value through profit or loss, effective interest rates calculated on the initial application date of K-IFRS No. 1109 and interest income or expense recognized shall be disclosed. Such reclassification has not occurred as a result of the K-IFRS No. 1109 adoption.

(*2) With respect to financial assets and financial liabilities reclassified to financial instruments measured at amortized cost, and financial assets measured at fair value through profit or loss reclassified to the category of fair value through other comprehensive income, the gain or loss on fair value measurement that would otherwise have been recognized in profit or loss or other comprehensive income in the reporting period, and the fair value of the financial assets or financial liabilities, shall be disclosed. Such reclassification has not occurred as a result of the K-IFRS No. 1109 adoption.

2) Credit loss allowance

	Carrying value based on the current standard	Amount reclassified	Amount remeasured	Carrying value based on the new standard	Changes in retained earnings (*3)	Changes in other comprehensive income(*3)
Credit loss allowance for						
Due from banks	₩ 14,054	-	1,008	15,062	(1,008)	-
Loans	2,310,604	(3,328)	564,710	2,871,986	(561,382)	-
Financial asset measured at FVOCI (Debt instruments)	-	-	18,976	18,976	(18,976)	18,976
Financial asset measured at amortized cost (Debt instruments)	-	-	8,559	8,559	(8,559)	-
Other assets	49,679	-	2,139	51,818	(2,139)	-
Financial guarantee	36,506	-	783	37,289	(783)	-
Unused credit line and other credit commitment	168,006	-	54,492	222,498	(54,492)	-
	₩ 2,578,849	(3,328)	650,667	3,226,188	(647,339)	18,976

(v) Hedge accounting

K-IFRS No. 1109 maintains the mechanics of hedge accounting (i.e. fair value hedge, cash flow hedge, hedge of a net investment in a foreign operation) as defined in K-IFRS 1039, whereas a principle-based hedge accounting requirements that focuses on an entity's risk replaced complex and rule-based hedge accounting requirements in K-IFRS No. 1039. Additionally, qualifying hedged items and qualifying hedging instruments have been expanded and hedge accounting requirements have been eased by eliminating a subsequent hedge effectiveness assessment and a quantitative test (80~125%). Hedge accounting can be applied to certain transactions that fail to qualify for hedge accounting requirements under K-IFRS No. 1039 when applying K-IFRS No. 1109, and thus alleviates profit or loss volatility.

SHINHAN FINANCIAL GROUP CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

(In millions of won)

60. Transition effects arising from changes in accounting policies (continued)

(vi) Financial impact with K-IFRS No.1115

As of December 31, 2018, the effect of applying K-IFRS No. 1115 is as follows in the statement of comprehensive income of the Group as of December 31, 2018 (excluding trust fees reflected by the conversion effect). The effect on the terminated cash flow statement is not significant.

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

	<u>Disclosed amount</u>	<u>Adjustments</u>	<u>Amount before implementation of K-IFRS No.1115</u>
Liabilities:			
Provisions:			
Credit card	₩ -	(24,700)	24,700
Other liabilities:			
Accounts payable	9,748,168	(41,758)	9,789,926
Unearned revenues	236,827	(209,241)	446,068
Others	2,496,169	275,698	2,220,471

The effect on the consolidated statement of comprehensive income is as follows.

	<u>Disclosed amount</u>	<u>Adjustments</u>	<u>Amount before implementation of K-IFRS No.1115</u>
Net interest income:			
Interest income:			
Credit card	₩ 1,360,322	(1,135,515)	2,495,837
Interest expense:			
Credit card payment	(944,533)	1,135,515	(2,080,048)

(*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.